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

SEC Registration Number

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
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**C O M P A N Y   N A M E**

I N T E G R A T E D   M I C R O - E L E C T R O N I C S ,
I N C .

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

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

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| 1 7 - A | C F D | |

**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) |
|---|---|---|
| 295 | April 8 | 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, 2018**

(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, 2018**

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 * | 2,217,293,215 |

* Net of 15,892,224 treasury shares

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

    2,233,185,439 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 ₱2.5 billion (based on closing stock price of IMI common shares as of December 31, 2018)

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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 is 52.03% owned by AC Industrial Technology Holdings, Inc. (AC Industrials), a wholly-owned subsidiary of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE).

AC is 47.04% owned by Mermac, Inc., 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.
On March 2, 2018, the Parent Company completed the stock rights offer and listing of 350,000,000 common shares to all eligible stockholders.

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 and China. 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 allows 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 enables the scale to introduce patented technology into automotive camera monitor systems for increased safety.

In 2018, VIA agreed to form a new joint venture company with a Japanese entity through the acquisition of 65% ownership interest. The new joint venture company, VTS-Touchsensor Co., Ltd. (VTS) serves the market for copper-based metal mesh touch sensors in Japan.

In 2016, Cooperatief 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 was completed and inaugurated in September 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 strengthens the Group's industrial and automotive manufacturing competencies, broaden its customer base, and also provides 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>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)
- Gasoline System sensor
- Transmission sensor
- Speed sensor
- Connector sensor
- Engine sensor

*Others*

- Anti-fogging system
- Wiper
- Gear box shift
- Window lifter
- Head rest

**Industrial Electronics**

*Security*

- Electronic Door Access System
- Biometrics
- Asset tracking
- Radiation detector
- Security alarm

*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
- Building and lighting control
- Thermostat
- Charger for agricultural machine
- Energy management
- Timer
- Monitoring and control system

*Controls and Sensors*

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

- Luminaire Controller

*Others*
- LED lighting
- Aircon damper
- Accelerometer
- UPS
- Industrial power
- Power supply
- Industrial tooling
-

**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

*Others*
- 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
- RF Signal Analyzer
- RF Meter

**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.

**Principal Products and Services**

*Design and Development (D&D) Group*

IMI recently certified a high voltage IGBT for production, a base-plated power module on a 62X152 mm plastic case operating up to 1.7-kilo volts. A smaller version at 62X107 mm has been in production for quite some time. IMI also began the production of other packages operating at medium voltage with metal oxide semiconductor field effect transistor (MOSFET) and IGBT silicon in a similar plastic case last year, but with a direct bonded copper substrate as heatsink. These power modules are designed for both automotive and industrial applications.

Also in full swing in 2018 was the development of transfer molded plastic packages operating with low power MOSFET for automotive applications and will be ready for production by the second half of 2019. Another highlight is the early design and development phase of a hybrid version of a Pin-Fin baseplate and heatsink housing a full silicon carbide power module for electric vehicles.

IMI's D&D group also continues to lead in strengthening its capabilities in Internet-of-Things (IoT). In 2018, IMI have included the implementation of Low Power Wide Area Network (LPWAN) technologies such as LoRa, a long-range wireless communication protocol and Narrowband-IoT in the development of IoT devices, and gateway components to further supplement previous capabilities on more mature connectivity options for long range (cellular) and short range (i.e. Bluetooth, Zigbee), and general embedded systems such as hardware and software components.

*Test and Systems Development (TSD)*

In 2018, IMI's TSD group rolled out over 60 new innovative customized test solutions for its automotive and industrial EMS customers. Each tester was customized to achieve high efficiency in backend manufacturing and to guarantee high quality and reliability in products, which IMI manufactures for its OEMs and Tier 1 customers.

IMI also introduced its second generation custom testers for insulated gate bipolar transistor (IGBT) power modules for static, dynamic and isolation tests. The testers offer flexibility to test different power module models with the same system. A complete new suite of reliability testers was developed for power modules for automotive applications which include power cycling, passive thermal cycling tests, and high temperature reversed-bias tests, among others.

*Analytical Testing and Calibration (ATC) Laboratory*

In 2018, IMI's ATC Laboratory continued to develop new capabilities and zeroed in on the test requirements compliance to AECQ 101/IEC17025/LV324/VW80000/ ISO16750 of electric vehicles. It acquired vibration tester that allows us to test the mechanical reliability of electric vehicles. IMI takes pride in its much-improved complete test capabilities and expertise in handling contamination issues using the Ion Chromatography with Critical Cleanliness Control C3 system.

*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.

*Automation*

IMI's global Automation Back End (ABE) group continued to develop in-house build capability for stand-alone systems. The group supports IMI operations across all sites with a total of seven complex automation lines completed as of 2018. Eighty percent of the group's automation projects focused on automotive product assemblies including processes such as final assembly, subassemblies, functional test, and packaging.

*Camera Vision Technology (CVT)*

IMI continually work with both Automotive Tier 1 and Tier 2 in areas where high levels of innovation happen such as mirror replacement, driver monitoring, and autonomous driving. VIA Optronics, IMI's subsidiary in Germany that manufactures advanced display solutions, began to oversee the camera vision technology services to support the various ADAS application requirements in automotive. Equipped with ten years of camera and extreme vision technology development experience, the group develops platform designs that can be customized to reduce total development time.

In the second half of 2018, IMI started building sample cameras for the 360 degrees viewing system intended for an automotive OEM. The viewing system contains four cameras mounted on a vehicle and connected to one central ECU capable of providing both a bird's-eye view and 3D surround view for both safety and comfort.

In addition, IMI launched a custom automated six-axis focus and alignment system that uses mirrors to adjust the focusing distance. This innovation is ideal for focusing ADAS cameras intended for hauling trucks with extended focus distance requirements.

**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 expense 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, IMI CZ and IMI Serbia 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, IMI UK and IMI Singapore/ROHQ are combined being the holding and 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 29 ("Segment Information") of the Notes to Consolidated Financial Statements of the 2018 Audited Consolidated Financial Statements which is incorporated herein as Exhibit 1.

**Revenue Contribution by Industry Segment (in US$)**

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Automotive | **$541,859,546** | $446,460,645 | $377,639,245 |
| Industrial | **334,634,178** | 221,670,425 | 177,267,436 |
| Consumer | **176,176,123** | 188,760,154 | 71,038,949 |
| Telecommunication | **134,078,546** | 121,639,521 | 131,304,615 |
| Aerospace/defense | **56,827,484** | 24,973,446 | – |
| Medical | **12,954,240** | 19,303,996 | 21,280,959 |
| Multiple market/others | **92,870,328** | 67,780,002 | 64,435,220 |
| | **$1,349,400,445** | $1,090,588,189 | $842,966,424 |

**Revenue Contribution by Customer Nationality (in US$)**

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Europe | **$670,603,567** | $519,149,422 | $458,851,700 |
| America | **292,610,530** | 240,888,727 | 204,853,252 |
| Japan | **45,241,436** | 42,842,182 | 40,861,642 |
| Rest of Asia/Others | **340,944,912** | 287,707,858 | 138,399,830 |
| | **$1,349,400,445** | $1,090,588,189 | $842,966,424 |

**Foreign Subsidiaries' Contribution**

| | **2018** | | **2017** | | **2016** | |
|---|---|---|---|---|---|---|
| | **Revenue** | **Net Income*** | **Revenue** | **Net Income*** | **Revenue** | **Net Income*** |
| Foreign Subsidiaries: | | | | | | |
| China/SG | 25% | 36% | 25% | 9% | 31% | -12% |
| Europe/Mexico | 31% | 14% | 33% | 76% | 39% | 93% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Germany/UK (VIA/STI) | 23% | 21% | 18% | 15% | 2% | -1% |
| **TOTAL** | **79%** | **71%** | **76%** | **101%** | **72%** | **80%** |

∗ *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 10.55%, 12.58% and 14.97% of the Group's total revenue in 2018, 2017 and 2016, 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.

In 2018, IMI continued to pursue opportunities in segments with the highest potential for growth and customer impact. The company's core business pipeline expanded by US$320 million in new project awards, 72 percent of which are for automotive applications. By location, new program wins derived from Philippines and China accounted for 61 percent while 39 percent were awarded to Europe and Mexico. Meanwhile, STI Enterprises continued to strengthen its industrial and mil-aero capabilities with £25.6 million (US$33.2 million) major projects closed as of 2018. The company also expects VIA's revenue growth to achieve a balanced portfolio across market verticals supported by its new contracts for multiple automotive and industrial applications.

**Mergers and Acquisition**

In 2018, VIA agreed to form a new joint venture company with a Japanese entity through the acquisition of 65% ownership interest. The new joint venture company, VTS-Touchsensor Co., Ltd. (VTS) serves the market for copper-based metal mesh touch sensors in Japan. This will strengthen our portfolio of differentiated and value-added sensor technology for touch panels, touch-display modules, display head assemblies, and interactive display systems across multiple markets and segments.

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 now a global technology solutions company with 21 manufacturing facilities with presence in more than 10 countries, spanning through the continents of Asia, Americas, and Europe. The company has technology expertise and offerings in the whole breadth of electronics manufacturing services (EMS), power semiconductor assembly tests and services and vehicle assembly.

IMI currently ranks 18th in the list of top 50 EMS providers in the world by the Manufacturing Market Insider (March 2018 edition), based on 2017 revenues.  In the automotive market, it is now the 5th largest EMS provider in the world per New Venture Research.

For almost 40 years, the company has developed its competence and value through cutting-edge engineering, design, innovation, and collaboration with partners. From being largely product-centric, IMI is now moving towards a technology-solutions approach by addressing efficiency, cost, quality, and productivity, while closely working with customers in research and development.

IMI continues to leverage on its geographical footprint in providing services closer to our target markets. This in turn strengthens its ability to mitigate risks over market volatilities and geo-political trends in the global environment. IMI competes worldwide with focus on Europe, North America and Asia.

IMI specializes in highly reliable and quality electronic solutions for long product life cycle segments such as automotive, industrial electronics and more recently, the aerospace market.

In the automotive segment, IMI designs and manufacture next-generation automotive camera systems, displays, ADAS controllers, sensors, steering modules, and telematics. IMI also aims to accommodate more Internet-of-Things (IoT) opportunities in the pipeline that will enhance its current capabilities. It is involved in this sphere specifically in the areas of security, asset tracking, next generation displays, wireless monitoring, smart meters, and communication systems in aerospace and defense. IMI also continues to thrive in the production of various electronic systems that manage and control power in automotive and industrial markets.

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, Plexus and Kimball.

Flextronics is a Singapore-headquartered company with annual revenues of US$25.4 billion in 2018; its cost structure is very competitive it is vertically integrated as well. Flextronics poses competition to IMI in the automotive and industrial segment.

Plexus, a U.S.-based EMS, recorded US$2.9billion revenues in 2018. Plexus is a key EMS player in industrial, medical and communication sectors, which IMI play in this market.

Kimball Electronics as a manufacturing facility located in Jasper, Indian with revenues of US$1.1 billion in 2018. Kimball is a competitor of IMI in the automotive, industrial and medical market.

**Principal Suppliers**

IMI's suppliers are situated globally and are managed by the Global Procurement organization. The Company's top 10 suppliers in 2018 comprise about 23% 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, 2018, 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.

For more information on Related Party Transactions, refer to Note 31 ("Related Party Transactions") of the Notes to Consolidated Financial Statements of the 2018 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, Europe and Asia:

- 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 three capacitors. | Singapore, 2000 | 2020 |
| **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<br>1. Sales Invoice; Official Receipt (back up invoices during system downtime<br>2. Billing Invoice; Collection Receipt (back up invoices during system downtime)<br>3. Official Receipt; Service Invoice; Acknowledgement Receipt<br>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. Last year ushered a major shift to platform-based test solutions specifically for customers whose products are manufactured in multiple factories. In the platform-based approach, a function tester was configured for another product with a similar application or design. The test allowed high re-use of technology—hardware and software and therefore enabling a more rapid tester development. Original equipment manufacturers of automotive electronics and mechatronics products (window lifters, power tailgate systems, etc.) which are assembled and tested in China, Mexico and Bulgaria benefited in this strategy.

The global trends on advanced driver-assistance systems (ADAS) continue to move our way. IMI's existing camera production reached more than six million units in 2018, exceeding volume and sales targets for the year. Interest in the areas of ADAS, mirror replacement and driver monitoring have also brought in new opportunities from both new and existing customers.

With these developments and opportunities, IMI continued to deliver new innovations to support the manufacturing of high performance automotive cameras. An IMI proprietary tester design for stray light test measurement was introduced last year to screen out glare and flare in ADAS cameras. A technical paper on this project won top recognition in the Philippine electronics trade show in 2018.

IMI continually worked with both Automotive Tier 1 and Tier 2 in areas where high levels of innovation happen such as mirror replacement, driver monitoring, and autonomous driving. VIA Optronics, a subsidiary in Germany that manufactures advanced display solutions, began to oversee the camera vision technology services to support the various ADAS application requirements in automotive. Equipped with ten years of camera and extreme vision technology development experience, the group develops platform designs that can be customized to reduce total development time.

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

| | | % to Revenues |
|---|---|---|
| 2018 | $6,287,175 | 0.47 |
| 2017 | $3,506,223 | 0.32 |
| 2016 | $3,601,736 | 0.43 |

## Human Resources

The Company has a total workforce of 17,148 employees as of December 31, 2018, shown in the following table:

| | 2017 | 2018 | 2019 Plan |
|---|---|---|---|
| **Managers** | 490 | 473 | 480 |
| **Supervisors** | 1,950 | 1,622 | 1,559 |
| **Rank-and-File** | 3,108 | 3,064 | 4,423 |
| **Technicians/Operators** | 11,200 | 11,989 | 12,109 |
| **TOTAL** | **16,748** | **17,148** | **18,571** |

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.

Also, because of China's role in many important supply chains, its exports contain a large amount of value added applied in other Asian economies. At least as importantly, China has become a principal final destination for Asian exports. As China, is hit by US trade tariffs, the spill-over into other APAC economies takes place via international supply chains and changes in China's domestic demand.

***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.

The impact of the Brexit upon the technology and innovation sector largely depends upon what model the UK adopts for its relationship with the EU. If the UK remains in the European Economic Area then the changes may be minimal. If the UK joins the European Free Trade Association and negotiates sector specific access to the single market then the landscape depends on the exact nature of that relationship. If the UK distances itself further from the EU then the changes may be more extensive.

***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, 2018 are shown below:

| Location | Floor Area (square meters) | Capabilities |
|---|---|---|
| **Manufacturing Sites** | | |
| Philippines-Laguna<br>(2 sites) | 96,182 | ▪ 31 SMT lines, 2 FC lines<br>▪ 5 COB/COF lines<br>▪ Box build to Complex Equipment manufacturing<br>▪ LVHM, HVLM<br>▪ Solder Wave, Potting, Al & AG W/B<br>▪ Protective Coating<br>▪ ICT, FCT, AOI, RF Testing<br>▪ Design & Development<br>▪ Test & System Development<br>▪ Cleanroom to class 100<br>▪ Low Pressure Molding (Overmold)<br>▪ Precision Metals/Machining |
| Philippines-Cavite | 2,350 | ▪ 3 SMT lines<br>▪ Box Build<br>▪ System Integration<br>▪ PTH, Solder Wave<br>▪ ICT, FCT, AOI<br>▪ 3D X-ray<br>▪ LVHM |
| Philippines-PSi Laguna | 9,858 | ▪ Power Component Discrete Packaging, e.g., 2L,3L,4L TO-247, 3L TO252, 2L,3L TO-220<br>▪ Silicon Carbide and Gallium Nitride Packaging<br>▪ Ag Sintering Process<br>▪ Diversified Packaging - from Low to High Power and Small to Large Outline<br>▪ R&D line/ Captive Lines for Power QFN and Modules<br>▪ Customized Power Packaging Requirements<br>▪ Low/ Med Power Discrete Packaging and Processes including Au Wire Bonding<br>▪ Al Ribbon, Cu Clip interconnect<br>▪ 3D Packaging, MCM, High Reliability OFN Packages: 3 x 3 mm,3.3x3.3 mm, 4x5 mm, 5x6mm, 6x5mm 8x8 mm at 1 mm to 1.5 mm package height |
| China-Pingshan | 29,340 | ▪ 17 SMT lines, 1 COB line<br>▪ Box Build<br>▪ PTH, Solder Wave<br>▪ POP, Auto Pin Insertion<br>▪ Potting, Conformal coating and Burn-in<br>▪ ICT, FCT, AOI, RF Testing<br>▪ Test & System Development<br>▪ Design & Development<br>▪ LVHM, HVLM |
| China-Kuichong | 23,524 | ▪ 21 SMT lines<br>▪ Box Build<br>▪ PTH, Auto Pin Insertion, Solder Wave<br>▪ ICT, FCT, AOI, SPI, RF Testing |

| | | |
|---|---|---|
| | | ▪ Test & System Development<br>▪ LVHM, HVLM<br>▪ X-RAY 3D testing, RoHS screening instrument, BGA rework<br>▪ Burn-in test for high-end power supply, Thermal cycle test, Vibration test.<br>▪ Conformal Coating, Potting, PCB router, Underfill<br>▪ Bar-code tracking system |
| China-Jiaxing | 18,452 | ▪ 11 SMT lines<br>▪ Vapor Phase Vacuum Reflow, SMD Odd shape Component Auto Mount<br>▪ Box Build (w/ Automated Customized Assembly Line)<br>▪ PTH, Auto Pin Insertion, Solder Wave, Selective Solder Wave<br>▪ Full Auto Selective Conformal Coating Line and CC AOI<br>▪ Ultrasonic welding and lamination<br>▪ Plastic injection (180T/300T press)<br>▪ SPI, 2D & 3D AOI, ICT, FCT, 3D X-ray, Run-in<br>▪ Test & System Development<br>▪ HVLM |
| China-Chengdu | 7,500 | ▪ 6 SMT lines<br>▪ Box Build<br>▪ PTH, Auto Pin Insertion, BGA, X-Ray<br>▪ Solder Wave<br>▪ Automated Conformal Coating<br>▪ ICT, FCT, AOI<br>▪ HVLM / LVHM<br>▪ Test Development |
| USA-Tustin, CA* | 1,184 | ▪ 2 SMT prototyping lines<br>▪ Engineering Development<br>▪ Prototype Manufacturing Center<br>▪ Precision Assembly<br>▪ SMT, COB FCOF<br>▪ Box build |
| Botevgrad, Bulgaria (2 sites)<br>Sofia, Bulgaria (1 site)<br><br><br>Niš, Serbia (1 site) | <br>115, 416<br><br><br>50,000 | ▪ Bulgaria - 15 SMT lines<br>▪ Serbia – 6 SMT lines<br>▪ Box build<br>▪ PCB Assembly and Testing<br>▪ PTH, Auto Pin Insertion, Solder Wave<br>▪ Protective Coating<br>▪ Cabling<br>▪ ICT, FCT, AOI<br>▪ Test & System Development<br>▪ Design & Development<br>▪ Plastic Injection Embedded Toolshop<br>▪ Overmolding<br>▪ Metrology & laboratory<br>▪ Chip on board<br>▪ Tooling<br>▪ Automation |
| El Salto, Guadalajara, Mexico (2 sites) | 25,000 | ▪ 9 SMT lines<br>▪ 40 Plastic Injection Machines (50-1,600T) including Overmolding |

| | | |
|---|---|---|
| | | ▪ Box build (w/ Automated Customized Assembly Line)<br>▪ PTH, Auto Pin Insertion, Solder Wave, Selective Solder Wave<br>▪ Full Auto Selective Conformal Coating Line and CC AOI, Automated potting<br>▪ SPI, 2D & 3D AOI, ICT, FCT, 3D X-Ray<br>▪ Embedded Toolshop<br>▪ Test & System Development |
| Třemošná, Plzeňská, Czech Republic | 7,740 | ▪ 6 SMT lines<br>▪ 2 Pin Insertion<br>▪ 3 Wave soldering<br>▪ 2 Selective soldering<br>▪ 3 Selective coating<br>▪ ICT, FCT, AOI (SMT, CC)<br>▪ Mechanical Assembly<br>▪ 4 Automated line<br>▪ Further customized assembly line |
| Nuremberg, Germany (VIA)<br><br>**VIA optronics GmbH** | 4,268 | ▪ VIA bond plus qualification<br>▪ Bonding material development<br>▪ Manual line, mainly lower quantity projects<br>▪ Prototype 84Inch<br>▪ 2 clear rooms (ISO class 6 & ISO class 7)<br>▪ ESD control<br>▪ Engineering, prototyping and production process improvement<br>▪ Test & system development (electrical)<br>▪ Optical test labor (mainly for display evaluation) |
| Suzhou, China (VIA)<br><br>**VIA optronics Suzhou** | 9,750 | ▪ Semi autoline and full autoline<br>▪ Large size bonding in MaxVu II<br>▪ Touch capabilities, ACF process<br>▪ Curved bonding & bonding to plastic cover |
| Shiga, Japan (VIA)<br><br>**VTS-Touchsensor Co., Ltd** | 10,000 | ▪ Metal Mesh Sensor on roll<br>▪ Customized design<br>▪ 100µm/50µm Film thickness<br>▪ Up to 55“ VTS internal<br>▪ Up to 85“ through external partners |
| UK-Hook (STI) | 5,946 | ▪ 3 high-speed ASM Siplace SMT Lines (2.4m components/day)<br>▪ High Reliability PCB Assembly & Box Build<br>▪ Full Test facilities<br>▪ Dedicated prototype facility with 2 flexible Mydata lines<br>▪ Special processes & full repair and rework facility<br>▪ Clean Room, NPI, RF Screened Room |
| UK-Poynton (STI) | 5,481 | ▪ Manufacturer of highly secure satellite communications equipment (under long term Airbus DS contract)<br>▪ Manufacturer of specialist amplifiers<br>▪ Specialist spares and repairs<br>▪ Full rack wiring and integration<br>▪ Specialist test facility – RF Testing, |

| | | |
|---|---|---|
| | | Anechoic Chamber, EMC Chamber & Moog 6 Degree of Freedom Motion Bed<br>▪ Complex Wiring & Heavy Metalwork<br>▪ Advanced Box Build<br>▪ AS9100-D |
| Cebu, Phils (STI) | 2,601 | ▪ 3 high-speed placement systems (6m components/day capacity)<br>▪ High volume PCB Assembly and Box Build<br>▪ Equipment and operational standards fully compatible with Hook manufacturing site<br>▪ IP protection and full product traceability guaranteed |
| **Total Manufacturing Space** | **409,317** | |
| | | |
| **Sales and Marketing Support** | | |
| Hong Kong* | 300 | Procurement, marketing and supply chain support |
| Japan* | 110 | Sales Support |
| **Total Support Space** | **410** | |
| | | |
| **Total** | **409,317** | |

**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 1.7% to 9.4% per annum.

Future minimum lease payments together with the present value of the net minimum lease payments are as follows:

| | 2018 | 2017 |
|---|---|---|
| Within one year | **$153,275** | $245,518 |
| After one year but not more than five years | **66,942** | 223,771 |
| | **$220,217** | $469,289 |

Interest expense related to the finance lease amounted to $0.03 million in 2018 and $0.01 million in 2017.

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.

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 Parent Company also has various operating lease agreements involving rental of factory/warehouse building, manufacturing equipment and IT servers with terms ranging from one to five years.

*IMI Singapore and STEL Group*
IMI Singapore and STEL Group have various operating lease agreements in respect of office premises, land, equipment and dormitories. These non-cancellable lease contracts have 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 SZ, 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 five floor building with 29,340 square meters located in an industrial park in Pingshan district of Shenzhen.

*IMI BG*
IMI BG have lease agreements related to a building and parking place with lease terms of five years. These leases have renewal options.

I*MI CZ*
IMI CZ have various operating lease agreements in respect of its company cars with lease terms of four to five years.

*PSi*
*Laguna facilities*
PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from Centereach Resources, Inc. (CRI), an unrelated entity with a term of four years. The operating lease agreements will expire in 2022.

*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.

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

*STI*
STI have various operating lease agreements in respect of manufacturing facilities, office premises and vehicles. These non-cancellable lease contracts have remaining non-cancellable lease terms of between three to fifty years. There are no restrictions placed upon the lessee by entering into these leases.

*IMI Japan*
IMI Japan entered into a six-year lease for the lease of office premises maturing in 2018. 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 five years commencing from November 1, 2015 to October 31, 2020 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.

As of December 31, 2018 and 2017, accrued rent amounted to $0.49 million and $0.25 million, respectively.

Future minimum rentals payable under operating leases of the Group as of December 31, 2018 and 2017 follow:

| | **2018** | 2017 |
|---|---|---|
| Within one year | **$6,105,339** | $5,127,471 |
| After one year but not more than five years | **18,597,670** | 12,453,854 |
| More than five years | **520,666** | 2,453,943 |
| | **$25,223,675** | $20,035,268 |

**Capital Expenditures**

In 2018, the Company spent $65.0 million on capital expenditures to build more complex manufacturing capabilities which were funded by proceeds from the stock rights offering. For 2019, the Company expects additional $68 million of capital expenditures 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, 2018.

**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 2017 and 2018.

Philippine Stock Exchange
Prices in PhP/share

| | High | | Low | | Close | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| First Quarter | 22.60 | 7.41 | 15.56 | 6.05 | 15.60 | 7.30 |
| Second Quarter | 18.62 | 13.70 | 13.90 | 7.61 | 14.00 | 13.30 |
| Third Quarter | 14.80 | 19.60 | 11.40 | 11.88 | 12.24 | 18.60 |
| Fourth Quarter | 12.56 | 22.30 | 7.51 | 17.18 | 10.60 | 18.82 |

The market capitalization of the Company's common shares as of December 31, 2018, based on the closing price of ₱10.60/share, was approximately ₱23.50billion.

The price information of IMI's common shares as of the close of the latest practicable trading date, March 11, 2019, is ₱13.00 per share.

*Holders*

There are approximately 296 registered common stockholders as of January 31, 2019. 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. | 1,153,725,046 | 52.0330% |
| 2. | PCD Nominee Corporation (Non-Filipino) | 498,926,491 | 22.5016% |
| 3. | Resins Incorporated | 291,785,034 | 13.1595% |
| 4. | PCD Nominee Corporation (Filipino) | 211,052,340 | 9.5184% |
| 5. | 2014 ESOWN Subscription | 23,575,145 | 1.0632% |
| 6. | 2007 ESOWN Subscription | 9,463,183 | 0.4267% |
| 7. | SIIX Corporation | 7,815,267 | 0.3524% |
| 8. | 2009 ESOWN Subscription | 5,179,307 | 0.2335% |
| 9. | 2015 ESOWN Subscription | 5,172,274 | 0.2332% |
| 10. | Ayala Corporation | 1,379,892 | 0.0622% |
| 11. | Helmut Baumgart | 1,265,448 | 0.0570% |
| 12. | Richard D. Bell | 910,572 | 0.0410% |
| 13. | Meneleo J. Carlos, Jr. | 805,288 | 0.0363% |
| 14. | Josef Pfister | 500,000 | 0.0225% |
| 15. | Allen B. Paniagua | 357,726 | 0.0161% |
| 16. | Transtechnology Pte. Ltd. | 304,836 | 0.0137% |
| 17. | Alberto Gramata Jr. | 258,842 | 0.0116% |
| 18. | Emmanuel V. Barcelon | 240,000 | 0.0108% |
| 19. | Philippe Marquet | 225,519 | 0.0101% |
| 20. | Rafael Nestor V. Mantaring | 195,214 | 0.0088% |

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 2018, 2017 and 2016 are shown on the following table:

| | For the years ended December 31 | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| | ***(in US$ thousands, except Basic EPS)*** | | |
| Revenues from contracts with customers | 1,349,400 | 1,090,588 | 842,966 |
| Cost of goods sold and service | (1,213,736) | (960,990) | (741,657) |
| Gross profit | 136,241 | 129,599 | 101,309 |
| Net income attributable to equity holders of the Parent Company | 45,507 | 34,002 | 28,116 |
| EBITDA[1] | 71,274 | 70,342 | 64,967 |
| Basic Earnings per Share (EPS) | 0.021 | 0.018 | 0.015 |

**<u>2018 vs. 2017</u>**

### Revenues from Sales and Services

The Company brought 2018 to a close with consolidated revenues of US$1.35 billion (₱70.81 billion), an increase of 24 percent year-on-year.

IMI's traditional business delivered US$1.04 billion revenues, a growth of 16 percent while recently acquired companies, VIA and STI, accelerated further with a growth of 61 percent year-on-year posting a combined revenue of US$312.4 million. The Company benefited from new programs in the industrial and automotive segments which grew 39 percent (excl. VTS) and 21 percent, respectively, while strong activities firmed up for strategic opportunities in aerospace.

IMI's automotive business now accounts for 40% of total revenues while industrial contributes 25% to total revenues. Europe remains to be our dominant market comprising 50% of global sales.

### Gross Profit and Gross Profit Margin

The Company's operations generated gross profit of US$136.2 million, higher year-on-year by 5%, however, gross profit margin declined to 10.1% from 11.9% partly due to tight supplies of electronic

[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.

components resulting to higher DM prices and extra logistics costs and also due to ramp up phase of new projects which the company expects to normalize once the projects achieve optimal level of volumes. The Company is already working on improving the efficiency of the manufacturing processes.

**Operating Income**

Operating income is at $39.7 million, lower from last year by 18% if excluding one-off cost of $8 million in 2017 related to the Shenzhen sale. The drop was driven by the lower margins of the China and Mexico businesses coupled by one-off expenses such as VIA transaction costs related to acquisition of VTS and relocation costs, and increase in people cost, provision for claims, travel and transportation, rent expense and depreciation.

**Net Income**

The Company posted a net income of US$45.5 million (₱2.39 billion), 34 percent higher than the prior year including favorable non-operating items.

The reported net income includes non-operating items such as net gain on the sale of a China entity (+$19.1 million) and reversal of contingent consideration related to the STI acquisition (+$21.3 million), partially offset by impairment of China goodwill (-$6.9 million), mark-to-market losses on put options (-$5.4 million) and other one-off transaction costs. The effect of the RMB and EUR depreciation and higher interest rates also added downward pressure. Operationally and excluding foreign exchange impact, net income decreased 21 percent to US$25.8 million.

**EBITDA**

EBITDA of $71.3 million slightly higher than last year by 1%, however, EBITDA% down from 6.4% to 5.3% driven by lower margins and FX losses.

**Financial Condition**

In 2018, IMI spent US$65.0 million on capital expenditures to build more complex manufacturing capabilities which were funded by proceeds from the stock rights offering.

IMI's balance sheet remains robust with a current ratio of 1.32:1 and debt-to-equity ratio of 0.81:1.

**Key Performance Indicators of the Company**

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

| | As of end<br>Dec 31, 2018 | Dec 31, 2017 |
|---|---|---|
| **Performance indicators** | | |
| Liquidity: | | |
| Current ratio[a] | 1.32x | 1.28x |
| Solvency: | | |
| Debt-to-equity ratio[b] | 0.81x | 1.08x |

| | For the years ended<br>31 Dec<br>2018 | 2017 |
|---|---|---|

| | | |
|---|---|---|
| Operating efficiency: | | |
| Revenue growth[c] | 24% | 29% |
| Profitability: | | |
| Gross profit margin[d] | 10.1% | 11.9% |
| Net income margin[e] | 3.4% | 3.1% |
| Return on equity[f] | 13.5% | 13.3% |
| Return on common equity[g] | 13.5% | 13.3% |
| Return on assets[h] | 4.3% | 3.7% |
| [2]EBITDA margin | 5.4% | 6.4% |

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

In the above:

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

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

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

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

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

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

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

**Income Statement Items**
(Years ended 31 December 2018 versus 31 December 2017)

*24% increase in Revenues ($1.09B to $1.35B)*
The increase was driven by the surge in revenues of VIA (+$28.3M) plus contribution of the new VTS business ($26.5M), core growth in China ($61.6M), Europe (+$41.3M), Mexico (+$22.5M), Philippines ($14.9M) and and full year effect of STI ($63.8M)

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

*<u>26% increase in Cost of goods sold ($961.0MM to $1,213.7M)</u>*
Driven by the 24% increase in revenues coupled by high DM costs due to more turnkey businesses, change in product mix and higher purchase price due to effect of global component shortage, increase in labor costs and higher overhead due to additional freight costs, depreciation and amortization, rental expenses, repairs and maintenance, utilities and government related expenses.

*<u>8% increase in Operating expenses ($89.2M to $95.9M)</u>*
Excluding $8M SZ relocation costs in 2017, GAE increased by $14.8M mainly from full year impact of STI (+$4.3M), one-off VIA costs related to acquisition transaction costs and relocation costs ($1.9M), operating expenses of the new VTS business ($3.7M). The rest pertains mainly to provision for inventory obsolescence, travel and transportation, professional fees, depreciation and amortization, and insurance.

*<u>1154% increase in Non-operating income ($1.5M to $16.9M)</u>*
Other income pertains to net gain on the sale of a China entity (+$19.1 million) and reversal of contingent consideration related to the STI acquisition (+$21.3 million), partially offset by impairment of China goodwill (-$6.9 million), mark-to-market losses on put options (-$5.4 million), higher interest expenses (-$5.1M), and forex impact (-$5.1M) mainly due to RMB and EUR depreciation.

*<u>432% increase in Noncontrolling interest ($0.44M to $2.34M)</u>*
Share of minority in the net income of VIA (23.99%), STI (20%), and recognized non-controlling interest on acquisition of VTS.

**Balance Sheet items**
(31 December 2018 versus 31 December 2017)

*<u>20% increase in Cash and cash equivalents ($90.6M to $108.5M)</u>*
Cash used by operating activities -$13.3M from increase in working capital; cash used in investing -$83.2M mainly from capital expenditure to support line expansion and new programs; cash provided by financing $114.6M mainly due proceeds from stock rights offering ($95.9M), $65M million of which have been used for capital expenditure and $30 million for debt repayment. The company also availed $25M net loans and paid dividends of $10.1M for the year.

*<u>18% increase in Loans and receivables ($263.1M to $311.5M)</u>*
Increase mainly due to higher sales and longer credit terms.

*<u>100% increase in Contract Assets (nil to $63.5M)</u>*
Recognition of contract assets upon adoption of PFRS 15. These originated from the work-in-process and finished goods inventories which were recognized as revenue earned from manufacturing services as receipt of consideration is conditional on successful completion of the services, plus corresponding margins. If PFRS 15 was not adopted, total inventories increased by $56.5M.

*<u>23% decrease in Other current assets ($27.1M to $20.8M)</u>*
Decrease in advances to suppliers and prepayments

*<u>16% increase in Property, plant and equipment ($164.6M to $191.7)</u>*
Capital expenditures amounting to $63.8M driven by ongoing big projects in Philippines, China, Mexico, and additional SMT lines in Europe and construction of the Serbia facility.

*<u>21% increase in Intangible assets ($22.9M to $27.8M)</u>*
Increase mainly from capitalized costs arising from the development phase of certain projects under qualification (+$5M), IP acquired for the VTS joint venture ($5.3M) and additional software costs ($1M).

*<u>29% increase in Financial assets through OCI ($0.8M to $1.1M)</u>*
Increase in fair value of quoted club shares

*372% increase in Other noncurrent assets ($1.8M to $8.5M)*
Recognition of deferred charges representing tooling items customized based on the specifications of the customers and to be repaid as part of the price of the manufactured items.

*100% increase in Contract liabilities (nil to $1.83M)*

Contract liabilities were recognized upon adoption of PFRS 15 pertaining to short-term advances received to render manufacturing services.

*34% increase in Other financial liabilities ($22.3M to $29.8M)*
Increase due to the reclassification of the remaining balance of contingent liability ($3.7M) of STI to current portion and recognition of additional mark-to-market loss on put options ($5.4M).

*823% increase in Current portion of long-term debt ($6.9M to $63.4M)*
Reclass to current portion of long-term debt of Philippines, Czech and VIA ($63M) offset by decrease due to the final payment of the long-term debt to EPIQ NV ($5.0M)

*23% decrease in Noncurrent portion of long-term debt ($158.2M to $124.5M)*
Reclass to current portion of ($63M) offset by additional availment in PH of $26M and noncurrent portion of VIA of $3.5M

*71% increase in Deferred tax liabilities ($2.3M to $4.0M)*
Deferred tax recognized on unrealized forex gains, contract asset and loss carryover.

*18% decrease in Pension liability ($5.1M to $4.2M)*
Actuarial gains due to higher discount rate

*80% decrease in Other noncurrent liabilities ($26.09M to $5.2M)*
Decrease was due to the reversal of contingent liability of STI ($21.3M) offset by long-term payable related to acquired IP of VTS ($5.3M)

*19% increase in Capital stock ($35.7M to $42.6M)*
Issued shares of 350M from stock rights offer ($6.7M) plus fully paid ESOWN shares $0.2M

*152% increase in Additional paid-in capital ($58.1M to $146.5M)*
Related to stock rights offering (excess over par). This was offset by capitalized transaction costs on SRO ($661K) and ESOWN forfeitures ($190K)

*36% decrease in Subscriptions receivable ($5.4M to $3.4M)*
Collections and forfeitures on subscriptions

*341% decrease in Other components of equity ($454K to -$1.1M)*
Cumulative impairment losses previously recognized under PAS 39 for equity instruments measured at FVOCI was transferred from retained earnings to OCI under “Other components of equity” account.

*408% increase in negative Cumulative translation adjustments (-$2.5M to -$12.9M)*
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 depreciation of EUR against USD from 1.20 to 1.15 and RMB against USD from 6.53 to 6.86.

*16% decrease in Remeasurement losses on defined benefit plans (-$7.4M to -$6.2M)*
Actuarial changes in financial assumptions particularly higher discount rate

*884% increase in Equity attributable to NCI ($3.1M to $4.8M)*
Mainly from increase in share of non-controlling interest in the net income, adoption of PFRS 15 and effect of acquisition, offset by share of NCI in the negative CTA.

**For the Years Ended 31 December 2017 vs 2016**
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[3] | 70,342 | 64,967 | 58,763 |
| Basic Earnings per Share (EPS) | 0.018 | 0.015 | 0.015 |

**2017 vs. 2016**

**Revenues from Sales and Services**

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

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

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.

[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.

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.

.

**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% |
| [4]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*
*[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:

[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.*

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

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

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

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

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

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

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

**Income Statement Items**
(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.

*<u>88% increase in Inventories ($106.1M to $199.6M)</u>*
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.

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

*<u>40% increase in Property, plant and equipment ($117.4M to $164.6M)</u>*
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.

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

*<u>25% increase in Intangible assets ($18.3M to $22.9M)</u>*
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).

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

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

*<u>45% increase in Accounts payable and accrued expenses ($195.7M to $284.3M)</u>*
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 |

*<u>163% increase in Loans and trust receipts payable ($51.4M to $135.1M)</u>*
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.

## 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 |
|---|---|---|---|
| 2018 | ₱ 4.50M | ₱ 0.30M | ₱ 0.17M |
| 2017 | ₱ 9.55M | - | ₱ 3.27M |

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 2018.

***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 2018 and 2017 annual stockholders' meetings.

The Company's Audit and Risk Committee (with Edgar O. Chua, as Chairman and Rafael C. Romualdez and Hiroshi Nishimura, as members) recommended to the appointment of SGV & Co. as its external auditor and the fixing of the audit fees which the Executive Committee approved in the exercise of its authority under the By-Laws of the Company. Likewise, the other services rendered by SGV & Co. were approved by the Executive Committee upon the recommendation of the Audit and Risk Committee. The foregoing recommendations are now being endorsed for approval by the stockholders.

## 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, 2018.

**Board of Directors**

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

| | |
|---|---|
| Delfin L. Lazaro | Director |
| Jose Teodoro K. Limcaoco | Director |
| Rafael C. Romualdez | Director |
| Edgar O. Chua | Independent Director |
| Hiroshi Nishimura | Independent Director |
| Sherisa P. Nuesa | Independent Director |

***Jaime Augusto Zobel de Ayala,*** Filipino*,* 59, 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 Ltd. Outside the Ayala group, he is a member of various business and socio-civic organizations in the Philippines and abroad, including the JP Morgan International Council, JP Morgan Asia Pacific Council, Mitsubishi Corporation International Advisory Council, and Council on Foreign Relations. He sits on the board of the Singapore Management University, the global advisory board of University of Tokyo, and on various advisory boards of Harvard University, including the Global Advisory Council, HBS Board of Dean's Advisors, and HBS Asia-Pacific Advisory Board, which he chairs. He is Chairman Emeritus of the Asia Business Council, Co-Vice Chairman of the Makati Business Club, Chairman of Endeavor Philippines, and a board member of Eisenhower Fellowships. He was awarded the Presidential Medal of Merit in 2009, the Philippine Legion of Honor with rank of Grand Commander in 2010, and the Order of Mabini with rank of Commander in 2015 by the President of the Philippines in recognition of his outstanding public service. In 2017, he was recognized as a United Nations Sustainable Development Goals Pioneer for his work in sustainable business strategy and operations. The first recipient of the award from the Philippines, he was one of 10 individuals recognized for championing sustainability and the pursuit of the 17 SDGs in business. 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 in 1987.

***Arthur R. Tan***, Filipino, 59, 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 Group President and Chief Executive Officer of AC Industrial Technology Holdings, Inc. He is also the Chairman of the Board and Chief Executive Officer of PSi Technologies Inc. and Merlin Solar Technologies (Phils.), Inc.; President and Executive Officer of Speedy-Tech Electronics Ltd.; Chairman of the Board of Surface Technology International (STI), Ltd., Chairman of the Advisory Boards of Via Optronics GmbH and MT Technologies GmbH. 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 is not a director of any publicly listed company in the Philippines other than IMI. 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, 61, has been a Director and the President of IMI since June 23, 2016, and the Chief Operating Officer of IMI since February 2014. 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 (now Fremach International) 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. He is not a director of any publicly listed company in the Philippines other than IMI. He finished a degree in Engineering Major in Materials from Lycee Romain Roland in 1976 and obtained a Master's Degree in Physics and Chemistry of Polymer from Paris 13th University in 1976.

***Fernando Zobel de Ayala***, Filipino, 58, 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., ALI Eton Property Development Corporation, 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 AC Industrial Technology Holdings, Inc., 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., AKL Properties Inc., AC Ventures Holding Corp. 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., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, and Manila Peninsula; Member of the Board for INSEAD and Georgetown University; Member of the International Advisory Board of Tikehau Capita; 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, 49, 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 is not a director of any publicly listed company in the Philippines other than IMI. 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, 72, 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, 56, 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. He is aDirector of Globe Telecom, Inc. and Bank of the Philippine Islands, and an Independent Director of SSI Group, Inc., all publicly listed companies. He is the Chairman of Darong Agricultural and Development Corporation and Zapfam, Inc. He is the President and CEO of AC Ventures Holding Corp., AYC Finance Limited, Bestfull Holdings Limited and Purefoods International Limited. 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., AC Infrastructure Holdings Corporation, Ayala Aviation Corporation, AC Education, Inc., Asiacom

Philippines, Inc., AG Counselors Corporation, Michigan Holdings, Inc., AC Industrial Technology Holdings, Inc., 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 was named as the ING-Finex CFO of the Year in 2018. 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 C. Romualdez**,* Filipino, 55, 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, La Croesus Pharma Incorporated and Bio Renewable Energy Ventures Inc.. He is also the Chairman of the Philippine Iron Construction and Marine Works, Inc. and Pacific Resins, Inc. He is not a director of any publicly listed company in the Philippines other than IMI. 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, 62, has been an independent director of IMI since April 2014 and its Lead Independent Director since August 16, 2017. He is currently an independent director of Metropolitan Bank and Trust Company, a publicly listed company, and Energy Development Corporation. He is also in the advisory boards of Mitsubishi Motors Philippines Corporation. He is the Chairman of the Makati Business Club, De La Salle Philippines, College of Saint Benilde, and the Philippine Eagle Foundation. He is also a trustee of various Colleges, of civic and business organizations. 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. 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.

***Hiroshi Nishimura*****,** Japanese, 66, 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 is not a director of any publicly listed company in the Philippines other than IMI. He finished a degree in Electronics Engineering Course at Kurame University in 1976.

***Sherisa P. Nuesa***, Filipino, 64, has been an independent director of IMI since April 2018. Currently, she is the President and Director of the ALFM Mutual Funds Group. Also, she is an Independent Director of the following publicly listed companies: Manila Water Company, Inc. and Far Eastern University. She is also an Independent Director of 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 in Harvard Business School and in 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.

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

All the nominees are incumbent directors.

The certifications on the qualifications and disqualifications of the nominees for independent directors are attached herewith as Annex A-1.

**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, 57, is a Senior Managing Director and the Global Chief Finance Officer of IMI since January 2011. He is responsible for providing leadership, direction and management of all Finance functions including Treasury, Financial Planning & Analysis and Controllership. He brings more than 30 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, 61, 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, 63, 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 30 years including 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, 56, has served as Corporate Secretary of IMI since November 2013. He is a Managing Director of Ayala Corporation since 1999 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 is currently a member of the faculty of the College of Law of San Beda University. 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, 36, has served as Assistant Corporate Secretary of IMI since June 23, 2016. She is also the Assistant Corporate Secretary of Ayala Corporation, Ayala Foundation, AC Education, Inc., 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 attributes its continued success to the collective efforts of its employees, all of whom contribute significantly to the business in various ways.

**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 C. Romualdez, both incumbent directors, are first cousins.

Except for the foregoing, there are no known family relationships between the current members of the Board and the key officers.

**ITEM 10. EXECUTIVE COMPENSATION**

| Name and Principal Position | Year | Salary | Other Income |
|---|---|---|---|
| Arthur R. Tan<br>Chief Executive Officer | | | |
| Gilles Bernard<br>President & Chief Operating Officer | | | |
| Linardo Z. Lopez<br>Senior Managing Director,<br>Global Head of Materials Management | | | |
| Jaime G. Sanchez<br>Vice President, Deputy Chief Financial Officer, Group Controller and Compliance Officer | | | |
| Jerome S. Tan<br>Senior Managing Director, Global Chief Financial Officer/ICT | | | |
| CEO & Other Named Executive Officers | Actual 2017 | ₱ 89.10M | ₱ 36.77M |
| | Actual 2018 | ₱ 145.70M | ₱ 17.42M |
| | Projected 2019 | ₱ 152.99M | ₱ 18.29M |

| | | | |
|---|---|---|---|
| All officers as a group unnamed* | Actual 2017 | ₱ 585.75M | ₱ 152.43M |
| | Actual 2018 | ₱ 684.76M | ₱ 138.64M |
| | Projected 2019 | ₱ 718.99M | ₱ 145.57M |

**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 stated above.

**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, 2019.

| 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 | 1,153,725,046 | 52.0330% |
| Common | PCD Nominee Corporation (Non- Filipino)[7] 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City | PCD participants acting for themselves or for their customers [8] | Various Non-Filipino | 298,926,491 | 13.4816% |
| Common | Resins, Inc.[9] E. Rodriguez Jr. Avenue, Bagong Ilog, Pasig City. | Resins, Inc.[10] | Filipino | 291,785,034 | 13.1595% |
| Common | PCD Nominee Corporation (Filipino)[4] 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[5] | Filipino | 211,052,340 | 9.5185% |
| Common | PCD Nominee Corporation (Non- Filipino)[4] 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City | Fremach International[11] | Belgian | 200,000,000 | 9.0200% |

1) Security ownership of directors and management as of January 31, 2019.

| 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% |

[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] PCD Nominee Corporation (PCD) is not related to the Company.

[8] Each beneficial owner of shares through a PCD participant is the beneficial owner to the extent of the number of shares in his/her account with the PCD participant. The beneficial owner, with certification of ownership of shares from the PCD Participant, has the power to vote either in person or by proxy. Out of the 509,978,831 common shares registered in the name of PCD, 209,722,097 common shares or 9.4585% of the outstanding common shares is for the account of The Hongkong and Shanghai Banking Corporation (HSBC). As advised to the Company, none of HSBC or any of its customers beneficially owns more than 5% of the Company's common shares.

[9] Resins is not related to the Company.

[10] 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.

[11] The Board of Directors of Fremach International has the power to decide how Fremach International's shares in IMI are to be voted. Mr. Jaime Augusto Zobel de Ayala is usually appointed to exercise the voting power.

| | | | | | |
|---|---|---|---|---|---|
| Common | Delfin L. Lazaro | 100 | (direct) | Filipino | 0.0000% |
| Common | Jose Teodoro K. Limcaoco | 100 | (direct) | Filipino | 0.0000% |
| Common | Arthur R. Tan | 21,223,552 | (direct & indirect) | Filipino | 0.9572% |
| Common | Gilles Bernard | 1,280,575 | (direct & indirect) | French | 0.0578% |
| Common | Rafael 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 | 712,578 | (direct & indirect) | Japanese | 0.0321% |
| Common | Sherisa P. Nuesa | 1,003,385 | (direct & indirect) | Filipino | 0.0452% |
| *CEO and Most Highly Compensated Officers* | | | | | |
| Common | Arthur R. Tan | 21,223,552 | (direct & indirect) | Filipino | 0.9572% |
| Common | Gilles Bernard | 1,280,575 | (direct & indirect) | French | 0.0578% |
| Common | Linardo Z. Lopez | 836,268 | (indirect) | Filipino | 0.0377% |
| Common | Jaime G. Sanchez | 113,290 | (direct & indirect) | Filipino | 0.0051% |
| Common | Jerome S. Tan | 3,031,033 | (indirect) | Singaporean | 0.1367% |
| *Other Executive Officers* | | | | | |
| Common | Solomon M. Hermosura | 15 | (indirect) | Filipino | 0.0000% |
| Common | Joanne M. Lim | 0 | | Filipino | 0.0000% |
| **All Directors and Officers as a group** | | **28,201,198** | | | **1.2719%** |

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 2018, 30.63% of IMI's common shares were owned by the public.

## ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company and its subsidiaries, as part of the ordinary course of business, have made advances to, reimbursed expenses of, as well as have executed, among others, lease agreements, supply contracts, and administrative service agreements with, associates and other related parties, all on an arm's length basis and at current market prices at the time of the transactions.

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

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

## 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: 2018 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, 2018 and 2017
Consolidated Statements of Income for the Years ended December 31, 2018, 2017 and 2016
Consolidated Statements of Comprehensive Income for the Years ended December 31, 2018, 2017 and 2016
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2018, 2017 and 2016
Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016
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, 2018

**2018 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 |
|---|---|
| September 17 2018 | Compliance to Directors' and Officers' Continuing Education |
| October 2, 2018 | IMI Opens 21st Manufacturing Site in Serbia |
| October 30, 2018 | Press Release: IMI Posted Net Income of $41.4 Million |
| December 10, 2018 | Compliance to Directors' and Officers' Continuing Education |
| January 3, 2019 | Attendance of the BOD in 2018 |
| February 7, 2019 | Press Release: IMI Revenues Up 24% to US$1.35 Billion in 2018 |

## 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 08, 2019.

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 08 day of April 2019, affiants exhibiting to me their respective passports as follows:

| | Passport No. | Date Of Issue | Place of Issue |
|---|---|---|---|
| Jaime Augusto Zobel de Ayala | P9640299A | Nov. 21, 2018 | Manila City |
| Arthur R. Tan | P7928971A | Jul. 13, 2018 | 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 |

Doc. No. 126
Page No. 27
Book No. XI
Series of 2019.

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

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. 059414 – 01/09/19 – Makati City
PTR No. 7341730ME – 01/08/19 – Makati City
MCLE Compliance No. VI – 0009490 –06/20/2018
27th Floor Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

**EXHIBIT 1**

**2018 Audited Consolidated Financial Statements,**
**Integrated Micro-Electronics, Inc. and Subsidiaries**

imi

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, 2018 and 2017, 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 11 2019 at Makati City, affiants exhibiting to me their respective Passports, to wit:

| Name | Passport No. | Date & Place of Issue |
|---|---|---|
| Jaime Augusto Zobel de Ayala | P9640299A | November 21, 2018 - DFA Manila |
| Arthur R. Tan | P7928971A | July 13, 2018 – DFA NCR East |
| Jerome S. Tan | E5376564C | February 11, 2015 - Singapore |

Doc. No. 41 ;
Page No. 14 ;
Book No. X ;
Series of 2019.

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

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. 059414 – 01/09/19 – Makati City
PTR No. 7341730ME – 01/08/19 – Makati City

Integrated Micro-Electronics, Inc.
and Subsidiaries

Consolidated Financial Statements
December 31, 2018 and 2017
and Years Ended December 31, 2018, 2017
and 2016

and

Independent Auditor's Report

SGV

Building a better
working world

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

# 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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 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.

APR 08 2019

*Adoption of PFRS 15, Revenue from Contracts with Customers*

Effective January 1, 2018, the Group adopted the new revenue recognition standard, PFRS 15, Revenue from Contracts with Customers, under the modified retrospective approach. The adoption of PFRS 15 resulted in significant changes in the Group's revenue recognition policies, process, and procedures. The Group recorded transition adjustments that increased the retained earnings as of January 1, 2018 by \$4.7 million resulting from the change in timing of revenue recognition of certain contracts. For recognition of revenue over time, the Group has applied the cost approach in determining the measure of progress towards complete satisfaction of performance obligation. The adoption of PFRS 15 is significant to our audit because this involves application of significant management judgment in determining the timing of satisfaction of performance obligation over time or point in time.

The disclosures related to the adoption of PFRS 15 are included in Note 3 to the consolidated financial statements.

*Audit response*

We obtained an understanding of the Group's process in implementing the new revenue recognition standard. We reviewed the PFRS 15 accounting policies prepared by management and contract analysis. We obtained sample contracts and reviewed whether the accounting policies appropriately considered the five-step model and cost requirements of PFRS 15. We checked whether the Group's timing of revenue recognition is based on when the performance occurs and control of the related goods or services is transferred to the customer. In addition, we reviewed the transition adjustment calculation prepared by management by testing the calculations and inputs used including the cost incurred and gross profit margins. We obtained an understanding of the Group's cost accumulation process and performed test of relevant controls. For selected projects, we tested the cost incurred by tracing to the cost accumulation worksheet which includes raw materials issued to production, labor and overhead cost incurred. Furthermore, we tested the gross profit margins by comparing to the agreed sales price, performing trend analysis and comparing to prior year. We also reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 15.

*Valuation of the contingent consideration in relation to the acquisition of STI Enterprises Ltd. (STI)*

The terms of the acquisition of STI in 2017 included contingent consideration based on normalized average earnings before interest, taxes, depreciation and amortization (EBITDA) in 2018 and 2019 which amounted to \$3.7 million as of December 31, 2018. We considered the fair valuation of the contingent consideration to be a key audit matter because it requires significant management judgment and is based on estimates, specifically revenue forecast, gross margin and discount rate.

The Group's disclosures about the acquisition and the related contingent consideration are included in Notes 2, 24 and 32 to the consolidated financial statements.

*Audit response*

We involved our internal specialists in testing the fair value of the contingent consideration, including the evaluation of the methodologies and key assumptions used. These assumptions include revenue forecast, gross margin and discount rate. We evaluated the revenue forecast against STI's recent financial performance, the Group's business plan and industry outlook, and compared gross margin against historical rates. We tested the parameters used in the derivation of the discount rate against market data. We also reviewed the presentation and disclosures made in the consolidated financial statements.

*Valuation of the put options arising from the acquisition of VIA Optronics GmbH (VIA) and 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 $26.1 million as of December 31, 2018. 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 18 and 32 to the consolidated financial statements, respectively.

*Audit response*

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

*Recoverability of Goodwill*

Under PFRS, the Group is required to annually test the amount of goodwill for impairment. As of December 31, 2018, 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 $141.4 million, which is considered significant to the consolidated financial statements. In addition, management's impairment 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 11 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, 2018, 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, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Carlo Paolo V. Manalang

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. 7332576, January 3, 2019, Makati City

February 11, 2019

APR 08 2019

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

| | December 31 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 5) | $108,534,341 | $90,627,228 |
| Receivables (Note 6) | 311,496,509 | 263,115,347 |
| Contract assets (Note 7) | 63,484,194 | – |
| Inventories (Note 8) | 192,663,040 | 199,614,807 |
| Other current assets (Note 9) | 20,824,207 | 27,054,631 |
| Total Current Assets | 697,002,291 | 580,412,013 |
| **Noncurrent Assets** | | |
| Property, plant and equipment (Note 10) | 191,742,132 | 164,596,056 |
| Goodwill (Note 11) | 141,369,712 | 147,370,912 |
| Intangible assets (Note 12) | 27,789,568 | 22,898,566 |
| Financial assets at FVOCI (Notes 13 and 32) | 1,076,455 | 831,364 |
| Deferred tax assets - net (Note 25) | 3,156,216 | 3,017,910 |
| Other noncurrent assets (Note 14) | 8,456,236 | 1,790,915 |
| Total Noncurrent Assets | 373,590,319 | 340,505,723 |
| | $1,070,592,610 | $920,917,736 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses (Note 15) | $291,174,720 | $284,278,710 |
| Contract liabilities (Note 7) | 1,831,060 | – |
| Loans and trust receipts payable (Note 16) | 136,338,960 | 135,057,620 |
| Other financial liabilities (Notes 2, 18 and 32) | 29,805,183 | 22,317,860 |
| Current portion of long-term debt (Note 17) | 63,431,844 | 6,872,679 |
| Income tax payable | 3,531,224 | 3,821,856 |
| Total Current Liabilities | 526,112,991 | 452,348,725 |
| **Noncurrent Liabilities** | | |
| Noncurrent portion of: | | |
| Long-term debt (Notes 17 and 32) | 124,543,174 | 158,224,056 |
| Obligation under finance lease (Note 30) | 66,942 | 223,771 |
| Net retirement liabilities (Note 27) | 4,232,934 | 5,132,145 |
| Deferred tax liabilities - net (Note 25) | 3,950,330 | 2,308,562 |
| Other noncurrent liabilities (Notes 12, 18, 24 and 32) | 5,249,903 | 26,085,878 |
| Total Noncurrent Liabilities | 138,043,283 | 191,974,412 |
| Total Liabilities | 664,156,274 | 644,323,137 |

(Forward)

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| **EQUITY** | | |
| **Equity Attributable to Equity Holders of the Parent Company** | | |
| Capital stock - common (Note 19) | $42,648,042 | $35,709,679 |
| Subscribed capital stock (Note 19) | 815,198 | 1,058,278 |
| Additional paid-in capital (Note 19) | 146,513,264 | 58,121,266 |
| Subscriptions receivable (Note 19) | (3,402,940) | (5,351,844) |
| Retained earnings (Note 19) | 236,289,815 | 194,499,540 |
| Treasury stock (Note 19) | (1,012,588) | (1,012,588) |
| Other components of equity (Notes 3 and 13) | (1,096,364) | 454,457 |
| Cumulative translation adjustment | (12,894,291) | (2,537,686) |
| Remeasurement losses on defined benefit plans (Note 27) | (6,235,794) | (7,437,096) |
| | 401,624,342 | 273,504,006 |
| **Equity Attributable to Non-controlling Interests in Consolidated Subsidiaries** | 4,811,994 | 3,090,593 |
| Total Equity | 406,436,336 | 276,594,599 |
| | $1,070,592,610 | $920,917,736 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| REVENUE FROM CONTRACTS WITH CUSTOMERS | $1,349,400,445 | $1,090,588,189 | $842,966,424 |
| COST OF SALES (Note 20) | 1,213,159,204 | 960,989,543 | 741,657,043 |
| GROSS PROFIT | 136,241,241 | 129,598,646 | 101,309,381 |
| OPERATING EXPENSES (Note 21) | (96,519,202) | (89,160,675) | (58,366,442) |
| OTHERS - Net | | | |
| Interest expense and bank charges (Note 23) | (11,992,384) | (6,900,807) | (3,884,454) |
| Foreign exchange gains (losses) - net | (3,845,781) | 1,273,773 | (2,437,818) |
| Interest income (Note 5) | 998,995 | 166,246 | 294,035 |
| Miscellaneous income (loss).- net (Note 24) | 31,766,540 | 6,928,149 | (2,092,149) |
| | 16,927,370 | 1,467,361 | (8,120,386) |
| INCOME BEFORE INCOME TAX | 56,649,409 | 41,905,332 | 34,822,553 |
| PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25) | | | |
| Current | 7,737,422 | 7,982,335 | 6,942,950 |
| Deferred | 1,060,931 | (519,741) | (136,306) |
| | 8,798,353 | 7,462,594 | 6,806,644 |
| NET INCOME | $47,851,056 | $34,442,738 | $28,015,909 |
| Net Income (Loss) Attributable to: | | | |
| Equity holders of the Parent Company | $45,506,927 | $34,001,982 | $28,115,891 |
| Non-controlling interests | 2,344,129 | 440,756 | (99,982) |
| | $47,851,056 | $34,442,738 | $28,015,909 |
| Earnings Per Share (Note 26) | | | |
| Basic and diluted | $0.021 | $0.018 | $0.015 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **NET INCOME** | $47,851,056 | $34,442,738 | $28,015,909 |
| **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 | (11,759,452) | 18,337,331 | (4,094,917) |
| Fair value changes on available-for-sale financial assets – net of tax (Note 13) | – | 85,926 | 117,501 |
| | (11,759,452) | 18,423,257 | (3,977,416) |
| *Other comprehensive loss not to be reclassified into profit or loss in subsequent periods:* | | | |
| Remeasurement gains (losses) on defined benefit plans (Note 27) | 1,201,302 | (1,008,836) | (132,587) |
| Fair value changes on financial assets at FVOCI – net of tax (Note 13) | 202,768 | – | – |
| | (10,355,382) | 17,414,421 | (4,110,003) |
| **TOTAL COMPREHENSIVE INCOME** | $37,495,674 | $51,857,159 | $23,905,906 |
| **Total Comprehensive Income (Loss) Attributable to:** | | | |
| Equity holders of the Parent Company | $36,554,392 | $51,075,560 | $24,111,322 |
| Non-controlling interests | 941,282 | 781,599 | (205,416) |
| | $37,495,674 | $51,857,159 | $23,905,906 |

*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, 2018, 2017 and 2016

| | 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 (Note 19) | Other Components of Equity (Notes 3 and 13) | Cumulative Translation Adjustment | Remeasurement losses on defined benefit plans (Note 27) | Attributable to Non-controlling Interests | Total |
| Balances at January 1, 2018 | $35,709,679 | $1,058,278 | $58,121,266 | ($5,351,844) | $194,499,540 | ($1,012,588) | $454,457 | ($2,537,686) | ($7,437,096) | $3,090,593 | $276,594,599 |
| Cumulative catch-up adjustment due to adoption of PFRS 9 and 15 (Note 3) | – | – | – | – | 6,413,470 | – | (1,753,589) | – | – | 295,522 | 4,955,403 |
| Balances at January 1, 2018, adjusted | 35,709,679 | 1,058,278 | 58,121,266 | (5,351,844) | 200,913,010 | (1,012,588) | (1,299,132) | (2,537,686) | (7,437,096) | 3,386,115 | 281,550,002 |
| Issued shares during the year | 220,513 | (220,513) | – | – | – | – | – | – | – | – | – |
| Issued shares from stock rights offer | 6,717,850 | – | 89,213,052 | – | – | – | – | – | – | – | 95,930,902 |
| Transaction costs on shares issuance | – | – | (660,853) | – | – | – | – | – | – | – | (660,853) |
| Cost of share-based payments (Note 28) | – | – | 29,589 | – | – | – | – | – | – | – | 29,589 |
| Collections on subscriptions | – | – | – | 1,736,547 | – | – | – | – | – | – | 1,736,547 |
| Forfeitures during the year | – | (22,567) | (189,790) | 212,357 | – | – | – | – | – | – | – |
| Increase in non-controlling interest due to acquisition of a subsidiary during the year (Note 2) | – | – | – | – | – | – | – | – | – | 535,571 | 535,571 |
| Effect of finalization of business combination | – | – | – | – | – | – | – | – | – | (50,974) | (50,974) |
| Cash dividends | – | – | – | – | (10,130,122) | – | – | – | – | – | (10,130,122) |
| | 42,648,042 | 815,198 | 146,513,264 | (3,402,940) | 190,782,888 | (1,012,588) | (1,299,132) | (2,537,686) | (7,437,096) | 3,870,712 | 368,940,662 |
| Net income | – | – | – | – | 45,506,927 | – | – | – | – | 2,344,129 | 47,851,056 |
| Other comprehensive income (loss) | – | – | – | – | – | – | 202,768 | (10,356,605) | 1,201,302 | (1,402,847) | (10,355,382) |
| Total comprehensive income (loss) | – | – | – | – | 45,506,927 | – | 202,768 | (10,356,605) | 1,201,302 | 941,282 | 37,495,674 |
| Balances at December 31, 2018 | $42,648,042 | $815,198 | $146,513,264 | ($3,402,940) | $236,289,815 | ($1,012,588) | ($1,096,364) | ($12,894,291) | ($6,235,794) | $4,811,994 | $406,436,336 |

*See accompanying Notes to Consolidated Financial Statements.*

| | 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 (Note 19) | Other Components of Equity (Notes 3 and 13) | Cumulative Translation Adjustment | Remeasurement losses on defined benefit plans (Note 27) | Attributable to Non-controlling Interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to Equity Holders of the Parent Company | | | | | | Other Comprehensive Income (Loss) | | | | |
| Balances at January 1, 2017 | $34,935,709 | $1,857,440 | $70,927,587 | ($12,334,692) | $168,932,158 | ($1,012,586) | $368,531 | ($20,534,174) | ($6,428,260) | $2,616,249 | $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 19) | – | – | (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 | (20,534,174) | (6,428,260) | 2,308,994 | 224,737,440 |
| Net income | – | – | – | – | 34,001,982 | – | – | – | – | 440,756 | 34,442,738 |
| Other comprehensive income (loss) | – | – | – | – | – | – | 85,926 | 17,996,488 | (1,008,836) | 340,843 | 17,414,421 |
| Total comprehensive income (loss) | – | – | – | – | 34,001,982 | – | 85,926 | 17,996,488 | (1,008,836) | 781,599 | 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 | ($2,537,686) | ($7,437,096) | $3,090,593 | $276,594,599 |

*See accompanying Notes to Consolidated Financial Statements.*

| | 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 19) | – | – | (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 | (12,334,892) | 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 | (3,989,483) | (132,587) | – | (105,434) | (4,110,003) |
| Total comprehensive income (loss) | – | – | – | – | 28,115,891 | – | 117,501 | (3,989,483) | (132,587) | – | (205,416) | 23,905,906 |
| Balances at December 31, 2016 | $34,935,709 | $1,857,440 | $70,927,567 | ($12,334,892) | $168,932,158 | ($1,012,586) | $368,531 | ($20,534,174) | ($6,428,260) | $– | $2,616,249 | $239,327,942 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 2018 | 2017 | 2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | $56,649,409 | $41,905,332 | $34,822,553 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment (Note 10) | 29,373,557 | 24,241,821 | 22,472,246 |
| Reversal of contingent liability (Notes 18 and 24) | (21,304,030) | – | – |
| Net gain on disposal of a subsidiary (Note 24) | (19,062,344) | – | – |
| Interest expense (Note 23) | 10,566,675 | 5,723,185 | 3,297,733 |
| Impairment loss on goodwill (Notes 11 and 24) | 6,902,838 | – | – |
| Amortization of intangible assets (Note 12) | 6,024,201 | 4,387,950 | 1,989,548 |
| Mark-to-market loss (gain) on put options (Note 24) | 5,372,114 | (2,298,664) | 40,785 |
| Unrealized foreign exchange losses (gains) - net | 4,460,835 | 131,591 | (57,843) |
| Interest income (Note 5) | (998,995) | (166,246) | (294,035) |
| Loss (gain) on sale and retirement of property, plant and equipment (Note 10) | (189,298) | (48,116) | 143,034 |
| Loss (gain) on derivative transactions (Note 33) | (152,368) | 30,144 | 113,455 |
| Cost of share-based payments (Note 28) | 29,589 | 262,618 | 744,130 |
| Reversal of impairment of property, plant and equipment (Note 10) | – | (815,150) | – |
| Impairment loss on product development cost (Note 12) | – | 524,705 | – |
| Gain on insurance claims (Note 24) | – | – | (360,895) |
| Operating income before working capital changes | 77,672,183 | 73,879,170 | 62,910,711 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Receivables | (53,205,291) | (39,881,615) | (9,314,375) |
| Inventories | (36,538,678) | (75,590,879) | (13,299,183) |
| Contract assets | (16,364,351) | – | – |
| Other current assets | 5,871,820 | (9,499,047) | (5,365,246) |
| Increase (decrease) in: | | | |
| Accounts payable and accrued expenses | 30,969,749 | 46,497,566 | 11,291,119 |
| Contract liabilities | (3,794,787) | – | – |
| Advances from customers | (1,843,501) | (640,640) | 2,029,988 |
| Retirement liabilities | 549,433 | 97,419 | (1,569,301) |
| Accrued rent | – | (3,555) | (370,147) |
| Other noncurrent liabilities | – | 123,259 | (54,857) |
| Net cash generated from (used in) operations | 3,316,577 | (5,018,322) | 46,258,709 |
| Income tax paid | (8,028,054) | (7,945,950) | (6,025,529) |
| Interest paid | (9,624,264) | (5,416,600) | (3,037,688) |
| Interest received | 998,995 | 166,246 | 306,506 |
| Net cash provided by (used in) operating activities | (13,336,746) | (18,214,626) | 37,501,998 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of: | | | |
| Property, plant and equipment (Note 10) | (63,822,429) | (61,872,944) | (48,344,218) |
| Intangible assets (Note 12) | (1,139,531) | (3,381,178) | (3,886,107) |
| Acquisition through business combination, net of cash acquired (Note 2) | (1,965,358) | (25,705,865) | (46,878,629) |
| Increase (decrease) in advances from third party | (9,231,423) | 14,233,872 | 6,538,462 |
| Capitalized product development costs, excluding depreciation (Note 12) | (3,476,821) | (4,459,707) | (4,004,265) |
| Proceeds from sale and retirement of property, plant and equipment | 3,136,331 | 1,940,767 | 289,493 |
| Decrease (increase) in other noncurrent assets | (6,665,321) | 864,080 | (531,198) |
| Net cash used in investing activities | (83,164,552) | (78,380,975) | (96,816,462) |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from stock rights offering (Notes 5 and 19) | $95,930,902 | $– | $– |
| Availments of loans | 66,879,877 | 131,077,301 | 265,905,842 |
| Payments of: | | | |
| Loans payable | (35,152,844) | (20,419,648) | (129,611,778) |
| Long-term debt | (6,710,439) | (9,177,386) | (83,007,267) |
| Dividends paid to equity holders of the Parent Company (Note 19) | (10,130,122) | (8,434,600) | (8,620,747) |
| Collections of subscriptions receivable (Note 19) | 1,736,547 | 6,765,378 | 462,377 |
| Settlement of derivatives (Note 33) | 112,675 | 56,495 | (114,400) |
| Cash paid on acquisition of non-controlling interests (Note 2) | – | – | (360,301) |
| Increase in noncurrent liabilities (Note 15) | 1,949,887 | – | – |
| Net cash provided by financing activities | 114,616,483 | 99,867,540 | 44,653,726 |
| **EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS** | (208,072) | 806,554 | (322,936) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 17,907,113 | 4,078,493 | (14,983,674) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 90,627,228 | 86,548,735 | 101,532,409 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 5) | $108,534,341 | $90,627,228 | $86,548,735 |

*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 is 52.03% owned by AC Industrial Technology Holdings, Inc. (AC Industrials), a wholly-owned subsidiary of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE).

AC is 47.04% owned by Mermac, Inc., 8.65% 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. On March 2, 2018, the Parent Company completed the stock rights offer and listing of 350,000,000 common shares to all eligible stockholders.

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 and China. 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 allows 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 enables the scale to introduce patented technology into automotive camera monitor systems for increased safety.

In 2018, VIA agreed to form a new joint venture company with a Japanese entity through the acquisition of 65% ownership interest. The new joint venture company, VTS-Touchsensor Co., Ltd. (VTS) serves the market for copper-based metal mesh touch sensors in Japan.

In 2016, Cooperatief 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 was completed and inaugurated in September 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 strengthens the Group’s industrial and automotive manufacturing competencies, broaden its customer base, and also provides 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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 were endorsed for approval by the Audit Committee on February 7, 2019 and authorized for issue by the Parent Company’s Board of Directors (BOD) on February 11, 2019.

## 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 2018 | 2017 | 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% | China | USD |
| IMI Technology (Shenzhen) Co. Ltd. (IMI SZ) [a] | **100.00%** | 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 | **100.00%** | 100.00% | Bulgaria | EUR |
| Microenergia EOOD (Microenergia) | **100.00%** | 100.00% | Bulgaria | Bulgarian Lev (BGN) |
| Integrated Micro-Electronics d.o.o. Niš (IMI Serbia) | **100.00%** | 100.00% | Serbia | Serbian Dinar (RSD) |
| Integrated Micro-Electronics Czech Republic s.r.o. | **100.00%** | 100.00% | Czech Republic | EUR |
| IMI Display s.r.o. (IMI CZ) [f] | **–** | 100.00% | Czech Republic | EUR |
| Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. | **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) | **100.00%** | 100.00% | China | RMB |
| VIA Optronics LLC (VIA LLC) | **100.00%** | 100.00% | USA | USD |
| VTS-Touchsensor Co., Ltd. (VTS) | **65.00%** | – | Japan | Japanese Yen (JPY) |
| Integrated Micro-Electronics UK Limited (IMI UK) | **100.00%** | 100.00% | United Kingdom | British Pounds (GBP) |
| Surface Technology International Enterprises Ltd (STI) | **80.00%** | 80.00% | United Kingdom | GBP |
| STI Limited | **100.00%** | 100.00% | United Kingdom | GBP |
| STI Philippines Inc. (STIPH) | **100.00%** | 100.00% | Philippines | USD |
| STI Asia Ltd [d] | **100.00%** | 100.00% | Hong Kong | Hong Kong Dollar (HKD) |
| STI Supplychain Ltd [d] | **100.00%** | 100.00`% | United Kingdom | GBP |
| ST Intercept Limited [e] | **100.00%** | – | 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) [d] | **40.00%** | 40.00% | Philippines | USD |
| Pacsem Realty, Inc. (Pacsem Realty) [d] | **64.00%** | 64.00% | Philippines | USD |

[a] *New entity incorporated in Shenzhen which now runs the manufacturing operations of Pingshan and Kuichong. The sale of SZSTE was completed on June 30, 2018.*

[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 was deregistered in 2018.*

[d] *In the process of liquidation*

[e] *Newly incorporated company intended for new business contracts of start-up companies*

[f] *Closed in December 2018 through formal legal merger*

Business Combinations

*Acquisition of VTS-Touchsensor Co., Ltd. (VTS)*

On April 9, 2018, VIA and Toppan Printing Co., Ltd. (Toppan) entered into a joint venture agreement to serve the market for copper-based metal mesh touch sensors. The agreement provides that Toppan transfer 65% of its shares in VTS to VIA. VTS is a newly formed spin-off company of Toppan.

VTS develops and manufactures the metal mesh touch sensors in Japan on the existing premises of Toppan. The new setup strengthens VIA's portfolio of differentiated and value-added sensor technology for touch panels, touch-display modules, display head assemblies, and interactive display systems across multiple markets and segments.

The Group elected to measure the non-controlling interest in VTS at the proportionate share of its interest in the acquiree's identifiable net assets.

The purchase price allocation for the acquisition of VTS has been prepared on a preliminary basis since the fair valuation is still ongoing 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, inventories and goodwill. The valuation is expected to be finalized within one year from the acquisition date. The provisional goodwill recognized on the acquisition can be attributed to its years of knowledge and experience of market requirements, system-level design, and production in the automotive, consumer and industrial markets to support further development of the core sensor technology.

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.

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

| | Provisional Fair Values |
|---|---|
| **Assets** | |
| Receivables | $184,781 |
| Inventories | 1,243,686 |
| Property, plant and equipment (Note 10) | 97,536 |
| Intangible assets (Note 12) | 5,258,211 |
| | 6,784,214 |
| **Liabilities** | |
| Other noncurrent liabilities | 5,254,010 |
| **Net Assets** | **1,530,204** |
| Non-controlling interest (35%) | (535,571) |
| Goodwill (Note 11) | 970,725 |
| **Cost of acquisition** | **$1,965,358** |

From the date of acquisition, VTS contributed $26.46 million of revenue and $0.95 million profit before tax to the Group.

Acquisition-related costs, which consist of professional and legal fees, travel and recruitment services amounting to $1.47 million were recognized as expense in 2018.

*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 Group elected to measure the non-controlling interest in STI at the proportionate share of its interest in the acquiree's identifiable net assets.

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 | **$4,046,326** | $4,044,635 |
| Receivables | **11,195,536** | 11,604,826 |
| Inventories | **14,116,073** | 13,896,786 |
| Other current assets | **3,445,150** | 3,951,940 |
| Property, plant and equipment | **5,963,453** | 5,983,710 |
| Intangible asset | **1,438,061** | 369,725 |
| | **40,204,599** | 39,851,622 |
| **Liabilities** | | |
| Trade payable and other current liabilities | **25,404,077** | 24,441,769 |
| Short and long-term debt | **15,107,705** | 15,107,705 |
| Other noncurrent liabilities | **1,483,960** | 1,838,426 |
| | **41,995,742** | 41,387,900 |
| **Net Liabilities** | **(1,791,143)** | (1,536,278) |
| Non-controlling interest (20%) | **358,228** | 307,255 |
| Goodwill | **56,158,624** | 55,954,732 |
| **Cost of acquisition** | **$54,725,709** | $54,725,709 |

The changes in the fair values pertain to the audited balances of STI as of acquisition date. The prior period comparative information was not restated since the audited fair values approximates the provisional carrying values. Management assessed that as a contract manufacturer, STI does not hold any intellectual property rights and that there are no existing customer relationships. For fixed assets, there is no fair value adjustment required due to the age and nature of equipment. 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 initial purchase consideration of £23.00 million ($29.75 million) was paid in cash upon signing of the agreement. The contingent consideration is based 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 (see Note 18). Fair values of the contingent consideration amounted to £2.94 million ($3.73 million) and £19.31 million ($24.98 million) as of December 31, 2018 and 2017, respectively.

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 agreement also provided details regarding the sale of additional shares from the non-controlling interest through the grant of put and call options. The Group accounted for the call option as a derivative asset at nil value. The Group accounted for the put option as a financial liability measured at the present value of the redemption amount which amounted to $10.36 million and $10.24 million as of December 31, 2018 and 2017, respectively (see Note 18).

From the date of acquisition up to December 31, 2017, 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.

Acquisition-related costs, which consist of professional and legal fees, financing and transaction costs, taxes, representation and travel expenses amounting to $1.38 million were recognized as expense in the consolidated statements of income.

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 financial assets at fair value through other comprehensive income (FVOCI). 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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018.

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 PFRS 9, *Financial Instruments,* as a derivative asset carried at fair value through profit or loss.

The financial liability for the put option is accounted for under PFRS 9 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 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, 2018. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance, unless otherwise indicated.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, and PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

  PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosure.

  The Group adopted the new standard using the modified retrospective method and elected to apply that method only to those contracts that were not completed at the date of initial application.

  The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 18 and related Interpretations.

  The effects of the adoption of PFRS 15 on the consolidated financial statements as of January 1, 2018 are as follows:

| Increase (decrease) in: | |
|---|---|
| Contract assets | $48,920,194 |
| Inventories | (43,101,766) |
| Accounts payable and accrued expenses | (5,625,847) |
| Contract liabilities | 5,625,847 |
| Deferred tax liabilities | 863,025 |
| Retained earnings | 4,659,881 |
| Non-controlling interests in balance sheet | 295,522 |

  Set out below are the amounts by which each financial statement line item is affected as of and for the year ended December 31, 2018 as a result of adoption of PFRS 15.

*Consolidated Balance Sheets*

| | As reported under PFRS 15 | Balances under PAS 18 | Increase/ (Decrease) |
|---|---|---|---|
| **Assets** | | | |
| Contract assets | $63,484,194 | $– | $63,484,194 |
| Inventories | 192,663,040 | 249,162,163 | (56,499,123) |
| | 256,147,234 | 249,162,163 | 6,985,071 |
| **Liabilities** | | | |
| Accounts payable and accrued expenses | 291,174,720 | 293,005,780 | (1,831,060) |
| Contract liabilities | 1,831,060 | – | 1,831,060 |
| Deferred tax liabilities | 3,950,330 | 2,985,497 | 964,833 |
| | 296,956,110 | 295,991,277 | 964,833 |
| **Equity** | | | |
| Retained earnings | 236,289,815 | 230,587,824 | 5,701,991 |
| Non-controlling interests in balance sheet | 4,811,994 | 3,978,584 | 833,410 |
| Cumulative translation adjustment | (12,894,291) | (13,409,454) | (515,163) |
| | $228,207,518 | $221,156,948 | $6,020,238 |

*Consolidated Statements of Income*

| | As reported under PFRS 15 | Balances under PAS 18 | Increase/ (Decrease) |
|---|---|---|---|
| Sales | $1,349,400,445 | $1,333,036,094 | $16,364,351 |
| Cost of sales | 1,213,159,204 | 1,198,564,067 | 14,595,137 |
| Provision for deferred tax | 1,060,931 | 871,715 | 189,216 |
| Share of non-controlling interest | 2,344,129 | 2,157,778 | 186,351 |

The adoption did not have a material impact on the Group's operating, investing and financing cash flows.

The nature of the adjustments as at January 1, 2018 and the reasons for the significant changes in the consolidated balance sheet as at December 31, 2018 and the consolidated statement of income for the year ended December 31, 2018 are described below:

- Manufacturing of goods
  Prior to the adoption of PFRS 15, the Group recognized revenue from sale of goods 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. Revenue from sale of services was recognized when the related services to complete the required units have been rendered.

  Under PFRS 15, the Group assessed that revenue from manufacturing services shall be recognized over time. For turnkey contracts, revenue is recognized over time since the products created have no alternative use to the Group considering that manufacturing services are performed only based on customer purchase order or scheduling agreement, and the Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than the Group's failure to perform as promised. For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as the Group performs.

  For work-in-process and finished goods inventories not covered by customer purchase orders or firm delivery schedule, and non-recurring engineering charges, tooling and other pre-production revenue stream, revenues are recognized at a point in time.

- Contract liabilities
  Advance payments received for manufacturing of goods were recorded as contract liability. Revenue is recognized as the related manufacturing goods are rendered.

- 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, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

  The adoption of the new standard has the following impact to the Group:

  a) *Classification and measurement*
  Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding. The classification and measurement requirements of PFRS 9 did not have a significant impact on the Group. The following are the changes in the classification of the Group's financial assets:

  - Cash and cash equivalents, trade receivables and other noncurrent financial assets (i.e., miscellaneous deposits reported under "Other noncurrent assets" account) classified as loans and receivables as at December 31, 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are continued to be carried at amortized cost under PFRS 9 beginning January 1, 2018.

  - Investments in club shares and equity investments in non-listed companies classified as Available-for-sale (AFS) financial assets as at December 31, 2017 are classified and measured as equity instruments designated at FVOCI beginning January 1, 2018. The Group elected to classify irrevocably its non-listed equity investments under this category as it intends to hold these investments for the foreseeable future. The cumulative impairment losses previously recognized under PAS 39 for equity instruments measured at FVOCI was transferred from retained earnings to OCI. As a result, a cumulative catch-up adjustment was made as of January 1, 2018 resulting to a decrease in OCI and an increase in retained earnings of $1.75 million.

  There are no changes in the classification and measurement of the Group's financial liabilities.

  In summary, upon adoption of PFRS 9, the Group had the following required or elected reclassifications as at January 1, 2018:

| | | PFRS 9 measurement category | |
|---|---|---|---|
| PAS 39 measurement category | | Amortized cost | Fair value through OCI |
| Loans and receivables | | | |
| Cash and cash equivalents | $90,627,228 | $90,627,228 | $– |
| Accounts receivables | 263,115,347 | 263,115,347 | – |
| Other noncurrent financial assets | 1,647,864 | 1,647,864 | – |
| AFS financial assets | 831,364 | – | 831,364 |
| | $356,221,803 | $355,390,439 | $831,364 |

b) *Impairment*
The adoption of PFRS 9 changed the accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at FVPL and contract assets. The Group has applied the simplified approach or a provision matrix for measuring ECL of trade receivables and contract assets. The Group uses a provision matrix which is based on historical observed default rate or losses and adjusted by forward-looking estimate. For non-trade receivable, general approach was used for measuring ECL. Adoption of the ECL approach under PFRS 9 did not result in changes in the impairment loss allowance of the Group's financial assets as of 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. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

  The Group's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

a) 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.

- 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 did not have any impact on the Group's consolidated financial statements.

- 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. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

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

- 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. Retrospective application of this interpretation is not required.

  Since the Group's current practice is in line with the clarifications issued, the interpretation did not have any effect on its Group's consolidated financial statements.

*Effective beginning on or after January 1, 2019*

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

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.  The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  The Group does not expect that this Standard will have a significant impact on the consolidated financial statements.

- 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.

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 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

  The Group will assess the impact on 2019's actuarial valuation.

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

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

- 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 this interpretation.

- *Annual Improvements to PFRS* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

*Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

  PFRS 17 is 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.

*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.

<u>Current versus Noncurrent Classification</u>
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 (Upon Adoption of PFRS 9 beginning January 1, 2018)
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

a) Financial assets
*Initial recognition and measurement*
Financial assets are classified at fair value, at initial recognition, and subsequently measured at amortized cost, FVOCI, and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

*Subsequent measurement*
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)

- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

The financial assets of the Group as of December 31, 2018 consist of financial assets at amortized cost (debt instruments) and financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

*Financial assets at amortized cost (debt instruments)*
This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes cash and cash equivalents, receivables and miscellaneous deposits included under "Other noncurrent assets" account.

*Financial assets designated at FVOCI (equity instruments)*
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation,* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statements of income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Group elected to classify irrevocably its investments in club shares and non-listed common equity shares under this category.

*Financial assets at FVPL*
Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the consolidated balance sheets at fair value with net changes in fair value recognized in the consolidated statements of income.

This category includes derivative instruments which the Group had not irrevocably elected to classify at FVOCI.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

*Derecognition*
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights 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 rights 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 Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Impairment of Financial Assets (Upon Adoption of PFRS 9 beginning January 1, 2018)*
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

b) Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

*Financial liabilities at FVPL*

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statements of income.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied.

This category applies to the Group's derivative liabilities, financial liabilities on put options over the non-controlling interests and contingent consideration liability.

*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.

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 category applies to the Group's accounts payable and accrued expenses (excluding advances from customers, advances from third party, statutory payables and taxes payables), loans and trust receipts payable and long-term debt.

*Derecognition*

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 the 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.

c) Offsetting of financial instruments

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

<u>Financial Instruments (Prior to Adoption of PFRS 9)</u>
*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 financial instruments of the Group as of December 31, 2017 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 as at December 31, 2017.

*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 as at December 31, 2017.

*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 non-listed common equity shares as at December 31, 2017.

The accounting policy related to the classification and measurement of the Group's financial liabilities, derecognition of financial assets and liabilities and offsetting of financial instruments as at December 31, 2017 is consistent with that under PFRS 9.

*Impairment of Financial Assets (Prior to Adoption of PFRS 9)*
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.

Fair Value Measurement
The Group measures its derivatives, financial assets at FVOCI and financial liabilities at FVPL 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.

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

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

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

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

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

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

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

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

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

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

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

Borrowing Costs

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

Business Combinations and Goodwill

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

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.
Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability, that is a financial instrument and within the scope of PFRS 9 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 PFRS 9 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 |
|---|---|
| Customer relationships | 5 |
| Unpatented technology | 5 |
| Licenses | 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 STI, STEL, the Parent Company and IMI CZ is tested for impairment annually as of September 30. Goodwill allocated to VIA is tested annually as of December 31. Goodwill is also tested for impairment when circumstances indicate that the carrying amount is impaired. Provisional goodwill allocated to a CGU is also tested for impairment even if the fair value exercise is not complete during the year.

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

Provisions

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

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

Equity

*Capital stock*

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

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

*Additional paid-in capital*

Additional paid-in capital pertains to the difference of the par value and selling price of issued and outstanding shares of stock. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against "Retained earnings" account. The financial liabilities for the put options over the non-controlling interests are recognized at the acquisition date with a debit to additional paid-in capital.

*Subscriptions receivable*

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

*Retained earnings and dividends on capital stock of the Parent Company*

Retained earnings represent net accumulated earnings of the Group, less dividends declared. 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 (Upon adoption of PFRS 15 beginning January 1, 2018)

a) Revenue from contracts with customers

The Group is in the business of providing electronic manufacturing and other related services to various customers. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

*Manufacturing of goods*
The Group provides manufacturing services in accordance with the customer's specifications. The Group promises to provide a combined performance obligation comprised of non-distinct goods or services, which include issuance of materials to production, assembly, testing and packaging.

Contracts with customers are generally classified as turnkey or consignment. In a turnkey contract, the Group procures the materials and provides the assembly services to the customer. In a consignment contract, the Group only provides assembly services to the customer.

For turnkey contracts, revenue is recognized over time since the products created have no alternative use to the Group and the Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than the Group's failure to perform as promised.

For goods manufactured not covered by customer purchase orders or firm delivery schedule, revenues are recognized at a point in time, when control of the asset is transferred to the customer, generally when goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customer.

For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as the Group performs.

*Non-recurring engineering services*
Non-recurring engineering charges, tooling and other pre-production revenue stream (NREs) are recognized at a point in time since the criteria for over time recognition is not met. This is based on the assessment that while, in general, the Group has no alternative use for these NREs, either due to customization or restrictions by the customer, there is no assurance or relevant experience that IMI has enforceable right to payment or can recover the cost, plus reasonable margin, in case of contract termination. Point in time revenue recognition for NREs would mean revenue is recognized upon customer acceptance of the NREs (transfer of control).

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., customer options that provide material rights to customers, warranties). In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer, if any.

*Variable consideration*
If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

*Significant financing component*
The Group's contracts with its customers are short-term in nature. Using the practical expedient in PFRS 15, the Group does not adjust the promised amount of consideration of the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The Group does not have significant separate performance obligations wherein the transaction price needs to be allocated as of December 31, 2018.

b) Contract balances

*Contract asset*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

*Contract liability*

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). A contract liability is recognized as revenue when the Group performs under the contract.

c) Cost to obtain a contract

The Group pays sales commission to its employees for each contract that they obtain. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions (included under operating expenses) because the amortization period of the asset that the Group otherwise would have used is one year or less.

<u>Revenue Recognition (Prior to Adoption of PFRS 15)</u>

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.

<u>Other Income</u>

*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.

<u>Expenses</u>

*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.

Government Grants
Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is initially recognized as a liability in the consolidated balance sheet and recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to the acquisition or construction of a fixed asset, it is initially recognized as a liability in the consolidated balance sheet and recognized as income in equal amounts over the period of depreciation of the related asset.

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

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

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

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

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

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

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

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

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

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient future taxable profits will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

Earnings per Share (EPS) Attributable to Equity Holders of the Parent Company

Basic EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding and adjusted to give retroactive effect to any stock dividends declared during the period. Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding, plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. The calculation of diluted EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on EPS.

Retirement and Other Employee Benefits

*Defined benefit plans*

The Parent Company, PSi and IMI BG maintain separate defined benefit plans covering substantially all of their employees. The plans of the Parent Company and PSi are funded and noncontributory retirement plans administered by their respective Boards of Trustees, while that of IMI BG is unfunded and noncontributory.

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

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

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

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

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

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

*Defined contribution plans*

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

*Singapore*

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

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

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

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

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

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

*VIA*
VIA only has defined contribution plans relating to statutory pension. Funds paid by the employees and employers are not saved or invested but are used to pay current pension obligations. Obligations for contributions to defined contribution plans are recognized as an expense when incurred.

*STI*
Contributions to defined contribution plans are recognized as an expense in the period in which the related service is provided. Prepaid contributions are recognized as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. The unwinding of the discount is recognized as a finance cost in profit or loss in the period in which it arises.

*Employee leave entitlement*
Employee entitlements to annual leave are recognized as a liability when they accrue to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the balance sheet date is recognized for services rendered by employees up to the end of the balance sheet date.

Share-based Payment Transactions
Certain employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

The Group has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Parent Company's shares at a discounted price. The Group recognizes employee benefit expense over the holding period. The Group treats its ESOWN plan as option payable within a given period. These are accounted for similar to the methods outlined in PFRS 2. Dividends paid on the awards that have vested are deducted from equity while those paid on awards that are unvested are charged to profit or loss.

Operating Segments
The Group is organized and managed separately according to geographical locations of businesses. The geographical segments are segregated as follows: Philippines, China, Europe, Mexico, Germany/UK, and USA/Japan/Singapore/IMI UK. 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:

*Revenue from contracts with customers*

- Identifying contracts with customers
  Generally, a valid and approved manufacturing service agreement (MSA), scheduling agreement (SA), customer accepted quote, customer forecast, and/or customer purchase order or firm delivery schedule will be in place before the Group provides services or manufacture goods for the customers. The Group is not obligated to transfer any goods or provide services until the customer submits a purchase order or firm delivery schedule under the MSA or SA, respectively. The purchase order or firm delivery schedule creates the enforceable rights and obligations and is therefore evaluated together with the MSA or SA for revenue recognition in accordance with PFRS 15.

- Determining the timing of revenue recognition
  The Group assessed that revenue from manufacturing of goods shall be recognized over time or point in time. For turnkey contracts wherein the products created have no alternative use to the Group and the Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than the Group's failure to perform as promised, revenue is recognized over time. For goods manufactured not covered by customer purchase orders or firm delivery schedule, revenues are recognized at a point in time. For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as the Group performs.

- Determining the method to measure of progress for revenue recognized over time
  The Group measures progress towards complete satisfaction of the performance obligation using an input method (i.e., costs incurred). Management believes that this method provides a faithful depiction of the transfer of goods or services to the customer because the Group provides integration service to produce a combined output and each item in the combined output may not transfer an equal amount of value to the customer.

*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.

*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 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.

*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 8.

*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 10 and 12, 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 10, 11 and 12, 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 entities within the Group.

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.

## 5. Cash and Cash Equivalents

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Cash on hand | **$92,551** | $82,463 |
| Cash in banks | **94,997,460** | 67,581,023 |
| Short-term investments | **13,444,330** | 22,963,742 |
| | **$108,534,341** | $90,627,228 |

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 $1.00 million in 2018, $0.17 million in 2017 and $0.29 million in 2016.

Cash and cash equivalents in 2018 includes proceeds from the Parent Company's stock rights offering amounting to $95.93 million (see Note 19). As of December 31, 2018, the remaining balance of the proceeds amounting to $2.31 million is placed in various time deposits for varying periods up to three months and earns interests at the respective short-term investment rates ranging from 1.85% to 5.13% per annum.

## 6. Receivables

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Trade | **$296,187,392** | $252,636,453 |
| Nontrade | **14,151,564** | 10,141,732 |
| Due from related parties (Note 31) | **1,476,651** | 794,218 |
| Receivable from insurance | **1,056,529** | 1,066,243 |
| Receivable from employees | **586,322** | 424,658 |
| Others | **52,259** | 62,318 |
| | **313,510,717** | 265,125,622 |
| Less allowance for ECLs | **2,014,208** | 2,010,275 |
| | **$311,496,509** | $263,115,347 |

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
Claims to damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu in 2009 amounting to $1.09 million was fully provided with allowance for doubtful accounts.

Receivable from Employees
Receivable from employees pertain to loans granted to the Group's employees which are collectible through salary deduction.

Allowance for ECLs
Trade receivables, nontrade receivables, receivable from insurance and receivable from employees with aggregate nominal value of $2.01 million as of December 31, 2018 and 2017, respectively, were individually assessed to be impaired and fully provided with allowance for doubtful accounts.

Movements in the allowance for ECLs are as follows:

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Trade | Nontrade | Receivable from Insurance | Total |
| At beginning of year | **$740,716** | **$203,316** | **$1,066,243** | **$2,010,275** |
| Provisions | **60,892** | **27,346** | **–** | **88,238** |
| Accounts written-off | **–** | **(68,906)** | **–** | **(68,906)** |
| Foreign currency exchange difference | **(4,445)** | **(1,240)** | **(9,714)** | **(15,399)** |
| At end of year | **$797,163** | **$160,516** | **$1,056,529** | **$2,014,208** |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | | | Receivable from | |
| | Trade | Nontrade | Insurance | Total |
| At beginning of year | $595,553 | $66,931 | $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 | 69,597 | 15,016 | (5,016) | 79,597 |
| At end of year | $740,716 | $203,316 | $1,066,243 | $2,010,275 |

Provisions during the year form part of “Operating expenses” account and are included under “Facilities costs and others” (see Note 22).

## 7. Contract Balances

This account consists of:

| | **2018** | January 1, 2018 (As Restated) |
|---|---|---|
| Contract assets | **$63,484,194** | $48,920,194 |
| Contract liabilities | **1,831,060** | 5,625,847 |

Contract assets are initially recognized for revenue earned from manufacturing of goods as receipt of consideration is conditional on successful completion of the services. When goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customers, the amounts recognized as contract assets are reclassified to trade receivables. Payments are received from customers depending on the credit terms.

In 2018, the Group did not recognize a provision for expected credit losses on contract assets.

Contract liabilities includes short-term advances received to render manufacturing services.

The amount of revenue recognized from amounts included in contract liabilities at the beginning of the year amounted to $5.63 million.

The Group applied the practical expedient in PFRS 15 on the disclosure of information about the transaction price allocated to remaining performance obligations given the customer contracts have original expected duration of one year or less.

## 8. Inventories

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Raw materials and supplies | **$181,522,470** | $139,623,455 |
| Work-in-process | **5,536,586** | 29,087,565 |
| Finished goods | **14,250,099** | 37,112,621 |
| | **201,309,155** | 205,823,641 |
| Less allowance for: | | |
| Inventory obsolescence | **8,473,726** | 6,129,568 |
| Decline in value of inventories | **172,389** | 79,266 |
| | **8,646,115** | 6,208,834 |
| | **$192,663,040** | $199,614,807 |

The cost of the inventories carried at NRV amounted to $6.46 million and $17.23 million as of December 31, 2018 and 2017, respectively. The amount of inventories recognized as an expense under “Cost of goods sold and services” account amounted to $952.09 million in 2018, 756.16 million in 2017, and $571.52 million in 2016 (see Note 20).

Balance of work-in-process and finished goods inventories pertain to VIA as it continuously manufactures products without purchase orders from customers.

Movements in the allowance for inventory obsolescence follows:

| | 2018 | 2017 |
|---|---|---|
| At beginning of year | **$6,129,568** | $6,331,871 |
| Provisions (reversals) (Note 22) | **2,344,158** | (202,303) |
| At end of year | **$8,473,726** | $6,129,568 |

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

| | 2018 | 2017 |
|---|---|---|
| At beginning of year | **$79,266** | $234,267 |
| Provisions (reversals) (Note 22) | **93,123** | (155,001) |
| At end of year | **$172,389** | $79,266 |

The Group recognized gains from sale of materials and scrap amounting to $0.82 million in 2018, $1.24 million in 2017, and $0.15 million in 2016. Gains from sale of materials and scrap are included under "Miscellaneous income (loss) - net" account in the consolidated statement of income (see Note 24).

## 9. Other Current Assets

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Tax credits | **$7,454,694** | $7,314,493 |
| Advances to suppliers | **5,040,958** | 7,633,680 |
| Prepayments | **5,033,541** | 4,793,006 |
| Input taxes | **3,290,568** | 6,926,480 |
| Derivative assets (Note 33) | **3,521** | – |
| Noncurrent assets held for sale (Note 9) | **–** | 362,124 |
| Others | **925** | 24,848 |
| | **$20,824,207** | $27,054,631 |

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.

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.

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.

<u>Noncurrent Assets Held for Sale</u>
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 was completed in 2018 (see Note 27).

## 10. Property, Plant and Equipment

Movements in this account follows:

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | **$84,500,239** | **$175,629,084** | **$24,359,471** | **$2,051,866** | **$8,673,788** | **$5,973,233** | **$301,187,681** |
| Additions | **4,172,131** | **26,397,717** | **1,924,331** | **783,899** | **173,598** | **30,370,753** | **63,822,429** |
| Acquisition through business combination (Note 2) | **–** | **97,536** | **–** | **–** | **–** | **–** | **97,536** |
| Disposals/retirement | **(7,427,830)** | **(19,879,798)** | **(962,741)** | **(430,216)** | **(152,234)** | **(4,173)** | **(28,856,992)** |
| Transfers | **12,268,609** | **9,332,813** | **15,669** | **93,085** | **366,397** | **(22,076,573)** | **–** |
| Foreign currency exchange difference | **(917,520)** | **(2,947,970)** | **(121,560)** | **(41,265)** | **(26,899)** | **(715,316)** | **(4,770,530)** |
| At end of year | **92,595,629** | **188,629,382** | **25,215,170** | **2,457,369** | **9,034,650** | **13,547,924** | **331,480,124** |
| **Accumulated depreciation** | | | | | | | |
| At beginning of year | **34,133,993** | **80,385,247** | **16,204,045** | **856,532** | **3,279,596** | **–** | **134,859,413** |
| Depreciation | **4,850,077** | **20,410,616** | **3,183,318** | **546,143** | **383,403** | **–** | **29,373,557** |
| Depreciation capitalized as development cost | **266,476** | **1,244,890** | **4,220** | **–** | **9,918** | **–** | **1,525,504** |
| Disposals/retirement | **(7,427,830)** | **(16,937,204)** | **(962,539)** | **(430,216)** | **(152,170)** | **–** | **(25,909,959)** |
| Foreign currency exchange difference | **(148,654)** | **(1,517,440)** | **(120,546)** | **(30,112)** | **(25,983)** | **–** | **(1,842,735)** |
| At end of year | **31,674,062** | **83,586,109** | **18,308,498** | **942,347** | **3,494,764** | – | **138,005,780** |
| **Accumulated impairment losses** | | | | | | | |
| At beginning and end of year | **–** | **1,732,212** | **–** | **–** | **–** | **–** | **1,732,212** |
| **Net book value** | **$60,921,567** | **$103,311,061** | **$6,906,672** | **$1,515,022** | **$5,539,886** | **$13,547,924** | **$191,742,132** |

| | 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) |
| Foreign currency exchange difference | 269,116 | 2,410,390 | 257,431 | 81,175 | 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 |

Property, plant and equipment acquired through business combination amounted to $0.10 million (VTS) in 2018 and $5.98 million (STI) in 2017.

The Group capitalized depreciation related to development phase for certain projects amounting to $1.53 million in 2018 and $1.15 million in 2017. The capitalized cost is included as 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. Construction in progress transferred in to property, plant and equipment amounted to $22.08 million and $16.15 million as of December 31, 2018 and 2017, respectively.

The Group recognized gains from disposal and retirement of certain property, plant and equipment amounting to $0.19 million in 2018, $0.05 million in 2017, and loss of $0.14 million in 2016 (see Note 24).

As of December 31, 2018 and 2017, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to $85.53 million and $94.08 million, respectively.

In 2017, a Security of Transfer of Ownership Title related to office and factory equipment with a carrying value of $1.35 million was held as collateral by a Bulgarian bank (see Note 17).

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

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Cost of goods sold and services (Note 20) | **$24,356,968** | $21,247,569 | $20,036,576 |
| Operating expenses (Note 21) | **5,016,589** | 2,994,252 | 2,435,670 |
| | **$29,373,557** | $24,241,821 | $22,472,246 |

## 11. Goodwill

Goodwill acquired through business combinations had been allocated to the following CGUs:

| | **2018** | 2017 |
|---|---|---|
| STI | **$54,964,683** | $55,954,732 |
| VIA | **45,642,816** | 44,539,967 |
| STEL | **38,225,186** | 45,128,024 |
| Parent Company | **1,097,776** | 1,097,776 |
| VTS | **918,412** | – |
| IMI CZ | **520,839** | 650,413 |
| | **$141,369,712** | $147,370,912 |

STI, VIA, STEL and IMI CZ

The recoverable amounts of these CGUs have been based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a 5-year period. The pre-tax discount rates applied to cash flow projections follows:

| | **2018** | 2017 |
|---|---|---|
| STI | **11.83%** | 8.70% |
| VIA | **11.76%** | 13.40% |
| STEL | **14.25%** | 14.21% |
| IMI CZ | **10.15%** | 8.30% |

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, VIA, VTS and IMI CZ in 2018, 2017 and 2016.

For STEL, the assessment resulted to an impairment loss of $6.90 million in 2018 triggered by slowing growth in the region. The impairment loss is included under "Miscellaneous income (loss) – net" account in the consolidated statements of income (see Note 24).

*Sensitivity to changes in assumptions*
With regard to the assessment of value-in-use of STI, 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 2018, 2017 and 2016.

## 12. Intangible Assets

Movements in this account are as follows:

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Customer Relationships** | **Unpatented Technology** | **Licenses** | **Intellectual Properties** | **Product Development Costs** | **Total** |
| **Cost** | | | | | | |
| At beginning of year | **$19,666,617** | **$100,000** | **$12,653,620** | **$8,872,808** | **$11,508,042** | **$52,801,087** |
| Additions | **–** | **–** | **1,027,771** | **111,760** | **–** | **1,139,531** |
| Capitalized development costs | **–** | **–** | **–** | **–** | **5,002,325** | **5,002,325** |
| Acquisition through business combination (Note 2) | **–** | **–** | **–** | **5,258,211** | **–** | **5,258,211** |
| Foreign currency exchange difference | **–** | **–** | **(242,155)** | **(374,089)** | **–** | **(616,244)** |
| At end of year | **$19,666,617** | **$100,000** | **$13,439,236** | **$13,868,690** | **$16,510,367** | **$63,584,910** |

(Forward)

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Customer Relationships | Unpatented Technology | Licenses | Intellectual Properties | Product Development Costs | Total |
| **Accumulated amortization** | | | | | | |
| At beginning of year | **$19,666,617** | **$100,000** | **$6,569,705** | **$2,181,608** | **$859,886** | **$29,377,816** |
| Amortization | **–** | **–** | **1,779,988** | **2,289,025** | **1,955,188** | **6,024,201** |
| Foreign currency exchange difference | **–** | **–** | **(89,431)** | **(41,949)** | **–** | **(131,380)** |
| At end of year | **19,666,617** | **100,000** | **8,260,262** | **4,428,684** | **2,815,074** | **35,270,637** |
| **Accumulated impairment loss** | **–** | **–** | **–** | **–** | **524,705** | **524,705** |
| **Net book value** | **$–** | **$–** | **$5,178,974** | **$9,440,006** | **$13,170,588** | **$27,789,568** |

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Customer Relationships | Unpatented Technology | Licenses | Intellectual Properties | Product Development Costs | Total |
| **Cost** | | | | | | |
| At beginning of year | $19,666,617 | $100,000 | $9,009,676 | $464,234 | $5,899,990 | $35,140,517 |
| Additions | – | – | 3,257,626 | 123,552 | – | 3,381,178 |
| Capitalized development costs | – | – | – | – | 5,608,052 | 5,608,052 |
| Acquisition through business combination | – | – | – | 8,217,714 | – | 8,217,714 |
| 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 |

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, 2018 and 2017.

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, 2018 and 2017.

Licenses

This includes acquisitions of computer software, applications and modules.

Intellectual Properties

The Group's intellectual properties relate to the acquisition of VIA and VTS. VIA's intellectual properties pertain to display system optically bonded to a display region and enhanced liquid crystal display system and methods. The finalization of the purchase price allocation for the acquisition of VIA resulted to the measurement of intellectual properties at fair value amounting to $7.85 million. As of December 31, 2018 and 2017, the carrying value of VIA's intellectual properties amounted to $4.32 million and $5.89 million, respectively.

Acquisition through business combination in connection with the establishment of VTS amounted to ¥568.68 million ($5.26 million). Toppan has agreed to transfer to VTS the intellectual property (technology) relevant to run the business through a shareholder loan to be paid in equal amount over 5 years, 65% of which was borne by VIA and eliminated at consolidated level, while 35% is payable to Toppan. The balance of the loan payable to Toppan included under "Other noncurrent liabilities" amounted to $0.60 million.

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 10.20% to 14.77%. Key assumptions used in the value-in-use calculations are consistent with those disclosed in Note 11.

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 $2.37 million, $3.56 million, and $0.26 million in 2018, 2017 and 2016, respectively.

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

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Cost of goods sold and services (Note 20) | **$3,088,002** | $952,288 | $34,951 |
| Operating expenses (Note 21) | **2,936,199** | 3,435,662 | 1,954,597 |
| | **$6,024,201** | $4,387,950 | $1,989,548 |

## 13. Financial assets at Fair Value through Other Comprehensive Income (FVOCI)

The fair value of each of the investments in equity instruments designated at fair value through other comprehensive income at the end of the reporting period is as follows:

| | **2018** | 2017 |
|---|---|---|
| Club shares – quoted | **$1,076,455** | $831,364 |

Unquoted investment securities pertaining to Class A common stock of a customer with a value of $1.75 million was provided with full allowance in prior years due to the investee company's financial difficulties. Upon adoption of PFRS 9, the cumulative impairment losses previously recognized under PAS 39 for equity instruments measured at FVOCI was transferred from retained earnings to OCI under "Other components of equity" account.

The table below shows reconciliation of fair value measurements:

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | **$831,364** | $740,949 |
| Change in fair value of quoted securities | **245,091** | 90,415 |
| Balance at end of year | **$1,076,455** | $831,364 |

## 14. Other Noncurrent Assets

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Deferred charges | **$6,462,589** | $– |
| Miscellaneous deposits | **1,635,028** | 1,647,864 |
| Others | **358,619** | 143,051 |
| | **$8,456,236** | $1,790,915 |

Deferred charges represent tooling items customized based on the specifications of the customers and to be repaid as part of the price of the manufactured items.

Miscellaneous deposits comprise utilities and rent deposits. This includes utility deposits to AC Energy Holdings Inc. (ACEHI) amounting to $0.15 million as of December 31, 2018 and 2017 (see Note 31).

## 15. Accounts Payable and Accrued Expenses

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Trade payables | **$208,572,112** | $185,143,187 |
| Accrued expenses | **24,445,791** | 25,770,467 |
| Accrued compensation and benefits | **24,083,116** | 24,233,636 |
| Nontrade payables | **14,814,790** | 12,785,361 |
| Advances from a third party | **11,540,911** | 20,772,333 |
| Accrued interest payable | **2,018,068** | 1,075,657 |
| Due to related parties (Note 31) | **1,458,691** | 9,584 |
| Advances from customers | **1,097,956** | 3,196,179 |
| Customer deposits | **1,027,111** | 5,866,924 |
| Taxes payable | **908,536** | 3,660,433 |
| Employee-related contributions | **504,084** | 632,846 |
| Current portion of obligation under finance lease (Note 30) | **153,275** | 245,518 |
| Derivative liabilities (Note 32) | **–** | 30,144 |
| Others | **550,279** | 856,441 |
| | **$291,174,720** | $284,278,710 |

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, supplies, professional fees, utilities, insurance, and freight and brokerage.

Accrued Compensation and Benefits
Accrued compensation and benefits include accrued salaries, leave credits and other employee benefits. 2017 includes employee pay-out related to SZSTE's relocation.

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.  Nontrade payables in 2017 includes advances from directors of STI which are payable on demand.

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. In 2017, the advances were offset by a provision for refund related to the actual spin-off compensation paid amounting to $5.30 million. The transaction was completed in 2018 and the balance as of December 31, 2018 will be refunded to Jinnuo in 2019.

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%. In 2017, PSi has remaining advances from a local customer amounting to $1.15 million in relation to a subcontracting services agreement which was terminated effective December 31, 2017 and settled during the first quarter of 2018.

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.

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.

## 16. Trust Receipts and Loans Payable

This account consists of borrowings of the following entities:

| | **2018** | 2017 |
|---|---|---|
| Parent Company | **$63,000,000** | $93,000,000 |
| STEL | **42,611,959** | 24,000,000 |
| VIA | **30,290,771** | 12,461,977 |
| STI | **436,230** | 3,736,085 |
| IMI CZ | **–** | 1,658,579 |
| PSi | **–** | 200,979 |
| | **$136,338,960** | $135,057,620 |

Parent Company
As of December 31, 2018 and 2017, the Parent Company has unsecured short-term loans aggregating to $63.00 million and $93.00 million, respectively, with maturities ranging from 30 to 90 days, and fixed annual interest rates ranging from 2.50% to 3.12% in 2018, 1.82% to 2.34% in 2017, and 1.23% to 1.24% in 2016.

The Parent Company incurred interest expense on its short-term loans amounting to $2.68 million in 2018, $1.50 million in 2017, and $0.65 million in 2016 (see Note 23).

STEL
As of December 31, 2018 and 2017, STEL has short-term loans aggregating to $42.61 million and $24.00 million, respectively, are from existing revolving credit facilities with Singapore-based banks and bear annual interest rate from 4.02% to 5.32% in 2018, 2.88% to 4.31% in 2017, and 2.24% in 2016, and have maturities of 30 to 60 days from the date of issue.

STEL incurred interest expense on short-term loans amounting to $1.29 million in 2018, $0.34 million in 2017, and $0.16 million in 2016 (see Note 23).

VIA

The loans of VIA consist of factoring loan from China-based banks denominated in USD and RMB aggregating $16.48 million and $10.07 million as of December 31, 2018 and 2017 respectively, with terms ranging from 70 to 150 days and annual interest rate from 4.69% to 4.85% in 2018 and 3.16% to 3.77% in 2017. There were also loans from a German-based bank amounting to €12.04 million ($13.81 million) in 2018 and €2.0 million ($2.39 million) in 2017 with term of 90 days and bears interest rate of 1.95% per annum.

VIA incurred interest expense on short-term loans amounting to $1.39 million in 2018, $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 $0.19 million and $3.20 million as of December 31, 2018 and 2017, respectively, and UK-based bank of £0.19 million ($0.24 million) and £0.40 million ($0.54 million) as of December 31, 2018 and 2017, respectively, with maturities ranging from 90 to 240 days and annual interest rates ranging from 3.9% to 4.7% in 2018 and 2017.

STI incurred interest expense on short-term loans amounting to $0.06 million in 2018 and $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 $0.02 million in 2018, $0.05 million in 2017 and $0.003 million in 2016 (see Note 23).

PSi

PSi has trust receipts payable amounting to nil and $0.20 million as of December 31, 2018 and 2017, respectively.

PSi incurred interest expense on its trust receipts payable amounting to $2,449 in 2018, $0.04 million in 2017, and $0.28 million in 2016 (see Note 23).

## 17. Long-Term Debt

This account consists of borrowings of the following entities:

| | 2018 | 2017 |
|---|---|---|
| Parent Company | **$180,000,000** | $154,500,000 |
| VIA | **4,465,107** | 195,465 |
| IMI CZ | **3,509,911** | 5,066,432 |
| Cooperatief | **–** | 5,095,518 |
| IMI BG | **–** | 239,320 |
| | **187,975,018** | 165,096,735 |
| Less current portion: | | |
| Parent Company | **61,165,000** | – |
| VIA | **973,322** | 134,618 |
| IMI CZ | **1,293,522** | 1,403,223 |
| Cooperatief | **–** | 5,095,518 |
| IMI BG | **–** | 239,320 |
| | **63,431,844** | 6,872,679 |
| Noncurrent portion | **$124,543,174** | $158,224,056 |

Parent Company
The long-term debts of the Parent Company aggregating to $180.00 million and $154.50 million as of December 31, 2018 and 2017, respectively, were obtained from Singapore-based and local banks with terms of three to five years, subject to fixed annual interest rates ranging from 2.15% to 3.94% in 2018 and 2.85% to 2.86% in 2017.

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

- The ratio of net 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, 2018 and 2017, the Parent Company has complied with all of the above-mentioned loan covenants.

The Parent Company incurred interest expense on its long-term loans amounting to $5.0 million in 2018, $2.64 million in 2017, and $1.83 million in 2016 (see Note 23).

VIA
VIA has a long-term debt from Germany-based bank amounting to €0.05 million ($0.06 million) as of December 31, 2018 and €0.16 million ($0.20 million) as of December 31, 2017. The loan is unsecured and bears annual interest of 5.35% and will mature on June 30, 2019.

VIA also has a long-term loan with a Japanese bank with a face amount of JPY500,000,000 ($5.78 million) granted in 2018 and will mature in 2023. The loan is payable monthly and bears interest of 1.67%. Outstanding balance as of December 31, 2018 amounted to $4.40 million.

VIA incurred interest expense on its long-term debt amounting to $0.02 million in 2018, $0.02 million in 2017 and $3,803 in 2016 (see Note 23).

IMI CZ
IMI CZ has unsecured term loan facility from Czech-based bank payable in 60 regular monthly installments and bears interest of 1-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, 2018 and 2017 amounted to €3.06 million ($3.51 million) and €4.23 million ($5.07 million), respectively.

IMI CZ incurred interest expense on its long-term debt amounting to $0.04 million in 2018, $0.05 million in 2017, and $0.03 million in 2016 (see Note 23).

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

Cooperatief incurred interest expense on its long-term debt amounting to $0.06 million in 2018, $0.19 million in 2017, and $0.26 million in 2016 (see Note 23).

IMI BG
IMI BG has a long-term debt from European-based bank 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 loan matured in December 2018. 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 $3,690 million in 2018, $0.01 million in 2017 and $0.02 million in 2016 (see Note 23).

## 18. Other Financial Liabilities

The account consists of financial liabilities arising from the acquisition of VIA and STI as follows:

| | 2018 | 2017 |
|---|---|---|
| Put options over non-controlling interests | | |
| VIA | **$15,722,287** | $11,676,243 |
| STI (Note 2) | **10,356,560** | 10,236,016 |
| Contingent consideration (Note 2) | **3,726,336** | 405,601 |
| Current | **$29,805,183** | $22,317,860 |
| Noncurrent portion of contingent consideration (Note 2) | **$–** | $24,569,608 |

*Put options over non-controlling interests*
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 put option of STI pertains to the right of the non-controlling shareholder to sell to IMI all non-controlling interests held upon the happening of certain trigger events as specified in the shareholders agreement.

Fair values of the contingent consideration amounted to £2.94 million ($3.73 million) and £19.31 million ($24.98 million) as of December 31, 2018 and 2017, respectively.

*Contingent consideration*
The contingent consideration is part of the cost of acquisition of STI and is based on the actual normalized EBITDA performance less adjustments in 2018 and 2019.

In 2018, the Group reversed $21.30 million contingent liability (see Note 24). The remaining balance of $3.73 million was classified under current portion. The noncurrent portion of the contingent consideration in 2017 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.

On April 13, 2018, the Parent Company’s stockholders, approved the increase in the authorized capital stock of the Parent Company from ₱2,450,000,000 to ₱3,000,000,000 and the corresponding amendment of the Seventh Article of the Articles of Incorporation.

Capital Stock
This account consists of:

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount | Shares | Amount |
| **Authorized** - ₱1 par value | | | | | | |
| Common | **2,800,000,000** | | 2,250,000,000 | | 2,250,000,000 | |
| Preferred | **200,000,000** | | 200,000,000 | | 1,500,000,000 | |
| **Issued - Common** | | | | | | |
| At beginning of year | **1,829,892,224** | **$35,709,679** | 1,793,518,641 | $34,935,709 | 1,793,429,765 | $34,933,728 |
| Issuances from ESOWN | **10,184,279** | **220,513** | 36,373,583 | 773,970 | 88,876 | 1,981 |
| Issuance from stock rights offer | **350,000,000** | **6,717,850** | – | – | – | – |
| At end of year* | **2,190,076,503** | **$42,648,042** | 1,829,892,224 | $35,709,679 | 1,793,518,641 | $34,935,709 |

** Out of the total issued shares, 15,892,224 shares as of December 31, 2018 and 2017, and 15,892,124 in 2016 pertain to treasury shares.*

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. 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%. On March 2, 2018, the Parent Company completed the offer and the listing of the shares, raising ₱5.00 billion ($95.93 million) of proceeds to fund capital expenditures and support business expansions and refinance debts. The Parent Company has 2,190,076,503 issued and outstanding shares after the offer.

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.

As of December 31, 2018, 2017 and 2016, there were 295, 342 and 338 registered common stockholders, respectively.

Subscribed Capital Stock
Details of this account follow:

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount | Shares | Amount |
| At beginning of year | **47,403,889** | **$1,058,278** | 84,936,229 | $1,857,440 | 87,200,345 | $1,907,584 |
| Issuances during the year - ESOWN | **(10,184,279)** | **(220,513)** | (36,373,583) | (773,970) | (88,876) | (1,981) |
| Forfeitures during the year - ESOWN | **(1,041,647)** | **(22,567)** | (1,158,757) | (25,192) | (2,175,240) | (48,163) |
| At end of year | **36,177,963** | **$815,198** | 47,403,889 | $1,058,278 | 84,936,229 | $1,857,440 |

Additional Paid-in Capital
The financial liabilities arising from the written put options over the non-controlling interests of VIA and STI were initially 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.

Subscriptions Receivable
Details of this account are as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| At beginning of year | **$5,351,844** | $12,334,692 | $13,131,734 |
| Forfeitures during the year | **(212,357)** | (217,470) | (334,665) |
| Collections during the year | **(1,736,547)** | (6,765,378) | (462,377) |
| At end of year (Note 28) | **$3,402,940** | $5,351,844 | $12,334,692 |

Dividends
2018
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 aggregating to $10.13 million as of record date of March 7, 2018 paid on March 21, 2018.

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 aggregating to $8.62 million as of record date of February 23, 2016 payable on March 10, 2016.

Retained Earnings
Upon adoption of PFRS 9, any cumulative impairment losses previously recognized under PAS 39 for equity instruments measured at FVOCI will have to be transferred from retained earnings to OCI. As a result, a cumulative catch up adjustment was made as of January 1, 2018 resulting to a decrease in OCI and an increase in retained earnings of $1.75 million.

Accumulated net earnings of the subsidiaries amounting to $207.80 million and $170.50 million as of December 31, 2018 and 2017, respectively, are not available for dividend declaration. This accumulated net earnings of subsidiaries 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, 2018 amounted to $16.92 million.

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, 2018 and 2017.

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.

| | **2018** | 2017 |
|---|---|---|
| Loans and trust receipts payable | **$136,338,960** | $135,057,620 |
| Long-term bank borrowings | **187,975,018** | 160,001,217 |
| Total bank debt | **324,313,978** | 295,058,837 |
| Less cash and cash equivalents | **108,534,341** | 90,627,228 |
| Net bank debt | **$215,779,637** | $204,431,609 |
| Equity attributable to equity holders of the Parent Company | **$401,624,342** | $273,504,006 |
| Debt-to-equity ratio | **0.81:1** | 1.08:1 |
| Net debt-to-equity ratio | **0.54:1** | 0.75:1 |

The Group is not subject to externally-imposed capital requirements.

## 20. Cost of Goods Sold and Services

This account consists of:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Direct, indirect and other material-related costs (Note 8) | **$952,089,238** | $756,164,017 | $571,521,298 |
| Direct labor, salaries, wages and employee benefits (Note 27) | **179,892,752** | 137,867,620 | 116,183,955 |
| Depreciation and amortization (Notes 10 and 12) | **27,444,970** | 22,199,857 | 20,071,527 |
| Facilities costs and others (Note 22) | **53,732,244** | 44,758,049 | 33,880,263 |
| | **$1,213,159,204** | $960,989,543 | $741,657,043 |

## 21. Operating Expenses

This account consists of:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Salaries, wages and employee benefits (Note 27) | **$46,727,732** | $47,800,516 | $31,222,323 |
| Depreciation and amortization (Notes 10 and 12) | **7,952,788** | 6,429,914 | 4,390,267 |
| Facilities costs and others (Note 22) | **41,838,682** | 34,930,245 | 22,753,852 |
| | **$96,519,202** | $89,160,675 | $58,366,442 |

Operating expenses in 2017 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 | | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 |
| Utilities | **$19,599,504** | $18,242,235 | $15,750,396 | **$1,336,139** | $1,316,836 | $1,468,908 |
| Outsourced activities | **15,828,874** | 10,694,698 | 7,868,740 | **14,377,484** | 12,733,622 | 9,225,760 |
| Repairs and maintenance | **11,508,562** | 8,580,727 | 6,722,042 | **921,113** | 677,734 | 702,432 |
| Government-related | **2,226,864** | 1,190,448 | 693,687 | **4,505,120** | 4,370,955 | 3,218,639 |
| Insurance | **1,564,971** | 959,715 | 731,918 | **1,928,184** | 1,221,086 | 1,248,871 |
| Travel and transportation | **1,497,218** | 2,335,214 | 968,879 | **5,435,915** | 3,514,058 | 2,862,709 |
| Postal and communication | **382,798** | 387,258 | 314,889 | **1,171,214** | 1,082,683 | 932,780 |
| Technology-related | **361,746** | 1,008,761 | 56,817 | **6,229,630** | 5,735,110 | 1,593,971 |
| Staff house | **333,749** | 470,564 | 487,016 | **477,608** | 472,922 | 395,817 |
| Promotional materials, representation and entertainment | **242,534** | 639,577 | 152,529 | **1,102,576** | 776,113 | 1,153,585 |
| Membership fees | **10,237** | 12,690 | 16,041 | **174,346** | 413,152 | 160,137 |
| Provision (reversal of provision) for inventory obsolescence (Note 7) | **–** | – | – | **2,344,158** | (202,303) | (2,660,809) |
| Sales commission | | – | – | **1,398,391** | 1,444,950 | 1,251,399 |
| Provision for ECLs (Note 6) | **–** | – | – | **88,238** | 225,535 | 204,607 |
| Provision (reversal of provision) for decline in value of inventories (Note 7) | **–** | – | – | **93,123** | (155,001) | 50,000 |
| Others | **175,187** | 236,162 | 117,309 | **255,443** | 1,302,793 | 945,046 |
| | **$53,732,244** | $44,758,049 | $33,880,263 | **$41,838,682** | $34,930,245 | $22,753,852 |

Others include donations, small tools and instruments, spare parts, materials, office supplies, and copying expenses.

## 23. Interest Expense and Bank Charges

This account consists of:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Interest expense on loans (Notes 16 and 17) | **$10,566,675** | $5,723,185 | $3,297,733 |
| Bank charges | **1,398,669** | 1,162,322 | 585,487 |
| Interest on finance lease | **25,508** | 14,153 | – |
| Others | **1,532** | 1,147 | 1,234 |
| | **$11,992,384** | $6,900,807 | $3,884,454 |

Others include interest on employee housing and car loans in 2018, 2017, and 2016.

24. **Miscellaneous Income (Loss) – Net**

Miscellaneous income consists of:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Reversal of contingent consideration (Note 18) | **$21,304,030** | $– | $– |
| Net gain on disposal of a subsidiary | **19,062,344** | – | – |
| Financial subsidies | **1,223,397** | 907,435 | – |
| Other income from customers | **890,489** | 1,318,671 | 454,122 |
| Sale of materials and scrap (Note 8) | **820,231** | 1,242,931 | 149,980 |
| Gain on sale and retirement of property, plant and equipment | **189,298** | 48,116 | – |
| Mark-to-market gains on put options (Note 18) | **–** | 2,298,664 | – |
| Reversal of impairment on property, plant and equipment (Note 10) | **–** | 815,150 | – |
| Gain on insurance claims | **–** | – | 360,895 |
| Other income | **551,703** | 821,887 | – |
| | **$44,041,492** | $7,452,854 | $964,997 |

The contingent liability was reversed to arrive at the fair value of the expected earn-out based on target normalized EBITDA performance in relation to the acquisition of STI. No actual payment was made to the non-controlling interest in 2018.

The net gain recognized from sale of Shenzhen entity in 2018 amounted to $19.06 million, net of employee relocation incentive.

Financial subsidies pertain to business technology grants provided by the China government and the amortization of the first installment of grant incentives received from the government of Serbia. The balance of the grant incentive amounting to $2.28 million is included under “Other noncurrent liabilities” account.

Other income from customers pertains to other activities rendered for the customers not in the normal course of business.

Miscellaneous expenses consist of:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Impairment loss on goodwill (Note 11) | **$6,902,838** | $– | $– |
| Mark-to-market gains on put options (Note 18) | **5,372,114** | – | 40,785 |
| Impairment loss on product development cost (Note 12) | **–** | 524,705 | – |
| Write-offs and other charges | **–** | – | 2,494,698 |
| Loss on sale and retirement of property, plant and equipment | **–** | – | 143,034 |
| Other expenses | **–** | – | 378,629 |
| | **$12,274,952** | $524,705 | $3,057,146 |

Miscellaneous income and loss – net as presented in the statements of income are as follow:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Miscellaneous income | **$44,041,492** | $7,452,854 | $964,997 |
| Miscellaneous loss | **(12,274,952)** | (524,705) | (3,057,146) |
| | **$31,766,540** | $6,928,149 | ($2,092,149) |

## 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, 2018, 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 China.

*STHK*

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 NIS*

Taxable income is established on the basis of accounting profit. The applicable tax rate is 15%.

*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*
The Mexican Income Tax Law (MITL) established a corporate income tax rate of 30% for fiscal years 2018, 2017 and 2016. The MITL established requirements and limits regarding certain deductions, including restrictions on the deductibility of payroll-related expenses that are considered tax-exempt for employees, contributions to create or increase pension fund reserves, and Mexican Social Security Institute dues that are paid by the company but should be paid by the employees. The MITL also establishes that certain payments made to related parties shall not be deductible if they do not meet certain requirements.

*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, 2018 and 2017, PSi has no PEZA-registered activities with ITH entitlement.

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

| | **2018** | 2017 |
|---|---|---|
| **Deferred tax assets:** | | |
| Net operating loss carry-over | **$2,782,771** | $2,608,320 |
| Allowance for inventory obsolescence | **256,663** | 140,006 |
| Fair value adjustment on property, plant and equipment arising from business combination | **250,730** | 263,362 |
| Allowance for doubtful accounts | **67,592** | 1,611 |
| Unrealized foreign exchange loss on monetary assets - net | **8,029** | 275,498 |
| Others | **122,916** | 163,005 |
| | **$3,488,701** | $3,451,802 |

| | **2018** | 2017 |
|---|---|---|
| **Deferred tax liabilities:** | | |
| Fair value adjustment on property, plant and equipment arising from business combination | **$1,029,854** | $1,179,659 |
| Fair value adjustments on Intangible Assets from business combination | **967,304** | 1,319,051 |
| Contract assets | **709,048** | – |
| Unrealized gain on financial assets at FVOCI | **281,668** | 194,767 |
| Unrealized foreign exchange gain on monetary assets - net | **30,288** | – |
| Prepaid expenses | **–** | 39,368 |
| Others | **1,264,654** | 9,609 |
| | **$4,282,816** | $2,742,454 |

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

| | **December 31, 2018** | | | |
|---|---|---|---|---|
| | **Deferred Tax Assets** | **Deferred Tax Liabilities** | **Total Deferred Tax Assets - net** | **Total Deferred Tax Liabilities - net** |
| Parent Company | **$220,978** | **($386,356)** | **$–** | **($165,378)** |
| PSI | **61,380** | **(3,522)** | **57,858** | **–** |
| IMI BG | **–** | **(195,144)** | **–** | **(195,144)** |
| IMI CZ | **230,650** | **(76,271)** | **154,379** | **–** |
| IMI MX | **31,715** | **(533,426)** | **–** | **(501,711)** |
| VIA | **2,202,990** | **–** | **2,202,990** | **–** |
| STI Group | **492,839** | **(497,069)** | **492,839** | **(497,069)** |
| STEL | **–** | **(185,128)** | **–** | **(185,128)** |
| Others | **248,149** | **(2,405,900)** | **248,150** | **(2,405,900)** |
| | **$3,488,701** | **($4,282,816)** | **$3,156,216** | **($3,950,330)** |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Deferred Tax Assets | Deferred Tax Liabilities | Total Deferred Tax Assets - net | Total Deferred Tax Liabilities - net |
| Parent Company | $508,757 | ($194,767) | $313,990 | $– |
| IMI BG | – | (8,863) | – | (8,863) |
| IMI CZ | 82,250 | – | 82,250 | – |
| IMI MX | 71,363 | – | 71,363 | – |
| VIA | 476,978 | (39,368) | 437,610 | – |
| STI | 2,049,092 | (199,756) | 1,849,336 | – |
| STEL | – | (486) | – | (486) |
| Others | 263,362 | (2,299,214) | 263,361 | (2,299,213) |
| | $3,451,802 | ($2,742,454) | $3,017,910 | ($2,308,562) |

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

As of December 31, 2018 and 2017, the temporary differences for which no deferred tax assets have been recognized are as follows:

*PSi*

| | 2018 | 2017 |
|---|---|---|
| Accumulated impairment losses on property, plant and equipment | **$8,349,046** | $10,138,416 |
| Allowance for impairment losses on investments in subsidiaries | **1,436,049** | – |
| Advances from customer | **–** | 1,147,592 |
| Allowance for inventory losses | **997,196** | 822,838 |
| Accrued retirement benefits obligation | **242,026** | 424,534 |
| Allowance for doubtful accounts | **135,818** | 197,543 |
| | **$11,160,135** | $12,730,923 |

*STEL*

| | 2018 | 2017 |
|---|---|---|
| Depreciation | **$8,739,067** | $5,866,780 |
| Allowance for inventory obsolescence | **2,179,147** | 2,037,199 |
| | **$10,918,214** | $7,903,979 |

*IMI CZ*

| | 2018 | 2017 |
|---|---|---|
| Provisions | **$457,590** | $651,639 |
| Allowance for doubtful accounts | **326,069** | 296,335 |
| Excess of cost over NRV of inventories | **398,176** | 239,219 |
| | **$1,181,835** | $1,187,193 |

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, 2018 and 2017, 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:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Statutory income tax | **30.00%** | 30.00% | 30.00% |
| Tax effects of: | | | |
| Nondeductible expenses | **16.64%** | 20.06% | 20.02% |
| Income subject to gross income tax | **(18.42%)** | (23.16%) | (21.02%) |
| Difference in tax jurisdiction | **(12.56%)** | (9.08%) | (8.40%) |
| Income subject to ITH | **–** | – | (1.02%) |
| Interest income subjected to final tax | **(0.13%)** | (0.01%) | (0.03%) |
| Provision for income tax | **15.53%** | 17.81% | 19.55% |

## 26. Earnings per Share

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

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Net income attributable to parent | **$45,506,927** | $34,001,982 | $28,115,891 |
| Weighted average number of common shares outstanding | **2,152,356,856** | 1,861,846,929 | 1,863,320,708 |
| Basic and diluted EPS | **$0.021** | $0.018 | $0.015 |

As of December 31, 2018, 2017 and 2016, the Group has no dilutive potential common shares.

## 27. Personnel Costs

Details of salaries, wages, and employee benefits follow:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Salaries, wages and benefits | **$202,411,802** | $165,841,441 | $132,654,437 |
| Retirement expense under defined contribution plans | **9,104,762** | 6,002,663 | 6,225,339 |
| Social security costs | **4,040,844** | 2,638,993 | 1,432,134 |
| Net retirement expense under defined benefit plans | **1,574,569** | 1,545,312 | 1,787,924 |
| Employee spin-off (Note 21) | **–** | 6,442,215 | – |
| Others | **9,488,507** | 3,197,512 | 5,306,444 |
| | **$226,620,484** | $185,668,136 | $147,406,278 |

Others include expenses such as 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:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Cost of goods sold and services (Note 20) | **$179,892,752** | $137,867,620 | $116,183,955 |
| Operating expenses (Note 21) | **46,727,732** | 47,800,516 | 31,222,323 |
| | **$226,620,484** | $185,668,136 | $147,406,278 |

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, 2018.

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:

| | **2018** | 2017 |
|---|---|---|
| Parent Company | **$2,872,655** | $3,767,659 |
| IMI BG | **1,118,253** | 939,952 |
| PSi | **242,026** | 424,534 |
| | **$4,232,934** | $5,132,145 |

*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:

| | **2018** | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **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 | **$17,860,900** | **$1,402,731** | **$908,304** | **$–** | **$2,311,035** | **($1,025,136)** | **$–** | **$193,122** | **($9,852)** | **($2,216,544)** | **($2,033,274)** | **$–** | **($888,665)** | **$16,224,860** |
| Fair value of plan assets | **(12,728,755)** | **–** | **(736,466)** | **–** | **(736,466)** | **800,173** | **831,972** | **–** | **–** | **–** | **831,972** | **(800,173)** | **641,323** | **(11,991,926)** |
| Net retirement liabilities | **$5,132,145** | **$1,402,731** | **$171,838** | **$–** | **$1,574,569** | **($224,963)** | **$831,972** | **$193,122** | **($9,852)** | **($2,216,544)** | **($1,201,302)** | **($800,173)** | **($247,342)** | **$4,232,934** |

| | 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 |

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, 2018 and 2017 follows:

| | 2018 | 2017 |
|---|---|---|
| Government securities | **$7,243,301** | $8,665,354 |
| Corporate bonds | **1,589,760** | 548,562 |
| Mutual funds | **1,114,457** | 1,207,558 |
| Equities | **827,040** | 1,394,601 |
| Trust funds | **817,688** | 489,245 |
| Investment properties | **391,105** | 419,147 |
| Cash and cash equivalents | **12,056** | 38 |
| Others | **(3,481)** | 4,250 |
| | **$11,991,926** | $12,728,755 |

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

| | **December 31, 2018** | | | |
|---|---|---|---|---|
| | **Equity Securities** | **Debt Securities** | **Other Securities** | **Total** |
| **Fair Value** | | | | |
| BPI UITF | **$–** | **$–** | **$812,980** | **$812,980** |
| AC bonds | **–** | **325,510** | **–** | **325,510** |
| ALI bonds | **–** | **28,528** | **–** | **28,528** |
| | **$–** | **$354,038** | **$812,980** | **$1,167,018** |
| **Carrying Value** | | | | |
| BPI UITF | **$–** | **$–** | **$804,617** | **$804,617** |
| AC bonds | **–** | **374,667** | **–** | **374,667** |
| ALI bonds | **–** | **28,528** | **–** | **28,528** |
| | **$–** | **$403,195** | **$804,617** | **$1,207,812** |
| **Unrealized Gain (Loss)** | | | | |
| BPI UITF | **$–** | **$–** | **$8,363** | **$8,363** |
| AC bonds | **–** | **(49,157)** | **–** | **(49,157)** |
| ALI bonds | **–** | **–** | **–** | **–** |
| | **$–** | **($49,157)** | **$8,363** | **($40,794)** |

| | 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 | – | (746) | – | (746) |
| ALI bonds | – | (311) | – | (311) |
| BPI equity fund | 19,037 | – | – | 19,037 |
| | $19,037 | ($1,057) | $631 | $18,611 |

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 $3.12 million to the defined benefit plans for 2019.

The actual return of plan assets amounted to $0.83 million, $0.32 million and $0.22 million in 2018, 2017 and 2016, respectively.

The average duration of net retirement liabilities at the end of the balance sheet date is 17.29 to 20.28 years as of December 31, 2018 and 17.59 to 24.23 years as of December 31, 2017.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2018 and 2017:

| | **2018** | 2017 |
|---|---|---|
| Less than one year | **$1,523,893** | $1,012,965 |
| More than one year to five years | **5,974,461** | 5,457,136 |
| More than five years to ten years | **10,230,877** | 11,650,551 |
| More than ten years to fifteen years | **13,167,666** | 14,656,605 |
| More than fifteen years | **64,513,573** | 63,937,274 |
| | **$95,410,470** | $96,714,531 |

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

| | **2018** | 2017 |
|---|---|---|
| Discount rate | **0.90% - 7.38%** | 1.40% - 5.78% |
| Salary increase rate | **4.00% - 5.00%** | 4.00% - 5.00% |

The sensitivity analysis per entity below has been determined based on reasonably possible changes of each significant assumption on the net retirement liabilities as of the end of the balance sheet date, assuming all other assumptions were held constant:

Parent Company

| Actuarial Assumption | Increase/ Decrease in Actuarial Assumption | Effect on Net Retirement Liability **2018** | 2017 |
|---|---|---|---|
| Discount rate | +1% | **($1,120,887)** | ($1,431,139) |
| | -1% | **1,288,396** | 1,666,387 |
| Salary increase rate | +1% | **1,430,447** | 1,803,889 |
| | -1% | **(1,260,639)** | (1,571,694) |

*IMI BG*

| Actuarial Assumption | Increase/ Decrease in Actuarial Assumption | Effect on Net Retirement Liability **2018** | 2017 |
|---|---|---|---|
| Discount rate | +1% | **($29,791)** | ($25,267) |
| | -1% | **31,279** | 26,530 |
| Salary increase rate | +1% | **43,426** | 36,933 |
| | -1% | **(43426)** | (36,936) |

*PSi*

| Actuarial Assumption | Increase/ Decrease in Actuarial Assumption | Effect on Net Retirement Liability 2018 | 2017 |
|---|---|---|---|
| Discount rate | +1% | **($36,678)** | ($73,132) |
| | -1% | **43,058** | 88,563 |
| Salary increase rate | +1% | **48,328** | 95,277 |
| | -1% | **(41,716)** | (79,685) |

The mortality rate in 2018 and 2017 is based on the 2017 Philippine Intercompany Mortality Table for the Parent Company and PSi. Meanwhile, IMI BG used the table for mortality and average life continuance population in the period 2015-2017 from National Statistical Institute (of Bulgaria) for 2018 and 2017.

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

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Cost of goods sold and services | **$1,133,974** | $1,180,625 | $1,283,259 |
| Operating expenses | **440,595** | 364,687 | 504,665 |
| | **$1,574,569** | $1,545,312 | $1,787,924 |

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:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Cost of goods sold and services | **$7,726,248** | $4,792,830 | $4,866,249 |
| Operating expenses | **1,378,514** | 1,209,833 | 1,359,090 |
| | **$9,104,762** | $6,002,663 | $6,225,339 |

## 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

Movements in the number of shares outstanding under ESOWN in 2018, 2017 and 2016 follow:

| | **2018** | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | **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 | **140,406,496** | **₱6.67** | 141,565,253 | ₱6.69 | 143,740,493 | ₱6.69 |
| Forfeitures | **(1,041,647)** | **9.40** | (1,158,757) | 8.66 | (2,175,240) | 6.99 |
| At end of year | **139,364,849** | **₱6.65** | 140,406,496 | ₱6.67 | 141,565,253 | ₱6.69 |

The balance of the subscriptions receivable amounted to \$3.40 million, \$5.35 million and \$12.33 million as of December 31, 2018, 2017 and 2016, respectively (see Note 19).

The share option expense amounted to \$0.03 million, \$0.26 million and \$0.74 million in 2018, 2017 and 2016, 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 expense 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, IMI CZ and IMI Serbia 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, IMI UK and IMI Singapore/ROHQ are combined being the holding and 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, 2018, 2017 and 2016:

| **December 31, 2018** | **Philippines** | | **China** | **Europe** | **Mexico** | **Germany/UK** | **USA/ Japan /Singapore / IMI UK** | **Consolidation and Eliminations** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | **Parent Company** | **PSi** | | | | | | | |
| Revenue from contracts with customers: | | | | | | | | | |
| Third party | **$242,582,741** | **$36,044,400** | **$332,755,846** | **$317,889,771** | **$106,714,074** | **$312,401,704** | **$1,011,909** | **$–** | **$1,349,400,445** |
| Intersegment | **1,992,122** | **–** | **85,555** | **613** | **338,737** | **–** | **5,255,682** | **(7,672,709)** | **–** |
| Total revenue from contracts with customers | **$244,574,863** | **$36,044,400** | **$332,841,401** | **$317,890,384** | **$107,052,811** | **$312,401,704** | **$6,267,591** | **($7,672,709)** | **$1,349,400,445** |
| Segment interest income | **$3,175,737** | **$1,705** | **$1,039,448** | **$–** | **$–** | **$–** | **$2,342,669** | **($5,560,564)** | **$998,995** |
| Segment interest expense | **$8,056,665** | **$666,421** | **$1,748,361** | **$645,939** | **$2,319,178** | **$2,855,175** | **$1,261,209** | **($5,560,564)** | **$11,992,384** |
| Segment profit (loss) before income tax | **$14,487,977** | **$400,983** | **$15,152,053** | **$26,032,231** | **($15,701,909)** | **$15,320,704** | **$5,445,592** | **($4,488,222)** | **$56,649,409** |
| Segment provision for income tax | **(2,442,028)** | **(171,797)** | **1,066,461** | **(3,040,902)** | **(950,036)** | **(3,158,053)** | **(101,998)** | **–** | **(8,798,353)** |
| Segment profit (loss) after income tax | **$12,045,949** | **$229,186** | **$16,218,514** | **$22,991,329** | **($16,651,945)** | **$12,162,651** | **$5,343,594** | **($4,488,222)** | **$47,851,056** |
| Net income (loss) attributable to the equity holders of the Parent Company | **$12,045,949** | **$229,186** | **$16,218,514** | **$22,991,329** | **($16,651,945)** | **$9,526,358** | **$5,635,758** | **($4,488,222)** | **$45,506,927** |

| **December 31, 2017** | **Philippines** | | **China** | **Europe** | **Mexico** | **Germany/UK** | **USA/ Japan /Singapore /IMI UK** | **Consolidation and Eliminations** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | **Parent Company** | **PSi** | | | | | | | |
| Revenue: | | | | | | | | | |
| Third party | $227,810,114 | $35,916,986 | $271,144,656 | $276,487,668 | $84,224,600 | $193,849,982 | $1,154,182 | $– | $1,090,588,188 |
| Intersegment | 818,300 | – | 41,309 | 26,598 | – | – | 5,690,924 | (6,577,131) | – |
| Total revenue | $228,628,414 | $35,916,986 | $271,185,965 | $276,514,266 | $84,224,600 | $193,849,982 | $6,845,106 | ($6,577,131) | $1,090,588,188 |
| Segment interest income | $1,406,060 | $2,299 | $732,769 | $229 | $– | $2,911 | $582,266 | ($2,560,287) | $166,247 |
| Segment interest expense | $4,705,673 | $607,406 | $546,159 | $1,755,715 | $291,193 | $1,541,777 | $13,170 | ($2,560,287) | $6,900,806 |
| 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) | ($2,755,542) | $41,905,331 |
| 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) | ($2,755,542) | $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 | $5,254,558 | ($4,389,632) | ($2,755,542) | $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 |

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 $7.67 million in 2018, $6.58 million in 2017 and $8.25 million in 2016, intersegment cost of sales of $3.31 million in 2018, $1.60 million in 2017 and $0.99 million in 2016, and intersegment operating expenses aggregating to $4.94 million in 2018, $5.00 million in 2017 and $7.12 million in 2016.

The following table presents segment assets of the Group's geographical segments as of December 31, 2018 and 2017:

| | Philippines | | China | Europe | Mexico | Germany /UK | USA/ Japan/ Singapore | Consoli-dation and Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Parent Company | PSi | | | | | | | |
| **2018** | **$541,529,388** | **$15,422,204** | **$275,016,289** | **$283,495,370** | **$116,241,457** | **$210,094,107** | **$308,156,072** | **($679,362,277)** | **$1,070,592,610** |
| 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 |

Investments in subsidiaries and intersegment receivables amounting to $195.39 million and $311.29 million as of December 31, 2018, respectively, and $195.36 million and $249.98 million as of December 31, 2017, respectively are eliminated in consolidation.

Goodwill arising from the acquisitions as disclosed in Note 11, are recognized at consolidated level for both years ended December 31, 2018 and 2017.

**Revenue from Contracts with Customers**

Revenues from contracts with customers are further disaggregated by type, customer's nationality, product type and timing of revenue recognition, as management believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The following table presents revenue by type:

| | 2018 |
|---|---|
| Manufacturing of goods | $1,345,162,109 |
| Non-recurring engineering services | 4,238,336 |
| Revenue from contracts with customers | $1,349,400,445 |

The following table presents revenue from contracts with customer per timing of revenue recognition for each reportable segments:

| | 2018 | | |
|---|---|---|---|
| | Revenue recognized over time | Revenue recognized at point in time | Total |
| Philippines | | | |
| Parent Company | $242,582,741 | $– | $242,582,741 |
| PSi | 36,044,400 | – | 36,044,400 |
| China | 332,273,881 | 481,965 | 332,755,846 |
| Europe | 314,547,968 | 3,341,803 | 317,889,771 |
| Mexico | 106,299,506 | 414,568 | 106,714,074 |
| Germany/UK | 109,264,651 | 203,137,053 | 312,401,704 |
| USA/Japan/Singapore | – | 1,011,909 | 1,011,909 |
| Revenue from contracts with customers | $1,141,013,147 | $208,387,298 | $1,349,400,445 |

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

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Europe | **$670,603,567** | $519,149,422 | $458,851,700 |
| America | **292,610,530** | 240,888,727 | 204,853,252 |
| Japan | **45,241,436** | 42,842,182 | 40,861,642 |
| Rest of Asia/Others | **340,944,912** | 287,707,858 | 138,399,830 |
| | **$1,349,400,445** | $1,090,588,189 | $842,966,424 |

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 10.55%, 12.58% and 14.97% of the Group's total revenue in 2018, 2017 and 2016, respectively.

The following table presents revenues per product type:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Automotive | **$541,859,546** | $446,460,645 | $377,639,245 |
| Industrial | **334,634,178** | 221,670,425 | 177,267,436 |
| Consumer | **176,176,123** | 188,760,154 | 71,038,949 |
| Telecommunication | **134,078,546** | 121,639,521 | 131,304,615 |
| Aerospace/defense | **56,827,484** | 24,973,446 | – |
| Medical | **12,954,240** | 19,303,996 | 21,280,959 |
| Multiple market/others | **92,870,328** | 67,780,002 | 64,435,220 |
| | **$1,349,400,445** | $1,090,588,189 | $842,966,424 |

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

| | **2018** | 2017 |
|---|---|---|
| Europe* | **$192,253,148** | $172,379,424 |
| America** | **41,740,115** | 40,558,918 |
| Rest of Asia/Others | **126,908,149** | 121,927,192 |
| | **$360,901,412** | $334,865,534 |

**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:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Europe* | **$13,533,160** | $9,268,724 | $5,412,631 |
| America** | **4,054,506** | 3,969,119 | 2,765,263 |
| Rest of Asia/Others | **19,335,596** | 15,391,928 | 16,283,900 |
| | **$36,923,262** | $28,629,771 | $24,461,794 |

**Pertains to Europe, Germany and UK*
***Pertains to Mexico and USA*

30. **Lease Commitments**

<u>Finance Lease Commitments - Group as Lessee</u>
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 1.7% to 9.4% per annum.

Future minimum lease payments together with the present value of the net minimum lease payments are as follows:

| | **2018** | 2017 |
|---|---|---|
| Within one year | **$153,275** | $245,518 |
| After one year but not more than five years | **66,942** | 223,771 |
| | **$220,217** | $469,289 |

Interest expense related to the finance lease amounted to $0.03 million in 2018 and $0.01 million in 2017.

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.

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 Parent Company also has various operating lease agreements involving rental of factory/warehouse building, manufacturing equipment and IT servers with terms ranging from one to five years.

*IMI Singapore and STEL Group*
IMI Singapore and STEL Group have various operating lease agreements in respect of office premises, land, equipment and dormitories. These non-cancellable lease contracts have 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 SZ, 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 five floor building with 29,340 square meters located in an industrial park in Pingshan district of Shenzhen.

*IMI BG*
IMI BG have lease agreements related to a building and parking place with lease terms of five years. These leases have renewal options.

I*MI CZ*
IMI CZ have various operating lease agreements in respect of its company cars with lease terms of four to five years.

*PSi*
*Laguna facilities*
PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from Centereach Resources, Inc. (CRI), an unrelated entity with a term of four years. The operating lease agreements will expire in 2022.

*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.

*VIA*
VIA leases buildings, cars and other equipment based on leasing contracts for a period ranging from one to five years.
*STI*
STI have various operating lease agreements in respect of manufacturing facilities, office premises and vehicles. These non-cancellable lease contracts have remaining non-cancellable lease terms of between three to fifty years. There are no restrictions placed upon the lessee by entering into these leases.

*IMI Japan*
IMI Japan entered into a six-year lease for the lease of office premises maturing in 2018. 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 five years commencing from November 1, 2015 to October 31, 2020 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.

As of December 31, 2018 and 2017, accrued rent amounted to $0.49 million and $0.25 million, respectively.

Future minimum rentals payable under operating leases of the Group as of December 31, 2018 and 2017 follow:

| | **2018** | 2017 |
|---|---|---|
| Within one year | **$6,105,339** | $5,127,471 |
| After one year but not more than five years | **18,597,670** | 12,453,854 |
| More than five years | **520,666** | 2,453,943 |
| | **$25,223,675** | $20,035,268 |

## 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, 2018, 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. Transactions with BPI, an affiliate

As of December 31, 2018 and 2017, the Group maintains current and savings accounts and short-term investments with BPI amounting to $1.70 million and $2.85 million, respectively.

Total interest income earned from investments with BPI amounted to $0.31 million, $6,797 and $4,247 for the years ended December 31, 2018, 2017 and 2016, respectively.

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

| | Receivables/Deposits | | Payables | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| KTM Asia Motor Manufacturing Inc. (KAMMI) | **$982,357** | $– | **$–** | $– |
| Merlin Solar Technologies (Phils.) Inc. (MSTPI) | **282,138** | – | **–** | – |
| ACEHI (Note 14) | **146,950** | 146,126 | **–** | – |
| Isuzu Automotive Dealership, Inc. (IADI) | **121,990** | 456,447 | **–** | – |
| Honda Cars Makati, Inc. (HCMI) | **73,194** | 273,868 | **–** | – |
| Automotive Central Enterprise, Inc. (ACEI) | **16,972** | 63,903 | **–** | – |
| AC | **–** | – | **1,439,268** | – |
| AG Legal | **–** | – | **13,221** | – |
| Globe Telecom, Inc. (GTI) | **–** | – | **6,202** | 3,716 |
| Innove Communication Inc. (ICI) | **–** | – | **–** | 5,868 |
| | **$1,623,601** | $940,344 | **$1,458,691** | $9,584 |

i. Transaction with KAMMI and MSTPI pertains to trade related receivables.

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. Transaction with IADI, HCMI and ACEI pertains to management fee on corporate and support services.

iv. Payable to AC pertains to management fee on corporate support services.

v. AG Legal pertains to professional fees rendered for the company's legal consultation.

vi. Payables to GTI pertain to billings for software and WiFi connections. These are due and demandable.

vii. 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.

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

| | Revenue/Income | | | Expenses | | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 |
| KAMMI | **$3,845,192** | $– | $– | **$–** | $– | $– |
| MSTPI | **872,118** | – | – | **–** | – | – |
| BPI | **223,944** | 6,797 | 4,247 | **–** | – | – |
| IADI | **110,900** | 456,447 | – | **–** | – | – |
| HCMI | **66,540** | 273,868 | – | **–** | – | – |
| ACEI | **15,430** | 63,903 | – | **–** | – | – |
| ACEHI | **–** | – | – | **4,633,019** | 5,199,357 | – |
| AC | **–** | – | – | **1,664,336** | 404,588 | 687,142 |
| TLI | **–** | – | – | **1,032,845** | 1,029,332 | 1,045,948 |
| Laguna Water (LAWC) | **–** | – | – | **571,938** | – | – |
| ICI | **–** | – | – | **132,578** | 70,243 | 92,923 |
| AG Legal | **–** | – | – | **131,289** | 88,560 | 197,308 |
| GTI | **–** | – | – | **108,812** | 85,595 | 85,755 |
| Direct Power Services, Inc. (DPSI) | **–** | – | – | **–** | 3,368,862 | – |
| | **$5,134,124** | $801,015 | $4,247 | **$8,274,817** | $10,246,537 | $2,109,076 |

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

i. Revenues from KAMMI and MSTPI pertain to subcontracting services related to registered activities.

ii. Revenues from IADI, HCMI and ACEI represent recoveries for the provision of corporate and support services.

iii. 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. Administrative services charged by AC related to certain transactions.

iii. Rental expense from the lease contract between the Parent Company and TLI.

iv. Water allocation charged by LAWC.

v. Building rental, leased lines, internet connections and ATM connections with ICI.

vi. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.

vii. Billings for cellphone charges and WiFi connections with GTI.

viii. Light and power allocation charged by DPSI to PSi.

d. 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 and the Parent Company for recovery costs related to the 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, IMI Singapore and STSN.

Compensation of Key Management Personnel of the Group
Compensation of key management personnel by benefit type follows:

| | **2018** | 2017 |
|---|---|---|
| Short-term employee benefits | **$8,914,773** | $9,237,705 |
| Post-employment benefits | **133,657** | 476,876 |
| Share-based payments | **13,431** | 210,608 |
| | **$9,061,861** | $9,925,189 |

## 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, 2018 and 2017:

| | Carrying Amounts | | Fair Values | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Financial assets:** | | | | |
| Financial assets at FVOCI | **$1,076,455** | $831,364 | **$1,076,455** | $831,364 |
| **Financial liabilities:** | | | | |
| Noncurrent portion of Long-term debt | **$124,543,174** | $158,224,056 | **$109,614,879** | $155,395,517 |

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:

Financial assets at FVOCI pertain to investments in club shares. Fair value is based on quoted prices.

Derivatives - These pertain to currency forwards hedged by the Group for risks associated with foreign currency fluctuations. The fair value of the currency forwards is calculated by reference to current forward exchange rates for contracts with similar maturities as advised by the counterparty to the currency forwards contracts.

Financial liabilities on put options - These pertain to the liabilities of Cooperatief and IMI UK 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 options 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.

Contingent consideration - This pertains to the contingent consideration related to the acquisition of STI determined by discounting the probability weighted payout as estimated by management. The payout is estimated using the projected revenue growth rate of STI. The discount rate 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 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 2018 and 2017 ranged from 1.91% to 6.98% and from 0.90% to 2.99%, respectively.

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

| | December 31, 2018 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:** | | | | |
| Financial assets at FVOCI | **$–** | **$1,076,455** | **$–** | **$1,076,455** |
| **Liabilities measured at fair value:** | | | | |
| Financial liabilities on put options | **$–** | **$–** | **$26,078,847** | **$26,078,847** |
| Contingent consideration | **–** | **–** | **3,726,336** | **3,726,336** |
| | **$–** | **$–** | **$29,805,183** | **$29,805,183** |
| **Liabilities for which fair values are disclosed:** | | | | |
| Long-term debt | **$–** | **$–** | **$109,614,879** | **$109,614,879** |

| | 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:** | | | | |
| AFS financial assets | $– | $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 |

The table below shows reconciliation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy:

| | **Dec 31, 2017** | **Mark-to-market loss-net** | **Reversal** | **Currency Translation Adjustment** | **Dec 31, 2018** |
|---|---|---|---|---|---|
| Financial liabilities on put options | **$21,912,259** | **$5,372,113** | **$–** | **($1,205,525)** | **$26,078,847** |
| Contingent consideration | **24,975,209** | – | **(21,304,030)** | **55,157** | **3,726,336** |
| | **$46,887,468** | **$5,372,113** | **($21,304,030)** | **($1,150,368)** | **$29,805,183** |

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 $1.78 million. Decrease in growth rate by 1% would result in a fair value decrease of $1.40 million. |
| | | Discount rate | 10%-12% (11%) | 1% increase in discount rate would result in a decrease in fair value by $1.82 million. Decrease in discount rate by 1% would result in a fair value increase of $2.32 million. |
| | | Probability of trigger events occurring | 1% – 10% (5%) | Increase in the probability to 10% would result in an increase in fair value by $0.71 million. Decrease in the probability to 1% would result in a decrease in fair value by $1.08 million. |
| Contingent consideration | Discounted, probability-weighted payout | Growth rate | 19%-21% (20%) | 1% increase in growth rate for the remaining period of the contingent consideration would result in an increase in contingent liability of $1.87 million. Decrease in growth rate by 1% would result to a decrease in contingent liability of $0.01 million. |
| | | Probability of pay-out | £0 to £2.9 million ($0 to $3.7 million) | £0 to £2.9 million ($0 to $3.7 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, 2018 and 2017. 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 | **2018** | 2017 |
| +100 | **($1,145,099)** | ($69,643) |
| -100 | **1,145,099** | $69,643 |

The following table shows the information about the Group’s debt as of December 31, 2018 and 2017 that are exposed to interest rate risk presented by maturity profile:

| | **2018** | 2017 |
|---|---|---|
| Within one year | **$61,958,522** | $3,301,122 |
| One to five years | **52,551,403** | 3,663,209 |
| | **$114,509,925** | $6,964,331 |

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 liabilities based on contractual undiscounted payments:

| | **2018** | | | | |
|---|---|---|---|---|---|
| | **On Demand** | **Less than 3 Months** | **3 to 12 Months** | **1 to 5 Years** | **Total** |
| Accounts payable and accrued expenses: | | | | | |
| Trade payables | **–** | **208,572,112** | **–** | **–** | **208,572,112** |
| Accrued compensation and benefits | **–** | **24,083,116** | **–** | **–** | **24,083,116** |
| Accrued expenses* | **–** | **18,852,740** | **–** | **–** | **18,852,740** |
| Nontrade payables | **–** | **14,814,790** | **–** | **–** | **14,814,790** |
| Accrued interest payable | **–** | **2,018,068** | **–** | **–** | **2,018,068** |
| Due to related parties | **–** | **1,458,691** | **–** | **–** | **1,458,691** |
| Others | **–** | **550,279** | **–** | **–** | **550,279** |
| Contract liabilities | **–** | **1,831,060** | **–** | **–** | **1,831,060** |
| Financial liabilities on put options | **26,078,847** | **–** | **–** | **–** | **26,078,847** |
| Contingent consideration | **–** | **–** | **3,726,336** | **–** | **3,726,336** |
| Loans and trust receipts payable | **–** | **105,000,000** | **31,338,960** | **–** | **136,338,960** |
| Current portion of long-term debt | **–** | **–** | **63,431,844** | **–** | **63,431,844** |
| Noncurrent portion of long-term debt** | **–** | **–** | **–** | **109,614,879** | **109,614,879** |
| | **26,078,847** | **377,180,856** | **98,497,140** | **109,614,879** | **611,371,722** |

** Excluding statutory payables.*
*** Including future interest payments.*

| | 2017 | | | | |
|---|---|---|---|---|---|
| | On Demand | Less than 3 Months | 3 to 12 Months | 1 to 5 Years | Total |
| 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 | 360,918,353 | 23,834,921 | 183,857,307 | 590,522,840 |

** Excluding statutory payables.*
*** Including future interest payments.*

The financial liabilities in the above tables are gross undiscounted cash flows. However, these amounts may be settled using liquid assets such as cash and cash equivalents, and trade receivables. Furthermore, available credit lines, may also be used to manage liquidity.

*Credit lines*
The Group has credit lines with different financing institutions as of December 31, 2018 and 2017, as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Financial Institution | **Credit Limit** | **Available Credit Line** | Credit Limit | Available Credit Line |
| Local: | | | | |
| USD | **66,000,000** | **36,807,770** | 58,000,000 | 25,599,021 |
| PHP | **300,000,000** | **300,000,000** | 400,000,000 | 400,000,000 |
| Foreign: | | | | |
| USD | **84,000,000** | **24,000,000** | 142,011,034 | 54,011,034 |
| Singapore Dollar (SGD) | **32,000,000** | **17,150,000** | 34,000,000 | 34,000,000 |
| EUR | **17,830,000** | **12,222,402** | 18,830,000 | 13,551,034 |
| GBP | **4,000,000** | **3,808,000** | 2,500,000 | – |

Credit Risk
Credit risk is the risk that the Group’s counterparties to its financial assets will fail to discharge their contractual obligations. The Group’s major credit risk exposure relates primarily to its holdings of cash and cash equivalents and receivables from customers and other third parties. Credit risk management involves dealing with institutions for which credit limits have been established. The treasury policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties. The Group has a well-defined credit policy and established credit procedures. The Group extends credit to its customers consistent with sound credit practices and industry standards. The Group deals only with reputable, competent and reliable customers who pass the Group’s credit standards. The credit evaluation reflects the customer’s overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group’s exposure to bad debts is not significant.

The Group defines a financial asset as in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. Such internal or external information includes discontinuance of orders, financial difficulty or insolvency, probable bankruptcy or other financial reorganization. Actual historical experience shows low defaulted accounts which were also substantially recovered subsequently resulting to insignificant write-offs.

The Group’s maximum exposure to credit risk as of December 31, 2018 and 2017 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 26% and 20% of trade receivables relating to three major customers as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the aging analysis of receivables, contract assets and miscellaneous deposits follows:

| | December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Past Due but not Impaired | | | | | |
| | **Total** | **Neither Past Due nor Impaired** | **<30 Days** | **30-60 Days** | **60-90 Days** | **90-120 Days** | **>120 Days** | **Specifically Impaired** |
| Receivables: | | | | | | | | |
| Trade | **$296,187,392** | **$242,211,498** | **$36,375,018** | **$5,293,768** | **$4,686,621** | **$1,924,288** | **$4,899,036** | **$797,163** |
| Nontrade | **14,151,564** | **13,876,431** | **280** | **12,312** | **5,270** | **–** | **96,755** | **160,516** |
| Due from related parties | **1,476,651** | **1,476,651** | **–** | **–** | **–** | **–** | **–** | **–** |
| Receivable from insurance | **1,056,529** | **–** | **–** | **–** | **–** | **–** | **–** | **1,056,529** |
| Receivable from employees | **586,322** | **586,322** | **–** | **–** | **–** | **–** | **–** | **–** |
| Others | **52,259** | **52,259** | **–** | **–** | **–** | **–** | **–** | **–** |
| Contract assets | **63,484,194** | **63,484,194** | **–** | **–** | **–** | **–** | **–** | **–** |
| Miscellaneous deposits | **1,635,028** | **1,635,028** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **$378,629,939** | **323,322,383** | **$36,375,298** | **$5,306,080** | **$4,691,891** | **$1,924,288** | **$4,995,791** | **$2,014,208** |

| | December 31, 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 |
| Receivables: | | | | | | | | |
| Trade | $252,626,453 | $220,285,730 | $20,241,712 | $4,386,668 | $2,071,274 | $2,173,212 | $2,727,141 | $740,716 |
| Nontrade | 10,141,732 | 8,224,571 | 369,528 | 483,439 | 46,246 | 484,653 | 329,979 | 203,316 |
| Receivable from insurance | 1,066,243 | – | – | – | – | – | – | 1,066,243 |
| Due from related parties | 794,218 | 794,218 | – | – | – | – | – | – |
| Receivable from employees | 424,658 | 424,658 | – | – | – | – | – | – |
| Others | 62,318 | 62,318 | – | – | – | – | – | – |
| Miscellaneous deposits | 1,647,864 | 1,647,864 | – | – | – | – | – | – |
| | $266,763,486 | $231,439,359 | $20,611,240 | $4,870,107 | $2,117,520 | $2,657,865 | $3,057,120 | $2,010,275 |

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2018 and 2017:

| | **December 31, 2018** | | | | | |
|---|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | | | | **Past Due or** | |
| | **Minimal Risk** | **Average Risk** | **Fairly High Risk** | **High Risk** | **Individually Impaired** | **Total** |
| Cash and cash equivalents | **$108,534,341** | **$–** | **$–** | **$–** | **$–** | **$108,534,341** |
| Receivables: | | | | | | |
| Trade | **8,362,799** | **233,848,699** | **–** | **–** | **53,975,894** | **296,187,392** |
| Nontrade | **13,876,431** | **–** | **–** | **–** | **275,133** | **14,151,564** |
| Due from related parties | **1,476,651** | **–** | **–** | **–** | **–** | **1,476,651** |
| Receivable from insurance | **–** | **–** | **–** | **–** | **1,056,529** | **1,056,529** |
| Receivable from employees | **586,322** | **–** | **–** | **–** | **–** | **586,322** |
| Others | **52,259** | **–** | **–** | **–** | **–** | **52,259** |
| Financial assets at FVOCI | **1,076,455** | **–** | **–** | **–** | **1,753,589** | **2,830,044** |
| Miscellaneous deposits | **1,635,028** | **–** | **–** | **–** | **–** | **1,635,028** |
| | **$135,600,286** | **$233,848,699** | **$–** | **$–** | **$57,061,145** | **$426,510,130** |

| | **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 | – | – | 32,340,723 | 252,626,453 |
| Nontrade | 8,224,571 | – | – | – | 1,917,161 | 10,141,732 |
| Receivable from insurance | – | – | – | – | 1,066,243 | 1,066,243 |
| Due from related parties | 794,218 | – | – | – | – | 794,218 |
| Receivable from employees | 424,658 | – | – | – | – | 424,658 |
| Others | 62,318 | – | – | – | – | 62,318 |
| AFS financial assets | 831,364 | – | – | – | – | 831,364 |
| Miscellaneous deposits | 1,647,864 | – | – | – | – | 1,647,864 |
| | $109,558,833 | $213,339,118 | $– | $– | $35,324,127 | $358,232,078 |

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.

<u>Foreign Currency Risk</u>
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 2018 and 2017, 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 60% and 48% of the Group's sales for the years ended December 31, 2018 and 2017, respectively, and 51% and 44% of costs for the years ended December 31, 2018 and 2017, 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)*

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **In USD** | **In RMB** | In USD | In RMB |
| Cash and cash equivalents | **$14,348,975** | **RMB98,483,011** | $23,135,310 | RMB151,170,744 |
| Receivables | **77,391,434** | **531,169,762** | 66,072,151 | 431,728,647 |
| Accounts payable and accrued expenses | **(52,672,216)** | **(361,511,436)** | (50,344,676) | (328,962,181) |
| Net foreign currency-denominated assets | **$39,068,193** | **RMB268,141,337** | $38,862,785 | RMB253,937,210 |

*Philippine Peso (₱)*

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **In USD** | **In PHP** | In USD | In PHP |
| Cash and cash equivalents | **$7,125,941** | **₱374,655,147** | $5,503,962 | ₱274,812,802 |
| Receivables | **1,299,007** | **68,296,902** | 275,400 | 13,750,735 |
| Miscellaneous deposits | **783,424** | **41,189,471** | 691,463 | 34,524,738 |
| Accounts payable and accrued expenses | **(15,663,237)** | **(823,514,025)** | (9,201,618) | (459,436,808) |
| Net retirement liabilities | **(3,114,681)** | **(163,758,212)** | (4,588,961) | (229,126,855) |
| Net foreign currency-denominated liabilities | **($9,569,546)** | **(₱503,130,717)** | ($7,319,754) | (₱365,475,388) |

*Euro (€)*

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **In USD** | **In EUR** | In USD | In EUR |
| Cash and cash equivalents | **$1,251,429** | **€1,091,616** | $2,442,491 | €2,041,189 |
| Receivables | **6,975,637** | **6,084,819** | 3,891,129 | 3,251,817 |
| Accounts payable and accrued expenses | **(13,007,302)** | **(11,346,216)** | (5,173,081) | (4,323,144) |
| Net foreign currency-denominated assets | **($4,780,236)** | **(€4,169,781)** | $1,160,539 | €969,862 |

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, 2018 and 2017. The reasonably possible change was computed based on one year average historical movement of exchange rates between the USD and other currencies.

There is no other impact on the Group's equity other than those already affecting income. The increase in USD rate as against other currencies demonstrates weaker functional currency while the decrease represents stronger USD value.

| Currency | Increase/Decrease in USD Rate | Effect on Net Income before Tax 2018 | 2017 |
|---|---|---|---|
| RMB | +1% | **($537,408)** | ($238,314) |
| | -1% | **537,408** | 238,314 |
| PHP | +1% | **60,444** | 70,719 |
| | -1% | **(60,444)** | (70,719) |
| EUR | +1% | **32,549** | (11,605) |
| | -1% | **(32,549)** | 11,605 |

*Derivatives*
The Parent Company entered into various short-term currency forwards with an aggregate notional amount of nil in 2018 and $5.85 million in 2017. As of December 31, 2018 and 2017, the outstanding forward contracts have a net fair value of $3,521. The changes in fair value of currency forwards recognized in 2018 and 2017 amounted to $0.15 million gain and $0.03 million loss, 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, 2018 and 2017 follow:

| | 2018 | 2017 |
|---|---|---|
| **Financial assets:** | | |
| At beginning of year | **$–** | $67,062 |
| Fair value of currency forwards | **152,368** | – |
| Fair value of settled instruments | **(142,819)** | (67,062) |
| Foreign currency exchange difference | **(6,028)** | – |
| At end of year | **$3,521** | $– |
| **Financial liabilities:** | | |
| At beginning of year | **$30,144** | $10,567 |
| Fair value of currency forwards | **–** | 24,677 |
| Fair value of settled currency forwards | **(30,144)** | (10,567) |
| Foreign currency exchange difference | **–** | 5,467 |
| At end of year | **$–** | 30,144 |

## 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 ground 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 include capitalization by the Group of depreciation related to the development phase of certain projects amounting to $1.53 million and $1.15 million for 2018 and 2017, respectively.

The following table shows the reconciliation of liabilities arising from financing activities:

| | | **Cash Flows** | | **Non-cash Changes** | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | **Availment** | **Settlement/ Payment** | **Reclass** | **Declaration** | **Acquisition through business combination** | **Foreign currency translation** | **2018** |
| **Dividends payable** | **$–** | **$–** | **($10,130,122)** | **$–** | **$10,130,122** | **$–** | **$–** | **$–** |
| **Loans and trust receipts payable** | **135,057,620** | **36,896,796** | **(34,154,972)** | **–** | **–** | **–** | **(1,460,484)** | **136,338,960** |
| **Current portion of long-term debt** | **6,872,679** | **883,263** | **(6,653,629)** | **62,564,123** | **–** | **–** | **(234,592)** | **63,431,844** |
| **Long-term debt** | **158,224,056** | **29,033,054** | **(56,810)** | **(62,564,123)** | **–** | **–** | **(93,003)** | **124,543,174** |
| | **$300,154,355** | **$66,813,113** | **($50,995,533)** | **$–** | **$10,130,122** | **$–** | **(1,788,079)** | **$324,313,978** |

| | | 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 |

Most of the loans are from existing revolving credit lines.

The Parent Company paid short term loan amounting to $30.00 million from the stock rights proceeds.

SGV
Building a better working world

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1226 Makati City
Philippines

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ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

## 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, 2018, on which we have rendered the attached report dated February 11, 2019.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the Company has two hundred ninety four (294) 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. 7332576, January 3, 2019, Makati City

February 11, 2019

# EXHIBIT 2

# Supplementary Schedules

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

# INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated company financial statements of Integrated Micro-Electronics, Inc and Subsidiaries. (the "Group") as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, and have issued our report thereon dated February 11, 2019. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the consolidated 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 consolidated 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 consolidated 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. 7332576, January 3, 2019, Makati City

February 11, 2019

**Integrated Micro-Electronics, Inc. and Subsidiaries**
**Schedule A. Financial Assets**
**December 31, 2018**

| 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, 2018**
*(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* | 424,658 | 13,090,509 | (12,928,845.15) | - | 586,322 | - | 586,322 |
| | | | | | | | |
| | | | | | | | |
| **Total** | **424,658** | **13,090,509** | **(12,928,845)** | **-** | **586,322** | **-** | **586,322** |

* 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, 2018**
*(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 | 356,729 | 847,894 | 45,400 | | 1,159,224 | 1,159,224 |
| STEL Group | 161,260 | 293,789 | 3,666 | | 451,384 | 451,384 |
| PSi Technologies Inc. | 51,736 | 291,966 | | | 343,703 | 343,703 |
| IMI Japan | 16,764 | 20,737 | 1,500 | | 36,001 | 36,001 |
| **Accounts receivable -nontrade** | - | | | | - | - |
| STEL Group | 523,264 | 225,525 | 170,845 | | 577,943 | 577,943 |
| Monarch and EPIQ Subsidiaries | 3,471,214 | 317,971 | 76,392 | | 3,712,793 | 3,712,793 |
| PSi Technologies Inc. | 25,894,085 | 1,283,821 | | | 27,177,906 | 27,177,906 |
| IMI International (Singapore) Pte Ltd. | 1,741,283 | 2,618,205 | 176,781 | | 4,182,707 | 4,182,707 |
| IMI International ROHQ | 12,778 | 1,528,458 | 174,975 | | 1,366,261 | 1,366,261 |
| IMI USA | 15,398 | 9,921 | | | 25,319 | 25,319 |
| IMI Japan | 984,781 | 1,327 | | | 986,108 | 986,108 |
| **Due From** | - | | | | - | - |
| Monarch and EPIQ Subsidiaries | 37,973,181 | 24,872,711 | 202,854 | | 62,643,038 | 62,643,038 |
| IMI International (Singapore) Pte Ltd. | 66,015,468 | 43,712,713 | 37,942,219 | | 71,785,962 | 71,785,962 |
| PSi Technologies Inc. | - | 318 | | | 318 | 318 |
| STEL Group | - | 7,105,610 | | | 7,105,610 | 7,105,610 |
| IMI USA | 250,000 | | | | 250,000 | 250,000 |
| STI | 3,276,781 | 16,445 | 3,270,000 | | 23,226 | 23,226 |
| | | | | | | |
| **Total** | **140,744,723** | **83,147,412** | **42,064,632** | **-** | **181,827,503** | **181,827,503** |

**Integrated Micro-Electronics, Inc. and Subsidiaries**
**Schedule D. Intangible Assets**
**December 31, 2018**
*(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 | 6,083,915 | 1,027,771 | 1,779,988 | | (152,723) | 5,178,974 | Other changes represent foreign currency exchange difference and reclassification to other IA accounts |
| Intellectual Properties | 6,691,200 | 5,369,971 | 2,289,025 | | (332,140) | 9,440,006 | Other changes represent foreign currency exchange difference and reclassification to other IA accounts |
| Product development | 10,123,451 | 5,002,325 | 1,955,188 | | | 13,170,588 | |
| | **22,898,566** | **11,400,067** | **6,024,201** | **-** | **(484,863)** | **27,789,568** | |

**Integrated Micro-Electronics, Inc. and Subsidiaries**
**Schedule E. Long-Term Debt**
**December 31, 2018**
*(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) | 180,000,000 | 61,165,000 | 118,835,000 | Please see Note 17 of the Audited Financial Statement |
| Long-term Debt from Citibank (IMI CZ) | 3,509,911 | 1,293,522 | 2,216,389 | |
| Long-term debt from Sparkasse Bank (Via) | 4,465,107 | 973,322 | 3,491,785 | |
| **Total** | **187,975,018** | **63,431,844** | **124,543,174** | |

**Integrated Micro-Electronics, Inc. and Subsidiaries**
**Schedule F. Indebtedness to Related Parties**
**December 31, 2018**
*(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. | 5,900 | - |
| Monarch and EPIQ Subsidiaries | - | 160,075 |
| | | |
| **Accounts Payable - Nontrade** | | |
| Speedy-Tech Electronics Ltd. | 1,076,719 | 181,931 |
| IMI USA | 274,736 | 3,822 |
| IMI Japan | 82,770 | - |
| | | |
| **Due To** | | |
| Speedy-Tech Electronics Ltd. | 1,013,946 | 1,277,728 |
| IMI International ROHQ | 80,130 | 13,934 |
| STI | - | 121,819 |
| PSi Technologies Inc. | 101,828 | 101,828 |
| IMI Japan | 426,072 | 425,513 |
| IMI USA | 826,128 | 821,537 |
| Monarch and EPIQ Subsidiaries | 15,118 | 79,892 |
| | | |
| **Total** | **3,903,345** | **3,188,080** |

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

**Integrated Micro-Electronics, Inc. and Subsidiaries**
**Schedule G. Guarantees of Securities of Other Issuers**
**December 31, 2018**
*(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, 2018**

| 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 | 2,226,254,466 | | | | |
| Less: Treasury Shares | | (15,892,224) | | | | |
| **Common shares** | **2,250,000,000** | **2,210,362,242** | 36,177,963 | | 93,472,939 | 2,080,711,340 |
| | | | | | | |

**INTEGRATED MICRO-ELECTRONICS INC. AND SUBSIDIARIES**
**FINANCIAL RATIOS**
**December 31, 2018 and 2017**

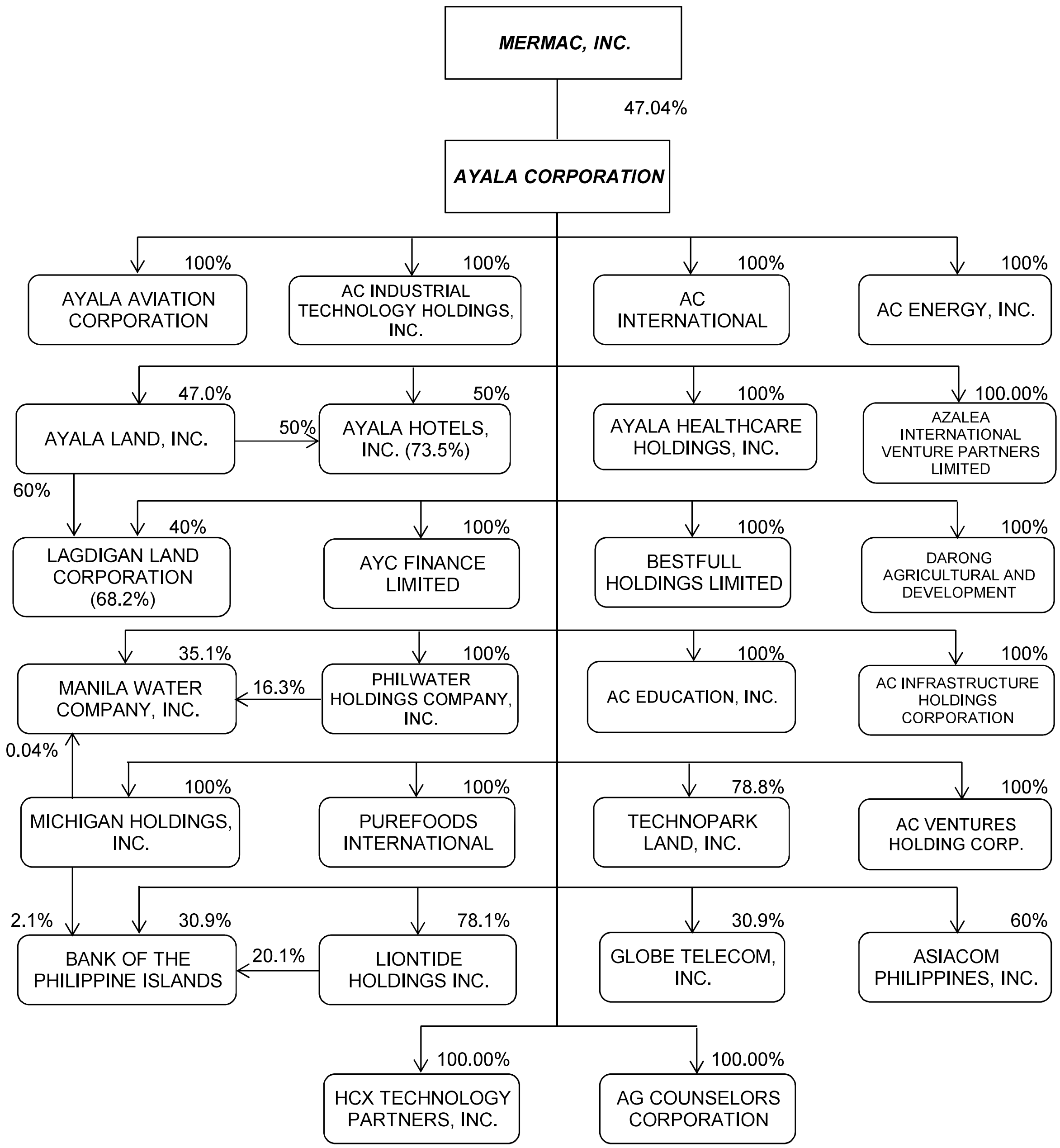
| Ratios | Formula | Dec 31, 2018 | Dec 31, 2017 |
|---|---|---|---|
| (i) Current ratio | Current assets / Current Liabilities | **1.32** | 1.28 |
| (ii) Quick ratio | Current assets less inventories and other current assets/Current liabilities | **0.92** | 0.78 |
| (iii) Debt/Equity ratio | Bank debts / Equity attributable to parent | **0.81** | 1.08 |
| (iv) Net Debt/EBITDA | (Bank debts less Cash) / EBITDA (Trailing 12 months) | **3.03** | 2.91 |
| (v) Debt Service Coverage Ratio | (EBITDA less Provision for Tax)/Debt Service Coverage | **3.12** | 1.96 |
| (vi) Asset to Equity ratio | Total Assets / Equity attributable to parent | **2.67** | 3.37 |
| (vii) Interest rate coverage ratio | Earnings before interest and taxes / Interest Expense | **5.64** | 7.05 |
| (viii) Profitability ratios | | | |
| GP margin | Gross Profit / Revenues | **10.1%** | 11.9% |
| Net profit margin | Net Income after Tax / Revenues | **3.4%** | 3.1% |
| EBITDA margin | EBITDA / Revenues | **5.3%** | 6.4% |
| Return on assets | Net Income after Tax / Total Asset | **4.3%** | 3.7% |
| Return on equity | Net Income after Tax / Average equity attributable to parent | **13.5%** | 13.3% |
| Return on common equity | Net Income after Tax / Average common equity attributable to parent | **13.5%** | 13.3% |

| | (in US$'000) Dec 31, 2018 | Dec 31, 2017 |
|---|---|---|
| Current Assets | 697,002 | 580,412 |
| Current Liabilities | 526,113 | 452,349 |
| Total Assets | 1,070,593 | 920,918 |
| Bank Debts | 324,314 | 295,059 |
| Equity attributable to parent | 401,624 | 273,504 |
| Average equity attributable to parent | 337,677 | 255,173 |
| Average common equity attributable to parent | 337,677 | 255,173 |
| Revenues | 1,349,400 | 1,090,588 |
| Gross Profit | 136,241 | 129,599 |
| Net income attributable to equity holders of the parent | 45,507 | 34,002 |
| Earnings before interest and taxes | 67,643 | 48,640 |
| Interest expense | 11,992 | 6,901 |
| EBITDA | 71,274 | 70,342 |
| Provision for Tax | 8,798 | 7,463 |
| Debt Service Coverage | 20,020 | 32,103 |

**INTEGRATED MICRO-ELECTRONICS, INC**
**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION**
**DECEMBER 31, 2018**
(in U.S. Dollars)

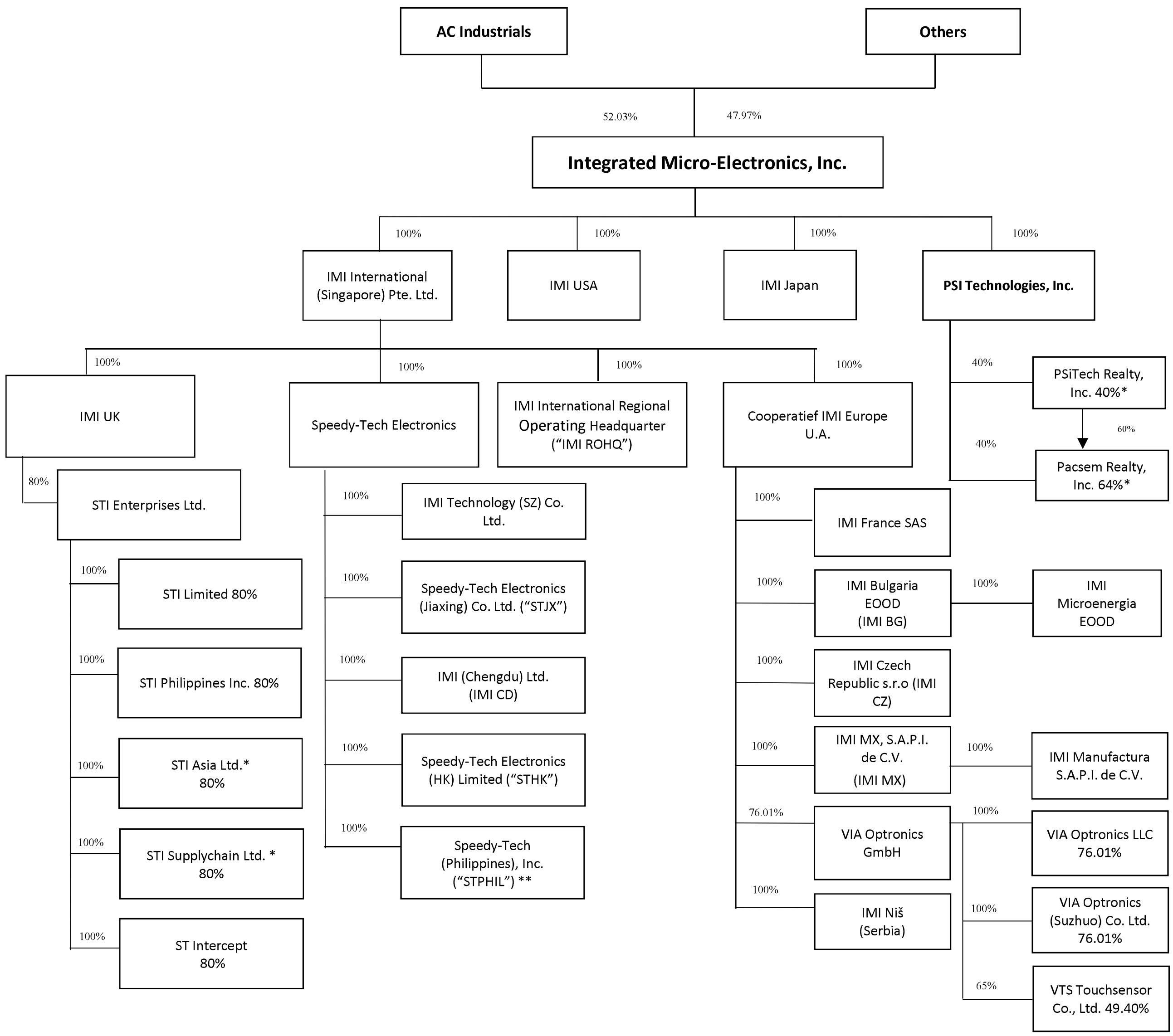
| | | |
|---|---|---|
| **Unappropriated retained earnings, as adjusted for dividend distribution, beginning** | | **$15,006,186** |
| **Add: Net income actually earned/realized during the year** | | |
| Net income during the year closed to Retained Earnings | 12,045,949 | |
| Less: Non-actual/unrealized income, net of tax | | |
| Equity in net income of associate/joint venture | | |
| Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents) | - | |
| Fair value adjustment (M2M gains) | - | |
| Fair value adjustment of Investment Property resulting to gain | - | |
| Adjustment due to deviation from PFRS/GAAP-gain | - | |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS | - | |
| Subtotal | 12,045,949 | |
| Add: Non-actual losses | | |
| Depreciation on revaluation increment (after tax) | - | |
| Adjustment due to deviation from PFRS/GAAP – loss | - | |
| Loss on fair value adjustment of investment property (after tax) | - | |
| Subtotal | - | |
| **Net income actually earned during the year** | | **12,045,949** |
| Add (less): | | |
| Dividend declarations during the year | (10,130,122) | |
| Appropriations of Retained Earnings during the period | - | |
| Reversals of appropriations | - | |
| Effects of prior period adjustments | - | |
| Treasury shares | - | **(10,130,122)** |
| **TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, END** | | **$16,922,013** |

## AYALA CORPORATION AND SUBSIDIARIES
### SCHEDULE J - CORPORATE ORGANIZATIONAL CHART
### As of December 31, 2018




**Legend:**
% of ownership appearing outside the box - direct economic % of ownership
% of ownership appearing inside the box - effective % of economic ownership

# Integrated Micro-Electronics, Inc.
# as of December 2018




* In the process of liquidation.

** Dormant

## Integrated Micro-Electronics, Inc. and Subsidiaries

**Schedule of All Philippine Financial Reporting Standards, Philippine Accounting Standards and Philippine Interpretations effective as at December 31, 2018**

| | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>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* | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| | PFRS 3 (Amendments) - *Definition of a Business* | NOT EARLY ADOPTED | | |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | PAS 39 and PFRS 4 (Amendments) - *Financial Guarantee Contracts* | | | ✓ |
| | PFRS 4 (Amendments) - *Applying PFRS 9 with PFRS 4* | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | ✓ | | |

| | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **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 | ✓ | | |
| | PFRS 9 (Amendments), *Prepayment Features with Negative Compensation* | 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* | | | ✓ |

| | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | *Entities* | | | |
| | PFRS 12 (Amendments) - *Investment Entities: Applying the Consolidation Exception* | | | ✓ |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| **PFRS 14** | Regulatory Deferral Accounts | | | ✓ |
| **PFRS 15** | Revenue from Contracts with Customers[b] | ✓ | | |
| **PFRS 16** | Leases | NOT EARLY ADOPTED | | |
| **PFRS 17** | Insurance Contracts | 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 1 (Amendments) - *Definition of Material* | NOT EARLY ADOPTED | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| | PAS 7 (Amendments) – *Disclosure Initiative* | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| | PAS 8 (Amendments) - *Definition of Material* | NOT EARLY ADOPTED | | |
| **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* | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| | PAS 16 (Amendments) - *Clarification of Acceptable Methods of Depreciation and Amortization* | | | ✓ |

| | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | PAS 16 (Amendments) - *Bearer Plants* | | | ✓ |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18*** | Revenue | ✓ | | |
| **PAS 19 (Amended)** | Employee Benefits | ✓ | | |
| | PAS 19 (Amendments) - *Defined Benefit Plans: Employee Contributions* | ✓ | | |
| | Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement* | NOT EARLY ADOPTED | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign 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] | | | ✓ |
| | PAS 28 (Amendments), *Long-term Interests in Associates and Joint Ventures* | NOT EARLY ADOPTED | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 32**[b] | Financial Instruments: Presentation | ✓ | | |

| | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | 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 | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| | PAS 38 (Amendments) - *Clarification of Acceptable Methods of Depreciation and Amortization* | | | ✓ |
| **PAS 39**[b] | 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* | | | ✓ |

| | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | PAS 39 (Amendments) – *Hedge Accounting* | | | ✓ |
| **PAS 40** | Investment Property | | | ✓ |
| | PAS 40 (Amendments) - *Transfers of Investment Property* | | | ✓ |
| **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 | ✓ | | |
| **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 | | | ✓ |

| | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **IFRIC 21** | Levies | | | ✓ |
| **IFRIC 22** | Foreign Currency Transactions and Advance Consideration | ✓ | | |
| **IFRIC 23** | Uncertainty over Income Tax Treatments | 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 | | | ✓ |
| **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* | | | ✓ |

| | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | *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* | | | ✓ |
| **Annual Improvements to PFRSs (2014-2016 Cycle)** | | | | |
| **PFRS 12** | *Clarification of the Scope of the Standard* | ✓ | | |
| **PAS 28** | *Measuring an Associate or Joint Venture at Fair Value* | ✓ | | |
| **Annual Improvements to PFRSs (2015-2017 Cycle)** | | | | |
| **PFRS 3** | *Previously Held Interest in a Joint Operation* | NOT EARLY ADOPTED | | |
| **PFRS 11** | *Previously Held Interest in a Joint Operation* | NOT EARLY ADOPTED | | |
| **PAS 12** | *Income Tax Consequences of Payments on Financial Instruments Classified as Equity* | NOT EARLY ADOPTED | | |
| **PAS 23** | *Borrowing Costs Eligible for Capitalization* | 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.*

[b] *Applicable to the comparative financial statements presented since the Group elected to use the modified retrospective method.*

**EXHIBIT 3**

**2018 Audited Annual Financial Statements,**
**IMI International (Singapore) Pte Ltd**

Company Registration No. 200502337G

# IMI International (Singapore) Pte. Ltd.

Annual Financial Statements
31 December 2018

Building a better
working world

**IMI International (Singapore) Pte. Ltd.**

## Index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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 2018.

## 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 2018 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.

## 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 | 313,291 | 319,158 |
| **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 | 19,268,100 |
| Jerome Su Tan | 3,241,033 | 3,031,033 |

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
15 March 2019

**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 2018, 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 2018 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

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

15 March 2019

IMI International (Singapore) Pte. Ltd.

**Statement of comprehensive income**
**For the financial year ended 31 December 2018**

| | Note | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|---|
| **Revenue** | 4 | 799 | 1,915 |
| **Cost of sales** | | (2,592) | (1,824) |
| Gross profit | | (1,793) | 91 |
| Other operating income | 5 | 5,232 | 4,848 |
| Administrative expenses | | (7,658) | (7,461) |
| Finance costs | 6 | (2) | (6) |
| **Loss before taxation** | 7 | (4,221) | (2,528) |
| Income tax expense | 9 | (386) | (169) |
| **Loss for the year, representing total comprehensive income for the year attributable to the owner of the Company** | | (4,607) | (2,697) |

*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 2018**

| | Note | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Motor vehicles | 10 | 219 | 197 |
| Investment in subsidiaries | 11 | 197,520 | 182,506 |
| | | 197,739 | 182,703 |
| **Current assets** | | | |
| Other receivables, deposits and prepayments | 12 | 296 | 244 |
| Due from immediate holding company | 12 | 333 | 647 |
| Due from related parties | 12 | 565 | 329 |
| Due from subsidiaries | 12 | 100,120 | 99,018 |
| Cash and cash equivalents | 13 | 1,218 | 747 |
| | | 102,532 | 100,985 |
| **Total assets** | | 300,271 | 283,688 |
| **Current liabilities** | | | |
| Other payables and accruals | 14 | 1,532 | 1,843 |
| Due to subsidiary | 14 | 1 | 2 |
| Due to related companies | 14 | 1,909 | 337 |
| Due to immediate holding company | 14 | 78,308 | 147,882 |
| | | 81,750 | 150,064 |
| **Net current asset/(liabilities)** | | 20,782 | (49,079) |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 17 | 492 | 125 |
| **Total liabilities** | | 82,242 | 150,189 |
| **Net assets** | | 218,029 | 133,499 |
| **Equity attributable to owner of the Company** | | | |
| Share capital | 15a | 104,839 | 89,839 |
| Redeemable preference shares | 15b | 79,119 | – |
| Reserves | 16 | 34,071 | 43,660 |
| **Total equity** | | 218,029 | 133,499 |

*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 2018

| | Share capital (Note 15a) $'000 | Redeemable preference shares (Note 15b) $'000 | Capital contribution reserves (Note 16a) $'000 | Revenue reserves (Note 16b) $'000 | Total $'000 |
|---|---|---|---|---|---|
| **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) |
| Contributions by and distributions to owner | | | | | |
| 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 |
| | | | | | |
| **At 1 January 2018** | 89,839 | – | 5,506 | 38,154 | 133,499 |
| Loss for the year, representing total comprehensive income for the year | – | – | – | (4,607) | (4,607) |
| Contributions by and distributions to owner | | | | | |
| Issuance of ordinary shares (Note 15a) | 15,000 | – | – | – | 15,000 |
| Issuance of redeemable preferred shares (Note 15b) | – | 79,119 | – | – | 79,119 |
| Dividends on ordinary shares (Note 23) | – | – | – | (5,000) | (5,000) |
| Grant of equity-settled share options in immediate holding company to employees | – | – | 18 | – | 18 |
| **Total transactions with owner in their capacity as owner** | 15,000 | 79,119 | 18 | (5,000) | 89,137 |
| **At 31 December 2018** | 104,839 | 79,119 | 5,524 | 28,547 | 218,029 |

*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 2018**

| | Note | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | (4,221) | (2,528) |
| Adjustments for: | | | |
| Depreciation of motor vehicles | 10 | 108 | 96 |
| Finance costs | 6 | 2 | 6 |
| Interest income | 5 | (2,174) | (762) |
| Share option expenses | 8 | 4 | 140 |
| Unrealised exchange loss/(gain) | | 1,828 | (2,165) |
| Dividend income | 5 | (3,000) | (2,000) |
| Net impairment loss on investment in subsidiary | 7 | – | 90 |
| Loss on disposal of motor vehicles | | – | 3 |
| **Operating cash flows before working capital changes** | | (7,453) | (7,120) |
| Increase in other receivables, deposits and prepayments | | (71) | (69) |
| Decrease/(increase) in amount due from immediate holding company | | 314 | (138) |
| Increase in amount due from related parties | | (212) | (112) |
| Decrease in other payables and accruals | | (321) | (373) |
| **Cash flows used in operations** | | (7,743) | (7,812) |
| Finance costs paid | | (2) | (6) |
| **Net cash flows used in operating activities** | | (7,745) | (7,818) |
| **Cash flows from investing activities** | | | |
| Investment in subsidiaries | 11 | (15,000) | – |
| Purchase of motor vehicles | 10 | (130) | (121) |
| Proceeds from disposal of motor vehicles | | – | 14 |
| Dividend income | 5 | 3,000 | 2,000 |
| Dividends on ordinary shares | 23 | (5,000) | – |
| Increase in amount due from subsidiaries | | (773) | (67,289) |
| **Net cash flows used in investing activities** | | (17,903) | (65,396) |
| **Cash flows from financing activities** | | | |
| (Decrease)/increase in amount due to immediate holding company | | (69,554) | 67,576 |
| Proceeds from issuance of ordinary shares | 15a | 15,000 | – |
| Issuance of redeemable preference shares | 15b | 79,119 | – |
| Increase in amount due to related companies | | 1,556 | – |
| **Net cash flows generated from financing activities** | | 26,121 | 67,576 |
| Net increase/(decrease) in cash and cash equivalents | | 473 | (5,638) |
| Effect of exchange rate fluctuations on cash and cash equivalents | | (2) | 38 |
| Cash and cash equivalents at beginning of the financial year | 13 | 747 | 6,347 |
| **Cash and cash equivalents at end of the financial year** | 13 | 1,218 | 747 |

*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 AC Industrial Technology Holdings, Inc. ("AC Industrials"), also a wholly-owned subsidiary 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 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 2018. The adoption of these standards did not have any effect on the financial performance or position of the Company.

(a) **FRS 109 *Financial Instruments***

On 1 January 2018, the Company adopted FRS 109 Financial instruments, which is effective for annual periods beginning on or after 1 January 2018.

The changes arising from the adoption of FRS109 have been applied retrospectively. The Company has elected to adopt modified retrospective approach and has not restated comparative information in the year of initial application. There is no impact on the opening retained earnings at the date of initial application, 1 January 2018, arising from FRS 109 adoption. The comparative information was prepared in accordance with the requirements of FRS 39.

**Impairment**

FRS 109 requires the Company to record expected credit losses on all its financial assets measured at amortised cost or FVOCI and financial guarantees. The Company previously recorded impairment based on the incurred loss model when there is objective evidence that a financial asset is impaired.

Upon adoption of FRS 109, the Company assessed that the new standard did not have a material impact on the financial statements since the Company has no significant historical losses and forward-looking default rates that would warrant recognition of additional impairment allowance on the Company's financial assets.

**Tax adjustments and other adjustments**

Upon adoption of FRS109, as there was no additional impairment made, there will be no tax impact.

### 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 116 Leases* | 1 January 2019 |
| *INT FRS 123 Uncertainty over Income Tax Treatments* | 1 January 2019 |
| *Amendments to FRS 109 Prepayment Features with Negative Compensation* | 1 January 2019 |
| *Annual Improvements to FRSs (March 2018)* | 1 January 2019 |

## 2. Summary of significant accounting policies (cont'd)

### 2.3 *Standards issued but not yet effective (cont'd)*

Except for 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 116 is described below.

FRS 116 *Leases*

FRS 116 requires lessees to recognise most leases on balance sheets. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. FRS 116 is effective for annual periods beginning on or after 1 January 2019. At commencement date of a lease, a lessee will recognise a liability to make a lease payment (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 recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Company plans to adopt FRS 116 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019.

On the adoption of FRS 116, the Company expects to choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

(i) its carrying amount as if FRS 116 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate as of 1 January 2019; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2019.

The Company is currently assessing the impact of adopting FRS 116.

### 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 of debt instruments as follows:

<u>Investments in debt instruments</u>

*Amortised cost*

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

**De-recognition**

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition 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.

### 2.10 *Impairment of financial assets*

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

## 2. Summary of significant accounting policies (cont'd)

### 2.10 *Impairment of financial assets (cont'd)*

The Company consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before considering any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

### 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. 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.

#### (b) *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)*

(c) ***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 measured based on the consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Company satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

The Company is in the business of providing administrative, communications and coordination center for its affiliates and subsidiaries. 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.

### 2.16 *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.

## 2. Summary of significant accounting policies (cont'd)

### 2.16 *Related parties (cont'd)*

(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. 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. Management is of the opinion that there is no significant judgement made in applying accounting policies and no estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

## 4. Revenue

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| IMI | 606 | 1,915 |
| Affiliates of the Company | 193 | – |
| | 799 | 1,915 |

Revenues relate to service fees provided by ROHQ to IMI, the immediate holding company and affiliates who are wholly-owned subsidiaries of AC Industrials, the intermediate holding company.

## 5. Other operating income

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Dividend income from subsidiaries | 3,000 | 2,000 |
| Interest income from loans and receivables | 2,174 | 762 |
| Exchange gains, net | 52 | 2,086 |
| Others | 6 | – |
| | 5,232 | 4,848 |

## 6. Finance costs

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Bank charges | 2 | 6 |

## 7. Loss before tax

The following items have been included in arriving at (loss)/profit before tax:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Administrative expenses incurred on behalf of the Company by its subsidiaries | 1,819 | 4,818 |
| Employee benefits expense (Note 8) | 6,402 | 4,281 |
| Depreciation of motor vehicles (Note 10) | 108 | 96 |
| Net impairment loss on investment in subsidiary (Note 11) | – | 90 |
| Unrealised exchange losses | 1,836 | – |

## 8. Employee benefits expense

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Wages, salaries and bonuses | 5,477 | 3,728 |
| Recovery cost recharged from immediate holding company | 812 | - |
| Other personnel benefits | 109 | 413 |
| Share option expenses | 4 | 140 |
| | 6,402 | 4,281 |

## 9. Tax expense

*Major components of tax expense*

The components of tax expense for the year ended 31 December 2018 and 2017 are:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Current income tax** | | |
| Current year | 19 | 44 |
| **Deferred income tax** | | |
| Origination of temporary differences | 367 | 125 |
| Income tax expense recognised in profit or loss | 386 | 169 |

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
- Effective 1 January 2018, the compensation of the employees of the Headquarters is subject to the regular income tax rates in accordance with the TRAIN law. They are subject to the preferential 15% final tax rate in the previous year.

## 9. Tax expense (cont'd)

***Relationship between tax expense and accounting loss***

A reconciliation between the tax expense and the product of accounting loss multiplied by the applicable tax rate for the years ended 31 December 2018 and 2017 are as follows:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Accounting loss before tax | (4,221) | (2,528) |
| Tax at the applicable statutory tax rate of 17% (2017: 17%) | (717) | (430) |
| Adjustments: | | |
| Tax effect of expenses not deductible for tax purposes | 1,624 | 1,311 |
| Income not subject to taxation | (509) | (680) |
| Effect of differences in tax rates in other countries where Company operates | (16) | (32) |
| Others | 4 | – |
| Tax expense recognised in the statement of comprehensive income. | 386 | 169 |

## 10. Motor vehicles

| | Total<br>$'000 |
|---|---|
| **Cost** | |
| At 1 January 2017 | 484 |
| Additions | 121 |
| Disposals | (202) |
| At 31 December 2017 and 1 January 2018 | 403 |
| Additions | 130 |
| Written off | (154) |
| At 31 December 2018 | 379 |
| **Accumulated depreciation** | |
| At 1 January 2017 | 295 |
| Charge for the year | 96 |
| Disposals | (185) |
| At 31 December 2017 and 1 January 2018 | 206 |
| Charge for the year | 108 |
| Written off | (154) |
| At 31 December 2018 | 160 |
| **Net carrying amount** | |
| At 31 December 2017 | 197 |
| At 31 December 2018 | 219 |

Motor vehicles pertain to cars used by the employees of ROHQ.

## 11. Investment in subsidiaries

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| At 1 January | 182,506 | 182,428 |
| Additions | 15,014 | 59,742 |
| Written off | – | (59,664) |
| At 31 December | 197,520 | 182,506 |

The increase in investment in subsidiaries included additional stock options granted to the Company's subsidiaries by IMI amounting to $14,000 (2017: $74,000).

Details of the subsidiaries are as follows:

| Name | Country of incorporation | Principal activities | Effective equity interest held by the Company 2018 % | 2017 % |
|---|---|---|---|---|
| **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 |
| 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 | 100 |
| Integrated Micro-Electronics UK Limited (IMI UK) # | United Kingdom | Investment holding | 100 | 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 2018 % | 2017 % |
|---|---|---|---|---|
| **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 |
| 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 | 100 |

## 11. Investment in subsidiaries (cont'd)

| Name | Country of incorporation | Principal activities | Effective equity interest held by the Company 2018 % | 2017 % |
|---|---|---|---|---|
| **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 | 100 |

## 11. Investment in subsidiaries (cont'd)

| Name | Country of incorporation | Principal activities | Effective equity interest held by the Company 2018 % | 2017 % |
|---|---|---|---|---|
| **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 | 80 |
| STI Limited # | United Kingdom | Provides a complete set of electronics design and manufacturing solutions in both PCBA and full box build manufacturing | 80 | 80 |
| STI Asia Ltd. # | Philippines | Provides a complete set of electronics design and manufacturing solutions in both PCBA and full box build manufacturing | 80 | 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 | 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.

*Investment in Cooperatief*

On 17 April 2018, the Company has increased its member's contribution in the share capital of Cooperatief by an additional US$15,000,000, which will be satisfied by way of capitalising US$15,000,000 of the debts owed and due payable by the Cooperatief to the Company.

*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 as at 31 December 2017. The Company recorded net impairment loss on its investment in Monarch amounting to $90,000 in the profit or loss for the year ended 31 December 2017.

As at 31 December 2018, Monarch has been deregistered.

## 12. Other receivables, deposits and prepayments

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Other receivables | 128 | 25 |
| Tax recoverables | 162 | 182 |
| Prepayments | 3 | 37 |
| Deposit | 3 | – |
| | 296 | 244 |

Included in other receivables are the following amounts denominated in foreign currency at 31 December:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Philippine Peso | 293 | 25 |

The carrying amounts of financial assets carried at amortised cost comprise:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Other receivables and deposits | 131 | 25 |
| Cash and cash equivalents | 1,218 | 747 |
| Due from immediate holding company | 333 | 647 |
| Due from related parties | 565 | 329 |
| Due from subsidiaries | 100,120 | 99,018 |
| Total financial assets carried at amortised cost | 102,367 | 100,766 |

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 $28,809,000 (2017: $43,808,000) are non-trade related, unsecured, interest-free, repayable on demand and to be settled in cash and $71,311,000 (2017: $55,210,000) short-term notes receivable from subsidiaries under an original issue discount loan agreement with an interest rate of 4.0% (2017: 3.0% to 3.5%) per annum, repayable in 2019 (2017: 2018) and to be settled in cash.

Included in amount due from subsidiaries are the following amounts denominated in foreign currency at 31 December:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| British Pound | 31,150 | 31,920 |

## 13. Cash and cash equivalents

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Cash and cash equivalents | 1,218 | 747 |

Cash and cash equivalents denominated in foreign currencies at 31 December are as follows:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Singapore Dollar | 29 | 127 |
| Philippine Peso | 86 | 130 |

## 14. Other payables and accruals

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Accrued operating expenses | 1,472 | 1,726 |
| Other payables | 60 | 117 |
| | 1,532 | 1,843 |

Accrued operating expenses include accruals for salaries and benefits such as leave credits and bonuses.

Included in other payables and accruals are the following amounts denominated in foreign currencies at 31 December:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Singapore Dollar | 174 | 966 |
| Philippine Peso | 1,358 | 1,826 |

## 14. Other payables and accruals (cont'd)

The financial liabilities carried at amortised cost comprise:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Other payables and accruals | 1,532 | 1,843 |
| Due to subsidiary | 1 | 2 |
| Due to related companies | 1,909 | 337 |
| Due to immediate holding company | 78,308 | 147,882 |
| Total financial liabilities carried at amortised cost | 81,750 | 150,064 |

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.

Included in amount due to related companies are the following amounts denominated in foreign currencies at 31 December:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Japanese Yen | 524 | 5 |

## 15a. Share capital

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | No. of Shares<br>'000 | $'000 | No. of Shares<br>'000 | $'000 |
| **Issued and fully paid** | | | | |
| At 1 January | 117,709 | 89,839 | 117,709 | 89,839 |
| Issuance of ordinary shares | 19,629 | 15,000 | – | – |
| At 31 December | 137,338 | 104,839 | 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.

In 2018, the Company issued 19,629,000 ordinary shares at S$1 each to the immediate holding company. The share capital amount of 19,620,000 is translated to US$15,000,000.

## 15b. Redeemable preference shares

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | No. of Shares '000 | $'000 | No. of Shares '000 | $'000 |
| **Issued and fully paid** | | | | |
| At 1 January | – | – | – | – |
| Issuance of redeemable preference shares | 108,227 | 79,119 | – | – |
| At 31 December | 108,227 | 79,119 | – | – |

As of 31 December 2018, there were 108,227,000 redeemable preference shares ("RPS") issued and fully paid. The shares were issued at S$1 each and is translated to total amounts of US$79,119,000.

There is no conversion option to the shareholders to convert the RPS into ordinary shares of the Company and there is no redemption date for the RPS. The holder of RPS is entitled to receive dividends as and when declared by the Company. The dividend rights are non-cumulative and the shareholders have no voting rights unless the resolution in question varies the rights attached to the RPS or is for the winding-up of the Company.

## 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 Company.

(b) ***Revenue reserves***

Revenue reserves of the Company are available for distribution as dividends.

## 17. Deferred tax liabilities

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Balance sheet** | | |
| Foreign sourced interest income | (492) | (125) |
| **Profit or loss** | | |
| Foreign sourced interest income | 386 | 125 |
| Deferred tax expense | 386 | 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:

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Service fees from: | | |
| Immediate holding company | 606 | 1,915 |
| Share option expenses from: | | |
| Immediate holding company | 4 | 140 |
| Rental of office premises from subsidiary | 34 | – |

### (b) *Compensation of key management personnel*

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Short-term employee benefits | 6,288 | 3,728 |
| Pension and post-employment medical benefits | 110 | 413 |
| Share option expenses | 4 | 140 |
| Total compensation entitled to key management personnel | 6,402 | 4,281 |
| *Comprise amounts entitled to :* | | |
| • Directors of the Company | 1,250 | 1,478 |
| • Other key management personnel | 5,152 | 2,803 |
| | 6,402 | 4,281 |

## 19. Commitments

***Operating lease commitments – as lessee***

The Company has an operating lease agreement in respect of office premises from its subsidiary. The non-cancellable lease has remaining non-cancellable lease terms of 2 years (2017: NIL). 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 2018 amounted to $33,562 (2017: $NIL).

Future minimum lease payments under non-cancellable operating leases are as follows as at 31 December:

| | **2018** $'000 | **2017** $'000 |
|---|---|---|
| Within 1 year | 33 | – |
| Within 2 to 5 years | 33 | – |
| After 5 years | – | – |
| | 66 | – |

## 20. 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.

## 20. Financial risk management objectives and policies (cont'd)

***Foreign currency risk (cont'd)***

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in SGD, PHP, JPY and GBP exchange rates (against USD), with all other variables held constant, of the Company's loss net of tax.

| | | | **2018** | **2017** |
|---|---|---|---|---|
| | | | $'000 | $'000 |
| | | | **Loss net of tax Increase/(decrease)** | |
| SGD | – | strengthened 1% (2017: 1%) | 11 | 9 |
| | – | weakened 1% (2017: 1%) | (11) | (9) |
| PHP | – | strengthened 1% (2017: 1%) | 9 | 15 |
| | – | weakened 1% (2017: 1%) | (9) | (15) |
| JPY | – | strengthened 1% (2017: 1%) | 5 | 45 |
| | – | weakened 1% (2017: 1%) | (5) | (45) |
| GBP | – | strengthened 1% (2017: 1%) | (311) | (321,086) |
| | – | weakened 1% (2017: 1%) | 311 | 321,086 |

***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.

## 20. Financial risk management objectives and policies (cont'd)

### *Liquidity risk (cont'd)*

The table below summarises the maturity profile of the Company's financial liabilities at the balance sheet date based on the contractual undiscounted payments.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | 1 year or less $'000 | Total $'000 | 1 year or less $'000 | Total $'000 |
| **Financial assets:** | | | | |
| Other receivables and deposits | 131 | 131 | 25 | 25 |
| Due from immediate holding company | 333 | 333 | 647 | 647 |
| Due from related parties | 565 | 565 | 329 | 329 |
| Due from subsidiaries | 100,120 | 100,120 | 99,018 | 99,018 |
| Cash and cash equivalents | 1,218 | 1,218 | 747 | 747 |
| Total undiscounted financial assets | 102,367 | 102,367 | 100,766 | 100,766 |
| **Financial liabilities:** | | | | |
| Other payables and accruals | 1,532 | 1,532 | 1,843 | 1,843 |
| Due to subsidiary | 1 | 1 | 2 | 2 |
| Due to related companies | 1,909 | 1,909 | 337 | 337 |
| Due to immediate holding company | 78,308 | 78,308 | 147,882 | 147,882 |
| Total undiscounted financial liabilities | 81,750 | 81,750 | 150,064 | 150,064 |
| Total net undiscounted financial assets/(liabilities) | 20,617 | 20,617 | (49,298) | (49,298) |

### *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.

The Company's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Company trades only with recognised and creditworthy third parties. It is the Company'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 Company's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Company does not offer credit terms without the approval of the Head of Credit Control.

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

## 20. 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.

## 21. 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.

## 22. 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 2018 and 31 December 2017.

The Company was in compliance with all externally imposed capital requirements in certain countries, where applicable, for the financial years ended 31 December 2018 and 2017.

## 22. Capital management (cont'd)

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.

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| Other payables and accruals (Note 14) | 1,532 | 1,843 |
| Due to subsidiary | 1 | 2 |
| Due to related companies | 1,909 | 337 |
| Due to immediate holding company | 78,308 | 147,882 |
| Less: Cash and cash equivalents (Note 13) | (1,218) | (747) |
| Net debt | 80,532 | 149,317 |
| Equity attributable to equity holder of the Company | 218,029 | 133,499 |
| Total capital | 218,029 | 133,499 |
| Capital and net debt | 298,561 | 282,816 |
| Gearing ratio | 27% | 53% |

## 23. Dividend

| | 2018<br>$'000 | 2017<br>$'000 |
|---|---|---|
| **Declared and paid during the financial year:** | | |
| *Dividend on ordinary shares:* | | |
| - Interim exempt (one-tier) dividend for 2018: 0.036 cents (2017: NIL) per share | 5,000 | – |

## 24. Authorisation of financial statements for issue

The financial statements for the financial year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 15 March 2019.

**EXHIBIT 4**

**2018 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 2018

Building a better
working world

**Speedy-Tech Electronics Ltd. and its subsidiaries**

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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 2018.

## 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 2018 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.

## 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 | 313,291 | 319,158 |

**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 | 19,268,100 |
| Jerome Su Tan | 3,241,033 | 3,031,033 |
| 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
15 March 2019

**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 2018, 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 2018 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.

## Independent Auditor's Report to the Member of Speedy-Tech Electronics Ltd

### 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

15 March 2019

Speedy-Tech Electronics Ltd. and its subsidiaries

## Statements of comprehensive income
For the financial year ended 31 December 2018
(Amounts expressed in United States Dollars)

| | Note | Group 2018 $'000 | Group 2017 $'000 | Company 2018 $'000 | Company 2017 $'000 |
|---|---|---|---|---|---|
| **Revenue** | 4 | 332,841 | 271,186 | 150,755 | 106,231 |
| Cost of sales | | (311,621) | (242,794) | (145,559) | (100,701) |
| Gross profit | | 21,220 | 28,392 | 5,196 | 5,530 |
| Other operating income | 5 | 22,180 | 3,098 | 38,958 | 1,243 |
| Administrative expenses | | (26,500) | (19,353) | (4,987) | (5,441) |
| Restructuring expenses | | – | (7,958) | – | – |
| Finance costs | 8 | (1,748) | (546) | (1,303) | (370) |
| **Profit before tax** | 7 | 15,152 | 3,633 | 37,864 | 962 |
| Income tax credit/(expense) | 9 | 1,083 | (428) | (22) | – |
| **Profit for the year** | | 16,235 | 3,205 | 37,842 | 962 |
| **Other comprehensive income** | | | | | |
| **Item that may be reclassified subsequently to profit or loss** | | | | | |
| Foreign currency translation | | (113) | 131 | – | – |
| **Other comprehensive income for the year, net of tax** | | (113) | 131 | – | – |
| **Total comprehensive income for the year attributable to owner of the Company** | | 16,122 | 3,336 | 37,842 | 962 |

*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 2018**
(Amounts expressed in United States Dollars)

| | Note | Group 2018 $'000 | Group 2017 $'000 | Company 2018 $'000 | Company 2017 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 10 | 38,819 | 38,306 | 305 | 408 |
| Intangible asset | 11 | 744 | 1,113 | – | – |
| Prepayment | 15 | 3,374 | 3,440 | – | – |
| Receivables from customers | 15 | 2,637 | – | – | – |
| Investment in subsidiaries | 12 | – | – | 41,742 | 72,945 |
| | | 45,574 | 42,859 | 42,047 | 73,353 |
| **Current assets** | | | | | |
| Inventories | 13 | 45,916 | 45,682 | 386 | 663 |
| Trade receivables | 14 | 97,209 | 82,268 | 16,751 | 13,454 |
| Other receivables, deposits and prepayments | 15 | 3,293 | 10,882 | 157 | 281 |
| Contract assets | 4 | 17,043 | – | 1,409 | – |
| Due from intermediate holding company | 14 | 1,167 | 1,702 | 615 | 1,163 |
| Due from subsidiaries | 14 | – | – | 83,304 | 43,460 |
| Due from related companies | 14 | 18,936 | 20,899 | 17,589 | 20,384 |
| Properties held for sale | 16 | – | 362 | – | – |
| Cash and cash equivalents | 17 | 40,272 | 38,326 | 23,191 | 17,089 |
| | | 223,836 | 200,121 | 143,402 | 96,494 |
| **Total assets** | | 269,410 | 242,980 | 185,449 | 169,847 |
| **Current liabilities** | | | | | |
| Trade payables | 18 | 71,523 | 68,225 | 9,205 | 9,365 |
| Other payables and accruals | 19 | 30,381 | 46,407 | 13,420 | 28,733 |
| Due to intermediate holding company | 18 | 7,649 | 194 | 6,141 | 19 |
| Due to subsidiaries | 18 | – | – | 11,870 | 39,797 |
| Due to related companies | 18 | 71 | 3 | 10 | 3 |
| Tax payable | | 61 | 1,365 | – | – |
| Short term bank loan (unsecured) | 20 | 42,612 | 24,000 | 42,000 | 24,000 |
| | | 152,297 | 140,194 | 82,646 | 101,917 |
| **Net current assets/(liabilities)** | | 71,539 | 59,927 | 60,756 | (5,423) |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 21 | 185 | 1 | 22 | 1 |
| Deferred Grants | 22 | 425 | – | – | – |
| **Total liabilities** | | 152,907 | 140,195 | 82,668 | 101,918 |
| **Net assets** | | 116,503 | 102,785 | 102,781 | 67,929 |
| **Equity attributable to owner of the Company** | | | | | |
| Share capital | 23 | 26,872 | 26,872 | 26,872 | 26,872 |
| Reserves | 24 | 89,631 | 75,913 | 75,909 | 41,057 |
| **Total equity** | | 116,503 | 102,785 | 102,781 | 67,929 |
| **Total equity and liabilities** | | 269,410 | 242,980 | 185,449 | 169,847 |

*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 2018**
(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 |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance as at 1 January 2017** | 26,872 | 1,810 | 247 | 11,244 | 743 | 2,710 | (156) | 57,947 | 101,417 |
| Profit for the year | – | – | – | – | – | – | – | 3,205 | 3,205 |
| Other comprehensive income | | | | | | | | | |
| Foreign currency translation | – | – | – | – | – | – | 131 | – | 131 |
| **Total comprehensive income for the year** | – | – | – | – | – | – | 131 | 3,205 | 3,336 |
| Contributions by and distributions to owners | | | | | | | | | |
| 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 contributions by and distributions to owners, representing total transactions with owners in their capacity as owners** | – | – | – | – | – | 32 | – | (2,000) | (1,968) |
| Others | | | | | | | | | |
| Transfer to restricted reserves | – | – | – | 293 | – | – | – | (293) | – |
| **Total others** | – | – | – | 293 | – | – | – | (293) | – |
| **Closing balance as at 31 December 2017** | 26,872 | 1,810 | 247 | 11,537 | 743 | 2,742 | (25) | 58,859 | 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 2018 (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 |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance as at 1 January 2018** | 26,872 | 1,810 | 247 | 11,537 | 743 | 2,742 | (25) | 58,859 | 102,785 |
| **Cumulative effects of adopting FRS115** | – | – | – | – | – | – | – | 589 | 589 |
| **Opening balance as at 1 January 2018 (restated)** | 26,872 | 1,810 | 247 | 11,537 | 743 | 2,742 | (25) | 59,448 | 103,374 |
| Profit for the year | – | – | – | – | – | – | – | 16,235 | 16,235 |
| <u>Other comprehensive income</u> | | | | | | | | | |
| Foreign currency translation | – | – | – | – | – | – | (113) | – | (113) |
| **Total comprehensive income for the year** | – | – | – | – | – | – | (113) | 16,235 | 16,122 |
| <u>Contributions by and distributions to owners</u> | | | | | | | | | |
| Grant of equity-settled share options in intermediate holding company to employees | – | – | – | – | – | 7 | – | – | 7 |
| Dividend paid on ordinary shares (Note 30) | – | – | – | – | – | – | – | (3,000) | (3,000) |
| **Total contributions by and distributions to owners, representing total transactions with owners in their capacity as owners** | – | – | – | – | – | 7 | – | (3,000) | (2,993) |
| <u>Others</u> | | | | | | | | | |
| Transfer to restricted reserves | – | – | – | 23 | – | – | – | (23) | – |
| **Total others** | – | – | – | 23 | – | – | – | (23) | – |
| **Closing balance as at 31 December 2018** | 26,872 | 1,810 | 247 | 11,560 | 743 | 2,749 | (138) | 72,660 | 116,503 |

*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 2018 (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 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 |
| **At 1 January 2018** | 26,872 | 743 | 2,256 | 38,058 | 67,929 |
| **Cumulative effects of adopting FRS115** | – | – | – | 3 | 3 |
| **At 1 January 2018** | 26,872 | 743 | 2,256 | 38,061 | 67,932 |
| Profit for the year, representing total comprehensive income for the year | – | – | – | 37,842 | 37,842 |
| Contributions by and distributions to owner | | | | | |
| Grant of equity-settled share options in intermediate holding company to employees | – | – | 7 | – | 7 |
| Dividend paid on ordinary shares (Note 30) | – | – | – | (3,000) | (3,000) |
| **Total transactions with owner in its capacity as owner** | – | – | 7 | (3,000) | (2,993) |
| **At 31 December 2018** | 26,872 | 743 | 2,263 | 72,903 | 102,781 |

*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 2018**
(Amounts expressed in United States Dollars)

| | Note | Group 2018 $'000 | Group 2017 $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | 15,152 | 3,633 |
| Adjustments: | | | |
| Depreciation of property, plant and equipment | 10 | 8,757 | 5,131 |
| Amortisation of intangible assets | 11 | 369 | 1,201 |
| Gain on disposal of property, plant and equipment | 5 | (157) | (35) |
| Provision for/(reversal) of inventories obsolescence, net | 13 | 152 | (589) |
| Reversal of doubtful trade debts | | – | (11) |
| Finance costs | 8 | 1,748 | 546 |
| Interest income | 5 | (1,039) | (733) |
| Share options expense | 6 | 7 | 32 |
| Gain on disposal of subsidiary | 12 | (19,061) | – |
| Unrealised exchange loss/(gain) | | 3,351 | (2,751) |
| **Operating cash flows before changes in working capital** | | 9,279 | 6,424 |
| Changes in working capital: | | | |
| Increase in inventories | | (386) | (14,590) |
| Increase in trade receivables and contract assets | | (41,991) | (7,871) |
| Increase in other receivables, deposits and prepayments | | (33,770) | (5,206) |
| Decrease/(increase) in amount due from related companies | | 1,963 | (531) |
| Increase in trade payables | | 5,895 | 10,257 |
| (Decrease)/increase in other payables and accruals | | (25,536) | 17,881 |
| **Cash flows from operations** | | (84,546) | 6,364 |
| Deferred grant received | | 425 | – |
| Interest received | 5 | 1,039 | 733 |
| Finance costs paid | 8 | (1,748) | (546) |
| Income taxes paid | | (36) | (1,269) |
| **Net cash flows (used in)/from operating activities** | | (84,866) | 5,282 |
| **Cash flows from investing activities** | | | |
| Additions to intangible assets | | – | (1,146) |
| Proceeds from disposal of property, plant and equipment | | 2,184 | 1,460 |
| Net cash outflow on purchase of property, plant and equipment | 10 | (13,532) | (20,742) |
| Net cash inflow on disposal of subsidiary | 12 | 75,101 | – |
| **Net cash flows from/(used in) investing activities** | | 63,753 | (20,428) |
| **Cash flows from financing activities** | | | |
| Dividend paid | 30 | (3,000) | (2,000) |
| Proceeds from short-term bank loans | 20 | 18,612 | 16,000 |
| Increase/(decrease) in amount due to related company | 20 | 68 | (1) |
| Increase/(decrease) in amount due to intermediate holding company, net | 20 | 7,990 | (283) |
| **Net cash flows from financing activities** | | 23,670 | 13,716 |
| Net increase/(decrease) in cash and cash equivalents | | 2,557 | (1,430) |
| Effect of exchange rate changes on cash and cash equivalents | | (611) | 1,387 |
| Cash and cash equivalents at beginning of year | | 38,326 | 38,369 |
| **Cash and cash equivalents at end of year (Note 17)** | | 40,272 | 38,326 |

*The accompanying accounting policies and explanatory notes form an integral part of the financial statements.*

## 1. Corporate information

Speedy-Tech Electronics Ltd (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 12 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 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.

### 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 2018. Except for the impact arising from the adoption of FRS 109 and FRS 115 described below, the adoption of these standards did not have material effect on the financial performance or position of the Group and the Company.

#### (a) FRS 109 *Financial Instruments*

On 1 January 2018, the Group adopted FRS 109 *Financial instruments*, which is effective for annual periods beginning on or after 1 January 2018.

The changes arising from the adoption of FRS 109 have been applied retrospectively. The Group has elected to adopt modified retrospective approach and has not restated comparative information in the year of initial application. The impact arising from FRS 109 adoption was included in the opening retained earnings at the date of initial application, 1 January 2018. The comparative information was prepared in accordance with the requirements of FRS 39 *Financial Instruments: Recognition and Measurement*.

## 2. Summary of significant accounting policies (cont'd)

### 2.2 *Changes in accounting polices (cont'd)*

#### (a) FRS 109 *Financial Instruments (cont'd)*

Classification and measurement

The classification and measurement requirements of FRS 109 did not have an impact on the Group. The Group continued measuring at fair value all financial assets previously held at fair value under FRS 39. The following are the changes in the classification of the Group's financial assets:

Cash and cash equivalents and trade receivables classified as loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortized cost beginning 1 January 2018.

There are no changes in the classification and measurement of the Group's financial liabilities.

Impairment

FRS 109 requires the Group to record expected credit losses on all its financial assets measured at amortised cost or FVOCI and financial guarantees. The Group previously recorded impairment based on the incurred loss model when there is objective evidence that a financial asset is impaired.

For financial assets without significant financing component or those with maturity of less than one year, FRS 109 permits the use of a simplified approach or a provision matrix for measuring ECL. The Group uses a provision matrix which is based on historical observed default rate or losses and adjusted by forward-looking estimate. This was incorporated in the existing specific identification process of determining the provision for doubtful accounts for its receivables.

Upon adoption of FRS 109, the Group assessed that the new standard did not have a material impact on the consolidated financial statements since the Group has no significant historical losses and forward-looking default rates that would warrant recognition of additional impairment allowance on the Group's receivables.

Tax adjustments and other adjustments

Upon adoption of FRS 109, as there was no additional impairment made, there is no tax impact.

## 2. Summary of significant accounting policies (cont'd)

### 2.2 *Changes in accounting polices (cont'd)*

(b) **FRS 115 *Revenue from Contracts with Customers***

The Group adopted FRS 115 which is effective for annual periods beginning on or after 1 January 2018.

The Group has elected to adopt modified retrospective approach and apply this approach only to those contracts that were not completed at the date of initial application. The cumulative effect of initially applying FRS 115 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under FRS 18 *Revenue* and related Interpretations.

The Group is in the business of manufacturing services. The key impact of adopting FRS 115 is detailed as follows:

Manufacturing services

*Timing of revenue recognition*

Prior to the adoption of FRS 115, the Group recognized revenue from sale of goods 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. Revenue from sale of services was recognized when the related services to complete the required units have been rendered.

Under FRS 115, the Group assessed that revenue from manufacturing services shall be recognized over time. For turnkey contracts, revenue is recognized over time since the products created have no alternative use to the Group considering that manufacturing services are performed only based on customer purchase order or scheduling agreement, and the Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than the Group's failure to perform as promised. For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as the Group performs.

For Work in Progress (WIP) and Finished Goods (FG) inventories not covered by a customer purchase orders or firm delivery schedule, and non-recurring engineering charges, tooling and other pre-production revenue stream, revenues are recognized at a point in time.

The effects of the adoption of FRS 115 on the consolidated financial statements as of 1 January 2018 are as follows:

Increase/(decrease) in:

| | $ |
|---|---|
| Contract assets | 11,342,000 |
| Inventories | (10,567,000) |
| Deferred tax liabilities | 186,000 |
| Retained earnings | 589,000 |

The adoption did not have a material impact on the Group's operating, investing and financing cash flows.

## 2. Summary of significant accounting policies (cont'd)

### 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 116 Leases* | 1 January 2019 |
| *INT FRS 23 Uncertainty over Income Tax Treatments* | 1 January 2019 |
| *Amendments to FRS 109 Prepayment Features with Negative Compensation* | 1 January 2019 |
| *Amendments to FRS 28 Long-term Interests in Associates and Joint Ventures* | 1 January 2019 |
| *Amendments to FRS 10 and 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | Date to be determined |

Except for 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 116 are described below.

FRS 116 *Leases*

FRS 116 requires lessees to recognise most leases on balance sheets. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. FRS 116 is effective for annual periods beginning on or after 1 January 2019. At commencement date of a lease, a lessee will recognise a liability to make a lease payment (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 recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group plans to adopt FRS 116 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019.

On the adoption of FRS 116, the Group expects to choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

(i) its carrying amount as if FRS 116 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate as of 1 January 2019; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2019.

The Group is currently assessing the impact of adopting FRS 116.

## 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 are measured at cost less accumulated depreciation and any accumulated impairment losses.

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:

| | |
|---|---|
| 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 |

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. Summary of significant accounting policies (cont'd)

### 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.

**Product 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.

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. Summary of significant accounting policies (cont'd)

### 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.

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. Summary of significant accounting policies (cont'd)

### 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 instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

(a) ***Financial assets***

**Initial recognition and measurement**

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

**Subsequent measurement**

Investments in debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset. The financial assets of the Group consist of financial assets at amortised cost.

*Amortised cost*

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

## 2. Summary of significant accounting policies (cont'd)

### 2.11 *Financial instruments (cont'd)*

#### (a) *Financial assets (cont'd)*

**Derecognition**

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.

**Derecognition**

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 recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before considering any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

### 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. Summary of significant accounting policies (cont'd)

### 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.

### 2.18 *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.

<u>Singapore</u>

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

## 2. Summary of significant accounting policies (cont'd)

### 2.18 *Employee benefits (cont'd)*

*Defined contribution plans (cont'd)*

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. 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. 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.

*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. Summary of significant accounting policies (cont'd)

### 2.19 *Revenue*

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

The Group is in the business of providing electronic manufacturing and other related services to various customers. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

#### (a) *Manufacturing services*

The Group provides manufacturing services in accordance with the customer's specifications. The Group promises to provide a combined performance obligation comprised of non-distinct goods or services, which include issuance of materials to production, assembly, testing and packaging.

Contracts with customers are generally classified as turnkey or consignment. In a turnkey contract, the Group procures the materials and provides the assembly services to the customer. In a consignment contract, the Group only provides assembly services to the customer.

For turnkey contracts, revenue is recognized over time since the products created have no alternative use to the Group and the Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than the Group's failure to perform as promised.

For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as the Group performs.

*Variable consideration*

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

## 2. Summary of significant accounting policies (cont'd)

### 2.19 *Revenue (cont'd)*

#### (a) *Manufacturing services (cont'd)*

*Significant financing component*

The Group's contracts with its customers are short-term in nature. Using the practical expedient in FRS 115, the Group does not adjust the promised amount of consideration of the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

*Contract balances*

A contract asset is recognised when the Group has performed under the contract but has not yet billed the customer. Conversely, a contract liability is recognised when the Group has not yet performed under the contract but has received advanced payments from the customer. Contract assets are transferred to receivables when the rights to consideration become unconditional. Contract liabilities are recognised as revenue as the Group performs under the contract.

#### (b) *Tooling*

Non-recurring engineering charges and tooling (NREs) are recognized at a point in time as the criteria for over time recognition is not met. This is based on the assessment that while the Group has no alternative use for these NREs, either due to customization or restrictions by the customer, there is no assurance or relevant experience that the Group has enforceable right to payment or can recover the cost, plus reasonable margin, in case of contract termination. Revenue is recognized upon customer acceptance of the NREs.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., customer options that provide material rights to customers, warranties). In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer, if any.

#### (c) *Interest income*

Interest income is recognised using the effective interest method.

#### (d) *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).

### 2.25 *Government grants*

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the balance sheet and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments. Government grants received are included in liabilities as deferred grants.

## 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 property, plant and equipment*

The carrying values of property, plant and equipment are reviewed for impairment when there are indicators of impairment. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The Group has assessed that except for the property, plant and equipment of Speedy-Tech Electronics (Jiaxing) Co. Ltd ("STJX"), there's no indication of impairment. The recoverable amount of property, plant and equipment of STJX was estimated based on value in use calculation which is based on a discounted cash flow model. The cash flows are derived from the budget for the next ten years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

For the year ended 31 December 2018, 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 2018 is $38,819,000 (2017: $38,306,000).

**Sensitivity to changes in key assumptions**

Reasonably possible changes to the following key assumptions used in management's assessment of recoverable amount (holding other assumptions unchanged) will result in changes in the amount at which the recoverable amount exceeds the carrying amount ("Surplus") as follows:

| **2018** | **Discount rate** | | **Growth rate** | |
|---|---|---|---|---|
| | **+1%** | **-1%** | **+1%** | **-1%** |
| | $'000 | $'000 | $'000 | $'000 |
| (Decrease)/increase in surplus | (98) | 101 | 3,612 | (3,482) |

## 3. Significant accounting judgements and estimates (cont'd)

### (a) *Key sources of estimation uncertainty (cont'd)*

#### (ii) *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 2018 were $61,000 (2017: $1,365,000) and $185,000 (2017: $1,000) respectively.

### (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:

#### (i) *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 10. A 10% difference in the expected useful lives of plant and equipment and residual value from management's estimates would result in approximately 6% (2017:14%) variance in the Group's profit before tax.

## 4. Revenue

### (a) *Disaggregation of revenue*

| **Major revenue stream** | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | $'000 | $'000 | $'000 | $'000 |
| Manufacturing services | 331,298 | 269,545 | 150,755 | 106,231 |
| Tooling | 1,543 | 1,641 | – | – |
| | 332,841 | 271,186 | 150,755 | 106,231 |

| **Timing of transfer of goods or services** | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | $'000 | $'000 | $'000 | $'000 |
| At a point in time | 1,543 | 271,186 | – | 106,231 |
| Over time | 331,298 | – | 150,755 | – |
| | 332,841 | 271,186 | 150,755 | 106,231 |

### (b) *Judgement and methods used in estimating revenue*

**Recognition of revenue over time**

For the sale of component parts where the Group satisfies its performance obligations over time, management has determined that a cost-based input method provides a faithful depiction of the Group's performance in transferring control of a promised good or service to a customer as it reflects Group's effort incurred to date relative to the total inputs expected to be incurred for the finished product.

### (c) *Contract assets*

Contract assets primarily relate to the Group's right to consideration for work completed but not yet billed at reporting date for revenue earned from manufacturing services as receipt of consideration is conditional on successful completion of the services. When goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customers, the amounts recognized as contract assets are transferred to trade receivables when the rights become unconditional.

## 5. Other operating income

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | $'000 | $'000 | $'000 | $'000 |
| Sundry income | 1,371 | 1,827 | 93 | 27 |
| Provision of test services | 489 | 461 | 489 | 461 |
| Interest income from loans and receivables | 1,039 | 733 | 1,408 | 755 |
| Gain on disposal of property, plant and equipment | 157 | 35 | – | – |
| Gain on trading of materials | 63 | 42 | – | – |
| Gain on disposal of investment in subsidiary (Note 12) | 19,061 | – | 36,968 | – |
| | 22,180 | 3,098 | 38,958 | 1,243 |

## 6. Employee benefits expense

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | $'000 | $'000 | $'000 | $'000 |
| Wages, salaries and bonuses | 56,573 | 47,677 | 2,368 | 2,965 |
| Central Provident Fund/pension contributions | 6,619 | 4,685 | 145 | 243 |
| Other personnel benefits | 3,451 | 2,870 | (13) | 57 |
| Share options expenses | 7 | 32 | 7 | 32 |
| | 66,650 | 55,264 | 2,507 | 3,297 |

## 7. Profit before tax

Profit before tax is stated after charging/(crediting) the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | $'000 | $'000 | $'000 | $'000 |
| Depreciation of property, plant and equipment (Note10) | 8,757 | 5,131 | 114 | 119 |
| Exchange (gain)/loss, net | 3,620 | (1,133) | 60 | (146) |
| Employee benefits expense (Note 6) | 66,650 | 55,264 | 2,507 | 3,297 |
| Provision/(reversal) of inventory obsolescence (Note 13) | 152 | (589) | – | – |
| Operating lease expenses | 3,904 | 3,808 | 535 | 513 |
| Inventories recognised as an expense in cost of sales | 269,712 | 178,066 | 145,556 | 100,694 |

## 8. Finance costs

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 |
| Interest expense on bank loans | 1,420 | 388 | 1,279 | 340 |
| Bank charges | 328 | 158 | 24 | 30 |
| Total finance costs | 1,748 | 546 | 1,303 | 370 |

## 9. Income tax (credit)/expense

*Major components of income tax (credit)/expense*

The major components of tax (credit)/expense for the year ended 31 December 2018 and 2017 are:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 |
| **Current income tax** | | | | |
| Current year | (126) | 537 | 30 | – |
| Overprovision in respect of prior years | (1,112) | (63) | – | – |
| | (1,238) | 474 | 30 | – |
| **Deferred income tax** | | | | |
| Origination and reversal of temporary differences | 184 | (31) | 21 | – |
| Benefits from previously unrecognised tax losses | (29) | (15) | (29) | – |
| | 155 | (46) | (8) | – |
| Income tax (credit)/expense recognised in profit or loss | (1,083) | 428 | 22 | – |

## 9. Income tax (credit)/expense (cont'd)

*Relationship between tax (credit)/expense and accounting profit*

A reconciliation between the tax (credit)/expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2018 and 2017 is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 |
| Profit before tax | 15,152 | 3,633 | 37,864 | 962 |
| Tax at the domestic rates applicable to profits in the countries concerned* | 2,174 | 733 | 6,436 | 164 |
| Adjustments: | | | | |
| Tax effect of expenses not deductible for tax purposes | 357 | 783 | 234 | 74 |
| Benefits from previously unrecognised tax losses | (29) | (15) | (29) | – |
| Effect of tax relief | (96) | (81) | (96) | (81) |
| Overprovision of current tax in respect of prior years | (1,112) | (62) | – | – |
| Income not subject to tax | (3,455) | (1,151) | (6,523) | (157) |
| Deferred tax asset not recognised | 1,078 | 239 | – | – |
| Others | – | (18) | – | – |
| Income tax expense recognised in profit or loss | (1,083) | 428 | 22 | – |

* The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

9. **Income tax (credit)/expense (cont'd)**

**Speedy Tech Electronics (HK) Limited ("STHK")**

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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 People's Republic of China (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% (2017: 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% (2017: 15%) on its taxable income as reported in the financial statement.

## 10. Property, plant and equipment

| Group | 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 improve-ments $'000 | EMC testing facility $'000 | Reno-vation $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | | | | |
| At 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 and 1 January 2018 | – | 80,787 | 580 | 2,034 | 3,129 | 2,005 | 6,954 | 1,647 | 3,709 | 4,709 | 105,554 |
| Additions | – | 7,046 | 41 | 274 | 360 | 357 | 453 | 2,403 | 20 | 386 | 11,340 |
| Disposals | – | (6,137) | (1) | (223) | (144) | (137) | (517) | – | (124) | – | (7,283) |
| Currency realignment | – | (108) | (2) | (10) | (2) | (3) | (21) | – | – | (34) | (180) |
| Reclassification | – | 1,139 | – | – | – | – | – | – | (1,139) | – | – |
| At 31 December 2018 | – | 82,727 | 618 | 2,075 | 3,343 | 2,222 | 6,869 | 4,050 | 2,466 | 5,061 | 109,431 |
| **Accumulated depreciation and impairment loss** | | | | | | | | | | | |
| At 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 and 1 January 2018 | – | 50,862 | 426 | 1,312 | 2,779 | 1,031 | 5,315 | 1,492 | 2,409 | 1,622 | 67,248 |
| Charge for the year | – | 5,643 | 82 | 377 | 256 | 638 | 459 | 647 | 42 | 613 | 8,757 |
| Disposals | – | (4,122) | (1) | (217) | (144) | (132) | (516) | – | (124) | – | (5,256) |
| Currency realignment | – | (78) | (2) | (9) | (1) | (1) | (17) | – | – | (29) | (137) |
| At 31 December 2018 | – | 52,305 | 505 | 1,463 | 2,890 | 1,536 | 5,241 | 2,139 | 2,327 | 2,206 | 70,612 |
| **Net carrying amount** | | | | | | | | | | | |
| At 31 December 2017 | – | 29,925 | 154 | 722 | 350 | 974 | 1,639 | 155 | 1,300 | 3,087 | 38,306 |
| At 31 December 2018 | – | 30,422 | 113 | 612 | 453 | 686 | 1,628 | 1,911 | 139 | 2,855 | 38,819 |

## 10. 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 2017 | 493 | 125 | 396 | 634 | 226 | 2,580 | 58 | 4,512 |
| Additions | 13 | – | 13 | – | – | – | 13 | 39 |
| At 31 December 2017 and 1 January 2018 | 506 | 125 | 409 | 634 | 226 | 2,580 | 71 | 4,551 |
| Additions | 12 | – | 2 | – | – | – | – | 14 |
| Disposals | (132) | (61) | (66) | (11) | – | (124) | – | (394) |
| At 31 December 2018 | 386 | 64 | 345 | 623 | 226 | 2,456 | 71 | 4,171 |
| **Accumulated depreciation** | | | | | | | | |
| At 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 and 1 January 2018 | 493 | 104 | 390 | 633 | 54 | 2,410 | 59 | 4,143 |
| Charge for the year | 4 | 8 | 11 | 1 | 45 | 42 | 3 | 114 |
| Disposals | (131) | (61) | (64) | (11) | – | (124) | – | (391) |
| At 31 December 2018 | 366 | 51 | 337 | 623 | 99 | 2,328 | 62 | 3,866 |
| **Net carrying amount** | | | | | | | | |
| At 31 December 2017 | 13 | 21 | 19 | 1 | 172 | 170 | 12 | 408 |
| At 31 December 2018 | 20 | 13 | 8 | – | 127 | 128 | 9 | 305 |

## 10. Property, plant and equipment (cont'd)

***Net cash outflow on purchase of PPE***

| | Group 2018 $'000 | Group 2017 $'000 |
|---|---|---|
| Current year additions | 11,340 | 19,500 |
| Net (decrease)/increase in prepayment | (66) | 3,440 |
| Less: Other payables | (1,230) | (3,488) |
| Add: Cash outflow for settlement of payable relating to prior year additions to property, plant and equipment | 3,488 | 1,290 |
| Net cash outflow on purchase of property, plant and equipment | 13,532 | 20,742 |

## 11. Intangible asset

| | Group 2018 $'000 | Group 2017 $'000 |
|---|---|---|
| | Product development costs | |
| **Cost** | | |
| At 1 January | 2,314 | 2,214 |
| Capitalised development costs | – | 100 |
| At 31 December | 2,314 | 2,314 |
| **Accumulated amortisation** | | |
| At 1 January | 1,201 | – |
| Amortisation | 369 | 1,201 |
| At 31 December | 1,570 | 1,201 |
| **Net carrying amount** | 744 | 1,113 |

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.

***Net cash outflow on additions of intangible asset***

| | Group 2018 $'000 | Group 2017 $'000 |
|---|---|---|
| Current year additions | – | 100 |
| 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 |

## 12. Investment in subsidiaries

| | Company 2018 $'000 | Company 2017 $'000 |
|---|---|---|
| Unquoted equity shares at cost | 73,487 | 63,987 |
| Less: impairment losses | (542) | (542) |
| Add: Investment in subsidiary | 16,917 | 9,500 |
| Less: Disposal of subsidiary | (48,120) | – |
| Carrying amount of investment | 41,742 | 72,945 |
| Movement in impairment losses: | | |
| At 1 January and 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 2018 % | Effective equity interest held by the Group 2017 % |
|---|---|---|---|---|
| **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 |
| 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 |
| Speedy-Tech Electronics Inc.* | Marketing, liaison and support services (dormant) | United States of America | 100 | 100 |

## 12. 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 2018 % | 2017 % |
|---|---|---|---|---|
| **Held by the Company (cont'd)** | | | | |
| 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 | 100 |

# Audited by member firms of EY Global in the respective countries.

* The subsidiary was set up in 1999 with no paid up capital. No audit is required by the law of its country of incorporation.

## 12. Investment in subsidiaries (cont'd)

*Disposal of 100% ownership interest in subsidiary*

On 12th August 2016, the Group entered into a sale agreement to dispose 100% of its interest in its wholly-owned subsidiary, Shenzhen Speedy-Tech Electronics Co., Ltd. (SZSTE), at its carrying value. The disposal consideration was fully settled in cash. The disposal was completed on 30 June 2018, on which date control of SZSTE, passed to the acquirer.

The value of assets and liabilities of SZSTE recorded in the consolidated financial statements as at 30 June 2018, and the effects of the disposal were:

| **Group** | **2018**<br>$'000 |
|---|---|
| Trade and other receivables | 43,910 |
| Due from the Group | 11,926 |
| Asset held for sale | 362 |
| Cash and bank balances | 1,569 |
| | 57,767 |
| Other payables and accruals | (158) |
| Carrying value of net assets | 57,609 |
| Cash consideration | 85,088 |
| Less: Cash and cash equivalents of the subsidiary | (1,569) |
| Less: Restructuring cost | (8,418) |
| Net cash inflow on disposal of a subsidiary | 75,101 |
| Gain on disposal: | |
| Cash received | 85,088 |
| Net assets derecognized | (57,609) |
| Less: Restructuring cost | (8,418) |
| Gain on disposal | 19,061 |

**Company**

Gain on disposal

| | **2018**<br>$'000 |
|---|---|
| Cash received | 85,088 |
| Less: cost of investment | (48,120) |
| Gain on disposal | 36,968 |

The gain on disposal of SZSTE of $19,061,000 and $36,968,000 was included in other operating income in profit or loss of the Group and Company respectively.

## 13. Inventories

| | Group 2018 $'000 | Group 2017 $'000 | Company 2018 $'000 | Company 2017 $'000 |
|---|---|---|---|---|
| **Balance sheet:** | | | | |
| Finished goods | – | 4,941 | – | 275 |
| Work-in-progress | – | 6,318 | – | – |
| Raw materials | 45,057 | 33,238 | 386 | 245 |
| Goods-in-transit | 792 | 1,146 | – | 143 |
| Tools | 67 | 39 | – | – |
| Total inventories at lower of cost and net realisable value | 45,916 | 45,682 | 386 | 663 |
| **Income statement:** | | | | |
| Inventories recognised as an expense in cost of sales | 269,712 | 178,066 | 145,556 | 100,694 |
| - Provision for inventory obsolescence | 284 | 1,244 | – | – |
| - Reversal of write-down of inventories | (132) | (1,833) | – | – |

## 14. Trade receivables

| | Group 2018 $'000 | Group 2017 $'000 | Company 2018 $'000 | Company 2017 $'000 |
|---|---|---|---|---|
| Trade receivables | 97,209 | 82,268 | 16,751 | 13,454 |
| Add: | | | | |
| Other receivables (Note 15) | 2,354 | 4,440 | 24 | 58 |
| Deposits (Note 15) | 135 | 132 | 119 | 116 |
| Due from intermediate holding company | 1,167 | 1,702 | 615 | 1,163 |
| Due from subsidiaries | – | – | 83,304 | 43,460 |
| Due from related companies | 18,936 | 20,899 | 17,589 | 20,384 |
| Cash and cash equivalents (Note 17) | 40,272 | 38,326 | 23,191 | 17,089 |
| Total financial assets carried at amortised cost | 160,073 | 147,767 | 141,593 | 95,724 |

Trade receivables

Trade receivables (receivables from contracts with customers) 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.

## 14. Trade receivables (cont'd)

Trade receivables (cont'd)

Trade receivables denominated in foreign currencies at 31 December is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 |
| Renminbi | 73,829 | 64,485 | – | – |

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 amounted to $50,204,168 (2017: $25,658,877).

Amount due from subsidiary that are non-trade in nature, unsecured, bears interest at rates ranging from 4.34% p.a. to 5.158% p.a. (2017: 3.97% p.a. to 4.05% p.a), repayable on demand and are to be settled in cash amounted to $33,064,103 (2017: $17,800,765).

Amount due from a related company are non-trade in nature, unsecured, bears interest at rates ranging from 3.38% p.a. to 5.59% p.a. (2017: from 2% p.a. to 3.82% p.a.), repayable on demand and are to be settled in cash amounted to $17,585,141 (2017: $20,382,043).

Receivables that are past due but not impaired

The Group and Company have trade receivables amounting to $9,545,000 (2017: $2,208,000) and $4,618,000 (2017: $1,102,000) 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 | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 |
| Trade receivables past due but not impaired: | | | | |
| Less than 30 days | 8,536 | 1,903 | 4,242 | 1,055 |
| 30-60 days | 588 | 214 | 373 | 46 |
| 61-90 days | 49 | 8 | – | 1 |
| More than 90 days | 372 | 83 | 3 | – |
| | 9,545 | 2,208 | 4,618 | 1,102 |

## 14. Trade receivables (cont'd)

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 and Company | 2017 $'000 |
|---|---|
| Trade receivables – nominal amounts | – |
| Less: Allowance for doubtful trade debts | – |
| | – |
| Movements in allowance account: | |
| At 1 January | 11 |
| Reversal for the year | (11) |
| At 31 December | – |

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.

Expected credit loss

The Group does not recognise any allowance for expected credit losses of trade receivables and contract assets computed based on lifetime ECL.

## 15. Other receivables, deposits and prepayments

| | Group | | Company | |
|---|---|---|---|---|
| | 2018 $'000 | 2017 $'000 | 2018 $'000 | 2017 $'000 |
| **Non-current:** | | | | |
| Receivables from customer | 2,637 | – | – | – |
| Prepayments for purchase of property, plant and equipment | 3,374 | 3,440 | – | – |
| **Current:** | | | | |
| Other receivables | 2,354 | 4,440 | 24 | 58 |
| Deposits | 135 | 132 | 119 | 116 |
| Prepayments | 87 | 292 | – | 106 |
| Sales tax recoverable | 717 | 6,018 | 14 | 1 |
| | 3,293 | 10,882 | 157 | 281 |

## 16. 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. ("SZSTE") to obtain the leasehold land and building ("Properties") owned by the SZSTE. The Properties of the SZSTE have been reclassified from Property, Plant and Equipment to asset held for sale amounted to $362,000. During the year, SZSTE has been fully disposed.

## 17. Cash and cash equivalents

Cash and cash equivalents comprise:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | $'000 | $'000 | $'000 | $'000 |
| Fixed deposits[1] | – | 14,000 | – | 14,000 |
| Cash and bank balances [2] | 40,272 | 24,326 | 23,191 | 3,089 |
| Cash and short-term deposits | 40,272 | 38,326 | 23,191 | 17,089 |

(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. in 2017. There is no fixed deposits as at 31 December 2018.

(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 | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | $'000 | $'000 | $'000 | $'000 |
| Singapore Dollar | 308 | 482 | 308 | 482 |
| Euro | 94 | 787 | 28 | 694 |
| Renminbi | 14,349 | 17,646 | – | – |

## 18. Trade payables

| | Group 2018 $'000 | Group 2017 $'000 | Company 2018 $'000 | Company 2017 $'000 |
|---|---|---|---|---|
| **Trade and other payables** | | | | |
| Trade payables | 71,523 | 68,225 | 9,205 | 9,365 |
| Other payables (Note 19) | 17,476 | 33,571 | 12,185 | 27,268 |
| Accrued operating expenses (Note 19) | 12,772 | 10,160 | 1,235 | 1,465 |
| Due to intermediate holding company | 7,649 | 194 | 6,141 | 19 |
| Due to subsidiaries | – | – | 11,870 | 39,797 |
| Due to related companies | 71 | 3 | 10 | 3 |
| Short term bank loan (unsecured) (Note 20) | 42,612 | 24,000 | 42,000 | 24,000 |
| Total financial liabilities carried at amortised cost | 152,103 | 136,153 | 82,646 | 101,917 |

Trade payables are non-interest bearing and are generally on 30 to 60 days' terms.

Included in trade payables are the following amounts denominated in foreign currencies at 31 December:

| | Group 2018 $'000 | Group 2017 $'000 | Company 2018 $'000 | Company 2017 $'000 |
|---|---|---|---|---|
| Euro | 3,034 | 2,301 | 166 | – |
| Singapore Dollar | – | 40 | – | 40 |
| Hong Kong Dollar | 200 | 247 | – | – |
| Renminbi | 40,581 | 23,330 | – | – |

## 19. Other payables and accruals

| | Group 2018 $'000 | Group 2017 $'000 | Company 2018 $'000 | Company 2017 $'000 |
|---|---|---|---|---|
| Other payables | 17,476 | 33,571 | 12,185 | 27,268 |
| Sales tax payable | 113 | 2,605 | – | – |
| Accrued operating expenses | 12,772 | 10,160 | 1,235 | 1,465 |
| Withholding tax | 20 | 71 | – | – |
| | 30,381 | 46,407 | 13,420 | 28,733 |

Other payables are non-interest bearing and are normally settled on 30 to 90 days' terms.

## 20. Short term bank loan

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 2.88% to 5.32% (2017: 2.24% to 3.88%) per annum.

A reconciliation of liabilities arising from the Group's financing activities is as follows:

| **Group** | **2017** $'000 | **Cash flows** $'000 | **2018** $'000 |
|---|---|---|---|
| Short term bank loan | (24,000) | (18,612) | (42,612) |
| Amount due to related company (non-trade) | (3) | (68) | (71) |
| Amount due from/(to) intermediate holding company, net | 1,508 | (7,990) | (6,482) |
| | (22,495) | (26,670) | (49,165) |

## 21. Deferred taxation

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018** $'000 | **2017** $'000 | **2018** $'000 | **2017** $'000 |
| Deferred tax liabilities | | | | |
| Excess of net book value over tax written down value of property, plant and equipment | – | 1 | – | 1 |
| Other items | 185 | – | 22 | – |
| Total deferred tax liabilities | 185 | 1 | 22 | 1 |

Deferred tax asset not recognised

At the balance sheet date, the Group has unused tax losses of approximately $10,890,839 (2017: $10,087,428) 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 (2017: $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.

## 22. Deferred Grants

| | 2018<br>$'000 |
|---|---|
| **Grants** | |
| At 1 January | – |
| Received during the financial year | 551 |
| At 31 December | 551 |
| **Accumulated amortisation** | |
| At 1 January | – |
| Amortisation | 25 |
| At 31 December | 25 |
| **Net carrying amount** | |
| Current | 101 |
| Non-current | 425 |
| | 526 |

Deferred capital grants relate to government grants received for the acquisition of equipment for research activities undertaken by the Group's subsidiary in People's Republic of China to promote technology advancement and transfer. There are no unfulfilled conditions or contingencies attached to these grants.

## 23. Share capital

| | Group and Company | | | |
|---|---|---|---|---|
| | No. of shares 2018<br>'000 | 2018<br>$'000 | No. of shares 2017<br>'000 | 2017<br>$'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 | |
|---|---|---|
| | **2018** | **2017** |
| | $'000 | $'000 |
| Short-term employee benefits | 759 | 1,301 |
| Pension and post-employment medical benefits | 14 | 61 |
| Other benefits | – | – |
| Total compensation entitled to key management personnel | 773 | 1,362 |
| *Comprise amounts entitled to:* | | |
| Directors of the Company | 605 | 635 |
| Other key management personnel | 168 | 727 |
| | 773 | 1,362 |

## 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 (2017: 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 2018 amounted to $3,904,000 (2017: $3,808,000) and $534,894 (2017: $513,205) for the Group and Company respectively.

Future minimum lease payments under non-cancellable operating leases are as follows as at 31 December:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | $'000 | $'000 | $'000 | $'000 |
| Within 1 year | 3,965 | 3,659 | 1,506 | 1,429 |
| Within 2 to 5 years | 12,459 | 14,040 | 8,114 | 7,699 |
| After 5 years | – | 2,757 | – | 1,657 |
| | 16,424 | 20,456 | 9,620 | 10,785 |

## 27. Financial risk management objectives and policies

The Group and the Company 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.

Sensitivity analysis for interest rate risk

As the end of the reporting period, it is estimated that a general increase/decrease of 75 (2017: 75) basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit before tax by approximately $315,000 (2017: decrease/increase the Group's profit before tax by approximately $180,000).

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 2017.

## 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 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 | |
|---|---|---|---|
| | | **2018** | **2017** |
| | | $'000 | $'000 |
| | | Profit before tax Increase/(decrease) | Loss before tax Increase/(decrease) |
| RMB | – strengthened 4% (2017: 4%) | (5,045) | (5,143) |
| | – weakened 4% (2017: 4%) | 5,465 | 5,571 |
| HKD | – strengthened 4% (2017: 4%) | (13) | (14) |
| | – weakened 4% (2017: 4%) | 14 | 16 |
| SGD | – strengthened 4% (2017: 4%) | (18) | (23) |
| | – weakened 4% (2017: 4%) | 20 | (25) |

### *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.

## 27. Financial risk management objectives and policies (cont'd)

*Liquidity risk (cont'd)*

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.

| | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | **One year or less** $'000 | **One to five years** $'000 | **Total** $'000 | **One year or less** $'000 | **Total** $'000 |
| **Group** | | | | | |
| **Financial assets:** | | | | | |
| Receivables from customers | 57 | 2,580 | 2,637 | – | – |
| Contract assets | 17,043 | – | 17,043 | – | – |
| Trade receivables | 97,209 | – | 97,209 | 82,268 | 82,268 |
| Other receivables and deposits | 2,489 | – | 2,489 | 4,572 | 4,572 |
| Due from intermediate holding company | 1,167 | – | 1,167 | 1,702 | 1,702 |
| Due from related companies | 18,936 | – | 18,936 | 20,899 | 20,899 |
| Cash and cash equivalents | 40,272 | – | 40,272 | 38,326 | 38,326 |
| Total undiscounted financial assets | 177,173 | 2,580 | 179,753 | 147,767 | 147,767 |
| **Financial liabilities:** | | | | | |
| Trade payables | 71,523 | – | 71,523 | 68,225 | 68,225 |
| Other payables and accruals | 30,248 | – | 30,248 | 43,731 | 43,731 |
| Due to intermediate holding company | 7,649 | – | 7,649 | 194 | 194 |
| Short term bank loan | 42,612 | – | 42,612 | 24,200 | 24,200 |
| Due to related company | 71 | – | 71 | 3 | 3 |
| Total undiscounted financial liabilities | 152,103 | – | 152,103 | 136,353 | 136,353 |
| Total net undiscounted financial assets | 25,070 | 2,580 | 27,650 | 11,406 | 11,406 |

27. **Financial risk management objectives and policies (cont'd)**

***Liquidity risk (cont'd)***

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **One year or less** $'000 | **Total** $'000 | **One year or less** $'000 | **Total** $'000 |
| **Company** | | | | |
| **Financial assets:** | | | | |
| Contract assets | 1,409 | 1,409 | – | – |
| Trade receivables | 16,751 | 16,751 | 13,454 | 13,454 |
| Other receivables and deposits | 143 | 143 | 174 | 174 |
| Due from intermediate holding company | 615 | 615 | 1,163 | 1,163 |
| Due from subsidiaries | 83,304 | 83,304 | 43,460 | 43,460 |
| Due from related companies | 17,589 | 17,589 | 20,384 | 20,384 |
| Cash and cash equivalents | 23,191 | 23,191 | 17,089 | 17,089 |
| Total undiscounted financial assets | 143,002 | 143,002 | 95,724 | 95,724 |
| **Financial liabilities:** | | | | |
| Trade payables | 9,205 | 9,205 | 9,365 | 9,365 |
| Other payables and accruals | 13,420 | 13,420 | 28,733 | 28,733 |
| Due to intermediate holding company | 6,141 | 6,141 | 19 | 19 |
| Due to subsidiaries | 11,870 | 11,870 | 39,797 | 39,797 |
| Due to related companies | 10 | 10 | 3 | 3 |
| Short term bank loan | 42,000 | 42,000 | 24,200 | 24,200 |
| Total undiscounted financial liabilities | 82,646 | 82,646 | 102,117 | 102,117 |
| Total net undiscounted financial assets | 60,356 | 60,356 | (6,401) | (6,401) |

***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.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

## 27. Financial risk management objectives and policies (cont'd)

***Credit risk (cont'd)***

Trade receivables and contract assets

The Group has determined the default event on financial asset to be when there are information indicating that the Group is unlikely to receive the outstanding contractual amounts in full. Such information includes discontinuance of orders, financial difficulty or insolvency, probable bankruptcy or other financial reorganisation. The Group's historical information shows low defaulted accounts which were also substantially recovered subsequently, resulting in insignificant write-offs.

The Group provides for lifetime expected credit losses for all trade receivables, and contract assets using a provision matrix. The provision rates are determined based on the Group's historical observed default rates analysed in accordance to days past due. Historically, the Group did not incur any bad debt.

The expected credit losses also incorporate forward looking information. The Group uses compounded annual growth rate (CAGR) of the worldwide Electronics Assembly Market for Electronics Products Forecast being published annually by New Venture Research Corp. (NVR) as forward-looking estimate. Based on the assessment. the Group has concluded a forward-looking default rate of zero.

Hence, the lifetime expected credit loss will have no impact on the Group trade receivables and contract assets.

Information regarding loss allowance movement of trade receivables and contract assets are disclosed in Note 14 (Trade receivables).

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:

- 43% (2017: 47%) of the Group's trade receivables were due from 3 major customers of the Group.

- 15% (2017: 15%) 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 14 (Trade receivables) and Note 15 (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.

(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 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.

*Receivables from customers (non-current)*

The carrying amounts of receivables from customers (non-current) as disclosed in Note 15 are reasonable approximation of fair values as the consideration of time value of money is not material.

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 2018 and 31 December 2017.

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 2018 and 2017.

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 | |
|---|---|---|
| | **2018** | **2017** |
| | $'000 | $'000 |
| Trade payables (Note 18) | 71,523 | 68,225 |
| Other payables and accruals (Note 19) | 30,381 | 46,407 |
| Due to intermediate holding company | 7,649 | 194 |
| Due to related companies | 71 | 3 |
| Short term bank loan | 42,612 | 24,000 |
| Less: Cash and cash equivalents (Note 17) | (40,272) | (38,326) |
| Net debt | 111,964 | 100,503 |
| Equity attributable to equity holder of the Company | 116,503 | 102,785 |
| Less: Restricted reserves | (11,560) | (11,537) |
| Total capital | 104,943 | 91,248 |
| Capital and net debt | 216,907 | 191,751 |
| Gearing ratio | 52% | 52% |

## 30. Dividend

| | Group and Company | |
|---|---|---|
| | **2018** | **2017** |
| | $'000 | $'000 |
| **Declared and paid during the financial year:** | | |
| *Dividend on ordinary shares:* | | |
| - Interim exempt (one-tier) dividend for 2018: 0.80 cents (2017: 0.53 cents) per share | 3,000 | 2,000 |

## 31. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 15 March 2019.

**EXHIBIT 5**

**2018 Audited Annual Financial Statements,**
**Cooperatief IMI Europe U.A. and Subsidiaries**

# Coöperatief IMI Europe U.A. and Subsidiaries

Consolidated Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report

SGV

Building a better working world

A member firm of Ernst & Young Global Limited

SGV
Building a better working world

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Philippines

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

# 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, 2018 and 2017, 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, 2018 and 2017, 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.

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

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

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. 7332576, January 3, 2019, Makati City

February 11, 2019

## COÖPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 5) | **$46,965,617** | $37,615,096 |
| Receivables (Note 6) | **136,328,794** | 114,099,369 |
| Contract assets (Note 7) | **18,532,523** | – |
| Inventories (Note 8) | **95,360,119** | 100,510,959 |
| Other current assets (Note 9) | **13,805,625** | 12,317,208 |
| Total Current Assets | **310,992,678** | 264,542,632 |
| **Noncurrent Assets** | | |
| Property, plant and equipment (Note 10) | **106,497,951** | 89,089,748 |
| Goodwill (Notes 2 and 11) | **47,082,067** | 45,190,380 |
| Intangible assets (Note 12) | **19,035,512** | 15,937,878 |
| Deferred tax assets (Note 23) | **2,601,997** | 893,952 |
| Other noncurrent assets (Note 13) | **1,690,774** | 603,957 |
| Total Noncurrent Assets | **176,908,301** | 151,715,915 |
| | **$487,900,979** | $416,258,547 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses (Note 14) | **$118,501,263** | $110,588,405 |
| Contract liabilities (Note 7) | **157,131** | – |
| Loans payable (Note 15) | **109,062,927** | 71,901,927 |
| Financial liabilities on put options (Note 27) | **15,722,287** | 11,676,243 |
| Current portion of long-term debt (Note 16) | **2,266,844** | 6,872,679 |
| Income tax payable | **2,186,968** | 1,538,778 |
| Total Current Liabilities | **247,897,420** | 202,578,032 |
| **Noncurrent Liabilities** | | |
| Due to related parties (Note 26) | **28,808,717** | 28,808,717 |
| Noncurrent portion of long-term debt (Note 16) | **5,708,175** | 3,724,056 |
| Deferred tax liabilities (Note 23) | **2,694,013** | 2,347,186 |
| Retirement liability (Note 24) | **1,118,253** | 939,952 |
| Other noncurrent liabilities (Note 12 and 21) | **3,397,478** | – |
| Total Noncurrent Liabilities | **41,726,636** | 35,819,911 |
| Total Liabilities | **289,624,056** | 238,397,943 |
| **MEMBERS' EQUITY** | | |
| **Equity Attributable to the owners of the Parent** | | |
| Members' contribution (Note 17) | **75,269,893** | 60,269,893 |
| Additional paid-in capital (Note 17) | **(11,608,119)** | (11,614,884) |
| Retained earnings | **139,266,417** | 129,227,546 |
| Cumulative translation adjustment | **(8,657,017)** | (2,828,608) |
| Remeasurement losses on defined benefit plan | **(353,244)** | (264,461) |
| | **193,917,930** | 174,789,486 |
| **Equity Attributable to Non-controlling Interest in a Consolidated Subsidiary** | **4,358,993** | 3,071,118 |
| Total Members' Equity | **198,276,923** | 177,860,604 |
| | **$487,900,979** | $416,258,547 |

*See accompanying Notes to Consolidated Financial Statements.*

## COÖPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **REVENUE FROM CONTRACTS WITH CUSTOMERS** (Note 18) | **$628,080,248** | $508,982,916 |
| **COST OF SALES** (Note 19) | **568,254,433** | 446,944,295 |
| **GROSS PROFIT** | **59,825,815** | 62,038,621 |
| **OPERATING EXPENSES** (Note 20) | **(37,060,464)** | (26,948,529) |
| **OTHERS** - net | | |
| Interest and other financing charges (Note 22) | **(4,362,580)** | (2,902,426) |
| Foreign exchange gains (losses) – net | **(2,115,524)** | 50,466 |
| Interest income (Note 5) | **1,583** | 3,140 |
| Miscellaneous income (loss) - net (Note 22) | **(2,937,224)** | 1,793,406 |
| | **(9,413,745)** | (1,055,414) |
| **INCOME BEFORE INCOME TAX** | **13,351,606** | 34,034,678 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 23) | | |
| Current | **4,193,734** | 5,324,215 |
| Deferred | **343,796** | (214,718) |
| | **4,537,530** | 5,109,497 |
| **NET INCOME** | **$8,814,076** | $28,925,181 |
| **Net Income Attributable to:** | | |
| Equity holders of the Parent Company | **$7,968,968** | $28,571,511 |
| Non-controlling interests | **845,108** | 353,670 |
| | **$8,814,076** | $28,925,181 |

*See accompanying Notes to Consolidated Financial Statements.*

## COÖPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **NET INCOME FOR THE YEAR** | **$8,814,076** | $28,925,181 |
| **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 | **(5,921,213)** | 17,007,672 |
| *Other comprehensive loss not to be reclassified into profit or loss in subsequent periods:* | | |
| Remeasurement losses on defined benefit plan | **(88,783)** | (264,461) |
| | **(6,009,996)** | 16,743,211 |
| **TOTAL COMPREHENSIVE INCOME** | **$2,804,080** | $45,668,392 |
| **Total Comprehensive Income Attributable to:** | | |
| Equity holders of the Parent Company | **$2,051,776** | $45,213,522 |
| Non-controlling interests | **752,303** | 454,869 |
| | **$2,804,079** | $45,668,391 |

*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 17) | Additional Paid-in Capital (Note 17) | 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, 2018, as previously reported | **$60,269,893** | **($11,614,884)** | **$129,227,546** | **($2,828,609)** | **($264,461)** | **$3,071,119** | **$177,860,604** |
| Cumulative catch-up adjustment due to adoption of PFRS 15 (Note 3) | **–** | **–** | **2,069,903** | **–** | **–** | **–** | **2,069,903** |
| Balances at January 1, 2018, as adjusted | **60,269,893** | **(11,614,884)** | **131,297,449** | **(2,828,609)** | **(264,461)** | **3,071,119** | **179,930,507** |
| Members' contribution during the year (Note 17) | **15,000,000** | **–** | **–** | **–** | **–** | **–** | **15,000,000** |
| Increase in non-controlling interest due to the acquisition of a subsidiary during the year (Note 2) | **–** | **–** | **–** | **–** | **–** | **535,571** | **535,571** |
| Allocation of share-based payments (Note 25) | **–** | **6,765** | **–** | **–** | **–** | **–** | **6,765** |
| | **75,269,893** | **(11,608,119)** | **131,297,449** | **(2,828,609)** | **(264,461)** | **3,606,690** | **195,472,843** |
| Net income | **–** | **–** | **7,968,968** | **–** | **–** | **845,108** | **8,814,076** |
| Other comprehensive loss | **–** | **–** | **–** | **(5,828,409)** | **(88,783)** | **(92,804)** | **(6,009,996)** |
| Total comprehensive income (loss) | **–** | **–** | **7,968,968** | **(5,828,409)** | **(88,783)** | **752,304** | **2,804,080** |
| Balances at December 31, 2018 | **$75,269,893** | **($11,608,119)** | **$139,266,417** | **(8,657,018)** | **($353,244)** | **$4,358,994** | **$198,276,923** |
| | | | | | | | |
| Balances at January 1, 2017 | $60,269,893 | ($11,656,905) | $100,656,035 | ($19,735,081) | $– | $1,155,438 | $130,689,380 |
| Allocation of share-based payments (Note 25) | – | 42,021 | – | – | – | – | 42,021 |
| Increase in non-controlling interest due to the acquisition of a subsidiary during the year (Note 2) | – | – | – | – | – | 1,460,812 | 1,460,812 |
| | 60,269,893 | (11,614,884) | 100,656,035 | (19,735,081) | – | 2,616,250 | 132,192,213 |
| Net income | – | – | 28,571,511 | – | – | 353,670 | 28,925,181 |
| Other comprehensive loss | – | – | – | 16,906,472 | (264,461) | 101,199 | 16,743,210 |
| Total comprehensive income (loss) | – | – | 28,571,511 | 16,906,472 | (264,461) | 454,869 | 45,668,391 |
| Balances at December 31, 2017 | $60,269,893 | ($11,614,884) | $129,227,546 | ($2,828,609) | ($264,461) | $3,071,119 | $177,860,604 |

*See accompanying Notes to Consolidated Financial Statements.*

## COÖPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **$13,351,606** | $34,034,678 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment (Note 10) | **11,524,581** | 9,449,354 |
| Mark-to-market loss on put-option (Note 2) | **4,592,123** | 341,961 |
| Amortization of intangible assets (Note 12) | **4,170,169** | 2,942,126 |
| Interest expense (Note 22) | **3,912,487** | 2,499,618 |
| Unrealized foreign exchange loss - net | **(258,089)** | 1,049,878 |
| Gain on sale of property, plant and equipment (Notes 10 and 22) | **(41,329)** | (157,085) |
| Cost of share-based payments (Note 25) | **6,765** | 42,021 |
| Interest income (Note 5) | **(1,583)** | (3,140) |
| Reversal of impairment on property, plant and equipment (Notes 10 and 22) | **–** | (815,150) |
| Operating income before working capital changes | **37,256,730** | 49,384,261 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Receivables | **(23,600,582)** | (27,516,832) |
| Inventories | **(16,235,221)** | (43,585,061) |
| Contract assets | **2,215,737** | – |
| Other current assets | **(1,488,417)** | (1,430,934) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | **4,766,621** | 36,712,124 |
| Other noncurrent liabilities | **(1,856,533)** | – |
| Retirement liabilities | **128,147** | 96,894 |
| Net cash generated from operations | **1,186,482** | 13,660,452 |
| Income tax paid | **(3,545,544)** | (4,483,627) |
| Interest paid | **(2,174,143)** | (1,785,333) |
| Interest received | **1,583** | 3,140 |
| Net cash provided by (used in) operating activities | **(4,531,622)** | 7,394,632 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisitions of: | | |
| Property, plant and equipment (Note 10) | **(31,510,126)** | (24,436,698) |
| Intangible assets (Note 12) | **(844,414)** | (2,311,988) |
| Acquisition through business combination (Note 2) | **(1,965,358)** | – |
| Capitalized development cost, excluding depreciation (Note 12) | **(1,295,191)** | (2,792,700) |
| Increase in other noncurrent assets | **(1,086,817)** | (46,348) |
| Proceeds from sale of property, plant and equipment | **50,254** | 436,066 |
| Net cash used in investing activities | **(36,651,652)** | (29,151,668) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Availment of loans payable and long-term debt | **47,215,175** | 38,773,295 |
| Members contribution (Note 17) | **15,000,000** | – |
| Payments of: | | |
| Long-term debt | **(6,710,439)** | (3,196,686) |
| Loans payable | **(5,104,967)** | (2,125,725) |
| Net cash provided by financing activities | **50,399,769** | 33,450,884 |
| **EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH** | **134,026** | (64,117) |
| **NET INCREASE IN CASH** | **9,350,521** | 11,629,731 |
| **CASH AT BEGINNING OF YEAR** | **37,615,096** | 25,985,365 |
| **CASH AT END OF YEAR** (Note 5) | **$46,965,617** | $37,615,096 |

*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 47.04% owned by Mermac, Inc., 8.65% 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 allows 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 enables the scale to introduce patented technology into automotive camera monitor systems for increased safety.

In 2018, VIA have agreed to form a new joint venture company with a Japanese entity through the acquisition of 65% ownership interest. The new joint venture company, VTS-Touchsensor Co., Ltd. (VTS) serves the market for copper-based metal mesh touch sensors in Japan.

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 was completed and inaugurated in September 2018.

The consolidated financial statements as of and for the years ended December 31, 2018 and 2017 were authorized for issue by Coöperatief's Board of Directors (BOD) on February 11, 2019.

## 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 2018 | 2017 | Country of Incorporation | Functional Currency |
|---|---|---|---|---|
| Integrated Micro-Electronics Bulgaria EOOD | **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.[a] | **100.00%** | 100.00% | Czech Republic | EUR |
| IMI Display s.r.o.[b] | **100.00%** | 100.00% | Czech Republic | 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) | **100.00%** | 100.00% | China | Renminbi (RMB) |
| VIA Optronics LLC (VIA LLC) | **100.00%** | 100.00% | USA | USD |
| VTS-Touchsensor Co., Ltd. (VTS) | **65.00%** | − | Japan | Japanese Yen (JPY) |

*[a] On January 1, 2017, IMI CZ changed its functional currency from Czech Koruna (CZK) to EUR.*
*[b] Closed in December 2018 through formal legal merger*

Business Combinations

*Acquisition of VTS-Touchsensor Co., Ltd. (VTS)*

On April 9, 2018, VIA and Toppan Printing Co., Ltd. (Toppan) entered into a joint venture agreement to serve the market for copper-based metal mesh touch sensors. The agreement provides that Toppan transfer 65% of its shares in VTS to VIA. VTS is a newly formed spin-off company of Toppan.

VTS develops and manufactures the metal mesh touch sensors in Japan on the existing premises of Toppan. The new setup strengthens VIA's portfolio of differentiated and value-added sensor technology for touch panels, touch-display modules, display head assemblies, and interactive display systems across multiple markets and segments.

The Group elected to measure the non-controlling interest in VTS at the proportionate share of its interest in the acquiree's identifiable net assets.

The purchase price allocation for the acquisition of VTS has been prepared on a preliminary basis since the fair valuation is still ongoing 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, inventories and goodwill. The valuation is expected to be finalized within one year from the acquisition date. The provisional goodwill recognized on the acquisition can be attributed to its years of knowledge and experience of market requirements, system-level design, and production in the automotive, consumer and industrial markets to support further development of the core sensor technology.

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

| | Provisional Fair Values |
|---|---|
| **Assets** | |
| Receivables | $184,781 |
| Inventories | 1,243,686 |
| Property, plant and equipment (Note 10) | 97,536 |
| Intangible assets (Note 12) | 5,258,211 |
| | 6,784,214 |
| **Liabilities** | |
| Other noncurrent liabilities | 5,254,010 |
| **Net Assets** | **1,530,204** |
| Non-controlling interest (35%) | (535,571) |
| Goodwill (Note 11) | 970,725 |
| **Cost of acquisition** | **$1,965,358** |

From the date of acquisition, VTS contributed $26.46 million of revenue and $0.95 million profit before tax to the Group.

Acquisition-related costs, which consists of professional and legal fees, travel and recruitment services amounting to $1.47 million were recognized as expense in 2018.

The call option pertains to the right of the Parent Company to buy all the shares held by the non-controlling shareholder upon the happening of certain trigger events. The Group accounted for the call option as derivative asset at nil value.

The put options of VIA pertain to the right of the non-controlling shareholder to sell to the Parent Company 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 Group accounted for the put options as financial liabilities at fair value through profit or loss. Fair values of the financial liabilities on put options amounted to $15.72 million and $11.68 million as of December 31, 2018 and 2017, respectively. Mark-to-market loss on put options amounting to $4.59 million and $0.34 million in 2018 and 2017, respectively, was recognized in the consolidated statements of income (See Note 22).

## 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 of the Group 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, 2018 and 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 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 PFRS 9, *Financial Instruments,* as a derivative asset carried at fair value through profit or loss.

The financial liability for the put option is accounted for under PFRS 9 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 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, 2018. Adoption of these pronouncements did not have a significant impact on the Group’s financial position or performance, unless otherwise indicated.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11, *Construction Contracts*, and PAS 18, *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

  PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosure.

  The Group adopted the new standard using the modified retrospective method and elected to apply that method only to those contracts that were not completed at the date of initial application.

  The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 18 and related interpretations.

  The effects of the adoption of PFRS 15 on the consolidated financial statements as of January 1, 2018 are as follows:

| Increase (decrease) in: | |
|---|---|
| Contract assets | $21,538,013 |
| Inventories | (19,167,871) |
| Accounts payable and accrued expenses | (851,623) |
| Contract liabilities | 851,623 |
| Deferred tax liabilities | 300,239 |
| Retained earnings | 2,069,903 |

Set out below are the amounts by which each financial statement line item is affected as of and for the year ended December 31, 2018 as a result of adoption of PFRS 15.

*Consolidated Balance Sheets*

| | As reported under PFRS 15 | Balances under PAS 18 | Increase/ (Decrease) |
|---|---|---|---|
| **Assets** | | | |
| Contract assets | $18,532,523 | $– | $18,532,523 |
| Inventories | 95,360,119 | 111,971,457 | (16,611,338) |
| | 113,892,642 | 111,971,457 | 1,921,185 |
| **Liabilities** | | | |
| Accounts payable and accrued expenses | 118,501,263 | 118,658,394 | (157,131) |
| Contract liabilities | 157,131 | – | 157,131 |
| Deferred tax liabilities | 2,694,013 | 2,493,392 | 200,621 |
| | 121,352,407 | 121,151,786 | 200,621 |
| **Equity** | | | |
| Retained earnings | 139,266,417 | 137,244,564 | 2,021,853 |
| Cumulative translation adjustment | (8,657,017) | (8,998,392) | (341,375) |
| | $130,609,400 | $128,246,172 | $1,680,478 |

*Consolidated Statements of Income*

| | As reported under PFRS 15 | Balances under PAS 18 | Increase/ (Decrease) |
|---|---|---|---|
| Sales | $628,080,248 | $625,864,511 | $2,215,737 |
| Cost of sales | 568,254,433 | 566,146,278 | 2,108,155 |
| Provision for deferred tax | 343,796 | 284,264 | 59,532 |

The adoption did not have a material impact on the Group's operating, investing and financing cash flows.

The nature of the adjustments as at January 1, 2018 and the reasons for the significant changes in the consolidated balance sheet as at December 31, 2018 and the consolidated statement of income for the year ended December 31, 2018 are described below:

- Manufacturing of goods
  Prior to the adoption of PFRS 15, the Group recognized revenue from sale of goods 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. Revenue from sale of services was recognized when the related services to complete the required units have been rendered.

  Under PFRS 15, the Group assessed that revenue from manufacturing services shall be recognized over time. For turnkey contracts, revenue is recognized over time since the products created have no alternative use to the Group considering that manufacturing services are performed only based on customer purchase order or scheduling agreement, and the Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than the Group's failure to perform as promised. For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as the Group performs.

For work-in-process and finished goods inventories not covered by customer purchase orders or firm delivery schedule, and non-recurring engineering charges, tooling and other pre-production revenue stream, revenues are recognized at a point in time.

Contract liabilities
Advance payments received for manufacturing of goods were recorded as contract liability. Revenue is recognized as the related manufacturing goods are rendered.

- 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, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

  The adoption of the new standard has the following impact to the Group:

  a) *Classification and measurement*
  Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding. The classification and measurement requirements of PFRS 9 did not have a significant impact on the Group. The following are the changes in the classification of the Group's financial assets:

  - Cash and cash equivalents, trade and nontrade receivables and other noncurrent financial assets (i.e., miscellaneous deposits reported under "Other noncurrent assets" account) classified as loans and receivables as at December 31, 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are continued to be carried at amortized cost under PFRS 9 beginning January 1, 2018.

  There are no changes in the classification and measurement of the Group's financial liabilities.

  In summary, upon adoption of PFRS 9, the Group had the following required or elected reclassifications as at January 1, 2018:

| | | PFRS 9 measurement category | |
|---|---|---|---|
| PAS 39 measurement category | | Amortized cost | Fair value through OCI |
| Loans and receivables | | | |
| Cash and cash equivalents | $37,615,096 | $37,615,096 | $– |
| Receivables | 114,099,369 | 114,099,369 | – |
| Other noncurrent financial assets | 603,957 | 603,957 | – |
| | $152,318,422 | $152,318,422 | $– |

  b) *Impairment*
  The adoption of PFRS 9 changed the accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at FVPL and contract assets. The Group has applied the simplified approach or a provision matrix for measuring ECL of trade receivables and contract assets.

The Group uses a provision matrix which is based on historical observed default rate or losses and adjusted by forward-looking estimate. For nontrade receivable, general approach was used for measuring ECL. Adoption of the ECL approach under PFRS 9 did not result in changes in the impairment loss allowance of the Group's financial assets as of 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. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

  The Group's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's consolidated financial statements.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the 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.

- 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 did not have any impact on the Group's consolidated financial statements.

- 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. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

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

- 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. Retrospective application of this interpretation is not required.

  Since the Group's current practice is in line with the clarifications issued, the interpretation did not have any effect on its Group's consolidated financial statements.

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, 2019*

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

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  The Group does not expect that this Standard will have a significant impact on the consolidated financial statements.

- 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.

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 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

  The Group will assess the impact on 2019's actuarial valuation.

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

- 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 this interpretation.

- *Annual Improvements to PFRS* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

*Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

  PFRS 17 is 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.

*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 – (Upon Adoption of PFRS 9 beginning January 1, 2019)
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

a) Financial assets
*Initial recognition and measurement*
Financial assets are classified at fair value, at initial recognition, and subsequently measured at amortized cost, FVOCI, and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

*Subsequent measurement*
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

The financial assets of the Group as of December 31, 2018 consist of financial assets at amortized cost (debt instruments).

*Financial assets at amortized cost (debt instruments)*
This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes cash and cash equivalents, receivables and miscellaneous deposits included under "Other noncurrent assets" account.

*Financial assets at FVPL*

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

*Derecognition*
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights 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 rights 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 Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Impairment of Financial Assets (Upon Adoption of PFRS 9 beginning January 1, 2018)*
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

b) Financial liabilities
*Initial recognition and measurement*
Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

*Subsequent measurement*
The measurement of financial liabilities depends on their classification, as described below:

*Financial liabilities at FVPL*
Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statements of income.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied.

This category applies to the Group's derivative liabilities, financial liabilities on put options over the non-controlling interests.

*Loans and borrowings*
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of income.

This category applies to the Group's accounts payable and accrued expenses (excluding from statutory payables and taxes payables), loans payable and long-term debt.

*Derecognition*
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 the 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.

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

<u>Financial Instruments (Prior to Adoption of PFRS 9)</u>
*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 financial instruments of the Group as of December 31, 2017 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 as at December 31, 2017.

*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 as at December 31, 2017.

The accounting policy related to the classification and measurement of the Group's financial liabilities, derecognition of financial assets and liabilities and offsetting of financial instruments as at December 31, 2017 is consistent with that under PFRS 9.

Impairment of Financial Assets (Prior to Adoption of PFRS 9)

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.

Fair Value Measurement

The Group measures its derivatives and financial liabilities at FVPL at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 27.

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.

<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>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 PFRS 9 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 PFRS 9 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 (Upon adoption of PFRS 15 beginning January 1, 2018)
a) Revenue from contracts with customers
The Group is in the business of providing electronic manufacturing and other related services to various customers. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

*Manufacturing of goods*
The Group provides manufacturing services in accordance with the customer's specifications. The Group promises to provide a combined performance obligation comprised of non-distinct goods or services, which include issuance of materials to production, assembly, testing and packaging.

Contracts with customers are generally classified as turnkey or consignment. In a turnkey contract, the Group procures the materials and provides the assembly services to the customer. In a consignment contract, the Group only provides assembly services to the customer.

For turnkey contracts, revenue is recognized over time since the products created have no alternative use to the Group and the Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than the Group's failure to perform as promised.

For goods manufactured not covered by customer purchase orders or firm delivery schedule, revenues are recognized at a point in time, when control of the asset is transferred to the customer, generally when goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customer.

For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as the Group performs.

*Non-recurring engineering services*
Non-recurring engineering charges, tooling and other pre-production revenue stream (NREs) are recognized at a point in time since the criteria for over time recognition is not met. This is based on the assessment that while, in general, the Group has no alternative use for these NREs, either due to customization or restrictions by the customer, there is no assurance or relevant experience that IMI has enforceable right to payment or can recover the cost, plus reasonable margin, in case of contract termination. Point in time revenue recognition for NREs would mean revenue is recognized upon customer acceptance of the NREs (transfer of control).

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., customer options that provide material rights to customers, warranties). In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer, if any.

*Variable consideration*
If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

*Significant financing component*
The Group's contracts with its customers are short-term in nature. Using the practical expedient in PFRS 15, the Group does not adjust the promised amount of consideration of the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The Group does not have significant separate performance obligations wherein the transaction price needs to be allocated as of December 31, 2018.

b) Contract balances
*Contract asset*
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

*Contract liability*
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). A contract liability is recognized as revenue when the Group performs under the contract.

c) Cost to obtain a contract

The Group pays sales commission to its employees for each contract that they obtain. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions (included under operating expenses) because the amortization period of the asset that the Group otherwise would have used is one year or less.

Revenue Recognition (Prior to Adoption of PFRS 15)
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.

Government Grants
Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is initially recognized as a liability in the consolidated balance sheet and recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to the acquisition or construction of a fixed asset, it is initially recognized as a liability in the consolidated balance sheet and recognized as income in equal amounts over the period of depreciation of the related asset.

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.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments made to the carrying amounts of assets and liabilities arising from the acquisition are treated as assets and liabilities of the foreign operations and are translated at the closing exchange rate at the balance sheet date.

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 (including China) 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:

*Revenue from contracts with customers*

- Identifying contracts with customers
  Generally, a valid and approved manufacturing service agreement (MSA), scheduling agreement (SA), customer accepted quote, customer forecast, and/or customer purchase order or firm delivery schedule will be in place before the Group provides services or manufacture goods for the customers. The Group is not obligated to transfer any goods or provide services until the customer submits a purchase order or firm delivery schedule under the MSA or SA, respectively. The purchase order or firm delivery schedule creates the enforceable rights and obligations and is therefore evaluated together with the MSA or SA for revenue recognition in accordance with PFRS 15.

- Determining the timing of revenue recognition
  The Group assessed that revenue from manufacturing of goods shall be recognized over time or point in time. For turnkey contracts wherein the products created have no alternative use to the Group and the Group has right to payment for performance completed to date including the related profit margin, in case of termination for reasons other than the Group's failure to perform as promised, revenue is recognized over time. For goods manufactured not covered by customer purchase orders or firm delivery schedule, revenues are recognized at a point in time. For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as the Group performs.

- Determining the method to measure of progress for revenue recognized over time
  The Group measures progress towards complete satisfaction of the performance obligation using an input method (i.e., costs incurred). Management believes that this method provides a faithful depiction of the transfer of goods or services to the customer because the Group provides integration service to produce a combined output and each item in the combined output may not transfer an equal amount of value to the customer.

*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.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

*Fair value of the financial liabilities on put options*
The acquisition of VIA in 2016 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 27.

*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 8.

*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 10 and 12, 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 10, 11 and 12, respectively.

*Taxes*
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable profits. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience on previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax losses, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax losses can be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on taxes are disclosed in Note 23.

*Retirement and other employee benefits*
The cost of defined benefit plans and other long-term employee benefits as well as the present value of defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rates, turnover rates, mortality rates, salary increase rates, and future retirement increases. Due to the complexity of the actuarial valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The turnover rate represents the proportion of the current plan members who will resign from service prior to their retirement date and hence, be entitled to resignation benefits instead of retirement benefits. The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Salary increase rates and future retirement increases are based on expected future inflation rates.

The Group also estimates other short-term employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policies. These estimates may vary depending on the future changes in salaries and actual experiences during the period.

Further details on retirement and other employee benefits are disclosed in Note 24.

## 5. Cash and Cash Equivalents

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Cash on hand | **$22,199** | $15,520 |
| Cash in banks | **46,881,073** | 32,748,145 |
| Short-term investments | **62,345** | 4,851,431 |
| | **$46,965,617** | $37,615,096 |

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 $1,583 and $3,140 in 2018 and 2017, respectively.

## 6. Receivables

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Trade | **$127,860,063** | $109,102,857 |
| Nontrade | **8,794,701** | 5,890,971 |
| Due from related parties (Note 26) | **379,669** | 2,660 |
| Others | **64,971** | 65,700 |
| | **137,099,404** | 115,062,188 |
| Less allowance for ECLs | **770,610** | 962,819 |
| | **$136,328,794** | $114,099,369 |

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 ECLs
Trade receivables with aggregate nominal value of $0.77 million and $0.96 million as of December 31, 2018 and 2017, respectively, were individually assessed to be impaired and fully provided with allowance for doubtful accounts.

Movements in the allowance for ECLs follow:

| | **2018** | 2017 |
|---|---|---|
| At beginning of year | **$962,819** | $711,674 |
| Provisions (reversals) (Note 21) | **(176,810)** | 141,908 |
| Foreign currency exchange difference | **(15,399)** | 109,237 |
| At end of year | **$770,610** | $962,819 |

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

## 7. Contract Assets

This account consists of:

| | **2018** | January 1, 2018 (As Restated) |
|---|---|---|
| Contract assets | **$18,532,523** | $21,538,013 |
| Contract liabilities | **157,131** | 851,623 |

Contract assets are initially recognized for revenue earned from manufacturing of goods as receipt of consideration is conditional on successful completion of the services. When goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customers, the amounts recognized as contract assets are reclassified to trade receivables. Payments are received from customers depending on the credit terms.

In 2018, the Group did not recognize a provision for expected credit losses on contract assets.

Contract liabilities includes short-term advances received to render manufacturing services.

The amount of revenue recognized from amounts included in contract liabilities at the beginning of the year amounted to $0.85 million.

The Group applies the practical expedient in PFRS 15 and does not disclose information about the transaction price allocated to remaining performance obligations given contracts have original expected duration of one year or less.

## 8. Inventories

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| **Cost** | | |
| Raw materials and supplies | **$79,031,776** | $61,578,096 |
| Work-in-process | **5,449,910** | 6,886,016 |
| Finished goods | **14,250,099** | 34,302,974 |
| | **98,731,785** | 102,767,086 |
| **Allowance for inventory obsolescence** | | |
| Inventory obsolescence | **3,371,666** | 2,256,127 |
| | **$95,360,119** | $100,510,959 |

The amount of inventories recognized as expense under "Cost of goods sold and services" account amounted to $467.73 million in 2018 and $372.83 million in 2017 (see Note 19).

Movements in the allowance for inventory obsolescence follow:

| | 2018 | 2017 |
|---|---|---|
| At beginning of year | **$2,256,127** | $1,848,486 |
| Provisions (Note 21) | **1,115,539** | 407,641 |
| At end of year | **$3,371,666** | $2,256,127 |

## 9. Other Current Assets

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Tax credits | **$5,524,959** | $2,995,357 |
| Input taxes | **3,748,463** | 2,486,184 |
| Prepayments | **3,498,542** | 3,333,590 |
| Advances to suppliers | **1,029,215** | 3,477,228 |
| Others | **4,446** | 24,849 |
| | **$13,805,625** | $12,317,208 |

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.

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.

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

## 10. **Property, Plant and Equipment - net**

Movements in this account follows:

| | **2018** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **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 | **$37,704,417** | **$72,608,913** | **$5,648,836** | **$429,433** | **$26,798** | **$3,525,214** | **$119,943,611** |
| Additions | **307,683** | **6,104,082** | **209,220** | **265,557** | **–** | **24,623,584** | **31,510,126** |
| Acquisition through business combination (Note 2) | **–** | **97,536** | **–** | **–** | **–** | **–** | **97,536** |
| Disposals | **–** | **(596,690)** | **(7,397)** | **(67,617)** | **–** | **(4,173)** | **(675,877)** |
| Transfers | **11,431,009** | **7,899,448** | **–** | **93,085** | **–** | **(19,423,542)** | **–** |
| Foreign currency exchange difference | **(820,715)** | **(2,537,151)** | **(107,717)** | **(39,011)** | **(1,022)** | **(730,316)** | **(4,235,932)** |
| At end of year | **48,622,394** | **83,576,138** | **5,742,942** | **681,447** | **25,776** | **7,990,767** | **146,639,464** |
| **Accumulated depreciation** | | | | | | | |
| At beginning of year | **2,411,091** | **26,287,629** | **1,968,431** | **171,289** | **15,423** | **–** | **30,853,863** |
| Depreciation | **1,360,034** | **9,043,851** | **1,007,971** | **108,859** | **3,866** | **–** | **11,524,581** |
| Depreciation capitalized as development cost | **19,196** | **346,017** | **–** | **–** | **–** | **–** | **365,213** |
| Disposals | **–** | **(593,141)** | **(6,194)** | **(67,617)** | **–** | **–** | **(666,952)** |
| Foreign currency exchange difference | **(119,361)** | **(1,683,226)** | **(105,554)** | **(26,434)** | **(617)** | **–** | **(1,935,192)** |
| At end of year | **3,670,960** | **33,401,130** | **2,864,654** | **186,097** | **18,672** | **–** | **40,141,513** |
| **Net book value** | **$44,951,434** | **$50,175,008** | **$2,878,288** | **$495,350** | **$7,104** | **$7,990,767** | **$106,497,951** |

| | 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 and end 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 |

The group capitalized depreciation related to development phase of a certain project amounting to $0.37 million in 2018 and $1.15 million in 2017. The capitalized cost was part of product development under “Intangible assets” account.

As of December 31, 2018 and 2017, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to $16.20 million and $18.25 million, respectively.

In 2017, a Security of Transfer of Ownership Title related to office and factory equipment with a carrying value of $1.35 million was held as collateral by a Bulgarian bank (see Note 16).

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

| | **2018** | 2017 |
|---|---|---|
| Cost of goods sold and services (Note 19) | **$10,084,085** | $8,288,159 |
| Operating expenses (Note 20) | **1,440,496** | 1,161,195 |
| | **$11,524,581** | $9,449,354 |

Gain from disposal of property, plant and equipment included under "Miscellaneous income (loss) - net" account in the consolidated statements of income amounted to $0.04 million and $0.16 million in 2018 and 2017, respectively (see Note 22).

## 11. Goodwill

As of December 31, 2018 and 2017, goodwill acquired through business combinations had been allocated to the following CGUs:

| | VIA | VTS | IMI CZ | Total |
|---|---|---|---|---|
| At beginning of year | $44,539,967 | $– | $650,413 | $45,190,380 |
| Acquisition of a subsidiary (Note 2) | – | 970,725 | – | 970,725 |
| Foreign currency exchange difference | 1,102,849 | (52,313) | (129,574) | 920,962 |
| At end of year | **$45,642,816** | **$918,412** | **$520,839** | **$47,082,067** |

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 follows:

| | **2018** | 2017 |
|---|---|---|
| VIA | **11.76%** | 13.40% |
| IMI CZ | **10.15%** | 8.30% |

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, VTS and IMI CZ in 2018 and 2017.

*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.

## 12. **Intangible Assets**

Movements in this account follows:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **Customer Relationships** | **Computer Software** | **Intellectual Properties** | **Product Development costs** | **Total** |
| **Cost** | | | | | |
| At beginning of year | **$6,766,617** | **$6,650,545** | **$8,486,950** | **$4,670,154** | **$26,574,266** |
| Additions | **–** | **733,753** | **110,661** | **–** | **844,414** |
| Capitalized development cost | **–** | **–** | **–** | **1,660,404** | **1,660,404** |
| Acquisition through business combination (Note 2) | **–** | **–** | **5,258,211** | **–** | **5,258,211** |
| Foreign currency exchange difference | **–** | **(218,429)** | **(399,613)** | **–** | **(618,042)** |
| At end of year | **6,766,617** | **7,165,869** | **13,456,209** | **6,330,558** | **33,719,253** |
| **Accumulated amortization** | | | | | |
| At beginning of year | **6,766,617** | **1,688,163** | **2,181,608** | **–** | **10,636,388** |
| Amortization | **–** | **948,780** | **2,289,025** | **932,364** | **4,170,169** |
| Foreign currency exchange difference | **–** | **(80,867)** | **(41,949)** | **–** | **(122,816)** |
| At end of year | **6,766,617** | **2,556,076** | **4,428,684** | **932,364** | **14,683,741** |
| **Net book value** | **$–** | **$4,609,793** | **$9,027,525** | **$5,398,194** | **$19,035,512** |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Customer Relationships | Computer Software | Intellectual Properties | Product Development costs | Total |
| Cost | | | | | |
| At beginning of year | $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 |

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. The finalization of the purchase price allocation for the acquisition of VIA resulted to the measurement of intellectual properties at fair value amounting to $7.85 million. As of December 31, 2018 and 2017, the carrying value of VIA’s intellectual properties amounted to $4.32 million and $5.89 million, respectively.

Acquisition through business combination in connection with the establishment of VTS amounted to ¥568.68 million ($5.26 million). Toppan has agreed to transfer to VTS the intellectual property (technology) relevant to run the business through a shareholder loan to be paid in equal amount over 5 years, 65% of which was borne by VIA and eliminated at consolidated level, while 35% is payable to Toppan. The balance of the loan payable to Toppan included under “Other noncurrent liabilities” amounted to $0.60 million.

Product Development Costs
This includes capitalized costs arising from the development phase of certain projects which are still under qualification.

No impairment loss was assessed for the product development costs in 2018 and 2017.

Research expenditure recognized as expense amounted to $2.16 million in 2018 and $1.31 million for 2017 (see Note 21).

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

| | **2018** | 2017 |
|---|---|---|
| Cost of goods sold and services (Note 19) | **$964,861** | $– |
| Operating expenses (Note 20) | **3,205,308** | 2,942,127 |
| | **$4,170,169** | $2,942,127 |

## 13. **Other Noncurrent Assets**

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Deferred charges | **$1,211,850** | $– |
| Miscellaneous deposits | **478,924** | 603,957 |
| | **$1,690,774** | $603,957 |

Deferred charges represent tooling items customized based on the specifications of the customers and to be repaid as part of the price of the manufactured items.

Miscellaneous deposits for rental and utilities 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.

## 14. **Accounts Payable and Accrued Expenses**

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Trade | **$91,808,838** | $71,509,294 |
| Due to related parties (Note 26) | **6,225,826** | 19,117,304 |
| Accrued expenses | **5,111,599** | 2,411,709 |
| Accrued compensation and benefits | **4,061,856** | 3,674,793 |
| Nontrade payables | **3,736,099** | 3,304,018 |
| Accrued interest payable: | | |
| Affiliates (Note 26) | **2,662,995** | 730,028 |
| External parties | **–** | 194,623 |

(Forward)

| | 2018 | 2017 |
|---|---|---|
| Taxes payable | **$2,302,142** | $4,601,715 |
| Accrued tooling expense | **1,245,732** | 2,977,606 |
| Advances from customers | **1,097,956** | 1,550,993 |
| Others | **248,220** | 516,322 |
| | **$118,501,263** | $110,588,405 |

Trade Payables
Trade payables are noninterest-bearing and are normally settled on 60-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.

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.

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 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.

Advances from Customers
Advances from customers include financial liabilities pertaining to commercial agreements with certain customers of VIA.

## 15. Loans Payable

This account consists of borrowings of the following entities:

| | 2018 | 2017 |
|---|---|---|
| Intercompany (Note 26) | | |
| IMI MX | **$65,888,506** | $45,711,350 |
| IMI CZ | **9,742,345** | 6,597,777 |
| Coöperatief | **3,141,305** | 5,472,244 |
| Banks: | | |
| VIA | **30,290,771** | 12,461,977 |
| IMI CZ | **–** | 1,658,579 |
| | **$109,062,927** | $71,901,927 |

IMI MX
IMI MX has outstanding loans from IMI and IMI Singapore to fund its working capital requirements. In 2018 and 2017, the loans bear interest rates ranging from 3.99% to 5.59% and 2.55% to 4.09%, respectively, with terms ranging from 60 to 90 days. Breakdown of the loan from IMI and IMI Singapore follows:

| | **2018** | 2017 |
|---|---|---|
| IMI | **$52,345,477** | $32,211,350 |
| IMI Singapore | **13,543,029** | 13,500,000 |
| | **$65,888,506** | $45,711,350 |

Interest expense incurred on these loans amounted to $1.98 million and $1.15 million in 2018 and 2017, respectively (see Note 22).

IMI CZ

| | **2018** | 2017 |
|---|---|---|
| IMI (Note 26) | **$9,742,345** | $5,472,244 |
| UniCredit | **–** | 958,787 |
| Citibank | **–** | 699,792 |
| | **$9,742,345** | $7,130,823 |

IMI CZ has outstanding loans from IMI aggregating to $9.74 million and $5.47 million as of December 31, 2018 and 2017, respectively, to fund its working capital requirements. In 2018 and 2017, the loans bear interest rate of 2% with terms of 90 days.

Interest expense incurred on these loans amounted to $0.22 million and $0.10 million in 2018 and 2017 respectively (see Note 22).

The loans of IMI CZ in 2017 are clean loans from existing revolving credit facilities with Czech-based banks which bear annual interest based on 1-month EURIBOR plus 1.20%.

IMI CZ incurred interest expense on short-term loans amounting to $0.02 million and $0.05 million in 2018 and 2017, respectively (see Note 22).

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 $0.19 and $0.15 million in 2018 and 2017 respectively (see Note 22).

VIA
The loans of VIA consists of factoring loan from China-based banks denominated in USD and RMB aggregating $16.48 million in 2018 and $10.07 million in 2017 with terms ranging from 70 to 150 days and annual interest rate from 4.69% to 4.85% in 2018 and 3.16% to 3.77% in 2017. There were also loans from a German-based bank amounting to €12.04 million ($13.81 million) in 2018 and €2.0 million ($2.39 million) in 2017 with term of 90 days and bears interest rate of 1.95% per annum.

VIA incurred interest expense on short-term loans amounting to $1.38 million in 2018, $0.84 million in 2017 and $0.05 million in 2016 (see Note 22).

16. **Long-Term Debt**

This account consists of borrowings of the following entities:

| | **2018** | 2017 |
|---|---|---|
| VIA | **$4,465,108** | $195,464 |
| IMI CZ | **3,509,911** | 5,066,433 |
| Coöperatief | **–** | 5,095,518 |
| IMI BG | **–** | 239,320 |
| | **7,975,019** | 10,596,735 |
| Less current portion: | | |
| VIA Optronics | **973,322** | 134,618 |
| IMI CZ | **1,293,522** | 1,403,223 |
| Coöperatief | **–** | 5,095,518 |
| IMI BG | **–** | 239,320 |
| | **2,266,844** | 6,872,679 |
| Noncurrent portion | **$5,708,175** | $3,724,056 |

VIA

VIA has a long-term debt from Germany-based bank amounting to €0.05 million ($0.06 million) as of December 31, 2018 and €0.16 million ($0.20 million) as of December 31, 2017. The loan is unsecured and bears annual interest of 5.35% and will mature on June 30, 2019.

VIA also has a long-term loan with a Japanese bank with a face amount of JPY500,000,000 granted in 2018 and will mature in 2023. The loan is payable monthly and bears interest of 1.67%. Outstanding balance as of December 31, 2018 amounted to $4.40 million.

VIA incurred interest expense on its long-term debt amounting to $0.01 million and $0.02 million as of December 31, 2018 and 2017, respectively (see Note 22).

IMI CZ

IMI CZ has unsecured term loan facility from Czech-based bank payable in 60 regular monthly installments and bears interest of 1-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, 2018 and 2017 amounted to €3.06 million ($3.51 million) and €4.23 million ($5.07 million), respectively.

IMI CZ incurred interest expense on its long-term debt amounting to $0.04 million in 2018 and $0.05 million in 2017 (see Note 22).

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%. The loan was fully paid in 2018.

Coöperatief incurred interest expense on its long-term debt amounting to $0.06 million in 2018 and $0.19 million in 2017 (see Note 22).

IMI BG

IMI BG has a long-term debt from European-based bank 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 loan matured in December 2018. 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 $3,690 in 2018 and $8,972 in 2017 (see Note 22).

## 17. **Members' Equity**

Members' contribution
Details of the members of the Coöperatief follow:

| | Country of Incorporation | 2018 | 2017 |
|---|---|---|---|
| IMI Singapore | Singapore | **100%** | 100% |

The movements in "Members' contribution" account are as follows:

| | 2018 | 2017 |
|---|---|---|
| At beginning of year | **$60,269,893** | $60,269,893 |
| Contributions during the year | **15,000,000** | – |
| At end of year | **$75,269,893** | $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, 2018 and 2017.

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 loans payable and long-term bank debt. Net debt is equivalent to the total bank borrowings, less cash and cash equivalents.

| | 2018 | 2017 |
|---|---|---|
| Loans payable | **$109,062,927** | $71,901,927 |
| Long-term debt | **7,975,019** | 5,501,218 |
| Total bank debt | **117,037,946** | 77,403,145 |
| Less cash and cash equivalents | **46,965,617** | 37,615,096 |
| Net bank debt | **70,072,329** | 39,788,049 |
| Equity attributable to the owners of the Parent | **$193,917,930** | $174,789,486 |
| Debt-to-equity ratio | **0.60:1** | 0.44:1 |
| Net debt-to-equity ratio | **0.36:1** | 0.23:1 |

The Group is not subject to externally imposed capital requirements.

18. **Revenue from Contracts with Customers**

Revenues from contracts with customers are further disaggregated by type, customer's nationality, product type and timing of revenue recognition, as management believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The following table presents revenue by type:

| | 2018 |
|---|---|
| Manufacturing of goods | $624,323,877 |
| Non-recurring engineering services | 3,756,371 |
| Revenue from contracts with customers | $628,080,248 |

The following table presents revenue from contracts with customer per timing of revenue recognition for each reportable segments:

| | 2018 |
|---|---|
| Revenue recognized: | |
| Over time | $420,847,474 |
| At point in time | 207,232,774 |
| Revenue from contracts with customers | $628,080,248 |

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

| | 2018 |
|---|---|
| Europe | $368,300,915 |
| America | 90,312,246 |
| Japan | 200,613 |
| Rest of Asia/Others | 169,266,474 |
| | $628,080,248 |

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 10.55% of the Group's total revenue in 2018.

The following table presents revenues per product type:

| | 2018 |
|---|---|
| Automotive | $392,656,563 |
| Consumer | 122,384,182 |
| Industrial | 107,247,118 |
| Others | 5,792,385 |
| | $628,080,248 |

## 19. Cost of Goods Sold and Services

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Direct, indirect and other material-related costs (Note 8) | **$467,728,301** | $372,826,243 |
| Direct labor, salaries, wages and employee benefits (Note 24) | **71,658,004** | 54,752,766 |
| Depreciation and Amortization (Note 10 and 12) | **11,048,946** | 8,288,159 |
| Facilities costs and others (Note 21) | **17,819,182** | 11,077,127 |
| | **$568,254,433** | $446,944,295 |

## 20. Operating Expenses

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Salaries, wages and employee benefits (Note 24) | **$15,329,861** | $13,307,468 |
| Depreciation and amortization (Notes 10 and 12) | **4,645,804** | 4,103,321 |
| Facilities costs and others (Note 21) | **17,084,799** | 9,537,740 |
| | **$37,060,464** | $26,948,529 |

## 21. Facilities Costs and Others

This account consists of:

| | Cost of Goods Sold and Services | | Operating Expenses | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Outsourced activities | **$7,066,847** | $3,238,050 | **$6,222,297** | $3,854,745 |
| Utilities | **6,359,910** | 4,838,336 | **–** | – |
| Repairs and maintenance | **2,592,151** | 1,238,515 | **2,123,566** | 249,913 |
| Government-related | **593,797** | 199,274 | **398,932** | 508,780 |
| Travel | **475,427** | 1,383,848 | **2,091,945** | 864,900 |
| Insurance | **37,150** | 31,027 | **1,340,145** | 816,954 |
| Research and development | – | – | **2,164,479** | 1,307,336 |
| Provision for inventory obsolescence (Note 8) | – | – | **1,115,539** | 407,641 |
| Postal and communication | – | – | **289,589** | 234,581 |
| Provision for (Reversal of) ECLs (Note 6) | – | – | **(176,810)** | 141,908 |
| Promotional materials, representation and entertainment | – | – | **40,771** | 20,402 |
| Others | **693,898** | 148,077 | **1,474,346** | 1,130,580 |
| | **$17,819,182** | $11,077,127 | **$17,084,799** | $9,537,740 |

"Others" include small tools and instruments, technology related expenses, copying expenses, office supplies, and other miscellaneous expenses.

## 22. **Others - Net**

Interest and Other Financing Charges

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Interest expense on intercompany loans (Note 15) | **$2,393,463** | $1,401,236 |
| Interest expense on bank loans (Notes 15 and 16) | **1,519,024** | 1,098,382 |
| Bank charges | **450,093** | 402,808 |
| | **$4,362,580** | $2,902,426 |

Miscellaneous income (loss) – Net
This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Mark-to-market loss on put options | **($4,592,123)** | ($341,961) |
| Financial subsidies | **103,397** | |
| Gain on sale of property, plant and equipment | **41,329** | 157,085 |
| Reversal of impairment on property, plant and equipment (Note 10) | **–** | 815,150 |
| Non-recurring engineering (NRE) income | **–** | 366,228 |
| Other income | **1,510,173** | 796,904 |
| | **($2,937,224)** | $1,793,406 |

Financial subsidies
Financial subsidies pertain to the amortization of the first installment of grant incentives received from the government of Serbia. The balance of the grant incentive amounting to $1.85 million is included under "Other noncurrent liabilities" account.

Other income
Other income pertains to selling of tools and instruments to third parties plus technical services from third parties relating to provide support of adhesion technology for the LCD module.

## 23. **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 NIS*
Taxable income is established on the basis of accounting profit. The applicable tax rate is 15%.

*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*
The Mexican Income Tax Law (MITL) established a corporate income tax rate of 30% for fiscal years 2018, 2017 and 2016. The MITL established requirements and limits regarding certain deductions, including restrictions on the deductibility of payroll-related expenses that are considered tax-exempt for employees, contributions to create or increase pension fund reserves, and Mexican Social Security Institute dues that are paid by the company but should be paid by the employees. The MITL also establishes that certain payments made to related parties shall not be deductible if they do not meet certain requirements.

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:

| | **2018** | 2017 |
|---|---|---|
| **Deferred tax assets:** | | |
| Net operating loss carry-over | **$2,289,932** | $82,250 |
| Fair value adjustment on property, plant and equipment arising from business combination | **250,730** | 271,596 |
| Allowance for inventory obsolescence | **75,653** | 422,886 |
| Allowance for doubtful accounts | **61,953** | 39,286 |
| Others | **31,714** | 77,934 |
| | **$2,709,982** | $893,952 |
| **Deferred tax liabilities:** | | |
| Fair value adjustment on property, plant and equipment and intangible assets arising from business combination | **$1,997,158** | $2,298,954 |
| Contract assets | **232,335** | – |
| Others | **572,505** | 48,232 |
| | **$2,801,998** | $2,347,186 |

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

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | **Deferred Tax Assets** | **Deferred Tax Liabilities** | **Total Deferred Tax Assets - net** | **Total Deferred Tax Liabilities - net** |
| IMI BG | **$–** | **($195,144)** | **–** | **($195,144)** |
| IMI CZ | **230,650** | **(76,271)** | **154,379** | **–** |
| IMI MX | **31,715** | **(533,426)** | **–** | **(501,711)** |
| VIA | **2,202,990** | **–** | **2,202,990** | **–** |
| Others | **244,628** | **(1,997,158)** | **244,628** | **(1,997,158)** |
| | **$2,709,983** | **($2,801,999)** | **$2,601,997** | **($2,694,013)** |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Deferred Tax Assets | Deferred Tax Liabilities | Total Deferred Tax Assets - net | Total Deferred Tax Liabilities - net |
| IMI BG | $– | ($8,863) | – | ($8,863) |
| IMI CZ | 82,250 | – | 82,250 | – |
| IMI MX | 71,363 | – | 71,363 | – |
| VIA | 476,978 | (39,368) | 476,978 | (39,368) |
| Others | 263,361 | (2,298,955) | 263,361 | (2,298,955) |
| | $893,952 | ($2,347,186) | $893,952 | ($2,347,186) |

The temporary differences and tax losses for which no deferred tax assets have been recognized follows:

| | **2018** | 2017 |
|---|---|---|
| Provisions | **$457,590** | $651,639 |
| Excess of cost over NRV of inventories | **398,176** | 239,219 |
| Allowance for ECLs | **326,069** | 296,335 |
| | **$1,181,835** | $1,187,193 |

As of December 31, 2018 and 2017, 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:

| | **2018** | 2017 |
|---|---|---|
| Statutory income tax | **25.00%** | 25.00% |
| Tax effects of: | | |
| Difference in tax jurisdiction | **8.98%** | (6.77%) |
| Nondeductible expenses | **–** | (3.22%) |
| Effective income tax rate | **33.98%** | 15.01% |

## 24. **Personnel Costs**

Salaries, wages, and employee benefits follow:

| | **2018** | 2017 |
|---|---|---|
| Salaries and benefits | **$79,472,946** | $61,682,969 |
| Retirement expense under defined contribution plans | **2,840,535** | 2,040,946 |
| Leave benefits | **2,072,162** | 1,640,887 |
| Social security costs | **2,032,439** | 1,845,698 |
| Net retirement expense under defined benefit plans | **153,526** | 125,924 |
| Others | **416,257** | 723,810 |
| | **$86,987,865** | $68,060,234 |

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:

| | **2018** | 2017 |
|---|---|---|
| Cost of goods sold and services (Note 19) | **$71,658,004** | $54,752,766 |
| Operating expenses (Note 20) | **15,329,861** | 13,307,468 |
| | **$86,987,865** | $68,060,234 |

Defined Benefits Plans
IMI BG has a defined benefit plan covering substantially all of its employees. The latest retirement valuation was made on December 31, 2018.

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, 2018 and 2017:

*Retirement Expense*

| | **2018** | 2017 |
|---|---|---|
| Current service cost | **$144,936** | $115,197 |
| Net interest | **8,590** | 10,727 |
| | **$153,526** | $125,924 |

The retirement expense of the Group is included under "Salaries, wages, and employee benefits" account.

*Retirement Liability*

| | **2018** | 2017 |
|---|---|---|
| At beginning of year | **$939,952** | $636,636 |
| Retirement expense | **153,526** | 125,924 |
| Actuarial Loss | **88,782** | 264,461 |
| Separation and benefits paid | **(25,379)** | (29,030) |
| Foreign currency exchange difference | **(38,628)** | (58,039) |
| At end of year | **$1,118,253** | $939,952 |

The average duration of net retirement liabilities at the end of the balance sheet date is 21.99 years and 22.72 years as of December 31, 2018 and 2017, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Less than one year | **$221,493** | $161,150 |
| More than one year to five years | **498,470** | 383,253 |
| More than five years | **18,209,780** | 17,179,243 |
| | **$18,929,743** | $17,723,646 |

*Principal Actuarial Assumptions*
The principal actuarial assumptions used to determine retirement benefits are shown below:

| | 2018 | 2017 |
|---|---|---|
| Discount rate | **0.90%** | 1.40% |
| Salary increase rate | **5.00%** | 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 | 2018 | 2017 |
| Discount rate | +1% | **($29,791)** | ($25,267) |
| | -1% | **31,279** | 26,530 |
| Salary increase rate | +1% | **43,426** | 36,933 |
| | -1% | **(43,426)** | (36,936) |

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:

| | 2018 | 2017 |
|---|---|---|
| Cost of goods sold and services | **$2,550,928** | $2,035,898 |
| Operating expenses | **289,607** | 5,048 |
| | **$2,840,535** | $2,040,946 |

## 25. 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 2018 and 2017 amounted to $6,765 and $0.04 million, respectively.

## 26. 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, 2018 and 2017, 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 | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| IMI: | | | | |
| Nontrade | **$377,009** | $– | **$6,225,826** | $4,117,304 |
| Loans | **–** | – | **65,229,127** | 37,683,594 |
| Interest | **–** | – | **1,800,644** | 445,619 |
| STEL | **2,660** | 2,660 | **–** | 6,597,777 |
| IMI Singapore: | | | | |
| Noncurrent liabilities | **–** | – | **28,808,717** | 28,808,717 |
| Loans | **–** | – | **13,543,029** | 13,500,000 |
| Interest | **–** | – | **862,351** | 284,409 |
| Nontrade | **–** | – | **–** | 15,000,000 |
| | **$379,669** | $2,660 | **$116,469,694** | $106,437,420 |

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 3.99%. Intercompany loans from IMI Singapore bear interest rates ranging from 4.63% to 5.59% with terms ranging from 90 to 360 days.

ii. Noncurrent liabilities to 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:

| | **2018** | 2017 |
|---|---|---|
| Loans payable (Note 15) | **$78,772,156** | $57,781,371 |
| Due to related parties (Note 14) | **6,225,826** | 19,117,304 |
| Accrued interest payable (Note 12) | **2,662,995** | 730,028 |
| | **$87,660,977** | $77,628,703 |

b. Expenses from related parties follow:

| | 2018 | 2017 |
|---|---|---|
| IMI | **$1,578,615** | $795,630 |
| IMI Singapore | **814,848** | 605,606 |
| | **$2,393,463** | $1,401,236 |

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 $2.15 million and $1.51 million in 2018 and 2017, respectively.

## 27. 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 that are either carried at fair value or where the carrying amounts do not approximate fair values as at December 31, 2018 and 2017:

| | Carrying Amounts | | Fair Values | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Financial liabilities** | | | | |
| Financial liabilities on put options | **$15,722,287** | $11,676,243 | **$15,722,287** | $11,676,243 |
| Noncurrent portion of long-term debt | **5,708,175** | 3,724,056 | **5,143,260** | 3,671,953 |
| | **$21,430,462** | $15,400,299 | **$20,865,547** | $15,348,196 |

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 1.19% in 2018 and 0.90% to 2.99% in 2017.

Fair Value Hierarchy

The following table provides the fair value hierarchy of the inputs to the valuation of the financial liabilities:

| | | December 31, 2018 | | |
|---|---|---|---|---|
| | | 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 | **$15,722,287** | **$–** | **$–** | **$15,722,287** |
| **Liabilities for which fair values are disclosed:** | | | | |
| Long-term debt | **$5,566,145** | **$–** | **$–** | **$5,566,145** |

| | | 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 |

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 $1.78 million. Decrease in growth rate by 1% would result in a fair value decrease of $1.40 million. |
| | | Discount rate | 10%-12% (11%) | 1% increase in discount rate would result in a decrease in fair value by $1.82 million. Decrease in discount rate by 1% would result in a fair value increase of $2.32 million. |
| | | Probability of trigger events occurring | 1% – 10% (5%) | Increase in the probability to 10% would result in an increase in fair value by $0.71 million. Decrease in the probability to 1% would result in a decrease in fair value by $1.08 million. |

28. **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, 2018 and 2017.

| | **Effect on Income before Tax** | |
|---|---|---|
| Increase/Decrease in Basis Points | **2018** | 2017 |
| +100 | **($35,099)** | ($69,643) |
| -100 | **$35,099** | $69,643 |

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:

**2018**

| | **On Demand** | **Less than 3 Months** | **3 to 12 Months** | **1 to 5 Years** | **Total** |
|---|---|---|---|---|---|
| **Financial liabilities:** | | | | | |
| Accounts payable and accrued expenses: | | | | | |
| Trade payables | **$–** | **$91,808,838** | **$–** | **$–** | **$91,808,838** |
| Due to related parties | **–** | **6,225,826** | **–** | **–** | **6,225,826** |
| Accrued expenses* | **–** | **10,419,187** | **–** | **–** | **10,419,187** |
| Accrued interest payable | **–** | **2,662,995** | **–** | **–** | **2,662,995** |
| Others | **–** | **248,220** | **–** | **–** | **248,220** |
| Financial liabilities on put options | **15,722,287** | **–** | **–** | **–** | **15,722,287** |
| Current portion of long-term debt | **–** | **2,266,844** | **–** | **–** | **2,266,844** |
| Loans payable | **–** | **–** | **109,062,927** | **–** | **109,062,927** |
| Noncurrent portion of long-term debt** | **–** | **–** | **–** | **5,795,080** | **5,795,080** |
| | **$15,722,287** | **$113,631,910** | **$109,062,927** | **$5,795,080** | **$244,212,204** |

**Excluding statutory payables*
***Includes future interest payable*

2017

| | On Demand | Less than 3 Months | 3 to 12 Months | 1 to 5 Years | Total |
|---|---|---|---|---|---|
| **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 |
| 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 |

**Excluding statutory payables*
***Includes future interest payable*

The financial liabilities in the above tables are gross undiscounted cash flows. However, these amounts may be settled using liquid assets such as cash and cash equivalents and trade receivables. Furthermore, availbable credit lines may also be used to manage liquidity.

*Credit lines*
The Group has credit lines with different financing institutions as at December 31, 2018 and 2017, as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| Financial Institutions | **Credit Limit** | **Available Credit Line** | Credit Limit | Available Credit Line |
| Local: | | | | |
| EUR | **17,830,000** | **12,222,402** | 18,830,000 | 13,551,034 |

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 defines a financial asset as in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. Such internal or external information includes discontinuance of orders, financial difficulty or insolvency, probable bankruptcy or other financial reorganization. Actual historical experience shows low defaulted accounts which were also substantially recovered subsequently resulting to insignificant write-offs.

The Group's maximum exposure to credit risk as of December 31, 2018 and 2017 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 37% and 48% of trade receivables relating to three major customers as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the aging analysis of receivables, contract assets and miscellaneous deposits as follows:

| | December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Neither Past Due nor | Past Due but not Impaired | | | | | |
| | Total | Impaired | <30 Days | 30-60 Days | 60-90 Days | 90-120 Days | >120 Days | Specifically Impaired |
| **Receivables:** | | | | | | | | |
| Trade | **$127,860,063** | **$111,028,907** | **$10,417,478** | **$1,133,080** | **$1,827,875** | **$1,111,672** | **$1,570,441** | **$770,610** |
| Nontrade | **8,794,701** | **8,794,701** | – | – | – | – | – | – |
| Due from related parties | **379,669** | **379,669** | – | – | – | – | – | – |
| Others | **64,971** | **64,971** | – | – | – | – | – | – |
| Contract Assets | **18,532,523** | **18,532,523** | – | – | – | – | – | – |
| Miscellaneous deposits | **478,924** | **478,924** | – | – | – | – | – | – |
| | **$156,110,851** | **$139,279,695** | **$10,417,478** | **$1,133,080** | **$1,827,875** | **$1,111,672** | **$1,570,441** | **$770,610** |

| | December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Neither Past Due nor | Past Due but not Impaired | | | | | |
| | Total | Impaired | <30 Days | 30-60 Days | 60-90 Days | 90-120 Days | >120 Days | Specifically Impaired |
| Receivables: | | | | | | | | |
| 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 | – | – | – | – | – | – |
| Miscellaneous deposits | 603,957 | 603,957 | – | – | – | – | – | – |
| | $115,666,145 | $101,785,357 | $7,552,908 | $2,816,206 | $1,523,998 | $707,367 | $317,490 | $962,819 |

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2018 and 2017:

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | | Past Due or Individually | |
| | Minimal Risk | Average Risk | Fairly High Risk | High Risk | Impaired | Total |
| Cash and cash equivalents | **$46,965,617** | **$–** | **$–** | **$–** | **$–** | **46,965,617** |
| Receivables: | | | | | | |
| Trade | **111,028,907** | **–** | **–** | **–** | **16,831,156** | **127,860,063** |
| Nontrade | **8,794,701** | **–** | **–** | **–** | **–** | **8,794,701** |
| Due from related parties | **379,669** | **–** | **–** | **–** | **–** | **379,669** |
| Others | **64,971** | **–** | **–** | **–** | **–** | **64,971** |
| Miscellaneous deposits | **478,924** | **–** | **–** | **–** | **–** | **478,924** |
| | **$167,712,789** | **$–** | **$–** | **$–** | **$16,831,156** | **$184,543,945** |

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | | Past Due or Individually | |
| | Minimal Risk | Average Risk | Fairly High Risk | High Risk | Impaired | Total |
| Cash and cash equivalents | $37,615,096 | $– | $– | $– | $– | $37,615,096 |
| 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 |
| Miscellaneous deposits | 603,957 | – | – | – | – | 603,957 |
| | $139,400,453 | $– | $– | $– | $13,880,788 | $153,281,241 |

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.

## 29. 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 $0.37 million and $1.15 million for 2018 and 2017, respectively.

The following table shows the reconciliation of liabilities arising from financing activities:

| | | Cash Flows | | Non-cash changes | | |
|---|---|---|---|---|---|---|
| | **2017** | **Availment** | **Settlement/ Payment** | **Reclass** | **Foreign currency translation** | **2018** |
| **Loans payable** | **$71,901,927** | **$42,798,858** | **($5,104,967)** | **$–** | **($532,891)** | **$109,062,927** |
| **Current portion of long-term debt** | **6,872,679** | **883,263** | **(6,653,629)** | **1,399,123** | **(234,592)** | **2,266,844** |
| **Long-term debt** | **3,724,056** | **3,533,054** | **(56,810)** | **(1,399,123)** | **(93,002)** | **5,708,175** |
| | **$82,498,662** | **$47,215,175** | **($11,815,406)** | **$–** | **($860,485)** | **$117,037,946** |

| | | 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 |