C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

						9	4	4	1	9

C O M P A N Y   N A M E

INTEGRATED MICRO-ELECTRONICS,
INC.

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

NORTH SCIENCE AVE., LAGUNA
TECHNOPARK, BINAN, LAGUNA

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A	CFD	

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
corporatesecretary@global-imi.com	756-6840	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
342	April 13	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Jerome S. Tan	jerome.tan@global-imi.com	756-6840 (local 6859)	

CONTACT PERSON's ADDRESS

North Science Ave., Laguna Technopark Special Export Processing Zone, Binan 4024, Laguna, Philippines

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SEC Number: 94419
File Number: ______

INTEGRATED MICRO-ELECTRONICS, INC.

(Company's Full Name)

North Science Avenue, Laguna Technopark-Special Economic Zone (LT-SEZ),
Bo. Binan, Binan, Laguna

(Company Address)

(632) 756-6840

(Telephone Number)

December 31, 2017

(Fiscal Year Ending)
(Month & Day)

SEC Form 17-A

(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: **December 31, 2017**

2. SEC Identification Number: **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 principal office: **North Science Avenue, Laguna Technopark-Special Economic Zone (LT-SEZ), Bo. Binan, Binan, Laguna** Postal Code: **4024**

8. Registrant's telephone number: **(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 SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares Issued and Outstanding
Common *	1,867,293,215

* Net of 15,892,124 treasury shares

11. Are any or all of these securities listed on a Stock Exchange? Yes [**x**] No [ ]

    1,883,185,439 common shares are listed with the Philippine Stock Exchange, including 15,892,224 treasury shares.

12. Check whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports): Yes [**x**] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days: Yes [**x**] No [ ]

13. The aggregate market value of the voting stock held by non-affiliates of the Company is about ₱17.3 billion (based on closing stock price of IMI common shares as of December 31, 2017)

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PART I - BUSINESS AND GENERAL INFORMATION

ITEM 1. BUSINESS

(A) Description of Business

(1) Business Development

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

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

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

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

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

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

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

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

In 2011, the Parent Company, through its indirect subsidiary, Cooperatief IMI Europe U.A. (Cooperatief) acquired Integrated Micro-Electronics Bulgaria EOOD (formerly EPIQ Electronic Assembly EOOD) (IMI BG), Integrated Micro-Electronics Czech Republic s.r.o. (formerly EPIQ CZ s.r.o.) (IMI CZ) and Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (formerly EPIQ MX, S.A.P.I. de C.V.) (IMI MX) (collectively referred to as the IMI EU/MX Subsidiaries). IMI EU/MX Subsidiaries design and produce PCBA, engage in plastic injection, embedded toolshop, supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, and industrial equipment, among others. IMI EU/MX Subsidiaries also provide engineering, test and system development and logistics management services.

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

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

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

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

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

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

(2) Business of Issuer

<u>Principal Products and Services</u>

Design & Development (D&D)

In 2017, the D&D group had complex automation deployments in various internal segments, business units, and external customers. These include applications such as automated handling, dispensing, screwing, and customized auto feeding system for mass production. Overall, seven successful deployments were conducted in 2017.

Camera Vision Technology (CVT) Group

To provide greater focus on IMI's automotive camera development, the CVT group was spun off from D&D in 2016. The group focuses on camera platform development and design services for automotive cameras. In 2017, the group synced with Advanced Manufacturing Engineering (AME) and Test and Systems Development (TSD) group to become a one-stop shop solution for camera design, prototype development and mass production.

Analytical Testing & Calibration (ATC) Laboratory

In 2017, ATC Laboratory Failure Analysis & Calibration passed the ISO/IEC 17025 accreditation, conducted by the Philippine Accreditation Bureau. The laboratory also invested in additional capabilities in 2017 with the purchase of three new high temperature ovens for reliability testing to support current customers.

Advanced Manufacturing Engineering (AME)

As automotive and medical products get smaller, IMI USA continues to provide value to product miniaturization. IMI's global AME focused on several industrial microelectromechanical systems-based inertial measurement unit modules, commercial laser display modules, and automotive camera modules, including the IMI minicube camera platform. AME also developed a fully automated assembly line that manufactures a complex electro-mechanical assembly for automotive safety and security electronic control at IMI Jiaxing as well as in IMI Mexico. High-power modules for automotive and industrial applications, from design and development, and NPI to mass production are growing briskly.

AME also collaborates with D&D on a low cost automotive camera using Himax and flip chip technologies, and also works with D&D Europe on the power module – which are used primarily in power management platforms for partial to full vehicle electrification.

Test & Systems Development (TSD)

With the major shift in complexity of test requirements for new and emerging technology products, IMI's TSD group expanded the development and application of fully automated test systems that integrate common backend process requirements—product marking, automated inspection, and unit sorting. In 2017, TSD expanded its footprint in innovative test solutions for automotive electronics, EV vehicle boards and power electronics. It has designed and implemented a new line of testers for power module devised and collaborated with a customer to build a fully automated tester for power train boards for EV which will be launched in China.

Automation

IMI's global Automation group continues to expand in IMI Czech Republic, Mexico, China, and the Philippines, developing fully automated production lines as well as cost-effective automation systems to help drive cost reduction efforts. In 2017, the Automation Backend (ABE) and Jiaxing team developed and deployed over a dozen of related products that integrate function testing, machine vision inspection, laser marking and out handing using robots of various automotive electronic PCB assemblies like EAIs, window lifters, rotor position sensors, hall devices and light controllers for major OEMs.

<u>Product Capabilities</u>

IMI has experience in working with some of the world's leading companies in the following products:

Automotive Electronics

Safety

- Electronic Power Steering
- Communication Power
- Electronic Stability Program (ESP)
- Body Control Module (BCM)
- Headlight
- Backlight
- Switch and Fan Controller

- HVAC control panel

Advanced Driver Assistance Systems
- Front Vision
- Surround View
- Rear View Camera
- Mirror Replacement Systems
- ADAS ECUs

Sensors
- Tire Pressure Sensor
- Temperature and Humidity Sensor
- Rotor Position Sensor (RPS)

Others
- Anti-fogging system
- Wiper
- Gear box shift
- Window lifter

Industrial Electronics

Security
- Electronic Door Access System
- Biometrics
- Asset tracking

Automation
- System Integration (Robotics)
- Automated Meter Readers

Power Management and Smart Grid
- Modules for Renewable Energy Generation, Transmission and Conversion
- Solar Panel
- Solar Inverters
- EV Charging Systems
- Power module

Controls and Sensors
- Printer Control
- Power Amplifier
- DC-DC Power Converter
- Engine Controllers
- Mirror Controls
- Industrial system and switch
- Anti-pitch sensors

Others
- LED lighting
- Aircon damper
- Accelerometer

Medical Electronics

Diagnostics
- Static detectors for fix and mobile RAD exams
- Auto Body Contouring Imaging Equipment
- Defibrillator Component
- Biomedical and Laboratory Equipment
- Centrifuge Control
- Fitness Equipment Control

Dental
- Imaging System

Hearing Aids

Communications Electronics

Telecom Equipment and Devices
- Cellular alarm communicators for LTE networks
- Back Panel
- Fiber to “X” (FFTx) systems
- Booster Amplifier
- GPON (Gigabit Passive Optical Network) Systems
- Base Station Power Supply
- Digital Station Control
- Power Transistors for amplifiers in cellular base stations
- Power Conversion ICs in adapters and chargers for cell phones and cordless phones
- DC Port and USB Port Protection for cell phones and satellite radio peripherals

Consumer Electronics

White goods
- Gas Ignitor and Re-Ignitor
- Air-Conditioning (HVAC) Controller
- Refrigerator and Cooker Hood Control
- Power Management & Home Appliance
- Household Metering Device
- Electric Drive Control for Home Appliances
- Programmable Timer
- Pressure Cookers
- Washing Machine controllers
- Coffee Machines

Personal devices and lighting
- Ultrasonic Toothbrush
- Projector Lamp Drivers
- Bluetooth Headset
- Main Power Supply for Flat-panel TV
- Power Supply for Game Consoles and Entertainment Electronics
- High Voltage Power Conversion ICs in Adapters and Chargers for Personal Electronics

Power Semiconductor
- Low-Medium Power Packages
- Medium-High Power Packages
- Small Signal Packages

Optical Bonding and Display Solutions (VIA)
- Sunlight readable interactive or non-interactive LCD systems
- Custom cover lens and custom mechanical design
- Touchpanel assemblies
- LCD-Touch Assemblies
- Display Head Assemblies and Hinge-Up Monitors
- Optical bonding services

Precision Machining
- Conventional machines
- CNC Turning with Milling function
- CNC Vertical Machining center (3 axis, 5 axis)

- Coordinate Measuring Machine (CMM)
- Hydraulic Press Brake and Hydraulic Shear

Aviation

- Fuel Computers
- Brake by Wire
- Entertainment Controls
- Satellite Communications
- Inflight internet systems
- Lighting Retro-fit
- Safety equipment
- Captor Radar
- Navigation and Communications Systems
- Cockpit Displays

Except as otherwise disclosed as above, there are no other publicly-announced new products or services during the year.

Segment Information

Management monitors operating results per geographical area for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue, interest income and net income before and after tax of its major manufacturing sites. Philippine operation is further subdivided into the Parent Company and PSi, IMI BG and IMI CZ are combined under Europe based on the industry segment and customers served, VIA and STI are combined under Germany/UK representing newly-acquired subsidiaries, IMI USA, IMI Japan and IMI Singapore/ROHQ are combined being the support facilities for strategic management, research and development, engineering development and sales and marketing.

Prior period information is consistent with the current year basis of segmentation.

Intersegment revenue is generally recorded at values that approximate third-party selling prices.

Please refer to Note 19 (“Segment Information”) of the Notes to Consolidated Financial Statements of the 2017 Audited Consolidated Financial Statements which is incorporated herein as Exhibit 1.

Revenue Contribution by Industry Segment (in US$)

	2017	2016	2015
Automotive	**$446,460,645**	$377,639,245	$343,772,744
Industrial	**221,670,425**	177,267,436	145,487,460
Consumer	**188,760,154**	71,038,949	80,348,722
Telecommunication	**121,639,521**	131,304,615	132,929,944
Aerospace/Defense	**24,973,446**	–	–
Medical	**19,303,996**	21,280,959	26,607,884
Multiple market/others	**67,780,002**	64,435,220	85,217,350
	$1,090,588,189	$842,966,424	$814,364,104

Revenue Contribution by Customer Nationality (in US$)

	2017	2016	2015
Europe	**$519,149,422**	$458,851,700	$426,440,705
America	**240,888,727**	204,853,252	205,280,233
Japan	**42,842,182**	40,861,642	52,900,214
Rest of Asia/Others	**287,707,858**	138,399,830	129,742,952
	$1,090,588,189	$842,966,424	$814,364,104

Foreign Subsidiaries' Contribution

	2017		2016		2015	
	Revenue	**Net Income∗**	**Revenue**	**Net Income∗**	**Revenue**	**Net Income∗**
Foreign Subsidiaries:						
China/SG	25%	9%	31%	-12%	34%	2%
Europe/Mexico	33%	76%	39%	93%	33%	75%
Germany/UK (VIA/STI)	18%	15%	2%	-1%	-	-
TOTAL	**76%**	**101%**	**72%**	**80%**	**67%**	**77%**

∗ *Attributable to equity holders of the Parent Company*

Revenues are attributed to countries on the basis of the customer's location. Certain customers that are independent of each other but within the same group account for 12.58%, 14.97% and 13.29% of the Group's total revenue in 2017, 2016 and 2015, respectively.

Sales and Distribution

The Company's global presence allows it to provide solutions to OEMs catering to regional and international markets. Given the Company's presence worldwide, it is able to provide its customers access to a number of services and resources through its manufacturing facilities, engineering and design centers, and sales networks in Asia (China, Singapore, Taiwan, Japan, and the Philippines), North America (U.S. and Mexico), and Europe (Bulgaria, Czech Republic, France, and Germany).

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

Mergers and Acquisition

As part of our strategic initiatives, IMI acquired an 80% stake in STI, in 2017 a private limited company based in the United Kingdom which provides electronics design and manufacturing solutions in both printed circuit board assembly and full box-build manufacturing for high-reliability industries. The company currently has two factories in the United Kingdom in Hook and Poynton as well as one in Cebu, Philippines and operates a design center in London. The acquisition will enable IMI to expand into the aerospace and defense markets while strengthening the industrial segment in manufacturing as well as in technology development and engineering.

Competition

IMI is one of the leading global manufacturing solutions experts that provide electronics manufacturing services (EMS) and provide power semiconductor assembly and test services (SATS). IMI primarily serves original equipment manufacturers (OEMs) in diversified markets, including those in the automotive, industrial, telecommunications infrastructure, consumer, medical and avionics industries.

IMI specializes in highly reliable and quality electronics for long product life cycle segments such as automotive and industrial electronics.

For the automotive segment, IMI delivers customized solutions for safety and security, among others. It supplies cameras that are integral technology to the advanced driver assistance systems (ADAS).

For the industrial segment, it manufactures security and access control devices, power modules, and building automation, among others. From its manufacturing plants in the Philippines, China, Bulgaria, Czech, Germany, UK, Mexico and United States of America, IMI provides engineering, manufacturing, and support and fulfillment capabilities to diverse industries globally.

IMI ranks 20th in the list of Top 30 EMS providers in the world by Manufacturing Market Insider, determined based on 2016 EMS-related revenues. It also ranks 6th among the top automotive EMS providers in world based on the 2016 automotive EMS revenues per electronics market research firm New Venture Research.

IMI competes worldwide, with focus on Europe, North America and Asia.

The Company's performance is affected by its ability to compete and by the competition it faces from other global EMS companies. While it is unlikely for EMS companies to pursue identical business activities, the industry remains competitive. Competitive factors that influence the market for the Company's products and services include: product quality, pricing and timely delivery.

The Company is further dependent on its customers' ability to compete and succeed in their respective markets for the products that the Company manufactures.

There are two methods of competition: a) price competitiveness; and b) robustness of total solution (service, price, quality, special capabilities or technology). IMI competes with EMS companies original design manufacturer (ODM) manufacturers all over the world. Some of its fierce EMS provider competitors include Flex, HonHai, and Plexus.

HonHai/Foxconn is a Taiwanese company with revenues of US$160.3 billion in 2017, up 8.1% compared in 2016. HonHai is a competitor of IMI in the computing and telecommunication infrastructure markets.

Flextronics is a Singapore-headquartered company with annual revenues of US$23.9 billion in 2017; its cost structure is very competitive it is vertically integrated as well. Flextronics poses competition to IMI in the automotive space.

Plexus, a U.S.-based EMS, recorded US$2.5 billion revenues in 2017. Plexus is a key EMS player in industrial and medical sectors, which are target markets of IMI.

Principal Suppliers

IMI's suppliers are situated globally and are managed by the Global Procurement organization. The Company's top 10 suppliers in 2017 comprise about 24% of global purchases. Purchases from suppliers generally comprise of electronic components processed by our facilities. The Company strives to manage the quality of the products supplied to ensure strict adherence to quality standards and only purchase from suppliers whose product meet all applicable health and safety standards.

Transactions with Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individuals or corporate entities.

The Group, in its regular conduct of business, has entered into transactions with subsidiaries, affiliate, and other related parties principally consisting of advances, loans and reimbursement of expenses. Sales and purchases of goods and services as well as other income and expenses to and from related parties are made at normal commercial prices and terms.

Terms and Conditions of Transactions with Related Parties

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2017, 2016 and 2015, the Group has not recorded any impairment on receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

For more information on Related Party Transactions, refer to Note 31 ("Related Party Transactions") of the Notes to Consolidated Financial Statements of the 2017 Audited Consolidated Financial Statements which is incorporated herein as Exhibit 1.

Intellectual Property

The table below summarizes the intellectual properties registered with the Patent and Trademark Offices in the United States and Singapore:

- Auto camera – Minicube filed in December 2013
- In addition to certain patents, know-how and expertise is critical
- IMI is able to leverage its extensive experience in unique applications to other relevant products

Existing / Pending Patents	Descriptions	Location / Filing Date	Expiration Date
United States Patent 9,839,142	Vacuum Pallet Reflow, a soldering device and method of soldering enabling vacuum reflow while using a standard reflow oven conveyor.	Dec 2017	
Pending **USPTO 13457670**	Used for die attach of power devices that require very minimal voiding between device and substrate to avoid localized heating and potential failure. Describes a new process to perform soldering in a vacuum environment to promote minimal voiding without the use of specialized and expensive equipment, solder preform and gas atmospheres, but with the efficiency of a standard reflow soldering process.	April 2012	In Process
Pending PCT/US12/51573	A flip chip video camera mounted on a flexible substrate with glass stiffener	August 2012	In Process
Pending USPTO 14109918	Unique construction of camera module that enhances the dissipation of heat generated by the image sensor while being easy to manufacture.	December 2013	In Process
United States Patent 6,571,468 6,846,701	A method for forming a fine-pitch flip chip assembly interconnects fine pitch devices after they have been connected to a carrier substrate.	California, USA, 2001	2021
United States Patent 6,776,859	An improved anisotropic bonding system and method connects two conductive surfaces together using an anisotropic material having elastic conductive particles dispersed in an insulating heat-curable carrier.	California, USA, 2000	2020
United States Patent 6,648,213	A method for manufacturing a chip assembly that includes the steps of applying a controlled amount of flux to plurality of solder balls on a die, applying a non-fluxing underfill material to a substrate, and assembling the die and substrate together to form the chip assembly such that the non-fluxing underfill material is trapped between the die and the substrate.	California, USA and Singapore, 2001	2021
United States Patent 6,414,859	A passive component circuit comprising a bridge rectifier that is coupled in parallel to	Singapore, 2000	2020

	three capacitors.		
United States Patent 7,787,265 B2	A dual switch forward power converter, and a method of operating the same, employs a self- coupled driver to achieve among other advantages higher efficiency, lower part count and component cost.	Singapore, 2007	2027
United States Patent 8,937,432 B2	Light Source Having LED Arrays for Direct Operation in Alternating Current Network and Production Method Thereof.	USA, 2015	2031
Japan - Applied	Bezelless display system	Divisional application filed	In Process
Taiwan - I 444 942		November 2014	July 2017
USA - US7924362		April 2011	October 2018
China - Applied	Nozzle to apply dry bonding preform	April 2014	In Process
Germany – 102013219628B4		August 2016	September 2017
South Korea – 10-1 703 383		January 2017	January 2020
Taiwan – I 530 330		April 2016	April 2018
Europe - EP2137570A1	Enhanced liquid crystal display system and methods	Published	In Process
Japan - JP 5513136		April 2014	April 2018
Taiwan - I 437 068		May 2014	May 2018
USA – 9 348 167		May 2016	November 2019
Germany – 600 42 590.8-08	SBLR (Super Bright Low Reflectance	July 2009	January 2018
Canada – 2 359 228		August 2005	January 2018
Taiwan – I 280 443		May 2007	April 2018
USA – 6 181 394		January 2001	January 2019
USA – 7 405 779		July 2008	January 2017
USA – 6 933 991		August 2005	January 2021
USA – 7 649 577		January 2010	July 2017
China - CN103820041A	Method for bonding two substrates used during manufacturing process of display device	May 2014	
Germany – Filed		Filed	
South Korea - 10-2014-0063470		May 2014	
Taiwan - 2014 32008		August 2014	

Government Regulations and Approvals

IMI complies with all existing government regulations applicable to the company and secures all government approvals for its registered activities. Currently, there are no known probable governmental regulations that may significantly affect the business of the Company.

IMI is subject to various national and local environmental laws and regulations in the areas where it operates, including those governing the use, storage, discharge, and disposal of hazardous substances in the ordinary course of its manufacturing processes. If more stringent compliance or cleanup standards under environmental laws or regulations are imposed, or the results of future testing and analyses at IMI's manufacturing plants indicate that it is responsible for the release of hazardous substances, IMI may be exposed to liability. Further, additional environmental matters may arise in the future at sites where no problem is currently known or at sites that IMI may acquire in the future.

IMI closely coordinates with various government agencies and customers to comply with existing regulations and continuously looks for ways to improve its environmental and safety standards.

Below is the detailed enumeration of its permits and licenses together with its pertinent details:

License/Permit Name	Regulatory Body
SEC Certificate of Registration	Securities and Exchange Commission
PEZA Certificate of Registration - Export Enterprise	Philippine Economic Zone Authority
PEZA Certificate of Registration - Facilities Enterprise	Philippine Economic Zone Authority
BIR Form 2303 - Certificate of Registration	Bureau of Internal Revenue
Permit to Use Computerized Accounting System	Bureau of Internal Revenue
Permit to Use Loose-leaf Invoices	Bureau of Internal Revenue
Authority to Print Invoices	Bureau of Internal Revenue 1. Sales Invoice; Official Receipt (back up invoices during system downtime 2. Billing Invoice; Collection Receipt (back up invoices during system downtime) 3. Official Receipt; Service Invoice; Acknowledgement Receipt 4. Debit Memo; Credit Memo
Barangay Business Clearance	Barangay Binan
Business Permit	City of Binan
Environmental Clearance (for Business Permit)	City of Binan
Engineering Clearance (for Business Permit)	City of Binan
Zoning Clearance (for Business Permit)	City of Binan
Sanitary Permit (For Business Permit)	City of Binan
Environmental Compliance Certficate	Department of Environment and Natural Resources
Laguna Lake Development Authority Discharge Permit	Laguna Lake Development Authority
Permit To Operate - Emission Source Installation	Department of Environment and Natural Resources
CG	
SSCG	
Philippine Drug Enforcement Agency Permit	Philippine Drug Enforcement Agency
License to Operate and X-Ray Facility	Department of Health - Food and Drug Administration
License to Handle Controlled Precursors & Essential Chemicals	Philippine Drug Enforcement Agency
License-to-Possess Explosives (Nitric Acid)	Philippine National Police
CG	
SSCG	
Radioactive Material License	Philippine Nuclear Research Institute

License/Permit Name`	IMI Laguna		
	License/Permit No.	Issue Date	Expiry Date
SEC Certificate of Registration	94419	08/08/1980	
PEZA Certificate of Registration - Export Enterprise	94-59 (Amended)	12/03/2015	
PEZA Certificate of Registration - Facilities Enterprise	11-19-F	11/29/2011	
BIR Form 2303 - Certificate of Registration	OCN 8RC0000039992	12/20/2012	
Permit to Use Computerized Accounting System	1214-116-00171CAS	01/01/2015	
Permit to Use Loose-leaf Invoices	LTAD-LL-09-769-14	09/05/2014	
Authority to Print Invoices	OCN 8AU0000273915 For Sales Invoice; Official Receipt	10/16/2014	10/15/2019
	OCN 8AU0000273913 For Billing Invoice; Collection Receipt	10/16/2014	10/15/2019
Barangay Business Clearance	BBC03718	01/08/2018	12/31/2018
Business Permit	2018-00494	01/09/2018	12/31/2018

Environmental Clearance (for Business Permit)	18-0498	01/09/2018	12/31/2018
Engineering Clearance (for Business Permit)	2018-01-0515	01/09/2018	12/31/2018
Zoning Clearance (for Business Permit)	DZC-00499-2018	01/09/2018	12/31/2018
Sanitary Permit (For Business Permit)	0511-2018	01/09/2018	12/31/2018
Environmental Compliance Certficate	ECC-R4A-1709-0321	09/29/2017	
Laguna Lake Development Authority Discharge Permit			01/16/2019
CG			04/30/2018
SSCG			10/16/2021
Philippine Drug Enforcement Agency Permit			10/06/2018
License to Operate and X-Ray Facility	renewal in process		
License to Handle Controlled Precursors & Essential Chemicals			02/16/2018
CG			02/09/2018
SSCG			05/20/2018
Radioactive Material License			05/31/2018

License/Permit Name	IMI Cavite	
	License No.	**Issue Date**
PEZA Certificate of Registration - Export Enterprise	94-59 (Amended)	12/03/2015
BIR Form 2303 - Certificate of Registration	OCN 8RC0000039988	12/12/2012
Permit to Use Computerized Accounting System	1214-116-00171CAS	01/01/2015
Permit To Operate - Emission Source Installation		Valid until 8/24/2022
License to Operate and X-Ray Facility	CDRRHR-RRD LTO No. IV-I-0193-18	01/01/2018 – 12/31/2018
License to Handle Controlled Precursors & Essential Chemicals		6/28/2018

License/Permit Name	IMI ROHQ		
	License No.	**Issue Date**	**Expiry Date**
SEC Certificate of Registration	FS200905182	04/16/2009	
BIR Form 2303 - Certificate of Registration	OCN 1RC000634390	06/25/2013	
Authority to Print Invoices	OCN 1AU0001692572	09/22/2017	09/21/2022
	OCN 1AU0000999180	06/24/2013	06/24/2018
Barangay Business Clearance	BBC03618	01/08/2018	12/31/2018
Business Permit	2018-00496	01/09/2018	12/31/2018
Environmental Clearance (for Business Permit)	18-0500	01/09/2018	12/31/2018
Engineering Clearance (for Business Permit)	2018-01-0518	01/09/2018	12/31/2018
Zoning Clearance (for Business Permit)	DZC-00600-2018	01/09/2018	12/31/2018
Sanitary Permit (For Business Permit)	0513-2018	01/09/2018	12/31/2018

IMI paid nominal fees required for the submission of applications for the above mentioned environmental laws.

Research and Development Activities

The Design and Development (D&D) Team has significantly enhanced competencies in electronic and mechanical design, and software development while also actively engaging in the development of platforms for the next generation projects. For example, the motor drive platform achieves high quality and reliability; the automotive camera platform offers excellent thermal management properties and optical performance; and the power modules utilize proprietary processes to achieve excellent thermal performance.

The Company has designed and built automated assembly machines incorporating a variety of new technologies including:

- Robotics
- 3D-machine vision systems
- Precision pressfit technology
- Laser marking system

One example of a partially automated production line is a rotary assembly machine, combining eight different production steps into a single, compact footprint. Through various steps, including optical and functional tests with laser precision, the rotary assembly machine ultimately separates the substandard parts from those that passed quality standards. This requires zero manual handling and adds a high-resolution 3D inspection process. Automation strongly supports the zero-defect program implemented by IMI China by improving quality and repeatability at critical process steps.

Another example is dual-robot handler in the plastic injection molding line in IMI Mexico that performs precision based steps with high accuracy that, without automation, would not have been possible to attain the tight tolerance in the insertion process, the high repeatability in the cycle time, and the high up-time of the injection machine.

The Advanced Manufacturing Engineering (AME) group in IMI USA (Tustin, California) continues to offer a unique variety of engineering services, drawing from its long history of leading the industry in fine precision-assembly technologies. AME collaborates with D&D on a low cost automotive camera using Himax and flip chip technologies, and also works with D&D Europe on the power module platform.

To provide greater focus on IMI's automotive camera development, the Camera and Vision Technology (CVT) group was spun off from D&D in 2016. The CVT group engages in platform development and design services of the automotive cameras.

With an extensive understanding of the market, the Company also provides end-to-end services to its customers ranging from simple assembly functions to complex box build services, from design and development, product reliability testing, materials management, logistics solutions and support services. This comprehensive range of capabilities grants greater flexibility and provides focused options for the customers. Its range of capabilities has also enabled the Company to develop a wide skill set and less reliance on a particular service capability. With its end-to-end services, the Company believes that it has become a "one stop shop", able to cater to the various requirements of its customers. By offering a wide array of services, the Company provides its customers with further convenience as they would no longer have to select multiple providers for products, thus enhancing the value that the Company can offer to customers.

IMI spent the following for research and development activities in the last three years:

		% to Revenues
2017	$ 3,506,223	0.32
2016	$ 3,601,736	0.43
2015	$ 3,051,525	0.37

Human Resources

The Company has a total workforce of 14,580 employees as of December 31, 2017, shown in the following table:

	2016	2017	2018 Plan
Managers	425	490	480
Supervisors	1,686	1,950	1,506
Rank-and-File	2,444	3,108	3,351
Technicians/Operators	10,025	11,200	11,267
TOTAL	**14,580**	**16,748**	**16,604**

The relationship between management and employees has always been of solidarity and collaboration from the beginning of its operations up to the present. The Company believes that open communication and direct engagement between management and employees are the most effective ways to resolve workplace issues.

IMI has existing supplemental benefits for its employees such as transportation and meal subsidy, group hospitalization insurance coverage and non-contributory retirement plan.

The Company has or will have no supplemental benefits or incentive arrangements with its employees other than those mentioned above.

Risk Factors

The Company's business, financial condition and results of operation could be materially and adversely affected by risks relating to the Company and the Philippines.

IMI's operating results may significantly fluctuate from period to period

There is a risk that the Company's operating results may fluctuate significantly due to various factors including but not limited to changes in demand for its products and services, customers' sales outlook, purchasing patterns, and inventory adjustments, changes in the types of services provided to customers, variations in the, volume of products, adjustments in the processes and manner of delivery of services, as well as alterations to product specifications on account of complexity of product maturity, the extent to which the Company can provide vertically integrated services for a product. The result is also affected by the Company's effectiveness in managing its manufacturing processes, controlling costs, and integrating any potential future acquisitions, the Company's ability to make optimal use of its available manufacturing capacity, changes in the cost and availability of labor, raw materials, and components, which affect its margins and its ability to meet delivery schedules, and the ability to manage the timing of its component purchases so that components are available when needed for production while avoiding the risks of accumulating inventory in excess of immediate production needs. Fluctuations in operating results may also be experienced by the Company on account of the advent of new technology and customer qualification of technology employed in the production, and the occurrence of any changes in local conditions or occurrence of events that may affect production volumes and costs of production, such as, but not limited to labor conditions, political instability, changes in law and regulation, economic disruptions or changes in economic policies affecting flow of capital, entry of competition, substantial rate hikes of utilities required for production. The Company may also experience possible business disruptions as a result of natural events such as fire and explosion due to presence and use of flammable materials in the operations, or force majeure.

The factors identified above and other risks discussed in this section affect the Company's operating results from time to time.

Some of these factors are beyond the Company's control. The Company may not be able to effectively sustain its growth due to restraining factors concerning corporate competencies, competition, global economies, and market and customer requirements. To meet the needs of its customers, the Company has expanded its operations in recent years and, in conjunction with the execution of its strategic plans, the Company expects to continue expanding in terms of geographical reach, customers served, products, and services. To manage its growth, the Company must continue to enhance its managerial, technical, operational, and other resources.

The Company's ongoing operations and future growth may also require funding either through internal or external sources. There can also be no assurance that any future expansion plans will not adversely affect the Company's existing operations since execution of said plans may involve challenges. For instance, the Company may be required to be confronted with such issues as shortages of production equipment and raw materials or components, capacity constraints, difficulties in ramping up production at new facilities or upgrading or expanding existing facilities, and training an increasing number of personnel to manage and operate those facilities. Compounding these issues are other restraining factors such as more aggressive efforts of competition in expanding business, volatility in global economies and market and customer requirements. All these challenges could make it difficult for the Company to implement any expansion plans successfully and in a timely manner.

In response to a very dynamic operating environment and intense industry competition, the Company focuses on high-growth/high-margin specialized product niches, diversifies its markets and products, engages in higher value add services, improves its cost structure, and pursues strategies to grow existing accounts.

IMI is highly dependent on an industry that is characterized by rapid technological changes

The demand for the Company's solutions is derived from the demand of end customers particularly for end-use applications in the computing, communications, consumer, automotive, industrial and medical electronics industries. These industries have historically been characterized by rapid technological change, evolving industry standards, and changing customer needs. There can be no assurance that the Company will be successful in responding to these industry demands. New services or technologies may also render the Company's existing services or technologies less competitive. If the Company does not promptly make measures to respond to technological developments and industry standard changes, the eventual integration of new technology or industry standards or the eventual upgrading of its facilities and production capabilities may require substantial time, effort, and capital investment.

The Company is focusing on longer life cycle industries such as automotive, industrial and telecommunication infrastructure to reduce the volatility of model and design changes. The Company also keeps itself abreast of trends and technology development the electronics industry and is continuously conducting studies to enhance its technologies, capabilities and value proposition to its customers. It defines and executes technology road maps that are aligned with market and customer requirements.

The industry where IMI operates in does not serve, generally, firm or long-term volume purchase commitments

Save for specific engagements peculiar to certain products and services required, the Company's customers do not generally contract for firm and long-term volume purchase. Customers may place lower-than-expected orders, cancel existing or future orders or change production quantities. There are no guaranteed or fixed volume orders that are committed on a monthly or periodic basis.

In addition, the Company makes significant investment decisions, including determining the levels of business that it will seek and accept capacity expansion, personnel needs, and other resource requirements. These key decisions are ultimately based on estimates of customer long-term requirements. The rapid changes in demand for its products reduce its ability to estimate accurately long-term future customer requirements. Thus, there is the risk that resource investments are not optimized at a certain period.

In order to manage the effects of these uncertainties, customers are required to place firm orders within the manufacturing lead time to ensure delivery. The Company does not solely rely on the forecast provided by the clients. By focusing on the longer cycle industry segments, the volatility that comes with rapid model changes is reduced and the Company is able to have a more accurate production planning and inventory management process.

Buy-back agreements are also negotiated by the Company in the event there are excess inventory when customer products reach their end-of-life .To the extent possible, the Company's contract include volume break pricing, and materials buy-back conditions to taper the impact of sudden cancellations, reductions, and delays in customer requirements.

IMI may encounter difficulties in connection with its global expansion

The Company's globalization strategy has transformed it from a Philippines-centric company into a global network with manufacturing and engineering facilities as well as sales offices in Asia, Europe, and North America. This global expansion may expose the Company to potential difficulties that include diversion of management's attention from the normal operations of the Company's business, potential loss of key employees and customers of the acquired companies, physical, legal, cultural, and social impediments in managing and integrating operations in geographically dispersed locations, lack of experience operating in the geographic market of the acquired business, reduction in cash balance and increases in expenses and working capital requirements, which may reduce return on invested capital, potential increases in debt, which may increase operating costs as a result of higher interest payments, and complexities in integrating acquired businesses into existing operations, which may prevent it from achieving, or may reduce the anticipated synergy.

The Company's acquisitions of new companies or creation of new units, whether onshore or offshore, may also have an immediate financial impact to the Company due to the dilution of the percentage of ownership of current stockholders if the acquisition requires any payment in the form of equity of the Company, the periodic impairment of goodwill and other intangible assets, and liabilities, litigations, and/or unanticipated contingent liabilities assumed from the acquired companies.

If the Company is not able to successfully manage these potential difficulties, any such acquisitions may not result in material revenue enhancement or other anticipated benefits or even adversely affect its financial and/or operating condition.

To limit its exposure, the Company performs a thorough assessment of the upside and downside of any merger or acquisition. Supported by a team which focuses on business development, finance, legal, and engineering units, the vision, long-term strategy, compatibility with the culture, customer relationship, technology, and financial stability of the company to be acquired is carefully examined thorough due diligence to ensure exposures are mitigated through proper warranties. In addition, the Company looks at acquisitions that are immediately accretive to the P&L of the Company. The decision is then reviewed and endorsed by the Finance Committee, and approved by the Board. The Company carefully plans any merger or acquisition for a substantial period prior to closing date. Prior to closing of transactions, the Company forms an integration team and formulates detailed execution plans to integrate the key functions of the acquired entity into the Company.

IMI may not be able to mitigate the effects of declining prices of goods over the life cycles of its products or as a result of changes in its mix of new and mature products, mix of turnkey and consignment business arrangements, and lower prices offered by competition

The price of the Company's products tends to decline over the later years of the product life cycle, reflecting decreased costs of input components, improved efficiency, decreased demand, and increased competition as more manufacturers are able to produce similar or alternative products. The gross margin for manufacturing services is highest when a product is first developed but as products mature, average selling prices of a product drop due to various market forces resulting in gross margin erosion. The Company may be constrained to reduce the price of its service for more mature products in order to remain competitive against other manufacturing services providers. This is most apparent in the automotive segment, where the reduction has historically been observed to occur between the first two to three years. The Company's gross margin may further decline to be competitive with the lower prices offered by competition or to absorb excess capacity, liquidate excess inventories, or restructure or attempt to gain market share.

The Company is moving towards a higher proportion of contracting under a turnkey production (with the Company providing labor, materials and overhead support), as compared to those under a consignment model, indicating a possible deterioration in its margins. The Company will also need to deploy larger amounts of working capital for turnkey engagements.

To mitigate the effects of price declines in the Company's existing products and to sustain margins, the Company continues to improve its production efficiency by increasing yields, increasing throughputs through LEAN and six sigma manufacturing process. In addition, the Company continues to leverage on its purchase base and supplier programs to avail of discounts and reduced costs in component prices. It also utilizes its global procurement network and supply chain capabilities to reduce logistics costs for components including inventory levels. The Company also intensifies its effort to contract with customers with higher-margin products most of which involve higher engineering value add and more complex box build or system integration requirements.

IMI operates in a highly competitive industry

Some of the Company's competitors in the industry may have greater design, engineering, manufacturing, financial capabilities, or superior resources than the Company. Customers evaluate EMS and ODMs based on, among other things, global manufacturing capabilities, speed, quality, engineering services, flexibility, and costs. In outsourcing, OEMs seek to reduce cost. In addition, major OEMs typically outsource the same type of products to at least two or three outsourcing partners in order to diversify their supply risks. The competitive nature of the industry may result in substantial price competition. The Company faces increasing challenges from competitors who are able to put in place a competitive cost structure by consolidating with or acquiring other competitors, relocating to lower cost areas, strengthening supply chain partnerships, or enhancing solutions through vertical integration, among others. The Company's customers may opt to transact with the Company's competitors instead of the Company or if the Company fails to develop and provide the technology and skills required by its customers at a rate comparable to its competitors. There can be no assurance that the Company will be able to competitively develop the higher value add solutions necessary to retain business or attract new customers. There can also be no assurance that it will be able to establish a compelling advantage over its competitors.

The industry could become even more competitive if OEMs fail to significantly increase their overall levels of outsourcing. Increased competition could result in significant price competition, reduced revenues, lower profit margins, or loss of market share, any of which would have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company regularly assesses the appropriate pricing model (so as to ensure that it is strategic/value based or demand based, among others) to be applied on its quotation to existing or prospective customers. The Company is also strengthening its risk management capabilities to be able to turn some of the risks (e.g., credit risks) into opportunities to gain or maintain new or existing customers, respectively. The Company also continues to develop high value-add services that fit the dynamic markets it serves. It continues to enhance capabilities in design and development, advanced manufacturing engineering, test and systems development, value engineering, and supply chain management to ensure an efficient product realization experience for its customers.

In addition, the Company's size, stability and geographical reach allow it to attract global OEMs customers that look for stable partners that can service them in multiple locations. This is evidenced by increasing number of global contracts that the Company is able to develop and have multiple sites serving single customers.

Focusing on high value automotive (such as those for ADAS and safety-related, power modules and electronic control units, among others), industrial and medical segments where strict performance and stringent certification processes are required, the Company is able to establish a high barrier of entry, business sustainability and better pricing. Generally, the Company has observed that it is usually difficult for customers in these industries to shift production as they would have to go through a long lead time in the certification process. The direction the Company has taken resulted in the rise of the Company's ranking in the global and automotive EMS spaces.

IMI may be subject to reputation and financial risks due to product quality and liability issues

The contracts the Company enters into with its customers, especially customers from the automotive and medical industry, typically include warranties that its products will be free from defects and will perform in accordance with agreed specifications. To the extent that products delivered by the Company to its customers do not, or are not deemed to, satisfy such warranties, the Company could be responsible for repairing or replacing any defective products, or, in certain circumstances, for the cost of effecting a recall of all products which might contain a similar defect in an occurrence of an epidemic failure, as well as for consequential damages. Defects in the products manufactured by the Company adversely affect its customer relations, standing and reputation in the marketplace, result in monetary losses, and have a material adverse effect on its business, financial condition, and results of operations. There can be no assurance that the Company will be able to recover any losses incurred as a result of product liability in the future from any third party.

In order to prevent or avoid a potential breach of warranties which may expose the Company to liability, the Company performs a detailed review and documentation of the manufacturing process that is verified, audited and signed-off by the customers. In addition, customers are encouraged, and in some cases, required to perform official audits of the Company's manufacturing and quality assurance processes, to ensure compliance with specifications. The Company works closely with customers to define customer specifications and quality requirements, and follow closely these requirements to mitigate future product liability claims. The Company also insures itself on product liability and recall on a global basis.

IMI's production capacity may not correspond precisely to its production demand

The Company's customers may require it to have a certain percentage of excess capacity that would allow the Company to meet unexpected increases in purchase orders. On occasion, however, customers may require rapid increases in production beyond the Company's production capacity, and the Company may not have sufficient capacity at any given time to meet sharp increases in these requirements. On the other hand, there is also a risk of the underutilization of the production line, which may slightly lower the Company's profit margins. In response, the Company makes the necessary adjustments in order to have a match between demand and supply. In the case of a lack in supply, the Company equips itself with flexible systems that allow it to temporarily expand its production lines in order to lower the overhead costs, and then make corresponding increases in its capacity when there is a need for it as well.

To soften the impact of this, the Company closely coordinates with customers to provide the parties with regular capacity reports and action plan/s for common reference and future capacity utilizations. The Company also closely collaborates with its customers to understand the required technology roadmaps, anticipate changes in technological requirements, and discuss possible future solutions.

IMI may be involved in intellectual property disputes

The Company's business depends in part on its ability to provide customers with technologically sophisticated products. The Company's failure to protect its intellectual property or the intellectual property of its customers exposes it to legal liability, loss of business to competition and could hurt customer relationships and affect its ability to obtain future business. It could incur costs in either defending or settling any intellectual property disputes. Customers typically require that the Company indemnify them against claims of intellectual property infringement. If any claims are brought against the Company's customers for such infringement, whether these have merit or not, it could be required to expend significant resources in defending such claims. In the event the Company is subjected to any infringement claims, it may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. The Company may not be successful in developing such alternatives or in obtaining such licenses on reasonable terms or at all, which could disrupt manufacturing processes, damage its reputation, and affect its profitability.

Since the Company is not positioned as an ODM, the likelihood of the Company infringing upon product-related intellectual property of third parties is significantly reduced. Product designs are prescribed by and ultimately owned by the customer.

The Company observes strict adherence to approved processes and specifications and adopts appropriate controls to ensure that the Company's intellectual property and that of its customers are protected and respected. It continuously monitors compliance with confidentiality undertakings of the Company and management. As of the date of this Prospectus, there has been no claim or disputes involving the Company or between the Company and its customers involving any intellectual property.

Demand for services in the EMS industry depends on the performance and business of the industry's customers as well as the demand from end consumers of electronic products

The performance and profitability of the Company's customers' industries are partly driven by the demand for electronic products and equipment by end-consumers. If the end-user demand is low for the industry's customers' products, companies in the Company's industry may see significant changes in orders from customers and may experience greater pricing pressures. Therefore, risks that could harm the customers of its industry could, as a result, adversely affect the Company as well. These risks include the customer's inability to manage their operations efficiently and effectively, the reduced consumer spending in key customers' markets, the seasonality demand for their products, and failure of the customer's products to gain widespread commercial acceptance.

The impact of these risks was very evident in the aftermath of the global financial crisis which resulted in global reduction of demand for electronics products by end-customers. The Company mitigates the impact of industry downturns on demand by rationalizing excess labor and capacity to geographical areas that are most optimal, and by initiating cost containment programs. With indications of global financial recovery already in place, the Company has been able to re-hire some of its employees.

There are also electronics requirements resulting from global regulations, such as those for improving vehicle safety and promoting energy-efficient technologies that would increase the demand for electronic products and equipment.

The Company continuously addresses its concentration risks. There is no single customer that the Company is dependent on or accounts for more than 15% of the Company's revenues. The Company also serves global customers which are not concentrated on a specific geographic market.

IMI's industry is dependent on the continuous growth of outsourcing by OEMs

The Company belongs to an industry that is dependent on the strong and continuous growth of outsourcing in the communications, consumer automotive, industrial, and medical electronics industries where customers choose to outsource production of certain components and parts, as well as functions in the production process. A customer's decision to outsource is affected by its ability and capacity for internal manufacturing and the competitive advantages of outsourcing.

The Company's industry depends on the continuing trend of increased outsourcing by its customers. Future growth in its revenue depends on new outsourcing opportunities in which it assumes additional manufacturing and supply chain management responsibilities from its customers. To the extent that these opportunities do not materialize, either because the customers decide to perform these functions internally or because they use other providers of these services, the Company's future growth could be limited.

The Company believes that its global footprint with manufacturing operations in Asia, Europe, and North America, its global supply chain systems and capabilities, and its design services will continue to provide strategic advantages for customers to outsource parts of their product development and manufacturing processes to the Company.

IMI's industry may experience shortages in, or rises in the prices of components, which may adversely affect business

There is a risk that the Company will be unable to acquire necessary components for its business as a result of strong demand in the industry for those components or if suppliers experience any problems with production or delivery.

The Company is often required by its customers to source certain key components from customer-nominated and accredited suppliers only, and it may not be able to obtain alternative sources of supply should such suppliers be unable to meet the supply of key components in the future. Shortages of components could limit its production capabilities or cause delays in production, which could prevent it from making scheduled shipments to customers.

If the Company is unable to make scheduled shipments, it may experience a reduction in its sales, an increase in costs, and adverse effects on its business. Component shortages may also increase costs of goods sold because it may be required to pay higher prices for components in short supply and redesign or reconfigure products to accommodate substitute components.

To the extent possible, the Company works closely with customers to ensure that there are back up suppliers or manufacturers for customer-supplied components or components supplied by customer-nominated suppliers to mitigate uncertainties in the supply chain. In addition, the Company has established supplier certification and development programs designed to assess and improve suppliers' capability in ensuring uninterrupted supply of components to the Company.

Any shortage of raw materials or components could impair IMI's ability to ship orders of its products in a cost-efficient manner or could cause IMI to miss its delivery requirements of its retailers or distributors, which could harm IMI's business

The ability of the Company's manufacturers to supply its products is dependent, in part, upon the availability of raw materials and certain components. The Company's manufacturers may experience shortages in the availability of raw materials or components, which could result in delayed delivery of products to the Company or in increased costs to it. Any shortage of raw materials or components or inability to control costs associated with manufacturing could increase the costs for the Company's products or impair its ability to ship orders in a timely cost-efficient manner. As a result, it could experience cancellation of orders, refusal to accept deliveries, or a reduction in the Company's prices and margins, any of which could harm the Company's financial performance and results of operations. Other than for customer-nominated suppliers or specialty components for the manufacture of specific products, the Company is not dependent on a single supplier for its raw materials.

IMI may be exposed to risk of inventory obsolescence and working capital tied up in inventories

As an EMS provider, the Company may be exposed to a risk of inventory obsolescence because of rapidly changing technology and customer requirements. Inventory obsolescence may require it to make adjustments to write down inventory to the lower of cost or net realizable value, and its operating results could be adversely affected. The Company is cognizant of these risks and accordingly exercises due diligence in materials planning. The Company also provides in its inventory systems and planning a reasonable amount for obsolescence. It is working with key suppliers to establish supplier-managed inventory arrangements that will mutually reduce the risk. In addition, the Company often negotiates buy back arrangements with customers where, in the event the customers' purchase orders are delayed, canceled, or enter in the end-of-life phase, the customers assume the risk and compensate the Company for the excess inventory.

IMI may, from time to time, be involved in legal and other proceedings arising out of its operations.

The Company may, from time to time, be involved in disputes with its employees and various parties involved in its manufacturing operations, including contractual disputes with customers or suppliers, labor disputes with workers or be exposed to damage or personal liability claims. Regardless of the outcome, these disputes may lead to legal or other proceedings and may result in substantial costs, delays in the Company's development schedule, and the diversion of resources and management's attention. The Company may also have disagreements with regulatory bodies in the course of its operations, which may subject it to administrative proceedings and unfavorable decisions that result in penalties and/or delay the development of its projects. In such cases, the Company's business, financial condition, results of operations and cash flows could be materially and adversely affected.

IMI is highly dependent on the continued service of its directors, members of senior management and other key officers

The Company's directors, members of its senior management, and other key officers have been an integral part of its success, and the experience, knowledge, business relationships and expertise that would be lost should any such persons depart could be difficult to replace and may result in a decrease in the Company's operating efficiency and financial performance. Key executives and members of management of the Company include CEO, President and COO, CFO, Chief Procurement Officer, Leaders of Strategic Business Development and Mergers and Acquisitions, Global Sales and Marketing, Global HR, Global Design and Development, Global Advanced Manufacturing Engineering, and Global Quality, and Plant General Managers (GMs). In the event that the Company loses the services of any such person and is unable to fill any vacant key executive or management positions with qualified candidates, or if the qualified individual takes time to learn the details of the Company, the Company's business and results of operations may be adversely affected.

Any deterioration in IMI's employee relations could materially and adversely affect the Company's operations

The Company's success depends partially on the ability of the Company, its contractors, and its third party marketing agents to maintain productive workforces. Any strikes, work stoppages, work slowdowns, grievances, complaints or claims of unfair practices or other deterioration in the Company's, its contractors' or its third party marketing agents' employee relations could have a material and adverse effect on the Company's financial condition and results of operations. There have been no historical events related to strikes or protests from its employees or unions, given the well-established employee relations of the Company.

IMI's success depends on attracting, engaging, and retaining key talents, including skilled research and development engineers

In order to sustain its ability to complete contracted services and deliver on commitments and promote growth, the Company will have to continuously attract, develop, engage and retain skilled workforce highly capable to achieve business goals. The Company recognizes that its competitiveness is dependent on its key talent pipeline, including leadership, talent and skill pool, and succession plan.

The Company continuously identifies top-caliber candidates and keeps the pipeline full to be ready to assume new roles and fuel growth. The Company has a strong ability to hire in terms of the quality of recruits as well as in scale. Specifically, there is strong recruitment in Philippines and in China, having been able to tie up with universities. In the case of an immediate need for to provide manpower, there are contractual agreements at hand to meet the demand. They have the ability to rapidly organize and train skilled workers for new products and services and retain qualified personnel.

The Company also leverages on its global reach to identify, recruit and develop the right employees who can be deployed to the various operating units or divisions of the Company. It also implements on a regular basis pertinent employee training and development programs, including a cadetship program that enables it to tap and employ capable graduates from different leading universities. The Company has implemented proactive measures to retain employees through sound retention programs, encouraging work-life balance among its employees, and providing structured career development paths to promote career growth within the organization and loyalty to the Company.

RISKS RELATING TO COUNTRIES WHERE THE COMPANY OPERATES (INCLUDING THE PHILIPPINES)

IMI conducts business in various jurisdictions, exposing it to business, political, operational, financial, and economic risks due to its operations in these jurisdictions

There is no assurance that there will be no occurrence of an economic slowdown in the countries where the Company operates, including the Philippines. Factors that may adversely affect an economy include but are not limited to:

- decreases in business, industrial, manufacturing or financial activity in the Philippines or in the global market,
- scarcity of credit or other financing, resulting in lower demand for products and services
- the sovereign credit ratings of the country,
- exchange rate fluctuations,
- a prolonged period of inflation or increase in interest rates,
- changes in the relevant government's taxation policies,
- natural disasters, including typhoons, earthquakes, fires, floods and similar events,
- political instability, terrorism or military conflict, and
- other regulatory, political or economic developments in or affecting the Company

Notwithstanding the foregoing, the global operations, marketing, and distribution of the Company's products inherently integrate the impact of any economic downturn affecting a single country where the Company operates, and enables the Company to shift the focus of its operations to other jurisdictions.

The Company's manufacturing and sales operations are located in a number of countries throughout Asia, Europe, and North America. As a result, it is affected by business, political, operational, financial, and economic risks inherent in international business, many of which are beyond the Company's control, including difficulties in obtaining domestic and foreign export, import, and other governmental approvals, permits, and licenses, and compliance with foreign laws, which could halt, interrupt, or delay the Company's operations if it is unable to obtain such approvals, permits, and licenses, and could have a material adverse effect on the Company's results of operations.

Changes in law including unexpected changes in regulatory requirements affect the Company's business plans, such as those relating to labor, environmental compliance and product safety. Delays or difficulties, burdens, and costs of compliance with a variety of foreign laws, including often conflicting and highly prescriptive regulations also directly affect the Company's business plans and operations, cross-border arrangements and the inter-company systems.

Increases in duties and taxation and a potential reversal of current tax or other currently favorable policies encouraging foreign investment or foreign trade by host countries leading to the imposition of government controls, changes in tariffs, or trade restrictions on component or assembled products may result in adverse tax consequences, including tax consequences which may arise in connection with inter-company pricing for transactions between separate legal entities within a group operating in different tax jurisdictions, also result in increases in cost of duties and taxation.

Actions which may be taken by foreign governments pursuant to any trade restrictions, such as "most favored nation" status and trade preferences, as well as potential foreign exchange and repatriation controls on foreign earnings, exchange rate fluctuations, and currency conversion restrictions may adversely affect the Company's business and financial condition.

Under existing foreign exchange controls in the Philippines, as a general rule, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. Restrictions exist on the sale and purchase of foreign exchange in the Philippine banking system. In the past, the Government has instituted restrictions on the ability of foreign companies to use foreign exchange revenues or to convert Philippine pesos into foreign currencies to satisfy foreign currency- denominated obligations, and no assurance can be given that the Government will not institute such or other restrictive exchange policies in the future.

A substantial portion of the Company's manufacturing operations is located in China, which has regulated financial and foreign exchange regime. The Company continuously evaluates the options available to the organization to ensure maximum usage of excess liquidity. Among others, excess liquidity may be repatriated out of China through dividend payments, payment of management service or royalty fees, use of leading and lagging payment, and transfer pricing.

Environmental laws applicable to IMI's projects could have a material adverse effect on its business, financial condition or results of operations

The Company cannot predict what environmental legislation or regulations will be amended or enacted in the future, how existing or future laws or regulations will be enforced, administered or interpreted, or the amount of future expenditures that may be required to comply with these environmental laws or regulations or to respond to environmental claims. The introduction or inconsistent application of, or changes in, laws and regulations applicable to the Company's business could have a material adverse effect on its business, financial condition and results of operations.

There can be no assurance that current or future environmental laws and regulations applicable to the Company will not increase the costs of conducting its business above currently projected levels or require future capital expenditures. In addition, if a violation of any environmental law or regulation occurs or if environmental hazards on land where the Company's projects are located cause damage or injury to buyers or any third party, the Company may be required to pay a fine, to incur costs in order to cure the violation and to compensate its buyers and any affected third parties.

Any political instability in the Philippines and the countries where IMI operates may adversely affect the business operations, plans, and prospects of the Company

The Philippines has from time to time experienced severe political and social instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business.

Macro-economic conditions of different countries where IMI operates may adversely affect the Company's business and prospectus

Historically, the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. Although the Philippines' long-term foreign currency-denominated debt was recently upgraded by each of Standard & Poor's, and Moody's to investment-grade, no assurance can be given that Standard & Poor's, or Moody's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, Philippine companies. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Parent Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available

In addition, some countries in which the Company operates, such as the Czech Republic and Mexico, have experienced periods of slow or negative growth, high inflation, significant currency devaluations, or limited liability of foreign exchange. In countries such as China and Mexico, governmental authorities exercise significant influence over many aspects of the economy which may significantly affect the Company.

Furthermore, the risk of imposing big border tax to US manufacturers that move jobs outside the country will have impact to where the company operates, particularly Mexico. In January 2017, US President Donald Trump has met with executives of the Big Three U.S. automakers and told the executives of General Motors, Ford and Fiat Chrysler that he was going to make it easier for them to invest in the country. He will reduce the taxes and unnecessary regulations to those manufacturing in the United States. Trump began singling out companies that were planning investments in Mexico that involved moving American jobs. Trump promised a big border tax on cars shipped from Mexico into the United States.

On an as-need basis, the Company seeks the help of consultants and subject matter experts for changes in laws and regulations that may have a significant impact in the Company's business operations. It also maintains good relationship with local government, customs, and tax authorities through business transparency and compliance and/or payment of all government-related assessments in a timely manner. The Company has been able to overcome major crises brought about by economic and political factors affecting the countries where it operates. The strong corporate governance structure of the Company and its prudent management team are the foundations for its continued success. The Company also constantly monitors its macroeconomic risk exposure, identifies unwanted risk concentration, and modifies its business policies and activities to navigate such risks.

There is no single customer that the Company is dependent on or accounts for more than 15% of the Company's revenues. The Company also serves global customers which are not concentrated on a specific geographic market.

Severe macroeconomic contractions may conceivably lead the Company to tweak or modify its investment decisions to meet the downturn. As a holding company, the Company affirms the principles of fiscal prudence and efficiency in the operations to its subsidiaries operating in various countries.

IMI faces risks of international expansion and operation in multiple jurisdictions

The Company expects to have an international customer base which may require worldwide service and support. The Company may expand its operations internationally and enter additional markets, which will require significant management attention. Any such expansion may cause a strain in existing management resources.

The distances between the Company, the customers, and the suppliers globally, create a number of logistical and communications challenges, including managing operations across multiple time zones, directing the manufacture and delivery of products across significant distances, coordinating the procurement of raw materials and their delivery to multiple locations, and coordinating the activities and decisions of the Company's management team, the members of which are spread out internationally.

While the Company tries to keep its local expertise, it established global functions to ensure that there is adequate coordination of activities. In addition, the availability and use of cell phones, e-mails, and internet based communication tools by the Company resulted in more efficient and timely coordination of activities and decision making by management from different sites and countries.

The Company aggressively pursues hiring of experienced international managers and staff globally. This enables the Company to ensure that it has sufficient manpower complement possessed with the required skills and experience to work with customers, vendors, and other partners in and out of the relevant country where it operates.

Natural or other catastrophes, including severe weather conditions and epidemics, that may materially disrupt IMI's operations, affect its ability to complete projects and result in losses not covered by its insurance

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. In October 2013, a 7.2 magnitude earthquake affected Cebu and the island of Bohol, and in November 2013, Super Typhoon Haiyan (called Yolanda in the Philippines) caused destruction and casualties of an as yet undetermined amount, in Tacloban, certain parts of Samar, and certain parts of Cebu City, all of which are located in the Visayas, the southern part of the Philippines. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Company's operations. These factors, which are not within the Company's control, could potentially have significant effects on the Company's manufacturing facilities. As a result, the occurrence of natural or other catastrophes or severe weather conditions may adversely affect the Company's business, financial condition and results of operations.

Natural disasters, such as the 2008 earthquake in China, where most of the Company's manufacturing operations are located, could severely disrupt the Company's manufacturing operations and increase the Company's supply chain costs. These events, over which we have little or no control, could cause a decrease in demand for the Company's services, make it difficult or impossible for the Company to manufacture and deliver products and for the Company's suppliers to deliver components allowing it to manufacture those products, require large expenditures to repair or replace the Company's facilities, or create delays and inefficiencies in the Company's supply chain.

Any escalation in these events or similar future events may disrupt the Company's operations and the operations of the Company's customers and suppliers, and may affect the availability of materials needed for the Company's manufacturing services. Such events may also disrupt the transportation of materials to the Company's manufacturing facilities and finished products to the Company's customers.

There can be no assurance that the Company is fully capable to deal with these situations and that the insurance coverage it maintains will fully compensate it for all the damages and economic losses resulting from these catastrophes.

Political instability or threats that may disrupt IMI's operations could result in losses not covered by the Company's insurance

No assurance can be given that the political environment in the Philippines will remain stable and any political instability in the future could reduce consumer demand, or result in inconsistent or sudden changes in regulations and policies that affect the Company's business operations, which could have an adverse effect on the results of operations and the financial condition of the Company.

Increased political instability threats or occurrence of terrorist attacks, enhanced national security measures, and conflicts, as well as territorial and other disputes, which strain international relations, may reduce consumer confidence and economic weakness.

Any impact on the following cases in countries in which the Company has operations could materially and adversely affect the Company's business plans and prospects, financial condition and results of operations.

The Philippines, China, and several Southeast Asian nations have been engaged in a series of long standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. Moreover, President Donald Trump's nominee for Secretary of State Rex Tillerson said China must be denied access to artificial islands it has built in the disputed waters. Trump had previously accused China of building a military fortress in the South China Sea. China claims more than 80 percent of the South China Sea, where it has built up its military presence as well as constructing the islands. Vietnam, the Philippines, Brunei, Malaysia and Taiwan claim parts of the same maritime area, a thriving fishing zone through which more than $5 trillion of trade passes each year. In July 2016, an international tribunal in The Hague ruled against China in a case brought by the Philippines, saying it had no historic rights to the resources within a dashed line drawn on a 1940s map that had formed the basis of its claims. While the court said the ruling was binding, China said the 29 tribunal had no jurisdiction. China is also in dispute with Japan and India over claims to a separate set of islands.

President Donald Trump signed an executive order on January 27, 2017 that indefinitely suspends admissions for Syrian refugees and limits the flow of other refugees into the United States by instituting what the President has called "extreme vetting" of immigrants. The executive order on Protection of the Nation from Foreign Terrorist Entry into The United States is the start of tightening borders and halting certain refugees from entering the United States. The order bars all persons from certain "terror-prone" countries from entering the United States for 90 days and suspends the US Refugee Admissions Program for 120 days until it is reinstated "only for nationals of countries for whom" members of Trump's Cabinet deem can be properly vetted.

The "British exit of the European Union (EU)," or known as Brexit on June 23, 2016 is considered the most significant economic demerger between major economies since the Second World War. British vote to leave the European Union is likely to impose major instability on top of economic fragility and artificial financial markets. The Brexit referendum roiled global markets, including currencies, causing the British pound to fall to its lowest level in decades. In November 2016, the British High Court ruled that the government needs the Parliament's approval to trigger Article 50 of the Lisbon Treaty and begin the two-year process of withdrawing the UK from the EU. On February 1, 2017, Prime Minister Theresa May won votes from Members of Parliament in the House of Commons for the bill to invoke Article 50 and start the Brexit process in March 2017. The bill is expected to pass through debates in the Commons and the House of Lords by March 7, and upon royal assent from Queen Elizabeth II, to become an Act of Parliament.

Investors may face difficulties enforcing judgments against IMI

It may be difficult for investors to enforce judgments against the Company owing to its global operations, diverse residencies of its different officers, and assets located in different jurisdictions. It may particularly be difficult for investors to effect service of process upon any officer who is not a resident of the country where judgments from courts or arbitral tribunals are obtained outside or within the Philippines if these are predicated upon the laws of jurisdictions other than the country where such judgments are obtained.

The Philippines is party to the United Nations Convention on the Enforcement and Recognition of Arbitral Awards, though it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, the Philippine Rules of Civil Procedure provide that a judgment or final order of a foreign court is, through the institution of an independent action, enforceable in the Philippines as a general matter, unless there is evidence that: (i) the foreign court rendering judgment did not have jurisdiction, (ii) the judgment is contrary to the laws, public policy, customs or public order of the Philippines, (iii) the party against whom enforcement is sought did not receive notice, or (iv) the rendering of the judgment entailed collusion, fraud, or a clear mistake of law or fact.

ITEM 2. PROPERTIES

IMI has production facilities in the Philippines (Laguna, Cavite and Taguig), China (Shenzhen, Jiaxing, Chengdu, and Suzhou), Bulgaria, Czech Republic, Germany, Mexico and the UK. It also has a prototyping and NPI facility located in Tustin, California. Engineering and design centers, on the other hand, are located in the Philippines, Singapore, China, United States, Bulgaria, Czech Republic, and Germany. IMI also has a global network of sales and logistics offices in Asia, North America and Europe.

The Company’s global facilities and capabilities of each location as of December 31, 2017 are shown below:

Location	Floor Area (square meters)	Capabilities
Manufacturing Sites		
Philippines-Laguna (2 sites)	96,182	▪ 31 SMT lines, 2 FC lines ▪ 5 COB/COF lines ▪ Box build to Complex Equipment manufacturing ▪ LVHM, HVLM ▪ Solder Wave, Potting, AI & AG W/B ▪ Protective Coating ▪ ICT, FCT, AOI, RF Testing ▪ Design & Development ▪ Test & System Development ▪ Cleanroom to class 100

		▪ Low Pressure Molding (Overmold) ▪ Precision Metals/Machining
Philippines-Cavite	2,350	▪ 3 SMT lines ▪ Box Build ▪ PTH, Solder Wave ▪ ICT, FCT, AOI ▪ 3D X-ray ▪ LVHM
Philippines-PSi Laguna	9,858	▪ Power Component Discrete Packaging, e.g., 3 - 7L TO-220, 3L TO-247, etc. ▪ Diversified Packaging - from Low to High Power and Small to Large Outline ▪ R&D line
China-Pingshan	29,340	▪ 17 SMT lines, 1 COB line ▪ Box Build ▪ PTH, Solder Wave ▪ POP, Auto Pin Insertion ▪ Potting, Conformal coating and Burn-in ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ Design & Development ▪ LVHM, HVLM
China-Kuichong	23,480	▪ 19 SMT lines ▪ Box Build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ LVHM, HVLM
China-Jiaxing	18,452	▪ 13 SMT lines ▪ PCBA ▪ Box Build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ Conformal Coating, Potting ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ LVHM, HVLM
China-Chengdu	7,500	▪ 7 SMT lines ▪ Box Build ▪ PTH, Auto Pin Insertion, BGA, X-Ray, COB ▪ Solder Wave ▪ Automated Conformal Coating ▪ ICT, FCT, AOI ▪ HVLM / LVHM ▪ Test Development
USA-Tustin, CA*	1,184	▪ 2 SMT prototyping lines ▪ Engineering Development ▪ Prototype Manufacturing Center ▪ Precision Assembly ▪ SMT, COB FCOF ▪ Process Development
Botevgrad, Bulgaria (2 sites)	29,394	▪ 15 SMT lines ▪ Box build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ Protective Coating ▪ ICT, FCT, AOI ▪ Test & System Development ▪ Design & Development ▪ Plastic Injection, Embedded Toolshop,

		Overmolding
El Salto, Guadalajara, Mexico (2 sites)	24,910	▪ 6 SMT lines ▪ Box build ▪ PTH, Auto Pin Insertion, Solder Wave, Protective Coating, Polymer Coating ▪ ICT, FCT, AOI, ▪ X-ray ▪ Plastic Injection (50-1,600T) ▪ Overmolding ▪ Embedded Toolshop ▪ Automated BE Assembly
Třemošná, Plzeňská, Czech Republic	7,740	▪ 4 SMT lines ▪ PTH ▪ Pin Insertion ▪ Solder Wave ▪ Selective soldering ▪ Ultrasonic Welding ▪ Selective coating ▪ ICT, FCT, AOI ▪ Mechanical Assembly ▪ Automated line
Mörsdorf, Germany (VIA)	12,000	▪ Manual optical bonding lines, including different processes ▪ Semi-automatic optical bonding line, for medium and large size application ▪ Display backlight enhancement and modification ▪ Display and touch film lamination ▪ Film cutting for different application ▪ Mechanical assembly including electronics and housing ▪ Prototyping ▪ R&D process development ▪ R&D material development ▪ Engineering, prototyping and production process improvement ▪ Test & system development (electrical) ▪ Optical test labor (mainly for display evaluation) ▪ Environmental test labor 3 Cleanrooms, class 1000, partial class 100
Suzhou, China (VIA)	9,750	▪ 4 Cleanrooms, class 1000, partial class 100 ▪ 4 optical bonding lines, including 1 fully auto line , 1 semi-auto line and 2 manual lines. ▪ Semi and full automatic optical bonding capacity to balance volume and flexibility ▪ High volume capacity and capable support from size 1.5” up to 85” ▪ R&D touch product development ▪ R&D display standard product development ▪ R&D bonding process development ▪ Test & system development (electrical) ▪ Prototyping ▪ Display and touch film lamination ▪ Film cutting for different application

		▪ Mechanical assembly including electronics and housing ▪ Engineering, prototyping and production process improvement ▪ Optical test lab (mainly for display evaluation) ▪ Environmental test lab
UK-Hook (STI)	5,946	▪ 3 high-speed ASM Siplace SMT Lines (2.4m components/day) ▪ High Reliability PCB Assembly & Box Build ▪ Full Test facilities ▪ Dedicated prototype facility with 2 flexible Mydata lines ▪ Special processes & full repair and rework facility ▪ Clean Room, NPI, RF Screened Room
UK-Poynton (STI)	6,689	▪ Manufacturer of highly secure satellite communications equipment (under long term Airbus DS contract) ▪ Manufacturer of specialist amplifiers ▪ Specialist spares and repairs ▪ Full rack wiring and integration ▪ Specialist test facility – RF Testing, Anechoic Chamber, EMC Chamber & Moog 6 Degree of Freedom Motion Bed ▪ Complex Wiring & Heavy Metalwork ▪ Advanced Box Build
Cebu, Phils (STI)	2,601	▪ 3 high-speed placement systems (6m components/day capacity) ▪ High volume PCB Assembly and Box Build ▪ Equipment and operational standards fully compatible with Hook manufacturing site ▪ IP protection and full product traceability guaranteed
Total Manufacturing Space	**287,376**	
Sales and Marketing Support		
Hong Kong*	300	Procurement, marketing and supply chain support
Japan*	110	Sales Support
Total Support Space	**410**	
Total	**287,786**	

Lease Commitments

Finance Lease Commitments - Group as Lessee
STI has assets held under finance leases and hire purchase contracts related to its manufacturing/IT equipment with terms of 3 to 5 years subject to interest rates ranging from 1.9% to 4.7% per annum.

Future minimum lease payments as of December 31, 2017 follows:

Within one year	$245,518
After one year but not more than five years	223,771
More than five years	–

	$469,289

Interest expense related to the finance lease amounted to $0.01 million.

Operating Lease Commitments - Group as Lessee
Parent Company
The Parent Company entered into an amended lease contract with Technopark Land, Inc. (TLI), an affiliate, for the lease of parcels of land situated at the Special Export Processing Zone, Laguna Technopark, Biñan, Laguna. The lease shall be for a period of three years, commencing on January 1, 2017 up to December 31, 2019, renewable at the option of the lessor upon such terms and conditions, and upon such rental rates as the parties may agree upon at the time of the renewal, taking into consideration comparable rental rates for similar properties prevailing at the time of renewal. The monthly rent shall be equivalent to ₱44.00 per sqm. For the remaining term of the lease, the rent shall be subject to annual escalation rate of 5%.

On March 7, 2014, the Parent Company executed a Lease Agreement with PEZA for the use of land located at the Blk 16 Phase 4 PEZA, Rosario, Cavite to be used exclusively for IMI Cavite's registered activities. The lease is for a period of 50 years renewable once at the option of the lessee for a period of not more than 25 years. The average monthly rental payment amounts to $2,165 in 2017 with an escalation rate every year.

IMI Singapore and STEL Group
IMI Singapore and STEL Group have various operating lease agreements in respect of office premises and land. These non-cancellable lease contracts have remaining non-cancellable lease terms of between one to ten years. Most of the lease contracts of IMI Singapore and STEL Group contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

In 2017, the new entity IMI Technology entered into a lease agreement on its manufacturing facility covering a period of six years from May 2017 to May 2023. The lease premise is a 5-floor building with 29,340 square meters located in an industrial park in Pingshan district of Shenzen.

IMI Japan
On February 15, 2012, IMI Japan entered into a 6-year lease contract with Kabushikigaisha Tokyu Community for the lease of office premises located in Nagoya, whereby it is committed to pay a monthly rental of ¥245,490, and monthly maintenance fee of ¥35,070, inclusive of tax. The lease contract provides for the automatic renewal of the lease contract, unless prior notice of termination is given to the lessor.

IMI USA
On November 16, 2014, IMI USA entered into a third amendment to a standard industrial commercial single tenant lease contract for an extended term of 5 years commencing from November 1, 2015 to October 31, 2020 with Roy G. Harris and Patricia S. Harris for the lease of office premises. The lease contract contains provisions including, but not limited to, an escalation rate of 3% per year and early termination penalties. The lease provides for monthly rental payment of $12,927 during the first year of the lease term and shall be increased based on fixed rental adjustments as set forth in the contract.

PSi
Taguig facilities
The operating lease agreement of PSi with FTI for its plant facilities office spaces and other facilities has been pre-terminated effective December 31, 2017.

Rent expense recognized in 2017, 2016 and 2015 amounted $1.34 million, $1.37 million and $1.40 million, respectively. PSi also paid pre-termination penalties amounting $0.08 million in 2017.

Laguna facilities
PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from Centereach Resources, Inc. (CRI), an unrelated entity. The operating lease agreement will expire in March 2018.

In 2015, the operating lease agreement for the second facility was renewed and executed between CRI and the Company. The operating lease agreement commenced on October 16, 2015 and will expire on October 18, 2018. The operating lease agreement with CRI provides for increase in rental at varying rates over the term of the lease and a penalty interest rate of 3% per month using simple interest.

VIA
VIA leases buildings, cars and other equipment based on leasing contracts for a period ranging from 1 to 5 years.

STI
STI have various operating lease agreements in respect of vehicles, equipment, office premises and land. These non-cancellable lease contracts have remaining non-cancellable lease terms of between one to forty-four years. There are no restrictions placed upon the lessee by entering into these leases.

Accrued rent amounted to $0.25 million as of December 31, 2017.

Future minimum rentals payable under operating leases of the Group as of December 31, 2017 and 2016 follow:

	2017	2016
Within one year	**$5,127,471**	$4,905,841
After one year but not more than five years	**12,453,854**	13,686,398
More than five years	**2,453,943**	4,808,727
	$20,035,268	$23,400,966

Capital Expenditures

In 2017, the Company spent $65.3 million on capital expenditures as it continues to expand its footprint in higher complex box build offerings, while making disciplined investments to fund its growth initiatives. For 2018, the Company expects additional $75 million of capital expenditures majority of which are new SMT lines for expansions and new businesses, new manufacturing facilities and expansion buildings, innovation and automation, and additional software licenses. These are intended to expand the Company's capacity and support expected increases in demand, as well as to sustain the Company's productivity and efficiency.

ITEM 3. LEGAL PROCEEDINGS

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

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

Reconsideration. On December 10, 2013, the Company received a decision promulgated on December 2, 2013 denying the said Motion for Reconsideration.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Except for matters taken up during the annual meeting of stockholders, there was no other matter submitted to a vote of security holders during the period covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

Philippine Stock Exchange
Prices in PhP/share

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

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

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

Holders

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

	Stockholder Name	No. of Common Shares	Percentage of Common Shares
1.	AC Industrial Technology Holdings, Inc.	945,537,873	50.6368%
2.	Resins Incorporated	239,412,533	12.8213%
3.	PCD Nominee Corporation (Non-Filipino)	229,580,653	12.2948%
4.	EPIQ NV	200,000,000	10.7106%
5.	PDC Nominee Corporation (Filipino)	179,957,836	9.6373%
6.	2014 ESOWN Subscription	24,935,413	1.3353%
7.	2007 ESOWN Subscription	13,017,713	0.6971%
8.	2009 ESOWN Subscription	7,063,534	0.3782%
9.	2015 ESOWN Subscription	6,744,674	0.3612%
10.	SIIX Corporation	6,581,622	0.3524%
11.	Josef Pfister	1,656,660	0.0887%

12.	Ayala Corporation	1,379,892	0.0738%
13.	Helmut Baumgart	1,065,448	0.0570%
14.	Richard D. Bell	910,572	0.0487%
15.	Yeung Hin Wai	860,163	0.0460%
16.	Meneleo J. Carlos, Jr.	805,288	0.0431%
17.	Lucrecio B. Mendoza	540,245	0.0289%
18.	Philip Mathers	361,2000	0.0193%
19.	Allen B. Paniagua	357,726	0.0191%
20.	Transtechnology Pte. Ltd.	304,836	0.0163%

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

Dividends

Stock Dividend-Common Shares

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

Cash Dividends-Common Shares

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

Cash Dividends-Preferred Shares

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

Dividend policy

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

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

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

Recent Sale of Securities

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

ITEM 6. MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATION

Results of Operations

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

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

<u>2017 vs. 2016</u>

Revenues from Sales and Services

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

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[1] 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.

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

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

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

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

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

Gross Profit and Gross Profit Margin

The Company's operations generated gross profit of US$129.6 million or ₱6.53 billion, higher year-on-year by 28% mainly from strong revenue growth. In addition, continued focus on LEAN manufacturing and improved utilization of fixed overhead partially offset the lower gross profit margin mix coming from the new acquisitions.

Operating Income

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

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

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Net Income

The Company's net income attributable to the owners of the Parent stood at $34.0 million or ₱1.71 billion, a 21 percent increase year-on-year. The slight decline in operating income was offset by some non-operating income such as net mark-to-market gains on put options related to the acquisitions (+$2.3M), non-recurring engineering income (+$2.3M), and others consisting of gain on sale of scrap/fixed assets and reversal of impairment (+$2.3M). The Company also has a beneficial FX position posting $1.3M foreign exchange gains versus last year's forex loss of $2.4M.

EBITDA

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

Financial Condition

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

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

Key Performance Indicators of the Company

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

	As of end Dec 31, 2017	Dec 31, 2016
Performance indicators		
Liquidity:		
Current ratio[a]	1.28x	1.51x
Solvency:		
Debt-to-equity ratio[b]	1.08x	0.74x

	For the years ended 31 Dec 2017	2016
Operating efficiency:		
Revenue growth[c]	29%	4%
Profitability:		
Gross profit margin[d]	11.9%	12.0%
Net income margin[e]	3.1%	3.3%
Return on equity[f]	13.3%	12.0%
Return on common equity[g]	13.3%	12.0%
Return on assets[h]	3.7%	4.4%
[2]EBITDA margin	6.4%	7.7%

[a] Current assets/current liabilities
[b] Bank debts/Equity attributable to equity holders of the Parent Company
[c] (Current year less previous year revenue)/Previous year revenue

[2] *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.*

[d]*Gross profit/Revenues*
[e]*Net income attributable to equity holders of the Parent Company/Revenues*
[f] *Net income attributable to equity holders of the Parent Company/Average equity attributable to Parent*
[g] *Net income attributable to equity holders of the Parent Company/Average common equity attributable to Parent*
[h] *Net income attributable to equity holders of the Parent Company/Total Assets*

In the above:

(i) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.

(ii) There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

(iii) Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

(iv) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Company's revenues from continuing operations.

(v) There were no significant elements of income or loss that did not arise from continuing operations.

(vi) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

Causes for any material changes
(Increase or decrease of 5% or more in the financial statements)

Income Statement Items
(For the Years ended December 2017 versus 2016)

29% increase in Revenues ($843.0M to $1,090.6M)
The increase was driven by the surge in revenues of VIA, seven months contribution of STI and increase in demand across all sites.

30% increase in Cost of goods sold ($741.7M to $961.0M)
Relative to the 29% increase in revenues coupled with slight increase in DM cost ratio due to change in product mix.

53% increase in Operating expenses ($58.4M to $89.2M)
The increase was attributable to the newly-acquired subsidiary VIA and STI, relocation costs related to the transfer to the Pingshan manufacturing facility, increase in headcount and people costs to support new programs, transaction costs related to STI acquisition, and increase in technology and government-related expenses.

118% increase in Other non-operating income (-$8.1M net loss to $1.5M net income)
Non-operating income such as net mark-to-market gains on put options related to the acquisitions (+$2.3M), non-recurring engineering expenses (+$2.3M), and others consisting of gain on sale of scrap/fixed assets and reversal of impairment (+$2.3M). The Company also has a beneficial FX position posting $1.3M foreign exchange gains versus last year's forex loss of $2.4M.

10% increase in Provision for income tax ($6.8M to $7.5M)
Increase mainly driven by the full year contribution of VIA Optronics and higher tax base for IMI PH.

541% increase in Non-controlling interest (-$0.1M to $0.4M)
Share of minority in the net income of VIA (23.99%) and STI (20%).

Balance Sheet items
(31 December 2017 versus 31 December 2016, as restated)

34% increase in Loans and receivables ($197.0M to $263.1M)
Increase mainly due to higher sales and consolidation of STI's management accounts.

88% increase in Inventories ($106.1M to $199.6M)
Increase attributable to growth of turnkey businesses particularly in Europe and Mexico; China building up inventories for the next quarter's demand, and consolidation of STI's management accounts.

56% increase in Other current assets ($17.3M to $27.1M)
Increase is attributable to increase in tax credits in Europe and Mexico and consolidation of STI's management accounts.

40% increase in Property, plant and equipment ($117.4M to $164.6M)
Significant increase in capital expenditures driven by ongoing big projects in China, Mexico, and Philippines, additional SMT lines in Europe and ongoing construction of the Serbia facility.

61% increase in Goodwill ($91.4M to $147.4M)
Goodwill recognized for the acquisition of STI amounting to $56.0 million.

25% increase in Intangible assets ($18.3M to $22.9M)
Increase mainly from capitalized costs arising from the development phase of certain projects under qualification (+$5.6M), and additional software costs (+$3.3M); intellectual properties related to STI acquisition amounted to $0.4M. Amortization increased by $2.4 million from amortization of valued IPs for VIA upon finalization of purchase price allocation (prior year restated to adjust the increase in fair value of identified patents - $7.8M).

122% increase in Deferred tax assets ($1.6M to $3.5M)
Increase mainly from DTA of STI pertaining to loss carryover.

34% decrease in Other noncurrent assets ($2.7M to $1.8M)
Decrease due to refund in utility deposits for PSI related to the closure of Taguig facility.

45% increase in Accounts payable and accrued expenses ($195.7M to $284.3M)
Mainly due to the increase in trade payables and accrual for salaries and benefits, taxes, utilities and interest. The following table sets forth the Company's accrued compensation, benefits and expenses as of 31 December 2017 versus the year ended 31 December 2016:

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

163% increase in Loans and trust receipts payable ($51.4M to $135.1M)
Availments related to acquisition of STI and loans to fund expansions and working capital requirements.

97% increase in Financial liabilities ($11.3M to $22.3M)
Increase related to put options and contingent consideration related to STI acquisition.

16% decrease in Current portion of long-term debt ($8.2M to $6.9M)
Settlement of 5-yr Eur5M loan upon maturity in Feb 2017, offset by reclass to current portion of the balance of Cooperatief deferred payment related to EPIQ acquisition $5.1 million due in July 2018.

10% decrease in Deferred tax liabilities ($3.0M to $2.7M)
Amortization of deferred tax recognized on the increase in fair value of intellectual properties related to VIA acquisition

Noncurrent advances from customers ($1.1M to $0)
Pertains to the termination of subcontracting service agreement between PSi and a customer due to the early termination of PSi lease in FTI Taguig. In line with the termination, the advances from the local customer become due in the first quarter of 2018.

25% increase in Pension liability ($4.1M to $5.1M)
Increase of pension liability in IMI Philippines and IMI Bulgaria mainly due to actuarial changes arising from changes in financial assumptions.

11963% increase in Other noncurrent liabilities ($0.2M to $26.1M)
Noncurrent portion of the contingent consideration related to the acquisition of STI

18% decrease in Additional paid-in capital ($70.9M to $58.1M)
Initial recognition of financial liability on put options for STI debited against APIC.

57% decrease in Subscriptions receivable ($12.3M to $5.4M)
Collections on subscribed ESOWN shares.

89% decrease in Cumulative translation adjustments losses (-$20.6M to -$9.0M)
Arising from translation of management accounts in Europe denominated in their respective local currencies to the Parent Company's functional currency. The significant movement is due to appreciation of EUR against USD from 1.04 to 1.20.

16% increase in Remeasurement losses on defined benefit plans (-$6.4M to $7.4M)
Actuarial changes arising from changes in financial assumptions.

For the Years Ended 31 December 2016 vs 2015

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

	For the years ended December 31		
	2016	**2015**	**2014**
	(in US$ thousands, except Basic EPS)		
Revenues from sales and services	842,966	814,364	844,474

Cost of goods sold and service	(741,657)	(720,333)	(750,541)
Gross profit	101,309	94,031	93,933
Net income attributable to equity holders of the Parent Company	28,116	28,790	29,117
EBITDA[3]	64,967	58,763	52,717
Basic Earnings per Share (EPS)	0.015	0.015	0.017

2016 vs. 2015

Revenues from Sales and Services
The Company wrapped up 2016 with consolidated revenues of $843M (₱40.0 billion), an increase of 4% year-over-year. Excluding acquisition, revenues went up by 1% driven by Europe and Mexico operations reporting combined revenues of $308.0 million or 15% growth from last year.

The Company's operations in Asia delivered lower growth as a result of China's slower economic activity and IMI's strategic decision to disengage from one consumer electronics business. In addition, its Philippine operations also drew away from the declining segment in computing peripherals, driving lower growth. China operations posted $261.4 million, down 6% from last year. Philippines's electronics services operations delivered $220.7 million, 2% lower than last year, while PSi Technologies, IMI's semiconductor assembly and test subsidiary, posted $33.0 million in revenues, down 2% year-on-year.

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

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

Cost of Goods Sold and Services
Cost of sales higher by 3% relative to revenue growth.

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

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

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

Financial Condition

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[3] *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.*

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

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

Key Performance Indicators of the Company

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

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

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

[a]Current assets/current liabilities
[b] Bank debts/Equity attributable to equity holders of the Parent Company
[c] (Current year less previous year revenue)/Previous year revenue
[d] Net income attributable to equity holders of the Parent Company/Average equity attributable to Parent
[e] Net income attributable to equity holders of the Parent Company/Average common equity attributable to Parent
[f] Net income attributable to equity holders of the Parent Company/Total Assets

In the above:

(vii) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.

(viii) There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

(ix) Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

[4] 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.

(x) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Company's revenues from continuing operations.

(xi) There were no significant elements of income or loss that did not arise from continuing operations.

(xii) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

Causes for any material changes
(Increase or decrease of 5% or more in the financial statements)

Income Statement Items
(Year ended December 31, 2016 versus December 31, 2015)

149% increase in Non-operating expenses (-$3.3M to -$8.1M)
Mainly due to increase in interest expense related to various bank loans to fund acquisitions and expansions and increase in nonrecurring engineering expenses

15% increase in Provision for income tax ($5.9M to $6.8M)
Increase in current tax due to higher tax base particularly in the Company's Europe operations

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

15% decrease in Cash and cash equivalents ($101.5M to $86.5M)
Owing to increased capital expenditures and funding of acquisition through dividends from IMI BG

16% increase in Loans and receivables - net ($169.3M to $197.0M)
Revenue driven and integration of accounts of the newly-acquired VIA Optronics

20% increase in Inventories - net ($88.3M to $106.1M)
Increase of turnkey businesses and integration of accounts of the newly-acquired VIA

58% increase in Other current assets ($10.9M to $17.3M)
Increase in advances to suppliers

26% increase in Property, plant and equipment ($93.1M to $117.4M)
Increase in capital expenditures mainly for China and Mexico entities

95% increase in Goodwill ($46.9M to $91.4M)
Goodwill recognized in the acquisition of VIA +$44.5M

664% increase in Intangible assets ($2.4M to $18.3M)
Capitalized costs arising from the development phase of certain projects under qualification

28% increase in Accounts payable and accrued expenses ($152.8M to $195.7M)
Mainly due to increase in trade and nontrade payables, advances from related parties representing deposits received related to a sale and purchase agreement and financial liabilities pertaining to commercial agreements of VIA with certain customers.

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

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

22% increase in Trust receipts and loans payable ($42.3M to $51.4M)
Existing loan of VIA Optronics ($7.9M) and additional loan of IMI Czech ($1.1M)

Increase in Financial liabilities on put options ($0 to $11.3M)
Put options recognized in the acquisition of VIA measured at the fair value of the redemption amount

81% decrease in Current Portion of Long-term debt ($43M to $8.2M)
Refinancing of $40M loan of IMI Philippines to long-term

250% increase in Long-term debt ($34.6M to $121.1M)
Additional loan obtained to fund the acquisition of VIA ($40M) and refinancing of existing $40M loan to long-term

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

14% decrease in Additional paid-in capital ($82.5M to $70.9M)
Put option related to VIA debited against equity

25% increase in Cumulative translation adjustments losses (-$16.5M to -$20.6M)
Arising from translation of management accounts in Europe denominated in their respective local currencies to the Parent Company's functional currency.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

Please see attached Exhibit 1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

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

Information on Independent Public Accountant

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

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

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

External Audit Fees and Services

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

	Audit & Audit-related Fees	Tax Fees	Other Fees
2017	₱ 9.55M	-	₱ 3.27M
2016	₱ 3.70M	₱ 1.35M	₱ 0.72M

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

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

Tax fees

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

All other fees

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

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

PART III - CONTROL AND COMPENSATION INFORMATION

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

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

Board of Directors

Jaime Augusto Zobel de Ayala	Chairman of the Board of Directors
Arthur R. Tan	Director& Chief Executive Officer
Gilles Bernard	Director, President & Global Chief Operating Officer
Fernando Zobel de Ayala	Director
Jose Ignacio A. Carlos	Director
Delfin L. Lazaro	Director

Jose Teodoro K. Limcaoco	Director
Rafael Ma. C. Romualdez	Director
Edgar O. Chua	Independent Director
Alelie T. Funcell	Independent Director
Hiroshi Nishimura	Independent Director

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

Arthur R. Tan, Filipino, 58, has been a member of the Board of Directors of IMI since July 2001. He has been the Chief Executive Officer of IMI since April 2002. Concurrently, he is a Senior Managing Director of Ayala Corporation and a member of the Ayala Group Management Committee. He is also the Chairman of the Board and Chief Executive Officer of PSi Technologies Inc., President and Executive Officer of Speedy-Tech Electronics Ltd.; and President and Chief Executive Officer of AC Industrial Technology Holdings, Inc. He was the President of IMI from April 2002 to June 23, 2016. Prior to IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts, USA), from 1994 to 1998, of which he became the Managing Director for Asia Pacific Region/Japan from 1998 to 2001. He graduated with B.S. in Electronics Communications Engineering degree from Mapua Institute of Technology in 1982 and attended post graduate programs at the University of Idaho, Singapore Institute of Management, IMD and Harvard Business School.

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

Fernando Zobel de Ayala, Filipino, 57, has served as a director of IMI since January 1995. He holds the following positions in publicly listed companies: Director, President and Chief Operating Officer of

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

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

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

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

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

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

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

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

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

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

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

University. She graduated summa cum laude with a degree of Bachelor of Science in Commerce from the Far Eastern University in 1974. She is a Certified Public Accountant.

Management Committee Members and Key Executive Officers

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

* *Members of the Board of Directors*
** *Management Committee members*

Jerome S. Tan, Singaporean, 56, is a Senior Managing Director and the Global Chief Finance Officer of IMI since January 2011. He oversees Finance, Treasury, Credit, Controllership and ICT functions of the IMI global operations. He brings more than 25 years of broad experience and various achievements in finance, strategic planning, business development and acquisition/integration. He has assumed regional leadership roles in multi-national Banking and Finance companies, and Food and Beverage industry located in different countries in the Asia Pacific Region. Prior to joining IMI, he was with General Electric holding various regional and operating roles in Finance and Business Development including CFO for CNBC / NBC Universal Asia Pacific, CFO of GE Money Singapore and GE Money Bank in the Philippines. Before taking on operating CFO positions, he was the Regional FP&A Leader for GE Money Asia; and a Business Development Director for GE Capital responsible for mergers and acquisition. Prior to joining GE, he was also a key member of the management team of San Miguel Brewing International Ltd., managing Treasury and Financial Planning, and Corporate Planning and Business Development. He started his career in banking as an Associate in Robert Fleming, Inc. based in New York and was also an Assistant Director in First Pacific Bank Asia, Ltd., in Hong Kong. He graduated with B.A. in Economics under the Honors Program from De La Salle University in 1982 and obtained an MBA in General Management from the Darden Business School at University of Virginia in 1987.

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

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

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

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

Significant Employees

The Company considers its human resources working as a team as a key element for its continued success. But the Company has no employee who is not an executive officer and who is expected to make individually on his own a significant contribution to the business.

Family Relationships

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

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

ITEM 10. EXECUTIVE COMPENSATION

Name and Principal Position	Year	Salary	Other Income
Arthur R. Tan Chief Executive Officer			
Gilles Bernard President & Chief Operating Officer			
Linardo Z. Lopez Senior Managing Director, Global Head of Materials Management			
Jaime G. Sanchez Vice President, Deputy Chief Financial Officer, Group Controller and Compliance Officer			
Jerome S. Tan Senior Managing Director, Global Chief Financial Officer/ICT			
CEO & Other Named Executive Officers	Actual 2016	₱ 81.74M	₱ 33.93M
	Actual 2017	₱ 89.12M	₱ 36.77M
	Projected 2018	₱ 88.37M	₱ 35.41M
All officers as a group unnamed*	Actual 2016	₱ 473.48M	₱ 140.74M
	Actual 2017	₱ 585.75M	₱ 152.43M
	Projected 2018	₱ 601.72M	₱ 148.88M

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

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

Compensation of Directors

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

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

x x x

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

(i) Standard arrangement

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

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

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

(i) Other arrangement

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

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

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

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

Warrants and options outstanding, repricing

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

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of Outstanding Shares
Common	AC Industrial Technology Holdings, Inc.[5] 11 Floor, Bonifacio One Technology Tower, 3030 Rizal Drive West, Bonifacio Global City, Taguig City 1634	AC Industrial Technology Holdings, Inc.[6]	Filipino	945,537,873	50.6368%
Common	Resins, Inc.[7] E. Rodriguez Jr. Avenue, Bagong Ilog, Pasig City.	Resins, Inc.[8]	Filipino	239,412,533	12.8214%
Common	PCD Nominee Corporation (Non- Filipino)[9] 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City	PCD participants acting for themselves or for their customers [10]	Various Non-Filipino	229,580,653	12.2948%
Common	EPIQ NV[11] Transportstraat 1, 3980 Tessenderlo, Belgium	EPIQ NV[12]	Belgian	200,000,000	10.7107%
Common	PCD Nominee Corporation (Filipino)[5] 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City	PCD participants acting for themselves or for their customers[6]	Filipino	179,957,836	9.6374%

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

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Directors				
Common	Jaime Augusto Zobel de Ayala	100 (direct)	Filipino	0.0000%
Common	Fernando Zobel de Ayala	100 (direct)	Filipino	0.0000%
Common	Delfin L. Lazaro	100 (direct)	Filipino	0.0000%

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[5] AC Industrial Technology Holdings, Inc. (AC Industrials) is a stockholder of the Company.
[6] The Board of Directors of AC Industrials has the power to decide how AC Industrials' shares in IMI are to be voted. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power.
[7] Resins is not related to the Company.
[8] The Board of Directors of Resins has the power to decide how Resins shares in IMI are to be voted. Mr. Jose Ignacio A. Carlos is usually appointed to exercise the voting power.
[9] The PCD is not related to the Company.
[10] Each beneficial owner of shares through a PCD participant is the beneficial owner to the extent of the number of shares in his account with the PCD participant. Out of the 409,538,489 common shares registered in the name of PCD Nominee Corporation, 154,771,267 common shares or 8.2885% of the outstanding common shares is for the account of The Hongkong and Shanghai Banking Corporation (HSBC). The Company has no record relating to the power to decide how the shares held by PCD are to be voted. As advised to the Company, none of HSBC or any of its customers beneficially owns more than 5% of the Company's common shares.
[11] EPIQ NV is a stockholder of the Company.
[12] The Board of Directors of EPIQ NV has the power to decide how EPIQ NV shares in IMI are to be voted. Mr. Jaime Augusto Zobel de Ayala is usually appointed to exercise the voting power.

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

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

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

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

As of December 2017, 20.65% of IMI's common shares were owned by the public.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company and its subsidiaries, in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of advances and reimbursement of expenses, and sales and purchases of goods on an arm's length basis and at current market prices at the time of the transactions.

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

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

PART IV – CORPORATE GOVERNANCE

Section deleted as per SEC Memorandum Circular No. 5, series of 2013, issued last March 20, 2013 and SEC Memorandum Circular No. 20, series of 2016, issued last December 8, 2016.

PART V - EXHIBITS AND SCHEDULES

Exhibit 1: 2017 Audited Consolidated Financial Statements, Integrated Micro-Electronics, Inc. and Subsidiaries

Statement of Management's Responsibility for the Financial Statements
Report of Independent Auditors
Consolidated Balance Sheets as of December 31, 2017 and 2016

Consolidated Statements of Income for the Years ended December 31, 2017, 2016 and 2015
Consolidated Statements of Comprehensive Income for the Years ended December 31, 2017, 2016 and 2015
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2017, 2016 and 2015
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015
Notes to Consolidated Financial Statements

Exhibit 2: Supplementary Schedules

Report of Independent Public Accountant on Supplementary Schedules

A. Financial Assets
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
D. Intangible Assets – Other Assets
E. Long-Term Debt
F. Indebtedness to Related Parties (Long-term Loans from Related Companies)
G. Guarantees of Securities of Other Issuers
H. Capital Stock

Reconciliation of Retained Earnings Available For Dividend Declaration

Schedule of Financial Ratios

Map Showing the Relationships between and Among the Companies in the Group, its Ultimate Parent Company and Co-Subsidiaries

Schedule of All Effective Standards and Interpretations under Philippine Financial Reporting Standards as of December 31, 2017

2017 Audited Annual Financial Statements of Significant Foreign Subsidiaries

Exhibit 3: IMI International (Singapore) Pte Ltd

Exhibit 4: Speedy-Tech Electronics Ltd and its subsidiaries

Exhibit 5: Cooperatief IMI Europe U.A. and Subsidiaries

Reports on SEC Form 17-C

Reports on SEC Form 17-C were filed during the last six month period covered by this report are listed below:

Date	Particulars
August 16, 2017	Appointment of Lead Independent Director
October 23, 2017	IMI's Investors' / Analyst Briefing
November 3, 2017	Press Release: IMI's Revenue Grew 29%
November 13, 2017	IMI Stock Rights Offering
November 23, 2017	Attendance of Reportable Officer on Corporate Governance Seminar
December 8, 2017	Results of the Regular Meeting of the Board of Directors
December 26, 2017	Attendance of Directors in 2017
January 5, 2018	Submission of Revised CG Manual
January 30, 2018	Press Release on PSE Approval for up to Php50 Billion Stock Rights Offer
February 2, 2018	IMI's Investors' / Analyst Briefing
February 7, 2018	Press Release: FY 2017 Performance
February 15, 2018	Notice of Agenda of 2017 Annual Stockholders Meeting
February 20, 2018	Declaration of Cash Dividends
February 20, 2018	Amendments to Articles of Incorporation

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April APR 12 2018, 2018.

By:

Jaime Augusto Zobel de Ayala
Chairman of the Board

Arthur R. Tan
Chief Executive Officer

Jerome S. Tan
Chief Finance Officer

Solomon M. Hermosura
Corporate Secretary

Jaime G. Sanchez
Deputy CFO and Group Controller

SUBSCRIBED AND SWORN to before me this APR 12 2018 day of April 2018, affiants exhibiting to me their respective passports as follows:

	Passport No.	Date Of Issue	Place of Issue
Jaime Augusto Zobel de Ayala	EC4856934	Aug. 4, 2015	Manila City
Arthur R. Tan	EB9832108	Dec. 17, 2013	Manila City
Jerome S. Tan	E5376564C	Feb. 11, 2015	Singapore
Solomon M. Hermosura	EC5542302	Sep. 30, 2015	Manila City
Jaime G. Sanchez	PO280699A	Sep. 19, 2016	Batangas City

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Book No. 11
Series of 2018.

MARIA PAULA G. ROMERO-BAUTISTA
NOTARY PUBLIC
ROLL NO. 58335
MAKATI CITY, PHILS.

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

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

EXHIBIT 1

2017 Audited Consolidated Financial Statements, Integrated Micro-Electronics, Inc. and Subsidiaries

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

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors

ARTHUR R. TAN
Chief Executive Officer

JEROME S. TAN
Global Chief Financial Officer

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

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

Doc. No. 366 ;
Page No. 75 ;
Book No. I ;
Series of 2018.

MARIA PAULA G. ROMERO-BAUTISTA
NOTARY PUBLIC
ROLL NO. 58335

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

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

Integrated Micro-Electronics, Inc. and Subsidiaries

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

and

Independent Auditor's Report

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A member firm of Ernst & Young Global Limited

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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

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

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

Audit response

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

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

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

Audit response

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

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Recoverability of Goodwill

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

Audit response

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

Other Information

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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

SYCIP GORRES VELAYO & CO.

Carlo Paolo V. Manalang

Carlo Paolo V. Manalang
Partner
CPA Certificate No. 111947
SEC Accreditation No. 1625-A (Group A),
March 28, 2017, valid until March 27, 2020
Tax Identification No. 210-730-804
BIR Accreditation No. 08-001998-127-2017,
February 9, 2017, valid until February 8, 2020
PTR No. 6621287, January 9, 2018, Makati City

February 20, 2018

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

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

(Forward)

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

See accompanying Notes to Consolidated Financial Statements.

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 and 2015

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

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

(Forward)

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

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

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

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

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

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

In 2011, the Parent Company, through its indirect subsidiary, Cooperatief IMI Europe U.A. (Cooperatief) acquired Integrated Micro-Electronics Bulgaria EOOD (formerly EPIQ Electronic Assembly EOOD) (IMI BG), Integrated Micro-Electronics Czech Republic s.r.o. (formerly EPIQ CZ s.r.o.) (IMI CZ) and Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (formerly EPIQ MX, S.A.P.I. de C.V.) (IMI MX) (collectively referred to as the IMI EU/MX Subsidiaries). IMI EU/MX Subsidiaries design and produce PCBA, engage in plastic injection, embedded toolshop, supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, and industrial equipment, among others. IMI EU/MX Subsidiaries also provide engineering, test and system development and logistics management services.

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

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

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

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

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

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

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

2. **Group Information**

Information about Subsidiaries

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

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

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

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

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

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

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

[f] *No current operation.*

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

[h] *In the process of liquidation*

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

Business Combinations

Acquisition of STI

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

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

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

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

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

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

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

Analysis of cash flows on acquisition:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Analysis of cash flows on acquisition:

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

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

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

Acquisition of Non-controlling Interests

Acquisition of additional interest in SZSTE

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

The details of the transaction are as follows:

Non-controlling interest acquired	$189,587
Consideration paid to the non-controlling shareholder	(360,301)
Total amount recognized in “Other reserves” account within equity	($170,714)

3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

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

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

Statement of Compliance

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

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
a. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
b. Exposure, or rights, to variable returns from its involvement with the investee, and
c. The ability to use its power over the investee to affect its returns

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

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

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

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

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

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

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

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

The financial liability for the put option is accounted for under PAS 39 like any other written put option on equity instruments. On initial recognition, the corresponding debit is made to a component of equity attributable to the parent, not to the non-controlling interest. All subsequent changes in the carrying amount of the financial liability that result from the remeasurement of the present value payable on exercise are recognized in profit or loss also attributable to the parent.

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

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

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

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

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

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

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

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

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

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

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

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

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

Standards Issued but not yet Effective

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

Effective beginning on or after January 1, 2018

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

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

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

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

- PFRS 9, *Financial Instruments*

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

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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

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

  - Identification of services from assembly stage to packaging stage as one performance obligation
  - Variable considerations such as prompt payment discounts, volume discounts, rebates, and price reduction
  - Recognition of revenue over time given that the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2019

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

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

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

- PFRS 16, *Leases*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred effectivity

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

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

  On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards

Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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

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

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

All other liabilities are classified as noncurrent.

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement
Classification of financial instruments
Financial instruments within the scope of PAS 39 are classified as:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value Measurement

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

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

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

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

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

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

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

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

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

For purposes of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derecognition of Financial Instruments

Financial asset

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

- The right to receive cash flows from the asset have expired; or
- The Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement, and either:

    a. The Group has transferred substantially all the risks and rewards of the asset; or
    b. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liability

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

Impairment of Financial Assets

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

Loans and receivables

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

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

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

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

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

<u>Inventories</u>
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.

<u>Noncurrent Assets Held for Sale</u>
The Group classifies noncurrent asset as held for sale if its carrying amount will be recovered mainly through selling the asset rather than through continuing use.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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

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

<u>Provisions</u>
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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

For periods where an Income Tax Holiday (ITH) is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the Group neither results in a deductible temporary difference or taxable temporary difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

<u>Earnings per Share (EPS) Attributable to Equity Holders of the Parent Company</u>
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.

<u>Retirement and Other Employee Benefits</u>
Defined benefit plans
The Parent Company, PSi and IMI BG maintain separate defined benefit plans covering substantially all of their employees. The plans of the Parent Company and PSi are funded and noncontributory retirement plans administered by their respective Boards of Trustees, while that of IMI BG is unfunded and noncontributory.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on net retirement liabilities is the change during the period in net retirement liabilities that arises from the passage of time which is determined by applying the discount rate based on government bonds to net retirement liabilities. Net interest on retirement liabilities is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on net retirement liabilities) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Net retirement liabilities are the aggregate of the present value of the defined benefit obligation at the end of the balance sheet date reduced by the fair value of plan assets, adjusted for any effect of limiting a net retirement asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

Defined contribution plans
The Parent Company's subsidiaries in Singapore, China and Hong Kong, Czech Republic, Mexico, Germany and UK participate in the respective national retirement schemes defined by the laws of the countries in which it has operations. These retirement schemes are considered as defined contribution plans. A defined contribution plan is a plan under which the subsidiary pays fixed contributions. Each subsidiary has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The required contributions to the national retirement schemes are recognized as retirement expense as accrued.

Singapore
The subsidiaries incorporated in Singapore make contributions to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution scheme. Contributions to the CPF scheme are recognized as an expense in the period in which the related service is performed.

China
The subsidiaries incorporated and operating in China are required to provide certain staff retirement benefits to their employees under existing China regulations, a defined contribution scheme. Retirement contributions are provided at rates stipulated by China regulations and are contributed to a retirement fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees. Contributions to this defined contribution scheme are recognized as expense in the period in which the related service is performed.

Hong Kong
The subsidiary in Hong Kong participates in the defined provident fund. The subsidiary and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Contributions to this defined contribution scheme are recognized as expense in the period in which the related service is performed.

IMI CZ
IMI CZ, under its collective agreement, is committed to pay contributions to life and retirement insurance of its loyal employees. This is done on a monthly basis as part of payroll expenses and only over the employment period. IMI CZ is not obliged to any other payments if employment terminates.

IMI MX
In accordance with the Mexican Labor Law, IMI MX provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to twelve days of wage for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with fifteen or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

IMI MX also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months wages plus twenty days wages for each year of service payable upon involuntary termination without just cause. These are recognized when such an event occurs.

VIA
VIA only has defined contribution plans relating to statutory pension. Funds paid by the employees and employers are not saved or invested but are used to pay current pension obligations. Obligations for contributions to defined contribution plans are recognized as an expense when incurred.

STI
Contributions to defined contribution plans are recognized as an expense in the period in which the related service is provided. Prepaid contributions are recognized as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. The unwinding of the discount is recognized as a finance cost in profit or loss in the period in which it arises.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they accrue to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the balance sheet date is recognized for services rendered by employees up to the end of the balance sheet date.

Share-based Payment Transactions
Certain employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

The Group has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Parent Company's shares at a discounted price. The Group recognizes employee benefit expense over the holding period. The Group treats its ESOWN plan as option payable within a given period. These are accounted for similar to the methods outlined in PFRS 2. Dividends paid on the awards that have vested are deducted from equity while those paid on awards that are unvested are charged to profit or loss.

Operating Segments
The Group is organized and managed separately according to geographical locations of businesses. The geographical segments are segregated as follows: Philippines, China, Europe, Mexico, Germany/UK, and USA/Japan/Singapore. These geographical businesses are the basis upon which the Group reports its operating segment information presented in Note 29.

Leases
The determination of whether an arrangement is, or contains, a lease, is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets, or whether the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Operating and finance lease commitments - Group as lessee
Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in the "Property, plant and equipment" account, with the corresponding liability to the lessor included in the "Accounts payable and accrued expenses" account for the current portion, and "Noncurrent portion of obligation under finance lease" account for the noncurrent portion in the consolidated balance sheets. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized under "Interest expense and bank charges" account in the consolidated statements of income.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets and the respective lease terms.

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the respective lease terms.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the consolidated financial statements when an inflow of economic benefits is probable.

Events after the Balance Sheet Date
Post period events that provide additional information about the Group's financial position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post period events that are non-adjusting events are disclosed in the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Uncertainty about these judgments, assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities affected in future periods.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Product development costs
Expenditures for the development of new products or production systems are recognized as intangible assets if such expenditures, with a high degree of certainty, will result in future economic benefits for the Group. The rules require stringent criteria to be met for these development

expenditures to be recognized as assets such as determining technical feasibility of completing the intangible asset. Management assessed that it is able to meet the identifiability and separability criteria provided in PAS 38, *Intangible Assets,* on the premise that the projects involved are in separate locations from other existing lines and that each project arises from a contractual right between the Group and each customer. Moreover, management is able demonstrate that the projects are in the advanced stage of development.

Functional currency
PAS 21, *Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine each entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Group. In making this judgment, each entity within the Group considers the currency in which the sales prices for its goods and services are denominated and settled.

Effective January 1, 2017, IMI CZ changed its functional currency from CZK to EUR, while IMI BG changed its functional currency from BGN to EUR effective January 1, 2016. Management believes that the change in the functional currency was necessary to define the currency of the primary economic environment in which these entities operate.

Operating lease commitments - Group as lessee
The Group has entered into contracts with various lease contracts for office spaces and land. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessor.

Further details are disclosed in Note 30.

Contingencies
The Group is currently involved in various legal proceedings. The estimates of the probable costs of the resolutions and assessments of these claims have been developed in consultation with outside counsels handling the defense in these matters and are based upon analyses of potential results. The Group currently does not believe that these proceedings and tax assessments will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

Further details are disclosed in Note 34.

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Fair value of the financial liabilities on put options
The acquisition of VIA in 2016 and STI in 2017 included call and put options over the non-controlling interests. These options are considered when determining whether the entity has obtained control over the acquiree if in substance the entity already has access to the returns associated with that ownership interest. Management assessed that the options do not give the Group present access to the returns associated with the non-controlling interests in subsidiary and, therefore, accounted for the non-controlling interests under PFRS 10, while the financial liability was accounted for under PAS 39 measured at the present value of the redemption amount, with a debit to a component of equity attributable to the parent.

Management assessed that the discounted, probability-weighted cash flow methodology is the appropriate model to derive the present value of the redemption amount. The key estimates and assumptions used in the valuation include the current equity value of the acquiree, forecasted interest rate and probability of trigger events occurring. The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital. For STI, management used the market approach by approximating the EBITDA multiple taken from comparable companies of STI that are engaged in providing electronic services solutions to derive its current equity value. Management computed EBITDA as the difference of forecasted gross profit and selling and administrative expenses before depreciation and amortization.

Further details on the valuation of the put options are disclosed in Note 32.

Fair value of contingent consideration liability
The cost of acquisition of STI includes contingent consideration that will depend on the actual normalized EBITDA performance less adjustments in 2018 and 2019. Management assessed that the probability-weighted average of payouts associated with each possible outcome is the appropriate model to derive the fair value as part of the consideration transferred. Valuing normalized EBITDA requires management to make an estimate of the expected future cash flows of STI and an appropriate discount rate in order to calculate the fair value of the contingent consideration as of acquisition date. Further details on the valuation of the contingent consideration liability are disclosed in Note 32.

Impairment of receivables
The Group reduces the carrying amount of its receivables through the use of an allowance account if there is objective evidence that an impairment loss on receivables has been incurred, based on the result of the individual impairment assessment. Factors considered are payment history and past due status.

Further details on receivables are disclosed in Note 6.

Estimating NRV of inventories
Inventories are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, costs of completion and costs necessary to make a sale to determine the NRV. In the event that NRV is lower than cost, the decline is recognized as an expense.

Further details on inventories are disclosed in Note 7.

Depreciation and amortization
The Group computes depreciation and amortization of property, plant and equipment and intangible assets with finite useful life on a straight-line basis over the assets' EUL. The EUL and depreciation and amortization method are reviewed annually to ensure that these are consistent with the expected pattern of the economic benefits from the assets. This requires the Group to make an estimate of the expected asset utilization from business plans and strategies, future technical developments and market behavior to determine the expected pattern of economic benefits from the assets. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the depreciation and amortization period or method, as appropriate, and are treated as changes in accounting estimates. The depreciation and amortization expense on property, plant and equipment and intangible assets with finite useful lives are recognized in profit or loss, in the expense category, consistent with the function of the property, plant and equipment and intangible assets.

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

Evaluation of impairment of nonfinancial assets
The Group reviews property, plant and equipment, goodwill and intangible assets for impairment of value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. Impairment for goodwill is assessed at least annually. The Group estimates the recoverable amount as the higher of the fair value less costs to sell and value-in-use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect property, plant and equipment, and intangible assets. For goodwill, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value-in-use of the CGU to which the goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows. Further details on property, plant and equipment, goodwill and intangible assets are disclosed in Notes 9, 10 and 11, respectively.

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable profits. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience on previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax losses, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax losses can be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on taxes are disclosed in Note 25.

Retirement and other employee benefits
The cost of defined benefit plans and other long-term employee benefits as well as the present value of defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rates, turnover rates, mortality rates, salary increase rates, and future retirement increases. Due to the complexity of the actuarial valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The turnover rate represents the proportion of the current plan members who will resign from service prior to their retirement date and hence, be entitled to resignation benefits instead of retirement benefits. The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Salary increase rates and future retirement increases are based on expected future inflation rates.

The Group also estimates other short-term employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policies. These estimates may vary depending on the future changes in salaries and actual experiences during the period.

Further details on retirement and other employee benefits are disclosed in Note 27.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The expected volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Parent Company.

Further details on ESOWN are disclosed in Note 28.

5. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**$82,463**	$83,701
Cash in banks	**67,581,023**	75,816,054
Short-term investments	**22,963,742**	10,648,980
	$90,627,228	$86,548,735

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months and earn interest at the respective short-term investment rates.

Interest income earned from cash in banks and short-term investments amounted to $0.17 million in 2017, $0.29 million in 2016 and $0.66 million in 2015.

6. Receivables

This account consists of:

	2017	2016
Trade	**$252,636,453**	$192,152,117
Nontrade	**10,141,732**	3,804,516
Receivable from insurance	**1,076,287**	1,860,624
Due from related parties (Note 31)	**794,218**	299,713
Receivable from employees	**424,658**	553,745
Others	**52,274**	32,164
	265,125,622	198,702,879
Less allowance for doubtful accounts	**2,010,275**	1,733,743
	$263,115,347	$196,969,136

Trade
Trade receivables arise from manufacturing and other related services for electronic products and components and have credit terms averaging 80 days from invoice date.

Nontrade
Nontrade receivables represent billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These receivables have credit terms averaging 45 days from invoice date.

Receivable from Insurance
Insurance for damages to property, plant and equipment, inventories and business interruptions caused by fire in January 2016 amounting to $1.20 million was claimed, $0.41 million of which has been collected in 2016 and the remaining amount was fully collected by STJX in 2017 (see Notes 7 and 9).

Claims to damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu in 2009 amounting to $1.07 million was fully provided with allowance for doubtful accounts.

Receivable from Officers and Employees
Receivable from officers and employees pertain to loans granted to the Group's officers and employees which are collectible through salary deduction.

Allowance for Doubtful Accounts
Trade receivables, nontrade receivables, receivable from insurance and receivable from employees with aggregate nominal value of $2.01 million and $1.73 million as of December 31, 2017 and 2016, respectively, were individually assessed to be impaired and fully provided with allowance for doubtful accounts.

Movements in the allowance for doubtful accounts are as follows:

	December 31, 2017				
	Trade	**Nontrade**	**Receivable from Employees**	**Receivable from Insurance**	**Total**
At beginning of year	**$595,553**	**$62,574**	**$4,357**	**$1,071,259**	**$1,733,743**
Provisions	**86,236**	**139,299**	**–**	**–**	**225,535**
Accounts written-off	**(10,670)**	**(17,930)**	**–**	**–**	**(28,600)**
Foreign currency exchange difference	**79,597**	**(5,028)**	**–**	**5,028**	**79,597**
At end of year	**$750,716**	**$178,915**	**$4,357**	**$1,076,287**	**$2,010,275**

	December 31, 2016				
	Trade	Nontrade	Receivable from Employees	Receivable from Insurance	Total
At beginning of year	$543,800	$67,762	$17,438	$1,066,414	$1,695,414
Provisions (reversals)	217,768	–	(13,161)	–	204,607
Accounts written-off	(9,737)	–	–	–	(9,737)
Foreign currency exchange difference	(156,278)	(5,188)	80	4,845	(156,541)
At end of year	$595,553	$62,574	$4,357	$1,071,259	$1,733,743

Provisions during the year form part of "Operating expenses" account and are included under "Facilities costs and others" (see Note 22).

7. Inventories

This account consists of:

	2017	2016
Raw materials and supplies	**$139,623,455**	$75,849,560
Work-in-process	**29,087,565**	17,195,051
Finished goods	**37,112,621**	19,654,056
	205,823,641	112,698,667
Less allowance for:		
Inventory obsolescence	**6,129,568**	6,331,871
Decline in value of inventories	**79,266**	234,267
	6,208,834	6,566,138
	$199,614,807	$106,132,529

The cost of the inventories carried at NRV amounted to $17.23 million and $24.06 million as of December 31, 2017 and 2016, respectively. The amount of inventories recognized as an expense under “Cost of goods sold and services” account amounted to $756.16 million in 2017, $571.52 million in 2016 and $546.90 million in 2015 (see Note 20).

In 2016, STJX claimed and collected in full the insurance amounting to $0.41 million for the damaged inventories caused by a fire in January 2016. The net book value of the affected stocks amounted to $0.26 million.

Movements in the allowance for inventory obsolescence are as follows:

	2017	2016
At beginning of year	**$6,331,871**	$9,351,194
Reversals (Note 22)	**(202,303)**	(2,660,809)
Write-off	**–**	(358,514)
At end of year	**$6,129,568**	$6,331,871

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

	2017	2016
At beginning of year	**$234,267**	$184,267
Provisions (reversals) (Note 22)	**(155,001)**	50,000
At end of year	**$79,266**	$234,267

The Group recognized gains from sale of materials and scrap amounting to $1.24 million in 2017, $0.15 million in 2016 and $0.24 million in 2015. Gains from sale of materials and scrap are included under “Miscellaneous income (loss) - net” account in the consolidated statement of income (see Note 24).

8. Other Current Assets

This account consists of:

	2017	2016
Input taxes	**$8,504,591**	$3,115,121
Advances to suppliers	**7,633,680**	8,838,927
Prepayments	**6,611,082**	2,372,073
Tax credits	**3,687,290**	2,228,363

(Forward)

	2017	2016
Noncurrent assets held for sale (Note 9)	**$362,124**	$362,124
Derivative assets (Notes 32 and 33)	**–**	67,062
Others	**255,864**	340,745
	$27,054,631	$17,324,415

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

Input Taxes
This account includes input tax expected to be applied against output tax within 12 months from the balance sheet date. Input tax is recognized when an entity in the Group purchases goods or services from a supplier or vendor.

Prepayments
Prepayments include prepayments for rent, life and fire insurance, product liability and recall insurance, which cover product recall expenses and liability to third parties seeking damage in the event the Group recalls any of its products.

Tax Credits
Tax credits includes tax incentive to be applied to future taxable profits of IMI MX and IMI BG and amounts withheld from income tax payments of the Parent Company and PSi.

Noncurrent Assets Held for Sale
Noncurrent assets held for sale relates to the sale and purchase agreement between STEL and Jinnuo Century Trading Limited in connection with the relocation of its manufacturing facility in Liantang, Luohu, in line with the urban redevelopment projects of the Shenzhen City government. The sale is subject to certain conditions which are expected to be completed within 2018.

9. Property, Plant and Equipment

Movements in this account are as follows:

	2017						
	Buildings and Improvements	Machineries and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At beginning of year	$75,240,305	$131,991,993	$19,926,463	$1,700,583	$7,716,455	$8,856,966	$245,432,765
Additions	8,731,307	34,613,411	3,880,798	535,300	1,101,552	13,010,576	61,872,944
Acquisition through business combination (Note 2)	1,232,768	4,736,580	14,362	–	–	–	5,983,710
Disposals/retirement	(7,752,183)	(11,200,522)	(994,787)	(319,502)	(644,669)	(17,274)	(20,928,937)
Transfers	5,647,511	8,816,444	1,175,405	29,457	484,343	(16,153,160)	–
Foreign currency exchange difference	1,400,531	6,671,178	357,230	106,028	16,107	276,125	8,827,199
At end of year	84,500,239	175,629,084	24,359,471	2,051,866	8,673,788	5,973,233	301,187,681
Accumulated depreciation							
At beginning of year	36,199,147	70,587,535	14,770,431	590,693	3,332,593	–	125,480,399
Depreciation	3,902,685	17,398,541	2,104,433	476,491	359,671	–	24,241,821
Depreciation capitalized as development cost	76,784	1,069,895	1,666	–	–	–	1,148,345
Disposals/retirement	(6,313,739)	(11,081,114)	(929,916)	(291,827)	(419,690)	–	(19,036,286)
Transfers	(14,560)	12,543	(3,325)	5,342	–	–	–
Foreign currency exchange difference	283,676	2,397,847	260,756	75,833	7,022	–	3,025,134
At end of year	34,133,993	80,385,247	16,204,045	856,532	3,279,596	–	134,859,413
Accumulated impairment losses							
At beginning of year	815,150	1,732,212	–	–	–	–	2,547,362
Reversal of impairment	(815,150)	–	–	–	–	–	(815,150)
At end of year	–	1,732,212	–	–	–	–	1,732,212
Net book value	$50,366,246	$93,511,625	$8,155,426	$1,195,334	$5,394,192	$5,973,233	$164,596,056

	2016						
	Buildings and Improvements	Machineries and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At beginning of year	$72,113,546	$108,898,005	$17,900,646	$1,468,326	$5,489,876	$9,509,131	$215,379,530
Additions	7,975,777	26,216,435	1,901,351	684,538	2,234,803	9,331,314	48,344,218
Acquisition through business combination (Note 2)	137,613	1,948,746	166,896	7,255	98,158	790,641	3,149,309
Disposals	(365,758)	(9,971,185)	(480,689)	(400,842)	(367,119)	–	(11,585,593)
Asset held for sale (Note 8)	(6,491,739)	–	–	–	–	–	(6,491,739)
Transfers	2,409,552	7,270,342	573,303	3,885	260,898	(10,517,980)	–
Foreign currency exchange difference	(538,686)	(2,370,350)	(135,044)	(62,579)	(161)	(256,140)	(3,362,960)
At end of year	75,240,305	131,991,993	19,926,463	1,700,583	7,716,455	8,856,966	245,432,765
Accumulated depreciation							
At beginning of year	38,709,500	64,001,044	13,632,345	538,637	2,848,671	–	119,730,197
Depreciation	3,749,666	16,389,876	1,648,253	478,473	205,978	–	22,472,246
Depreciation capitalized as development cost	235,940	1,578,553	46,738	5,493	29,001	–	1,895,725
Disposals	(278,258)	(9,447,148)	(469,979)	(379,189)	(2,301)	–	(10,576,875)
Asset held for sale (Note 8)	(6,129,615)	–	–	–	–	–	(6,129,615)
Transfers	(884)	(261,715)	10,888	–	251,711	–	–
Foreign currency exchange difference	(87,202)	(1,673,075)	(97,814)	(52,721)	(467)	–	(1,911,279)
At end of year	36,199,147	70,587,535	14,770,431	590,693	3,332,593	–	125,480,399
Accumulated impairment losses							
At beginning and end of year	815,150	1,732,212	–	–	–	–	2,547,362
Net book value	$38,226,008	$59,672,246	$5,156,032	$1,109,890	$4,383,862	$8,856,966	$117,405,004

Property, plant and equipment acquired through business combination amounted to $5.98 million (STI) and $3.15 million (VIA) in 2017 and 2016, respectively.

The Group capitalized depreciation related to development phase for certain projects amounting to $1.15 million in 2017 and $1.90 million in 2016. The capitalized cost was part of product development under “Intangible assets” account.

In 2017, the Group recorded a reversal of impairment provision on buildings and improvements amounting to $0.82 million. The building is currently being refurbished and is converted into a production line. The reversal is included under “Miscellaneous income (loss) - net” account in the consolidated statements of income (see Note 24).

Construction in progress pertains to the construction and development of manufacturing production lines of the Group. During the years ended December 31, 2017 and 2016, construction in progress transferred in to property, plant and equipment amounted to $16.45 million and $10.52 million, respectively.

In 2016, STJX claimed an insurance amounting to $0.71 million as proceeds for the fixed assets damaged by a fire in January 2016. The net book value of the affected assets amounted to $0.44 million. The claim was collected in 2017.

The Group recognized gains from disposal and retirement of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments amounting to $0.05 million in 2017, loss of $0.14 million in 2016 and gain $0.17 million in 2015. The 2016 loss is net of the proceeds from the disposal of scrap equipment related to the fire amounting to $0.09 million.

As of December 31, 2017 and 2016, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to $189.31million and $212.82 million, respectively.

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

	2017	2016	2015
Cost of goods sold and services (Note 20)	**$21,247,569**	$20,036,576	$18,570,445
Operating expenses (Note 21)	**2,994,252**	2,435,670	2,446,374
	$24,241,821	$22,472,246	$21,016,819

10. **Goodwill**

As of December 31, 2017 and 2016, goodwill acquired through business combinations had been allocated to the following CGUs:

	2017	2016
STI	**$55,954,732**	$–
STEL	**45,128,024**	45,128,024
VIA	**44,539,967**	44,539,967
Parent Company	**1,097,776**	1,097,776
IMI CZ	**650,413**	650,413
	$147,370,912	$91,416,180

STI, STEL, VIA, and IMI CZ
The recoverable amounts of these CGUs have been based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a 5-year period. The pre-tax discount rates applied to cash flow projections are as follows:

	2017	2016
STI	**8.70%**	–
STEL	**14.21%**	11.89%
VIA	**13.40%**	11.20%
IMI CZ	**8.30%**	9.56%

Cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate (CAGR) for the global EMS industry.

Key assumptions used in the value-in-use calculations
The calculations of value-in-use for the CGUs are most sensitive to the following assumptions:
- Revenue - Revenue forecasts are management’s best estimates considering factors such as industry CAGR, customer projections and other economic factors.
- Forecasted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital.

No impairment loss was assessed for STI, STEL, VIA and IMI CZ in 2017, 2016 and 2015.

Sensitivity to changes in assumptions
With regard to the assessment of value-in-use of STI, STEL, VIA and IMI CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of these CGUs to exceed their recoverable amount.

Parent Company
The goodwill of the Parent Company pertains to its acquisition of M. Hansson Consulting, Inc. (MHCI) in 2006 and IMI USA in 2005. MHCI was subsequently merged to the Parent Company as testing and development department. IMI USA acts as direct support to the Group’s customers by providing program management, customer service, engineering development and prototyping manufacturing services. IMI USA’s expertise in product design and development particularly on the flip chip technology is being used across the Group in providing competitive solutions to customers. The recoverable amount was based on the market price of the Parent Company’s shares at valuation date

less estimated costs to sell. The fair value of the Parent Company's shares represents the value of the Group.

The comparison of the recoverable amounts and the carrying amounts resulted to no impairment loss in 2017, 2016 and 2015.

11. Intangible Assets

Movements in this account are as follows:

	December 31, 2017					
	Customer Relationships	**Unpatented Technology**	**Licenses**	**Intellectual Properties**	**Product Development Costs**	**Total**
Cost						
At beginning of year, as reported	**$19,666,617**	**$100,000**	**$9,009,676**	**$464,234**	**$5,899,990**	**$35,140,517**
Effect of finalization of business combination (Note 2)	**–**	**–**	**–**	**7,847,989**	**–**	**7,847,989**
At beginning of year, as restated	**19,666,617**	**100,000**	**9,009,676**	**$8,312,223**	**5,899,990**	**42,988,506**
Additions	**–**	**–**	**3,257,626**	**123,552**	**–**	**3,381,178**
Capitalized development costs	**–**	**–**	**–**	**–**	**5,608,052**	**5,608,052**
Acquisition through business combination	**–**	**–**	**–**	**369,725**	**–**	**369,725**
Foreign currency exchange difference	**–**	**–**	**386,318**	**67,308**	**–**	**453,626**
At end of year	**19,666,617**	**100,000**	**12,653,620**	**$8,872,808**	**11,508,042**	**52,801,087**
Accumulated amortization						
At beginning of year	**19,666,617**	**100,000**	**4,839,885**	**64,937**	**–**	**24,671,439**
Amortization	**–**	**–**	**1,414,525**	**2,113,539**	**859,886**	**4,387,950**
Foreign currency exchange difference	**–**	**–**	**315,295**	**3,132**	**–**	**318,427**
At end of year	**19,666,617**	**100,000**	**6,569,705**	**2,181,608**	**859,886**	**29,377,816**
Accumulated impairment loss	**–**	**–**	**–**	**–**	**524,705**	**524,705**
Net book value	**$–**	**$–**	**$6,083,915**	**$6,691,200**	**$10,123,451**	**$22,898,566**

	December 31, 2016 (As Restated - Note 2)					
	Customer Relationships	Unpatented Technology	Licenses	Intellectual Properties	Product Development Costs	Total
Cost						
At beginning of year	$19,666,617	$100,000	$5,384,182	$–	$–	$25,150,799
Additions	–	–	3,886,107	–	–	3,886,107
Capitalized development costs	–	–	–	–	5,899,990	5,899,990
Acquisition through business combination (Note 2)	–	–	–	8,341,357	–	8,341,357
Foreign currency exchange difference	–	–	(260,613)	(29,134)	–	(289,747)
At end of year	19,666,617	100,000	9,009,676	8,312,223	5,899,990	42,988,506
Accumulated amortization						
At beginning of year	18,877,177	100,000	3,775,161	–	–	22,752,338
Amortization	789,440	–	1,132,321	67,787	–	1,989,548
Foreign currency exchange difference	–	–	(67,597)	(2,849)	–	(70,446)
At end of year	19,666,617	100,000	4,839,885	64,938	–	24,671,440
Net book value	$–	$–	$4,169,791	$8,247,285	$5,899,990	$18,317,066

Customer Relationships
Customer relationships pertain to STEL Group's and IMI BG's contractual agreements with certain customers, which lay out the principal terms upon which the parties agree to undertake business.

Customer relationships of STEL Group and IMI BG aggregating to $19.67 million were fully amortized as of December 31, 2017 and 2016.

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

The unpatented technology amounting to $0.01 million was fully amortized as of December 31, 2017 and 2016.

Licenses
This includes acquisitions of computer software, applications and modules.

Intellectual Properties
VIA's patents and trademarks pertain to display system optically bonded to a display region and enhanced liquid crystal display system and methods. The Group finalized the purchase price allocation for the acquisition of VIA and determined the fair value of the intellectual properties amounting to $8.34 million (see Note 2).

STI has manufacturing intellectual property rights and license to manufacture for one of its customers.

Product Development Costs
This includes capitalized costs arising from the development phase of certain projects which are still undergoing qualification.

Intangible assets not yet available for use are tested for impairment following the value-in-use approach. The projects to which the development costs pertain to represent the CGU of the intangible assets. The recoverable amounts of these CGUs have been determined using cash flow projections from financial budgets approved by management covering a 5-year period, which is within the expected life cycle of the projects. The pre-tax discount rates applied to cash flow projections range from 13.10% - 28.50%. Key assumptions used in the value-in-use calculations are consistent with those disclosed in Note 10.

Significant delay in the mass production of one project resulted to impairment of the related capitalized development cost. Impairment loss amounting to $0.52 million was recognized under "Miscellaneous income (loss) - net" account in 2017 (see Note 24).

Research expenditure recognized as expense amounted to $3.56 million, $0.26 million and $0.11 million in 2017, 2016 and 2015, respectively.

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

	2017	2016	2015
Cost of goods sold and services (Note 20)	**$952,288**	$34,951	$15,604
Operating expenses (Note 21)	**3,435,662**	1,954,597	2,216,247
	$4,387,950	$1,989,548	$2,231,851

12. Available-for-Sale Financial Assets

This account consists of:

	2017	2016
Investment securities - unquoted	**$1,753,589**	$1,753,589
Club shares - quoted	**831,364**	740,949
	2,584,953	2,494,538
Less allowance for impairment loss on AFS financial assets	**1,753,589**	1,753,589
	$831,364	$740,949

As of December 31, 2017 and 2016, the balance of investment securities pertains to Class A common stock of a customer. This investment was provided with full allowance in prior years due to the investee company's financial difficulties.

The table below shows reconciliation of fair value measurements of AFS financial assets:

	2017	2016
Balance at beginning of year	**$740,949**	$583,510
Change in fair value of quoted AFS investments	**90,415**	157,439
Balance at end of year	**$831,364**	$740,949

13. Other Noncurrent Assets

This account consists of:

	2017	2016
Miscellaneous deposits	**$1,647,864**	$2,596,176
Others	**143,051**	125,882
	$1,790,915	$2,722,058

Miscellaneous deposits comprise utilities and rent deposits. This includes utility deposits to AC Energy Holdings Inc. (ACEHI) amounting to $0.15 million and $0.48 million as of December 31, 2017 and 2016, respectively (see Note 31).

14. Accounts Payable and Accrued Expenses

This account consists of:

	2017	2016
Trade payables	**$185,143,187**	$136,114,721
Accrued expenses	**25,770,467**	16,676,506
Accrued compensation and benefits	**24,233,636**	21,685,525
Advances from a third party	**20,772,333**	6,538,462
Nontrade payables	**12,785,361**	8,050,234
Advances from customers	**7,710,749**	2,567,552
Taxes payable	**3,660,433**	1,094,518
Customers' deposits	**1,352,353**	896,712
Accrued interest payable	**1,075,657**	769,072

(Forward)

	2017	2016
Employee-related contributions	**$632,846**	$455,272
Current portion of obligation under finance lease (Note 30)	**245,518**	–
Derivative liabilities (Note 32)	**30,144**	10,567
Due to related parties (Note 31)	**9,584**	590,369
Others	**856,442**	225,795
	$284,278,710	$195,675,305

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

Accrued Expenses
Accrued expenses consist mainly of accruals for taxes, employee pay-out related to SZSTE's relocation of manufacturing facilities, supplies, professional fees, utilities, insurance, interest, and freight and brokerage.

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

Advances from a Third Party
The amount pertains to the deposit received related to the sale and purchase agreement between STEL and Jinnuo Century Trading Limited in connection with the plan to relocate the SZSTE manufacturing facility in Liantang, Luohu to Pingshan, in line with the urban redevelopment projects of the Shenzhen City government. The sale is subject to certain conditions which are expected to be completed in 2018. The advances were offset by a provision for refund related to the actual spin-off compensation paid amounting to $5.30 million.

Nontrade Payables
This account consists of obligations related to outsourced manpower, logistics and freight forwarders, professional and service fees and other nontrade related payables. These payables are normally settled on 30 to 60-day terms. This also includes advances from directors of STI which are payable on demand.

Advances from Customers
Advances from customers include financial liabilities pertaining to commercial agreements with certain customers of VIA with interest ranging from 3.55% to 5.00%, PSi's advances from local customers (see Note 17), and advance payments made by customers for goods and services of the Parent Company and STEL.

Taxes Payable
Taxes payable pertain to taxes withheld such as fringe benefits tax and withholding taxes on purchased goods and services. Withholding taxes payable are expected to be settled within the next financial year.

Customers' Deposits
The amount pertains to advance payments made by customers as manufacturing bond.

Employee-related Contributions
This account consists mainly of remittances related to government agencies such as social security and insurance, housing fund and health insurance.

Others
This account consists of unreleased checks and consignment payables of the Parent Company for the materials received from its customers.

15. **Trust Receipts and Loans Payable**

This account consists of borrowings of the following entities:

	2017	2016
Parent Company	**$93,000,000**	$25,000,000
STEL	**24,000,000**	8,000,000
VIA	**12,461,977**	7,903,449
STI	**3,736,085**	–
IMI CZ	**1,658,579**	1,092,528
PSi	**200,979**	9,449,192
	$135,057,620	$51,445,169

Parent Company
As of December 31, 2017 and 2016, the Parent Company has unsecured short-term loans aggregating to $93.00 million and $25.00 million, respectively, with maturities ranging from 30 to 90 days, and fixed annual interest rates ranging from 1.82% to 2.34% in 2017, from 1.23% to 1.24% in 2016 and from 1.03% to 1.50% in 2015.

The Parent Company incurred interest expense on its short-term loans amounting to $1.50 million in 2017, $0.65 million in 2016 and $0.46 million in 2015 (see Note 23).

STEL
The loans of STEL are from existing revolving credit facilities with Singapore-based banks and bear annual interest rate from 2.88% to 4.31% in 2017, 2.24% in 2016 and 1.73% in 2015 and have maturities of 30 to 60 days from the date of issue.

STEL incurred interest expense on short-term loans amounting to $0.34 million in 2017, $0.16 million in 2016 and $0.16 million in 2015 (see Note 23).

VIA
The loans of VIA consists of factoring loan from China-based banks denominated in USD and RMB aggregating $10.07 million in 2017 and $5.81 million in 2016 with terms ranging from 70 to 150 days and annual interest rate from 3.16% to 3.77% and loan from a German-based bank amounting to €2.0 million ($2.39 million) in 2017 and €2.0 million ($2.09 million) in 2016 with term of 90 and bears interest rate of 1.95% per annum.

VIA incurred interest expense on short-term loans amounting to $0.84 million in 2017 and $0.05 million in 2016 (see Note 23).

STI
STI has unsecured short-term loans from a local bank amounting to $3.20 million and UK-based bank of £0.40 million ($0.54 million) as of December 31, 2017, with maturities ranging from 90 to 240 days and annual interest rates ranging from 3.9% to 4.7%.

STI incurred interest expense on short-term loans amounting to $0.08 million in 2017 (see Note 23).

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

IMI CZ incurred interest expense on short-term loans amounting to $0.05 million in 2017 and $0.003 million in 2016 (see Note 23).

PSi
PSi has short-term loans from a local bank amounting to $9.20 million subject to interest rate of 3.17% as of December 31, 2016, which was settled in the first half of 2017. PSi also has trust receipts payable amounting to $0.20 million and $0.25 million as of December 31, 2017 and 2016, respectively.

PSi incurred interest expense on short-term loans and trust receipts payable amounting to $0.04 million in 2017, $0.28 million in 2016 and $0.24 million in 2015 (see Note 23).

16. **Long-Term Debt**

This account consists of borrowings of the following entities:

	2017	2016
Parent Company	**$154,500,000**	$120,222,000
Cooperatief	**5,095,518**	6,586,800
IMI CZ	**5,066,432**	1,818,198
IMI BG	**239,320**	417,760
VIA	**195,465**	284,338
	165,096,735	129,329,096
Less current portion:		
Parent Company	–	5,222,000
Cooperatief	**5,095,518**	2,108,200
IMI CZ	**1,403,223**	528,478
IMI BG	**239,320**	208,880
VIA	**134,618**	117,495
	6,872,679	8,185,053
Noncurrent portion	**$158,224,056**	$121,144,043

Parent Company
In October and November 2017, the Parent Company obtained two 5-year term loan aggregating $30.00 million from a Singapore-based bank. The loan is unsecured and is subject to annual interest rates ranging from 2.85% to 2.86%.

On October 10, 2016, the Parent Company drew a $40.00 million 5-year term loan subject to a fixed interest rate of 2.70% and drew additional loan of $10.00 million in 2017 subject to an annual interest rate of 2.96%. Subsequently, 1% of the loan or equivalent of $0.50 million was paid in 2017.

On October 6, 2016, the Parent Company obtained a $40.00 million 3-year term loan from a Singapore-based bank subject to a fixed annual interest rate of 2.15%.

On September 29, 2016, the Parent Company obtained a $15.00 million 3-year term loan from a local bank subject to a fixed annual interest rate of 2.99%.

On August 12, 2015, the Parent Company obtained a $20.00 million 5-year term loan from a local bank payable at the end of the loan term subject to a fixed interest rate per annum of 2.8%. Interests are payable quarterly in arrears on each interest payment date.

On February 29, 2012, the Parent Company obtained a €5.00 million ($5.22 million), 5-year term clean loan from a local bank payable in a single balloon payment at the end of the loan term. Interest is payable semi-annually at the rate of 1.28%. The loan was paid in February 2017.

The Parent Company incurred interest expense on its long-term loans amounting to $2.64 million in 2017, $1.83 million in 2016 and $0.98 million in 2015 (see Note 23).

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

- The ratio of debt to EBITDA shall not exceed 3:1 at all times, with reference to the borrower's consolidated financial statements;
- Maintenance of debt service coverage ratio of at least 1.5:1;
- Maintenance at all times of a current ratio of at least 1:1; and
- Maintenance of a debt-to-equity ratio, computed with reference to the borrower's consolidated financial statements, of not greater than 1.75:1.

As of December 31, 2017 and 2016, the Parent Company has complied with all of the above-mentioned loan covenants.

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

Cooperatief had already paid an aggregate amount of €10.00 million from 2013 to 2017 with an annual payment of €2.00 million every July of each year. The balance of €4.25 million ($5.10 million) will be due on July 29, 2018.

Cooperatief incurred interest expense on its long-term debt amounting to $0.19 million in 2017, $0.26 million in 2016 and $0.32 million in 2015 (see Note 23).

<u>IMI CZ</u>
IMI CZ has unsecured term loan facility from Czech-based bank aggregating to €4.23 million ($5.07million). The principal shall be paid in 60 regular monthly installments and bears interest of 3-month EURIBOR plus spread ranging from 0.9% to 2.70% but is not to exceed 15% per annum. Outstanding balance as of December 31, 2017 amounted to €4.23 million ($5.07 million).

IMI CZ incurred interest expense on its long-term debt amounting to $0.05 million in 2017, $0.03 million in 2016, and $0.02 million in 2015 (see Note 23).

<u>IMI BG</u>
IMI BG has a long-term debt from European-based bank amounting to $0.42 million that relates to the term loan facility for financing the construction of a new warehouse with a term of five years and bears interest based on 3-month EURIBOR plus 2.90%. The warehouse was completed in 2013.

The credit facility with the bank is subject to the following collateral: Security of Transfer of Ownership Title relating to office and factory equipment with a carrying value of $1.35 million.

IMI BG incurred interest expense amounting to $0.01 million in 2017 and $0.02 million in 2016 and $0.02 million in 2015 (see Note 23).

<u>VIA</u>
VIA has a long-term debt from Germany-based bank amounting to €0.16 million ($0.20 million). The loan is unsecured and bears annual interest of 5.35% and matures on June 30, 2019.

VIA incurred interest expense on its long-term debt amounting to $16,363 in 2017 and $3,803 in 2016 (see Note 23).

17. **Noncurrent Advances from Customers**

On June 28, 2010, PSi and a local customer entered into a Subcontracting Services Agreement (SSA) for PSi to provide subcontracted services. In consideration, the local customer shall pay PSi service fees as provided for in the SSA. The subcontracted services shall be effective starting from July 15, 2010 and ending February 29, 2020, renewable upon mutual agreement by both parties.

In September 2009, PSi received noninterest-bearing cash advances amounting to $3.00 million from a foreign customer, an affiliate of the local customer. On July 15, 2010, the foreign customer assigned all of its rights with respect to the cash advances, including payments thereof, to the above local customer. The local customer and PSi agreed that upon termination of the SSA, the full cash advances amounting to $3.00 million will be applied to pre-pay and cover any and all of the fees payable, under Annex B of the SSA, for the facilities support services that will be rendered by PSi to the local customer. Moreover, PSi shall return to the local customer, if any, the residual cash advances, less any amount applied to pay the fees as detailed in the SSA.

On July 14, 2017, the local customer formally terminated the SSA with PSi effective December 31, 2017 due to the early termination of PSi's lease in FTI Taguig. In line with the termination, the advances from the local customer are due in the first quarter of 2018.

As of December 31, 2017 and 2016, the current and noncurrent portion of Group's advances from the local customers follows:

	2017	2016
Total outstanding advances from local customers	**$1,147,592**	$1,788,232
Less current portion (Note 14)	**1,147,592**	650,367
Noncurrent portion	**$–**	$1,137,865

18. **Other Financial Liabilities**

The account consists of financial liabilities arising from the acquisition of VIA and STI as follows:

	2017	2016
Put options over non-controlling interests		
VIA	**$11,676,243**	$11,334,282
STI (Note 2)	**10,236,016**	–
Contingent consideration (Note 2)	**405,601**	–
Current	**$22,317,860**	$11,334,282
Noncurrent portion of contingent consideration (Note 2)	**$24,569,608**	$–

The put options of VIA pertain to the right of the non-controlling shareholder to sell to IMI a portion of its shareholding that is approximately 5% of the issued and outstanding nominal share capital of VIA within the first and third anniversary of the agreement (5% put option) and all remaining shares held by the non-controlling shareholder upon the happening of certain trigger events (exit put options).

The noncurrent portion of the contingent consideration is included under "Other noncurrent liabilities" account.

19. **Equity**

Authorized Capital Stock
On February 15, 2017, the Parent Company's BOD approved the proposed decrease of authorized capital stock of the Parent Company to reflect the retirement of the redeemed ₱1.3 billion redeemable preferred shares and the corresponding amendment to the Articles of Incorporation. The SEC issued the certificate of approval of decrease in capital stock on December 20, 2017.

Capital Stock
This account consists of:

	2017		2016		2015	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized - ₱1 par value						
Common	**2,250,000,000**		2,250,000,000		2,250,000,000	
Preferred	**200,000,000**		1,500,000,000		1,500,000,000	
Issued - Common						
At beginning of year	**1,793,518,641**	**$34,935,709**	1,793,429,765	$34,933,728	1,790,416,179	$34,876,616
Issuances from ESOWN	**36,373,583**	**773,970**	88,876	1,981	3,013,586	57,112
At end of year*	**1,829,892,224**	**$35,709,679**	1,793,518,641	$34,935,709	1,793,429,765	$34,933,728
Issued - Preferred						
At beginning of year	**–**	**$–**	–	$–	1,300,000,000	$26,601,155
Redemption	**–**	**–**	–	–	(1,300,000,000)	(26,601,155)
At end of year	**–**	**$–**	–	$–	–	$–

* *Out of the total issued shares, 15,892,224 shares as of December 31, 2017, and 15,892,124 in 2016 and 2015 pertain to treasury shares.*

On November 12, 2017, the Parent Company's BOD through the Executive Committee passed a resolution approving the rights offering of common shares to all eligible shareholders of IMI ("Rights Issue"). The Parent Company is conducting the Rights Issue in order to support the growth and strategic initiatives of the Group. This includes business expansions and strategic investments. The Rights Issue will ensure the financial flexibility to consider these opportunities if and when they arise (see Note 36).

On October 11, 2017, the PSE in its regular meeting approved the application of the Parent Company to list an additional 200,000,000 common shares with a par value of ₱1.00.

On June 25, 2015, the BOD of the Parent Company approved the redemption of all of the outstanding 1,300,000,000 redeemable preferred shares which were issued in 2008. The shares, which were redeemed at a price of ₱1.00 per share, were paid on August 24, 2015 to the stockholders of record as of July 24, 2015, including all accumulated unpaid cash dividends.

As of December 31, 2017, 2016 and 2015, there were 342, 338 and 367 registered common stockholders, respectively.

Subscribed Capital Stock
Details of this account follow:

	2017		2016		2015	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**84,936,229**	**$1,857,440**	87,200,345	$1,907,584	82,375,866	$1,797,638
Subscriptions during the year - ESOWN	**–**	**–**	–	–	10,393,394	222,366
Issuances during the year - ESOWN	**(36,373,583)**	**(773,970)**	(88,876)	(1,981)	(3,013,586)	(57,112)
Forfeitures during the year - ESOWN	**(1,158,757)**	**(25,192)**	(2,175,240)	(48,163)	(2,555,329)	(55,308)
At end of year	**47,403,889**	**$1,058,278**	84,936,229	$1,857,440	87,200,345	$1,907,584

Subscriptions Receivable
Details of this account are as follows:

	2017	2016	2015
At beginning of year	**$12,334,692**	$13,131,734	$12,906,784
Subscriptions during the year	**–**	–	1,136,291
Forfeitures during the year	**(217,470)**	(334,665)	(450,707)
Collections during the year	**(6,765,378)**	(462,377)	(460,634)
At end of year (Note 28)	**$5,351,844**	$12,334,692	$13,131,734

Additional Paid-in Capital
The financial liabilities arising from the written put options over the non-controlling interest of VIA and STI were recognized with a corresponding debit to the "Additional paid-in capital" account.

The effects of the initial recognition of financial liabilities arising from put options on business combinations are $12.88 million in 2017 for STI and $12.06 million in 2016 for VIA.

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

Dividends
2017
On April 4, 2017, the BOD of the Parent Company approved the declaration of cash dividend of $0.004529 or ₱0.22739 per share to all outstanding common shares aggregating to $8.43 million as of record date of April 20, 2017 payable on May 4, 2017.

2016
On February 06, 2016, the BOD of the Parent Company approved the declaration of cash dividend of $0.0046 or ₱0.2204 per share to all outstanding common shares as of record date of February 23, 2016 payable on March 10, 2016.

2015
On February 17, 2015, the BOD of the Parent Company approved the declaration of cash dividend of $0.0042 or ₱0.1868 per share to all outstanding common shares as of record date of March 4, 2015, payable on March 19, 2015.

Retained Earnings
On February 17, 2015, the BOD of the Parent Company approved the reclassification of the remaining balance of the appropriated retained earnings to unappropriated retained earnings amounting to $20.66 million.

The foreign exchange translation difference between the redemption date and the original issuance of preferred shares amounting to $1.83 million was charged against "Retained earnings" account in 2015.

Accumulated net earnings of the subsidiaries amounting to $170.50 million and $143.76 million as of December 31, 2017 and 2016, respectively, are not available for dividend declaration. This accumulated equity in net earnings becomes available for dividend upon receipt of cash dividends from the investees.

The retained earnings are restricted to dividend declaration to the extent of the cost of treasury shares amounting to $1.01 million.

In accordance with Securities Regulation Code Rule 68, As Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2017 amounted to $15.00 million.

20. Cost of Goods Sold and Services

This account consists of:

	2017	2016	2015
Direct, indirect and other material-related costs (Note 7)	**$756,164,017**	$571,521,298	$546,897,934
Direct labor, salaries, wages and employee benefits (Note 27)	**137,867,620**	116,183,955	121,291,155
Depreciation and amortization (Notes 9 and 11)	**22,199,857**	20,071,527	18,586,049
Facilities costs and others (Note 22)	**44,758,049**	33,880,263	33,557,495
	$960,989,543	$741,657,043	$720,332,633

21. Operating Expenses

This account consists of:

	2017	2016	2015
Salaries, wages and employee benefits (Note 27)	**$47,800,516**	$31,222,323	$31,366,967
Depreciation and amortization (Notes 9 and 11)	**6,429,914**	4,390,267	4,662,621
Facilities costs and others (Note 22)	**34,930,245**	22,753,852	20,068,937
	$89,160,675	$58,366,442	$56,098,525

Operating expenses include plant relocations costs representing expenses incurred on the transfer of China operations from Liantang, Luohu to Pingshan. This is in line with the urban redevelopment projects of the Shenzhen City government.

The relocation costs consist of net employee relocation incentive amounting to $6.44 million ($11.74 million less $5.30 million provision for refund related to the actual spin-off compensation paid), included under “Salaries, wages and employee benefits”, and incidental expenses such as rental, machine transfer, overtime during transition, dormitory expense, security and janitorial, transportation and system transfer aggregating to $1.60 million included under “Facilities costs and others”.

22. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			Operating Expenses		
	2017	2016	2015	**2017**	2016	2015
Utilities	**$18,242,235**	$15,750,396	$15,786,733	**$1,316,836**	$1,468,908	$1,217,805
Outsourced activities	**10,694,698**	7,868,740	7,359,668	**12,733,622**	9,225,760	6,799,414
Repairs and maintenance	**8,580,727**	6,722,042	6,874,986	**677,734**	702,432	502,700
Travel	**2,335,214**	968,879	541,422	**3,514,058**	2,862,709	1,550,962
Government-related	**1,190,448**	693,687	981,847	**4,370,955**	3,218,639	3,098,023
Technology-related	**1,008,761**	56,817	71,019	**5,735,110**	1,593,971	774,398
Insurance	**959,715**	731,918	710,192	**1,221,086**	1,248,871	1,193,732
Promotional materials, representation and entertainment	**639,577**	152,529	154,098	**776,113**	1,153,585	782,715

(Forward)

	Cost of Goods Sold and Services			Operating Expenses		
	2017	2016	2015	**2017**	2016	2015
Staff house	**$470,564**	$487,016	$587,741	**$472,922**	$395,817	$222,900
Postal and communication	**387,258**	314,889	319,625	**1,082,683**	932,780	708,817
Sales commission	**–**	–	–	**1,444,950**	1,251,399	362,708
Membership fees	**12,690**	16,041	2,289	**413,152**	160,137	134,131
Provision (reversal of provision) for doubtful accounts (Note 6)	**–**	–	–	**225,535**	204,607	438,344
Provision (reversal of provision) for inventory obsolescence (Note 7)	**–**	–	–	**(202,303)**	(2,660,809)	1,591,170
Provision for allowance for decline in value of inventories (Note 7)	**–**	–	–	**(155,001)**	50,000	100,000
Others	**236,162**	117,309	167,875	**1,302,793**	945,046	591,118
	$44,758,049	$33,880,263	$33,557,495	**$34,930,245**	$22,753,852	$20,068,937

Others include amortization expense of deferred licensing fee, additional licensing fee, donations, small tools and instruments, spare parts, brokerage charges, freight out, test material, service processing fees, scrap materials, office supplies, copying expenses.

23. Interest Expense and Bank Charges

This account consists of:

	2017	2016	2015
Interest expense on loans (Notes 15 and 16)	**$5,707,530**	$3,296,499	$2,207,309
Bank charges	**1,177,622**	586,721	507,834
Interest on finance lease	**14,508**	–	–
Others	**1,147**	1,234	1,242
	$6,900,807	$3,884,454	$2,716,385

Others include interest on employee housing and car loans in 2017, 2016, and 2015.

24. Miscellaneous Income (Loss) - Net

This account consists of:

	2017	2016	2015
Non-recurring engineering (NRE) income	**$1,318,671**	$454,122	$472,395
Sale of materials and scrap	**1,242,931**	149,980	238,950
Financial subsidies	**907,435**	–	–
Reversal of impairment on property, plant and equipment (Note 9)	**815,150**	–	–
Impairment loss on product development cost (Note 11)	**(524,705)**	–	–
Loss (gain) on sale and retirement of property, plant and equipment	**48,116**	(143,034)	167,187
Write-offs and other charges	**–**	(2,494,698)	–
Gain on insurance claims	**–**	360,895	–
Other income (expense)	**821,887**	(378,629)	341,445
	$4,629,485	($2,051,364)	$1,219,977

NRE income pertains to services provided to customers under new product introduction which includes test services, sample runs or prototypes, and jigs and fixtures.

Financial subsidies pertain to business technology grants provided by the government.

25. **Income Tax**

Current Tax

Parent Company

The Parent Company is registered with PEZA and is entitled to certain incentives, which include ITH. As of December 31, 2017, there are two remaining project activities with ITH. Under its PEZA registrations, the Parent Company's projects and activities are subject to certain requirements and are entitled to certain incentives, which include, but are not limited to, ITH and tax and duty free importation of inventories and capital equipment. Upon the expiration of the ITH, the Parent Company will be subject to a 5% tax on gross income earned after certain allowable deductions provided under Republic Act (R.A.) No. 7916, otherwise known as the "Special Economic Zone Act of 1995", in lieu of payment of national and local taxes. Income from other income-producing activities that are not registered with PEZA is subject to regular corporate income tax (RCIT) rate of 30%.

IMICD, SZSTE, IMISZ and STJX

In accordance with the "Income Tax Law of the China for Enterprises with Foreign Investment and Foreign Enterprises," the subsidiaries in the China are entitled to full exemption from Enterprise Income Tax (EIT) for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

IMICD is subject to taxation at the statutory rate of 15% on its taxable income as reported in the financial statements. With effect from year 2008, the China authority ceased the incentive of preferential tax treatment for enterprises with foreign investment and foreign enterprises.

SZSTE, IMISZ and STJX are subject to taxation at the statutory tax rate of 25% on their taxable income as reported in their respective financial statements prepared in accordance with the accounting regulations in the China.

STHK and Monarch

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year.

Cooperatief

Taxation is calculated on the reported pre-tax result, at the prevailing tax rate of 20% on the first €200,000 and 25% on the taxable amount exceeding €200,000, taking into account any losses carried forward from previous financial years (if applicable), tax-exempt items and nondeductible expenses, and using tax facilities.

IMI BG

Income taxes are calculated in accordance with Bulgarian legislation, and the effect of the current and deferred taxes is reported. The current tax is calculated based on the taxable income for tax purposes. The nominal tax rate is 10%.

IMI CZ

Income tax due is calculated by multiplying the tax base by the rate as defined by the income tax law of Czech Republic. The tax base comprises the book income from operations, which is increased or decreased by permanently or temporarily tax-decreasing costs and tax-deductible revenues (for example, creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate is 19%.

IMI MX
IMI MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in profit or loss in the year they are incurred. Income tax rate 2015 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%.

Income tax incurred will be the higher of Income Tax and Business Flat Tax.

IMI France
Income tax is computed based on the income earned by the entity during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back one year. The tax rate applicable is 33% based on net income.

VIA
VIA is subject to German corporate and trade taxes. Statutory corporate income tax rate of 15% plus surcharge of 5.5% thereon is applied to earnings. The municipal tax rate is approximately 11.55% of taxable income, thus, the total tax rate of 27.375%. The applicable tax rate for VIA LLC and VIA Suzhou is at 35% and 25%, respectively.

STI
The standard rate of corporation tax in the UK is 20%. STI Philippines is governed by the rules of R.A. No. 7916, which prescribes a final tax rate of 5% on gross income net of certain deductions specifically provided for by the law.

PSi
As a PEZA-registered entity, PSi is subject to a 5% tax on gross income less allowable deductions, as defined in R.A. No. 7916, as amended by R.A. No. 8748, in lieu of all national and local taxes, except real property tax on land being leased by PSi. The 5% tax on gross income shall be paid and remitted as follows: (a) 3% to the National Government; and (b) 2% to the treasurer's office of the municipality or city where the enterprise is located. Income from other income-producing activities that are not registered with PEZA is subject to RCIT rate of 30%.

As at December 31, 2017, PSi has no PEZA-registered activities with ITH entitlement.

<u>Deferred Tax</u>
Recognized deferred taxes of the Group relate to the tax effects of the following:

	2017	2016 (As restated - Note 2)
Deferred tax assets:		
Net operating loss carry-over	**$2,608,320**	$585,691
Unrealized foreign exchange loss on monetary assets - net	**275,498**	–
Fair value adjustment on property, plant and equipment arising from business combination	**263,362**	282,192
Allowance for inventory obsolescence	**140,006**	350,404
Allowance for doubtful accounts	**1,611**	127,996
Unamortized past service cost	**–**	118,400
Others	**163,005**	87,679
	$3,451,802	$1,552,362

(Forward)

	2017	2016 (As restated - Note 2)
Deferred tax liabilities:		
Fair value adjustment on property, plant and equipment and intangible assets arising from business combination	**$2,498,710**	$2,632,503
Unrealized gain on AFS	**194,767**	30,277
Prepaid expenses	**39,368**	206,337
Unrealized foreign exchange loss gain on monetary assets - net	**–**	157,942
Others	**9,609**	7,326
	$2,742,454	$3,034,385

As of December 31, 2017 and 2016, the temporary differences for which no deferred tax assets have been recognized are as follows:

PSi

	2017	2016
Accumulated impairment losses on property, plant and equipment	**$10,138,416**	$10,138,416
Advances from customer	**1,147,592**	1,425,009
Excess of:		
Cost over NRV of inventories	**822,838**	976,574
Rent expense under operating lease arrangement computed on a straight-line basis over the amount computed based on lease agreement	**–**	84,731
Accrued retirement benefits obligation	**424,534**	672,537
Allowance for doubtful accounts	**197,543**	54,206
	$12,730,923	$13,351,473

STEL

	2017	2016
Depreciation	**$5,866,780**	$6,693,000
Allowance for inventory obsolescence	**2,037,199**	2,626,000
	$7,903,979	$9,319,000

IMI CZ

	2017	2016
Provisions	**$651,639**	$375,769
Allowance for doubtful accounts	**296,335**	201,236
Excess of cost over NRV of inventories	**239,219**	170,991
Noncurrent assets	**–**	706,864
	$1,187,193	$1,454,860

Deferred tax assets are recognized only to the extent that sufficient future taxable profits will be available against which the deferred tax assets can be used.

As of December 31, 2017 and 2016, deferred tax liabilities have not been recognized on the undistributed earnings of subsidiaries and the related cumulative translation adjustments since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future.

The tax on income from foreign subsidiaries was derived by aggregating the effective income tax for each national jurisdiction.

The reconciliation of the statutory income tax rate to the effective income tax rate of the Group follows:

	2017	2016	2015
Statutory income tax	**30.00%**	30.00%	30.00%
Tax effects of:			
Nondeductible expenses	**20.05%**	20.02%	22.12%
Income subject to gross income tax	**(23.16%)**	(21.02%)	(22.56%)
Difference in tax jurisdiction	**(9.08%)**	(8.40%)	(11.15%)
Income subject to ITH	**–**	(1.02%)	(1.27%)
Interest income subjected to final tax	**(0.01%)**	(0.03%)	(0.11%)
Provision for income tax	**17.81%**	19.55%	17.03%

26. Earnings per Share

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

	2017	2016	2015
Net income attributable to parent	**$34,001,982**	$28,115,891	$28,789,740
Weighted average number of common shares outstanding	**1,861,846,929**	1,863,320,708	1,858,578,676
Basic and diluted EPS	**$0.018**	$0.015	$0.015

As of December 31, 2017, 2016 and 2015, the Group has no dilutive potential common shares.

27. Personnel Costs

Details of salaries, wages, and employee benefits follow:

	2017	2016	2015
Salaries, wages and benefits	**$165,841,441**	$132,654,437	$135,673,340
Employee spin-off (Note 21)	**6,442,215**	–	–
Retirement expense under defined contribution plans	**6,002,663**	6,225,339	5,379,119
Net retirement expense under defined benefit plans	**1,545,312**	1,787,924	1,857,985
Social security costs	**2,638,993**	1,432,134	2,212,856
Others	**3,197,512**	5,306,444	7,534,822
	$185,668,136	$147,406,278	$152,658,122

Others include expenses such as subcontracting costs, health/medical premium, housing premium, employee social and recreation, employee awards and recognition, trainings and seminars, labor union expenses, and uniforms.

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

	2017	2016	2015
Cost of goods sold and services (Note 20)	**$137,867,620**	$116,183,955	$121,291,155
Operating expenses (Note 21)	**47,800,516**	31,222,323	31,366,967
	$185,668,136	$147,406,278	$152,658,122

Defined Benefit Plans

The Parent Company, IMI BG and PSi have defined benefit plans covering substantially all of their employees. The latest actuarial valuations were made on December 31, 2017.

The plan is administered by local banks as trustees. The Board of Trustees is responsible for the investment direction of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes into account the plan's objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy, as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, and the Treasurer. The Treasurer oversees the entire investment process.

The defined benefit plans of the Parent Company and PSi meet the minimum retirement benefit specified under R.A. No. 7641, *Retirement Pay Law*.

The Group has net retirement liabilities attributable to the following:

	2017	2016
Parent Company	**$3,767,659**	$2,782,817
IMI BG	**939,952**	636,636
PSi	**424,534**	672,537
	$5,132,145	$4,091,990

Parent Company, IMI BG and PSi

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

2017		Net Retirement Expense					Remeasurements							
	January 1	**Current Service Cost**	**Net Interest**	**Loss on Curtailments and Settlements**	**Subtotal**	**Separation and Benefits Paid**	**Return on Plan Assets (Excluding Amount Included in Net Interest)**	**Actuarial Changes Due to Experience Adjustments**	**Actuarial Changes Due to Demographic Assumptions**	**Actuarial Changes Arising from Changes in Financial Assumptions**	**Subtotal**	**Actual Contribution**	**Foreign Currency Exchange Difference**	**December 31**
Present value of defined benefit obligation	**$16,365,255**	**$1,331,644**	**$813,833**	**$53,772**	**$2,199,249**	**($1,262,145)**	**$–**	**($456,545)**	**$113,312**	**$1,015,122**	**$671,889**	**$–**	**($113,348)**	**$17,860,900**
Fair value of plan assets	**(12,273,265)**	**–**	**(653,937)**	**–**	**(653,937)**	**837,902**	**336,947**	**–**	**–**	**–**	**336,947**	**(1,023,650)**	**47,248**	**(12,728,755)**
Net retirement liabilities	**$4,091,990**	**$1,331,644**	**$159,896**	**$53,772**	**$1,545,312**	**($424,243)**	**$336,947**	**($456,545)**	**$113,312**	**$1,015,122**	**$1,008,836**	**($1,023,650)**	**($66,100)**	**$5,132,145**

2016		Net Retirement Expense					Remeasurements							
	January 1	Current Service Cost	Net Interest	Loss on Curtailments and Settlements	Subtotal	Separation and Benefits Paid	Return on Plan Assets (Excluding Amount Included in Net Interest)	Actuarial Changes Due to Experience Adjustments	Actuarial Changes Due to Demographic Assumptions	Actuarial Changes Arising from Changes in Financial Assumptions	Subtotal	Actual Contribution	Foreign Currency Exchange Difference	December 31
Present value of defined benefit obligation	$18,642,181	$1,610,453	$875,380	($29,832)	$2,456,001	($3,505,705)	$–	$1,830,464	$424,077	($2,523,613)	($269,072)	$–	($958,150)	$16,365,255
Fair value of plan assets	(12,850,569)	–	(668,077)	–	(668,077)	2,126,323	401,659	–	–	–	401,659	(1,977,843)	695,242	(12,273,265)
Net retirement liabilities	$5,791,612	$1,610,453	$207,303	($29,832)	$1,787,924	($1,379,382)	$401,659	$1,830,464	$424,077	($2,523,613)	$132,587	($1,977,843)	($262,908)	$4,091,990

The maximum economic benefit available is a contribution of expected refunds from the plans and reductions in future contributions.

The distribution of the plan assets as of December 31, 2017 and 2016 follows:

	2017	2016
Government securities	**$8,665,354**	$8,079,938
Equities	**1,394,601**	236,163
Mutual funds	**1,207,558**	1,708,112
Corporate bonds	**548,562**	421,629
Trust funds	**489,245**	1,099,889
Investment properties	**419,147**	408,608
Cash and cash equivalents	**38**	318,481
Others	**4,250**	445
	$12,728,755	$12,273,265

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

	December 31, 2017			
	Equity Securities	**Debt Securities**	**Other Securities**	**Total**
Fair Value				
BPI UITF	**$–**	**$–**	**$351,312**	**$351,312**
AC bonds	**–**	**393,806**	**–**	**393,806**
ALI bonds	**–**	**29,731**	**–**	**29,731**
BPI equity fund	**128,296**	**–**	**–**	**128,296**
	$128,296	**$423,537**	**$351,312**	**$903,145**
Carrying Value				
BPI UITF	**$–**	**$–**	**$350,681**	**$350,681**
AC bonds	**–**	**394,552**	**–**	**394,552**
ALI bonds	**–**	**30,042**	**–**	**30,042**
BPI equity fund	**109,259**	**–**	**–**	**109,259**
	$109,259	**$424,594**	**$350,681**	**$884,534**
Unrealized Gain (Loss)				
BPI UITF	**$–**	**$–**	**$631**	**$631**
AC bonds	**–**	**(747)**	**–**	**(747)**
ALI bonds	**–**	**(311)**	**–**	**(311)**
BPI equity fund	**19,037**	**–**	**–**	**19,037**
	$19,037	**($1,058)**	**$631**	**$18,610**

	December 31, 2016			
	Equity Securities	Debt Securities	Other Securities	Total
Fair Value				
BPI UITF	$–	$–	$755,543	$755,543
AC bonds	–	264,436	–	264,436
ALI bonds	–	31,162	–	31,162
BPI equity fund	259,453	–	–	259,453
	$259,453	$295,598	$755,543	$1,310,594
Carrying Value				
BPI UITF	$	$–	$754,712	$754,712
AC bonds	–	261,464	–	261,464
ALI bonds	–	30,169	–	30,169
BPI equity fund	259,480	–	–	259,480
	$259,480	$291,633	$754,712	$1,305,825

(Forward)

	December 31, 2016			
	Equity Securities	Debt Securities	Other Securities	Total
Unrealized Gain (Loss)				
BPI UITF	$–	$–	$831	$831
AC bonds	–	2,972	–	2,972
ALI bonds	–	993	–	993
BPI equity fund	(27)	–	–	(27)
	($27)	$3,965	$831	$4,769

The plan assets pertain to diverse investments and do not have any concentration risk.

The overall investment policy and strategy of the Group's defined benefit plans are guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay retirement benefits as they fall due while also mitigating the various risk of the plans.

The Group expects to contribute $2.57 million to the defined benefit plans for 2018.

The actual return of plan assets amounted to $0.32 million, $0.22 million and $0.41 million in 2017, 2016 and 2015, respectively.

The average duration of net retirement liabilities at the end of the balance sheet date is 17.59 to 24.23 years as of December 31, 2017 and 17.71 to 23.41 years as of December 31, 2016.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2017 and 2016:

	2017	2016
Less than one year	**$1,012,965**	$1,226,047
More than one year to five years	**5,457,136**	4,100,043
More than five years to ten years	**11,650,551**	7,968,662
More than ten years to fifteen years	**14,656,605**	11,725,227
More than fifteen years	**63,937,274**	47,427,976
	$96,714,531	$72,447,955

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

	2017	2016
Discount rate	**1.40% - 5.78%**	2.00% - 5.51%
Salary increase rate	**4.00% - 5.00%**	3.00% - 5.00%

The sensitivity analysis per entity below has been determined based on reasonably possible changes of each significant assumption on the net retirement liabilities as of the end of the balance sheet date, assuming all other assumptions were held constant:

<u>Parent Company</u>

	Increase/ Decrease in Actuarial	Effect on Net Retirement Liability	
Actuarial Assumption	Assumption	**2017**	2016
Discount rate	+1%	**($1,431,139)**	($1,401,526)
	-1%	**1,666,387**	1,646,102
Salary increase rate	+1%	**1,803,889**	1,778,038
	-1%	**(1,571,694)**	(1,534,545)

IMI BG

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability **2017**	2016
Discount rate	+1%	**($25,267)**	($34,219)
	-1%	**26,530**	37,802
Salary increase rate	+1%	**36,933**	25,849
	-1%	**(36,936)**	(25,799)

PSi

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability **2017**	2016
Discount rate	+1%	**($73,132)**	($103,133)
	-1%	**88,563**	125,025
Salary increase rate	+1%	**95,277**	134,019
	-1%	**(79,685)**	(112,014)

The mortality rate in 2017 and 2016 is based on the 1994 Group Annuity Mortality for the Parent Company and PSi. Meanwhile, IMI BG used the table for mortality and average life continuance population in the period 2008-2010 from National Statistical Institute (of Bulgaria) for 2017 and 2016.

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

	2017	2016	2015
Cost of goods sold and services	**$1,180,625**	$1,283,259	$1,453,575
Operating expenses	**364,687**	504,665	404,410
	$1,545,312	$1,787,924	$1,857,985

Defined Contribution Plans
The Parent Company's subsidiaries, excluding PSi and IMI BG, participate in their respective national retirement schemes which are considered as defined contribution plans. The retirement expense of these subsidiaries is allocated as follows:

	2017	2016	2015
Cost of goods sold and services	**$4,792,830**	$4,866,249	$4,300,805
Operating expenses	**1,209,833**	1,359,090	1,078,314
	$6,002,663	$6,225,339	$5,379,119

28. Employee Stock Ownership Plan (ESOWN)

The Group has an ESOWN, which is a privilege extended to the Group's eligible managers and staff whereby the Group allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the ESOWN.

The key features of the plan are as follows:

- The subscription price per share shall be based on the average closing price at the PSE for 20 consecutive trading days with a discount to be determined by the Parent Company's Compensation Committee.

- Term of payment is eight years reckoned from the date of subscription:

Initial payment	2.5%
1st Anniversary	5.0%
2nd Anniversary	7.5%
3rd Anniversary	10.0%
Over the remaining years	75.0% balance

- Holding period:
  - 40% after one (1) year from subscription date
  - 30% after two (2) years from subscription date
  - 30% after three (3) years from subscription date

On August 5, 2015, the Executive Committee of the Parent Company approved the grant of stock options to qualified executives covering up to 27,189,000 shares at a subscription price of ₱5.11 per share, equivalent to the average closing price of the Parent Company's common shares, at the PSE for 20 consecutive trading days ending June 25, 2015, net of 15% discount. Out of the total shares granted, 10,393,394 shares were subscribed by 78 executives of the Group.

The fair value of stock options granted in 2015 is estimated at the date of grant using the Black-Scholes Melton Formula, taking into account the terms and conditions upon which the stock options were granted. The expected volatility was determined based on an independent valuation.

Movements in the number of shares outstanding under ESOWN in 2017, 2016 and 2015 follow:

	2017		2016		2015	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
At beginning of year	**₱141,565,253**	**₱6.69**	143,740,493	₱6.69	135,902,428	₱6.71
Forfeitures	**(1,158,757)**	**8.66**	(2,175,240)	6.99	(2,555,329)	6.37
Subscriptions	**–**	**–**	–	–	10,393,394	5.11
At end of year	**₱140,406,496**	**₱6.67**	141,565,253	₱6.69	143,740,493	₱6.69

The balance of the subscriptions receivable amounted to \$5.35 million, \$12.33 million and \$13.13 million as of December 31, 2017, 2016 and 2015, respectively (see Note 19).

The share option expense amounted to \$0.26 million, \$0.74 million and \$1.53 million in 2017, 2016 and 2015, respectively.

29. Segment Information

Management monitors operating results per geographical area for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue, interest income and net income before and after tax of its major manufacturing sites. Philippine operation is further subdivided into the Parent Company and PSi, IMI BG and IMI CZ are combined under Europe based on the industry segment and customers served, VIA and STI are combined under Germany/UK representing newly-acquired subsidiaries, IMI USA, IMI Japan and IMI Singapore/ROHQ are combined being the support facilities for strategic management, research and development, engineering development and sales and marketing.

Prior period information is consistent with the current year basis of segmentation.

Intersegment revenue is generally recorded at values that approximate third-party selling prices.

The following tables present revenue and profit information regarding the Group's geographical segments per legal entity's location for the years ended December 31, 2017, 2016 and 2015:

December 31, 2017	**Philippines**		**China**	**Europe**	**Mexico**	**Germany/UK**	**USA/ Japan /Singapore**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**							
Revenue:									
Third party	**$227,810,114**	**$35,916,986**	**$271,144,656**	**$276,544,742**	**$84,167,526**	**$193,849,982**	**$1,154,183**	**$–**	**$1,090,588,189**
Intersegment	**818,300**	**–**	**41,309**	**26,598**	**–**	**–**	**5,690,924**	**(6,577,131)**	**–**
Total revenue	**$228,628,414**	**$35,916,986**	**$271,185,965**	**$276,571,340**	**$84,167,526**	**$193,849,982**	**$6,845,107**	**($6,577,131)**	**$1,090,588,189**
Segment interest income	**$1,406,060**	**$2,299**	**$732,769**	**$229**	**$–**	**$2,911**	**$582,264**	**($2,560,286)**	**$166,246**
Segment interest expense	**$4,705,673**	**$607,406**	**$546,159**	**$1,755,715**	**$291,193**	**$1,541,777**	**$13,170**	**($2,560,286)**	**$6,900,807**
Segment profit (loss) before income tax	**$8,955,279**	**($426,370)**	**$3,633,408**	**$28,400,048**	**$662,391**	**$7,752,895**	**($4,316,778)**	**($2,755,541)**	**$41,905,332**
Segment provision for income tax	**(1,690,363)**	**(80,212)**	**(427,769)**	**(2,907,914)**	**(225,900)**	**(2,057,582)**	**(72,854)**	**–**	**(7,462,594)**
Segment profit (loss) after income tax	**$7,264,916**	**($506,582)**	**$3,205,639**	**$25,492,134**	**$436,491**	**$5,695,313**	**($4,389,632)**	**($2,755,541)**	**$34,442,738**
Net income (loss) attributable to the equity holders of the Parent Company	**$7,264,916**	**($506,582)**	**$3,205,639**	**$25,492,134**	**$436,491**	**$5,254,557**	**($4,389,632)**	**($2,755,541)**	**$34,001,982**

December 31, 2016	Philippines		China	Europe	Mexico	Germany (VIA)	USA/Japan /Singapore	Consolidation and Eliminations	Total
	Parent Company	PSi							
Revenue:									
Third party	$220,655,955	$33,006,961	$261,422,882	$242,735,718	$65,219,469	$19,405,163	$520,276	$–	$842,966,424
Intersegment	299,575	1,980	14,997	–	–	–	7,933,316	(8,249,868)	–
Total revenue	$220,955,530	$33,008,941	$261,437,879	$242,735,718	$65,219,469	$19,405,163	$8,453,592	($8,249,868)	$842,966,424
Segment interest income	$926,620	$1,443	$555,584	$35,192	$–	$12,852	$641	($1,238,297)	$294,035
Segment interest expense	$2,712,102	$681,371	$284,498	$620,590	$305,477	$105,275	$9,646	($834,505)	$3,884,454
Segment profit (loss) before income tax	$8,594,851	($2,463,930)	4,502,560	$32,664,770	($2,347,967)	($452,949)	$5,340,625	($11,015,407)	$34,822,553
Segment provision for income tax	(1,244,834)	–	(1,617,569)	(3,476,137)	(434,797)	58,063	(91,370)	–	(6,806,644)
Segment profit (loss) after income tax	$7,350,017	($2,463,930)	$2,884,991	$29,188,633	($2,782,764)	($394,886)	$5,249,255	($11,015,407)	$28,015,909
Net income (loss) attributable to the equity holders of the Parent Company	$7,350,017	($2,463,930)	$2,890,240	$29,188,633	($2,782,764)	($300,153)	$5,249,255	($11,015,407)	$28,115,891

December 31, 2015	Philippines		China	Europe	Mexico	USA/ Japan /Singapore	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue:								
Third party	$225,258,796	$42,062,621	$279,263,000	$206,098,789	$61,314,195	$366,703	$–	$814,364,104
Intersegment	163,415	256,310	47,179	34,932	–	9,198,302	(9,700,138)	–
Total revenue	$225,422,211	$42,318,931	$279,310,179	$206,133,721	$61,314,195	$9,565,005	($9,700,138)	$814,364,104
Segment interest income	$1,140,205	$1,831	$287,888	$–	$–	$561	($772,482)	$658,003
Segment interest expense	$1,497,509	$580,928	$300,488	$394,067	$386,870	$5,605	($449,082)	$2,716,385
Segment profit (loss) before income tax	$13,309,497	($1,534,782)	($241,648)	$24,379,024	$70,081	$2,221,155	($3,527,807)	$34,675,520
Segment provision for income tax	(1,750,946)	(93,592)	(1,066,664)	(2,775,475)	(196,951)	(21,780)	–	(5,905,408)
Segment profit (loss) after income tax	$11,558,551	($1,628,374)	($1,308,312)	$21,603,549	($126,870)	$2,199,375	($3,527,807)	$28,770,112
Net income (loss) attributable to the equity holders of the Parent Company	$11,558,551	($1,628,374)	($1,288,684)	$21,603,549	($126,870)	$2,199,375	($3,527,807)	$28,789,740

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

The operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $6.58 million in 2017, $8.25 million in 2016 and $9.70 million in 2015, intersegment cost of sales of $1.60 million in 2017, $0.99 million in 2016 and $0.17 million in 2015, and intersegment operating expenses aggregating to $5.00 million in 2017, $7.12 million in 2016 and $9.12 million in 2015.

The following table presents segment assets of the Group's geographical segments as of December 31, 2017 and 2016:

	Philippines		China	Europe	Mexico	Germany /UK	USA/ Japan/ Singapore	Consoli-dation and Eliminations	Total
	Parent Company	PSi							
2017	**$443,014,897**	**$14,853,176**	**$243,686,394**	**$266,002,107**	**$96,275,914**	**$165,672,832**	**$288,064,280**	**($596,217,972)**	**$921,351,628**
2016 (As Restated - Note 2)	$322,954,699	$15,430,820	$202,925,835	$199,169,397	$64,528,625	$33,074,977	$224,787,667	($423,743,586)	$639,128,434

Investments in subsidiaries and intersegment receivables amounting to $195.36 million and $131.84 million as of December 31, 2017, respectively, and $180.13 million and $46.88 million as of December 31, 2016, respectively are eliminated in consolidation.

Goodwill arising from the acquisition of STI, STEL, VIA, IMI USA and IMI CZ amounting to $55.95 million, $45.13 million, $44.54 million, $0.66 million, and $0.65 million, respectively, are recognized at consolidated level for both years ended December 31, 2017 and 2016.

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

	2017	2016	2015
Europe	**$519,149,422**	$458,851,700	$426,440,705
America	**240,888,727**	204,853,252	205,280,233
Japan	**42,842,182**	40,861,642	52,900,214
Rest of Asia/Others	**287,707,858**	138,399,830	129,742,952
	$1,090,588,189	$842,966,424	$814,364,104

Revenues are attributed to countries on the basis of the customer's location. Certain customers that are independent of each other but within the same group account for 12.58%, 14.97% and 13.29% of the Group's total revenue in 2017, 2016 and 2015, respectively.

The following table presents revenues per product type:

	2017	2016	2015
Automotive	**$446,460,645**	$377,639,245	$343,772,744
Industrial	**221,670,425**	177,267,436	145,487,460
Consumer	**188,760,154**	71,038,949	80,348,722
Telecommunication	**121,639,521**	131,304,615	132,929,944
Aerospace/defense	**24,973,446**	–	–
Medical	**19,303,996**	21,280,959	26,607,884
Multiple market/others	**67,780,002**	64,435,220	85,217,350
	$1,090,588,189	$842,966,424	$814,364,104

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

	2017	2016 (As restated - Note 2)
Europe*	**$172,379,424**	$95,625,581
America**	**40,558,918**	31,286,745
Rest of Asia/Others	**121,927,192**	100,225,924
	$334,865,534	$227,138,250

**Pertains to Europe, Germany and UK*
***Pertains to Mexico and USA*

Noncurrent assets include property, plant and equipment, goodwill and intangible assets.

The following table presents the depreciation and amortization expense based on their physical location:

	2017	2016	2015
Europe*	**$9,268,724**	$5,412,631	$5,599,379
America**	**3,969,119**	2,765,263	2,013,240
Rest of Asia/Others	**15,391,928**	16,283,900	15,636,051
	$28,629,771	$24,461,794	$23,248,670

**Pertains to Europe, Germany and UK*
***Pertains to Mexico and USA*

30. Lease Commitments

Finance Lease Commitments - Group as Lessee
STI has assets held under finance leases and hire purchase contracts related to its manufacturing/IT equipment with terms of 3 to 5 years subject to interest rates ranging from 1.9% to 4.7% per annum.

Future minimum lease payments as of December 31, 2017 follows:

Within one year	$245,518
After one year but not more than five years	223,771
More than five years	–
	$469,289

Interest expense related to the finance lease amounted to $0.01 million.

Operating Lease Commitments - Group as Lessee
Parent Company
The Parent Company entered into an amended lease contract with Technopark Land, Inc. (TLI), an affiliate, for the lease of parcels of land situated at the Special Export Processing Zone, Laguna Technopark, Biñan, Laguna. The lease shall be for a period of three years, commencing on January 1, 2017 up to December 31, 2019, renewable at the option of the lessor upon such terms and conditions, and upon such rental rates as the parties may agree upon at the time of the renewal, taking into consideration comparable rental rates for similar properties prevailing at the time of renewal. The monthly rent shall be equivalent to ₱44.00 per sqm. For the remaining term of the lease, the rent shall be subject to annual escalation rate of 5%.

On March 7, 2014, the Parent Company executed a Lease Agreement with PEZA for the use of land located at the Blk 16 Phase 4 PEZA, Rosario, Cavite to be used exclusively for IMI Cavite's registered activities. The lease is for a period of 50 years renewable once at the option of the lessee for a period of not more than 25 years. The average monthly rental payment amounts to $2,165 in 2017 with an escalation rate every year.

IMI Singapore and STEL Group
IMI Singapore and STEL Group have various operating lease agreements in respect of office premises and land. These non-cancellable lease contracts have remaining non-cancellable lease terms of between one to ten years. Most of the lease contracts of IMI Singapore and STEL Group contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

In 2017, the new entity IMI Technology entered into a lease agreement on its manufacturing facility covering a period of six years from May 2017 to May 2023. The lease premise is a 5-floor building with 29,340 square meters located in an industrial park in Pingshan district of Shenzhen.

IMI Japan
On February 15, 2012, IMI Japan entered into a 6-year lease contract with Kabushikigaisha Tokyu Community for the lease of office premises located in Nagoya, whereby it is committed to pay a monthly rental of ¥245,490, and monthly maintenance fee of ¥35,070, inclusive of tax. The lease contract provides for the automatic renewal of the lease contract, unless prior notice of termination is given to the lessor.

IMI USA
On November 16, 2014, IMI USA entered into a third amendment to a standard industrial commercial single tenant lease contract for an extended term of 5 years commencing from November 1, 2015 to October 31, 2020 with Roy G. Harris and Patricia S. Harris for the lease of office premises. The lease contract contains provisions including, but not limited to, an escalation rate of 3% per year and early termination penalties. The lease provides for monthly rental payment of $12,927 during the first year of the lease term and shall be increased based on fixed rental adjustments as set forth in the contract.

PSi
Taguig facilities
The operating lease agreement of PSi with FTI for its plant facilities office spaces and other facilities has been pre-terminated effective December 31, 2017.

Rent expense recognized in 2017, 2016 and 2015 amounted $1.34 million, $1.37 million and $1.40 million, respectively. PSi also paid pre-termination penalties amounting $0.08 million in 2017.

Laguna facilities
PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from Centereach Resources, Inc. (CRI), an unrelated entity. The operating lease agreement will expire in March 2018.

In 2015, the operating lease agreement for the second facility was renewed and executed between CRI and the Company. The operating lease agreement commenced on October 16, 2015 and will expire on October 18, 2018. The operating lease agreement with CRI provides for increase in rental at varying rates over the term of the lease and a penalty interest rate of 3% per month using simple interest.

VIA
VIA leases buildings, cars and other equipment based on leasing contracts for a period ranging from 1 to 5 years.

STI
STI have various operating lease agreements in respect of vehicles, equipment, office premises and land. These non-cancellable lease contracts have remaining non-cancellable lease terms of between one to forty-four years. There are no restrictions placed upon the lessee by entering into these leases.

Accrued rent amounted to $0.25 million as of December 31, 2017.

Future minimum rentals payable under operating leases of the Group as of December 31, 2017 and 2016 follow:

	2017	2016
Within one year	**$5,127,471**	$4,905,841
After one year but not more than five years	**12,453,854**	13,686,398
More than five years	**2,453,943**	4,808,727
	$20,035,268	$23,400,966

31. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individuals or corporate entities.

The Group, in its regular conduct of business, has entered into transactions with subsidiaries, affiliate, and other related parties principally consisting of advances, loans and reimbursement of expenses. Sales and purchases of goods and services as well as other income and expenses to and from related parties are made at normal commercial prices and terms.

<u>Terms and Conditions of Transactions with Related Parties</u>
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2017, 2016 and 2015, the Group has not recorded any impairment on receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

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

a. Transactions with BPI, an affiliate

   As of December 31, 2017 and 2016, the Group maintains current and savings accounts and short-term investments with BPI amounting to $2.85 million and $0.93 million, respectively.

   Total interest income earned from investments with BPI amounted to $6,797, $4,247 and $25,698 for the years ended December 31, 2017, 2016 and 2015, respectively.

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

	Receivables/Deposits		Payables	
	2017	2016	**2017**	2016
Isuzu Automotive Dealership, Inc. (IADI)	**$456,447**	$–	**$–**	$–
Honda Cars Makati, Inc. (HCMI)	**273,868**	–	–	–
ACEHI (Note 13)	**146,126**	482,844	–	–
Automotive Central Enterprise, Inc. (ACEI)	**63,903**	–	–	–
Innove Communication Inc. (ICI)	–	–	**5,868**	276
Globe Telecom, Inc. (GTI)	–	–	**3,716**	6,023
AC	–	–	–	584,070
	$940,344	$482,844	**$9,584**	$590,369

   i. Transaction with IADI, HCMI and ACEI pertains to management fee on corporate and support services.

ii. Transaction with ACEHI represents deposit required by the distribution utility (DU) in a form of cash in accordance with the distribution wheeling services agreement between ACEHI and the DU, to be returned to the Parent Company at the end of the contract term.

iii. Payables to ICI are nontrade in nature and pertain to leased lines, internet connections and automated teller machines connections. These are noninterest-bearing and are due every month.

iv. Payables to GTI pertain to billings for software and WiFi connections. These are due and demandable.

v. Payable to AC are nontrade in nature and pertain to transaction costs paid in advance in relation to VIA acquisition.

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

	Receivables		Payables	
	2017	2016	**2017**	2016
IMI Singapore	**$68,563,325**	$1,464,524	**$–**	$58,353
IMI EU/MX Subsidiaries	**42,282,449**	24,100,160	**26,598**	8,570
PSi	**26,384,369**	16,722,133	**101,828**	98,735
STI	**3,299,031**	–	**–**	–
IMI Japan	**1,002,688**	992,531	**501,959**	604,196
IMI USA	**265,398**	261,963	**320,097**	370,856
STEL	**252,465**	191,271	**1,701,802**	1,449,193
IMI ROHQ	**12,778**	25,213	**646,668**	779,761
	$142,062,503	$43,757,795	**$3,298,952**	$3,369,664

The outstanding balances are eliminated upon consolidation.

i. Advances to PSi and IMI EU/MX Subsidiaries have a 90-day term subject to interest rates ranging from 2.00% to 2.90% in 2017, from 1.00% to 2.88% in 2016 and from 1.25% to 2.85% in 2015.

Advances to STI have a 60 to 90-day term subject to interest rates ranging from 3.21% to 3.37% in 2017.

Other receivables from IMI EU/MX Subsidiaries, PSi, STI, IMI Japan, IMI Singapore, IMI USA and STEL are nontrade in nature and pertain to operating cash advances made by the Parent Company. These are noninterest-bearing and are due on demand.

Receivables from IMI ROHQ are nontrade in nature and represent the retirement expense for IMI ROHQ's employees to be funded by the Parent Company's retirement plan upon availment. In 2016, the retirement expense is being included in the service fees billed by ROHQ to the Parent Company.

ii. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ to the Parent Company which serves as an administrative, communications and coordinating center for its affiliates. These advances are noninterest-bearing and are payable on demand.

iii. Payables to STEL pertain to non-trade related transactions which include freight and handling charges, business travel expenses and consideration for the net assets transferred by STPH to the Parent Company. These advances are noninterest-bearing and are payable on demand.

iv. Payables to IMI Japan and IMI USA are nontrade in nature and pertain to administrative expenses paid by the Parent Company on their behalf.

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

	Revenue/Income			Expenses		
	2017	2016	2015	**2017**	2016	2015
IADI	**$456,447**	$–	$–	**$**	$–	$–
HCMI	**273,868**	–	–	–	–	–
ACEI	**63,903**	–	–	–	–	–
BPI	**6,797**	4,247	25,698	–	–	–
ACEHI	–	–	–	**5,199,357**	–	–
Direct Power Services, Inc. (DPSI)	–	–	–	**3,368,862**	–	–
TLI	–	–	–	**1,029,332**	1,045,948	1,093,559
AC	–	–	–	**404,588**	687,142	–
AG Legal	–	–	–	**88,560**	197,308	93,108
GTI	–	–	–	**85,595**	85,755	86,260
ICI	–	–	–	**70,243**	92,923	88,936
	$801,015	$4,247	$25,698	**$10,246,537**	$2,109,076	$1,361,863

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

i. Revenues from IADI, HCMI and ACEI represent recoveries for the provision of corporate and support services.

ii. Interest income earned from investments with BPI.

Expenses incurred from related party transactions include:

i. Light and power allocation charged by ACEHI to the Parent Company.

ii. Light and power allocation charged by DPSI to PSi.

iii. Rental expense from the lease contract between the Parent Company and TLI.

iv. Administrative services charged by AC related to certain transactions

v. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.

vi. Billings for cellphone charges and WiFi connections with GTI.

vii. Building rental, leased lines, internet connections and ATM connections with ICI.

e. Revenue and expenses eliminated at the Group level follow:

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

ii. Expenses incurred from related party transactions include interest expense of PSi, IMI MX, STI and IMI CZ from loans granted by the Parent Company.

Compensation of Key Management Personnel of the Group

Compensation of key management personnel by benefit type follows:

	2017	2016
Short-term employee benefits	**$9,237,705**	$7,940,519
Post-employment benefits	**476,876**	280,248
Share-based payments	**210,608**	643,098
	$9,925,189	$8,863,865

32. **Fair Values of Financial Instruments**

Fair Values of Financial Assets and Financial Liabilities where the Carrying Amounts Approximate Fair Values
Financial assets and financial liabilities that are liquid or are short-term in nature which consist of cash and cash equivalents, receivables, accounts payables and accrued expenses, loans and trust receipts payable and current portion of long-term debt, are assumed to have carrying amounts approximating their fair values.

Below are the fair values of financial assets and financial liabilities that are either carried at fair value or where the carrying amounts do not approximate fair values as of December 31, 2017 and 2016:

	Carrying Amounts		Fair Values	
	2017	2016	**2017**	2016
Financial assets:				
AFS financial assets	**$831,364**	$740,949	**$831,364**	$740,949
Derivative assets	–	67,062	–	67,062
	$831,364	$808,011	**$831,364**	$808,011
Financial liabilities:				
Derivative liabilities	**$30,144**	$10,567	**$30,144**	$10,567
Financial liabilities on put options	**21,912,259**	11,334,282	**21,912,259**	11,334,282
Contingent consideration	**24,975,209**	–	**24,975,209**	–
Noncurrent portion of:				
Long-term debt	**158,224,056**	121,144,043	**155,395,517**	118,083,096
	$205,141,668	$132,488,892	**$202,313,129**	$129,427,945

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

Derivatives - These pertains to currency forwards hedged by the Group for risks associated with foreign currency fluctuations. The fair value of the currency forwards is calculated by reference to current forward exchange rates for contracts with similar maturities as advised by the counterparty to the currency forwards contracts.

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

Financial liabilities on put options - These pertain to the liabilities of the Parent Company arising from the written put options over the non-controlling interest of VIA and STI. The fair value of the financial liabilities is estimated using the discounted, probability-weighted cash flow method. The future cash flows were projected using the equity forward pricing formula with reference to the current equity value of the acquiree and the forecasted interest rate which is the risk-free rate in Germany and UK. The risk-free rate used is 0.26% for VIA and 0.91% for STI. Management applied weights on the estimated future cash flows, based on management's judgment on the chance that the trigger events for the put option will occur.

The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.

For STI, management used the market approach by approximating the EBITDA multiple taken from comparable companies of STI that are engaged in providing electronics services solutions to derive its current equity value. Management computed EBITDA as the difference of forecasted gross profit and selling and administrative expenses before depreciation and amortization.

Noncurrent portion of long-term debt - The fair value of long-term debt is estimated by using the discounted cash flow method using the current incremental borrowing rates for similar borrowings, with maturities consistent with those remaining for the liability being valued. The discount rates used for 2017 and 2016 ranged from 0.90% to 2.99% and from 1.00% to 2.91%, respectively.

Contingent consideration - this pertains to the contingent consideration related to the acquisition of STI determined based on probability-weighted payout discounted at 8% at the date of acquisition to determine its fair value. The discount rate is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.

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

	December 31, 2017			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets measured at fair value:				
Derivative assets	**$–**	**$–**	**$–**	**$–**
AFS financial assets	**–**	**831,364**	**–**	**831,364**
	$–	**$831,364**	**$–**	**$831,364**
Liabilities measured at fair value:				
Derivative liabilities	**$–**	**$30,144**	**$–**	**$30,144**
Financial liabilities on put options	**–**	**–**	**21,912,259**	**21,912,259**
Contingent consideration	**–**	**–**	**24,975,209**	**24,975,209**
	$–	**$30,144**	**$46,887,468**	**$46,917,612**
Liabilities for which fair values are disclosed:				
Long-term debt	**$–**	**$–**	**$155,395,517**	**$155,395,517**

	December 31, 2016			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets measured at fair value:				
Derivative assets	$–	$67,062	$–	$67,062
AFS financial assets	–	740,949	–	740,949
	$–	$808,011	$–	$808,011
Liabilities measured at fair value:				
Derivative liabilities	$–	$10,567	$–	$10,567
Financial liabilities on put options	–	–	11,334,282	11,334,282
	$–	$10,567	$11,334,282	$11,344,849
Liabilities for which fair values are disclosed:				
Long-term debt	$–	$–	$118,083,096	$118,083,096

The table below shows reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy:

	Dec 31, 2016	Additions	Mark-to-market gains-net	Dec 31, 2017
Financial liabilities on put options	$11,334,282	$12,876,641	($2,298,664)	$21,912,259
Contingent consideration	–	24,975,209	–	24,975,209
	$11,334,282	$37,851,850	($2,298,664)	$46,887,468

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table presents the valuation techniques and unobservable key inputs used to value the Group's financial liabilities categorized as Level 3:

	Valuation Technique	Unobservable inputs	Range of unobservable inputs	Sensitivity of the input to the fair value
Financial liabilities on put options	Discounted, probability-weighted cash flow method	Growth rate	0%-2% (1%)	1% increase in growth rate would result in an increase in fair value by $0.81 million. Decrease in growth rate by 1% would result in a fair value decrease of $0.66 million.
		Discount rate	10%-12% (11%)	1% increase in discount rate would result in a decrease in fair value by $0.91 million. Decrease in discount rate by 1% would result in a fair value increase of $1.11 million.
		Probability of trigger events occurring	1% – 10% (5%)	Increase in the probability to 10% would result in an increase in fair value by $2.76 million. Decrease in the probability to 1% would result in a decrease in fair value by $5.66 million.
Contingent consideration	Discounted, probability-weighted payout	Discount rate	7%-9% (8%)	1% increase in discount rate would result in a decrease in fair value by $0.45 million. Decrease in discount rate by 1% would result in a fair value increase of $0.47 million.
		Probability of pay-out	£0 to £23.3 million ($0 to $30.20 million)	£0 to £23.3 million ($0 to $30.20 million)

33. **Financial Risk Management Objectives and Policies**

The Group's principal financial instruments, composed of loans and trust receipts payable, long-term debt and other financial liabilities, were issued primarily to raise financing for the Group's operations. The Group has various financial instruments such as cash and cash equivalents, receivables and accounts payable and accrued expenses which arise directly from its operations.

The main purpose of the Group's financial instruments is to fund its operational and capital expenditures. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The Group also enters into currency forwards to manage the currency risk arising from its operations and financial instruments.

The Group's risk management policies are summarized below:

Interest Rate Risk
The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings) for the years ended December 31, 2017 and 2016. There is no other impact on the Group's equity other than those already affecting income.

	Effect on Net Income before Tax	
Increase/Decrease in Basis Points	**2017**	2016
+100	**($69,643)**	($85,505)
-100	**$69,643**	85,505

The following table shows the information about the Group's debt as of December 31, 2017 and 2016 that are exposed to interest rate risk presented by maturity profile:

	2017	2016
Within one year	**$3,301,122**	$7,051,886
One to five years	**3,663,209**	1,498,600
	$6,964,331	$8,550,486

Liquidity Risk
Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group's exposure to liquidity risk relates primarily to its short-term and long-term obligations. The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and operations. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover financing requirements, the Group intends to use internally-generated funds and loan facilities with local and foreign banks. Surplus funds are placed with reputable banks.

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities based on contractual undiscounted payments:

	2017				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Financial assets					
Cash and cash equivalents*	**$67,581,023**	**$22,963,742**	**$–**	**$–**	**$90,544,765**
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	**–**	**185,143,187**	**–**	**–**	**185,143,187**
Accrued expenses**	**–**	**17,399,154**	**–**	**–**	**17,399,154**
Accrued compensation and benefits	**–**	**24,233,636**	**–**	**–**	**24,233,636**
Nontrade payables	**–**	**12,785,361**	**–**	**–**	**12,785,361**
Accrued interest payable	**–**	**–**	**1,075,657**	**–**	**1,075,657**
Derivative liabilities	**–**	**30,144**	**–**	**–**	**30,144**
Due to related parties	**–**	**9,584**	**–**	**–**	**9,584**
Others	**–**	**1,740,651**	**–**	**–**	**1,740,651**
Financial liabilities on put options	**21,912,259**	**–**	**–**	**–**	**21,912,259**
Contingent consideration	**–**	**–**	**405,601**	**24,569,608**	**24,975,209**
Loans and trust receipts payable	**–**	**118,500,979**	**16,556,641**	**–**	**135,057,620**
Current portion of long-term debt	**–**	**–**	**6,872,679**	**–**	**6,872,679**
Noncurrent portion of long-term debt***	**–**	**–**	**–**	**159,287,699**	**159,287,699**
	21,912,259	**359,842,696**	**24,910,578**	**183,857,307**	**590,522,840**
	$45,668,764	**($336,878,954)**	**($24,910,578)**	**($183,857,307)**	**($499,978,075)**

** Excluding cash on hand.*
*** Excluding statutory payables.*
**** Including future interest payments.*

	2016				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets					
Cash and cash equivalents*	$75,816,054	$10,648,980	$–	$–	$86,465,034
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	–	136,114,721	–	–	136,114,721
Accrued expenses**	–	12,907,253	–	–	12,907,253
Accrued compensation and benefits	–	21,685,525	–	–	21,685,525
Nontrade payables	–	8,050,234	–	–	8,050,234
Accrued interest payable	–	–	769,072	–	769,072
Derivative liabilities	–	10,567	–	–	10,567
Due to related parties	–	590,369	–	–	590,369
Others	–	1,701,386	–	–	1,701,386
Financial liabilities on put options	11,334,282	–	–	–	11,334,282
Loans and trust receipts payable	–	34,341,720	17,103,449	–	51,445,169
Current portion of long-term debt	–	5,222,000	2,963,053	–	8,185,053
Noncurrent portion of long-term debt***	–	–	–	122,916,769	122,916,769
	11,334,282	220,623,775	20,835,574	122,916,769	375,710,400
	$64,481,772	($209,974,795)	($20,835,574)	($122,916,769)	($289,245,366)

** Excluding cash on hand.*
*** Excluding statutory payables.*
**** Including future interest payments.*

Credit lines
The Group has credit lines with different financing institutions as of December 31, 2017 and 2016, as follows:

	2017		2016	
Financial Institution	**Credit Limit**	**Available Credit Line**	Credit Limit	Available Credit Line
Local:				
USD	**58,000,000**	**25,599,021**	54,000,000	44,550,000
PHP	**400,000,000**	**400,000,000**	100,000,000	100,000,000
Foreign:				
USD	**142,011,034**	**54,011,034**	89,318,841	56,318,841
Singapore Dollar (SGD)	**34,000,000**	**34,000,000**	17,000,000	17,000,000
EUR	**18,830,000**	**13,551,034**	9,830,000	6,897,783
GBP	**2,500,000**	–	–	–

<u>Credit Risk</u>
Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's major credit risk exposure relates primarily to its holdings of cash and cash equivalents and receivables from customers and other third parties. Credit risk management involves dealing with institutions for which credit limits have been established. The treasury policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties. The Group has a well-defined credit policy and established credit procedures. The Group extends credit to its customers consistent with sound credit practices and industry standards. The Group deals only with reputable, competent and reliable customers who pass the Group's credit standards. The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group's maximum exposure to credit risk as of December 31, 2017 and 2016 is the carrying amounts of the financial assets. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

The Group has 20% and 37% of trade receivables relating to three major customers as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the aging analysis of receivables and miscellaneous deposits follows:

	December 31, 2017							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired <30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	Specifically Impaired
Trade	$252,636,453	$220,285,730	$20,241,712	$4,386,668	$2,071,274	$2,173,212	$2,727,141	$750,716
Nontrade	10,141,732	8,248,972	369,528	483,439	46,246	484,653	329,979	178,915
Receivable from insurance	1,076,287	5,028	–	–	–	–	–	1,071,259
Due from related parties	794,218	794,218	–	–	–	–	–	–
Receivable from employees	424,658	420,301	–	–	–	–	–	4,357
Others	52,274	52,274	–	–	–	–	–	–
	$265,125,622	$229,806,523	$20,611,240	$4,870,107	$2,117,520	$2,657,865	$3,057,120	$2,005,247
Miscellaneous deposits	$1,647,864	$1,647,864	$–	$–	$–	$–	$–	$–

	December 31, 2016							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired <30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	Specifically Impaired
Trade	$192,152,117	$155,163,040	$24,242,735	$5,877,578	$2,927,958	$1,632,926	$1,712,327	$595,553
Nontrade	3,804,516	3,667,305	3,191	16,807	14,248	1,220	39,171	62,574
Receivable from insurance	1,860,624	789,365	–	–	–	–	–	1,071,259
Receivable from employees	553,745	549,388	–	–	–	–	–	4,357
Due from related parties	299,713	299,713	–	–	–	–	–	–
Others	32,164	32,164	–	–	–	–	–	–
	$198,702,879	$160,500,975	$24,245,926	$5,894,385	$2,942,206	$1,634,146	$1,751,498	$1,733,743
Miscellaneous deposits	$2,596,176	$2,596,176	$–	$–	$–	$–	$–	$–

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2017 and 2016:

	December 31, 2017					
	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	Average Risk	Fairly High Risk	High Risk	Individually Impaired	Total
Cash and cash equivalents	$90,627,228	$–	$–	$–	$–	$90,627,228
Receivables:						
Trade	6,946,612	213,339,118	–	–	32,350,723	252,636,453
Nontrade	8,243,943	–	–	–	1,897,789	10,141,732
Receivable from insurance	5,028	–	–	–	1,071,259	1,076,287
Receivable from employees	420,301	–	–	–	4,357	424,658
Due from related parties	794,218	–	–	–	–	794,218
Others	52,274	–	–	–	–	52,274
AFS financial assets	831,364	–	–	–	–	831,364
Miscellaneous deposits	1,647,864	–	–	–	–	1,647,864
	$109,568,832	$213,339,118	$–	$–	$35,324,128	$358,232,078

	December 31, 2016					
	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	Average Risk	Fairly High Risk	High Risk	Individually Impaired	Total
Cash and cash equivalents	$86,465,034	$–	$–	$–	$–	$86,465,034
Receivables:						
Trade	3,853,310	151,309,730	–	–	36,989,077	192,152,117
Nontrade	3,667,305	–	–	–	137,211	3,804,516
Receivable from insurance	789,365	–	–	–	1,071,259	1,860,624
Receivable from employees	549,388	–	–	–	4,357	553,745
Due from related parties	299,713	–	–	–	–	299,713
Others	32,164	–	–	–	–	32,164
AFS financial assets	740,949	–	–	–	1,753,589	2,494,538
Miscellaneous deposits	2,596,176	–	–	–	–	2,596,176
	$98,993,404	$151,309,730	$–	$–	$39,955,493	$290,258,627

The Group classifies credit quality as follows:

Minimal Risk - Credit can proceed with favorable credit terms; can offer term of 15 to maximum of 45 days.

Average Risk - Credit can proceed normally; can extend term of 15 to maximum of 30 days.

Fairly High Risk - Credit could be extended under a confirmed and irrevocable LC and subject to semi-annual review for possible upgrade.

High Risk - Transaction should be under advance payment or confirmed and irrevocable Stand-By LC; subject to quarterly review for possible upgrade after one year.

Foreign Currency Risk

The Group's foreign exchange risk results primarily from movements of the functional currency of each legal entity against other currencies. As a result of significant transactions denominated in RMB, PHP and EUR the consolidated statements of income can be affected significantly by movements in the USD versus these currencies. In 2017 and 2016, the Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than the Group's functional currency. Approximately 48% and 53% of the Group's sales for the years ended December 31, 2017 and 2016, respectively, and 44% and 43% of costs for the years ended December 31, 2017 and 2016, respectively, are denominated in currencies other than the Group's functional currency.

The Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider hedging any material exposure where appropriate.

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

Renminbi (RMB)

	2017		2016	
	In USD	**In RMB**	In USD	In RMB
Cash and cash equivalents	**$23,135,310**	**RMB151,170,744**	$16,577,471	RMB115,209,331
Receivables	**66,072,151**	**431,728,647**	60,578,249	421,003,887
Accounts payable and accrued expenses	**(50,344,676)**	**(328,962,181)**	(42,505,531)	(295,402,952)
Net foreign currency-denominated assets	**$38,862,785**	**RMB253,937,210**	$34,650,189	RMB240,810,266

Philippine Peso (₱)

	2017		2016	
	In USD	**In PHP**	In USD	In PHP
Cash and cash equivalents	**$5,503,962**	**₱274,812,802**	$3,188,406	₱158,548,273
Receivables	**275,400**	**13,750,735**	676,493	33,639,648
Miscellaneous deposits	**691,463**	**34,524,738**	1,059,645	52,692,422
Accounts payable and accrued expenses	**(9,201,618)**	**(459,436,808)**	(17,222,268)	(856,403,199)
Net retirement liabilities	**(4,192,193)**	**(209,316,217)**	(3,174,729)	(157,868,158)
Other noncurrent liabilities	**(396,768)**	**(19,810,638)**	(398,392)	(19,810,638)
Net foreign currency-denominated liabilities	**($7,319,754)**	**(₱365,475,388)**	($15,870,845)	(₱789,201,652)

Euro (€)

	2017		2016	
	In USD	**In EUR**	In USD	In EUR
Cash and cash equivalents	**$2,442,491**	**€2,041,189**	$1,523,971	€1,459,187
Receivables	**3,891,129**	**3,251,817**	3,117,551	2,985,024
Accounts payable and accrued expenses	**(5,173,081)**	**(4,323,144)**	(4,756,835)	(4,554,622)
Long-term debt	**–**	**–**	(236,682)	(226,621)
Net foreign currency-denominated assets	**$1,160,539**	**€969,862**	($351,995)	(€337,032)

Sensitivity Analysis
The following tables demonstrate sensitivity to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2017 and 2016. The reasonably possible change was computed based on one year average historical movement of exchange rates between the USD and other currencies.

There is no other impact on the Group's equity other than those already affecting income. The increase in USD rate as against other currencies demonstrates weaker functional currency while the decrease represents stronger USD value.

	Increase/Decrease	**Effect on Net Income before Tax**	
Currency	in USD Rate	**2017**	2016
RMB	+1%	**($238,314)**	($197,413)
	-1%	**238,314**	197,413
PHP	+1%	**70,719**	88,429
	-1%	**(70,719)**	(88,429)
EUR	+1%	**(11,605)**	(2,085)
	-1%	**11,605**	2,085

Derivatives
The Parent Company entered into various short-term currency forwards with an aggregate notional amount of $5.85 million in 2017 and $9.00 million in 2016. As of December 31, 2017 and 2016, the outstanding forward contracts have a net negative fair value of $0.03 million. The changes in fair value of currency forwards recognized in 2017 and 2016 amounted to $0.03 million loss and $0.11 million gain, respectively. The changes in fair value of currency forwards are recognized in the consolidated statements of income under "Foreign exchange gains (losses) - net" account.

Fair Value Changes on Derivatives
The net movements in the fair value of the Group's derivative instruments as of December 31, 2017 and 2016 follow:

	2017	2016
Financial assets:		
At beginning of year	**$67,062**	$66,117
Fair value of currency forwards	**–**	100,807
Fair value of settled instruments	**(67,062)**	(99,862)
At end of year	**$–**	$67,062
Financial liabilities:		
At beginning of year	**$10,567**	$10,567
Fair value of currency forwards	**30,144**	214,262
Fair value of settled currency forwards	**(10,567)**	(214,262)
At end of year	**$30,144**	$10,567

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

No changes were made in the objectives, policies and processes for the years ended December 31, 2017 and 2016.

The Group monitors capital using a gearing ratio of debt to equity and net debt to equity. The Group considers bank borrowings in the determination of debt, which consist of trust receipts and loans payable and long-term bank debt. Net debt is equivalent to the total bank borrowings, less cash and cash equivalents.

	2017	2016
Loans and trust receipts payable	**$135,057,620**	$51,445,169
Long-term bank borrowings	**160,001,217**	122,742,296
Total bank debt	**295,058,837**	174,187,465
Less cash and cash equivalents	**90,627,228**	86,548,735
Net bank debt	**$204,431,609**	$87,638,730
Equity attributable to equity holders of the Parent Company	**$273,739,415**	$236,606,259
Debt-to-equity ratio	**1.08:1**	0.74:1
Net debt-to-equity ratio	**0.75:1**	0.37:1

The Group is not subject to externally imposed capital requirements.

34. **Contingencies**

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested. The outcome of these cases is not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

35. **Notes to Consolidated Statements of Cash Flows**

The Group's noncash investing activities includes capitalization by the Group of depreciation related to the development phase of certain projects amounting to $1.15 million and $1.90 million for 2017 and 2016, respectively.

The following table shows the reconciliation of liabilities arising from financing activities:

		Cash Flows		Non-cash Changes				
	2016	Availment	Settlement/ Payment	Reclass	Declaration	Acquisition through business combination	Foreign currency translation	2017
Dividends payable	$–	$–	($8,434,600)	$–	$8,434,600	$–	$–	$–
Loans and trust receipts payable	51,445,169	87,655,238	(20,419,648)	–	–	14,849,005	1,527,856	135,057,620
Current portion of long-term debt	8,185,053	–	(8,548,036)	6,217,081	–	129,350	889,232	6,872,680
Long-term debt	121,144,043	43,422,063	(629,350)	(6,217,081).	–	129,350	375,031	158,224,056
	$180,774,265	$131,077,301	($38,031,634)	$–	$8,434,600	$15,107,705	$2,792,119	$300,154,356

36. **Events after Balance Sheet Date**

On February 20, 2018, the BOD of the Parent Company approved the declaration of cash dividend of \$0.00458 or ₱0.235 per share to all outstanding common shares as of record date of March 7, 2018 payable on March 21, 2018.

On February 20, 2018, the BOD of the Parent Company approved the increase of the Parent Company's authorized capital stock from ₱2.45 billion to ₱3.0 billion, and the corresponding amendment of the Seventh Article of the Articles of Incorporation. This will be presented to the stockholders for approval at the annual meeting on April 13, 2018.

On January 30, 2018, IMI obtained the approval of the PSE for a stock rights offer of up to 350,000,000 new common shares to eligible shareholders in order to raise up to ₱5.00 billion proceeds. Under the rights offer, each shareholder is entitled to subscribe to one rights share for every 5.3551 existing common shares held as of record date February 14, 2018. The offer price was determined to be at ₱14.28 per rights share which was based on the 30-day volume-weighted average price of IMI common shares listed at the PSE as of February 7, 2018 at a discount of 25.3%. Offer period is from February 19 to February 23, 2018. The listing date is on March 2, 2018.

On January 5, 2018, the 33% share transfer related to the sale by STEL of SZSTE to Jinnuo Century Trading Limited was approved by the government. The remaining share transfers are still in process.

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

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

We have audited the parent company financial statements of Integrated Micro-Electronics, Inc. (the "Company") for the year ended December 31, 2017, on which we have rendered the attached report dated February 20, 2018.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the Company has three hundred forty one (341) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Carlo Paolo V. Manalang

Carlo Paolo V. Manalang
Partner
CPA Certificate No. 111947
SEC Accreditation No. 1625-A (Group A),
March 28, 2017, valid until March 27, 2020
Tax Identification No. 210-730-804
BIR Accreditation No. 08-001998-127-2017,
February 9, 2017, valid until February 8, 2020
PTR No. 6621287, January 9, 2018, Makati City

February 20, 2018

EXHIBIT 2

Supplementary Schedules

SGV
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working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited, in accordance with Philippine Standards on Auditing, the parent company financial statements of Integrated Micro-Electronics, Inc. (the "Company") as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, and have issued our report thereon dated February 20, 2018. Our audits were made for the purpose of forming an opinion on the basic parent company financial statements taken as a whole. The schedules listed in the Index to the parent company financial statements and supplementary schedules are the responsibility of the Company's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic parent company financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the parent company financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic parent company financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Carlo Paolo V. Manalang

Carlo Paolo V. Manalang
Partner
CPA Certificate No. 111947
SEC Accreditation No. 1625-A (Group A),
March 28, 2017, valid until March 27, 2020
Tax Identification No. 210-730-804
BIR Accreditation No. 08-001998-127-2017,
February 9, 2017, valid until February 8, 2020
PTR No. 6621287, January 9, 2018, Makati City

February 20, 2018

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule A. Financial Assets
December 31, 2017

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
NOT APPLICABLE				
Total		0	0	0

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2017
(in U.S. Dollars)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
Receivables from Employees:							
Various Officers and Employees*	553,745	10,066,910	(10,195,997.13)	-	424,658	-	424,658
Total	**553,745**	**10,066,910**	**(10,195,997)**	**-**	**424,658**	**-**	**424,658**

* Consist of receivables from approximately more than 2,000 Officers and Employees.

Integrated Microelectronics, Inc. and Subsidiaries
Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
December 31, 2017
(in U.S. Dollars)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Balance at end of period
Accounts receivable -trade						
Monarch and EPIQ Subsidiaries	106,597	356,729	106,597		356,729	356,729
STEL Group		161,260			161,260	161,260
PSi Technologies Inc.		104,915			104,915	104,915
Accounts receivable -nontrade					-	-
STEL Group	191,271		100,066		91,205	91,205
Monarch and EPIQ Subsidiaries	836,477	3,941,542	836,477		3,941,542	3,941,542
PSi Technologies Inc.	16,722,133	9,557,320			26,279,453	26,279,453
IMI International (Singapore) Pte Ltd.	654,277	1,087,005			1,741,283	1,741,283
IMI Japan	992,531	10,158			1,002,688	1,002,688
STI	-	22,298			22,298	22,298
IMI International ROHQ	24,924	12,778	24,924		12,778	12,778
IMI USA	11,963	15,398	11,963		15,398	15,398
Due From					-	-
Monarch and EPIQ Subsidiaries	23,157,086	14,827,091			37,984,178	37,984,178
IMI International (Singapore) Pte Ltd.	810,247	51,011,796			51,822,042	51,822,042
IMI USA	250,000				250,000	250,000
STI	-	3,276,733			3,276,733	3,276,733
IMI International ROHQ	290		290		-	-
Total	**43,757,795**	**84,385,025**	**1,080,316**	**-**	**127,062,504**	**127,062,504**

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule D. Intangible Assets
December 31, 2017
(in U.S. Dollars)

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance	Remarks
Licenses	4,169,791	3,257,626	1,414,525		71,023	6,083,915	Other changes represent foreign currency exchange difference
Intellectual Properties	8,247,285	493,277	2,113,539		64,177	6,691,200	Other changes represent foreign currency exchange difference
Product development	5,899,990	5,608,052	859,886		(524,705)	10,123,451	
	18,317,066	**9,358,955**	**4,387,950**	**-**	**(389,505)**	**22,898,566**	

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule E. Long-Term Debt
December 31, 2017
(in U.S. Dollars)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet	Remarks
Clean loan (Parent Company)	154,500,000	-	154,500,000	Please see Note 16 of the Audited Financial Statement
Deferred payment to EPIQ NV (Cooperatief)	5,095,518	5,095,518	-	
Long-term Debt from BNP Paribas (IMI BG)	239,320	239,320	-	
Long-term Debt from Citibank (IMI CZ)	5,066,432	1,403,223	3,663,209	
Long-term debt from Sparkasse Bank (Via)	195,465	134,618	60,847	
Total	**165,096,735**	**6,872,679**	**158,224,056**	

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule F. Indebtedness to Related Parties
December 31, 2017
(in U.S. Dollars)

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

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
NOT APPLICABLE		

Related party payables eliminated during consolidation:

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
Accounts Payable - Trade		
Speedy-Tech Electronics Ltd.	12,073	3,639
IMI USA	26,128	45,178
Accounts Payable - Nontrade		
Speedy-Tech Electronics Ltd.	191,530	2,387
IMI USA	311,172	274,919
IMI International ROHQ	609,490	646,668
IMI International (Singapore) Pte Ltd.	58,352	-
IMI Japan	142,315	-
Due To		
Speedy-Tech Electronics Ltd.	1,245,590	1,695,775
PSi Technologies Inc.	98,735	101,828
IMI Japan	461,881	501,959
IMI USA	33,555	-
IMI International ROHQ	170,271	-
Monarch and EPIQ Subsidiaries	8,570	26,598
Total	**3,369,663**	**3,298,951**

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule G. Guarantees of Securities of Other Issuers
December 31, 2017
(in U.S. Dollars)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which this statement if filed	Nature of Guarantee
NOT APPLICABLE				
Total		-	-	-

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule H. Capital Stock
December 31, 2017

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Stocks	2,250,000,000	1,877,296,113				
Less: Treasury Shares		(15,892,224)				
Common shares	**2,250,000,000**	**1,861,403,889**	47,403,889		95,330,517	1,718,669,483

INTEGRATED MICRO-ELECTRONICS, INC
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2017
(in U.S. Dollars)

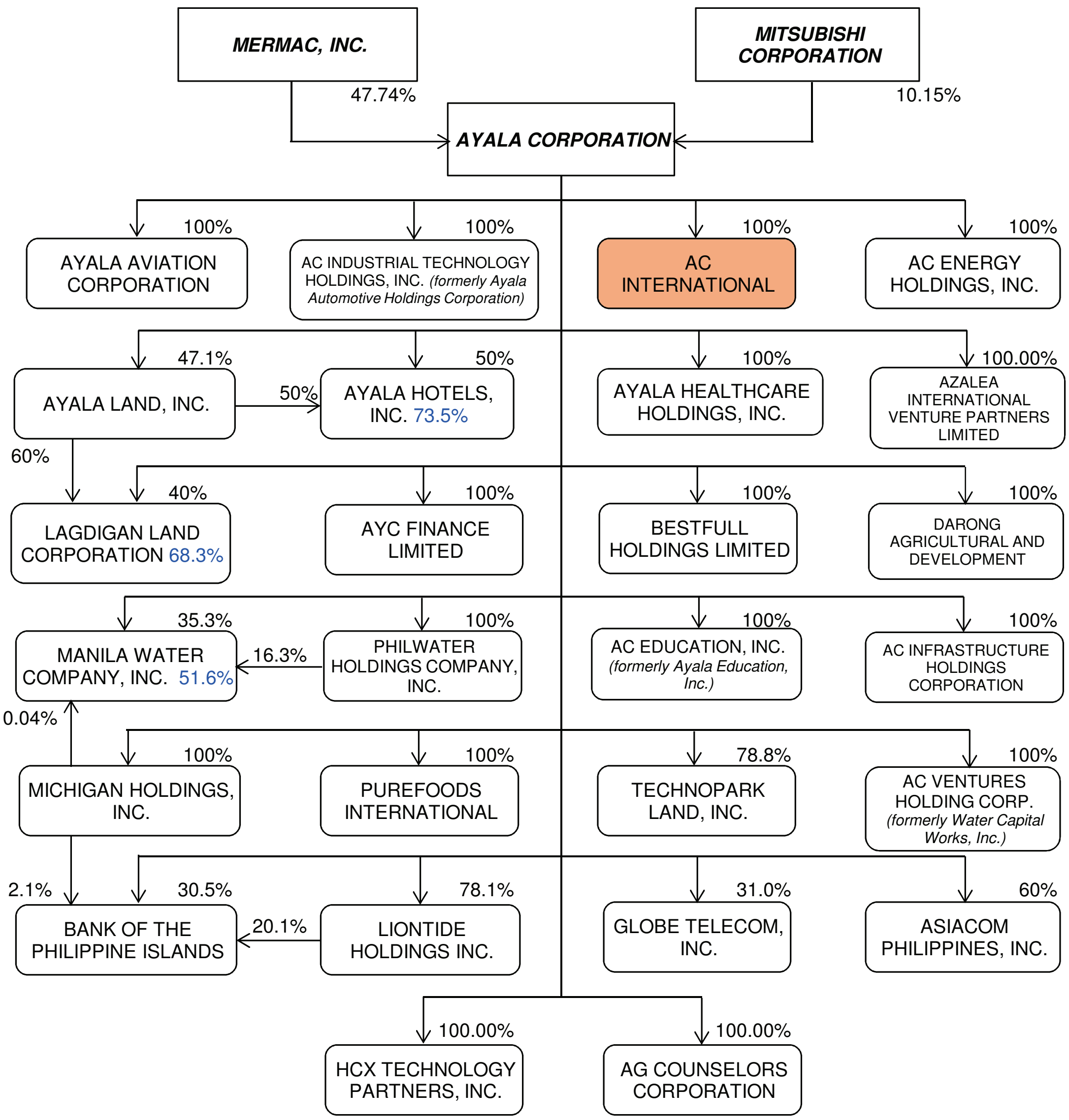
Unappropriated retained earnings, as adjusted for dividend distribution, beginning		**$16,175,870**
Add: Net income actually earned/realized during the year		
Net income during the year closed to Retained Earnings	7,264,917	
Less: Non-actual/unrealized income, net of tax		
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	0	
Subtotal	7,264,917	
Net income actually earned during the year		**7,264,917**
Add (less):		
Dividend declarations during the year	(8,434,601)	**(8,434,601)**
TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, END		**$15,006,186**

INTEGRATED MICRO-ELECTRONICS INC. AND SUBSIDIARIES
FINANCIAL RATIOS
December 31, 2017 and 2016

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

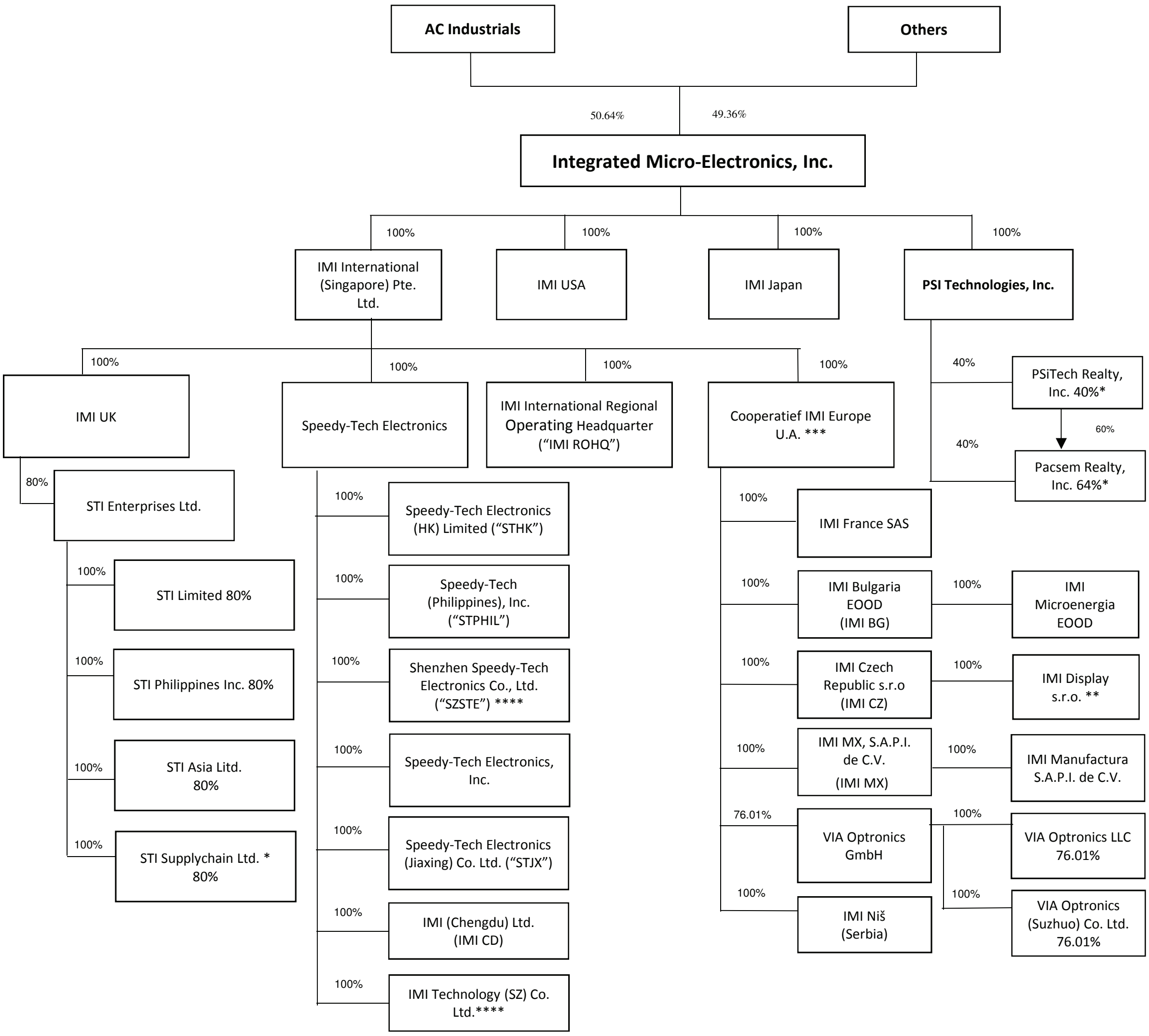
	(in US$'000)	
	Dec 31, 2017	**Dec 31, 2016 (As Restated)**
Current Assets	580,412	406,975
Current Liabilities	452,349	270,091
Total Assets	921,352	639,128
Bank Debts	295,059	174,187
Equity attributable to parent	273,739	236,606
Average equity attributable to parent	255,173	234,425
Average common equity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

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES
As of December 31, 2017



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

Integrated Micro-Electronics, Inc.
as of December 2017



* In the process of liquidation.

** No active operations.

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

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

Integrated Micro-electronics, Inc. and Subsidiaries
Schedule of All Philippine Financial Reporting Standards, Philippine Accounting Standards and Philippine Interpretations effective as at December 31, 2017

		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework for Financial Reporting		✓		
Philippine Financial Reporting Standards (PFRS) Practice Statement Management Commentary		✓		
PFRS				
PFRS 1	First-time Adoption of PFRS			✓
	PFRS 1 and Philippine Accounting Standards (PAS) 27 (Amendments) - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*			✓
	PFRS 1 (Amendments) - *Additional Exemptions for First-time Adopters*			✓
	PFRS 1 (Amendments) - *Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters*			✓
	PFRS 1 (Amendments) - *Severe Hyperinflation and Removal of Fixed Date of First-time Adopters*			✓
	PFRS 1 (Amendments) - *Government Loans*			✓
PFRS 2	Share-based Payment	✓		
	PFRS 2 (Amendments) - *Vesting Conditions and Cancellations*	✓		
	PFRS 2 (Amendments) - *Group Cash-settled Share-based Payment Transactions*			✓
	PFRS 2 (Amendments) - *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*	NOT EARLY ADOPTED		
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	PAS 39 and PFRS 4 (Amendments) - *Financial Guarantee Contracts*			✓
	PFRS 4 (Amendments) - *Applying PFRS 9 with PFRS 4*	NOT EARLY ADOPTED		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓

		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	PFRS 7 (Amendments) - *Reclassification of Financial Assets*			✓
	PFRS 7 (Amendments) - *Reclassification of Financial Assets - Effective Date and Transition*			✓
	PFRS 7 (Amendments) - *Improving Disclosures about Financial Instruments*	✓		
	PFRS 7 (Amendments) - *Disclosures - Transfers of Financial Assets*			✓
	PFRS 7 (Amendments) - *Offsetting Financial Assets and Financial Liabilities*			✓
	PFRS 7 (Amendments) - *Mandatory Effective Date of PFRS 9 and Transition Disclosures*	NOT EARLY ADOPTED		
	PFRS 7 (Amendments) – *Hedge Accounting*	NOT EARLY ADOPTED		
PFRS 8	Operating Segments	✓		
PFRS 9 (2014)	Financial Instruments	NOT EARLY ADOPTED		
PFRS 10	Consolidated Financial Statements	✓		
	PFRS 10 (Amendments) - *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*			✓
	PFRS10 (Amendments) – Investment Entities: Applying the Consolidation exceptions			✓
	PFRS 10 (Amendments) - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[a]	NOT EARLY ADOPTED		
PFRS 11	Joint Arrangements			✓
	PFRS 11 (Amendments) - *Accounting for Acquisitions of Interests in Joint Operations*			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	PFRS 12 (Amendments) – *Transition Guidance*			✓
	PFRS 12 (Amendments) - *Investment Entities*			✓
	PFRS 12 (Amendments) - *Investment Entities: Applying the Consolidation Exception*			✓

		Adopted	Not Adopted	Not Applicable
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	NOT EARLY ADOPTED		
PFRS 16	Leases	NOT EARLY ADOPTED		
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	PAS 1 (Amendments) - *Puttable Financial Instruments and Obligations Arising from Liquidation*			✓
	PAS 1 (Amendments) - *Presentation of Items of Other Comprehensive Income*	✓		
	PAS 1 (Amendments) – *Disclosure Initiative*	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	PAS 7 (Amendments) – *Disclosure Initiative*	NOT EARLY ADOPTED		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	PAS 12 (Amendments) - *Deferred Tax: Recovery of Underlying Assets*	✓		
	PAS 12 (Amendments) - *Recognition of Deferred Tax Assets for Unrealized Losses*	NOT EARLY ADOPTED		
PAS 16	Property, Plant and Equipment	✓		
	PAS 16 (Amendments) - *Clarification of Acceptable Methods of Depreciation and Amortization*			✓
	PAS 16 (Amendments) - *Bearer Plants*			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	PAS 19 (Amendments) - *Defined Benefit Plans: Employee Contributions*	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign	✓		

		Adopted	Not Adopted	Not Applicable
	Exchange Rates			
	PAS 21 (Amendments) - *Net Investment in a Foreign Operation*	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	PAS 27 (Amendments) – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	PAS 27 (Amendments) - *Investment Entities*	✓		
	PAS 27 (Amendments) - *Equity Method in Separate Financial Statements*			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	PAS 28 (Amendments) – *Investment Entities: Applying the Consolidation Exception*			✓
	PAS 28 (Amendments) - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[a]	NOT EARLY ADOPTED		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	PAS 32 and PAS 1 (Amendments) - *Puttable Financial Instruments and Obligations Arising on Liquidation*			✓
	PAS 32 (Amendments) - *Classification of Rights Issues*			✓
	PAS 32 (Amendments) - *Offsetting Financial Assets and Financial Liabilities*	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	PAS 36 (Amendments) - *Recoverable Amount Disclosures for Non-financial Assets*	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		

		Adopted	Not Adopted	Not Applicable
PAS 38	Intangible Assets	✓		
	PAS 38 (Amendments) - *Clarification of Acceptable Methods of Depreciation and Amortization*			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	PAS 39 (Amendments) - *Transition and Initial Recognition of Financial Assets and Financial Liabilities*	✓		
	PAS 39 (Amendments) - *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*			✓
	PAS 39 (Amendments) - *The Fair Value Option*			✓
	PAS 39 and PFRS 4 (Amendments) - *Financial Guarantee Contracts*			✓
	PAS 39 and PFRS 7 (Amendments) - *Reclassification of Financial Assets*			✓
	PAS 39 and PFRS 7 (Amendments) - *Reclassification of Financial Assets - Effective Date and Transition*			✓
	Philippine Interpretation IFRIC 9 and PAS 39 (Amendments) - *Embedded Derivatives*			✓
	PAS 39 (Amendments) - *Eligible Hedged Items*			✓
	PAS 39 (Amendments) - *Novation of Derivatives and Continuation of Hedge Accounting*			✓
	PAS 39 (Amendments) – *Hedge Accounting*			✓
PAS 40	Investment Property			✓
	PAS 40 (Amendments) - *Transfers of Investment Property*	NOT EARLY ADOPTED		
PAS 41	Agriculture			✓
	PAS 41 (Amendments) - *Bearer Plants*			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining whether an Arrangement Contains a Lease	✓		

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

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

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

[a]The effective date of this amendment was deferred until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

EXHIBIT 3

2017 Audited Annual Financial Statements, IMI International (Singapore) Pte Ltd

Company Registration No. 200502337G

IMI International (Singapore) Pte. Ltd.

Annual Financial Statements
31 December 2017

IMI International (Singapore) Pte. Ltd.

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Directors' statement

The directors present their statement to the member together with the audited financial statements of IMI International (Singapore) Pte. Ltd. (the "Company") for the financial year ended 31 December 2017.

Opinion of the directors

In the opinion of the directors,

(i) the accompanying balance sheet, statement of comprehensive income, statement of changes in equity and cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Company for the financial year ended on that date; and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due as the immediate holding company has given an undertaking in terms of the Company's obligations as a going concern.

Directors

The directors of the Company in office at the date of this statement are:

Arthur R. Tan
Chng Poh Guan
Jerome Su Tan

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in shares of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

	Direct interest	
	At the beginning of financial year	At the end of financial year
Ultimate holding company		
Ayala Corporation		
Ordinary shares of 1 Peso each		
Arthur R. Tan	256,538	313,291
Immediate holding company		
Integrated Micro-Electronics, Inc.		
Ordinary shares of 1 Peso each		
Arthur R. Tan	1,955,452	1,955,452
Employee Stock Ownership Plan		
Arthur R. Tan	18,218,100	18,218,100
Jerome Su Tan	3,241,033	3,241,033

Except as disclosed in this report, no other director who held office at the end of the financial year had an interest in any shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Employee Stock Ownership Plan ("ESOWN")

The Employee Stock Ownership Plan is a privilege given to eligible employees of immediate holding company, Integrated Micro-Electronics, Inc. whereby it allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the plan. The term of payment is eight years for all subscriptions from same grant, reckoned from date of subscription. Full settlement of the subscription is allowed after the holding period as follow: (1) 40% after 1 year from subscription date (2) 30% after 2 years from subscription date and (3) 30% after 3 years from subscription date.

Auditor

Ernst & Young LLP have expressed their willingness to accept reappointment as auditor.

On behalf of the board of directors,

Arthur R. Tan
Director

Jerome Su Tan
Director

Singapore
26 March 2018

Independent Auditor's Report to the Member of IMI International (Singapore) Pte. Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of IMI International (Singapore) Pte. Ltd. (the "Company"), which comprise the balance sheet as at 31 December 2017, the statement of comprehensive income, statement of changes in equity and cash flow statement of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the Company as at 31 December 2017 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for other information. The other information comprises the Directors' Statement as set out on pages 1 to 3.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

The directors' responsibilities include overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Auditor's responsibilities for the audit of the financial statements (cont'd)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

26 March 2018

IMI International (Singapore) Pte. Ltd.

Statement of comprehensive income
For the financial year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Revenue	4	1,915	1,188
Cost of sales		(1,824)	(1,132)
Gross profit		91	56
Other operating income	5	4,848	12,501
Administrative expenses		(7,461)	(8,527)
Finance costs	6	(6)	(5)
(Loss)/profit before taxation	7	(2,528)	4,025
Income tax expense	9	(169)	(21)
(Loss)/profit for the year, representing total comprehensive income for the year attributable to the owner of the Company		(2,697)	4,004

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

IMI International (Singapore) Pte. Ltd.

Balance sheet
As at 31 December 2017

	Note	2017 $'000	2016 $'000
Non-current assets			
Motor vehicles	10	197	189
Investment in subsidiaries	11	182,506	182,428
		182,703	182,617
Current assets			
Other receivables, deposits and prepayments	12	244	223
Due from immediate holding company	12	647	509
Due from related parties	12	329	329
Due from subsidiaries	12	99,018	28,815
Cash and cash equivalents	13	747	6,347
		100,985	36,223
Total assets		283,688	218,840
Current liabilities			
Other payables and accruals	14	1,843	2,136
Due to subsidiary	14	2	–
Due to related companies	14	337	454
Due to immediate holding company	14	147,882	80,268
		150,064	82,858
Net current liabilities		(49,079)	(46,635)
Non-current liabilities			
Deferred tax liabilities	17	125	–
Total liabilities		150,189	82,858
Net assets		133,499	135,982
Equity attributable to owner of the Company			
Share capital	15	89,839	89,839
Reserves	16	43,660	46,143
Total equity		133,499	135,982

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

IMI International (Singapore) Pte. Ltd.

Statement of changes in equity
For the financial year ended 31 December 2017

	Share capital (Note 15) $'000	Capital contribution reserves (Note 16a) $'000	Revenue reserves (Note 16b) $'000	Total $'000
At 1 January 2016	35,958	4,683	36,847	77,488
Profit for the year, representing total comprehensive income for the year	–	–	4,004	4,004
<u>Contributions by and distributions to owner</u>				
Issuance of ordinary shares	53,881	–	–	53,881
Grant of equity-settled share options in immediate holding company to employees	–	609	–	609
Total transactions with owner in their capacity as owner	53,881	609	–	54,490
At 31 December 2016	89,839	5,292	40,851	135,982
At 1 January 2017	89,839	5,292	40,851	135,982
Loss for the year, representing total comprehensive income for the year	–	–	(2,697)	(2,697)
<u>Contributions by and distributions to owner</u>				
Grant of equity-settled share options in immediate holding company to employees	–	214	–	214
Total transactions with owner in their capacity as owner	–	214	–	214
At 31 December 2017	89,839	5,506	38,154	133,499

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

IMI International (Singapore) Pte. Ltd.

Cash flow statement
For the financial year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
(Loss)/profit before taxation		(2,528)	4,025
Adjustments for:			
Depreciation of motor vehicles	10	96	147
Finance costs	6	6	5
Interest income	5	(762)	(1)
Share option expenses	8	140	401
Unrealised exchange gain		(2,165)	(38)
Dividend income	5	(2,000)	(12,500)
Net impairment loss on investment in subsidiary	7	90	–
Loss on disposal of motor vehicles		3	–
Operating cash flows before working capital changes		(7,120)	(7,961)
Increase in other receivables, deposits and prepayments		(69)	(76)
(Increase)/decrease in amount due from immediate holding company		(217)	918
(Increase)/decrease in amount due from related parties		(112)	459
Increase in amount due from subsidiaries		(67,289)	–
Decrease in other payables and accruals		(373)	(410)
Cash flows used in operations		(75,180)	(7,070)
Interest received		–	1
Finance costs paid		(6)	(5)
Net cash flows used in operating activities		(75,186)	(7,074)
Cash flows from investing activities			
Investment in subsidiaries	11	–	(53,881)
Purchase of motor vehicles	10	(121)	(92)
Proceeds from disposal of motor vehicles		14	–
Dividend income	5	2,000	12,500
Net cash flows generated from/(used in) investing activities		1,893	(41,473)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		–	53,881
Increase in amount due to immediate holding company		67,655	(136)
Net cash flows generated from financing activities		67,655	53,745
Net (decrease)/increase in cash and cash equivalents		(5,638)	5,198
Effect of exchange rate fluctuations on cash and cash equivalents		38	(19)
Cash and cash equivalents at beginning of the financial year	13	6,347	1,168
Cash and cash equivalents at end of the financial year	13	747	6,347

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. Corporate information

IMI International (Singapore) Pte. Ltd. (the "Company") is a private limited company incorporated and domiciled in Singapore with a Philippine Regional Operating Headquarters, also know as IMI International ROHQ ("ROHQ") established in Republic of the Philippines. The immediate holding company is Integrated Micro-Electronics Inc. ("IMI") which is incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange ("PSE"). IMI is a subsidiary of AYC Holdings, Ltd. ("AYC"), a corporation incorporated in British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd under the umbrella of Ayala Corporation ("AC"), a corporation incorporated in the Republic of the Philippines and listed in the PSE.

The registered office of the Company is located at 50 Raffles Place, Singapore Land Tower, #32-01, Singapore 048623 and its principal place of business is located at Speedy-Tech Industrial Building, 20 Kian Teck Lane, Singapore 627854.

The Company is an investment holding company and serves as an administrative, communications and coordinating center for its affiliates and subsidiaries. Other activities include sourcing and procurement of raw materials, suppliers and provision of customer services.

The principal activities of the subsidiaries are disclosed in Note 11 to the financial statements.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The financial statements of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The Company incurred a net loss of $2,697,000 (2016: net profit of $4,004,000) during the financial year ended 31 December 2017 and as at that date the Company's current liabilities exceeded its current assets by $49,079,000 (2016: $46,635,000). Notwithstanding this, the financial statements have been prepared on the going concern basis as the immediate holding company has undertaken to provide continuing financial support to enable the Company to continue as a going concern.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in United States Dollars (USD or $) and all values in the tables are rounded to the nearest thousand ($'000), except when otherwise indicated.

Pursuant to Section 201(3BA) of the Singapore Companies Act and Singapore Financial Reporting Standards No. 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, the Company need not prepare consolidated financial statements as the Company is itself a wholly-owned subsidiary of Integrated Micro-Electronics Inc., which prepared one set of consolidated financial statements incorporating the financial statements of the Company and its subsidiaries. The registered office of Integrated Micro-Electronics Inc. is North Science Avenue, Laguna Technopark, Biñan, Laguna.

2. Summary of significant accounting policies (cont'd)

2.2 *Changes in accounting polices*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Company has adopted all the new and revised standards that are effective for annual periods beginning on or after 1 January 2017. The adoption of these standards did not have any effect on the financial performance or position of the Company.

2.3 *Standards issued but not yet effective*

The Company has not adopted the following relevant standards and interpretations that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
FRS 115 Revenue from Contracts with Customers	1 January 2018
FRS 109 Financial Instruments	1 January 2018
Amendments to FRS 102: Classification and Measurement of Share-based Payment transactions	1 January 2018
INT FRS 122: Foreign Currency Transactions and Advance Consideration	1 January 2018
FRS 116 Leases	1 January 2019
INT FRS 123 Uncertainty over Income Tax Treatments	1 January 2019

Except for FRS 115, FRS 109 and FRS 116, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 115, FRS 109 and FRS 116 are described below.

FRS 115 *Revenue from Contracts with Customers*

FRS 115 establishes a five-step model to account for revenue arising from contracts with customers, and introduces new contract cost guidance. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after 1 January 2018.

The Company has performed a preliminary impact assessment of adopting FRS 115 based on currently available information. This assessment may be subject to changes arising from ongoing analysis until the Company adopts FRS 115 in 2018. However, on transition, the effect of these changes is not expected to be material for the Company.

2. Summary of significant accounting policies (cont'd)

2.3 *Standards issued but not yet effective (cont'd)*

FRS 109 *Financial Instruments*

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model. Adopting the expected credit losses requirements will require the Company to make changes to its current systems and processes.

FRS 109 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company is currently assessing the impact of FRS 109 and plans to adopt the standard on the required effective date.

FRS 116 *Leases*

FRS 116 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees – leases of 'low value' assets and short-term leases. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Company is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date. The Company expects the adoption of the new standard will result in increase in total assets and total liabilities, EBITDA and gearing ratio.

2.4 *Foreign currency*

The financial statements are presented in United States Dollars, which is also the Company's functional currency.

Transactions and balances

Transactions in foreign currencies are measured in the functional currency of the Company and are recorded on initial recognition in the functional currency at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.5 *Subsidiaries*

A subsidiary is an investee that is controlled by the Company. The Company controls an investee when it 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.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

2.6 *Motor vehicles*

All items of motor vehicles are initially recorded at cost. Subsequent to recognition, motor vehicles are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is computed on a straight-line basis over the estimated useful life of the asset. Motor vehicles are estimated to have useful lives of three to five years.

The carrying values of motor vehicles are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted prospectively, if appropriate.

An item of motor vehicles is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

2.7 *Impairment of non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in profit or loss.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.8 *Financial instruments*

(a) *Financial assets*

Initial recognition and measurement

Financial assets are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.8 *Financial instruments (cont'd)*

(b) ***Financial liabilities***

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is derecognised 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, and the difference in the respective carrying amounts is recognised in profit or loss.

2.9 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand and fixed deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Company's cash management.

2. Summary of significant accounting policies (cont'd)

2.10 *Impairment of financial assets*

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired.

(a) ***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Company 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 Company 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. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.11 *Provisions*

Provisions are recognised when the Company 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 the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.12 *Employee benefits*

(a) *Defined contribution plans*

The Company participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Company makes contributions to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution pension scheme under FRS 19 - Employee benefits. Contributions to CPF scheme are recognised as an expense in the period in which the related service is performed.

(b) *Defined benefit plans*

IMI maintains a defined benefit plan covering substantially all of its employees. including the employees of the Company. IMI allocates pension expense to the Company according to IMI's best estimate based on the prevailing basic pay of the employees, including the employees of the Company. The plan is a funded, non-contributory pension plan administered by a Board of Trustees. Pension expense 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. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses, past service cost and the effect of any curtailment or settlement.

2. Summary of significant accounting policies (cont'd)

2.12 *Employee benefits (cont'd)*

(b) ***Defined benefit plans (cont'd)***

A portion of the actuarial gains and losses is recognised as income or expense if the cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets. These gains and losses are recognised over the expected average remaining working lives of employees participating in the plan.

Past service costs, if any, are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period. The net pension asset recognised in respect of the defined benefit pension plan is the lower of: (a) the fair value of the plan assets less the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past service costs that shall be recognised in later periods; or (b) the total of any cumulative unrecognised net actuarial loss and past service cost and the present value of any economic benefit available in the form of refunds from the plan or reductions in future contributions to the plan. If there is no minimum funding requirement, an entity shall determine the economic benefit available as a reduction in future contributions as the lower of: (a) the surplus in the plan; and (b) the present value of the future service cost to the entity, excluding any part of the future cost that will be borne by employees, for each year over the shorter of the expected life of the plan and the expected life of the entity.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related pension liability or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

(c) ***Employee leave entitlement***

Employee entitlements to annual leave are recognised as a liability when they are accrued to the employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

2. Summary of significant accounting policies (cont'd)

2.12 *Employee benefits (cont'd)*

(d) ***Equity-settled transactions***

The cost of equity-settled transactions with employees was measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account was taken of any performance conditions, other than conditions linked to the price of the shares of the company ('market conditions'), if applicable.

The cost of equity-settled transactions was recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date').

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Since the scheme was cancelled after the vesting period, share option reserves representing the cumulative share option expense recognised was retained as part of equity.

2.13 *Revenue*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognised:

(a) ***Rendering of services***

Revenue is recognised when the related services have been rendered.

(b) ***Interest income***

Interest income is recognised using the effective interest method.

(c) ***Dividend income***

Dividend income is recognised when the Company's right to receive payment is established.

2. Summary of significant accounting policies (cont'd)

2.14 *Taxes*

(a) *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Company operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. 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 where appropriate.

(b) *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

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

- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

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

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

2. Summary of significant accounting policies (cont'd)

2.14 *Taxes (cont'd)*

(b) ***Deferred tax (cont'd)***

- The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

- Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

- Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

- Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.15 *Share capital and share issuance expenses*

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2. Summary of significant accounting policies (cont'd)

2.16 *Related parties*

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Company if that person:

- (i) Has control or joint control over the Company;
- (ii) Has significant influence over the Company; or
- (iii) Is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Company if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. ***Significant accounting estimates and judgements***

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

(a) ***Key sources of estimation uncertainty***

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below.

Impairment of investment in subsidiaries

The Company assesses at each reporting date whether there is an indication that the investment in subsidiaries may be impaired. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Company's investment in subsidiaries at 31 December 2017 was $182,506,000 (2016: $182,428,000).

(b) ***Critical judgements made in applying accounting policies***

In the process of applying the Company's accounting policies, management has not made any judgements, apart from those involving estimates, which have the most significant effects on the amounts recognised in the financial statements.

4. **Revenue**

Revenues relate to service fees provided by ROHQ to IMI, the immediate holding company.

5. Other operating income

	2017 $'000	2016 $'000
Dividend income from subsidiaries	2,000	12,500
Interest income from loans and receivables	762	1
Exchange gains, net	2,086	–
	4,848	12,501

6. Finance costs

	2017 $'000	2016 $'000
Bank charges	6	5

7. (Loss)/profit before tax

The following items have been included in arriving at (loss)/profit before tax:

	2017 $'000	2016 $'000
Administrative expenses incurred on behalf of the Company by its subsidiaries	4,818	6,075
Employee benefits expense (Note 8)	4,281	4,970
Depreciation of motor vehicles (Note 10)	96	147
Exchange gain, net	–	(130)
Net impairment loss on investment in subsidiary (Note 11)	90	–

8. Employee benefits expense

	2017 $'000	2016 $'000
Wages, salaries and bonuses	3,728	4,212
Other personnel benefits	413	357
Share option expenses	140	401
	4,281	4,970

9. Tax expense

Major components of tax expense

The components of tax expense for the year ended 31 December 2017 and 2016 are:

	2017 $'000	2016 $'000
Current income tax		
Current year	44	21
Deferred income tax		
Origination of temporary differences	125	–
Income tax expense recognised in profit or loss	169	21

ROHQ derives income in the Philippines by charging service fees to IMI, the immediate holding company. It is subject to the following tax rules, among others:

- Its taxable income is taxed at 10%. Remittances to the Company are subject to the ROHQ profit tax of 15%;
- It is exempted from all kinds of local taxes, fees or charges, except real property tax on land improvements and equipment tax;
- The importation of equipment and materials for training and conferences which are needed and used solely for its functions, and which are not available locally, are tax and duty free, subject to the approval of the Board of Investments; and
- The gross income of its local and foreign employees is taxed at the preferential rate of 15%.

Relationship between tax expense and accounting (loss)/profit

A reconciliation between the tax expense and the product of accounting (loss)/profit multiplied by the applicable tax rate for the years ended 31 December 2017 and 2016 are as follows:

	2017 $'000	2016 $'000
Accounting (loss)/profit before tax	(2,528)	4,025
Tax at the applicable statutory tax rate of 17% (2016: 17%)	(430)	684
Adjustments:		
Tax effect of expenses not deductible for tax purposes	1,311	1,463
Income not subject to taxation	(680)	(2,111)
Effect of differences in tax rates in other countries where Company operates	(32)	(15)
Tax expense recognised in the statement of comprehensive income.	169	21

10. Motor vehicles

	Total $'000
Cost	
At 1 January 2016	1,003
Additions	92
Disposals	(611)
At 31 December 2016 and 1 January 2017	484
Additions	121
Disposals	(202)
At 31 December 2017	403
Accumulated depreciation	
At 1 January 2016	759
Charge for the year	147
Disposals	(611)
At 31 December 2016 and 1 January 2017	295
Charge for the year	96
Disposals	(185)
At 31 December 2017	206
Net carrying amount	
At 31 December 2016	189
At 31 December 2017	197

Motor vehicles pertain to cars used by the employees of ROHQ.

11. Investment in subsidiaries

	2017 $'000	2016 $'000
At 1 January	182,428	128,339
Additions	59,742	54,089
Written off	(59,664)	–
At 31 December	182,506	182,428

The increase in investment in subsidiaries pertains to additional stock options granted to the Company's subsidiaries by IMI amounting to $74,000.

Details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Effective equity interest held by the Company 2017 %	2016 %
Held by the Company				
Speedy-Tech Electronics Ltd *	Singapore	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
Monarch Elite Ltd ("Monarch")#	Hong Kong	Investment holding	99	99
Cooperatief IMI Europe U.A. ("Cooperatief")**	Netherlands	Provision of material needs of its members, pursuant to agreements concluded with its members in respect of the business that it carries on or procures to be carried on for the benefit of its members	100	1
Integrated Micro-Electronics UK Limited (IMI UK) # ***	United Kingdom	Investment holding	100	–
Held by Speedy-Tech Electronics Ltd (STEL)				
Speedy-Tech Electronics (HK) Limited ("STHK") #	Hong Kong	Procurement, marketing and supply chain services	100	100
Speedy-Tech (Philippines) Inc. ("STPHIL") #	Philippines	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement (dormant)	100	100

11. Investment in subsidiaries (cont'd)

Name	Country of incorporation	Principal activities	Effective equity interest held by the Company 2017 %	2016 %
Held by Speedy-Tech Electronics Ltd (STEL) (cont'd)				
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE") #	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing, procurement and research and development	100	100
Speedy-Tech Electronics Inc. **	United States of America	Marketing, liaison and support services (dormant)	100	100
Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX") #	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
IMI (Cheng Du) Ltd. ("IMICD") #	People's Republic of China	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	100	100
IMI Technology (Shenzhen) Co., Ltd. ("IMISZ") #	People's Republic of China	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing, procurement and research and development	100	–
Held by Monarch Elite Ltd				
Cooperatief IMI Europe U.A. **	Netherlands	Provision of material needs of its members, pursuant to agreements concluded with its members in respect of the business that it carries on or procures to be carried on for the benefit of its members	–	99

11. Investment in subsidiaries (cont'd)

Name	Country of incorporation	Principal activities	Effective equity interest held by the Company 2017 %	2016 %
Held by Cooperatief IMI Europe U.A. ("Cooperatief")				
IMI Bulgaria EOOD (IMI BG) #	Bulgaria	Production of electronic modules for domestic goods and automobile manufacturing	100	100
Microenergia EOOD #	Bulgaria	Supply of water, refurbishment and infrastructure maintenance activities	100	100
IMI Czech Republic s.r.o (IMI CZ) #	Czech Republic	Installation and repairs of products and equipment of consumer electronics; purchase of goods for the purpose of resale thereof, and sale of goods; leasing of real property, residential and non-residential premises without provision of other than basic services ensuring proper operation of the real property, residential and non-residential premises	100	100
IMI Mexico, S.A.P.I de C.V. (IMI MX) #	Mexico	Manufacture and sale of electronic components and plastic injection moulding primarily for the automotive and household industries	100	100
IMI Manufactura S.A.P.I de C.V. #	Mexico	Provides operation and management services	100	100
IMI France SAS @	France	Employer of executives in EPIQ subsidiaries	100	100
VIA Optronics GmbH #	Germany	Manufactures enhanced LCD displays and provides optical bonding solutions	76	76
VIA Optronics Suzhou Co. Ltd. (VIA Suzhou) #	People's Republic of China	Manufactures enhanced LCD displays and provides optical bonding solutions	76	76
VIA Optronics LLC (VIA LLC) #	USA	Manufactures enhanced LCD displays and provides optical bonding solutions	76	76
IMI d.o.o. Niš # **	Serbia	Production of electronic modules for domestic goods and automobile manufacturing	100	–

11. Investment in subsidiaries (cont'd)

Name	Country of incorporation	Principal activities	Effective equity interest held by the Company 2017 %	2016 %
Held by Integrated Micro-Electronics UK Limited (IMI UK)				
Surface Technology International Enterprises Ltd (STI) #	United Kingdom	Provides a complete set of electronics design and manufacturing solutions in both PCBA and full box build manufacturing	80	–
STI Limited #	United Kingdom	Provides a complete set of electronics design and manufacturing solutions in both PCBA and full box build manufacturing	80	–
STI Asia Ltd. #	Philippines	Provides a complete set of electronics design and manufacturing solutions in both PCBA and full box build manufacturing	80	–
STI Supplychain Ltd. #	United Kingdom	Provides a complete set of electronics design and manufacturing solutions in both PCBA and full box build manufacturing	80	–

* Audited by Ernst & Young LLP, Singapore.
\# Audited by member firms of Ernst & Young Global in the respective countries.
** No audit is required by the law of its country of incorporation.
@ Audited by SEGEC in France.
*** Newly incorporated during the financial year ended 31 December 2017

Impairment of investment in Monarch and acquisition of membership rights in Cooperatief

The Company has on 19 June 2017 entered into an Asset Sale Agreement with Monarch, pursuant to which Monarch has agreed to sell its assets and liabilities, including its 99% equity interest in Cooperatief to the Company amounting to $59,667,000.

Management is in the process of deregistering Monarch, and on 30 June 2017, the Company has entered into a separate Set-Off Agreement with Monarch, pursuant to which Monarch has agreed to fully write off the Company's net outstanding debt to Monarch amounting to $59,574,000. Accordingly, the Company has written off the cost of investment in Monarch amounting to $59,664,000. The Company recorded net impairment loss on its investment in Monarch amounting to $90,000 in the profit or loss.

As at 31 December 2017, Monarch has not been deregistered.

12. Other receivables, deposits and prepayments

	2017 $'000	2016 $'000
Other receivables	25	–
Tax recoverables	182	207
Prepayments	37	16
	244	223

Included in other receivables are the following amounts denominated in foreign currency at 31 December:

	2017 $'000	2016 $'000
Philippine Peso	25	–

The carrying amounts of loans and receivables comprise:

	2017 $'000	2016 $'000
Other receivables and deposits	25	–
Cash and cash equivalents	747	6,347
Due from immediate holding company	647	509
Due from related parties	329	329
Due from subsidiaries	99,018	28,815
Total loans and receivables	100,766	36,000

Amounts due from immediate holding company and related parties are trade related, unsecured, interest-free, with a 30 days of credit term and to be settled in cash.

Amounts due from subsidiaries amounting to $43,808,000 (2016: $28,815,000) are non-trade related, unsecured, interest-free, repayable on demand and to be settled in cash and $55,210,000 (2016: Nil) short-term notes receivable from subsidiaries under an original issue discount loan agreement with an interest rate of 3.0% to 3.50% per annum, repayable in 2018 and to be settled in cash.

13. Cash and cash equivalents

	2017 $'000	2016 $'000
Cash and cash equivalents	747	6,347

Cash and cash equivalents denominated in foreign currencies at 31 December are as follows:

	2017 $'000	2016 $'000
Singapore Dollar	127	250
Philippine Peso	130	140

14. Other payables and accruals

	2017 $'000	2016 $'000
Accrued operating expenses	1,726	2,058
Other payables	117	78
	1,843	2,136
Add:		
Due to subsidiary	2	–
Due to related companies	337	454
Due to immediate holding company	147,882	80,268
Total financial liabilities carried at amortised cost	150,064	82,858

Accrued operating expenses include accruals for salaries and benefits such as leave credits and bonuses.

Amounts due to immediate holding company and subsidiary are non-trade in nature, unsecured, interest-free, repayable on demand and to be settled in cash.

Amount due to related companies relates to global expenses incurred on behalf of the company's subsidiaries are non-trade in nature, unsecured, interest-free, repayable on demand and to be settled in cash.

14. Other payables and accruals (cont'd)

Included in other payables and due to related companies are the following amounts denominated in foreign currencies at 31 December:

	2017 $'000	2016 $'000
Singapore Dollar	966	11
Japanese Yen	–	304
Philippine Peso	1,826	2,129

15. Share capital

	2017		2016	
	No. of Shares '000	$'000	No. of Shares '000	$'000
Issued and fully paid				
At 1 January and 31 December	117,709	89,839	117,709	89,839

The holder of ordinary shares is entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

16. Reserves

(a) ***Capital contribution reserves***

Capital contribution reserves are made up of the difference between the fair value and the subscription price of the share of the immediate holding company's Employee Stock Ownership Plan ("ESOWN") granted to employees of the Group.

(b) ***Revenue reserves***

Revenue reserves of the Company are available for distribution as dividends.

17. Deferred tax liabilities

	2017 $'000	2016 $'000
Balance sheet		
Foreign sourced interest income	(125)	–
Profit or loss		
Foreign sourced interest income	125	–
Deferred tax expense	125	–

18. Related party transactions

(a) ***Sale and purchase of goods and services***

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Company and related parties took place at terms agreed between the parties during the financial year:

	2017 $'000	2016 $'000
Service fees from:		
Immediate holding company	1,915	1,188
Share option expenses from:		
Immediate holding company	140	401

(b) ***Compensation of key management personnel***

	2017 $'000	2016 $'000
Short-term employee benefits	3,728	4,212
Pension and post-employment medical benefits	413	357
Share option expenses	140	401
Total compensation entitled to key management personnel	4,281	4,970
Comprise amounts entitled to :		
• Directors of the Company	1,478	1,400
• Other key management personnel	2,803	3,570
	4,281	4,970

19. Financial risk management objectives and policies

The Company's principal financial instruments, other than derivative financial instruments, comprise cash and short term deposits. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial assets and liabilities such as other receivables and other payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Company's policy that no trading in derivative financial instruments shall be undertaken.

Foreign currency risk

The Company is exposed to foreign currency risk from revenues generated and cost incurred in foreign currencies, principally in Singapore Dollar ("SGD") and Philippine Peso ("PHP"). The Company does not enter into forward foreign exchange contracts to hedge against its foreign exchange risk resulting from sale and purchase transactions denominated in foreign currencies.

The Company 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.

<u>Sensitivity analysis for foreign currency risk</u>

The following table demonstrates the sensitivity to a reasonably possible change in SGD and PHP exchange rates (against USD), with all other variables held constant, of the Company's (loss)/profit net of tax.

			2017 **$'000**	2016 **$'000**
			(Loss)/profit net of tax Increase/(decrease)	
SGD	–	strengthened 1% (2016: 1%)	9	(7)
	–	weakened 1% (2016: 1%)	(9)	7
PHP	–	strengthened 1% (2016: 1%)	15	(17)
	–	weakened 1% (2016: 1%)	(15)	17

19. Financial risk management objectives and policies (cont'd)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

In the management of liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the directors to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

The table below summarises the maturity profile of the Company's financial liabilities at the balance sheet date based on the contractual undiscounted payments.

	2017		2016	
	1 year or less $'000	Total $'000	1 year or less $'000	Total $'000
Financial assets:				
Other receivables and deposits	25	25	–	–
Due from immediate holding company	647	647	509	509
Due from related parties	329	329	329	329
Due from subsidiaries	99,018	99,018	28,815	28,815
Cash and cash equivalents	747	747	6,347	6,347
Total undiscounted financial assets	100,766	100,766	36,000	36,000
Financial liabilities:				
Other payables and accruals	1,843	1,843	2,136	2,136
Due to subsidiary	2	2	–	–
Due to related companies	337	337	454	454
Due to immediate holding company	147,882	147,882	80,268	80,268
Total undiscounted financial liabilities	150,064	150,064	82,858	82,858
Total net undiscounted financial liabilities	(49,298)	(49,298)	(46,858)	(46,858)

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Company's exposure to credit risk arises primarily from other receivables. For other financial assets (including cash and cash equivalents), the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Credit risk, or the risk of counterparties defaulting, is managed through the application of credit approvals, credit limits and monitoring procedures. Where appropriate, the Company and its subsidiaries obtain collateral from the customer or arrange master netting agreements. Cash terms, advance payments, and letters of credit are required for customers of lower credit standing.

19. Financial risk management objectives and policies (cont'd)

Credit risk (cont'd)

Exposure to credit risk

At the end of the reporting period, the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

20. Fair value of financial instruments

(a) ***Fair value hierarchy***

The Company categories fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Company can access at the measurement date,
- Level 2 – Inputs other that quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(b) ***Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value***

The Company does not have any financial instruments that are carried at fair value or any financial instruments that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value.

21. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2017 and 31 December 2016.

The Company was in compliance with all externally imposed capital requirements in certain countries, where applicable, for the financial years ended 31 December 2017 and 2016.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company includes all liabilities (excluding tax payables) less cash and cash equivalents as the net debt. Capital includes equity attributable to the equity holder of the Company.

	2017 $'000	**2016** $'000
Other payables and accruals (Note 14)	1,843	2,136
Due to subsidiary	2	–
Due to related companies	337	454
Due to immediate holding company	147,882	80,268
Less: Cash and cash equivalents (Note 13)	(747)	(6,347)
Net debt	149,317	76,511
Equity attributable to equity holder of the Company	133,499	135,982
Total capital	133,499	135,982
Capital and net debt	282,816	212,493
Gearing ratio	53%	36%

22. Events occurring after the reporting period

Subsequent to year end, the Company's subsidiary STEL had disposed 33% share of one of its wholly-owned subsidiary, Shenzhen Speedy-Tech Electronics Co., Ltd. to Jinnuo Century Trading Limited for a cash consideration of $26,000,000.

23. Authorisation of financial statements for issue

The financial statements for the financial year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 26 March 2018.

EXHIBIT 4

**2017 Audited Annual Financial Statements,
Speedy-Tech Electronics Ltd and its subsidiaries**

Company Registration No. 198502018H

Speedy-Tech Electronics Ltd.
and its subsidiaries

Annual Financial Statements
31 December 2017

Building a better
working world

Speedy-Tech Electronics Ltd. and its subsidiaries

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Directors' Statement

The directors are pleased to present their statement to the member together with the audited consolidated financial statements of Speedy-Tech Electronics Ltd (the "Company") and its subsidiaries (collectively, the "Group") and the statement of comprehensive income, balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2017.

Opinion of the directors

In the opinion of the directors,

(a) the consolidated financial statements of the Group and the statement of comprehensive income, balance sheet and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Group and the financial performance and changes in equity of the Company for the year ended on that date; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due as the intermediate holding company has given an undertaking in terms of the Company's obligations as a going concern.

Directors

The directors of the Company in office at the date of this statement are:

Arthur R. Tan
Chng Poh Guan
Mary Ann Natividad
Jerome Su Tan

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings, required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in shares of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

	Direct interest	
	At the beginning of financial year	**At the end of financial year**
Ultimate holding company		
Ayala Corporation		
Ordinary shares of 1 Peso each		
Arthur R. Tan	256,538	313,291

Directors' interests in shares and debentures (cont'd)

	Direct interest	
	At the beginning of financial year	**At the end of financial year**
Intermediate holding company		
Integrated Micro-Electronics, Inc.		
Ordinary shares of 1 Peso each		
Arthur R. Tan	1,955,452	1,955,452
Mary Ann Natividad	75,204	75,204
Employee Stock Ownership Plan		
Arthur R. Tan	18,218,100	18,218,100
Jerome Su Tan	3,241,033	3,241,033
Mary Ann Natividad	806,935	806,935

Except as disclosed in this report, no director who held office at the end of the financial year had an interest in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Employee Stock Ownership Plan ("ESOWN")

The Employee Stock Ownership Plan is a privilege given to eligible employees of intermediate holding company, Integrated Micro-Electronics, Inc. whereby it allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the plan. The term of payment is eight years for all subscriptions from same grant, reckoned from date of subscription. Full settlement of the subscription is allowed after the holding period as follow: (1) 40% after 1 year from subscription date (2) 30% after 2 years from subscription date and (3) 30% after 3 years from subscription date.

Auditors

Ernst & Young LLP have expressed their willingness to accept reappointment as auditors.

On behalf of the board of directors,

Arthur R. Tan
Director

Jerome Su Tan
Director

Singapore
26 March 2018

Independent Auditor's Report to the Member of Speedy-Tech Electronics Ltd

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Speedy-Tech Electronics Ltd (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2017, the consolidated statements of comprehensive income, the statements of changes in equity of the Group and the Company and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the statement of comprehensive income, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the financial performance and changes in equity of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for other information. The other information comprises the Directors' Statement as set up from page 1 to 2.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditor's responsibilities for the audit of the financial statements (cont'd)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

26 March 2018

Speedy-Tech Electronics Ltd. and its subsidiaries

Statements of comprehensive income
For the financial year ended 31 December 2017
(Amounts expressed in United States Dollars)

	Note	Group 2017 $'000	Group 2016 $'000	Company 2017 $'000	Company 2016 $'000
Revenue	4	271,186	261,438	106,231	66,690
Cost of sales		(242,794)	(236,473)	(100,701)	(63,194)
Gross profit		28,392	24,965	5,530	3,496
Other operating income	5	3,098	1,694	1,243	11,837
Distribution and selling expenses		–	(6)	–	(4)
Administrative expenses		(19,353)	(23,136)	(5,441)	(5,694)
Restructuring expenses	6	(7,958)	–	–	–
Finance costs	9	(546)	(284)	(370)	(184)
Profit before tax	8	3,633	3,233	962	9,451
Income tax expense	10	(428)	(1,682)	–	(34)
Profit for the year		3,205	1,551	962	9,417
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation		131	(26)	–	–
Other comprehensive income for the year, net of tax		131	(26)	–	–
Total comprehensive income for the year		3,336	1,525	962	9,417
Attributable to:					
Owner of the Company		3,205	1,556	962	9,417
Non-controlling interests		–	(5)	–	–
Profit for the year		3,205	1,551	962	9,417
Attributable to:					
Owner of the Company		3,336	1,530	962	9,417
Non-controlling interests		–	(5)	–	–
Total comprehensive income for the year		3,336	1,525	962	9,417

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Speedy-Tech Electronics Ltd. and its subsidiaries

Balance sheets
As at 31 December 2017
(Amounts expressed in United States Dollars)

	Note	Group 2017 $'000	Group 2016 $'000	Company 2017 $'000	Company 2016 $'000
Non-current assets					
Property, plant and equipment	11	38,306	25,269	408	488
Intangible asset	12	1,113	2,214	–	–
Prepayment	16	3,440	–	–	–
Investment in subsidiaries	13	–	–	72,945	63,445
		42,859	27,483	73,353	63,933
Current assets					
Inventories	14	45,682	30,268	663	1
Trade receivables	15	82,268	73,063	13,454	12,278
Other receivables, deposits and prepayments	16	10,882	5,676	281	660
Due from intermediate holding company	15	1,702	1,452	1,163	725
Due from subsidiaries	15	–	–	43,460	15,461
Due from related companies	15	20,899	20,368	20,384	20,006
Properties held for sale	17	362	362	–	–
Cash and cash equivalents	18	38,326	38,369	17,089	13,141
		200,121	169,558	96,494	62,272
Total assets		242,980	197,041	169,847	126,205
Current liabilities					
Trade payables	19	68,225	57,813	9,365	4,016
Other payables and accruals	20	46,407	27,374	28,733	8,061
Due to intermediate holding company	19	194	227	19	–
Due to subsidiaries	19	–	–	39,797	37,192
Due to related companies	19	3	4	3	–
Tax payable		1,365	2,174	–	–
Short term bank loan (unsecured)	21	24,000	8,000	24,000	8,000
		140,194	95,592	101,917	57,269
Net current assets/(liabilities)		59,927	73,966	(5,423)	5,003
Non-current liabilities					
Deferred tax liabilities	22	1	32	1	1
Total liabilities		140,195	95,624	101,918	57,270
Net assets		102,785	101,417	67,929	68,935
Equity attributable to owner of the Company					
Share capital	23	26,872	26,872	26,872	26,872
Reserves	24	75,913	74,545	41,057	42,063
Total equity		102,785	101,417	67,929	68,935
Total equity and liabilities		242,980	197,041	169,847	126,205

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of changes in equity
For the financial year ended 31 December 2017
(Amounts expressed in United States Dollars)

Group	Share capital (Note 23) $'000	Revaluation reserve (Note 24a) $'000	Capital reserve (Note 24a) $'000	Restricted reserves (Note 24b) $'000	Share option reserve (Note 24c) $'000	Capital contribution reserves (Note 24d) $'000	Foreign currency translation reserve (Note 24e) $'000	Revenue reserves (Note 24f) $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Opening balance as at 1 January 2016	26,872	1,810	429	11,101	743	2,621	(130)	69,034	112,480	193	112,673
Profit/(loss) for the year	–	–	–	–	–	–	–	1,556	1,556	(5)	1,551
Other comprehensive income											
Foreign currency translation	–	–	–	–	–	–	(26)	–	(26)	–	(26)
Total comprehensive income for the year	–	–	–	–	–	–	(26)	1,556	1,530	(5)	1,525
Contributions by and distributions to owners											
Grant of equity-settled share options in intermediate holding company to employees	–	–	–	–	–	89	–	–	89	–	89
Dividend paid on ordinary shares (Note 30)	–	–	–	–	–	–	–	(12,500)	(12,500)	–	(12,500)
Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners	–	–	–	–	–	89	–	(12,500)	(12,411)	–	(12,411)
Others											
Transfer to restricted reserves	–	–	–	143	–	–	–	(143)	–	–	–
Premium paid for acquisition of non-controlling interest	–	–	(182)	–	–	–	–	–	(182)	(188)	(370)
Total others	–	–	(182)	143	–	–	–	(143)	(182)	(188)	(370)
Closing balance as at 31 December 2016	26,872	1,810	247	11,244	743	2,710	(156)	57,947	101,417	–	101,417

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Speedy-Tech Electronics Ltd. and its subsidiaries

Statements of changes in equity
For the financial year ended 31 December 2017 (cont'd)
(Amounts expressed in United States Dollars)

Group	Share capital (Note 23) $'000	Revaluation reserve (Note 24a) $'000	Capital reserve (Note 24a) $'000	Restricted reserves (Note 24b) $'000	Share option reserve (Note 24c) $'000	Capital contribution reserves (Note 24d) $'000	Foreign currency translation reserve (Note 24e) $'000	Revenue reserves (Note 24f) $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Opening balance as at 1 January 2017	26,872	1,810	247	11,244	743	2,710	(156)	57,947	101,417	–	101,417
Profit for the year	–	–	–	–	–	–	–	3,205	3,205	–	3,205
Other comprehensive income											
Foreign currency translation	–	–	–	–	–	–	131	–	131	–	131
Total comprehensive income for the year	–	–	–	–	–	–	131	–	3,336	–	3,336
Contributions by and distributions to owners											
Grant of equity-settled share options in intermediate holding company to employees	–	–	–	–	–	32	–	–	32	–	32
Dividend paid on ordinary shares (Note 30)	–	–	–	–	–		–	(2,000)	(2,000)	–	(2,000)
Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners	–	–	–	–	–	32	–	(2,000)	(1,968)	–	(1,968)
Others											
Transfer to restricted reserves	–	–	–	293	–	–	–	(293)	–	–	–
Total others	–	–	–	293	–	–	–	(233)	–	–	–
Closing balance as at 31 December 2017	26,872	1,810	247	11,537	743	2,742	(25)	58,859	102,785	–	102,785

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Speedy-Tech Electronics Ltd. and its subsidiaries

Statements of changes in equity
For the financial year ended 31 December 2017 (cont'd)
(Amounts expressed in United States Dollars)

Company	Share capital (Note 23) $'000	Share option reserve (Note 24c) $'000	Capital contribution reserves (Note 24d) $'000	Revenue reserves (Note 24f) $'000	Total $'000
At 1 January 2016	26,872	743	2,135	42,179	71,929
Profit for the year, representing total comprehensive income for the year	–	–	–	9,417	9,417
Contributions by and distributions to owner					
Grant of equity-settled share options in intermediate holding company to employees	–	–	89	–	89
Dividend paid on ordinary shares (Note 30)	–	–	–	(12,500)	(12,500)
Total transactions with owner in its capacity as owner	–	–	89	(12,500)	(12,411)
At 31 December 2016	26,872	743	2,224	39,096	68,935
At 1 January 2017	26,872	743	2,224	39,096	68,935
Profit for the year, representing total comprehensive income for the year	–	–	–	962	962
Contributions by and distributions to owner					
Grant of equity-settled share options in intermediate holding company to employees	–	–	32	–	32
Dividend paid on ordinary shares (Note 30)	–	–	–	(2,000)	(2,000)
Total transactions with owner in its capacity as owner	–	–	32	(2,000)	(1,968)
At 31 December 2017	26,872	743	2,256	38,058	67,929

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Speedy-Tech Electronics Ltd. and its subsidiaries

Consolidated cash flow statement
For the financial year ended 31 December 2017
(Amounts expressed in United States Dollars)

	Note	Group 2017 $'000	Group 2016 $'000
Operating activities			
Profit before tax		3,633	3,233
Adjustments:			
Depreciation of property, plant and equipment	11	5,131	3,992
Amortisation of intangible assets	12	1,201	–
Gain on disposal of property, plant and equipment	5	(35)	(151)
Write-off of property, plant and equipment	11	–	1,533
(Reversal) of /provision for inventories obsolescence, net	14	(589)	456
Reversal of doubtful trade debts	15	(11)	–
Finance costs	9	546	284
Interest income	5	(733)	(555)
Share options expense	7	32	89
Unrealised exchange loss		(2,751)	668
Operating cash flows before changes in working capital		6,424	9,549
Changes in working capital:			
Increase in inventories		(14,590)	(5,150)
(Increase)/decrease in trade receivables		(7,871)	13,544
Increase in other receivables, deposits and prepayments		(8,646)	(1,420)
Increase in amount due from related companies		(531)	(6,822)
Increase in trade payables		10,257	833
Increase in other payables and accruals		17,881	7,913
Cash flows from operations		2,924	18,447
Interest received	5	733	555
Finance costs paid	9	(546)	(284)
Income taxes paid		(1,269)	(592)
Net cash flows from operating activities		1,842	18,126
Cash flows from investing activities			
Additions to intangible assets	12	(1,146)	–
Proceeds from disposal of property, plant and equipment		1,460	2,127
Purchase of property, plant and equipment	11	(17,302)	(16,278)
Net cash flows used in investing activities		(16,988)	(14,151)
Cash flows from financing activities			
Dividend paid	30	(2,000)	(12,500)
Proceeds from short-term bank loans		16,000	–
(Decrease)increase in amount due to related company		(1)	4
(Increase)/decrease in amount due from/to intermediate holding company, net		(283)	340
Acquisition of non-controlling interest		–	(370)
Net cash flows from/(used) in financing activities		13,716	(12,526)
Net decrease in cash and cash equivalents		(1,430)	(8,551)
Effect of exchange rate changes on cash and cash equivalents		1,387	(85)
Cash and cash equivalents at beginning of year		38,369	47,005
Cash and cash equivalents at end of year (Note 18)		38,326	38,369

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. Corporate information

The Company is a private limited company incorporated and domiciled in Singapore. The registered office of the Company is located at 50 Raffles Place, Singapore Land Tower, #32-01, Singapore 048623 and its principal place of business is at Speedy-Tech Industrial Building, 20 Kian Teck Lane, Singapore 627854.

Its immediate holding company is IMI International (Singapore) Pte Ltd, a company incorporated and domiciled in Singapore. Its intermediate holding company and ultimate holding company is Integrated Micro-Electronics, Inc. ("IMI") and Ayala Corporation ("AC"), corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange.

The Group is principally engaged in the provision of Electronic Manufacturing Services and Power Electronics solutions to Original Equipment Manufacturer ("OEM") customers in the consumer electronics, computer peripherals/IT, industrial equipment, telecommunications and medical devices sectors. The principal activities of the subsidiaries are disclosed in Note 13 to the financial statements.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The consolidated financial statements of the Group and the balance sheet, statement of comprehensive income and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The Company's current liabilities exceeded its current assets by $5,423,000 (2016: Nil) as at the financial year ended 31 December 2017. Notwithstanding this, the financial statements have been prepared on the going concern basis as the intermediate holding company has undertaken to provide continuing financial support to enable the Company to continue as a going concern.

The financial statements have been prepared on the historical cost basis except for leasehold land and building which are stated at fair value less depreciation charged subsequent to the date of revaluation.

The financial statements are presented in United States Dollars (USD or $) and all values in the tables are rounded to the nearest thousand ($'000), except when otherwise indicated.

2.2 *Changes in accounting polices*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards that are effective for annual periods beginning on or after 1 January 2017. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

2. Summary of significant accounting policies

2.3 *Standards issued but not yet effective*

The Group has not adopted the following relevant standards and interpretations that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
FRS 115 Revenue from Contracts with Customers	1 January 2018
FRS 109 Financial Instruments	1 January 2018
Amendments to FRS 102: Classification and Measurement of Share-based Payment transactions	1 January 2018
INT FRS 122: Foreign Currency Transactions and Advance Consideration	1 January 2018
FRS 116 Leases	1 January 2019
INT FRS 123 Uncertainty over Income Tax Treatments	1 January 2019

Except for FRS 115, FRS 109 and FRS 116, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 115, FRS 109 and FRS 116 are described below.

<u>FRS 115 *Revenue from Contracts with Customers*</u>

FRS 115 establishes a five-step model to account for revenue arising from contracts with customers, and introduces new contract cost guidance. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after 1 January 2018.

The Group has performed a preliminary impact assessment of adopting FRS 115 based on currently available information. This assessment may be subject to changes arising from ongoing analysis until the Group adopts FRS 115 in 2018.

The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

Based on its preliminary assessment, the requirements of FRS 115 on the following may have an impact on the Group's consolidated financial position, performance and disclosures:

- Identification of services from assembly stage to packaging stage as one performance obligation
- Variable considerations such as prompt payment discounts, volume discounts, rebates, and price reduction
- Recognition of revenue over time given that the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

2. Summary of significant accounting policies (cont'd)

2.3 *Standards issued but not yet effective (cont'd)*

FRS 115 *Revenue from Contracts with Customers (cont'd)*

In addition, as the presentation and disclosure requirements in FRS 115 are more detailed than under current FRSs, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

The recognition and measurement requirements in FRS 115 also apply to gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

FRS 109 *Financial Instruments*

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model. Adopting the expected credit losses requirements will require the Group to make changes to its current systems and processes.

FRS 109 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing the impact of FRS 109 and plans to adopt the standard on the required effective date.

FRS 116 *Leases*

FRS 116 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees – leases of 'low value' assets and short-term leases. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Group is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date. The Group expects the adoption of the new standard will result in increase in total assets and total liabilities, EBITDA and gearing ratio.

2. Summary of significant accounting policies (cont'd)

2.4 *Basis of consolidation and business combinations*

(a) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when controls is lost;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2. Summary of significant accounting policies (cont'd)

2.4 *Basis of consolidation and business combinations (cont'd)*

(b) ***Business combinations***

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.□Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another FRS.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

2.5 *Foreign currency*

The financial statements are presented in United States Dollars, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(a) ***Transactions and balances***

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.5 *Foreign currency (cont'd)*

(b) ***Consolidated financial statements***

For consolidation purpose, the assets and liabilities of foreign operations are translated into USD at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.6 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment other than freehold land and buildings are measured at cost less accumulated depreciation and any accumulated impairment losses.

Leasehold land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value of the leasehold land and buildings at the end of the reporting period.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis with a residual value of 0% to 10% over the estimated useful life of the asset as follows:

Leasehold land and building	25 years
Land use rights	25 years
Plant and machinery	5 - 10 years
Motor vehicles	5 years
Office equipment	3 - 5 years
Electronics equipment and computer software	3 - 5 years
Furniture and fittings	5 years
Tools and equipment	2 - 5 years
Leasehold building and improvements	5 - 30 years (over the term of lease)
EMC testing facility	3 - 10 years
Renovation	3 - 5 years

2. Summary of significant accounting policies (cont'd)

2.6 *Property, plant and equipment (cont'd)*

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

2.7 *Intangible assets*

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment 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 de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. Deferred development costs arising from development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditures during the development.

2. Summary of significant accounting policies (cont'd)

2.7 *Intangible assets (cont'd)*

Research and development costs (cont'd)

Following initial recognition of the deferred development costs as an intangible asset, it is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of the intangible asset begins when development is complete and the asset is available for use. Deferred development costs have a finite useful life and are amortised over the period of expected sales from the related project (ranging from 4 to 8 years) on a straight line basis.

2.8 *Non-current assets held for sale and discontinued operations*

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as completed sale within one year from the date of reclassification.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Property, plant and equipment once classified as held for sale are not depreciated or amortised. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulate loss that has been previously recognised) is recognised in profit or loss.

2.9 *Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and 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. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in profit or loss, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

2. Summary of significant accounting policies (cont'd)

2.9 *Impairment of non-financial assets (cont'd)*

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2.10 *Subsidiaries*

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it 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.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

2.11 *Financial instruments*

(a) *Financial assets*

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

2. Summary of significant accounting policies (cont'd)

2.11 *Financial instruments (cont'd)*

(a) ***Financial assets (cont'd)***

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

(b) ***Financial liabilities***

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is derecognised 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, and the difference in the respective carrying amounts is recognised in profit or loss.

2.12 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand and fixed deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

2. Summary of significant accounting policies (cont'd)

2.13 *Impairment of financial assets*

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, 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. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.14 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and conditions are accounted for as follows:

- Raw materials – purchase costs on a weighted average basis;
- Finished goods and work-in-progress – costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned as a weighted average basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.15 *Interest bearing loans and borrowings*

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.16 *Borrowings costs*

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.17 *Provisions*

Provisions are recognised 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 the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2. Summary of significant accounting policies (cont'd)

2.18 *Employee benefits*

Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

Singapore

The Singapore companies in the Group make contributions to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution scheme under FRS19 – Employee benefits. Contributions to CPF scheme are recognised as an expense in the period in which the related service is performed.

People's Republic of China

The subsidiaries incorporated and operating in the People's Republic of China ("PRC") are required to provide certain staff pension benefits to their employees under existing PRC regulations, a defined contribution scheme under FRS19 – Employee benefits. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees. Contributions to this defined contribution scheme are recognised as an expense in the period in which the related service is performed.

Hong Kong

The subsidiary in Hong Kong participates in the defined Provident Fund, a defined contribution scheme under FRS19 – Employee benefits. The subsidiary and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Contributions to this defined contribution scheme are recognised as an expense in the period in which the related service is performed.

Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

2. Summary of significant accounting policies (cont'd)

2.18 *Employee benefits (cont'd)*

Equity-settled transactions

The cost of equity-settled transactions with employees was measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account was taken of any performance conditions, other than conditions linked to the price of the shares of the company ('market conditions'), if applicable.

The cost of equity-settled transactions was recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date').

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Since the scheme was cancelled after the vesting period, share option reserves representing the cumulative share option expense recognised was retained as part of equity.

2.19 *Revenue*

Revenue is recognised 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 made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognised:

(a) ***Sale of goods***

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) ***Interest income***

Interest income is recognised using the effective interest method.

(c) ***Rental income***

Rental income is recognised on a straight-line basis. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

(d) ***Dividend income***

Dividend income is recognised when the Group's right to receive payment is established.

2. Summary of significant accounting policies (cont'd)

2.20 *Taxes*

(a) *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. 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 where appropriate.

(b) *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability 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 taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

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

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

2. Summary of significant accounting policies (cont'd)

2.20 *Taxes (cont'd)*

(b) *Deferred tax (cont'd)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

(c) *Sales tax*

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

2.21 *Leases*

(a) *As lessee*

Finance leases which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. 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 charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods which they are incurred.

2. Summary of significant accounting policies (cont'd)

2.21 *Leases (cont'd)*

(a) *As lessee (cont'd)*

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.22 *Share capital and share issuance expenses*

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.23 *Contingencies*

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

- (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- (ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

2. Summary of significant accounting policies (cont'd)

2.24 *Related parties*

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

- (i) Has control or joint control over the Company;
- (ii) Has significant influence over the Company; or
- (iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Significant accounting estimates and judgements

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

(a) *Key sources of estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below.

(i) *Impairment of investment in subsidiaries*

The Company assesses at each reporting date whether there is an indication that the investment in subsidiaries may be impaired. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Company's investment in subsidiaries at 31 December 2017 was $72,946,000 (2016: $63,445,000).

(ii) *Impairment of property, plant and equipment*

The carrying values of property, plant and equipment are reviewed for impairment when there are indicators of impairment. For the year ended 31 December 2017, there is no impairment of property, plant and equipment of the Group. The carry amount of the property, plant and equipment as at 31 December 2017 is $38,306,000 (2016: $25,269,000).

(iii) *Income taxes*

The Group has exposure to taxes in numerous jurisdictions. Significant judgement is involved in determining the Group-wide provision for taxes including value-added tax, consumption tax and customs duty. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes are due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the profit and loss in the period in which such determination is made. The carrying amounts of the Group's tax payables and deferred tax liabilities as at 31 December 2017 were $1,365,000 (2016: $2,174,000) and $1,000 (2016: $32,000) respectively.

3. Significant accounting judgements and estimates (cont'd)

(b) *Critical judgements made in applying accounting policies*

In the process of applying the Group's accounting policies, management has made the following critical accounting judgements that will have a significant effect on the amounts recognised in the consolidated financial statements:

(ii) *Determination of functional currency*

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices. Management has assessed that for most entities, prices are mainly denominated and settled in USD. In addition, most of the entities' cost base is mainly denominated in USD. Therefore, management concluded that the functional currency of the entities of the Group is USD.

(ii) *Determination of useful lives of plant and equipment and residual value*

The cost of plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these property, plant and equipment as discussed in Note 2.6. These are common life expectancies applied in the electronics and telecommunication manufacturing industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's property and equipment at the end of each reporting period is disclosed in Note 11.

4. Revenue

Revenue represents the invoiced value of goods sold, net of returns and discounts.

5. Other operating income

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Sundry income	1,827	495	27	253
Dividend income from subsidiaries	–	–	–	10,707
Provision of test services	461	443	461	443
Interest income from loans and receivables	733	555	755	406
Gain on disposal of property, plant and equipment	35	151	–	28
Gain on trading of materials	42	50	–	–
	3,098	1,694	1,243	11,837

6. Restructuring expenses

Restructuring expenses represent the expenses incurred for the transfer of assets and relocation of employees from Shenzhen Speedy-Tech Electronics Co., Ltd. to IMI (Shenzhen) Ltd in the financial year. These expenses are in broad categories of:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Employee benefits	6,583	–	–	–
Facility expenses	636	–	–	–
Property, plant and equipment relocation expenses	489	–	–	–
Others	250	–	–	–
	7,958	–	–	–

7. Employee benefits expense

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Wages, salaries and bonuses	47,677	49,898	2,965	2,700
Central Provident Fund/pension contributions	4,685	5,295	243	222
Other personnel benefits	2,870	2,674	57	42
Share options expenses	32	89	32	89
	55,264	57,956	3,297	3,053

8. Profit before tax

Profit before tax is stated after charging/(crediting) the following:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	$'000	$'000	$'000
Depreciation of property, plant and equipment (Note11)	5,131	3,992	119	124
Exchange (gain)/loss, net	(1,133)	2,738	(146)	79
Employee benefits expense (Note 7)	55,264	57,956	3,297	3,053
(Reversal)/Provision for inventory obsolescence (Note 14)	(589)	456	–	–
Operating lease expenses	3,808	2,875	513	492
Inventories recognised as an expense in cost of sales	178,066	170,888	63,194	100,694

9. Finance costs

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	$'000	$'000	$'000
Interest expense on bank loans	388	166	340	164
Bank charges	158	118	30	20
Total finance costs	546	284	370	184

10. Income tax expense

Major components of income tax expense

The major components of tax expense for the year ended 31 December 2017 and 2016 are:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	$'000	$'000	$'000
Current income tax				
Current year	522	1,467	–	–
(Over)/under provision in respect of prior years	(63)	247	–	34
	459	1,714	–	34
Deferred income tax				
Reversal of temporary differences	(31)	(32)	–	–
	(31)	(32)	–	–
Income tax expense recognised in profit or loss	428	1,682	–	34

10. Income tax expense (cont'd)

Relationship between tax expense and accounting profit

A reconciliation between the tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2017 and 2016 is as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	$'000	$'000	$'000
Profit before tax	3,633	3,233	962	9,451
Tax at the domestic rates applicable to profits in the countries concerned*	733	780	164	1,607
Adjustments:				
Tax effect of expenses not deductible for tax purposes	783	329	74	158
Utilisation of previously unrecognised tax benefits	(15)	(414)	–	–
Effect of tax relief	(81)	–	(81)	–
(Over)/under provision of current tax in respect of prior years	(62)	247	–	34
Income not subject to tax	(1,151)	(118)	(157)	(1,938)
Deferred tax asset not recognised	239	846	–	193
Others	(18)	12	–	(20)
Income tax expense recognised in profit or loss	428	1,682	–	34

* The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

10. Income tax expense (cont'd)

Speedy Tech Electronics (HK) Limited ("STHK")

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year.

Speedy-Tech (Philippines) Inc. ("STPHIL")

Speedy-Tech (Philippines) Inc. is registered with the Philippine Economic Zone Authority ("PEZA") as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to 5% on gross income, as defined under Republic Act No. 7916, in lieu of all local and national taxes.

Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE"), Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX"), IMI (Cheng Du) Ltd. ("IMICD") and IMI Technology (Shenzhen), Inc. ("IMISZ").

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

SZSTE, STJX and IMISZ are subjected to taxation at the statutory tax rate of 25% (2016: 25%) on its taxable income as reported in its financial statements, prepared in accordance with the accounting regulations in the PRC.

IMICD is subjected to taxation at the statutory tax rate of 15% (2016: 15%) on its taxable income as reported in the financial statement.

11. Property, plant and equipment

	At valuation	At cost										
Group	Leasehold land and building $'000	Land use rights $'000	Plant and machinery $'000	Motor vehicles $'000	Office equipment $'000	Electronics equipment and computer software $'000	Furniture and fittings $'000	Tools and equipment $'000	Leasehold building and improvements $'000	EMC testing facility $'000	Renovation $'000	Total $'000
Cost or valuation												
At 1 January 2016	6,492	517	63,266	467	1,433	8,320	1,143	1,359	1,303	2,874	9,019	96,193
Additions	–	–	12,523	131	356	312	473	980	872	748	1,173	17,568
Disposals	–	–	(5,196)	(87)	(82)	(185)	(86)	(564)	–	(365)	(75)	(6,640)
Write-offs	–	–	–	–	–	(127)	–	–	(1,018)	–	(388)	(1,533)
Currency realignment	–	–	(124)	(3)	(12)	(1)	(1)	(24)	–	–	(41)	(206)
Reclassification to assets held for sale	(6,492)	–	–	–	–	–	–	–	–	–	–	(6,492)
At 31 December 2016 and 1 January 2017	–	517	70,469	508	1,695	8,319	1,529	1,751	1,157	3,257	9,688	98,890
Additions	–	–	13,990	75	548	647	404	651	1,633	928	624	19,500
Disposals	–	(517)	(3,803)	(7)	(221)	(792)	(117)	(520)	(958)	(476)	(5,641)	(13,052)
Currency realignment	–	–	131	4	12	2	4	25	–	–	38	216
Reclassification	–	–	–	–	–	(5,047)	185	5,047	(185)	–	–	–
At 31 December 2017	–	–	80,787	580	2,034	3,129	2,005	6,954	1,647	3,709	4,709	105,554
Accumulated depreciation and impairment loss												
At 1 January 2016	5,917	517	52,066	320	1,221	7,472	690	879	733	2,325	7,255	79,395
Charge for the year	213	–	1,879	95	202	286	169	514	424	42	168	3,992
Capitalised development cost	–	–	1,168	–	–	–	–	–	–	–	–	1,168
Disposals	–	–	(3,679)	(81)	(81)	(183)	(82)	(532)	–	–	(26)	(4,664)
Currency realignment	–	–	(69)	(3)	(8)	(1)	–	(24)	–	–	(35)	(140)
Reclassification to assets held for sale	(6,130)	–	–	–	–	–	–	–	–	–	–	(6,130)
At 31 December 2016 and 1 January 2017	–	517	51,365	331	1,334	7,574	777	837	1,157	2,367	7,362	73,621
Charge for the year	–	–	2,724	99	298	501	242	540	190	42	495	5,131
Disposals	–	(517)	(3,735)	(6)	(221)	(780)	(117)	(100)	(584)	–	(5,567)	(11,627)
Currency realignment	–	–	61	2	6	1	1	22	–	–	30	123
Reclassification	–	–	447	–	(105)	(4,517)	128	4,016	729	–	(698)	–
At 31 December 2017	–	–	50,862	426	1,312	2,779	1,031	5,315	1,492	2,409	1,622	67,248
Net carrying amount												
At 31 December 2016	–	–	19,104	177	361	745	752	914	–	890	2,326	25,269
At 31 December 2017	–	–	29,925	154	722	350	974	1,639	155	1,300	3,087	38,306

11. Property, plant and equipment (cont'd)

Company	Plant and machinery $'000	Furniture and fittings $'000	Office equipment $'000	Computer software $'000	Leasehold building and improvements $'000	EMC testing facility $'000	Motor vehicle $'000	Total $'000
Cost								
At 1 January 2016	825	93	390	634	–	2,580	58	4,580
Additions	–	32	6	–	226	–	–	264
Disposals	(332)	–	–	–	–	–	–	(332)
At 31 December 2016 and 1 January 2017	493	125	396	634	226	2,580	58	4,512
Additions	13	–	13	–	–	–	13	39
At 31 December 2017	506	125	409	634	226	2,580	71	4,551
Accumulated depreciation								
At 1 January 2016	820	93	366	568	–	2,327	58	4,232
Charge for the year	4	3	12	55	9	41	–	124
Disposals	(332)	–	–	–	–	–	–	(332)
At 31 December 2016 and 1 January 2017	492	96	378	623	9	2,368	58	4,024
Charge for the year	1	8	12	10	45	42	1	119
At 31 December 2017	493	104	390	633	54	2,410	59	4,143
Net carrying amount								
At 31 December 2016	1	29	18	11	217	212	–	488
At 31 December 2017	13	21	19	1	172	170	12	408

11. Property, plant and equipment (cont'd)

(a) ***Property, plant and equipment at valuation***

A subsidiary's leasehold land and factory building at Area 7, Liantang Industrial Zone, Luo Hu, Shenzhen, People's Republic of China, stated at valuation, was valued by Richard Ellis, a firm of independent professional valuers as at 31 December 1993. The valuation was based on the open market value on a willing buyer and willing seller basis for existing use. The surplus on revaluation of $1,810,000 has been taken to asset revaluation reserve.

Had the leasehold land and building of the subsidiary been stated at cost less accumulated depreciation and any impairment loss, the net book value of the leasehold land and building as at 31 December 2017 would have been approximately $147,000 (2016: $361,000) instead of $326,000 (2016: $326,000).

(b) ***Net cash outflow on purchase of PPE***

	Group	
	2017	**2016**
	$'000	$'000
Current year additions	19,500	17,568
Less : Other payables	(3,488)	(1,290)
Add: Cash outflow for settlement of payable relating to prior year additions to property, plant and equipment	1,290	–
Net cash outflow on purchase of property, plant and equipment	17,302	16,278

12. Intangible asset

	Group	
	2017	**2016**
	$'000	$'000
	Product development costs	
Cost		
At 1 January	2,214	–
Capitalised development costs	100	2,214
At 31 December	2,314	2,214
Accumulated amortisation		
At 1 January	–	–
Amortisation	1,201	–
At 31 December	1,201	–
Net carrying amount	1,113	2,214

Product development costs relate to the design, construction and testing of pre-production prototypes of new products and models and have an average amortisation period of 5 years. The amortisation of product development costs over the projected life commence upon mass production.

12. Intangible asset (cont'd)

Net cash outflow on additions of intangible asset

	Group 2017 $'000	Group 2016 $'000
Current year additions	100	2,214
Less : Capitalised development cost from depreciation of property, plant and equipment	–	(1,168)
Less: Other payables	–	(1,046)
Add: Cash outflow for settlement of payable relating to prior year additions to intangible asset	1,046	–
Net cash outflow on purchase of property, plant and equipment	1,146	–

13. Investment in subsidiaries

	Company 2017 $'000	Company 2016 $'000
Unquoted equity shares at cost	63,987	63,987
Less : impairment losses	(542)	(542)
Add: Investment in subsidiary	9,500	–
Carrying amount of investment	72,945	63,445
Movement in impairment losses:		
At 1 January	542	1,369
Charge for the year	–	(827)
At 31 December	542	542

The Group has the following investments in subsidiaries:

Name	Principal activities	Country of incorporation	Effective equity interest held by the Group 2017 %	Effective equity interest held by the Group 2016 %
Held by the Company				
Speedy Tech Electronics (HK) Limited ("STHK") #	Procurement, marketing and supply chain services	Hong Kong	100	100
Speedy-Tech (Philippines) Inc. ("STPHIL") #	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	The Philippines	99.99	99.99

13. Investment in subsidiaries (cont'd)

The Group has the following investments in subsidiaries (cont'd):

Name	Principal activities	Country of incorporation	Effective equity interest held by the Group 2017 %	2016 %
Held by the Company (cont'd)				
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE") #	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing, procurement and research and development	People's Republic of China	100	100
Speedy-Tech Electronics Inc.*	Marketing, liaison and support services (dormant)	United States of America	100	100
Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX") #	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	People's Republic of China	100	100
IMI (Cheng Du) Ltd. ("IMICD") #	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	People's Republic of China	100	100
IMI Technology (Shenzhen) Co., Ltd. ("IMISZ") #	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing, procurement and research and development	People's Republic of China	100	-

\# Audited by member firms of Ernst & Young Global.

* The subsidiary was set up in 1999 with no paid up capital. No audit is required by the law of its country of incorporation.

Incorporation of new subsidiary

In the financial year, the Company incorporated IMI (Shenzhen) Ltd, a wholly owned subsidiary with paid up capital in PRC. IMISZ is a manufacturer of power electronics and also perform services such as marketing, research and development.

13. Investment in subsidiaries (cont'd)

Acquisition of 100% ownership interest in subsidiary

On 29 June 2016, the Speedy-Tech Electronics Ltd. passed a director resolution to acquire the remaining 0.5208% equity interest in Shenzhen Speedy-Tech Electronics Co. Ltd. ("SZSTE") from the minority shareholder, Kaga Electronics Co., Ltd at a consideration of US$370,000. As a result of this acquisition, STEL has increased the shareholding of SZSTE to 100% and became the sole controlling shareholder. The carrying value of the additional interest acquired was $182,000. The difference of $188,000 between the consideration and the carrying value of the additional interest acquired has been recognised as "Premium paid on acquisition of non-controlling interests" within equity.

The following summarises the effect of the change in the Group"s ownership interest in Shenzhen Speedy-Tech Electronics Co. Ltd. on the equity attributable to owners of the Company:

	$"000
Consideration paid for acquisition of non-controlling interests	370
Decrease in equity attributable to non-controlling interests	(182)
Decrease in equity attributable to owners of the Company	188

14. Inventories

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	$'000	$'000	$'000
Balance sheet:				
Finished goods	4,941	5,021	275	–
Work-in-progress	6,318	4,820	–	–
Raw materials	33,238	19,612	245	–
Goods-in-transit	1,146	736	143	1
Tools	39	79	–	–
Total inventories at lower of cost and net realisable value	45,682	30,268	663	1
Income statement:				
Inventories recognised as an expense in cost of sales	178,066	170,888	100,694	63,194
- Provision for inventory obsolescence	1,244	609	–	–
- Reversal of write-down of inventories	(1,833)	(153)	–	–

15. Trade receivables

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Trade receivables	82,268	73,074	13,454	12,289
Less : Allowance for doubtful trade debts	–	(11)	–	(11)
Trade receivables, net	82,268	73,063	13,454	12,278
Add:				
Other receivables (Note 16)	4,440	4,199	58	23
Deposits (Note 16)	132	626	116	608
Due from intermediate holding company	1,702	1,452	1,163	725
Due from subsidiaries	–	–	43,460	15,461
Due from related companies	20,899	20,368	20,384	20,006
Cash and cash equivalents (Note 18)	38,326	38,369	17,089	13,141
Total loans and receivables	147,767	138,077	95,724	62,242

Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Trade receivables denominated in foreign currencies at 31 December is as follows:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Renminbi	64,485	56,415	–	–

Related party balances

Amount due from intermediate holding company are mainly non-trade in nature, unsecured, non-interest bearing, repayable on demand and are to be settled in cash.

Amount due from subsidiaries that are trade in nature, unsecured, non-interest bearing, repayable on demand and are to be settled in cash.

Amount due from subsidiary that are non-trade in nature, unsecured, bears interest at rates ranging from 3.97% p.a. to 4.05% p.a. (2016: Nil), repayable on demand and are to be settled in cash.

Amount due from a related company are non-trade in nature, unsecured, bears interest at rates ranging from 2% p.a. to 3.82% p.a. (2016: 2.28% p.a. to 3.19% p.a.), repayable on demand and are to be settled in cash.

15. Trade receivables (cont'd)

Receivables that are past due but not impaired

The Group and Company have trade receivables amounting to $2,208,000 (2016: $9,996,000) and $1,102,000 (2016: $1,543,000) respectively, that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Trade receivables past due but not impaired:				
Less than 30 days	1,903	9,697	1,055	1,341
30-60 days	214	221	46	124
61-90 days	8	78	1	78
More than 90 days	83	–	–	–
	2,208	9,996	1,102	1,543

Receivables that are impaired

The Group's and Company's trade receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Trade receivables – nominal amounts	–	11	–	11
Less: Allowance for doubtful trade debts	–	(11)	–	(11)
	–	–	–	–
Movements in allowance account:				
At 1 January	11	11	11	11
Reversal for the year	(11)	–	(11)	–
At 31 December	–	11	–	11

Trade receivables that are determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

16. Other receivables, deposits and prepayments

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Non-current:				
Prepayments for purchase of property, plant and equipment	3,440	–	–	–
Current:				
Other receivables	4,440	4,199	58	23
Deposits	132	626	116	608
Prepayments	292	221	106	18
Sales tax recoverable	6,018	630	1	11
	10,882	5,676	281	660

17. Properties held for sale

In 2016, the Group has entered into a share and purchase agreement with an unrelated party, in respect of the acquisition by the latter of 100% of the equity of Shenzhen Speedy-Tech Electronics Co., Ltd. ("STSZ") to obtain the leasehold land and building ("Properties") owned by the STSZ. The Properties of the STSZ have been reclassified from Property, Plant and Equipment to asset held for sale amounted to $362,000.

18. Cash and cash equivalents

Cash and cash equivalents comprise:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Fixed deposits (1)	14,000	–	14,000	–
Cash and bank balances (2)	24,326	38,369	3,089	13,141
Cash and short-term deposits	38,326	38,369	17,089	13,141

(1) Fixed deposits are mainly short term deposits made for varying periods of approximately one week to two months depending on the immediate cash requirements of the Group and bears interest from 1.1% to 1.45 p.a. during the year.

(2) Cash at banks earns interest at floating rates based on daily bank deposit rates.

Cash and cash equivalents denominated in foreign currencies at 31 December are as follows:

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Singapore Dollar	482	1,189	482	1,189
Euro	787	715	694	704
Renminbi	17,646	16,578	–	–

21. Short term bank loan (unsecured)

The unsecured Singapore Dollar denominated short term bank loan of the Group and Company is revolving in nature and bears interest at rates ranging from 2.24% to 3.88% (2016: 1.93% to 2.27%) per annum.

22. Deferred taxation

	Group		Company	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Deferred tax liabilities				
Excess of net book value over tax written down value of property, plant and equipment	1	1	1	1
Revaluation reserve	–	31	–	–
Total deferred tax liabilities	1	32	1	1

Deferred tax asset not recognised

At the balance sheet date, the Group has allowance for inventory obsolescence, depreciation and unused tax losses of approximately $2,037,000 (2016: $2,626,000), $945,000 (2016: $1,463,000) and $10,087,428 (2016: $1,697) that are available for offset against future taxable profits of the companies in which the provision of inventory, depreciation and losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability.

Unrecognised temporary differences relating to investments in subsidiaries

At the balance sheet date, no deferred tax liability (2016: $Nil) has been recognised for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries as the Group has determined that undistributed earnings of its subsidiaries will not be distributed in the foreseeable future.

23. Share capital

	Group and Company			
	No. of shares 2017	2017	No. of shares 2016	2016
	'000	$'000	'000	$'000
Issued and fully paid				
At 1 January and 31 December	376,200	26,872	376,200	26,872

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

24. Reserves

(a) ***Revaluation and capital reserves***

(i) Revaluation reserve represents increase in the fair value of freehold land and buildings, net of tax, and decrease to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

(ii) Capital reserve represents premium paid or discount on acquisition of non-controlling interest.

These reserves are not available for distribution.

(b) ***Restricted reserves***

Pursuant to the relevant laws in the People's Republic of China ("PRC"), the PRC subsidiaries of the Group have each set up a general reserve fund and an enterprise expansion fund by way of appropriation from their PRC statutory net profits at a rate to be determined by the board of directors of the subsidiaries. The respective board of directors of the subsidiaries use a guideline, that 10% of the PRC statutory profit after tax be appropriated each year to the general reserve fund and enterprise expansion reserve fund respectively. The funds may be utilised to off-set accumulated losses or increase the capital of the PRC subsidiaries, subject to approval from the PRC authorities. The funds are not available for dividend distribution to the shareholders.

(c) ***Share option reserve***

Share option reserve are made up of the cumulative value of services received from employees recorded over the vesting period commencing from grant date, in relation to the Speedy-Tech Employee Stock Option Scheme 2003 which has since lapsed.

(d) ***Capital contribution reserves***

Capital contribution reserves are made up of the difference between the fair value and the subscription price of the share of the Integrated Microelectronics, Inc. ESOWN granted to employees of the Group.

(e) ***Foreign currency translation reserve***

Foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currency is different from that of the Group's presentation currency.

(f) ***Revenue reserves***

Revenue reserves of the Company are available for distribution as dividend.

25. Related party information

An equity or individual is considered a related party of the group for the purposes of the financial statements if: i) possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the group or vice versa; or ii) it is subject to common control or common significant influence.

The Group did not have any significant transactions with related parties, who are not members of the Group, on terms agreed between the parties.

Compensation of key management personnel

	Group	
	2017	**2016**
	$'000	$'000
Short-term employee benefits	1,301	1,217
Pension and post-employment medical benefits	61	61
Total compensation entitled to key management personnel	1,362	1,278
Comprise amounts entitled to:		
Directors of the Company	635	579
Other key management personnel	727	699
	1,362	1,278

26. Commitments

Operating lease commitments – as lessee

The Group and Company has various operating lease agreements in respect of office premises. These non-cancellable leases have remaining non-cancellable lease terms of between 1 and 10 years (2016: between 1 and 10 years). Most leases contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

Minimum lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2017 amounted to $3,808,000 (2016: 2,875,000)

Future minimum lease payments under non-cancellable operating leases are as follows as at 31 December:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	$'000	$'000	$'000	$'000
Within 1 year	3,659	2,926	1,429	1,399
Within 2 to 5 years	14,040	8,720	7,699	7,532
After 5 years	2,757	3,283	1,657	3,283
	20,456	14,929	10,785	12,214

27. Financial risk management objectives and policies

The Group principal financial instruments, other than derivative financial instruments, comprise bank loans, cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The following sections provide details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to changes in interest rates relates primarily to the Group's debt obligations. The Group obtains additional financing through bank borrowings. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Surplus funds are placed with reputable banks.

<u>Sensitivity analysis for interest rate risk</u>

As the end of the reporting period, it is estimated that a general increase/decrease of 75 (2016: 75) basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit before tax by approximately $180,000 (2016: decrease/increase the Group's profit before tax by approximately $60,000).

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 75 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2016.

27. Financial risk management objectives and policies (cont'd)

Foreign currency risk

The Group is exposed to foreign currency risk from revenues generated and cost incurred in foreign currencies, principally in Chinese Renminbi ("RMB"), Hong Kong Dollars ("HKD") and Singapore Dollars ("SGD"). The Group does not enter into forward foreign exchange contracts to hedge against its foreign exchange risk resulting from sale and purchase transactions denominated in foreign currencies.

The Group and the Company also hold cash and cash equivalents denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currency balances are mainly in RMB.

The Group is also exposed to currency translation risk arising from its net investments in foreign operations, including, People's Republic of China (PRC) and Hong Kong. The Group's net investments in PRC and Hong Kong are not hedged as currency positions in RMB and HKD are considered to be long-term in nature.

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.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in RMB, HKD and SGD exchange rates (against USD), with all other variables held constant, of the Group's profit before tax.

		Group	
		2017	2016
		$'000	$'000
		Profit before tax Increase/(decrease)	Loss before tax Increase/(decrease)
RMB	– strengthened 4% (2016: 4%)	(5,143)	(1,449)
	– weakened 4% (2016: 4%)	5,571	1,569
HKD	– strengthened 4% (2016: 4%)	(14)	(7)
	– weakened 4% (2016: 4%)	16	7
SGD	– strengthened 4% (2016: 4%)	(23)	(31)
	– weakened 4% (2016: 4%)	(25)	34

27. Financial risk management objectives and policies (cont'd)

Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on the contractual undiscounted payments.

	2017		2016	
	One year or less $'000	Total $'000	1 year or less $'000	Total $'000
Group				
Financial assets:				
Trade receivables	82,268	82,268	73,063	73,063
Other receivables and deposits	4,572	4,572	4,825	4,825
Due from intermediate holding company	1,702	1,702	1,452	1,452
Due from related companies	20,899	20,899	20,368	20,368
Cash and cash equivalents	38,326	38,326	38,369	38,369
Total undiscounted financial assets	147,767	147,767	138,077	138,077
Financial liabilities:				
Trade payables	68,225	68,225	57,813	57,813
Other payables and accruals	43,731	43,731	27,231	27,231
Due to intermediate holding company	194	194	227	227
Short term bank loan	24,208	24,208	8,015	8,015
Due to related company	3	3	4	4
Total undiscounted financial liabilities	136,361	136,361	93,290	93,290
Total net undiscounted financial assets	11,406	11,406	44,787	44,787

27. Financial risk management objectives and policies (cont'd)

Liquidity risk (cont'd)

	2017		2016	
	One year or less $'000	**Total** $'000	**1 year or less** $'000	**Total** $'000
Company				
Financial assets:				
Trade receivables	13,454	13,454	12,278	12,278
Other receivables and deposits	174	174	631	631
Due from intermediate holding company	1,163	1,163	725	725
Due from subsidiaries	43,460	43,460	15,461	15,461
Due from related companies	20,384	20,384	20,006	20,006
Cash and cash equivalents	17,089	17,089	13,141	13,141
Total undiscounted financial assets	95,724	95,724	62,242	62,242
Financial liabilities:				
Trade payables	9,365	9,365	4,016	4,016
Other payables and accruals	28,733	28,733	8,061	8,061
Due to intermediate holding company	19	19	–	–
Due to subsidiaries	39,797	39,797	37,192	37,192
Due to related companies	3	3	–	–
Short term bank loan	24,208	24,208	8,015	8,015
Total undiscounted financial liabilities	102,125	102,125	57,284	57,284
Total net undiscounted financial assets	(6,401)	(6,401)	4,958	4,958

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that 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. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the Head of Credit Control.

27. Financial risk management objectives and policies (cont'd)

Credit risk (cont'd)

Exposure to credit risk

At the end of the reporting period, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

Credit risk concentration profile

At the end of the reporting period, approximately:

50% (2016: 49%) of the Group's trade receivables were due from 3 major customers of the Group.

20% (2016: 22%) of the Group's trade and other receivables were due from related parties.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 15 (Trade receivables) and Note 16 (Other receivables and deposits).

28. Fair value of financial instruments

(a) ***Fair value hierarchy***

The Group categories fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date,
- Level 2 – Inputs other that quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

28. Fair value of financial instruments (cont'd)

(b) ***Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value***

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Bank balances, other liquid funds and short-term receivables

The carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.

Short term borrowings and other current liabilities

The carrying amounts approximate fair values because of the short period to maturity of these instruments.

Disclosure of the nature of financial instruments and their significant terms and conditions that could affect the amount, timing and certainty of future cash flow is presented in the respective notes to the financial statements, where applicable.

The Group and Company does not have any financial instruments that are carried at fair value or any financial instruments that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value.

29. 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 maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholder, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.

As disclosed in Note 24(b), the subsidiaries of the Group are required by the relevant laws of the PRC to contribute to and maintain restricted reserves whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiaries for the financial years ended 31 December 2017 and 2016.

29. Capital management (cont'd)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes all liabilities (excluding tax payables) less cash and cash equivalents as the net debt. Capital includes equity attributable to the equity holder of the Company less the abovementioned restricted reserves.

	Group	
	2017	**2016**
	$'000	$'000
Trade payables (Note 19)	68,225	57,813
Other payables and accruals (Note 20)	46,407	27,374
Due to intermediate holding company	194	227
Due to related companies	3	4
Short term bank loan	24,000	8,000
Less: Cash and cash equivalents (Note 18)	(38,326)	(38,369)
Net debt	100,503	55,049
Equity attributable to equity holder of the Company	102,785	101,417
Less: Restricted reserves	(11,537)	(11,244)
Total capital	91,248	90,173
Capital and net debt	191,751	145,222
Gearing ratio	52%	38%

30. Dividend

	Group and Company	
	2017	**2016**
	$'000	$'000
Declared and paid during the financial year:		
Dividend on ordinary shares:		
- Interim exempt (one-tier) dividend for 2017: 0.53 cents (2016: 3.32 cents) per share	2,000	12,500

31. Events occurring after the reporting period

Subsequent to year end, the Company had disposed 33% share of one of its wholly-owned subsidiary, Shenzhen Speedy-Tech Electronics Co., Ltd. to Jinnuo Century Trading Limited for a cash consideration of $26,000,000.

32. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 26 March 2018.

EY | Assurance | Tax | Transactions | Advisory

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EXHIBIT 5

2017 Audited Annual Financial Statements, Cooperatief IMI Europe U.A. and Subsidiaries

Coöperatief IMI Europe U.A. and Subsidiaries

Consolidated Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

SGV

Building a better working world

A member firm of Ernst & Young Global Limited

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Philippines

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Members and the Board of Directors
Coöperatief IMI Europe U.A. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Coöperatief IMI Europe U.A. and Subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2017and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in members' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including summary of significant accounting policies.

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

Basis for Opinion

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

Basis of Accounting and Restriction of Use

Without modifying our opinion, we draw attention to Note 3 to the consolidated financial statements, which describes the basis of preparation. The consolidated financial statements are prepared to assist Integrated Micro-Electronics, Inc. (IMI) to meet the requirements of the Philippine Securities and Exchange Commission (SEC). As a result, the consolidated financial statements may not be suitable for another purpose. Our auditor's report is intended solely for IMI and the Philippine SEC and should not be used by parties other than IMI and the Philippine SEC.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

SYCIP GORRES VELAYO & CO.

Carlo Paolo V. Manalang

Carlo Paolo V. Manalang
Partner
CPA Certificate No. 111947
SEC Accreditation No. 1625-A (Group A),
March 28, 2017, valid until March 27, 2020
Tax Identification No. 210-730-804
BIR Accreditation No. 08-001998-127-2017,
February 9, 2017, valid until February 8, 2020
PTR No. 6621287, January 9, 2018, Makati City

February 20, 2018

COÖPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2017	2016 (As Restated– Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**$37,615,096**	$25,985,365
Receivables (Note 6)	**114,099,369**	81,694,186
Inventories (Note 7)	**100,510,959**	52,605,624
Other current assets (Note 8)	**12,317,208**	10,886,273
Total Current Assets	**264,542,632**	171,171,448
Noncurrent Assets		
Property, plant and equipment (Note 9)	**89,089,748**	69,317,308
Goodwill (Notes 2 and 10)	**45,190,380**	45,190,380
Intangible assets (Note 11)	**15,937,878**	12,437,985
Deferred tax assets (Note 21)	**893,952**	1,506,570
Other noncurrent assets (Note 12)	**603,957**	557,609
Total Noncurrent Assets	**151,715,915**	129,009,852
	$416,258,547	$300,181,300
LIABILITIES AND EQUITY		
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses (Note 13)	**$110,588,405**	$62,563,915
Loans payable (Note 14)	**71,901,927**	51,880,374
Financial liabilities on put options (Note 2)	**11,676,243**	11,334,282
Current portion of long-term debt (Note 15)	**6,872,679**	2,963,053
Income tax payable	**1,538,778**	698,190
Total Current Liabilities	**202,578,032**	129,439,814
Noncurrent Liabilities		
Due to related parties (Note 24)	**28,808,717**	28,808,733
Noncurrent portion of long-term debt (Note 15)	**3,724,056**	6,144,043
Deferred tax liabilities (Note 21)	**2,347,186**	3,001,882
Retirement liability (Note 22)	**939,952**	636,636
Total Noncurrent Liabilities	**35,819,911**	38,591,294
Total Liabilities	**238,397,943**	168,031,108
MEMBERS' EQUITY		
Equity Attributable to the owners of the Parent		
Members' contribution (Note 16)	**60,269,893**	60,269,893
Additional paid-in capital (Note 16)	**(11,614,884)**	(11,656,905)
Retained earnings	**129,227,546**	100,656,035
Cumulative translation adjustment	**(2,832,843)**	(19,840,514)
Remeasurement losses on defined benefit plan	**(264,461)**	–
	174,785,251	129,428,509
Equity Attributable to Non-controlling Interest in a Consolidated Subsidiary (Note 2)	**3,075,353**	2,721,683
Total Members' Equity	**177,860,604**	132,150,192
	$416,258,547	$300,181,300

See accompanying Notes to Consolidated Financial Statements.

COÖPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016
REVENUES		
Sale of goods	**$499,110,941**	$322,176,512
Sale of services	**9,871,975**	5,183,838
	508,982,916	327,360,350
COST OF SALES (Note 17)		
Cost of goods sold	**439,188,728**	275,077,606
Cost of services	**7,755,567**	3,880,273
	446,944,295	278,957,879
GROSS PROFIT	**62,038,621**	48,402,471
OPERATING EXPENSES (Note 18)	**(26,948,529)**	(14,383,907)
OTHERS - net		
Interest and other financing charges (Note 20)	**(2,902,426)**	(1,432,830)
Foreign exchange gains (losses) - net	**50,466**	(425,071)
Interest income (Note 5)	**3,140**	48,044
Miscellaneous income (loss) - net (Note 20)	**1,793,406**	(2,325,426)
INCOME BEFORE INCOME TAX	**34,034,678**	29,883,281
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 21)		
Current	**5,324,215**	3,746,297
Deferred	**(214,718)**	106,574
	5,109,497	3,852,871
NET INCOME	**$28,925,181**	$26,030,410
Net Income Attributable to:		
Equity holders of the Parent Company	**$28,571,511**	$26,125,143
Non-controlling interests	**353,670**	(94,733)
	$28,925,181	$26,030,410

See accompanying Notes to Consolidated Financial Statements.

COÖPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
NET INCOME FOR THE YEAR	**$28,925,181**	$26,030,410
OTHER COMPREHENSIVE GAIN (LOSS)		
Other comprehensive gain (loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences arising from translation of foreign operations	**17,007,671**	(4,058,971)
Other comprehensive loss not to be reclassified into profit or loss in subsequent periods:		
Remeasurement losses on defined benefit plan	**(264,461)**	–
	16,743,210	(4,058,971)
TOTAL COMPREHENSIVE INCOME	**$45,668,391**	$21,971,439
Total Comprehensive Income Attributable to:		
Equity holders of the Parent Company	**$45,314,721**	$22,066,172
Non-controlling interests	**353,670**	(94,733)
	$45,668,391	$21,971,439

See accompanying Notes to Consolidated Financial Statements.

COÖPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Attributable to Equity Holders of the Parent Company						
				Other Comprehensive Income (Loss)			
	Members' Contribution (Note 16)	Additional Paid-in Capital (Note 16)	Retained Earnings	Cumulative Translation Adjustment	Remeasurement Losses on Defined Benefit Plans	Attributable to Non-controlling Interests in a Consolidated Subsidiary	Total
Balances at January 1, 2017, as previously reported	**$60,269,893**	**($11,656,905)**	**$100,656,035**	**($19,840,514)**	**$–**	**$1,260,871**	**$130,689,380**
Increase in non-controlling interest due to the acquisition of a subsidiary during the year (Note 2)	–	–	–	–	–	**1,460,812**	**1,460,812**
Balances at January 1, 2017, as restated	**60,269,893**	**(11,656,905)**	**100,656,035**	**(19,840,514)**	–	**2,721,683**	**132,150,192**
Allocation of share-based payments (Note 23)	–	**42,021**	–	–	–	–	**42,021**
	60,269,893	**(11,614,884)**	**100,656,035**	**(19,840,514)**	–	**2,721,683**	**132,192,213**
Net income	–	–	**28,571,511**	–	–	**353,670**	**28,925,181**
Other comprehensive income (loss)	–	–	–	**17,007,671**	**(264,461)**	–	**16,743,210**
Total comprehensive income (loss)	–	–	**28,571,511**	**17,007,671**	**(264,461)**	**353,670**	**45,668,391**
Balances at December 31, 2017	**$60,269,893**	**($11,614,884)**	**$129,227,546**	**($2,832,843)**	**($264,461)**	**$3,075,353**	**$177,860,604**
Balances at January 1, 2016	$6,388,893	$282,308	$74,530,892	($15,781,543)	$–	$–	$65,420,550
Allocation of share-based payments (Note 23)	–	118,390	–	–	–	–	118,390
Effect of recognition of financial liability arising from put options on business combination (Note 2)	–	(12,057,603)	–	–	–	–	(12,057,603)
Members' contribution during the year	53,881,000	–	–	–	–	–	53,881,000
Increase in non-controlling interest due to the acquisition of a subsidiary during the year (Note 2)	–	–	–	–	–	2,816,416	2,816,416
	60,269,893	(11,656,905)	74,530,892	(15,781,543)	–	2,816,416	110,178,753
Net income (loss)	–	–	26,125,143	–	–	(94,733)	26,030,410
Other comprehensive loss	–	–	–	(4,058,971)	–	–	(4,058,971)
Total comprehensive income (loss)	–	–	26,125,143	(4,058,971)	–	(94,733)	21,971,439
Balances at December 31, 2016, (As restated - Note 2)	$60,269,893	($11,656,905)	$100,656,035	($19,840,514)	$–	$2,721,683	$132,150,192

See accompanying Notes to Consolidated Financial Statements.

COÖPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016 (as Restated- Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**$34,034,678**	$29,883,281
Adjustments for:		
Depreciation of property, plant and equipment (Note 9)	**9,449,354**	7,053,479
Amortization of intangible assets (Note 11)	**2,942,126**	1,123,945
Interest expense (Note 20)	**2,499,618**	1,157,838
Unrealized foreign exchange loss - net	**1,049,878**	(38,125)
Cost of share-based payments (Note 23)	**42,021**	118,390
Interest income (Note 5)	**(3,140)**	(48,044)
Reversal of impairment on property, plant and equipment (Notes 9 and 20)	**(815,150)**	–
Mark-to-market loss on put-option (Note 2)	**341,961**	40,785
Loss (gain) on sale of property, plant and equipment (Notes 9 and 20)	**(157,085)**	5,108
Operating income before working capital changes	**49,384,261**	39,296,657
Changes in operating assets and liabilities:		
Increase in:		
Receivables	**(27,516,832)**	(16,786,810)
Inventories	**(43,585,061)**	(11,927,229)
Other current assets	**(1,430,934)**	(3,734,293)
Accounts payable and accrued expenses	**36,712,124**	6,804,214
Retirement liabilities	**96,894**	160,727
Net cash generated from operations	**13,660,452**	13,813,266
Income tax paid	**(4,483,627)**	(3,781,195)
Interest paid	**(1,785,333)**	(1,245,611)
Interest received	**3,140**	48,044
Net cash provided by operating activities	**7,394,632**	8,834,504
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment (Note 9)	**(24,436,698)**	(21,089,469)
Intangible assets (Note 11)	**(2,311,988)**	(3,165,572)
Capitalized development cost, excluding depreciation (Note 11)	**(2,792,700)**	(729,109)
(Cost of) proceeds from sale of property, plant and equipment	**436,066**	(5,108)
Increase in other noncurrent assets	**(46,348)**	(99,546)
Acquisition through business combination, net of cash acquired (Note 2)	**–**	(46,878,629)
Net cash used in investing activities	**(29,151,668)**	(71,967,433)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of loans payable and long-term debt	**38,773,295**	23,815,873
Payments of:		
Loans payable	**(2,125,725)**	(14,410,000)
Long-term debt	**(3,196,686)**	(3,007,267)
Members contribution (Note 16)	**–**	53,881,000
Net cash provided by financing activities	**33,450,884**	60,279,606
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH	**(64,117)**	131,273
NET INCREASE (DECREASE) IN CASH	**11,629,731**	(2,722,050)
CASH AT BEGINNING OF YEAR	**25,985,365**	28,707,415
CASH AT END OF YEAR (Note 5)	**$37,615,096**	$25,985,365

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

Coöperatief IMI Europe U.A. (Coöperatief or the Parent Company), a non-stock holding entity registered under the laws of Amsterdam, the Netherlands on May 2, 2011, has six direct subsidiaries, namely: Integrated Micro-Electronics Bulgaria EOOD (IMI BG), Integrated Micro-Electronics Czech Republic s.r.o. (IMI CZ), Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (IMI MX), Integrated Micro-Electronics d.o.o. Niš (IMI Serbia), VIA Optronics GmbH (VIA) and IMI France SAS (IMI France) (collectively referred to as the Group).

The registered office address of the Parent Company is Locatellikade 1, 1077 MA Amsterdam, the Netherlands.

On July 7, 2017, the majority ownership of Monarch Elite Ltd., a company incorporated in Hong Kong and the former parent company of Coöperatief, was transferred to IMI International Singapore Pte. Ltd. (IMI Singapore) through an asset purchase agreement. IMI Singapore is a wholly-owned subsidiary of Integrated Micro-Electronics, Inc. (IMI), a company registered under the laws of the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE).

IMI was previously 50.64% owned by AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd. under the umbrella of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the PSE. On March 29, 2017, AYC transferred its 50.64% ownership in IMI to AC Industrial Technology Holdings, Inc. (AC Industrials), also a wholly-owned subsidiary of AC, through a special block sale of the shares of IMI on March 29, 2017 as approved by the PSE on the same date. This transaction was granted exemptive relief from the application of the mandatory tender offer rules by the Philippine Securities and Exchange Commission (SEC) on March 21, 2017.

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

In 2011, the Parent Company acquired IMI BG, IMI CZ and IMI MX (collectively referred to as IMI EU/MX Subsidiaries). IMI EU/MX Subsidiaries design and produce printed circuit board assemblies, engage in plastic injection, embedded tool shop, supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, and industrial equipment, among others. IMI EU/MX Subsidiaries also provide engineering, test and system development and logistics management services.

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

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

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

2. **Group Information**

Information about Subsidiaries

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

Name of Subsidiary	Percentage of Ownership 2017	2016	Country of Incorporation	Functional Currency
Integrated Micro-Electronics Bulgaria EOOD[a]	**100.00%**	100.00%	Bulgaria	Euro (EUR)
Microenergia EOOD (Microenergia)	**100.00%**	100.00%	Bulgaria	Bulgarian Lev (BGN)
Integrated Micro-Electronics d.o.o. Niš	**100.00%**	100.00%	Serbia	Serbian Dinar (RSD)
Integrated Micro-Electronics Czech Republic s.r.o.[b]	**100.00%**	100.00%	Czech Republic	Euro (EUR)
IMI Display s.r.o.[c]	**100.00%**	–	Czech Republic	Euro (EUR)
Integrated Micro-Electronics Mexico, S.A.P.I. de C.V.	**100.00%**	100.00%	Mexico	United States Dollar (USD)
Integrated Micro-Electronics Manufactura S.A.P.I de C.V.	**100.00%**	100.00%	Mexico	Mexican Peso (MXP)
IMI France SAS (IMI France)	**100.00%**	100.00%	France	EUR
VIA Optronics GmbH (VIA)	**76.01%**	76.01%	Germany	EUR
VIA Optronics Suzhou Co. Ltd. (VIA Suzhuo)	**76.01%**	76.01%	China	Renminbi (RMB)
VIA Optronics LLC (VIA LLC)	**76.01%**	76.01%	USA	USD

[a] *On January 1, 2016, IMI BG changed its functional currency from Bulgarian Lev (BGN) to EUR*
[b] *On January 1, 2017, IMI CZ changed its functional currency from Czech Koruna (CZK) to EUR.*
[c] *No current operation.*

Business Combinations

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

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

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

Assets	**Fair Values**	**Provisional Values**
Cash and cash equivalents	$6,584,881	$6,584,881
Receivables	18,744,735	18,744,735
Inventories	5,448,266	5,448,266
Other current assets	660,401	660,401
Property, plant and equipment	3,149,309	3,149,309
Intangible asset	8,341,357	493,368
Deferred tax asset	558,287	558,287
Other noncurrent assets	158,792	158,792
	43,646,028	35,798,039
Liabilities		
Accounts payable and accrued expenses	18,240,811	18,240,811
Current portion of long-term debt	125,854	125,854
Loans payable	8,477,907	8,477,907
Other current liabilities	2,723,811	2,723,811
Long-term debt	209,169	209,169

(Forward)

	Fair Values	Provisional Values
Other noncurrent liabilities	$152,692	$152,692
Deferred tax liabilities	1,975,825	217,090
	31,906,069	30,147,334
Net Assets	**$11,739,959**	$5,650,705
Non-controlling interest (23.99%)	(2,816,416)	(1,355,604)
Goodwill	44,539,967	49,168,409
Cost of acquisition	**$53,463,510**	$53,463,510

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

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

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

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

Analysis of cash flows on acquisition:

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

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

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

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

Basis of Preparation

The consolidated financial statements have been prepared under the historical cost basis, except for financial liabilities at fair value through profit or loss (FVPL) and are presented in United States Dollar (USD). All amounts are rounded off to the nearest USD, unless otherwise indicated.

The consolidated financial statements are prepared to assist Integrated Micro-Electronics, Inc. to meet the requirements of the Philippine SEC. In this regard, the consolidated financial statements may not be suitable for another purpose.

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of and for the years ended December 31, 2017 and 2016.

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

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

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

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

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

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

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

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

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

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

The financial liability for the put option is accounted for under PAS 39 like any other written put option on equity instruments. On initial recognition, the corresponding debit is made to a component of equity attributable to the parent, not to the non-controlling interest. All subsequent changes in the carrying amount of the financial liability that result from the remeasurement of the present value payable on exercise are recognized in profit or loss also attributable to the parent.

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

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

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

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

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

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

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

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

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

  The Group has provided the required information in Note 27 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

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

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

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

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

Effective beginning on or after January 1, 2018

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

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

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

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

- PFRS 9, *Financial Instruments*

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

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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

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

  - Identification of services from assembly stage to packaging stage as one performance obligation
  - Variable considerations such as prompt payment discounts, volume discounts, rebates, and price reduction
  - Recognition of revenue over time given that the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2019

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

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

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

- PFRS 16, *Leases*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred effectivity

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

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

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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

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

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

All other liabilities are classified as noncurrent.

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

Fair Value Measurement
The Group measures financial liabilities on put options at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 25.

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

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

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

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

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

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

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

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

For purposes of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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 consist of loans and receivables, financial liabilities at FVPL and other financial liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

This accounting policy relates primarily to the Group's financial liabilities on put options over the non-controlling interests.

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

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

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

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

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

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

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

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

<u>Offsetting of Financial Instruments</u>
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.

<u>Derecognition of Financial Instruments</u>
Financial asset
A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized (that is, removed from the consolidated balance sheets) when:

- The right to receive cash flows from the asset have expired; or
- The Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement, and either:

  a. The Group has transferred substantially all the risks and rewards of the asset; or
  b. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree at the proportionate share of the

acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the consolidated statements of income under "Operating expenses" account.

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability, that is a financial instrument and within the scope of PAS 39 is measured at fair value with changes in fair value recognized in profit or loss. Other contingent consideration that is not within the scope of PAS 39 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

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

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

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

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

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

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

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

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

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

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

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

The EUL of intangible assets of finite useful life follows:

	Years
Customer relationships	5
Computer software	3
Intellectual properties	5
Product development cost	5

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

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

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

In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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

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

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

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

Equity
Members' Contribution
Members' contribution pertains to the capital contributed by members.

Additional paid-in capital
Additional paid-in capital pertains to the difference of the par value and selling price of issued and outstanding shares of stock. Direct costs incurred related to equity issuance are charged to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against "Retained earnings" account.

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

Retained earnings
Retained earnings represent the net accumulated earnings of the Group.

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.

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 IMI's functional and presentation currency.

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

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

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

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Retirement and Other Employee Benefits
Defined benefit plans
IMI BG maintains separate defined benefit plans covering substantially all of their employees. The plan 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 Czech Republic, Mexico and Germany participate in the respective national retirement schemes defined by the laws of the countries in which it has operations. These retirement schemes are considered as defined contribution plans. A defined contribution plan is a plan under which the subsidiary pays fixed contributions. Each subsidiary has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The required contributions to the national retirement schemes are recognized as retirement expense as accrued.

IMI CZ
IMI CZ, under its collective agreement, is committed to pay contributions to life and retirement insurance of its loyal employees. This is done on a monthly basis as part of payroll expenses and only over the employment period. IMI CZ is not obliged to any other payments if employment terminates.

IMI MX
In accordance with the Mexican Labor Law, IMI MX provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to twelve days of wage for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with fifteen or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit.

IMI MX also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months wages plus twenty days wages for each year of service payable upon involuntary termination without just cause. These are recognized when such an event occurs.

VIA
VIA only has defined contribution plans relating to statutory pension. Funds paid by the employees and employers are not saved or invested but are used to pay current pension obligations. Obligations for contributions to defined contribution plans are recognized as an expense when incurred.

When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. The unwinding of the discount is recognized as a finance cost in profit or loss in the period in which it arises.

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 IMI Singapore shares at a discounted price. The Group recognizes employee benefit expense over the holding period. The Group treats its ESOWN plan as option payable within a given period. These are accounted for similar to the methods outlined in PFRS 2. Dividends paid on the awards that have vested are deducted from equity while those paid on awards that are unvested are charged to profit or loss.

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.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the consolidated financial statements when an inflow of economic benefits is probable.

Events after the Balance Sheet Date
Post period events that provide additional information about the Group's financial position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post period events that are non-adjusting events are disclosed in the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Uncertainty about these judgments, assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities affected in future periods.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Product development costs
Expenditures for the development of new products or production systems are recognized as intangible assets if such expenditures, with a high degree of certainty, will result in future economic benefits for the Group. The rules require stringent criteria to be met for these development expenditures to be recognized as assets such as determining technical feasibility of completing the intangible asset. Management assessed that it is able to meet the identifiability and separability criteria provided in PAS 38, *Intangible Assets,* on the premise that the projects involved are in separate locations from other existing lines and that each project arises from a contractual right between the Group and each customer. Moreover, management is able demonstrate that the projects are in the advanced stage of development.

Functional currency
PAS 21, *Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine each entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Group. In making this judgment, each entity within the Group considers the currency in which the sales prices for its goods and services are denominated and settled.

Effective January 1, 2017, IMI CZ changed its functional currency from CZK to EUR, while IMI BG changed its functional currency from BGN to EUR effective January 1, 2016. Management believes that the change in the functional currency was necessary to define the currency of the primary economic environment in which these entities operate.

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Fair value of the financial liabilities on put options
The acquisition of VIA in 2016 included call and put options over the non-controlling interests. These options are considered when determining whether the entity has obtained control over the acquiree if in substance the entity already has access to the returns associated with that ownership interest. Management assessed that the options do not give the Group present access to the returns associated with the non-controlling interests in subsidiary and, therefore, accounted for the non-controlling interests under PFRS 10, while the financial liability was accounted for under PAS 39 measured at the present value of the redemption amount, with a debit to a component of equity attributable to the parent.

Management assessed that the discounted, probability-weighted cash flow methodology is the appropriate model to derive the present value of the redemption amount. The key estimates and assumptions used in the valuation include the current equity value of the acquiree, forecasted interest rate and probability of trigger events occurring. The current equity value of VIA is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.

Further details on the valuation of the put options are disclosed in Note 25.

Impairment of receivables
The Group reduces the carrying amount of its receivables through the use of an allowance account if there is objective evidence that an impairment loss on receivables has been incurred, based on the result of the individual impairment assessment. Factors considered are payment history and past due status.

Further details on receivables are disclosed in Note 6.

Estimating NRV of inventories
Inventories are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, costs of completion and costs necessary to make a sale to determine the NRV. In the event that NRV is lower than cost, the decline is recognized as an expense.

Further details on inventories are disclosed in Note 7.

Depreciation and amortization
The Group computes depreciation and amortization of property, plant and equipment and intangible assets with finite useful life on a straight-line basis over the assets' EUL. The EUL and depreciation and amortization method are reviewed annually to ensure that these are consistent with the expected pattern of the economic benefits from the assets. This requires the Group to make an estimate of the expected asset utilization from business plans and strategies, future technical developments and market behavior to determine the expected pattern of economic benefits from the assets. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the depreciation and amortization period or method, as appropriate, and are treated as changes in accounting estimates. The depreciation and amortization expense on property, plant and equipment and intangible assets with finite useful lives are recognized in profit or loss, in the expense category, consistent with the function of the property, plant and equipment and intangible assets.

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

Evaluation of impairment of nonfinancial assets
The Group reviews property, plant and equipment, goodwill and intangible assets for impairment of value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. Impairment for goodwill is assessed at least annually. The Group estimates the recoverable amount as the higher of the fair value less costs to sell and value-in-use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect property, plant and equipment, and intangible assets. For goodwill, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value-in-use of the CGU to which the goodwill is allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

Further details on property, plant and equipment, goodwill and intangible assets are disclosed in Notes 9, 10 and 11, respectively.

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable profits. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience on previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax losses, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax losses can be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on taxes are disclosed in Note 21.

Retirement and other employee benefits
The cost of defined benefit plans and other long-term employee benefits as well as the present value of defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rates, turnover rates, mortality rates, salary increase rates, and future retirement increases. Due to the complexity of the actuarial valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The turnover rate represents the proportion of the current plan members who will resign from service prior to their retirement date and hence, be entitled to resignation benefits instead of retirement benefits. The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Salary increase rates and future retirement increases are based on expected future inflation rates.

The Group also estimates other short-term employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policies. These estimates may vary depending on the future changes in salaries and actual experiences during the period.

Further details on retirement and other employee benefits are disclosed in Note 22.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The expected volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of IMI.

5. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**$15,520**	$13,710
Cash in banks	**32,748,145**	21,737,413
Short-term investments	**4,851,431**	4,234,242
	$37,615,096	$25,985,365

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months and earn interest at the respective short-term investment rates.

Interest income earned from cash in banks amounted to $3,140 and $48,044 in 2017 and 2016, respectively.

6. **Receivables**

This account consists of:

	2017	2016
Trade	**$109,102,857**	$80,459,171
Nontrade	**5,890,971**	1,786,443
Due from related parties (Note 24)	**2,660**	10,051
Others	**65,700**	150,195
	115,062,188	82,405,860
Less allowance for doubtful accounts	**962,819**	711,674
	$114,099,369	$81,694,186

Trade
Trade receivables arise from manufacturing and other related services for electronic products and components and have credit terms averaging 70 days from invoice date.

Nontrade
Nontrade receivables represent billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These receivables have credit terms averaging 45 days from invoice date.

Allowance for Doubtful Accounts
Trade receivables with aggregate nominal value of $0.96 million and $0.71 million as of December 31, 2017 and 2016, respectively, were individually assessed to be impaired and fully provided with allowance for doubtful accounts.

Movements in the allowance for doubtful accounts follow:

	2017	2016
At beginning of year	**$711,674**	$418,408
Provisions (Note 19)	**141,908**	341,575
Foreign currency exchange difference	**109,237**	(48,309)
At end of year	**$962,819**	$711,674

Provisions during the year form part of “Operating expenses” account and are included under “Facilities costs and others” account (see Note 19).

7. **Inventories**

This account consists of:

	2017	2016
Cost		
Raw materials and supplies	**$61,578,096**	$32,378,403
Work-in-process	**6,886,016**	6,183,188
Finished goods	**34,302,974**	15,892,519
	102,767,086	54,454,110
Allowance for inventory obsolescence		
Raw materials and supplies	**1,833,687**	1,453,742
Work-in-process	**69,137**	32,497
Finished goods	**353,303**	362,247
	2,256,127	1,848,486
	$100,510,959	$52,605,624

The amount of inventories recognized as expense under "Cost of goods sold and services" account amounted to $372.8 million in 2017 and $228.3 million in 2016 (see Note 17).

Movements in the allowance for inventory obsolescence follow:

	2017	2016
At beginning of year	**$1,848,486**	$3,320,911
Provisions (reversals) (Note 19)	**407,641**	(1,472,425)
At end of year	**$2,256,127**	$1,848,486

8. **Other Current Assets**

This account consists of:

	2017	2016
Advances to suppliers	**$3,477,228**	$4,854,188
Prepayments	**3,102,575**	1,513,129
Tax credits	**2,995,357**	3,647,365
Input taxes	**2,486,184**	524,748
Others	**255,864**	346,843
	$12,317,208	$10,886,273

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

Prepayments
Prepayments include prepayments for rent, life and fire insurance, product liability and recall insurance, which cover product recall expenses and liability to third parties seeking damage in the event the Group recalls any of its products.

Tax Credits
Tax credits include tax incentive to be applied to future taxable profits of IMI MX and IMI BG.

Input Taxes
Input taxes include input tax expected to be applied against output tax within 12 months from the balance sheet date. Input tax is recognized when an entity in the Group purchases goods or services from supplier or vendor.

9. **Property, Plant and Equipment - net**

Movements in this account follows:

	2017						
	Buildings and Improvements	**Machinery and Facilities Equipment**	**Furniture, Fixtures and Office Equipment**	**Transportation Equipment**	**Tools and Instruments**	**Construction in Progress**	**Total**
Cost							
At beginning of year	**$27,587,589**	**$49,275,377**	**$3,327,508**	**$227,226**	**$97,997**	**$8,338,452**	**$88,854,149**
Additions	**3,971,394**	**8,761,673**	**1,036,132**	**74,765**	**10,654**	**10,582,080**	**24,436,698**
Disposals	**(548,632)**	**(840,826)**	**(209,069)**	**(4,918)**	**(3,234)**	**(17,274)**	**(1,623,953)**
Transfers	**5,385,274**	**9,185,738**	**1,148,424**	**29,457**	**(94,726)**	**(15,654,167)**	**–**
Foreign currency exchange difference	**1,308,792**	**6,226,951**	**345,841**	**102,903**	**16,107**	**276,123**	**8,276,717**
At end of year	**37,704,417**	**72,608,913**	**5,648,836**	**429,433**	**26,798**	**3,525,214**	**119,943,611**
Accumulated depreciation							
At beginning of year	**1,245,795**	**15,931,434**	**1,523,865**	**9,950**	**10,647**	**–**	**18,721,691**
Depreciation	**1,162,766**	**7,823,045**	**366,717**	**92,855**	**3,971**	**–**	**9,449,354**
Depreciation capitalized as development cost	**76,784**	**1,069,895**	**1,666**	**–**	**–**	**–**	**1,148,345**
Disposals	**(326,424)**	**(837,293)**	**(176,337)**	**(4,918)**	**–**	**–**	**(1,344,972)**
Foreign currency exchange difference	**252,170**	**2,300,548**	**252,520**	**73,402**	**805**	**–**	**2,879,445**
At end of year	**2,411,091**	**26,287,629**	**1,968,431**	**171,289**	**15,423**	**–**	**30,853,863**
Accumulated impairment losses							
At beginning of year	**815,150**	**–**	**–**	**–**	**–**	**–**	**815,150**
Reversal of impairment	**(815,150)**	**–**	**–**	**–**	**–**	**–**	**(815,150)**
At end of year	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net book value	**$35,293,326**	**$46,321,284**	**$3,680,405**	**$258,144**	**$11,375**	**$3,525,214**	**$89,089,748**

	2016						
	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At beginning of year	$21,781,544	$36,096,442	$2,731,621	$255,442	$–	$8,122,110	$68,987,159
Additions	4,332,936	7,514,691	296,896	88,772	–	8,856,174	21,089,469
Acquisition through business combination (Note 2)	137,613	1,948,746	166,896	7,255	98,158	790,641	3,149,309
Disposals	(132,866)	(963,071)	(52,225)	(112,866)	–	–	(1,261,028)
Transfers	1,965,741	6,900,480	304,227	3,885	–	(9,174,333)	–
Foreign currency exchange difference	(497,379)	(2,221,911)	(119,907)	(15,262)	(161)	(256,140)	(3,110,760)
At end of year	27,587,589	49,275,377	3,327,508	227,226	97,997	8,338,452	88,854,149
Accumulated depreciation							
At beginning of year	514,074	12,772,043	1,431,885	47,597	–	–	14,765,599
Depreciation	916,629	5,812,006	232,047	81,683	11,114	–	7,053,479
Depreciation capitalized as development cost	–	116,030	–	–	–	–	116,030
Disposals	(132,866)	(963,071)	(52,225)	(112,866)	–	–	(1,261,028)
Foreign currency exchange difference	(52,042)	(1,805,574)	(87,842)	(6,464)	(467)	–	(1,952,389)
At end of year	1,245,795	15,931,434	1,523,865	9,950	10,647	–	18,721,691
Accumulated impairment losses							
At beginning and end of year	815,150	–	–	–	–	–	815,150
Net book value	$25,526,644	$33,343,943	$1,803,643	$217,276	$87,350	$8,338,452	$69,317,308

The group capitalized depreciation related to development phase of a certain project amounting to $1.15 million in 2017 and $0.12 million in 2016. The capitalized cost was part of product development under “Intangible assets” account.

As of December 31, 2017 and 2016, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to $36.29 million and $23.06 million, respectively.

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

	2017	2016
Cost of goods sold and services (Note 17)	**$8,288,159**	$6,318,040
Operating expenses (Note 18)	**1,161,195**	735,439
	$9,449,354	$7,053,479

Losses from disposal of property, plant and equipment included under “Miscellaneous income - net” account in the consolidated statements of income amounted to $157,085 and $5,108 in 2017 and 2016, respectively (see Note 20).

10. Goodwill

As of December 31, 2017 and 2016, goodwill acquired through business combinations had been allocated to the following CGUs:

	2017	2016 As Restated - Note 2
VIA	**$44,539,967**	$44,539,967
IMI CZ	**650,413**	650,413
	$45,190,380	$45,190,380

<u>VIA and IMI CZ</u>
The recoverable amounts of these CGUs have been based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a 5-year period. The pre-tax discount rates applied to cash flow projections follows:

	2017	2016
VIA	**13.40%**	11.20%
IMI CZ	**8.30%**	9.56%

Cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate (CAGR) for the global EMS industry.

Key assumptions used in the value-in-use calculations
The calculations of value-in-use for the CGUs are most sensitive to the following assumptions:

- Revenue - Revenue forecasts are management’s best estimates considering factors such as industry CAGR, customer projections and other economic factors.
- Forecasted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital.

No impairment loss was assessed for VIA and IMI CZ in 2017 and 2016.

Sensitivity to changes in assumptions
With regard to the assessment of value-in-use of VIA and IMI CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of these CGUs to exceed their recoverable amount.

11. **Intangible Assets**

Movements in this account follows:

	2017				
	Customer Relationships	**Computer Software**	**Intellectual Properties**	**Product Development costs**	**Total**
Cost					
At beginning of year, as reported	**$6,766,617**	**$4,007,403**	**$464,233**	**$729,109**	**$11,967,362**
Effect of finalization of business combination (Note 2)	**–**	**–**	**7,847,989**	**–**	**7,847,989**
At beginning of year, as restated	**6,766,617**	**4,007,403**	**8,312,222**	**729,109**	**19,815,351**
Additions	**–**	**2,188,706**	**123,282**	**–**	**2,311,988**
Capitalized development cost	**–**	**–**	**–**	**3,941,045**	**3,941,045**
Foreign currency exchange difference	**–**	**454,436**	**51,446**	**–**	**505,882**
At end of year	**6,766,617**	**6,650,545**	**8,486,950**	**4,670,154**	**26,574,266**
Accumulated amortization					
At beginning of year	**6,766,617**	**545,812**	**64,937**	**–**	**7,377,366**
Amortization	**–**	**828,587**	**2,113,539**	**–**	**2,942,126**
Foreign currency exchange difference	**–**	**313,764**	**3,132**	**–**	**316,896**
At end of year	**6,766,617**	**1,688,163**	**2,181,608**	**–**	**10,636,388**
Net book value	**$–**	**$4,962,382**	**$6,305,342**	**$4,670,154**	**$15,937,878**

	2016				
	Customer Relationships			Product Development	Total
Cost					
At beginning of year	$6,766,617	$1,063,919	$–	$–	$7,830,536
Additions	–	3,165,572	–	–	3,165,572
Capitalized development cost	–	–	–	729,109	729,109
Acquisition through business combination (Note 2)	–	–	8,341,357	–	8,341,357
Foreign currency exchange difference	–	(222,088)	(29,135)	–	(251,223)
At end of year	6,766,617	4,007,403	8,312,222	729,109	19,815,351
Accumulated amortization					
At beginning of year	5,977,178	347,415	–	–	6,324,593
Amortization	789,439	266,719	67,787	–	1,123,945
Foreign currency exchange difference	–	(68,322)	(2,850)	–	(71,172)
At end of year	6,766,617	545,812	64,937	–	7,377,366
Net book value (As Restated - Note 2)	$–	$3,461,591	$8,247,285	$729,109	$12,437,985

Customer Relationships
Customer relationships pertain to IMI BG’s contractual agreements with certain customers which lay out the principal terms upon which the parties agree to undertake business.

Computer Software
This includes acquisitions of computer software, applications and modules.

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

Product Development Costs
This includes capitalized costs arising from the development phase of certain projects which are still under qualification.

Impairment testing of product development cost
Intangible assets not yet available for use are tested for impairment following the value-in-use approach. The projects to which the development costs pertain to represent the CGU of the intangible assets. The recoverable amounts of these CGUs have been determined using cash flow projections from financial budgets approved by management covering a 5-year period, which is within the expected life cycle of the projects. The pre-tax discount rates applied to cash flow projections is 28.5%. Key assumptions used in the value-in-use calculations are consistent with those disclosed in Note 10.

No impairment loss was assessed for the product development costs in 2017 and 2016.

Research expenditure recognized as expense amounted to $1.20 million in 2017 and $0.20 million for 2016 (see Note 19).

Amortization of intangible assets included in “Operating expenses” account amounted to $2.94 million and $1.12 million in 2017 and 2016, respectively (see Note 18).

12. Other Noncurrent Assets

Noncurrent assets pertain to miscellaneous deposits for rental and utilities amounting to $0.60 million and $0.56 million in 2017 and 2016, respectively. Rental deposit will be returned to the lessor upon termination of the lease after deducting damages on the property. Utility deposits are deposits for thermo gas oil tanks that are used in the production.

13. Accounts Payable and Accrued Expenses

This account consists of:

	2017	2016
Trade	**$71,509,294**	$50,408,568
Due to related parties (Note 24)	**19,117,304**	1,027,393
Taxes payable	**4,601,715**	2,003,717
Accrued compensation and benefits	**3,674,793**	1,992,268
Nontrade payables	**3,304,018**	961,903
Accrued tooling expense	**2,977,606**	1,853,083
Accrued expenses	**2,411,709**	1,911,394
Advances from customers	**1,550,993**	1,917,752
Accrued interest payable:		
Affiliates (Note 24)	**730,028**	123,920
External parties	**194,623**	86,446
Others	**516,322**	277,471
	$110,588,405	$62,563,915

Trade Payables
Trade payables are noninterest-bearing and are normally settled on 60-day average terms.

Taxes Payable
Taxes payable pertain to taxes withheld such as withholding taxes on purchased goods and services. Withholding taxes payable are expected to be settled within the next financial year.

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 nontrade related payables. These payables are normally settled on 30 to 60-day terms.

Accrued Tooling Expenses
Accrued tooling expenses pertain to billings from customers due to upgrades done by customers on the production equipment to cater product specifications. These are noninterest-bearing and are normally settled on 30 to 90-day average terms.

Accrued Expenses
Accrued expenses consist mainly of accruals for, supplies, professional fees, utilities, repairs and maintenance, postal and communication, insurance, interest, and freight and brokerage.

Advances from Customers
Advances from customers include financial liabilities pertaining to commercial agreements with certain customers of VIA.

14. **Loans Payable**

This account consists of borrowings of the following entities:

	2017	2016
IMI MX (Note 24)	**$45,711,350**	$33,207,202
VIA	**12,461,977**	7,903,448
IMI CZ	**7,130,823**	4,302,724
Coöperatief (Note 24)	**6,597,777**	6,467,000
	$71,901,927	$51,880,374

IMI MX
IMI MX has outstanding loans from IMI and IMI Singapore to fund its working capital requirements. In 2017 and 2016, the loans bear interest rates ranging from 2.55% to 4.09% with terms ranging from 60 to 90 days. Breakdown of the loan from IMI and IMI Singapore follows:

	2017	2016
IMI	**$32,211,350**	$19,707,202
IMI Singapore	**13,500,000**	13,500,000
	$45,711,350	$33,207,202

Interest expense incurred on these loans amounted to $1.15 million and $0.70 million in 2017 and 2016, respectively (see Note 20).

IMI CZ

	2017	2016
IMI (Note 24)	**$5,472,244**	$3,210,196
UniCredit	**958,787**	607,196
Citibank	**699,792**	485,332
	$7,130,823	$4,302,724

IMI CZ has outstanding loans from IMI aggregating to $5.47 million and $3.21 million as of December 31, 2017 and 2016, respectively, to fund its working capital requirements. In 2017 and 2016, the loans bear interest rate of 2% with terms of 90 days.

Interest expense incurred on these loans amounted to $0.10 million and $0.05 million in 2017 and 2016 respectively (see Note 20).

The loans of IMI CZ also include loans from existing revolving credit facilities with Czech-based banks and bear interest based on 1-month EURIBOR plus 1.20%.

IMI CZ incurred interest expense on these loans which amounted to $47,886 in 2017 and $31,778 in 2016 (see Note 20).

Coöperatief
Coöperatief obtained a loan from Speedy-Tech Electronics, Inc. (STEL) in 2017 to fund the acquisition of VIA Optronics. The loan bears interest rate of 3.82% with terms of 60 days. Interest expense incurred on this loan amounted to $0.15 and $0.10 million in 2017 and 2016 respectively (see Note 20).

VIA
The loans of VIA consists of factoring loan from China-based banks denominated in USD and RMB amounting to a total of $10.07 million in 2017 and $5.81 million in 2016 with terms ranging from 70 to 150 days and interest rate from 3.16% to 3.77% and loan from a German-based bank amounting to €2.0 million ($2.39 million) in 2017 and €2.0 million ($2.09 million) in 2016 with term of 90 and bears interest rate of 1.95% per annum.

VIA incurred interest expense on its short-term loans payable amounting to $0.86 million in 2017 and $0.05 million in 2016 (see Note 20).

15. **Long-Term Debt**

This account consists of borrowings of the following entities:

	2017	2016
Coöperatief	**$5,095,518**	$6,586,800
IMI CZ	**5,066,433**	1,818,198
IMI BG	**239,320**	417,760
VIA	**195,464**	284,338
	10,596,735	9,107,096
Less current portion:		
Coöperatief	**5,095,518**	2,108,200
IMI CZ	**1,403,223**	528,478
IMI BG	**239,320**	208,880
VIA Optronics	**134,618**	117,495
	6,872,679	2,963,053
Noncurrent portion	**$3,724,056**	$6,144,043

Coöperatief
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%.

Coöperatief had already paid an aggregate amount of €10.00 million from 2013 to 2017 with an annual payment of €2.00 million every July of each year. The balance of €4.25 million ($5.10 million) will be due in July 2018.

Coöperatief incurred interest expense on its long-term debt amounting to $0.19 million in 2017 and $0.26 million in 2016 (see Note 20).

IMI CZ
IMI CZ has an unsecured term loan facility from Czech based bank aggregating to €4.23 million ($5.07million). The principal shall be paid in 60 regular monthly installments and bears interest of 3-month EURIBOR plus spread ranging from 0.9% to 2.70% but is not to exceed 15% per annum. Outstanding balance as of December 31, 2017 amounted to €4.23 million ($5.07 million).

IMI CZ incurred interest expense on its long-term debt amounting to $0.05 million in 2017 and $0.03 million in 2016 (see Note 20).

IMI BG
IMI BG has a long-term debt from a European based bank amounting to $0.42 million that relates to the term loan facility for financing the construction of a new warehouse with a term of five years and bears interest based on 3-month EURIBOR plus 2.90%. The warehouse was completed in 2013.

The credit facility with the bank is subject to the following collateral: Security of Transfer of Ownership Title relating to office and factory equipment with a carrying value of $1.35 million.

IMI BG incurred interest expense amounting to $8,972 in 2017 and $0.02 million in 2016 (see Note 20).

VIA
VIA has a long-term debt from a Germany-based bank amounting to €0.16 million ($0.20 million). The debt bears annual interest of 5.35% and matures on June 30, 2019.

VIA incurred interest expense on its long-term debt amounting to $16,363 in 2017 and $3,803 in 2016 (see Note 20).

16. Members' Equity

Members' contribution
Details of the members of the Coöperatief follow:

	Country of Incorporation	**2017**	2016
IMI Singapore	Singapore	**100%**	1%
Monarch	Hong Kong	**–**	99%

The movements in "Members' contribution" account are as follows:

	2017	2016
At beginning of year	**$60,269,893**	$6,388,893
Contributions during the year	**–**	53,881,000
At end of year	**$60,269,893**	$60,269,893

The ownership of Monarch in Coöperatief was transferred to IMI Singapore in 2017 through an asset sale agreement.

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

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.

No changes were made in the objectives, policies and processes during the years ended December 31, 2017 and 2016.

The Group monitors capital using a gearing ratio of debt to equity and net debt to equity. The Group considers bank borrowings in the determination of debt, which consist of trust receipts and loans payable and long-term bank debt. Net debt is equivalent to the total bank borrowings, less cash and cash equivalents.

	2017	2016
Loans payable	**$71,901,927**	$51,880,374
Long-term debt	**5,501,218**	2,520,296
Total bank debt	**77,403,145**	54,400,670
Less cash and cash equivalents	**37,615,096**	25,985,365
Net bank debt	**39,788,049**	28,415,305
Equity attributable to the owners of the Parent	**$174,785,251**	$129,428,509
Debt-to-equity ratio	**0.44:1**	0.42:1
Net debt-to-equity ratio	**0.23:1**	0.22:1

The Group is not subject to externally imposed capital requirements.

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

This account consists of:

	2017	2016
Direct, indirect and other material-related costs (Note 7)	**$372,826,243**	$228,252,523
Direct labor, salaries, wages and employee benefits (Note 22)	**54,752,766**	36,908,099
Depreciation (Note 9)	**8,288,159**	6,318,040
Facilities costs and others (Note 19)	**11,077,127**	7,479,217
	$446,944,295	$278,957,879

18. **Operating Expenses**

This account consists of:

	2017	2016
Salaries, wages and employee benefits (Note 22)	**$13,307,468**	$7,327,235
Depreciation and amortization (Notes 9 and 11)	**4,103,321**	1,859,384
Facilities costs and others (Note 19)	**9,537,740**	5,197,288
	$26,948,529	$14,383,907

19. **Facilities Costs and Others**

This account consists of:

	Cost of Goods Sold and Services		Operating Expenses	
	2017	2016	**2017**	2016
Utilities	**$4,838,336**	$3,478,360	**$–**	$–
Outsourced activities	**1,817,930**	1,026,993	**3,312,063**	2,692,103
Travel	**1,383,848**	1,005,529	**864,900**	533,210
Repairs and maintenance	**1,238,515**	1,398,171	**249,913**	190,393
Government-related	**199,274**	5,687	**508,780**	212,089
Insurance	**31,027**	14,963	**816,954**	792,322
Research and development	**–**	–	**1,201,263**	199,915
Provision for (Reversal of) inventory obsolescence (Note 7)	**–**	–	**407,641**	(1,472,425)
Postal and communication	**–**	–	**234,581**	125,023
Provision for doubtful accounts (Note 6)	**–**	–	**141,908**	341,575
Promotional materials, representation and entertainment	**–**	–	**20,402**	284,313
Others	**1,568,197**	549,514	**1,779,335**	1,298,770
	$11,077,127	$7,479,217	**$9,537,740**	$5,197,288

"Others" include small tools and instruments, technology related expenses, copying expenses, office supplies, rental and other miscellaneous expenses.

20. **Others - Net**

Interest and Other Financing Charges

This account consists of:

	2017	2016
Interest expense on intercompany loans (Note 14)	**$1,401,236**	$848,983
Interest expense on bank loans (Note 15)	**1,098,382**	308,855
Bank charges (Note 5)	**402,808**	274,992
	$2,902,426	$1,432,830

Miscellaneous income (loss) – Net

This account consists of:

	2017	2016
Reversal of impairment on property, plant and equipment (Note 9)	**$815,150**	$–
Non-recurring engineering (NRE) income	**366,228**	95,154
Gain (loss) on sale of property, plant and equipment	**157,085**	(5,108)
Mark-to-market loss on put options	**(341,961)**	(40,785)
Write-offs and other charges	**–**	(2,494,698)
Other income	**796,904**	92,011
	$1,793,406	($2,353,426)

Non-recurring engineering (NRE) income
NRE income pertains to services provided to customers under new product introduction which includes test services, sample runs or prototypes, and jigs and fixtures.

Other income
Other income pertains to correction of adjustment related to inventories, reversal on adjustments due to the translation of VIA's balances to IFRS, and recoveries from customers.

21. Income Tax

Current Tax
Coöperatief
Taxation is calculated on the reported pre-tax result, at the prevailing tax rate of 20% on the first €200,000 and 25% on the taxable amount exceeding €200,000, taking into account any losses carried forward from previous financial years (if applicable), tax-exempt items and nondeductible expenses, and using tax facilities.

IMI BG
Income taxes are calculated in accordance with Bulgarian legislation, and the effect of the current and deferred taxes is reported. The current tax is calculated based on the taxable income for tax purposes. The nominal tax rate is 10%.

IMI CZ
Income tax due is calculated by multiplying the tax base by the rate as defined by the income tax law of Czech Republic. The tax base comprises the book income from operations, which is increased or decreased by permanently or temporarily tax-decreasing costs and tax-deductible revenues (for example, creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate is 19%.

IMI MX
IMI MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in profit or loss in the year they are incurred. Income tax rate 2015 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%.

Income tax incurred will be the higher of Income Tax and Business Flat Tax.

IMI France
Income tax is computed based on the income earned by the entity during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back one year. The tax rate applicable is 33% based on net income.

VIA
VIA is subject to German corporate and trade taxes. Statutory corporate income tax rate of 15% plus surcharge of 5.5% thereon is applied to earnings. The municipal tax rate is approximately 11.55% of taxable income, thus, the total tax rate of 27.375%. The applicable tax rate for VIA LLC and VIA Suzhou is at 35% and 25%, respectively.

Deferred Tax
Deferred taxes of the Group relates to the following:

	2017	2016 (As restated - Note 2)
Deferred tax assets:		
Net operating loss carry-over	**$559,228**	$893,165
Fair value adjustment on property, plant and equipment arising from business combination	**263,362**	41,829

(Forward)

	2017	2016 (As restated - Note 2)
Allowance for inventory obsolescence	**$–**	$227,058
Allowance for doubtful accounts	**–**	152,299
Others	**71,362**	192,219
	$893,952	$1,506,570
Deferred tax liabilities:		
Fair value adjustment on property, plant and equipment and intangible assets arising from business combination	**$2,298,954**	$2,795,546
Prepaid expenses	**48,232**	206,336
	$2,347,186	$3,001,882

The temporary differences and tax losses for which no deferred tax assets have been recognized follows:

	2017	2016
Provisions	**$651,639**	$375,769
Allowance for doubtful accounts	**296,335**	201,236
Excess of cost over NRV of inventories	**239,219**	170,991
Noncurrent assets	**–**	706,864
	$1,187,193	$1,454,860

As of December 31, 2017 and 2016, deferred tax liabilities have not been recognized on the undistributed earnings of subsidiaries and related cumulative translation adjustments since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future.

The reconciliation of the statutory income tax rate to the effective income tax rate of the Group follows:

	2017	2016
Statutory income tax	**25.00%**	25.00%
Tax effects of:		
Difference in tax jurisdiction	**(6.77%)**	(1.99%)
Nondeductible expenses	**(3.22%)**	2.84%
Nontaxable income	**–**	(12.96%)
Effective income tax rate	**15.01%**	12.89%

22. **Personnel Costs**

Salaries, wages, and employee benefits follow:

	2017	2016
Salaries and benefits	**$61,682,969**	$39,939,316
Retirement expense under defined contribution plans	**2,040,946**	2,036,383
Social security costs	**1,845,698**	584,027
Leave benefits	**1,640,887**	980,982
Net retirement expense under defined benefit plans	**125,924**	169,019
Others	**723,810**	525,607
	$68,060,234	$44,235,334

Others include expenses for employee social and recreation, canteen subsidy, training and seminars, and other employee benefits.

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

	2017	2016
Cost of goods sold and services (Note 17)	**$54,752,766**	$36,908,099
Operating expenses (Note 18)	**13,307,468**	7,327,235
	$68,060,234	$44,235,334

IMI BG has a defined benefit plan covering substantially all of its employees. The latest retirement valuation was made on December 31, 2017.

The tables below summarize the amount of IMI BG's retirement liability recognized in the consolidated balance sheets and components of retirement expense recognized in the consolidated statements of income as of and for the years ended December 31, 2017 and 2016:

Retirement Expense

	2017	2016
Current service cost	**$115,197**	$158,392
Net interest	**10,727**	10,627
	$125,924	$169,019

The retirement expense of the Group is included under "Salaries, wages, and employee benefits" account.

Retirement Liability

	2017	2016
At beginning of year	**$636,636**	$503,507
Retirement expense	**125,924**	169,019
Separation and benefits paid	**(29,030)**	(8,292)
Foreign currency exchange difference	**(58,039)**	(27,598)
Actuarial Loss	**264,461**	–
At end of year	**$939,952**	$636,636

The average duration of net retirement liabilities at the end of the balance sheet date is 22.72 years as of December 31, 2017 and 23.41 years as of December 31, 2016.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2017 and 2016:

	2017	2016
Less than one year	**$161,150**	$125,697
More than one year to five years	**383,253**	253,804
More than five years	**17,179,243**	12,831,015
	$17,723,646	$13,210,516

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

	2017	2016
Discount rate	**1.40%**	2.00%
Salary increase rate	**5.00%**	5.00%
Turnover rate	**9.00%**	5.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the retirement liability as of the end of the balance sheet date, assuming all other assumptions were held constant:

	Increase/Decrease in	Effect on Retirement Liability	
Actuarial Assumption	Actuarial Assumption	**2017**	2016
Discount rate	+1%	**($25,267)**	($34,219)
	-1%	**26,530**	37,802
Salary increase rate	+1%	**36,933**	25,849
	-1%	**(36,936)**	(25,799)
Turnover rate	+2%	**91,320**	64,864
	-2%	**(90,650)**	(64,022)

23. **Employee Stock Ownership Plan**

IMI has an ESOWN plan, which allows the grantees to purchase IMI's share at a discounted price.

The allocation of cost of share-based payments by IMI to the Group in 2017 and 2016 amounted to \$0.04 million and \$0.12 million, respectively.

24. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates. Related parties may be individuals or corporate entities.

The Group, in its regular conduct of business, has entered into transactions with subsidiaries, affiliate, and other related parties principally consisting of advances, loans and reimbursement of expenses, Sales and purchase of goods and services as well as other income and expenses to and from related parties made at normal commercial prices and terms.

Terms and Conditions of Transactions with Related Parties
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2017 and 2016, the Group has not recorded any impairment on receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

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

a. Outstanding balances of related party transactions follow:

	Receivables		Payables	
	2017	2016	**2017**	2016
IMI:				
Nontrade	**$2,660**	$8,570	**$4,117,304**	$1,027,393
Loans	**–**	–	**37,683,594**	22,917,397
Interest	**–**	–	**445,619**	84,878
Monarch	**–**	1,466	**–**	28,520,645
IMI Singapore:				
Nontrade	**–**	15	**15,000,000**	–
Noncurrent liabilities	**–**	–	**28,808,717**	288,088
Loans	**–**	–	**13,500,000**	13,500,000
Interest	**–**	–	**284,409**	39,042
STEL	**–**	–	**6,597,777**	6,467,000
	$2,660	$10,051	**$106,437,420**	$72,844,443

i. Payables to IMI and IMI Singapore include nontrade transactions and operating cash advances. Nontrade transactions are unsecured, noninterest-bearing, repayable on demand and to be settled in cash. Cash advances of IMI to IMI MX and IMI CZ have a 90-day term subject to interest rates ranging from 2.00% to 2.89%. Intercompany loans from IMI Singapore bear interest rates ranging from 3.38% to 4.09% with terms ranging from 90 to 360 days.

ii. Noncurrent liabilities to Monarch and IMI Singapore, presented as “Due to related parties” in the consolidated balance sheets, are nontrade in nature and relate to the acquisition of IMI EU/MX Subsidiaries. Management intends to convert these payables into equity in the future.

iii. Payable to STEL pertains to intercompany loan of Coöperatief with a 60-day term and bears interest at 3.83% which was used to fund the acquisition of VIA.

Payables to IMI and IMI Singapore are summarized as follows:

	2017	2016
Loans payable (Note 14)	**$57,781,371**	$42,884,398
Due to related parties (Note 13)	**19,117,304**	1,027,393
Accrued interest payable (Note 13)	**730,028**	123,920
	$77,628,703	$44,035,711

Noncurrent liabilities due to related parties are summarized as follows:

	2017	2016
IMI Singapore	**$28,808,717**	$288,088
Monarch	**–**	28,520,645
	$28,808,717	$28,808,733

b. Expenses from related parties follow:

	2017	2016
STEL	**$605,606**	$402,998
IMI	**795,630**	445,985
	$1,401,236	$848,983

These amounts represent interest expenses from IMI’s intercompany advances to IMI EU/MX Subsidiaries.

Compensation of Key Management Personnel of the Group
Key management personnel of the Group include all management committee members. Short-term employee benefits of key management personnel amounted to $1.51 million and $1.49 million in 2017 and 2016, respectively.

25. Fair Values of Financial Instruments

Fair Values of Financial Assets and Financial Liabilities where the Carrying Amounts Approximate Fair Values

Financial assets and financial liabilities that are liquid or are short-term in nature, such as cash, receivables and accounts payable and accrued expenses are assumed to have carrying amounts approximating their fair values.

Below are the fair values of financial liabilities where the carrying amounts do not approximate fair values as at December 31, 2017 and 2016:

	Carrying Amounts		**Fair Values**	
	2017	2016	**2017**	2016
Financial liabilities				
Financial liabilities on put options	**$11,676,243**	$11,334,282	**$11,676,243**	$11,334,282
Noncurrent portion of long-term debt	**3,724,056**	6,144,043	**3,671,953**	5,299,626
	$15,400,299	$17,478,325	**$15,348,196**	$16,633,908

The following methods and assumptions were used to estimate the fair value:

Financial liabilities on put options - These pertain to the liabilities of the Parent Company arising from the written put options over the non-controlling interest of VIA. The fair value of the financial liabilities is estimated using the discounted, probability-weighted cash flow method. The future cash flows were projected using the equity forward pricing formula with reference to the current equity value of the acquiree and the forecasted interest rate which is the risk-free rate in Germany. The risk-free rate used range from 0.26%. Management applied weights on the estimated future cash flows, based on management's judgment on the chance that the trigger events for the put option will occur.

The current equity value of the acquiree is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.

Noncurrent portion of long-term debt - The fair value of long-term debt 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 ranged from 0.90% to 2.99% in 2017 and 1.00% to 2.91% in 2016.

Fair Value Hierarchy
The following table provides the fair value hierarchy of the inputs to the valuation of the financial liabilities:

	December 31, 2017			
	Fair Value Measurement Using			
	Total	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Liabilities measured at fair value:				
Financial liabilities on put options	**$11,676,243**	**$–**	**$–**	**$11,676,243**
Liabilities for which fair values are disclosed:				
Long-term debt	**$3,671,953**	**$–**	**$–**	**$3,671,953**

	December 31, 2016			
	Fair Value Measurement Using			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities measured at fair value:				
Financial liabilities on put options	$11,334,282	$–	$–	$11,334,282
Liabilities for which fair values are disclosed:				
Long-term debt	$5,299,626	$–	$–	$5,299,626

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table presents the valuation techniques and unobservable key inputs used to value the Group's financial liabilities categorized as Level 3:

	Valuation Technique	Unobservable inputs	Range of unobservable inputs	Sensitivity of the input to the fair value
Financial liabilities on put options	Discounted, probability-weighted cash flow method	Growth rate	0%-2% (1%)	1% increase in growth rate would result in an increase in fair value by $0.81 million. Decrease in growth rate by 1% would result in a fair value decrease of $0.66 million.
		Discount rate	10%-12% (11%)	1% increase in discount rate would result in a decrease in fair value by $0.8291 million. Decrease in discount rate by 1% would result in a fair value increase of $1.24 million.
		Probability of trigger events occurring	1% – 10% (5%)	Increase in the probability to 10% would result in an increase in fair value by $2.763 million. Decrease in the probability to 1% would result in a decrease in fair value by $5.65 million.

26. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, composed of loans payable and long-term debt, were issued primarily to raise financing for the Group's operations. The Group has various financial instruments such as cash, 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'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 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 December 31, 2017 and 2016.

	Effect on Income before Tax	
Increase/Decrease in Basis Points	**2017**	2016
+100	**($696,433)**	($332,849)
-100	**$696,433**	$332,849

There is no other impact on the Group's equity other than those already affecting income.

Liquidity Risk
Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group's exposure to liquidity risk relates primarily to its short 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 deemed sufficient to finance its operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover financing requirements, the Group intends to use internally-generated funds and loan facilities with local and foreign banks. Surplus funds are placed with reputable banks.

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities based on contractual undiscounted payments:

2017

	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Financial assets:					
Cash and cash equivalents*	**$37,599,576**	**$–**	**$–**	**$–**	**$37,599,576**
Financial liabilities:					
Accounts payable and accrued expenses:					
Trade payables	**–**	**71,509,294**	**–**	**–**	**71,509,294**
Due to related parties	**–**	**19,117,304**	**–**	**–**	**19,117,304**
Accrued expenses**	**–**	**13,860,446**	**–**	**–**	**13,860,446**
Accrued interest payable	**–**	**730,028**	**–**	**–**	**730,028**
Others	**–**	**516,322**	**–**	**–**	**516,322**
Financial liabilities on put options	**11,676,243**	**–**	**–**	**–**	**11,676,243**
Current portion of long-term debt	**–**	**6,872,679**	**–**	**–**	**6,872,679**
Loans payable***	**–**	**–**	**72,113,521**	**–**	**72,113,521**

(Forward)

	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Noncurrent portion of long-term debt***	**$–**	**$–**	**$–**	**$3,916,829**	**$3,916,829**
	11,676,243	**112,606,073**	**72,113,521**	**3,916,829**	**200,312,666**
	$25,923,333	**($112,606,073)**	**($72,113,521)**	**($3,916,829)**	**($162,713,090)**

**Excluding cash on hand*
***Excluding statutory payables*
****Includes future interest payable*

2016

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets:					
Cash and cash equivalents*	$25,971,655	$–	$–	$–	$25,971,655
Financial liabilities:					
Accounts payable and accrued expenses:					
Trade payables	–	50,408,568	–	–	50,408,568
Accrued expenses**	–	5,756,746	–	–	5,756,746
Due to related parties	–	1,027,393	–	–	1,027,393
Accrued interest payable	–	86,446	–	–	86,446
Others	–	1,239,371	–	–	1,239,371
Financial liabilities on put options	11,334,282	–	–	–	11,334,282
Current portion of long-term debt	–	2,963,053	–	–	2,963,053
Loans payable***	–	–	51,908,572	–	51,908,572
Noncurrent portion of long-term debt***	–	–	–	6,316,718	6,316,718
	11,334,282	61,481,577	51,908,572	6,316,718	131,041,149
	$14,637,373	($61,481,577)	($51,908,572)	($6,316,718)	($105,069,494)

**Excluding cash on hand*
***Excluding statutory payables*
****Includes future interest payable*

Credit lines
The Group has credit lines with different financing institutions as at December 31, 2017 and 2016, as follows:

	2017		2016	
Financial Institutions	**Credit Limit**	**Available Credit Line**	Credit Limit	Available Credit Line
Local:				
EUR	**18,830,000**	**13,551,034**	9,830,000	6,177,019

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 receivables from customers and other third parties. Credit risk management involves dealing with institutions for which credit limits have been established. The treasury policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties. The Group has a well-defined credit policy and established credit procedures. The Group extends credit to its customers consistent with sound credit practices and industry standards. The Group deals only with reputable, competent and reliable customers who pass the Group's credit standards. The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group's maximum exposure to credit risk as of December 31, 2017 and 2016 is the carrying amounts of the financial asset. The Group's maximum exposure for cash excludes the carrying amount of cash on hand.

The Group has 48% and 54% of trade receivables relating to three major customers as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the aging analysis of receivables follows:

2017

		Neither Past Due nor	Past Due but not Impaired					Specifically
	Total	**Impaired**	**<30 Days**	**30-60 Days**	**60-90 Days**	**90-120 Days**	**>120 Days**	**Impaired**
Trade	**$109,102,857**	**$95,222,069**	**$7,552,908**	**$2,816,206**	**$1,523,998**	**$707,367**	**$317,490**	**$962,819**
Nontrade	**5,890,971**	**5,890,971**	–	–	–	–	–	–
Due from related parties	**2,660**	**2,660**	–	–	–	–	–	–
Others	**65,700**	**65,700**	–	–	–	–	–	–
	$115,062,188	**$101,181,400**	**$7,552,908**	**$2,816,206**	**$1,523,998**	**$707,367**	**$317,490**	**$962,819**

2016

		Neither Past Due nor	Past Due but not Impaired					Specifically
	Total	Impaired	<30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	Impaired
Trade	$80,459,171	$65,622,227	$8,828,743	$3,457,781	$488,247	$407,553	$942,946	$711,674
Nontrade	1,786,443	1,786,443	–	–	–	–	–	–
Due from related parties	10,051	10,051	–	–	–	–	–	–
Others	150,195	150,195	–	–	–	–	–	–
	$82,405,860	$67,568,916	$8,828,743	$3,457,781	$488,247	$407,553	$942,946	$711,674

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2017 and 2016:

2017

	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	**Average Risk**	**Fairly High Risk**	**High Risk**	**Individually Impaired**	**Total**
Cash in banks	**$37,599,576**	**$–**	**$–**	**$–**	**$–**	**$37,599,576**
Receivables:						
Trade	**95,222,069**	–	–	–	**13,880,788**	**109,102,857**
Nontrade	**5,890,971**	–	–	–	–	**5,890,971**
Due from related parties	**2,660**	–	–	–	–	**2,660**
Others	**65,700**	–	–	–	–	**65,700**
	$138,780,976	**$–**	**$–**	**$–**	**$13,880,788**	**$152,661,764**

2016

	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	Average Risk	Fairly High Risk	High Risk	Individually Impaired	Total
Cash in banks	$25,971,655	$–	$–	$–	$–	$25,971,655
Receivables:						
Trade	65,622,227	–	–	–	14,836,944	80,459,171
Nontrade	1,786,443	–	–	–	–	1,786,443
Due from related parties	10,051	–	–	–	–	10,051
Others	150,195	–	–	–	–	150,195
	$93,540,571	$–	$–	$–	$14,836,944	$108,377,515

The Group classifies credit quality as follows:

Minimal Risk - Credit can proceed with favorable credit terms; can offer term of 15 to maximum of 45 days.

Average Risk - Credit can proceed normally; can extend term of 15 to maximum of 30 days.

Fairly High Risk - Credit could be extended under a confirmed and irrevocable Letters of Credit (LC) and subject to semi-annual review for possible upgrade.

High Risk - Transaction should be under advance payment or confirmed and irrevocable Stand-By LC; subject to quarterly review for possible upgrade after one year.

Foreign Currency Risk
Foreign currency risk arises when future commercial transactions and recognized financial assets and financial liabilities are denominated in a currency that is not the Group's functional currency.

For subsidiaries with functional currency other than USD, there is a minimal exposure to foreign currency risk within the financial assets and financial liabilities thus no sensitivity analysis has been prepared.

27. Notes to Consolidated Statements of Cash Flows

The Group's noncash investing activities includes capitalization by the Group of depreciation related to the developmental phase of certain projects amounting to $3.94 million and $0.73 million for 2017 and 2016, respectively.

The following table shows the reconciliation of liabilities arising from financing activities:

		Cash Flows		Non-cash changes		
	2016	Availment	Settlement/ Payment	Reclass	Foreign currency translation	2017
Loans payable	$51,880,374	$35,351,232	($2,125,725)	($15,000,000)	$1,796,046	$71,901,927
Current portion of long-term debt	2,963,053	–	(3,196,686)	6,217,081	889,231	6,872,679
Long-term debt	6,144,043	3,422,063	–	(6,217,081)	375,031	3,724,056
	$60,987,470	$38,773,295	($5,322,411)	($15,000,000)	$3,060,308	$82,498,662