HUMANITY DRIVING TECHNOLOGY

"Humanity can guide, harness, and control the development of science and technology so that they fulfill their primary purpose which is to serve humanity."
GERD LEONHARD

Growth engine for an inclusive future | **Page 15**

Empowering our innovations | **Page 19**

Beyond electronics | **Page 47**

GERD LEONHARD
FUTURIST, AUTHOR

More than just a leading expert on the future, Gerd is also a humanist who specializes in the debate between humanity and technology.

DEFINING OUR **FUTURE** TODAY

BIG PICTURE. "Sometimes it seems that technology is the only thing that will matter in the future. I beg to differ. Sure, data is the new oil and artificial intelligence (AI) is the new electricity but this makes being human MORE important not less." – Gerd Leonhard

THE DETAILS. We continue to face exponential technological changes. Global megashifts such as automation, datafication, and robotization are slowly transforming our world. With the continuous rise of machine learning and artificial intelligence, many jobs today could be automated in the next few years. How will we go after new opportunities during these transformational times in human history? Are we driving change or are we being driven by it?

In about a decade or so, we will reach the point of singularity, when the computing capabilities of machines will equal or may even surpass humans in brain power. Will machines take over our lives? Will we surrender our choices and preferences to interactive displays and bots? Will we lose the traits that make us human?

THE BOTTOMLINE. While Integrated Micro-Electronics, Inc. (IMI) continues to invest on capital, machines, and systems, we believe that our people will ultimately provide the highest value to our customers and stakeholders. Without values and human-only traits, we would not be able to lead and be future-ready.

Gerd Leonhard, a German futurist, asserts that "It is our humanity that will make all the difference in a world dominated by algorithms and smart machines." IMI embodies such declaration, confident that OUR PEOPLE are our valuable assets. By truly living our IMI CORE VALUES, we will transcend any technology.

We are determined to continuously collaborate on "a global set of digital ethics and a collective understanding of what or who we want to be in the future," and we remain committed to embracing a connected existence, advocating and partnering for technology solutions that truly improve lives.

Leonhard sees it more as an ideal future, but for us at IMI it is a given—HUMANITY will drive TECHNOLOGY—harnessing our capabilities in solving many of humanity's challenges.

ABOUT **IMI**

OUR VISION

To be the leading INNOVATIVE Partner for CUSTOMIZED Solutions

That our PEOPLE deliver the HIGHEST quality experience

OUR MISSION

To passionately create a unique product realization experience that our partners love

OUR CORE VALUES

Integrity

Customer Focus

Concern for Others

Excellence

IMI **TODAY**

Integrated Micro-Electronics Inc. (IMI) is now a global technology solutions company with 21 manufacturing facilities with presence in more than 12 countries, spanning through the continents of Asia, Americas, and Europe.

IMI has technology expertise and offerings in the whole breadth of electronics manufacturing services (EMS), power semiconductor assembly tests and services and vehicle assembly.

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.

We continue to leverage on our geographical footprint in providing services closer to our target markets. This in turn strengthens our ability to mitigate risks over market volatilities and geo-political trends in the global environment.

As today's digital age ushers in major disruptions within conventional structures and processes in society, business, and manufacturing need to adapt not just to survive but to lead. At IMI, we firmly believe that the key lies in our most valuable asset, our PEOPLE. With more than 17,000 employees that consist of different nationalities, cultures, and backgrounds, we come together with a common set of core values enabling us to passionately drive the technologies and solutions that we bring to our partners while making sure that we take care of the communities and environments we live in for the next generations.

ABOUT THIS **REPORT**

In 2015, member countries of the United Nations adopted the 2030 Agenda for Sustainable Development, providing a shared blueprint for peace and prosperity among nations, the entire world now and into the future. The 17 Sustainable Development Goals (SDG) are the heart of the agenda and serve as an urgent call for action by all member states in a global partnership.

In this annual report, Integrated Micro-Electronics, Inc. weighs in on the SDG that focuses on decent work and economic group. United Nation's SDG #8—to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all—is part of IMI's commitment to become a transformational presence in the markets we serve and at the same time advocating and partnering for technology solutions that will improve lives.

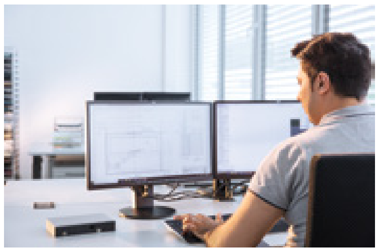
We have begun to embrace a connected existence and remain committed to advocating - not just for technology solutions—any endeavor that can help improve lives.

TABLE OF **CONTENTS**

1 Who We Are

2 How We Create Value

3 Our Strategic Business Context

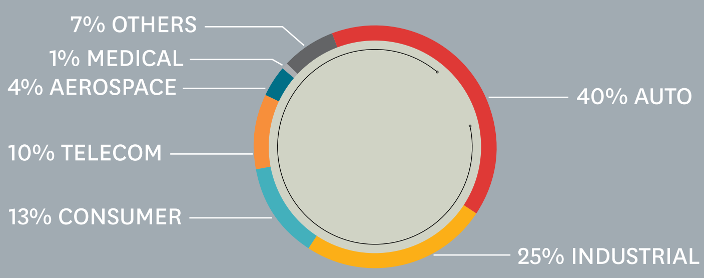


4 Our Governance

5 Business Overview

6 Financial Statements

2018 AT A GLANCE



OUR CORE MARKETS


Opening of IMI Niš (Serbia)

18th

in the list of Top 50 EMS Providers

Source: Manufacturing Market Insider 2018

5th LARGEST

EMS Provider in the Automotive Market

Source: New Venture Research 2018

Automotive Quality Management System (IATF16949:2016) Certifications

- *November 2017* — IMI PH
- *January 2018* — IMI Czech
- *March 2018* — IMI Jiaxing
- *May 2018* — IMI Bulgaria
- *June 2018* — STI Cebu
- *August 2018* — IMI Kuichong, PSI Technologies, IMI ChengDu
- *October 2018* — IMI Czech


Acquired VTS-Touchsensor

Revenues	Net Income
$1.35B	$45.5M
2017: $1.09B	2017: $34.0M

EBITDA	Return on Equity
$71.3M	13.5%
2017: $70.3M	2017: 13.3%

Current Ratio	D/E Ratio
1.32	0.81
2017: 1.28	2017: 1.08

Total Assets	Capital Expenditures
$1.07B	$65.0M
2017: $920.9M	2017: $65.3M


Heading toward advanced and complex technologies

VALUE DISTRIBUTED

Operating costs	Wages and benefits paid
$1.08B	$226.6M
(2017: $864.5M)	(2017: $185.7M)

Taxes paid	Dividends paid
$12.5M	$10.1M
(2017: $12.7M)	(2017: $8.4M)

SUSTAINABILITY IMPACT

Global employment	Water Consumed
17,148	2.3M
	Cubic Meters

Scope 1 GHG Direct emissions fuel consumption of company owned vehicles and generator sets	Scope 2 GHG Indirect emissions from electricity consumption
295 Tons CO2e	115K Tons CO2e

Hazardous Waste Recycled & Recovered

98%*

**IMI Philippines only*

GLOBAL **FOOTPRINT**

From our 21 manufacturing plants in 10 countries, we provide engineering, manufacturing support and fulfillment capabilities to diverse industries globally.

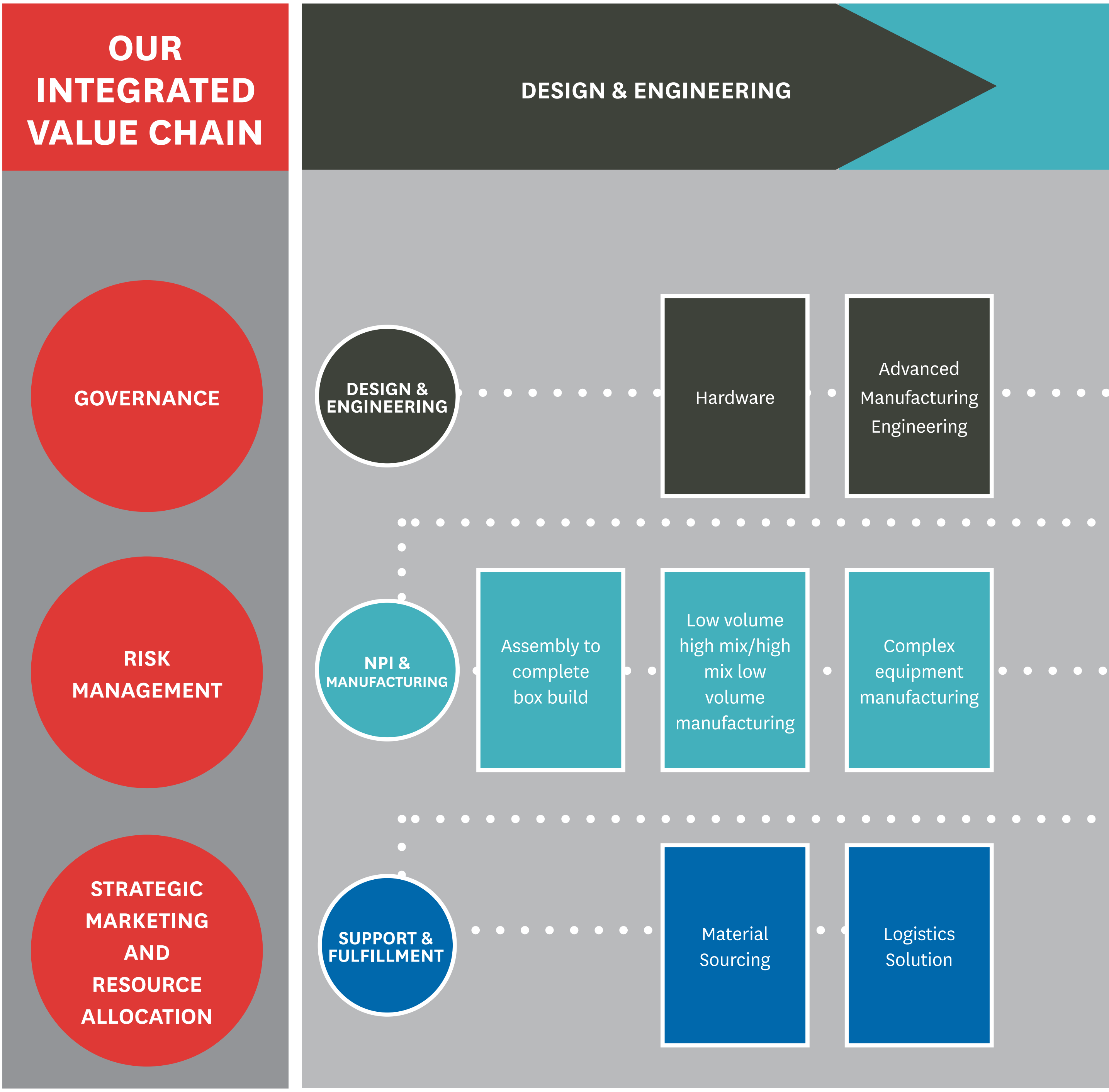
USA	MEXICO	UNITED KINGDOM	GERMANY	CZECH REPUBLIC
10	1,686	443	115	275
1,184 sqm	25,000 sqm	11,427 sqm	4,268 sqm	7,740 sqm

TOTAL HEADCOUNT: 17,148

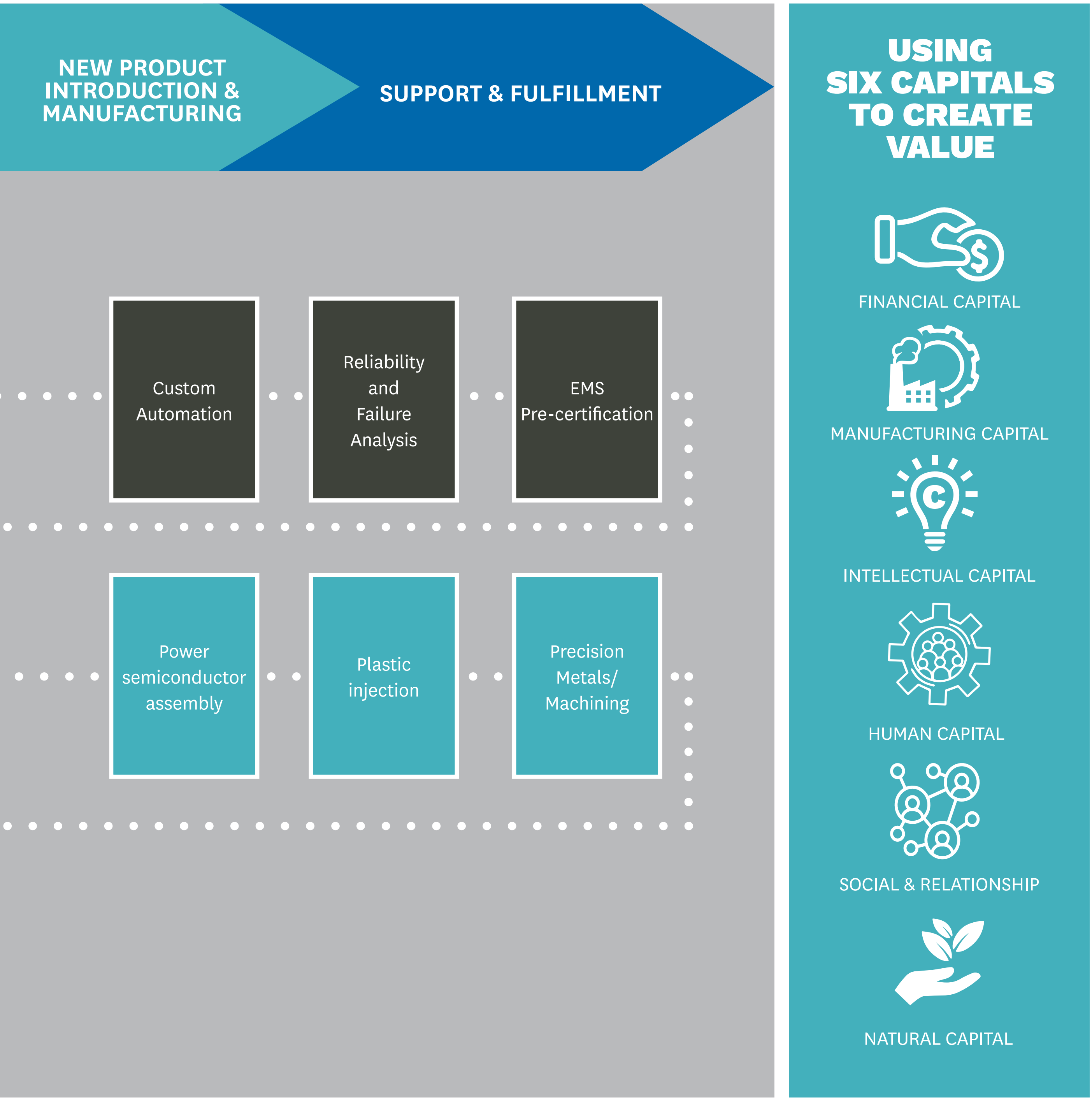
PRODUCTION SPACE: 409,317 m²

SERBIA	BULGARIA	CHINA	JAPAN	PHILIPPINES
95	2,119	5,473	113	6,819
50,000 sqm	115,416 sqm	88,566 sqm	10,000 sqm	105,341 sqm

OUR INTEGRATED **VALUE CHAIN**



We continue to actively grow and strengthen our portfolio while seeking synergy opportunities among our various stakeholders. Our management team provides a broad and streamlined range of corporate functions which include financial management, resource allocation, risk management, governance, strategic planning and marketing.



HOW WE **CREATE** AND **SHARE VALUE**

KEY INPUTS	OUTPUT

FINANCIAL CAPITAL

We maintain strong credit ratings and healthy capital ratios to support our business and maximize shareholder value

- Market capitalization of ₱23.50B ($446.9M)
- Bank borrowings $324.3M
- Proceeds from 2018 stock rights offering $95.9M
- Dividends paid $10.1M

	2018	2017
Revenue	**$1.35B**	$1.09B
Net Income	**$45.5M**	$34.0M
Debt-to-Equity	**0.81**	1.08
Bank Borrowings	**$324.3**	$295.1
Earnings per Share	**$0.021**	$0.018
Return on Equity	**13.5%**	13.3%

MANUFACTURED CAPITAL

We continue to invest in building more complex manufacturing capabilities to sustain productivity and efficiency.

- Property, plant, and equipment $191.7M
- Intangible assets $27.8M

	2018	2017
Total Assets	**$1.07B**	$920.9M
Capital expenditure	**$65.0M**	$65.3M
Depreciation and amortization	**$35.4M**	$28.6M

INTELLECTUAL CAPITAL

We leverage on our extensive experience and know-how in technologies to deliver higher value to our partners.

- Our patents, know-how, and technical expertise
- Our technology teams provide customized engineering solutions

	2018	2017
Number of engineers and technicians	**2,616**	2,420
Personnel overhead costs	**$76.2M**	$62.1M

HUMAN CAPITAL

We invest, develop, and manage our human capital to ensure a sustainable future.

- Global key talent pipeline, leadership and skills training, and succession planning for 17,148 employees
- A leadership team that shares common goals and builds a culture of engaged employees

	2018	2017
Salaries, wages,and benefits	**$226.6M**	$185.7M
Total training hours	**936K**	525K
Safe manhours (in million hours)*	**41.6**	no data

** started collecting data in 2018*

SOCIAL AND RELATIONSHIP CAPITAL

Our shared values and commitments form the basis of our reputation and trust

- Partnerships with customers and suppliers for more than 20 years
- Engagement and collaboration with government, academe, stakeholders, and community

	2018	2017
Key customers with more than 15 years tenure	20+	
Key/major suppliers	Over 200	
Taxes to governments	**$12.5M**	$12.7M

NATURAL CAPITAL

Our energy and waste on the production of our goods and services have impact on the environment:

- Land
- Energy
- Water

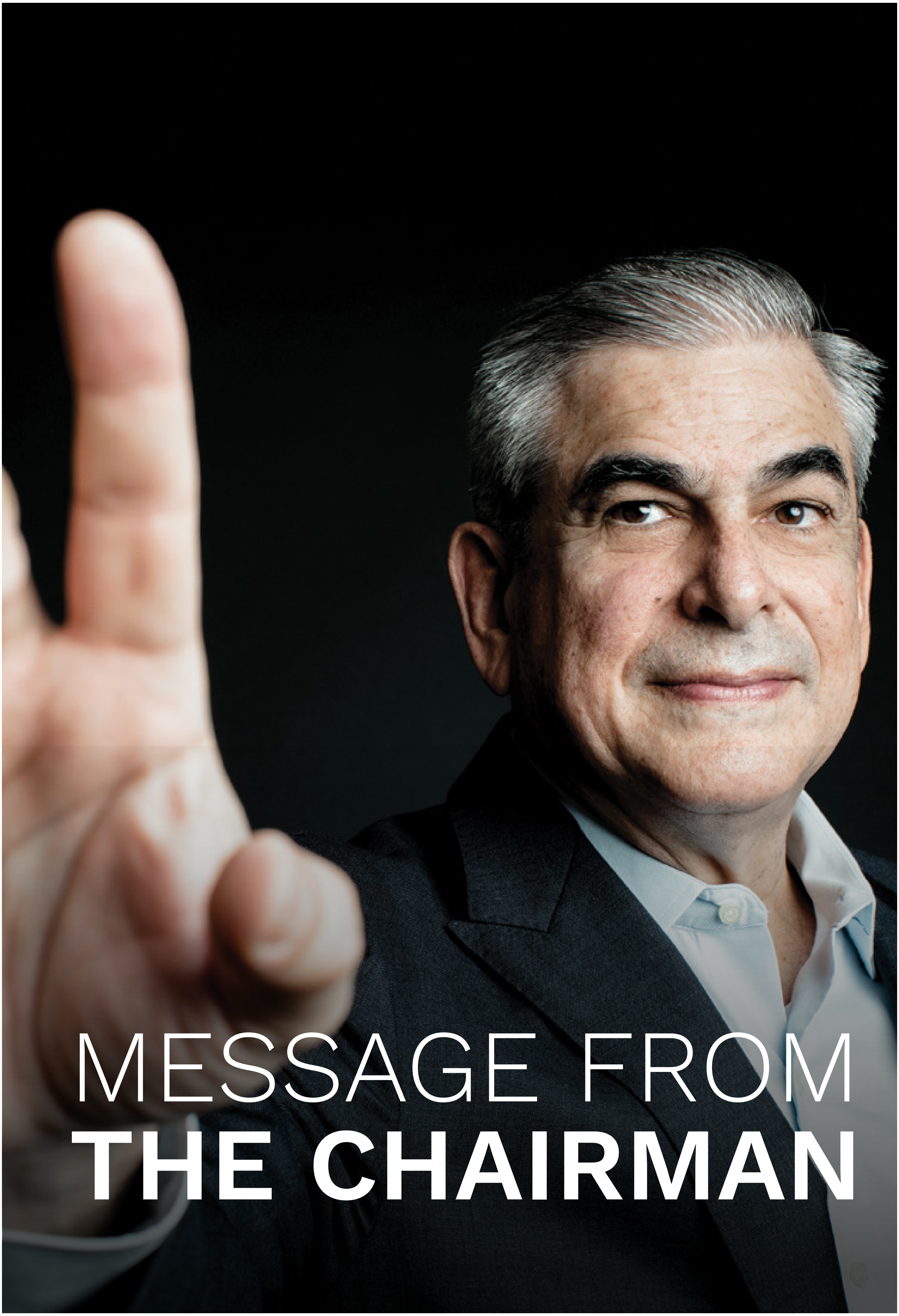
	2018	2017
Direct Scope 1 GHG emission (in tons CO_2e)	**295**	348
Indirect Scope 2 GHG emission (in '000 tons CO_2e)	**115**	71
Energy consumption (in million kw-hr)	**176**	126
Water consumption (in million m3)	**2.3**	1.1
Hazardous waste (in '000 kg)	**674**	722

** 2017 excluding Germany*

We closely collaborate with all stakeholders to produce high-value products and services.

Our goal is to bring forth a more sustainable future for the next generations.

OUTCOMES (VALUE TO STAKEHOLDERS)	INITIATIVE TO RAISE OUR VALUE
We maintain high standards of financial management to raise returns to shareholders and investors.	We improve productivity as we strengthen effective cost reduction programs.
We aim to provide cost-efficient solutions by maximizing the use of systems and machines for our customers.	We invest in and optimize assets that can provide higher value and returns.
We optimize and encourage the development of existing intellectual properties through R&D activities to fortify the company's value-add.	We collaborate with customers and experts to advance innovation and creativity.
We aim to surpass the targets of global employee engagement and leadership assessment for key talents to ensure continuity and pipeline strength.	We invest in potential leaders and those who passionately live our corporate values.
We encourage innovation and collaboration to foster continuous entrepreneurial and business spirit in all levels.	We build on long-term relationships with customers, government, the academe, and the community in the IMI ecosystem.
We fully support and comply with sustainability initiatives of customers and regulators as regards inputs used and wastes generated.	We continue to reduce our carbon footprint for the coming generations.


MESSAGE FROM
THE CHAIRMAN

GROWTH ENGINE FOR AN **INCLUSIVE** FUTURE

The macroeconomic uncertainties of 2018 had an impact on IMI, the Ayala group's most global business. Across our key markets, we felt the effects of changes in trade policy, rising geopolitical instability, as well as fundamental shifts in the value chains of the sectors we prioritize. Potential gains from the stabilizing United States economy were offset by uncertainty around politics and trade, highlighted by the consequences of a new agreement between all three North American countries and trade battles that also affected China, IMI's other major market. In parallel, ongoing discussions over the United Kingdom's impending exit from the European Union dampened business confidence and momentum across Europe. Finally, a global component shortage, fueled by outsize demand for the devices and infrastructure that feed our ever-growing connected and digital world, tightened supply competition and business execution across many industries.

Amid these challenging times, we take comfort in the fact that IMI retains its intrinsic business proposition, validated by its sustained rise through the ranks of global manufacturing groups. It remains a top 20 electronics manufacturing services provider in terms of revenues and now ranks in the top five for automotive-related manufacturing services using the same metric. And beyond the financial metrics, IMI retains industry-leading levels of customer satisfaction, operational efficiency, and employee engagement. These competencies form the foundation of the company's global competitiveness as it seeks out even higher value and larger scale projects, especially in its priority business segments of automotive, industrial, and aerospace.

STEADY GROWTH
GLOBAL ECONOMY

2018	3.7%
2019	3.5%
2020	3.6%

"As IMI approaches its fourth decade of existence, it continues to demonstrate resilience and an ability to repeatedly reinvent itself to succeed in an increasingly interconnected and highly competitive global environment."

IMI also continues to transform itself to remain relevant as a global force in the manufacturing space, developing technological assets that align with the disruptive megatrends sweeping the world today. In recent years, it has built or acquired key capabilities including camera and vision systems, advanced displays, touch technologies, and power modules. When combined with IMI's core manufacturing expertise, these new platforms position the company to advance productivity, grow market share sustainably, and overall remain relevant as a company in a world that is becoming more mobile, increasingly connected, and that is encouraging cleaner, smarter energy.

This pursuit of global leadership as a stand-alone manufacturing solutions firm is now just one arm of IMI's growth strategy. It also continues to serve as a base platform and the manufacturing engine of AC Industrials, Ayala's fast-growing industrial technologies platform. AC Industrials has grown its portfolio exponentially in the last few years, with integrated yet stand-alone businesses that now span global manufacturing, house proprietary enabling technologies, and develop and deliver high value products for end markets. Within AC Industrials, IMI deploys its array of technologies and processes to help create innovative business models, deliver precision and efficiency, and enable many attractive offerings for our partners and customers.

Meanwhile, the headwinds that buffeted IMI in 2018 also underscore how interconnected our world has become and highlights the increasing importance of generating value via a sustainable and inclusive approach. Thus, as IMI accelerates growth along its twin paths–as a global manufacturing solutions firm and as a core component within AC Industrials–we remain committed to do so in alignment with the Ayala group's support for the United Nations' Sustainable Development Goals. The opening in October 2018 of the company's 21st plant in Serbia, for example, exemplifies its ability to bring its global footprint to bear for the benefit of the global communities it operates in. This new factory will not only strengthen the manufacturing of electronic car components in the region, but will also create employment opportunities and boost its overall competitiveness as an investment location.

As IMI approaches its fourth decade of existence, it continues to demonstrate resilience and an ability to repeatedly reinvent itself to succeed in an increasingly interconnected and highly competitive global environment. I am grateful for the constant support of our shareholders, our customers, our management and staff, and for the guidance of our fellow Directors. With our collective efforts and commitment, I am confident that we will achieve our collective aspirations for IMI and AC Industrials, and that our best years remain ahead of us.

JAIME AUGUSTO ZOBEL DE AYALA

CHAIRMAN

MESSAGE FROM THE CEO

EMPOWERING OUR **INNOVATIONS**

$1.5T

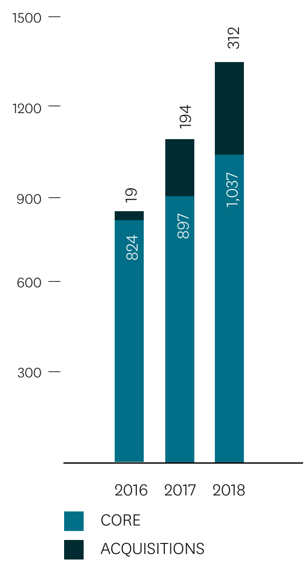
GLOBAL ELECTRONICS ASSEMBLY MARKET

Technology is only an enabler. Technology alone does not create success. It can only take us so far. It is our culture and way of doing the brand that our customers trust.

Through the years, IMI has been a partner-of-choice in three major areas: mobility, connectivity, and smart energy. We have developed technology platforms such as sensing cameras, advanced driver assistance systems, lighting, body control modules, power modules, motor drives and displays. Our teams have done a great job, but we have further to go.

From a human perspective, focus will be on being able to provide the smartest, energy efficient, secure, and adaptable Human-Machine-Interface (HMI) and Machine-to-Machine-Interface in automotive, industrial, and aerospace. As this happens, the lines between pure hardware manufacturers, software integrators, and custom designers will blur. At the same time, the human element will become more critical, and the intangibles in products and systems will be more valuable.

REVENUES FROM
CORE BUSINESS
AND NEW ACQUISITIONS
(IN US$ MILLIONS)



TEAMS WHO EMBRACE OUR CULTURE

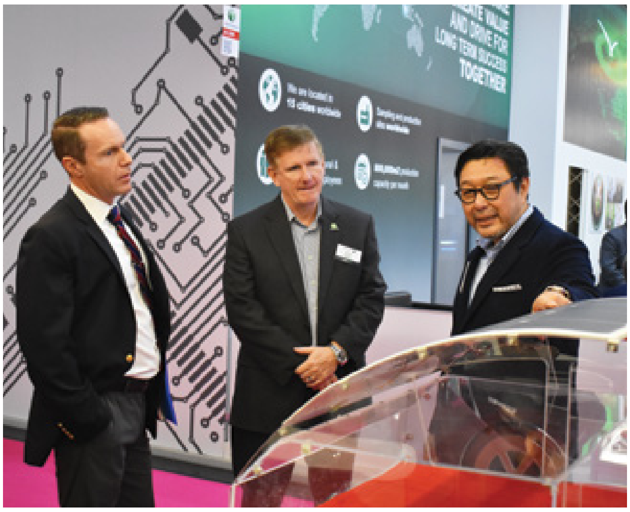
We recognize that our principal strength is not the synergy of our technological capabilities. Rather, it is our shared values that set the tone for how we behave as a business. It is also our shared vision that strengthens us to create, collaborate, innovate, and lead regardless of race, creed, and religion. We believe our corporate values are absolutely the right way forward towards building consistent deeper relationships with our customers.

2018, STILL A FOUNDATION-BUILDING PERIOD

In 2018, we have emerged as a stronger enterprise as we strengthened our global footprint. We opened our 21st production facility in southeastern Europe, IMI Niš (Serbia), to cater to the growing market for automotive components in Europe as well as provide support to the pipeline projects of our existing facility in Bulgaria.

Today, we are now in a place where the business is proving the strength of our dual growth model. Reported revenues grew 24 percent to US$1.35 billion and net income rose 35 percent to US$45.5 million despite a difficult supply chain environment. Our core business delivered US$1.04 billion revenues, up 16 percent from the previous year, while our recently acquired companies, VIA Optronics and STI, Enterprises accelerated 61 percent to post a combined revenue of US$312.4 million. By product segment, faster growing industrial and automotive segments increased 39 percent and 21 percent, respectively.

We are also proud to note that we ended the year with a strong balance sheet following our expanded capital base. We have completed stock rights offering of 350 million new common shares and raised ₱5.0 billion for the company's budgeted capital expenditures and debt refinancing. All in all, we believe these steps will open the door to new opportunities and lead to unrivaled value proposition.



MOVING AS ONE FOR AN EMPOWERED WORLD

In the years ahead, Industry 4.0 will become a powerful enabler that will push the limits of manufacturing to reduce time-to-market. Machine learning and artificial intelligence will continue to change and disrupt standard processes, legacy structures, and old business models. Upskilling workers is therefore essential if we are to grow the business.

From a Philippine-based contract manufacturer to a global multinational technology solutions provider in 10 countries IMI will move as one—magnifying the quality of our service, enabling our technologies and empowering our innovations. And we will do so while we use our know-how in advanced technologies to operate and automate processes through our machines and systems. After all, the faster the technological revolution reshapes our society, the more we can demonstrate the valuable human skills that cannot be transcended by machines.

ARTHUR R. TAN

CHIEF EXECUTIVE OFFICER - IMI
GROUP PRESIDENT AND CHIEF EXECUTIVE OFFICER - AC INDUSTRIALS

BOARD OF **DIRECTORS**

Jaime Augusto Zobel de Ayala

CHAIRMAN

Jaime Augusto Zobel de Ayala, Filipino, 60, 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.

Fernando Zobel de Ayala
DIRECTOR

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 Inc., 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.

Arthur R. Tan
CHIEF EXECUTIVE OFFICER

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

Gilles Bernard
PRESIDENT AND CHIEF OPERATING OFFICER

Gilles Bernard, French, 61, has been a Director and the President of IMI since June 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 COO 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 of SMEE. 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.

Rafael C. Romualdez
DIRECTOR

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 earned a degree in B.A. Mathematics from Boston College in 1986 and took Master in Business Administration at the George Washington University in 1991.

Jose Ignacio A. Carlos
DIRECTOR

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 earned a BS Management degree from the Ateneo de Manila University in 1991 and finished Master of Business Administration at the Johnson Graduate School of Management Cornell University in 1999.

Jose Teodoro K. Limcaoco

DIRECTOR

Jose Teodoro K. Limcaoco, Filipino, 56, has been a Director of IMI since April 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 a Director of Globe Telecom, Inc. and an Independent Director of SSI Group, Inc., both are 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 degree in 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.

Delfin L. Lazaro

DIRECTOR

Delfin L. Lazaro, Filipino, 72, has served as a 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 a degree in 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.

Edgar O. Chua

INDEPENDENT DIRECTOR

Edgar O. Chua, Filipino, 62, has been an Independent Director of IMI since April 2014 and the Lead Independent Director since August 2017. He was the Country Chairman of the Shell companies in the Philippines from September 2003 to October 2016. He had corporate responsibility for the various Shell companies in the exploration, manufacturing and marketing sector of the petroleum business. Likewise, he also oversaw the Shared Services operations and various Shell holding companies. Outside the Philippines, he held senior positions as Transport Analyst in Group Planning in the UK and as General Manager of the Shell Company of Cambodia. He is currently an Independent Director of Metrobank and Energy Development Corporation. He is also in the advisory boards of Mitsubishi Motors Philippines Corporation. 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. 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.

Sherisa P. Nuesa

INDEPENDENT DIRECTOR

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 at Harvard Business School and 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.

Hiroshi Nishimura

INDEPENDENT DIRECTOR

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 finished a degree in Electronics Engineering Course at Kurame University in 1976.

Arthur R. Tan
CHIEF EXECUTIVE OFFICER

Jerome S. Tan
CHIEF FINANCE OFFICER

Gilles Bernard
PRESIDENT AND
CHIEF OPERATING OFFICER

Monina C. Macavinta
GLOBAL HEAD
HUMAN RESOURCES

MANAGEMENT
COMMITTEE

Mary Ann S. Natividad
GLOBAL HEAD
SALES & MARKETING

Jürgen Eichner
CEO AND MANAGING DIRECTOR
VIA OPTRONICS

Simon Best
CEO AND MANAGING DIRECTOR
STI ENTERPRISES

Linardo Z. Lopez
CHIEF PROCUREMENT OFFICER

Timothy Patterson
HEAD, US OPERATIONS

MANAGEMENT TEAM

OPERATIONS GROUP

PHILIPPINES
Mario Bernardo N. Santos
Andrew C. Carreon
Eduardo F. Celindro

CHINA
Yeung Hin Wai (Jacky)
Sze Chee Pheng (Joseph)
Yang Gong Xiao (Jack)
Joselito S. Bantatua
Tian Kia Ko (T.K)

BULGARIA | SERBIA
Eric De Candido

CZECH REPUBLIC
Damian Rybak

MEXICO
Thomas Caveneget

SINGAPORE
Jerome S. Tan

US
Timothy Patterson

GLOBAL INDUSTRIAL EXCELLENCE
Jawaharlal K. Milanes

TECHNOLOGY & INNOVATION GROUP

Philippe Marquet
Lucrecio B. Mendoza
Dominador P. Leonida III

SUPPORT GROUP

FINANCE
Jaime G. Sanchez
Anthony Raymond P. Rodriguez

SALES
Taketoshi Arita
Thibaut de Vaureix
David Chavez
Ma. Alicia Carla G. Buencamino
Qing Cheng Ren

SUPPLY CHAIN
Johannes van der Knokke
Fraser Clydesdale
Zheng Xianlai (Peter)
Philippe Antunez
Joy A. Bondoc

CORPORATE QUALITY
Leonorina G. Cada

FACILITIES
Geronimo B. Magsombol

ICT
Rosalyn O. Tesoro

PSI TECHNOLOGIES, INC.

Gilles Bernard
Jerome S. Tan
Jaime G. Sanchez
Mario Bernardo N. Santos
Mary Ann S. Natividad
Monina C. Macavinta

VIA OPTRONICS GMBH

Jürgen Eichner
Daniel Juergens

STI

Simon Best
Craig Petrie

CORPORATE **GOVERNANCE** REPORT

CORPORATE **GOVERNANCE**

Our primary goal is to create and sustain increased shareholder value while remaining committed to the corporation's vision.

IMI's business is anchored on good governance while ensuring transparency and compliance with existing national and international laws. Our primary goal is to create and sustain increased shareholder value while remaining committed to the corporation's vision.

IMI is in full compliance with the Code of Corporate Governance for publicly-listed companies set forth by the Securities and Exchange Commission (SEC), supported by an attestation from the company's CEO, Compliance Officer and the Chief Audit Executive for 2018.

We submitted our revised Corporate Governance Manual last December 2018 in compliance with SEC Memorandum Circular No. 13, series of 2016 intended to raise the corporate governance standard of Philippine corporation to a level at par with its regional and global counterparts. The Company and its respective directors, officers and employees have complied with the best practices and principles on good corporate governance as embodied in its Corporate Governance Manual. An evaluation system has been established by the Company to measure or determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance.

THE BOARD OF DIRECTORS

The Board of Directors is the supreme authority in matters governing and managing the business of the Corporation. Within their authority under the Corporation Code and other applicable laws and the By-laws of the Corporation, the Directors, acting as a Board, have the fullest powers to regulate the concerns of the Corporation according to their best judgment.

The Board is responsible to promote and adhere to the principles and best practices of corporate governance, to foster long-term success of the Corporation and to ensure its sustained competitiveness in the global environment in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders.

To ensure good governance, the Board formulates and continuously reviews the Corporation's vision, mission, strategic objectives, policies and procedures that guide its activities, including the means to effectively monitor the management's performance. The Board reviews the vision and mission statement every year and oversees the implementation of the corporate strategy.

The Board also reviews and affirms the adequacy of internal controls and risk management practices, accuracy and reliability of financial reporting, and compliance with applicable laws and regulations, together with the implementation of the Company's Code of Ethics.

BOARD COMPOSITION

The Board is composed of eleven members who are elected by the Corporation's stockholders and shall hold office for one year until their successors are elected in the next annual stockholders' meeting. Among the board members are three independent non-executive directors.

The Corporation is committed to having a diverse Board with the members possessing varied ages, educational backgrounds, nationalities, work experience, expertise, and skills. The Corporate Governance and Nomination Committee encourage the selection of a mix of competent Directors ensuring that female candidates are included for consideration, each of whom can add value and independent judgment in the formulation of sound corporate strategies and policies. The Committee also uses professional search firms or other external sources of candidates to search for qualified candidates to the Board. The Board regularly reviews its composition, taking into account the evolving requirements of the corporation and best practices in corporate governance.

INDEPENDENT DIRECTORS

The Board currently includes three independent directors—Edgar O. Chua, Hiroshi Nishimura and Sherisa P. Nuesa.

Independent directors, apart from their fees and shareholdings, hold no interests or relationship with the Corporation that may hinder their independence from the Corporation, Management, or shareholder which could, or could reasonably perceived to, materially interfere with their exercise of independent judgment in carrying out their responsibilities as Director of the Corporation.

As of 2018, none of the independent directors have served the company for more than nine years, reckoning from 2012, in compliance with SEC Memorandum Circular No. 9, series of 2011.

LEAD INDEPENDENT DIRECTOR

Edgar O. Chua was appointed Lead Independent Director by the Board in its regular meeting held on August 16, 2017. His role includes, among others, acting as an intermediate between the Chairman of the Board and other Directors, if and when needed; to convene and chair the periodic meetings of the Non-Executive Directors with the external auditor and head of internal audit, compliance and risk, as maybe needed; and to contribute to the performance evaluation of the Chairman of the Board.

BOARD PERFORMANCE

Each year, the Board conducts a review to evaluate the performance of the Board, its Committees, and its individual members: to measure the effectiveness of the company's governance practices and identify areas for improvement and to adopt new methodologies towards further strengthening the company's corporate governance standards. Each director was requested to complete a self-assessment form which includes criteria such as: 1) structure of the Board, 2) shareholder benefits, 3) fulfillment of the Board's key responsibilities, 4) oversight functions, 5) effectiveness of the Board's processes and meetings, 6) quality of the Board-management relationship, 7) corporate ethics, and 8) performance evaluation. The results of the self-assessment survey were compiled by the Compliance Officer and were reported and discussed during the April 13, 2018 Board meeting immediately following the completion of the survey.

TRAINING OF DIRECTORS

Prior to assuming office, all new Directors shall undergo at the minimum an eight-hour orientation program on the Corporation's business and corporate structure, its vision, mission and corporate strategy, the By-Laws and Manual of Corporate Governance, Board

Charter, SEC-mandated topics on corporate governance and other relevant matters essential for the effective performance of their duties and responsibilities.

Directors shall likewise attend at least once a year, a four-hour annual continuing training program involving courses on corporate governance matters relevant to the Corporation.

Training and seminars were administered by either Institute of Corporate Directors, or SGV & Co., both accredited training providers of the SEC.

Corporate Governance Programs Attended in 2018

Director	Program	Training Institute	Date of Training
Jaime Augusto Zobel de Ayala (NED), Chairman Fernando Zobel de Ayala (NED) Delfin L. Lazaro (NED) Jose Teodoro K. Limcaoco (NED) Arthur R. Tan (ED), CEO Edgar O. Chua (ID) Jose Ignacio A. Carlos (NED) Sherisa P. Nuesa (ID) Hiroshi Nishimura (ID)	Advanced Corporate Governance Training	Institute of Corporate Directors	September 10, 2018
Rafael C. Romualdez (NED) Edgar O. Chua (ID)	Audit Committee and Chief Executive Forum	Institute of Corporate Directors	April 24, 2018

BOARD MEETINGS AND ATTENDANCE

All members of the Board, including independent directors, should attend and actively participate in all of the Board, Committee, and Shareholders in person or through tele/videoconferencing conducted in accordance with the rules and regulations of the Commission. The director should review meeting materials and, if called for, ask the necessary questions or seek clarifications and explanations.

The Board may, to promote transparency, require at least one independent director in all of its meetings. However, the absence of an independent director shall not affect the quorum requirement if he is duly notified of the meeting but notwithstanding such notice fails to attend.

The Board meet at least six times each calendar year. Two-thirds of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business. Non-executive directors have periodic meetings without any executive directors present to ensure proper checks and balances are in place within the Corporation.

Director	Meetings Attended	Meetings Held	Percent Present
Jaime Augusto Zobel de Ayala	6	6	100%
Fernando Zobel de Ayala	6	6	100%
Delfin L. Lazaro	6	6	100%
Arthur R. Tan	6	6	100%
Jose Ignacio A. Carlos	6	6	100%
Rafael C. Romualdez	6	6	100%
Jose Teodoro K. Limcaoco	5	6	83%
Gilles Bernard	4	6	67%
Hiroshi Nishimura	6	6	100%
Alelie T. Funcell*	1	1	100%
Sherisa P. Nuesa*	5	5	100%
Edgar O. Chua	6	6	100%

**Ms. Funcell was replaced by Ms. Nuesa on April 13, 2018*

BOARD REMUNERATION

In accordance with the company's by-laws, each director is entitled to receive from the Corporation fees and other compensation for his services as director. The Compensation Committee's duties and responsibilities as defined in its charter is to recommend to the Board remuneration package for directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Corporation's culture, strategy and control environment, and aligned with the long-term interests of the company and its stakeholders.

In no case shall the total yearly compensation of directors exceed five percent of the net income before income tax of the Corporation during the preceding year.

Non-executive and independent directors receive a per diem of ₱100,000 for each Board meeting attended and a per diem of ₱20,000 for each Committee meeting attended.

In 2018, the following directors receive gross remuneration as follows:

Director	Gross Remuneration (In PhP)
Jaime Augusto Zobel de Ayala	600,000
Fernando Zobel de Ayala	600,000
Delfin L. Lazaro	640,000
Jose Ignacio A. Carlos	620,000
Rafael C. Romualdez	760,000
Jose Teodoro K. Limcaoco	580,000
Hiroshi Nishimura	660,000
Alelie T. Funcell	120,000
Sherisa P. Nuesa	500,000
Edgar O. Chua	700,000
TOTAL	**Php5,780,000**

None of the non-executive directors and independent directors have been contracted and compensated by the Company for services other than those provided as a director.

As executive directors, Arthur R. Tan and Gilles Bernard do not receive remuneration for attending Board meetings.

BOARD COMMITTEES

The Board created seven committees as it may deem necessary to support in the performance of its functions in accordance with the By-Laws, Manual of Corporate Governance, and Board Charter of the Corporation and to aid in good governance. The Board has delegated specific responsibilities to each of these Committees and these Committees had been formed and are guided by their respective committee charters which are available in the Corporation's official website.

CORPORATE GOVERNANCE AND NOMINATION COMMITTEE

The Committee shall review and monitor the structure, size, and composition of the Board and make recommendations to ensure compliance with applicable laws, rules and regulations as well as the Corporation's By-Laws and the Manual of Corporate Governance. The Committee also installs and maintains a process to ensure that all Directors to be nominated have the qualifications and none of the disqualifications as stated in the Company's Corporate Governance Manual. The Committee encourages the mix of competent Directors, reviews the succession plans for members of the Board and senior executives, oversees the implementation of the corporate governance framework and the periodic performance evaluation of the Board and its committees as well as executive management, and other functions as stated in its charter which is available in the company's website.

FINANCE COMMITTEE

The Finance Committee oversees our financial risk management, including risk related to capital structure, acquisitions, divestments, treasury activities, tax strategy and compliance. They are responsible for reviewing and evaluating the financial affairs of the Corporation from time to time and carry out such other duties as may be delegated by the Board of Directors.

COMPENSATION COMMITTEE

The Compensation Committee is responsible for establishing a formal and transparent procedure for the development of a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and providing oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Corporation's culture, strategy, and control environment; and is aligned with the long-term interest of the company and its stakeholders, while remaining competitive against the market.

EXECUTIVE COMMITTEE

The Executive Committee, in accordance with the authority granted by the Board, or during the absence of the Board, shall act by majority vote of all its members on such specific matters within the competence of the Board of Directors as may from time to time be delegated to the Executive Committee in accordance with the Corporation's By-Laws, subject to the limitations provided by the Corporation Code.

RELATED PARTY TRANSACTION COMMITTEE

The Committee was assigned by the Board to review all material RPTs for endorsement to the Board to ensure that these are at arm's length, the terms are fair, and they will insure to the best interest of the company and its subsidiaries or affiliates and their shareholders. They shall ensure that related party transactions are disclosed, reviewed, and approved in accordance with its policy consistent with the principles of transparency and fairness.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee oversees matters relating to the financial statements and financial reporting process, external auditors, internal auditors, internal control, and compliance with applicable legal and regulatory requirements. Develops and oversees the implementation of a formal enterprise risk management plan which contains the following elements: (a) common language or register of risks, (b) well-defined risk management goals, objectives, and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes, and measures. Complete details of its functions and responsibilities can be found in the company's website.

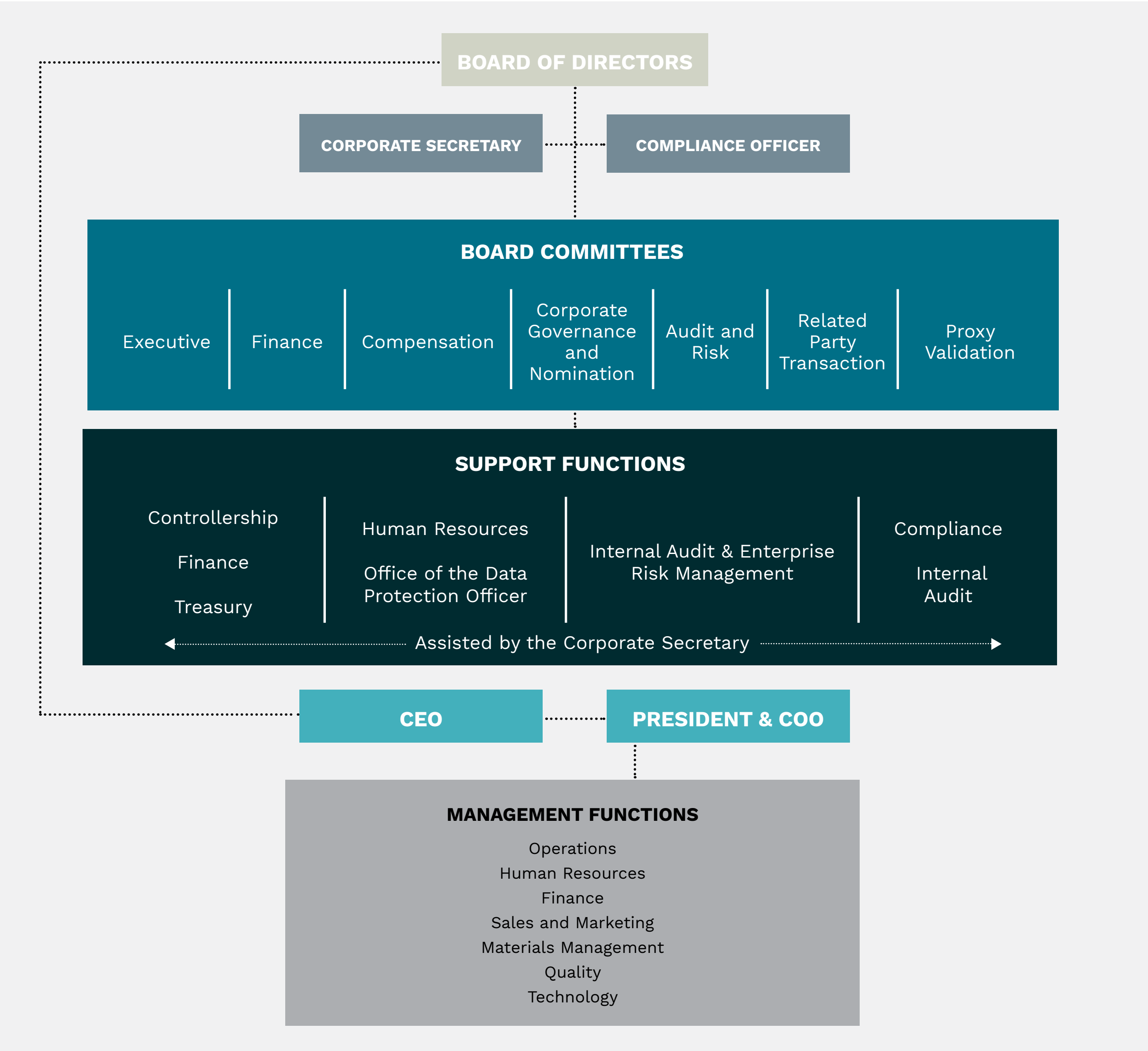
PROXY VALIDATION COMMITTEE

The Committee is responsible for ensuring that the validating process of the proxies and ballots is transparent, fair and in accordance with applicable laws, regulations and company policies.

Board Committee Members and Meeting Attendance

Board Committee	Director	Designation	No. of Meetings Attended/Held	% Present
Finance	Delfin L. Lazaro	Chairman (NED)	2/4	50%
	Jose Teodoro K. Limcaoco	Member (NED)	4/4	100%
	Rafael C. Romualdez	Member (NED)	4/4	100%
Compensation	Alelie T. Funcell	Chairman (ID)	1/1	100%
	Gilles Bernard	Member (ED)	1/1	100%
	Delfin L. Lazaro	Member (NED)	1/1	100%
Corporate Governance and Nomination	Alelie T. Funcell	Chairman (ID)	1/1	100%
	Edgar O. Chua	Member (ID)	1/1	100%
	Jose Ignacio A. Carlos	Member (NED)	1/1	100%
Audit and Risk	Edgar O. Chua	Chairman (ID)	4/4	100%
	Hiroshi Nishimura	Member (ID)	3/4	75%
	Rafael C. Romualdez	Member (NED)	4/4	100%
Proxy Validation	Solomon M. Hermosura*	Chairman	2/2	100%
	Jaime G. Sanchez*	Member	2/2	100%
	Neilson C. Esguerra*	Member	2/2	100%

**May not be members of the Board of Directors*



DISCLOSURE AND TRANSPARENCY

IMI is fully committed in ensuring that timely and accurate disclosure is made on all material matters regarding the Corporation, including financial information, performance, ownership, and governance of the Company.

a. Transparent Ownership

Name of Shareholder and Beneficial Owner	Total Share Outstanding*	% to Total Share
AC Industrial Technology Holdings, Inc.	1,153,725,046	52.03%
Resins, Inc.	291,785,034	13.16%
Shares owned by the Public	679,107,504	30.63%
AC, ESOWN, Directors and Officers	92,675,631	4.18%
TOTAL	**2,217,293,215**	**100.00%**

**Based on the Public Ownership Report as of December 31, 2018*

b. Directors' and Reportable Officers' Dealings in Company Shares

	Number of Shares				
	Security	As of Dec. 31, 2017	Acquired	Disposed of	As of Dec. 31, 2018
DIRECTORS					
Jaime Augusto Zobel de Ayala	Direct	100	-	-	100
Fernando Zobel de Ayala	Direct	100	-	-	100
Arthur R. Tan	Direct	1,955,452	-	-	1,955,452
	Indirect	18,218,100	1,050,000	-	19,268,100
Jose Teodoro K. Limcaoco	Direct	100	-	-	100
Edgar O. Chua	Direct	100	-	-	100
Sherisa P. Nuesa	Direct	112,807	-	-	112,807
	Indirect	890,578	-	-	890,578
Jose Ignacio A. Carlos	Direct	1	-	-	1
Delfin L. Lazaro	Direct	100	-	-	100
Rafael C. Romualdez	Direct	1	-	-	1
Hiroshi Nishimura	Direct	15	-	-	115
	Indirect	600,000	112,463	-	712,463
Gilles Bernard	Direct	100	-	-	100
	Indirect	1,280,475	-	-	1,280,475
OFFICERS					
Jerome S. Tan	Indirect	3,241,033	540,000	(750,000)	3,031,033
Linardo Z. Lopez	Indirect	379,265	694,343	(137,340)	936,268
Jaime G. Sanchez	Direct	82,891	-	(70,000)	12,891
	Indirect	10,004	140,395	-	150,399
Solomon M. Hermosura	Indirect	15	-	-	15
Joanne M. Lim	Direct	-	-	-	-
TOTAL		**26,771,337**	**2,537,201**	**(957,340)**	**28,351,198**

c. Disclosure of Related Party Transactions (RPT)

The Company discloses the names of all related parties, degree of relationship, nature and value of significant RPT. Details are found in Note 31 to the Consolidated Financial Statements.

d. External Auditor and Auditor Report

The external auditor of the Company is the auditing firm of SyCip Gorres Velayo & Co. (SGV) with Mr. Carlo Paulo V. Manalang as the Partner-in-Charge for the 2018 audit year.

Audit and Audit-related fees:

The aggregate fees billed for the current year and each of the last two years for professional services rendered by SGV & Co.:

	In Php Millions		
	2018	2017	2016
Audit and Audit-related fees*	4.50	9.55	3.70
Tax Fees	0.30	-	1.35
All other fees**	0.17	3.27	0.72
TOTAL	**4.97**	**12.82**	**5.77**

**Audit and Audit-Related Fees. This category includes the audit of annual financial statements, review of interim financial statements in 2017, and services that are normally provided by the independent auditor in connection with statutory and regulatory filings or engagements for those calendar years. This is exclusive of out-of-pocket expenses incidental to the independent auditors' work.*

***All Other Fees. This category includes other services rendered by SGV & Co. such as financial and accounting advisory, financial reporting valuation reviews, assessment of compliance with the Data Privacy Act, and tax advisory.*

e. Medium of Communications

Quarterly Reports

The Company submits its quarterly and full year financial results to SEC and PSE to provide shareholders, the investors, and the public a timely and accurate information of its performance during the period.

Analysts Briefings

Quarterly after the release of financial results, the CEO, CFO, and the Investor Relations Officer conduct a briefing for both media and credit analysts. A teleconference facility is also provided for those who are unable to attend in person.

Presentation materials used in the briefings are posted in the Company's official website.
https://www.global-imi.com/investors

Conference Calls

We engage investors and analysts through one-on-one conference calls about 2-3 times a month. This is to answer their general queries pertaining to the Company and its performance.

Roadshows

We conduct regional roadshows about twice or thrice a year to engage analysts and potential investors face to face. This is often a good opportunity to introduce our company and to show our role in the industry. The activity opens doors for prospective institutional investors in a given region.

Media Interviews

We entertain and allow local and international media for scheduled interviews either live (face to face), by phone, by email, or by conference call. Usually a short press conference is conducted after a major event such as the Annual Stockholders' Meeting. This is to make sure there is consistency in the messaging that will come out from their respective outfits.

Annual Stockholders' Meeting

This is normally held in the premises of our headquarters once a year. It is attended by all board of directors of IMI and major stockholders. Jaime Augusto Zobel de Ayala (JAZA) presides over the proceedings as Chairman of the board of directors.

Tours and Company Visits

Analysts and investors schedule company visits to know more about the Company and see the manufacturing facilities at headquarters (in Laguna Technopark Biñan).

Official Website

The Company's official website provides information on its compliance to Corporate Governance, matters related to the Board, and investor relations program.
www.global-imi.com

ENTERPRISE RISK MANAGEMENT

RISK MANAGEMENT POLICY

IMI crafted its Enterprise Risk Management (ERM) Policy to guide the overall intentions and directions of the Company's risk management processes and practices, to define a common approach that will govern the risk management process, to describe the roles and responsibilities of the Board, the management, the Chief Risk Officer, and all its employees, and to integrate risk management into IMI's overall and existing management systems.

RISK MANAGEMENT FRAMEWORK

The Company's commitment to integrity, transparency, and good governance involves the strengthening of its risk management framework and internal control systems for a resilient and sustainable operations. These are embodied in IMI's management oversight, and control culture and activities that help identify, evaluate, mitigate, and monitor key risk exposures. IMI endeavors to ensure adequacy and effectiveness of its risk management and internal controls by considering the Company's size, risk profile, and complexity/diversity of operations.

IMI developed an ERM intranet site which serves as a key channel for communicating risk management programs and initiatives across global operations. In addition, the risk management process from identification, analysis, evaluation, and assessment is also carried out through this web-based and secured online platform. To flag management of critical risks and their implications, a risk heat map is consequently embedded in the platform.

RISK REPORTING

IMI has well-defined reporting lines that set out accountability and ownership across operations. The Chief Risk Officer ensures that regular internal reporting on the implementation of the ERM framework, its effectiveness and outcomes are accomplished.

The Audit and Risk Committee ensures that the company has an effective risk management framework and internal control systems. The Committee also discusses critical risks, their nature, likelihood and impact, and the management's risk mitigation efforts and initiatives on a regular basis.

The Chief Risk Officer reports to the Committee and is being supported by the ERM leader who communicates with site risk owners and appointed risk leads on the programs, activities, and initiatives that will strengthen the risk management framework.

RISK MATURITY

In 2018, Ayala Corporation spearheaded a groupwide risk management maturity assessment as part of its commitment to continuously improve the risk management process across the group. Ayala Corporation engaged AON Risk Solutions for the second time, the first round was completed in 2015. As per best practice, the assessment of the maturity of the risk management process should be performed every two to three years. The AON Risk Maturity Index is designed to capture and assess an organization's risk management practices and provide participants with immediate feedback in the form of Risk Maturity rating and actionable steps for improvement. AON has partnered with the Wharton School of the University of Pennsylvania to develop the index and conduct joint research on the relationships between risk management practices and actual performance. Through this study, the Ayala group evaluated the effectiveness of the improvements implemented since 2015.

A workshop was conducted where IMI executive managers participated and responded to a set of structured questionnaires related to key components of risk management based upon the characteristics of advanced risk maturity which can be used to identify potential areas and priorities for improvement. The risk maturity index includes a variety of questions concerning risk management practices, corporate governance, and management decision processes.

LEVEL OF RISK MATURITY

There is a clear understanding of the organization's key risks and also a consistent execution of activities to address these risks; some functional areas may employ more sophisticated techniques.

5 ADVANCED

4 OPERATIONAL

3 DEFINED

2 BASIC

1 INITIAL

The assessment resulted to a rating of 4 equivalent to an "Operational" level of Risk Maturity. This means that there's a clear understanding of the organization's key risks and a consistent execution of activities to manage these risks. Some functional areas employ more sophisticated techniques. At this risk maturity rating:

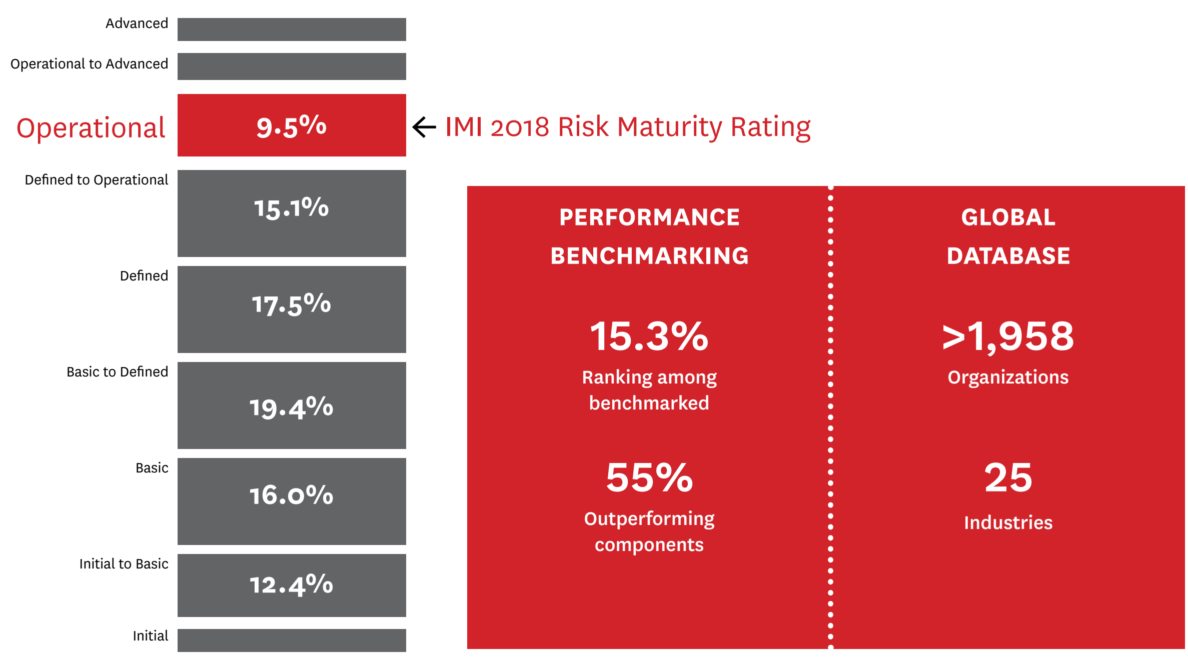
- A set of loss and tolerance guidelines are predetermined or developing
- Explicit consideration of risk and risk management information is taken in key decisions
- Analysis is consistently applied, incorporating both qualitative and quantitative techniques

Most organizations at this level of maturity exhibits the following:

- Developed capabilities to identify, assess, and prioritize risks across the organization
- Developing capabilities to analyze risk consistently, using qualitative and quantitative techniques
- Developing set of loss and tolerance guidelines for key risks
- Developed capabilities for monitoring existing risk exposure across the organization
- Explicit consideration of risk and risk management information in decision making

In addition, the report benchmarked IMI with approximately 2000 organizations across 25 industries in AON's global database. Based on its rating, IMI is in the top 15.3 percent and outperforming in more than half of the Risk Maturity Index components.

AON GLOBAL RISK MATURITY INDEX



2018 KEY RISKS

As part of the organization's risk management process, we do annual assessment of the key risks that the company faces and strategize action plans to mitigate such risks:

Operational Risk – Sourcing and Procurement

We acknowledge that the organization is currently facing issues on global components shortage. This translates to risks in sourcing alternative parts on a timely manner due to existing source's limitations which can compromise the company's commitments and risks in ensuring the availability of required quantity of materials to meet customer demands. To mitigate the risks, IMI continues to monitor treatment plans for sourcing parts through close coordination with suppliers to minimize unfavorable impacts. The company also monitors sufficient allocation from suppliers to be able to meet the demands of our customers.

Operational Risk – Product and Service Quality

The organization is also prone to risks of building products with frequent changes in customer specifications which cause undefined suitable processes and methods relative to product and functional safety. This could result to inefficient process designs and customer feedbacks and complaints. To ensure the continuity of operations and serve customer requirements, IMI constantly finds ways to provide quality product and guarantee adherence to product safety standards. Considering the increasing number of automotive customers, we ensure compliance to stringent product quality requirements.

Business Resiliency Risk – Business Interruption

The organization normally encounters impediments in the business in the event of fortuitous disasters or disruptions due to physical or natural circumstances. It is imperative for the organization to undertake appropriate advanced planning related to critical processes to ensure ability to recover and maintain business operations, hence, we develop business continuity plans to alleviate such risks.

Operational Risk - Technology

The rise of disruptive technologies compels the company to adjust with the new product technologies and would normally require competencies that IMI does not traditionally possess. To adapt to these changes, the company enters into a business model where the company engages in co-design and co-engineering with the customers to cope with the trend and produce reliable products.

Information Security and Cyber Risk

Unauthorized access, use, disclosure, disruption, modification, perusal inspection, recording or destruction, theft, viruses, and sabotage on critical data and infrastructure are important risk factors that the company needs to keep an eye on. In this regard, we ensure strong and adequate information security controls to safeguard confidentiality, integrity, and loss of our critical information. The company also complies with the Data Privacy Act to protect all forms of information that are personal, private, or privileged.

BUSINESS **OVERVIEW**

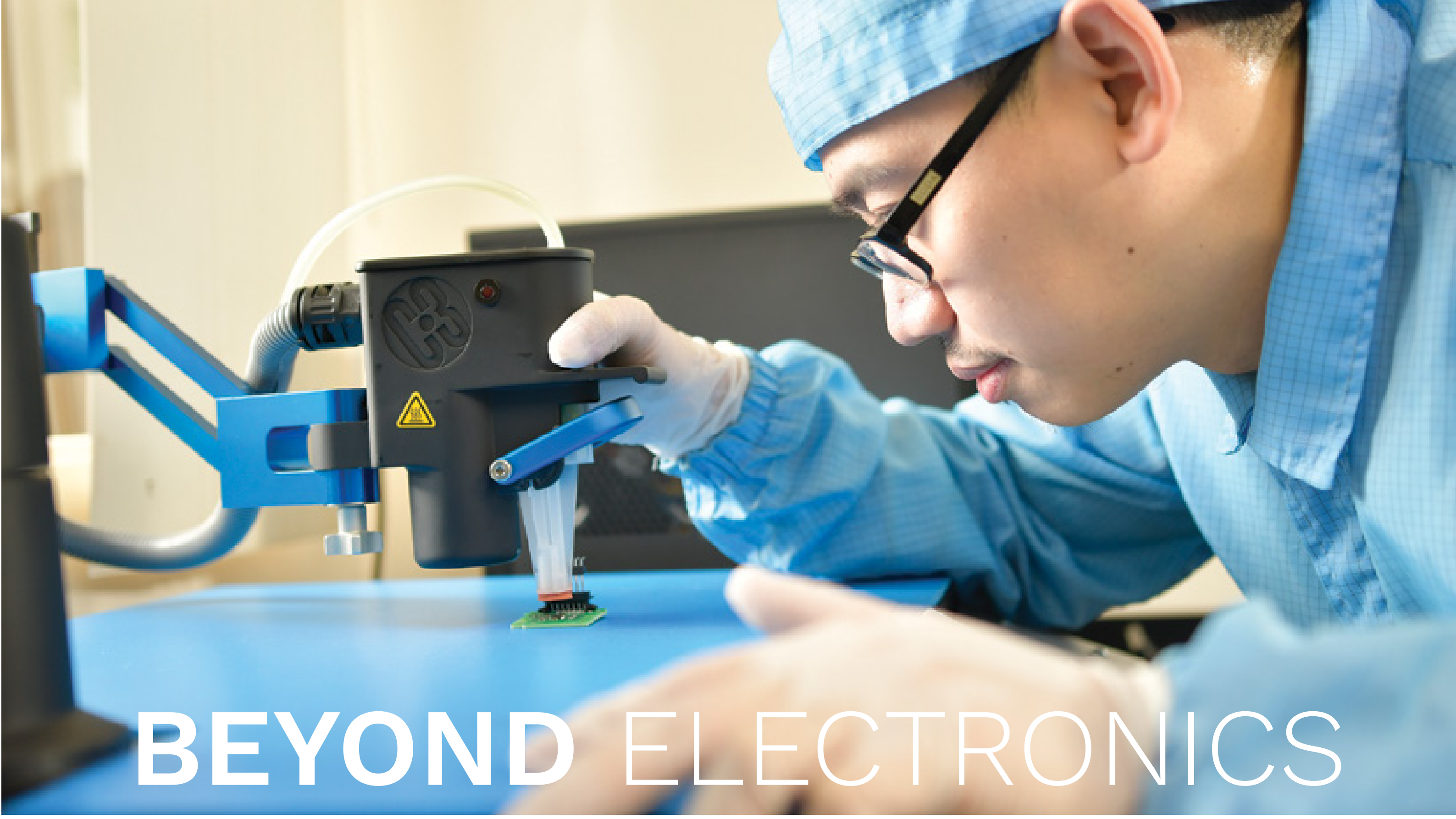
A challenging but exciting year at IMI | **Page 47**

Designing and manufacturing next generation of automotive camera systems | **Page 54**

Gaining wider expertise in RF connectivity solutions | **Page 56**

The increasing use of renewable energy | **Page 58**

REPORT FROM THE **PRESIDENT**



BEYOND ELECTRONICS

2018 was a challenging yet an exciting year for IMI. Despite the headwinds in electronics manufacturing, IMI reported a strong revenue growth of 24 percent year-on-year, reaching consolidated revenues of US$1.35 billion (₱70.81 billion). Although this growth was coupled with lower margins if favorable non-operating gains were excluded, the company still managed to perform amidst a tough macro-economic environment, ending the year with a net income of US$45.5 million (₱2.39 billion), 34 percent higher than the prior year.

For the second consecutive year, we were named fifth largest automotive electronics manufacturing services (EMS) company globally based on New Venture Research ranking. From US$446.5 million in 2017, our revenues in the automotive segment rose to US$541.9 million, a 21 percent increase year-on-year. Drivers for the increase include the uptake of more electronics in the car via advanced driver assistance systems (ADAS), body electronics, lighting, power management, safety systems, and infotainment.

For the past three years, we expanded our reach in Europe and Asia which we believe will reap positive benefits and develop a competitive edge in the global market.

We opened our 21st production facility in southeastern Europe, IMI Niš (Serbia), offering significant growth potential that will support the growing market for automotive components in Europe. The factory is located near a university and will be strategic to address future manpower needs i.e. mechanical, electronics, and software

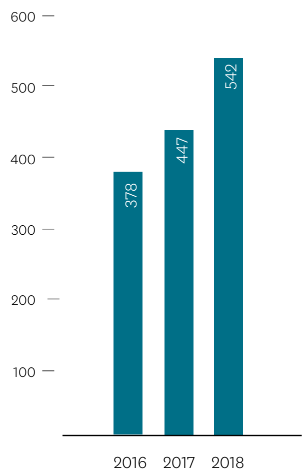
$320M

VALUE OF CORE PROJECT AWARDS

4.6/5

CUSTOMER SATISFACTION RATING

REVENUES FROM AUTOMOTIVE SEGMENT (in US$ millions)



engineers. Not only will the new production site boost our global manufacturing footprint and complement, it will also complement our production hubs in the Philippines, Bulgaria, China, Czech Republic, Germany, Mexico, the US and United Kingdom.

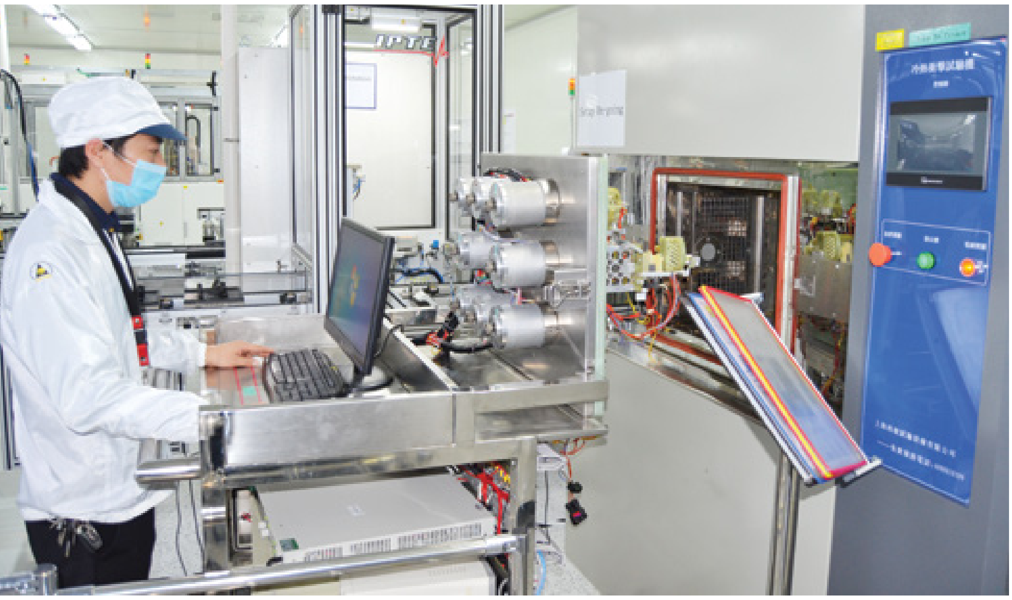
Consistent with our strategy to focus on industries undergoing disruptive changes, we formed a joint venture company in Japan under our subsidiary VIA Optronics. VTS Touchsensor will serve the market for copper-based metal mesh touch sensors which will strengthen our portfolio of differentiated and value-added sensor technology for touch panels, touch-display modules, display head assemblies, and interactive display systems across multiple markets and segments.

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. Approximately 70 percent of these were spent for new businesses and expansion projects. The upgrade ensures that we are up-to-date with new standards for safety in the automotive industry and is a testament to the strong foundation that positions the group for long-term growth. Indeed, Industry 4.0 is already a reality at IMI.

MANAGING SUPPLY CHAIN RISKS

One of the major challenges in 2018 involved the shortage of certain component materials. The rapid evolution of automotive and industrial segments strained the supply-side of critical electronic components which, in turn, created pressure in constrained markets. The shortage in these components caused high material prices, backlogs, and extra logistics costs raising the total cost of manufacturing. Industry analysts believe that the strain in supply will ease in 2019 and will gradually normalize prices and activities.

IMI's Global Procurement team addresses the current shortage issue through close coordination with suppliers, allowing us to cushion and sometimes reverse the negative effects. The team leverages relationships with the key suppliers to minimize unfavorable impacts and negotiate better terms. The group also monitors sufficient allocation for the company and recommends a rapid scale up in production if needed. These initiatives ensure that potential losses can be mitigated by cost negotiation effort programs driven by the group.



BUILDING RELATIONSHIPS WITH CUSTOMERS

Often recognized for our excellent quality and performance, we have worked with many customers globally to share best practices and learn from their experiences. This collaboration has helped us create co-working environments with our existing and new customers that led faster and broadened growth opportunities.

Our core business pipeline further progressed with US$320 million new project awards, 72 percent of which are for automotive applications and 19 percent for the industrial segment.

Our newly-acquired business, STI Enterprises, Ltd. closed its 2018 pipeline with a billion pounds potential new business, with £25.6million (US$33.2 million) major projects closed as of 2018, further strengthening our industrial and mil-aero capabilities.

During the year, VIA Optronics Inc., began to transition from a consumer-heavy portfolio, towards a more balanced portfolio with industrial and automotive segments. It received its first business award for metal mesh touch solution in automotive dual display bonding in an EV project in China. We believe that as automotive Tier 1 suppliers start recognizing the technology and capability of VIA Optronics, the company will soon establish a formidable reputation in the displays segment.

DRIVING EFFICIENCY AND PRODUCTIVITY

With the need for continuous improvement, IMI is fully engaged to drive towards optimization and efficiency of our operations. Strengthened with experience over the many years, IMI is able to find and establish solutions that not only improve the overall quality of the product but also the quality of our people.

The consistent alignment and calibration among our 21 manufacturing plants on various areas—culture, performance appraisals, job descriptions, risk analysis and the like—allow us to immediately address issues, provide answers to questions from customers, generate competitive prices, and share and learn from experiences in real time.

The results have been great. On a global level, we have significantly improved key performance indicators in terms of quality, efficiency, overall equipment effectiveness, and on time delivery. More stringent process controls resulted to a decrease in customer complaints by 20 percent. We have more lean manufacturing programs and more automated processes improved overall equipment effectiveness (OEE), to name a few.

Despite global material shortage, we improved our product delivery performance through strategies developed among Supply Chain and Program Management and customers through issuance of advance forecasts, supplier managed inventory programs, and selective buffering on critical material.

PSi had solid gains in 2018 as operations in both Taguig and Calamba plants were consolidated. This resulted in a positive bottom line, a milestone for our power semiconductor packaging group since its acquisition in 2010.

Bulgaria and China factories saw improved capacity and space utilizations which triggered further expansions and additional capacity for potential businesses.

We also improved our capacity and space utilizations in our Bulgaria and China factories. A few of the existing loads were moved from Bulgaria with the Serbia opening while adopting automation processes. IMI China teamed up with Global Industrial Excellence team and rolled out LEAN programs across the site further improving efficiency.

Overall, these developments triggered further expansions and additional capacity for potential businesses.

VIA Optronics benefited from streamlined operations and improved output and quality as we merged our production facility in Morsdorf to our plant in Nuremberg.

MAKING THINGS WORK: ENGINEERING, DESIGN, AND DEVELOPMENT

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.

Our Test and Systems Development group continued their thrust to innovate for sustainability. They rolled out over 60 new innovative customized test solutions in 2018 for our 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 we manufacture for our OEMs and Tier 1 customers.

Also in 2018, our Analytical Testing and Calibration (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. We take pride in our much-improved complete test capabilities and expertise in handling contamination issues using the Ion Chromatography with Critical Cleanliness Control C3 system.

Our global Automation Back End 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. Eighty percent of the group's automation projects focused on automotive product assemblies including processes such as final assembly, sub-assemblies, functional test, and packaging.

ENSURING QUALITY

As part of our global plan to move the organization towards the new International Automotive Task Force (IATF) standard and expectations, our Quality group ensured full compliance with the latest version of ISO 9001 and IATF 16949. This resulted to a 100 percent IATF 16949 Certified Status within the prescribed transition audit period for most of our global sites—Philippines, China, Bulgaria, Czech Republic, and Mexico.

Projects involving Continuous Supplier Development were also pushed in 2018 that helped empower our suppliers on methodology and analysis tools to effectively analyze performance gaps and submit reports, while aligning with the required format. We also provided free technical training to suppliers, such as 8D analysis, SPC, risk management, among others.

Into systems improvement projects, we created an automated complaint management tool that allows easy tracking and monitoring of complaints as well as CIT Online Registration Monitoring System (CITORMS) database—a real time monitoring of project status and actual count of registered CIT projects including the availability of participation is now available for both our Philippine and China sites.

Design & Development department reached the level 3 of the automotive space standard and safety ASIL B, that allows more complex design collaborations with customers in hardware and software.

OUR HUMAN RESOURCES, OUR REAL ASSETS

We remain committed to our real assets—our people. And keeping them engaged and energized will remain our priority.

2018 was a year of achievement. IMI was named the Employer of the Year from the Asia CEO Awards. The recognition is an affirmation of our continuing commitment to a holistic development of our human capital globally. We also received a 94 percent engagement rating in the most recent Engage Ayala Survey which is another testament to our human resource group's commitment to uplift the welfare of our people in terms of talent development, skills building, succession planning, and volunteerism programs.

"On a much larger scale, we at IMI are committed to the UN Sustainable Development Goal #8—promoting an inclusive and sustainable economic growth, full and productive employment and decent work for all."

Our key programs equip our employees to be vital partners and collaborators in achieving our mission and vision, where they can thrive in their various roles and responsibilities.

In 2018, IMI University conducted a total of 182 training programs completing 63,698 of training man-hours. We have increased the number of certified Subject Matter Experts to a total of 120 individuals with different areas of expertise. We continued to provide assistance to our people through the Expanded Tertiary Education Equivalency and Accreditation Program (ETEEAP) of the Commission on Higher Education (CHED), which recently conferred engineering degrees to 17 IMI employees (PH), four of the 17 were promoted.

IMI scholarship grants were awarded to six qualified employees who underwent thorough screening process in partnership with University of Batangas.

As part of our Upskilling Program for Engineers in partnership with external consultants, 52 of our employees completed the course on Statistical Boot Camp.

MAKING TASKS EFFICIENT AND GREEN

To sustain our momentum, our Information and Communications Technology (ICT) group continued to live up to its commitment to provide a secured environment to enable employees and stakeholders to effectively communicate and remain safe from any interference or threat. Our security awareness program equips our employees with the right mindset and behavior to lessen risks of malicious attacks. Towards efficiency, we have automated various internal applications and provided faster technical support while encouraging our employees to be more effective and efficient at work.

Last year, we have started to develop our manufacturing structure to begin alignment with Industry 4.0. In August 2018, we implemented an information security online training program comprising a total of seven training modules. We also conducted a series of ICT trainings, continued to secure email exchanges, and ensured SAP table replication.

Our Enterprise Resource Planning (ERP) system was implemented to two additional factories—PSI and IMI Serbia. We were also successful in the rollout of SAP SE, a German-based European multinational software company, at IMI Serbia, to align with the ERP system of the group.

As is our tradition, we had a continuous assessment of how and what we use as inputs and outputs of our business. We know that everything we do will have impacts in the environment for generations. In IMI Philippines for instance, we manage, control, and trace our production waste to reduce our carbon footprint. Ninety eight percent of total waste was recycled, recovered and diverted from landfill. With this standard, we are now beginning to deploy the same systems to our other sites worldwide.

OUR CLEAR RESOLVE

Having a clear understanding and insight into our customers' biggest challenges and opportunities, IMI continues to invest in total quality while keeping close track of our core competencies. On a much larger scale, we in IMI are committed to the UN Sustainable Development Goal #8—promoting a sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all.

We see a strong and unbreakable link and interdependence among our physical assets and our intangibles such as our culture, the quality of our work, our soft skills, our leadership, and our innovation. Our true value emanates from our people, who operate, collaborate, and work together beyond cultural and religious borders. This translates to synergy—that is more than the sum of our parts put together.

With all these in our minds and hearts, we are all one in our resolve. IMI is future-ready.

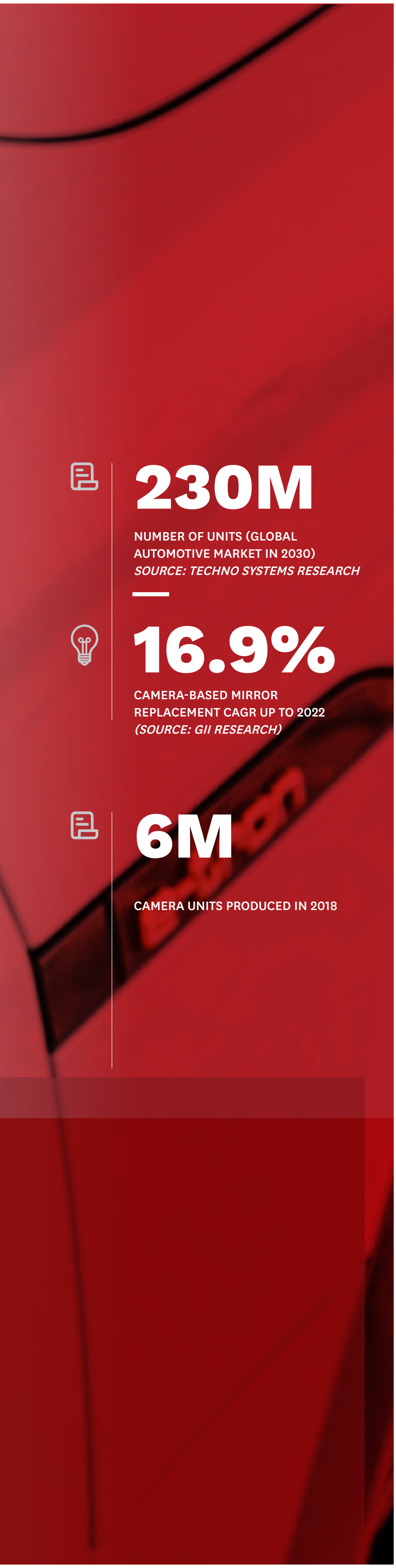
GILLES BERNARD

PRESIDENT AND
CHIEF OPERATING OFFICER

BUSINESS OVERVIEW

Mobility

At IMI, we design and manufacture next-generation automotive camera systems, displays, ADAS controllers, sensors, steering modules, and telematics.



230M

NUMBER OF UNITS (GLOBAL AUTOMOTIVE MARKET IN 2030)
SOURCE: TECHNO SYSTEMS RESEARCH

16.9%

CAMERA-BASED MIRROR REPLACEMENT CAGR UP TO 2022
(SOURCE: GII RESEARCH)

6M

CAMERA UNITS PRODUCED IN 2018

The global trends on advanced driver-assistance systems (ADAS) continue to move our way. Our 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, we continue 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.

We 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, our 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, we 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, we 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.

BUSINESS OVERVIEW

Connectivity

Touch displays, wireless trackers, communication systems, and biometric scanners are among the many technologies IMI designs and develops in the connectivity space.

$1T

IOT SPENDING BY 2022
(*SOURCE: IDC*)

$520B

IOT MARKET TO DOUBLE BY 2021
(*SOURCE: BAIN & COMPANY*)

$206B

GLOBAL DISPLAY MARKET BY 2025
(*SOURCE: ALLIED RESEARCH*)

22%

CONNECTED LOGISTICS CAGR 2018-2024 (*SOURCE: RESEARCH AND MARKETS*)

The pervasiveness of the Internet-of-Things brought more than 20 billion devices connected by the end of 2018. It is estimated that this figure can reach 50 billion by 2030.

IMI continues to be 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. We continue to collaborate and co-develop with customers in providing IoT solutions through our expertise in advanced manufacturing and engineering and prototyping.

The Design and Development (D&D) group continues to lead in strengthening our capabilities in this space. We 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.

On the hardware side, IMI is looking to further gain wider expertise in Radio Frequency connectivity solutions through partnering and collaborative efforts with other experts in the academe, government or our customers, and suppliers.

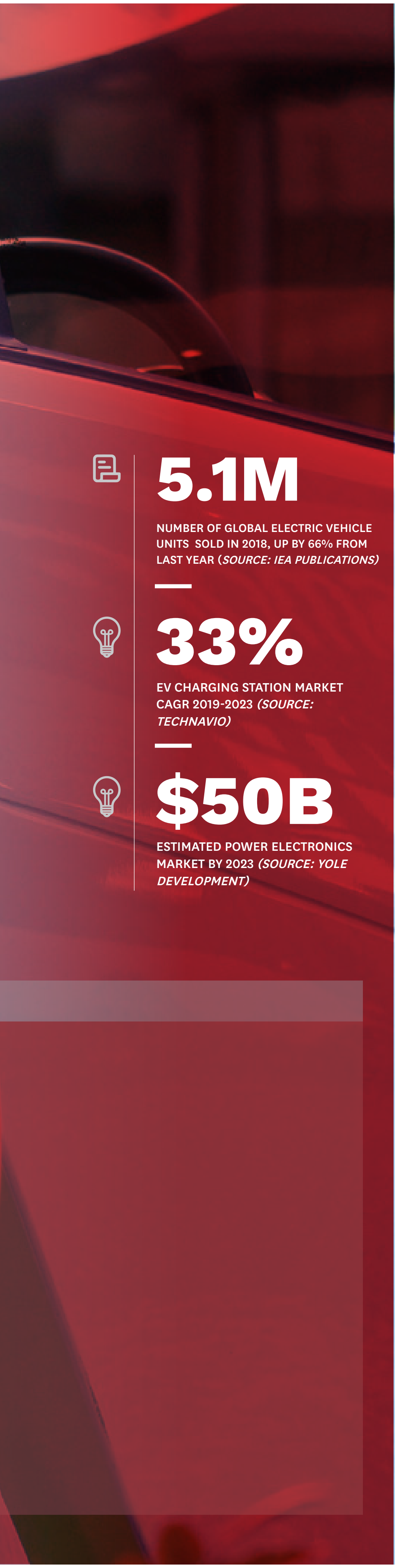
For software, we will extend our capabilities beyond the lower layers such as device drivers and network connectivity by including more value-added services i.e. cloud infra, big data, harvest and analysis.

We aim to accommodate more IoT opportunities in the pipeline that will enhance our current capabilities.

BUSINESS OVERVIEW

Smart Energy

IMI continues to thrive in the production of various electronic systems that manage and control power in automotive and industrial markets.



The rising use of renewable green energy has hastened the proliferation of electric vehicles (EV), LED lighting, inverters, and next generation materials and packaging in power electronics. China remains to be the leader in EV manufacturing with more than half of market share. This trend brought about rapid expansions of our power module line in the Philippines. To support this growth, we continue to develop processes and test systems to enhance our offerings and add more value to the business.

We introduced our 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.

We 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. We 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 Chengdu manufactures the EV charging modules for a comprehensive solutions provider in China with the largest installation of charging points covering 80 percent of major cities with expansion plans in Europe. The same factory is also venturing in a new in-vehicle power management system called on-board charger that will start development in 2019.

ROAD TO **SUSTAINABILITY**

Safeguarding our natural capital | **Page 62**

Fortifying our human capital | **Page 64**

Qualifying key suppliers | **Page 67**

Outreach beyond borders
| Page 68

A culture of community
| Page 70

SAFEGUARDING OUR **NATURAL CAPITAL**

OUR INITIATIVES

- Standardized Energy Efficiency Program (EEP) across regional sites/ Best practices and emergency efficiency programs from the Philippine site
- Reduction of kilowatt/ cubic feet minute compressors (CFM) for compressed dry air system to be retrofitting efficient element units
- Retrofit Variable Speed Drive (VSD) and air dropped temperature circulation for major AC support system equipment yielding 10,000 kw/h
- Converted and retrofitted the obsolete Environmental Controls to updated set-up to increase reliability
- Introduction to Site Facility Risk Assessment

We continue our resolve to find opportunities to measure our impact in the environment, recognizing that environmental responsibility is integral to producing world-class products.

All our manufacturing sites across continents adapt an international management systems standards on environmental management systems through ISO 14001.

In 2018, we started the data gathering of the sustainability metrics in all IMI sites. Along with the support of our stakeholders, we continue our first steps to sustainable growth and development as one of our priorities, aware that our path to sustainability is a long-term journey.

ENERGY

Use of LED lightings, reduction of operating hours on cooling tower, installation of duct links on air conditioning, optimization of operating hours of selected compressed dry air equipment

WATER

Optimization of de-ionized water system operations, re-use of treated water and recovery of excess water

WASTE

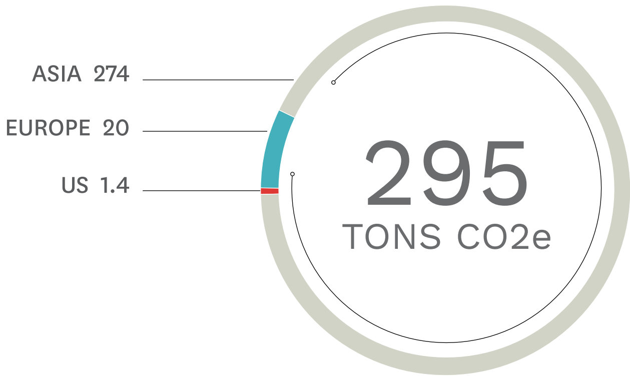
Reduce-reuse-recycle program in disposing of chemicals; assurance of proper disposal through accredited haulers, treaters, and recyclers

MONITORING

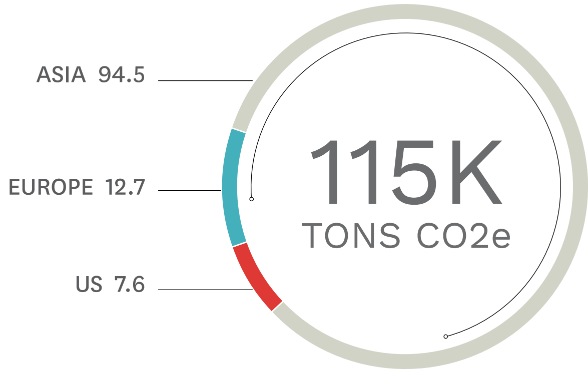
Regular emission testing and monitoring of air pollutants is conducted continuously

GREENHOUSE GAS EMISSION (GHG) IN TONNES CO2e (EXCLUDING GERMANY)

Scope 1. GHG Direct emissions–fuel consumption of company-owned vehicles and generator sets



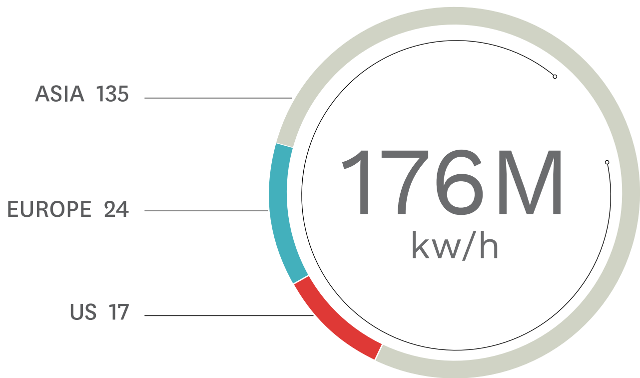
Scope 2. GHG Indirect emissions–calculated from electricity consumption



ENERGY CONSUMPTION

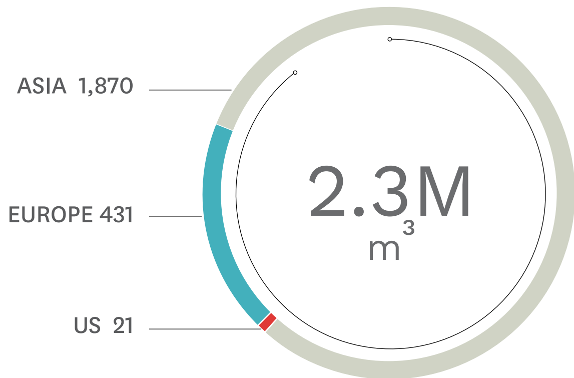
ELECTRICITY (million kw/h)

EXCLUDING GERMANY



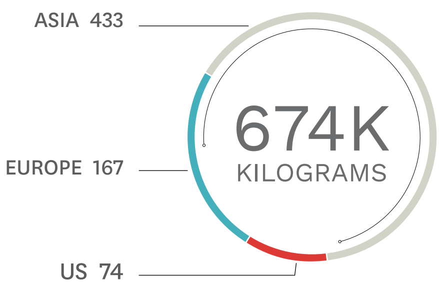
WATER (cubic meter)

EXCLUDING GERMANY

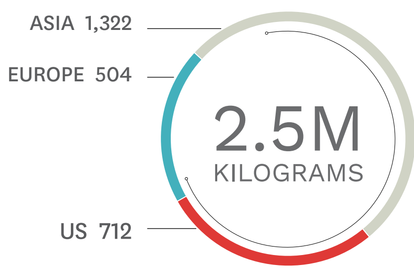


WASTE MANAGEMENT (IN KG)

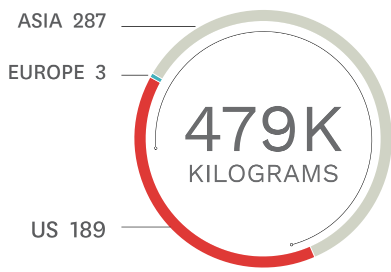
EXCLUDING GERMANY



HAZARDOUS



NON-HAZARDOUS RECYCLED



NON-HAZARDOUS RESIDUAL

FORTIFYING OUR **HUMAN CAPITAL**

We recognize that human capital will become increasingly important as the world transforms into knowledge-based economies that depend on infomation, knowledge, and multi-level skills.

We believe that our most important asset–all 17,000+ strong spanning a multi-cultural diverse and global community–will continue to provide the strength, resilience, innovation and creativity that will enable us to provide value to our customers and stakeholders.

We continue to invest in strengthening our corporate culture and employee engagement while adhering to global standards stipulated in the Responsible Business Alliance (RBA).

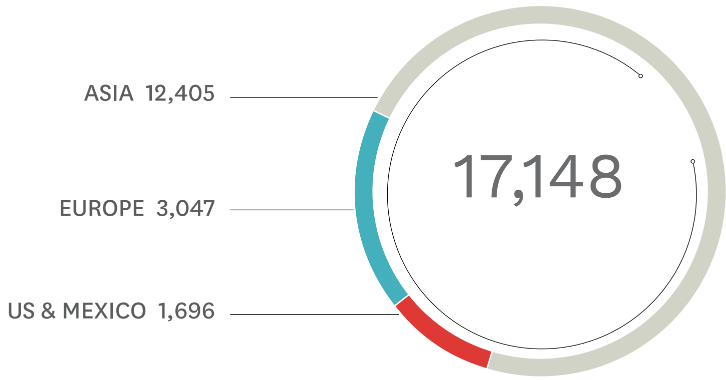
CORPORATE CULTURE AND EMPLOYEE ENGAGEMENTS

- Global Engagement Survey
- Leadership Assessment for Key Talents and Successors [360 degrees, Harrison Assessments Talents Solutions (HATS)]
- Global Talent Review with the COO, CEO, IMI BOD, and Ayala

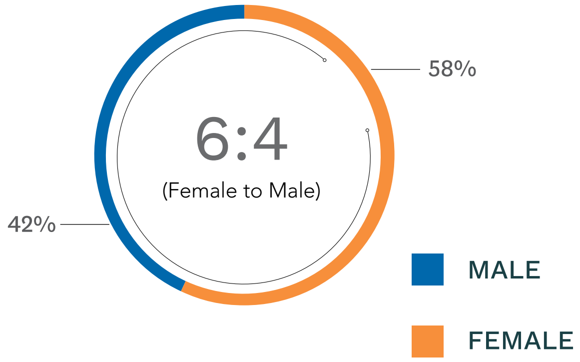
ETHICS & COMPLIANCE

- Freedom of Association
- Freely Chosen Employment
- Humane Treatment
- Rest Period Not Less Than 24 Hours
- Non-Discrimination
- No Child Labor Policy including our Suppliers
- Non-Disclosure of Information
- Business Integrity
- Intellectual Property
- No Improper Advantage
- Fair Wages and Benefits
- Protection of Whistleblowers
- Fair Business, Advertising and Competition
- Responsible Sourcing of Minerals
- Respect For Environment
- Safe Working Environment

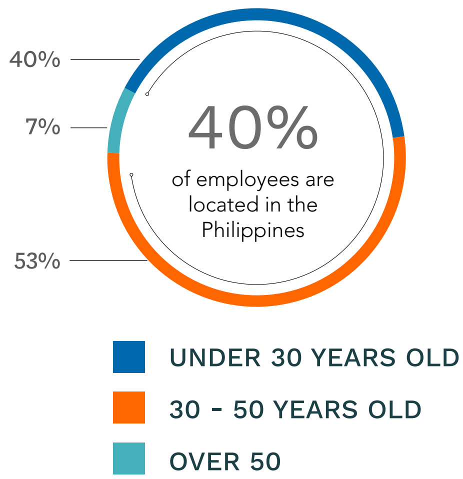
GLOBAL WORKFORCE BY REGION



BY GENDER



BY AGE



TRAINING AND DEVELOPMENT

IMI UNIVERSITY TRAINING PROGRAMS

TECHNICAL TRAININGS

- Statistical Boot Camp
- Problem Solving Methodology Trainings
- Lean Manufacturing Trainings
- Systems and Standards Trainings
- Technical Forums

LEADERSHIP & BEHAVIORAL TRAININGS

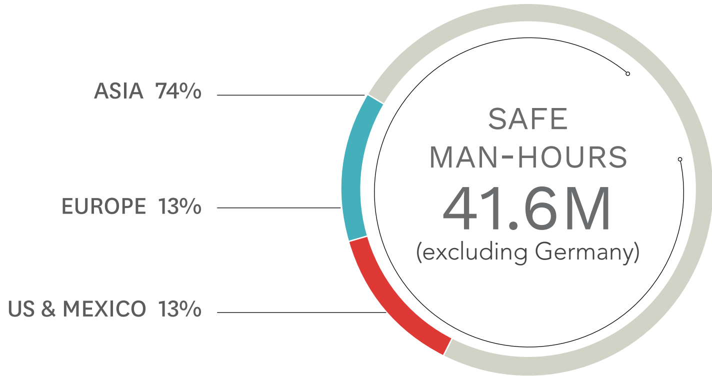
- Coaching for Success
- Values Integration Program, IMI Customer Service Plus, and Becoming an Effective Supervisor Training
- Communication Trainings
- Compliance Trainings
- Environment, Health and Safety Trainings
- Operative Line Training

936K
Training hours conducted globally

100%
Evaluation of performance

At IMI, we are committed to excellence and leadership in safeguarding the health and safety of our employees, suppliers, service providers as well as the good of our environment. We strive to minimize the adverse impact of our operations through the implementation of an integrated Environment Health and Safety program and continuous improvement over time.

We commit to comply with all applicable laws and regulations and promote cooperation among the different sectors of society to achieve sustainable development and ensure better quality of life for our stakeholders.



In 2018, safety audits were conducted to improve our performance and to ensure compliance to safety standards. The company also successfully underwent and passed ISO 14001:2015 to further ensure a healthy and safe working environment for everyone.

OUR HEALTH AND SAFETY TRAINING PROGRAMS

- Electro-mechanical safety
- Basic chemical safety
- Emergency preparedness response
- Forklift safety
- Material handling and lifting
- Radiation safety
- Personal protective equipment training
- Basic occupational safety and health
- Legal compliance

QUALIFYING **KEY SUPPLIERS**

Our Materials Management group ensures that suppliers adhere to global sustainability standards such as the Responsible Business Alliance (RBA) code of conduct (formerly the Electronic Industry Citizenship Coalition).

In 2018, three of the major customers of IMI passed an audit with acceptable results as the company has stepped up its supplier assessments which already includes determining the levels of hazardous substances in their contents.

IMI's sustainability audit team is composed of representatives from Supplier Quality Engineering (SQE), Human Resources (HR), and Environmental Health and Safety (EHS). The team conducted a sustainability assessment among key suppliers in the Philippines and China in 2018 based on the RBA code of conduct which covers labor, ethics, environmental, health and safety, and overall management system.

Apart from the audits, IMI also conducted risk management seminars to suppliers for them to adapt a risk mindset towards their own business and the whole supply chain. The sessions will enable them to be more aware of the risks in their business and their potential effect to IMI and its customers. The Supplier Development team held a risk management learning session based on ISO31000 done initially with five selected suppliers in 2018.

For 2019, IMI will audit at least nine major suppliers and release supplier code of conduct to all suppliers and organize risk management trainings.

OUR POLICY ON CONFLICT MINERALS

IMI continuously supports the sourcing of minerals / metals from compliant smelters (those who do not supporting the rebel groups of DRC (Democratic Republic of the Congo) and adjoining countries.

The company also requires the Conflict Minerals Reporting Template (CMRT) from suppliers annually and uses the same format in disclosing smelter information to customers through our Customer Focus Team. All suppliers are expected to practice the same measures for alignment in the whole supply chain, and we continuously work with them to ensure compliance beyond regulation.

OUTREACH **BEYOND BORDERS**

Evident through the regular outreach activities being organized is the company's commitment to live up to the core value of Concern for Others.

IMI Philippines' Brigadang Ayala 2018 was an outreach project extended to public schools in Sta. Rosa City, Laguna. A total of 90 volunteers participated.

- Another community outreach was held with free medical, dental, optical, and fasting blood sugar assistance along with haircut, breakfast for kids, pharmacy, feeding program, and learning sessions. About 135 volunteers composed of IMI employees and external partners participated in the activity.

Tree planting projects in Cavite and Laguna, Philippines took place with 78 volunteers.

- **IMI CHENGDU** in China sponsored a basketball competition with a partner school to strengthen relationships. Also in Chengdu, donations were given to the needy in impoverished communities in the Tibetan area in Sichuan province.
- **IMI KUICHONG** in China organized a marathon and also a company-wide donation to help the bereaved family of an employee.
- **IMI JIAXING** in China volunteered to maintain and protect environmental sanitation and participated in environmental hygiene activities organized by the local community.
- **IMI PINGSHAN** in China mobilized volunteers for traffic coordination and clean-up of a neighboring public park and streets.
- **IMI BULGARIA** donated a refrigerator with freezer and a steam ironing module for public kindergarten students.
- **VTS SHIGA** in Japan supported the aluminum recycling program in the city with the help of volunteers and government employees.
- **IMI SINGAPORE** donated pre-loved clothes to the victims of the earthquake in Indonesia and provided financial aid to the Rotary Club of Kuala Lumpur in Malaysia through a film showing for the benefit of orphans and underprivileged children.

A CULTURE OF **COMMUNITY**

Living IMI's corporate core value, Concern for Others, has been one of the company's strengths. The company takes pride in giving back to its people and its surrounding communities where IMI sites are located.

In 2018, IMI made notable efforts to create a closely knit community of people sharing the same core values that continue to help bring IMI to where it is now.

EMPLOYEE PROGRAMS

- IMI Philippines conducted four livelihood programs in 2018 with 112 participants.
- IMI China and Singapore sites held learning opportunities on the following topics:
  - Electricity safety
  - First-aid training conducted by Red Cross
  - Various student plant tours (electronics manufacturing familiarization)
  - Clean environment
  - Fire safety

HEALTH INITIATIVES

- Ensuring a healthy and safe working environment for our people and sharing this mindset has become second nature to all IMI employees. Employees willingly share their time and resources in service to nearby communities
- IMI Family Health Day was held in the Philippines for employees and their families with 1,009 beneficiaries.
- Blood donation drives took place in various sites: IMI PH, the four sites of IMI China, IMI Czech Republic, and IMI Japan
- IMI Bulgaria donated a hemodialysis machine to a local public hospital
- IMI Jiaxing in China donated 72 draw bar boxes to the community firemen

FINANCIAL **STATEMENTS**

Review of 2018 Performance versus 2017

IMI brought 2018 to a close with consolidated revenues of US$1.35 billion (₱70.81 billion), an increase of 24 percent year-on-year. 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. Gross profit grew five percent to US$136.2 million, however, gross profit margin declined to 10.1% from 11.9% partly due to tight supplies of electronic components.

IMI's core business delivered US$1.04 billion revenues, a growth of 16 percent while recently acquired companies, VIA Optronics and STI Enterprises, 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 (excluding VTS acquisition) and 21 percent, respectively, while strong activities firmed up for strategic opportunities in aerospace.

By product type, the company's automotive business accounted for 40 percent of total revenues while industrial contributed 25 percent. By geographic area, Europe remained the largest market comprising 50 percent of the company's global sales.

The reported net income includes non-operating items such as net gain on the sale of a China entity and reversal of contingent consideration related to the STI acquisition, partially offset by impairment of China goodwill, mark-to-market losses on put options 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.

Also 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.

Performance of Geographic Locations

Revenues from Europe operations grew 15 percent year-on-year to US$317.9 million, benefiting from major automotive customers in lighting, electric motors and drives and sensor systems. In Mexico, revenues grew 27 percent to US$106.7 million, driven by mass production of hi-tech automotive products.

China operations posted US$332.8 million in revenues, up 23 percent year-on-year. Despite slowing economy, China continued to boost new technology solutions for hi-tech automotive, EV charging and industrial IoT applications as well as sustaining its core telecommunications segment.

Philippine operations (including PSi) increased six percent to US$278.6 million strengthened by new industrial applications and rapid expansion of power module business intended for automotive and industrial applications.

VIA Optronics reported US$203.1 million revenues, growing by 37 percent as it began to transition from a consumer-heavy portfolio towards a more balanced portfolio with industrial and automotive segments. Newly-formed company VTS Touchsensor contributed US$26.5 million for the first nine months of its operations.

The company also realized the full year impact of the acquisition of STI Enterprises with a reported revenue of $109.3 million versus last year's 7-month contribution of US$45.5 million.

Financial Condition and Capital Expenditure

Last year, IMI spent US$65.0 million on capital expenditures to build more complex manufacturing capabilities 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.

REPORT OF THE AUDIT AND RISK COMMITTEE
TO THE BOARD OF DIRECTORS
For the Year Ended 31 December 2018

The Board-approved Audit and Risk Committee Charter defines the duties and responsibilities of the Audit Committee. In accordance with the Charter, the Committee assists the Board of Directors in fulfilling its oversight responsibilities to the shareholders with respect to:

- Integrity of the Company's financial statements and the financial reporting process
- Appointment, remuneration, qualifications, independence and performance of the independent external auditors and the integrity of the audit process as a whole
- Effectiveness of the systems of internal control and the risk management process
- Performance and leadership of the internal audit function
- Compliance with applicable legal, regulatory and corporate governance requirements

In compliance with the Audit and Risk Committee Charter, we confirm that:

- The Chairman and another member of the Committee are independent directors;
- We had four (4) regular meetings during the year with all the members present. We met separately with the internal and external auditors in an executive session during the year;
- We recommended for approval of the Board and endorsement to the shareholders the reappointment of SGV & Co. as the Company's 2018 independent auditor;
- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of Integrated Micro-Electronics, Inc. and subsidiaries ("IMI") with management, the internal auditors, as well as SGV & Co. as the independent auditor of IMI, and that these activities were performed in the following context:
    - Management has the primary responsibility for the financial statements and the financial reporting process; and
    - SGV & Co. is responsible for expressing an opinion on the conformity of IMI's audited consolidated financial statements with Philippine Financial Reporting Standards;
- We have discussed and approved the overall scope and the respective audit plans of the Company's internal auditors and SGV & Co. We have also discussed the results of their audits, their assessment of the Company's internal controls, and the overall quality of the financial reporting process including their management letter of comments;
- We have reviewed the reports and updates of the internal auditors ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues. Based on the assurance provided by internal audit and SGV & Co., as a result of their audit activities, the Committee assessed that the Company's systems of internal controls, risk management, and governance processes are adequate;
- We have reviewed and discussed the adequacy of IMI's enterprise risk management process, including the nature of significant risk exposures, and the related risk mitigation efforts and initiatives. This activity was reviewed in the context that management is primarily responsible for the risk management process;
- We have reviewed and recommended for the approval by the Board of Directors all audit, audit-related and non-audit services provided by SGV & Co. to IMI and the related fees for such services. We have also assessed the compatibility of non-audit services with the auditors' independence to ensure that such services will not impair their independence;
- We have conducted an annual assessment of our performance to confirm that the Committee satisfactorily performed its responsibilities based on the requirements of its Charter; and
- We reviewed the Audit Committee Charter to ensure that it is updated and aligned with regulatory requirements.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit and Risk Committee recommends to the Board of Directors that the audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2018 for filing with the Securities and Exchange Commission and the Philippine Stock Exchange.

The Audit and Risk Committee is also recommending to the Board of Directors the re-appointment of SGV & Co. as IMI's independent auditor for 2019 based on the review of their performance and qualifications.

7 February 2019

EDGAR O. CHUA	**RAFAEL C. ROMUALDEZ**	**HIROSHI NISHIMURA**
Chairman	Member	Member

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
Chief Finance Officer

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.

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
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

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)

CONSOLIDATED BALANCE SHEETS

	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.

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, 2017	$34,935,709	$1,857,440	$70,927,567	($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.

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	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	(12,334,692)	140,816,267	(1,012,586)	251,030	(16,544,691)	(6,295,673)	–	2,821,665	215,422,036
Net income (loss)	–	–	–	–	28,115,891	–	–	–	–	–	(99,982)	28,015,909
Other comprehensive income (loss)	–	–	–	–	–	–	117,501	(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	($12,334,692)	$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.

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.

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)

(Forward)

Subsidiary	Percentage of Ownership 2018	2017	Country of Incorporation	Functional Currency
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)

(Forward)

Increase (decrease) in:	
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.

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, 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.

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.

Other Income
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
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.

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 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 include 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			
	Trade	Nontrade	Receivable from 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.

Noncurrent Assets Held for Sale

Noncurrent assets held for sale relates to the sale and purchase agreement between STEL and Jinnuo Century Trading Limited in connection with the relocation of its manufacturing facility in Liantang, Luohu, in line with the urban redevelopment projects of the Shenzhen City government. The sale 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.

<u>Parent Company</u>
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**
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 right 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.

<u>Operating Lease Commitments - Group as Lessee</u>
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
<u>Laguna facilities</u>
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.

<u>Taguig facilities</u>
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							
		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	$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.

Foreign Currency Risk

The Group's foreign exchange risk results primarily from movements of the functional currency of each legal entity against other currencies. As a result of significant transactions denominated in RMB, PHP and EUR the consolidated statements of income can be affected significantly by movements in the USD versus these currencies. In 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 loans amounting to $30.00 million from the stock rights proceeds.

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"The IMI of the future will remain anchored on its most precious asset – human capital – which spans a multi-cultural, diverse, ethical and global community."

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