3 DISRUPTIVE TECHNOLOGIES WE THRIVE IN

IMI

2016 ANNUAL REPORT


1.0 km TURN

WE WELCOME DISRUPTION **TO PUSH INNOVATION**

THE AUTOMOTIVE REVOLUTION IS LED BY AN **INEVITABLE TREND TOWARDS DRIVERLESS CARS.** This, and other transformational technologies may seem unsettling to many companies, but at IMI, this is what excites us and inspires our engineers, designers, and leaders to push the envelope. We embrace opportunities to rapidly evolve our business and firmly believe that our talent pool and global footprint provides us with the means to truly grow and solidify our position as one of the largest and most innovative global solutions providers and electronics manufacturers in the world.

ABOUT THE REPORT

Integrated Micro-Electronics Inc. (IMI) is one of the leading global manufacturing solutions experts that provide electronics manufacturing services (EMS) and power semiconductor assembly and test services (SATS). IMI primarily serves original equipment manufacturers (OEMs) in diversified markets, including those in the automotive, telecommunications infrastructure, industrial, medical, and consumer electronics industries. Among the key services that the company provides are design and engineering solutions, advance manufacturing engineering capabilities, new product introduction services, manufacturing solutions, reliability test, failure analysis, equipment calibration capabilities, test and system development, and support and fulfillment.

IMI ranks 21st in the list of top 30 EMS providers in the world by the Manufacturing Market Insider, determined based on 2015 EMS-related revenues. It also ranks sixth among the top automotive EMS providers in the world based on 2015 automotive EMS revenues per electronics market research firm New Venture Research.

OUR VISION

The Leading INNOVATIVE Partner for CUSTOMIZED Solutions

Our PEOPLE deliver the HIGHEST quality experience

OUR MISSION

Passionately create a unique product realization experience that our partners love

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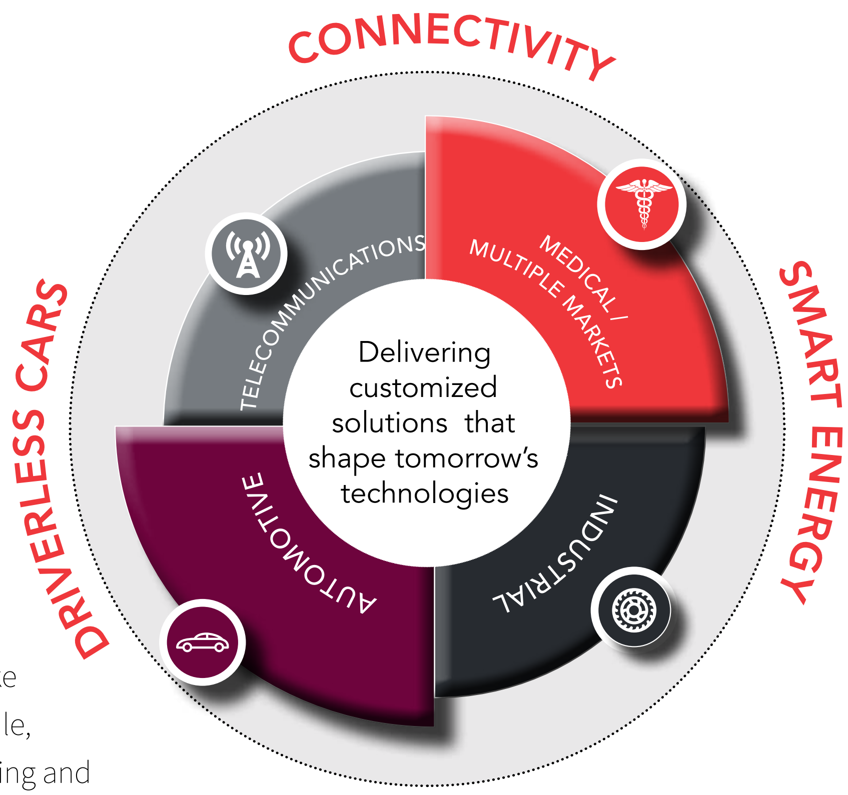
FORGING AHEAD–
IMI, YOUR GLOBAL MANUFACTURING SOLUTIONS PROVIDER



Several emerging technologies have begun to disrupt and reshape the world we live in. And IMI is ready for its impact.

As these technological disruptions take place, IMI will remain right in the middle, deeply involved in many game-changing and radical transformations. Our company thrives in all these technological megatrends—developing, producing, and enhancing global manufacturing services, products, and services—providing solutions in levels of excellence that are second to none.

Through the years, we continue to deliver customized solutions that shape tomorrow's technologies today, taking pride in:

- our engineering capabilities
- value-add customized solutions
- world-class manufacturing capabilities
- cost-effectiveness to respond to these disruptions

For us, the future begins now. And we simply forge ahead.

At IMI, we live and breathe the future.

REVENUES

$843.0M
(₱40.0B)

4%

2015: $814.4M (₱37.0B)

GROSS PROFIT MARGIN

12.0%

50BPS

2015: 11.5%

OPERATING INCOME

$42.9M
(₱2.1B)

13%

2015: $37.9M (₱1.7B)

EBITDA

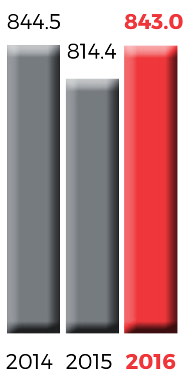
$65.0M
(₱3.1B)

11%

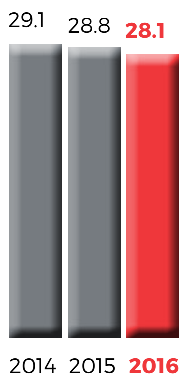
2015: $58.8M (₱2.7B)

In US$ millions

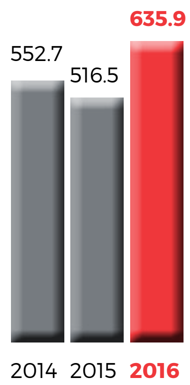
REVENUES



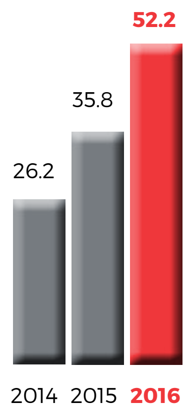
NET INCOME



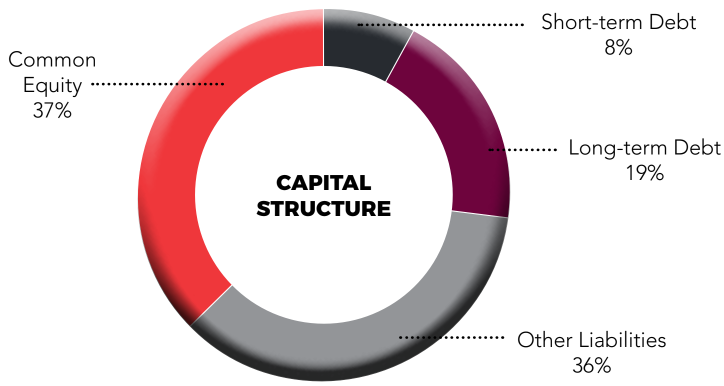
TOTAL ASSETS



CAPITAL EXPENDITURES

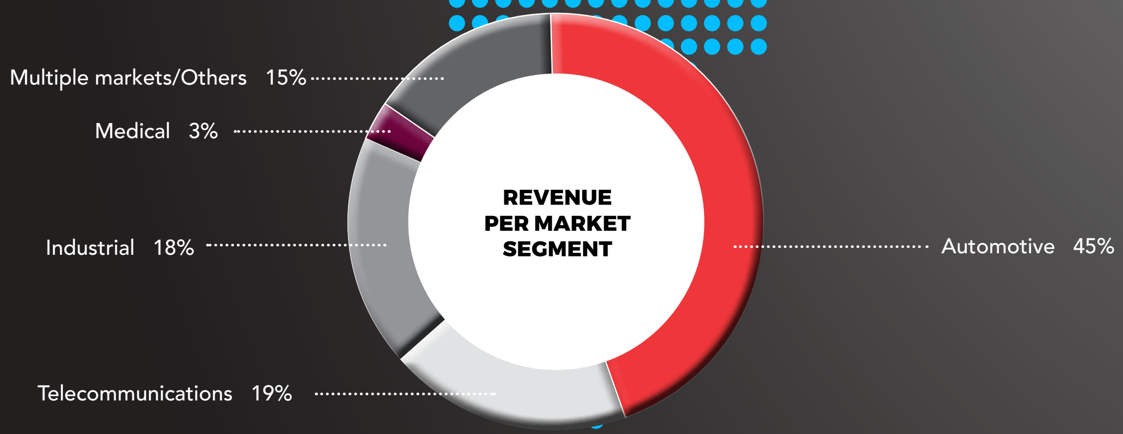


FINANCIAL RATIOS	2016	2015
Operating Income %	5.1%	4.7%
Net Income %	3.3%	3.5%
Earnings per Share	$0.015	$0.015
Current Ratio	1.51	1.54
Debt-to-Equity Ratio	0.74	0.48
Return on Common Equity	12.0%	12.8%



GLOBAL FOOTPRINT

Manufacturing Engineering Support



GERMANY (VIA)

Revenues: $19.4M

Locations:
Mörsdorf, Germany
Suzhou, China

Production space (sqm):
15,200

Headcount: 437

Markets served:
Consumer
Industrial
Automotive

CZECH REPUBLIC

Revenues: $26.7M

Location:
Třemošná, Czech Republic

Production space (sqm):
7,700

Headcount: 214

Markets served:
Automotive
Industrial

CHINA

Revenues: $261.4M

Locations:
Liantang, Shenzhen
Kuichong, Shenzhen
Jiaxing
ChengDu

Production space (sqm):
62,600

Headcount: 5,342

Markets served:
Telecom
Consumer
Automotive
Industrial
Medical

BULGARIA

Revenues: $216.1M

Location:
Botevgrad, Bulgaria

Production Space (sqm):
26,900

Headcount: 1,803

Markets served:
Automotive
Industrial
Consumer

Nagoya, Japan

Suzhou, China

Taipei, Taiwan

Hong Kong, China

Singapore

PHILIPPINES

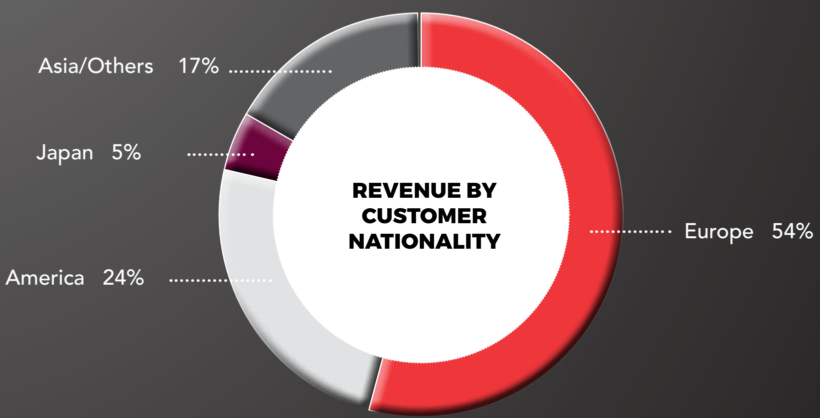
Revenues: $253.7M

Locations:
Laguna
Cavite

Production space (sqm):
108,400

Headcount: 5,326

Markets served:
Industrial
Automotive
Medical
Computing
Multiple Markets



MESS

ADAPTING TO ADVANCEMENTS

AGE

FROM THE CHAIRMAN

The past year presented exciting opportunities for IMI to leverage the capabilities, scale, and brand value it has established in the past 36 years. The agility it has demonstrated amid a challenging environment and the relevance it has gained among its customers and the industries they serve, helped IMI to become a formidable global player not only in electronics manufacturing, but in the broader infrastructure and systems technology.

More than a decade ago, we made a strategic shift in our business from a single-location contract assembly manufacturing provider to a global partner in technology solutions. Today, IMI employs over 14,000 people with over 247,000 square meters of production space across 14 manufacturing plants in seven countries. More importantly, IMI has consistently advanced its capabilities in the automotive segment. We now rank as the sixth largest automotive electronics manufacturing services supplier in the world.

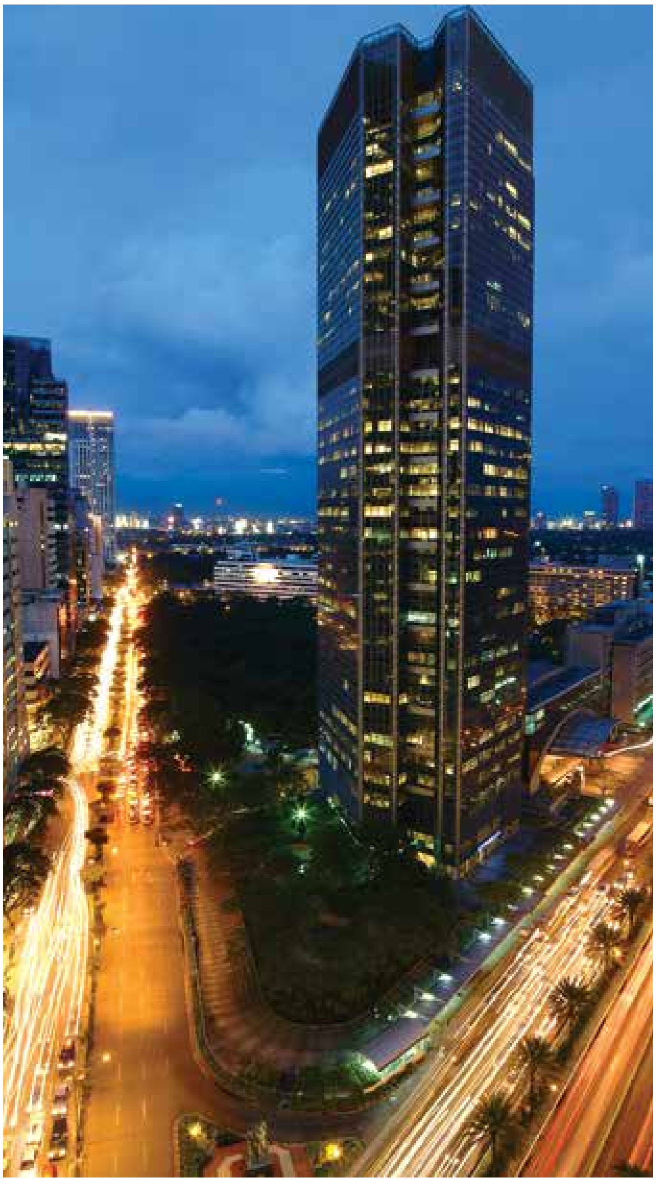
While we have carved out a niche in the automotive manufacturing space, we continuously seek ways to remain relevant and dynamic. Innovation drives much of what we do at IMI—new ideas, new products and services, new businesses, and new ways of doing things to add greater value to the markets and communities we serve.

KEY FIGURES

14,580
EMPLOYEES WORLDWIDE

14
MANUFACTURING PLANTS IN SEVEN COUNTRIES

OVER
247,000 SQM
PRODUCTION SPACE



In recent years, we have seen how technological breakthroughs are disrupting business models at an accelerated pace and changing everyday lives. In particular, we believe emerging trends such as driverless cars, extreme connectivity, and smart energy as well as shifts in the production supply chain open up a host of untapped opportunities. We view this as a unique window to participate in this emerging ecosystem not only for IMI, but for the entire Philippine manufacturing industry.

At the Ayala group, we are a great believer that the environment is ripe for a sustainable resurgence of the domestic manufacturing industry. With our experience and expertise in EMS through IMI and in automotive distributorship through AC Automotive, we believe we can contribute to this endeavor by taking our group's engagement to the next level.

As a strategy, in 2016, Ayala established AC Industrial Technology Holdings Inc. (AC Industrials) as a new pillar to boost our presence in industrial technologies and capture the growing opportunities amid technological shifts, changing industry landscapes, and increasing demand from end-users.

To support the Ayala group's long-term strategy in manufacturing, AC Industrials will house our portfolio of investments in industrial technologies—with IMI as our core manufacturing business, and as a conduit to tap different markets and technologies globally, and AC Automotive as our vehicle retail arm.

"**INNOVATION** DRIVES MUCH OF WHAT WE DO AT IMI— new ideas, new products and services, new businesses, and new ways of doing things **TO ADD GREATER VALUE** to the markets and communities we serve."

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In support of our group's vision for AC Industrials, IMI acquired a 76 percent stake in VIA Optronics GmbH, a leading optical bonding and display solutions provider based in Germany. VIA's proprietary technology in optical bonding solutions for display systems will bolster IMI's strengths in automotive camera and display monitor solutions.

We also partnered with KTM AG, the largest motorcycle manufacturer in Europe, to distribute and manufacture motorcycle models in the Philippines under the KTM brand for the domestic market and export to China and eventually, to Southeast Asia. We believe that this will help us leverage synergies around design and engineering, support and fulfillment, from operations to talent development, aside from manufacturing itself.

In as much as we continue to work towards our strategic and financial imperatives, we place equal importance to the external environmental and the social impact our business creates. We recognize that to achieve a strong and sustainable business, we need to go beyond simply doing well for ourselves, but also doing well for others in a way that improves the lives of people and communities around us.

We are very pleased with how IMI is gradually integrating this commitment into its business model. Through its products and services, it is tackling social and environmental issues on a global scale while still meeting the evolving needs of its customers.

For instance, through its lifesaving technologies for automobiles, IMI is helping lower car collision, 94 percent of which are related to human error. By pursuing vehicle electrification, we are contributing to energy savings and the reduction of air pollution. Finally, by exploring the opportunities in driverless cars, we can help provide critical solutions to people with disabilities and aging populations.

Moreover, IMI is pursuing ways to mitigate the negative effects of rapid urbanization. The United Nations has predicted that by 2050, 66 percent of the global population will be living in cities. With cities as drivers of innovation and economic growth, we must also ask ourselves: how can we make cities more sustainable? By collaborating with our customers to develop new products in lighting, power, grid management, as well as in privacy and security, we can provide solutions that define smart cities.

Our progress in all these initiatives will certainly not be possible without the engagement of IMI's management team and staff, the guidance of our Board of Directors, and the continued trust and confidence of our partners, customers, and shareholders.

Thank you for your commitment and support.

JAIME AUGUSTO ZOBEL DE AYALA
CHAIRMAN

MESSAGE FROM THE CEO

MANAGING DISRUPTIONS

The year 2016 was a crucial one for IMI as we took the decisive next steps in our 36-year journey towards greater growth and improved productivity. Apart from entering new industries and reinventing existing businesses to fortify our portfolio, we also expanded our automotive and manufacturing range through AC Industrials. The wholly owned Ayala group subsidiary seeks to play a major role in manufacturing by making the Philippines a Southeast Asian industrial hub, and eventually one for the world.

This development could not have come at a better time. Given the major challenges confronting the world—for example, in terms of energy resource constraints, population health management, and the enormous implications of climate change—we see significant opportunities for both IMI and AC Industrials to deploy their creative competencies and capture higher growth in attractive end markets, which are in the throes of transition.

In fact, IMI has been thriving in some of the most dynamic technological disruptions across industries in which we are deeply involved. We are entrenched in automotive where some of the most game-changing developments in driving systems are happening. We are in the thick of connectivity, wherein the IoT has only just started to reveal its promise, driven by the increasing premium on mobility. We are at the heart of smart energy through our renewable energy and power module businesses, whose products and services anticipate the demand of future cities.

DRIVERLESS CARS

62.0% 2020 to 2030 CAGR

FORECASTED NEW REGISTRATIONS OF AUTONOMOUS CARS

(SOURCE: RESEARCH AND MARKETS 2016)

CONNECTIVITY

17.2% 2016 to 2025 CAGR

GROWTH OF IoT MARKET

(SOURCE: IHS)

SMART ENERGY

16.6% 2016 to 2025 CAGR

GLOBAL ADVANCED ENERGY STORAGE SYSTEMS MARKET

(SOURCE: REPORT LINKER)

By staying focused on our customers, we are now deftly managing such disruptions and have evolved into a solutions provider of choice, with solid roots in electronics-based manufacturing. Our 36-year history marks notable milestones in our transition from being a component assembly manufacturer to being a systems and products solutions provider, and then again from being a mere consignment build-to-print company to one that actually designs and markets its own platforms. Today, in pursuing greater value for our partners, we not only build systems and subsystems but actual full products, and develop these into different markets.

We have significantly improved productivity in recent years, our “disrupt to grow” strategy, allowing us to be able to turn on a dime as warranted by circumstances. We have become leaner, but as the types of products we build become increasingly complex, their value also rises. Where in the past we were dealing only with labor-based work, now it’s not just the number of hands, but the skills of the hands handling the equipment, the products, the design and engineering that these hands—and minds—provide.

Our global acquisitions over the years have strengthened our ability to support the different regions where we operate. Last year, we began initial steps of our expansion in Southeast Europe. We also secured majority stake in Via Optronics GmbH, a German optical bonding and display solutions provider, as part of the overall strategy to be on the lookout for disruptive technologies—in this case of display bonding—which we feel will be vital in next generation display systems that require touch and sight.

Clearly, IMI remains an organization that keeps learning, responding, and adapting, one that welcomes change in response to what’s happening in the market and is not held back by legacy. There is no escaping change, and whether we lead it, follow it, or are disrupted by it, is up to us. We have setup IMI to lock in on seamless customer experience, and continue to explore the limits of our customer base for emerging trends, unfulfilled needs, and opportunities, and are thus well-equipped to manage disruptions.

Therefore, to successfully leverage the enormous potential of technology, we must now be mindful of the convergence of hardware and software the internet of everything, new technologies, new materials, and cutting edge applications. Further, with IMI at its core, AC Industrials will be able to tap different markets and advanced systems globally, providing a complete array of product design, building and manufacturing services while remaining competitive on a global basis.

The work we do in car safety electronics, pollution reduction systems, home security, and medical diagnostic devices is a function of the corporate vision to be part of a global structure of products and services that will enhance and future-proof people's lives. We direct our passion at solutions not just at technology per se. Mostly for better, this makes us ready for more than one future.

After almost four decades, we can be sure that the foundation that IMI is built on—the people, the capabilities, the passion, and the culture—will continue to enable the company to be relevant even in the thick of technology disruptions and changes in industries and businesses in many more years to come.

ARTHUR R. TAN

VICE CHAIRMAN AND CEO - IMI
GROUP PRESIDENT AND CEO - AC INDUSTRIALS

JAIME AUGUSTO ZOBEL DE AYALA

Jaime Augusto Zobel de Ayala, Filipino, 57, 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 Ayala Education, Ayala Retirement Fund Holdings Inc., AC Industrial Technology Holdings Inc. 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 Holdings Inc., Ayala Healthcare Holdings Inc., LiveIt Investments Limited, AI North America Inc., and AG Holdings Limited; Chairman of Harvard Business School Asia-Pacific Advisory Board; and member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, and Endeavor Philippines. He was the Philippine Representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council from 2010 to December 2015. He graduated with B.A. in Economics (Cum Laude) from Harvard College in 1981 and obtained an MBA from the Harvard Graduate School of Business Administration in 1987. In 2007, he received the Harvard Business School Alumni Achievement Award, the school's highest recognition. He was a recipient of the Presidential Medal of Merit in 2009 for enhancing the prestige and honor of the Philippines both at home and abroad. In 2010, he was bestowed the Philippine Legion of Honor, with rank of Grand Commander, by the President of the Philippines in recognition of his outstanding public service. In 2015, he received the Order of Mabini, with rank of Commander, for his vital contributions during the Philippines' hosting of the APEC Summit.

FERNANDO ZOBEL DE AYALA

Fernando Zobel de Ayala, Filipino, 56, has served as a director of IMI since January 1995. He holds the following positions in publicly listed companies: Director, President and Chief Operating Officer of Ayala Corporation; Chairman of Ayala Land Inc. and Manila Water Company Inc.; and Director of Bank of The Philippine Islands and Globe Telecom Inc. He is the Chairman of AC International Finance Ltd., Ayala International Holdings Limited, Accendo Commercial Corporation, Alabang Commercial Corporation, Automobile Central Enterprises Inc., AC Industrial Holdings Inc., Liontide Holdings Inc., AC Energy Holdings Inc., Ayala Healthcare Holdings Inc. and Hero Foundation Inc.; Co-Chairman of Ayala Foundation Inc. and Ayala Group Club Inc.; Vice Chairman of Ceci Realty Inc., Vesta Property Holdings Inc., Aurora Properties Inc., Columbus Holdings Inc. Emerging City Holdings Inc., Fort Bonifacio Development Corporation, and Bonifacio Land Corporation; Director of LiveIt Investments, Ltd., Asiacom Philippines Inc., AG Holdings Limited, Ayala International Holdings Limited, AI North America Inc., AC Infrastructure Holdings Corporation, Ayala Retirement Fund Holdings Inc., Honda Cars Philippines Inc., Isuzu Philippines Corporation, Pilipinas Shell Petroleum Corp., Manila Peninsula and Habitat for Humanity International; Member of the INSEAD East Asia Council, World Presidents' Organization, Habitat for Humanity International, Asia Philanthropy Circle, TATE Asia Pacific Acquisitions Committee and The Metropolitan Internal Council; 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, National Museum, Asia Society . He graduated with B.A. Liberal Arts at Harvard College in 1982 and holds a CIM from INSEAD, France.

ARTHUR R. TAN

Arthur R. Tan, Filipino, 57, is 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 Vice Chairman 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.

ROMU
ALDEZ

RAFAEL MA. C. ROMUALDEZ

Rafael Ma. C. Romualdez, Filipino, 53, has been a Director of IMI since May 1997. He is presently a Director of Resins Inc., RI Chemical Corporation, Chemserve Incorporated, Claveria Tree Nursery Inc., Lakpue Drug Incorporated and La Croesus Pharma Incorporated. He is also the Chairman of the Philippine Iron Construction and Marine Works Inc., Pacific Resins Inc., and MC Shipping Corp. He earned a degree in B.A. Mathematics from Boston College in 1986 and took Masters in Business Administration at the George Washington University in 1991.

JOSE IGNACIO A. CARLOS

Jose Ignacio A. Carlos, Filipino, 47, has been a Director of IMI since December 2006. Concurrently, he is the President of Polymer Products Philippines Inc. and AVC Chemical Corporation. He is also a member of the Board of Directors of Resins Inc., Riverbanks Development Corporation, Mindanao Energy Systems Inc., Cagayan Electric Power and Light Co., and Philippine Iron Construction and Marine Works Inc. He earned a BS Management degree from the Ateneo de Manila University in 1991 and finished Masters of Business Administration at the Johnson Graduate School of Management Cornell University in 1999.

CARLOS

GILLES BERNARD

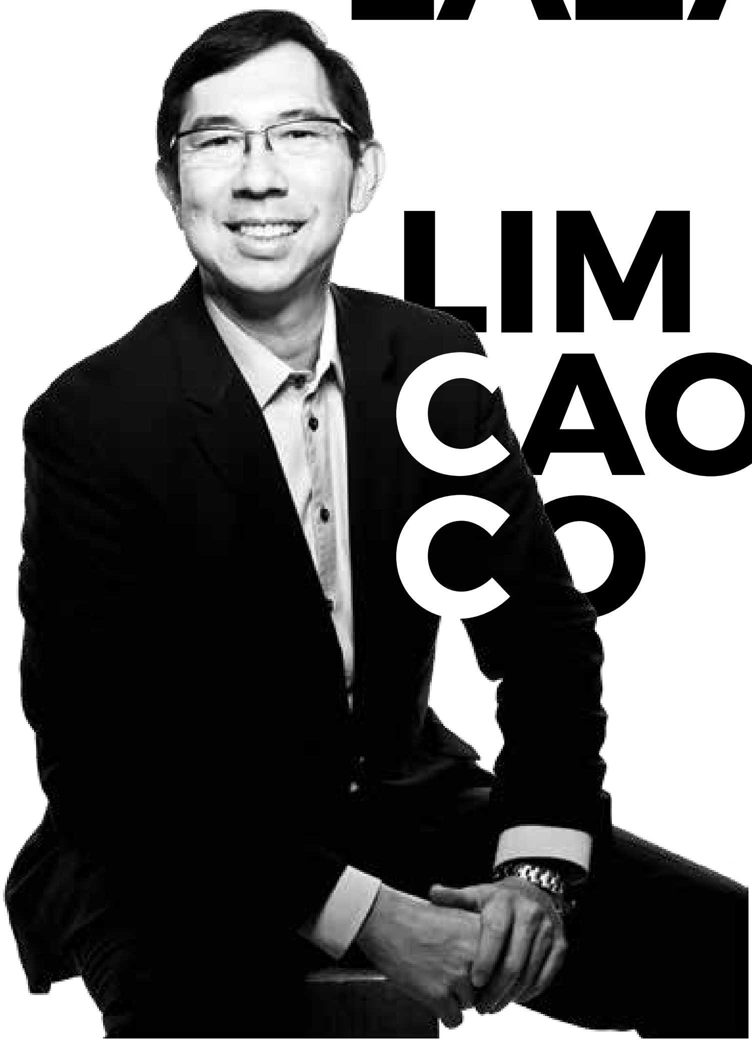
Gilles Bernard, French, 59, is the President and Chief Operating Officer (COO) of IMI effective June 2016. He holds this position on top of his role as Head of Global Operations Support. Concurrently, he is also the President of PSi Technologies Inc., a semiconductor assembly and test subsidiary of IMI. Before this movement, he was the COO for Europe and Mexico operations and Head of Global Operations support overseeing global Materials Management, Quality, Sales and Key Strategic Accounts Management. Prior to joining IMI, he was the General Manager of EPIQ NV from 1995 up to 2001, before he assumed the CEO post in 2001. He held this position until EPIQ NV's acquisition in 2011. He started his career as a development engineer and later on became D&D Manager of passive components division of Thomson. He then moved to the SMEE subsidiary of Mitsubishi Corporation as Quality Manager of SMEE. He finished a degree in Engineering and obtained a Master's Degree in Physics and Chemistry from Paris 13th University in 1976.

BERNARD

DELFIN L. LAZARO

Delfin L. Lazaro, Filipino, 70, has served as member of the Board of IMI since May 2000. He holds the following positions in publicly listed companies: Director of Ayala Corporation, Ayala Land Inc., Manila Water Company Inc., and Globe Telecom Inc.. His other significant positions include: Chairman of Philwater Holdings Company Inc. and Atlas Fertilizer & Chemicals Inc.; Chairman and President of A.C.S.T. Business Holdings Inc.; Vice Chairman and President of Asiacom Philippines Inc.; Director of Ayala Industrial Holdings Inc., Ayala International Holdings Ltd., AYC Holdings Inc., Bestfull Holdings Limited, and Probe Productions Inc.; and Trustee of Insular Life Assurance Co. Ltd. He graduated with BS Metallurgical Engineering at the University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

LAZARO



LIM
CAO
CO

JOSE TEODORO K. LIMCAOCO

Jose Teodoro K. Limcaoco, Filipino, 54, has been a director of IMI since April 8, 2016. He also holds the following positions in publicly listed companies: Chief Finance Officer and Finance Group Head of Ayala Corporation, Director of Globe Telecom Inc. and an Independent Director of SSI Group Inc.. He is the Chairman of Darong Agricultural and Development Corporation, and Zapfam Inc. He is the Chairman, President and CEO of Water Capital Works Inc. He is the President of Liontide Holdings Inc. and of Philwater Holdings Company Inc. He is a Director of Ayala Hotels Inc., AC Energy Holdings Inc., Ayala Healthcare Holdings Inc., Ayala Aviation Corporation, Ayala Education Inc., Asiacom Philippines Inc., AG Counselors Corporation, Michigan Holdings Inc., AC Industrial Technology Holdings Inc., LICA Management Inc., and Just For Kids Inc. He joined Ayala Corporation as a Managing Director in 1998. Prior to his appointment as CFO in April 2015, he held various responsibilities including President of BPI Family Savings Bank, President of BPI Capital Corporation, Officer-in-Charge for Ayala Life Assurance Inc. and Ayala Plans Inc., Trustee and Treasurer of Ayala Foundation Inc., President of myAyala.com, and CFO of Azalea Technology Investments Inc. He served as the President of the Chamber of Thrift Banks from 2013-2015. He has held prior positions with JP Morgan & Co. and with BZW Asia. He graduated from Stanford University with a BS Mathematical Sciences (Honors Program) in 1984 and from the Wharton School of the University of Pennsylvania with an MBA (Finance and Investment Management) in 1988.

HIROSHI NISHIMURA

Hiroshi Nishimura, Japanese, 64, 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.

NISHIMURA

EDGAR O. CHUA

Edgar O. Chua, Filipino, 60, has been an independent director of IMI since April 2014. He is the Chairman of Pilipinas Shell Petroleum Corporation, a publicly listed company; and currently in the advisory boards of Mistubishi Motors & Coca-Cola FEMSA Philippines. He is also the Chairman of the Makati Business Club and trustee of various civic and business organizations including the National Competitiveness Council and the Trilateral Commission. He held senior positions outside the Philippines as Transport analyst in Group Planning in the UK and as General Manager of the Shell Company of Cambodia, and various regional positions in Shell Oil Products East. Mr. Chua earned his Bachelor of Science Degree in Chemical Engineering from De La Salle University in 1978 and attended various international seminar and courses including the senior management course in INSEAD, France.

CHUA

ALELIE T. FUNCELL

Alelie T. Funcell, Filipino, 61, has been an independent director of IMI since April 2010. She is the Founder, CEO, and President of Renewable Energy Test Center. She served as COO and Senior Vice President of Quality at Solaria Inc., a manufacturer of c-Si Photovoltaic products and Vice President of Supplier Management and Manufacturing Operations of Xilinx Inc., a billion dollar semiconductor company. She is not a director of any publicly listed company. Prior to Xilinx, she also worked in several semiconductor companies, including Intel, IDT and Silicon Systems. She is credited with numerous patents in the Semiconductor Packaging and Solar Industry. She is twice a recipient of the S.C. Valley YWCA "Tribute to Woman in the Industry" (TWIN) Award in 1994 while at IDT and in 2000 while at Xilinx. She was president of the Filipino-American Association of Milpitas, California in 1994 to 1996, a very active Bay area Filipino organization. She received an award from the FWN, as one of the 100 Most Influential Filipino Women in the United States in 2009. She finished a degree in Chemical Engineering at University of Sto. Tomas in 1977.

FUNCELL

MANAGEMENT

TIMOTHY PATTERSON
Global Head, Advanced Manufacturing Engineering

Managing Director, IMI USA

MONINA C. MACAVINTA
Global Head, Human Resources

OLAF GRESENS
Global Head, Strategic Business Development / Mergers and Acquisitions

JEROME S. TAN
Chief Finance Officer

ARTHUR R. TAN
Chief Executive Officer

COMMITTEE

GILLES BERNARD
President and
Chief Operating Officer

MARY ANN S. NATIVIDAD
Global Head, Sales and Marketing

LINARDO Z. LOPEZ
Global Head, Materials Management

MELITA R. TOMELDEN
Global Head, Quality

MANAGEMENT TEAM

Operations Group

PHILIPPINES

Mario Bernardo N. Santos
Andrew C. Carreon
Jawaharlal K. Milanes

CHINA

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

BULGARIA

Eric De Candido

CZECH REPUBLIC

Jean-Marie Penven

MEXICO

Juan Jose Herran

USA

Timothy Patterson

Technology & Innovation Group

Philippe Marquet
Rafael Nestor V. Mantaring
Lucrecio B. Mendoza
Dominador P. Leonida III

GLOBAL AUTOMATION

Michael Hansson

Support Group

FINANCE

Jaime G. Sanchez
Anthony Raymond P. Rodriguez

SALES

Jeremy Cowx
Thibaut de Vaureix
David Chavez
Brenda Guiling
Qing Cheng Ren (Daryl)
Ma. Alicia Carla G. Buencamino

SUPPLY CHAIN

Ling Miaw Jiz
Fraser Clydesdale
Zheng Xianlai (Peter)
Philippe Antunez
Joy A. Bondoc

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

CORPORATE **GOVERNANCE**

We remain committed to transparency in our priorities, goals, initiatives, and performance of our global business. Our commitment to the highest level of good governance throughout the organization is anchored on the belief in a strong link between quality governance and the creation of shareholder value and long-term growth.

IMI's compliance to corporate governance practices are contained in our Articles of Incorporation, By-laws, and Manual of Corporate Governance which are based on the rules and regulations of the Philippine Stock Exchange, Securities and Exchange Commission, and ASEAN Corporate Governance Scorecard.

Our Board of Directors is comprised of 11 members, all of whom are elected by the stockholders. Three of the directors are independent. There are seven committees ensuring good governance: Executive, Compensation, Audit and Risk, Finance, Nomination, Related Party Transactions and Proxy Validation.

To ensure good governance, the Board formulates IMI's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor management's performance.

Our management committee is primarily accountable to the Board for the operations of IMI. They concretize the company's targets and formulate and execute the strategies to achieve them.

The Finance Committee has the principal oversight responsibility of the Company's financial operations and treasury-related activities.

The Audit and Risk Committee oversees the performance of external and internal auditors. Sycip Gorres Velayo & Co., the external auditor of IMI, ensures the integrity of the financial statements.

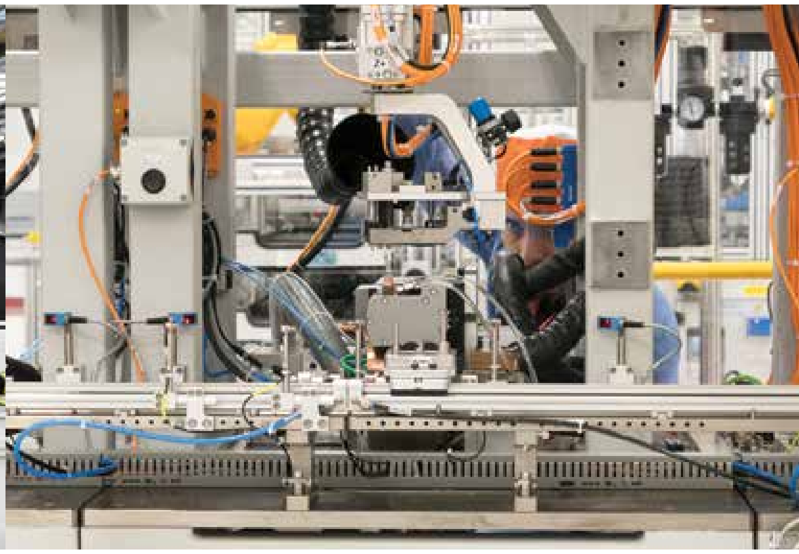
The Internal Audit (IA) team helps monitor the risks, controls, and financial reporting issues through a continuous review of the effectiveness of the organization's risk management and corporate governance processes. IA is independent of management and reports to the Board through the Audit and Risk Committee.

The Compliance Officer ensures adherence to the provisions and requirements of IMI's Corporate Governance Manual.

We adhere to the same set of principles or Code of Conduct similar to that of the electronics industry. We operate in full compliance with the laws, rules, and regulations of the countries in which we operate, and comply with international standards to reinforce our sense of social and environmental responsibility.

PRESIDENT'S REPORT

JOURNEY TO **EXCELLENCE**



HOW DID IMI PERFORM IN 2016?

By all indications, 2016 was a very good year. Our customers gave us high marks and we delivered positive results. We wrapped up 2016 with revenues of $843 million, four percent higher than that in 2015, poised for acquisition and expansion. Our top focus market segments, automotive and industrial, delivered a combined revenue growth of 12 percent. Operating income rose by 13 percent year-over-year, at 12 percent gross profit margin. Capitalizing on opportunities in automotive, telecommunications, and industrial segments, our five-year historical compounded annual growth rate has grown almost twice compared to the EMS and electronics assembly markets. Likewise, our net income after tax ratio of 3.3 percent is above industry average.

We know precisely our areas for improvement to be able to deliver more and will constantly work on them in the coming years, especially as our culture of excellence enjoins us to do better at all times. Our key customers have been with us for 26 years and counting. Our top accounts have been doing business with us for an average of 15 years, and many of them have ranked IMI highly. Truly, building trust and credibility has been IMI's strategy in creating a strong brand based on collaboration with partners to help them achieve their objectives.

13%
GROWTH IN
OPERATING INCOME

12%
COMBINED
REVENUE GROWTH
(AUTOMOTIVE AND
INDUSTRIAL)

3.3%
NIAT RATIO ABOVE
INDUSTRY AVERAGE

WHAT ARE IMI'S NOTABLE ACHIEVEMENTS IN 2016, AND WHERE DOES IMI STAND TODAY?

IMI ranks 21st among EMS companies worldwide, per Manufacturing Market Insider putting us in the top 30 list of EMS companies in the world based on 2015 revenues. In the same year, IMI ranked sixth among the top automotive EMS providers in the world based on the automotive EMS revenues of the same year per electronics market research firm New Venture Research. Our standing climbed a notch as we posted a nine percent increase in automotive EMS revenues.

We continue to penetrate two key markets—automotive and industrial. We won several projects in 2016 mostly from these segments, 23 percent higher than the annual revenue potential we achieved in 2015, due to the synergy among our major plants in three different continents particularly in the areas of project management and manufacturing processes. These are expected to materialize in the next two to three years as we move to higher value markets in manufacturing.

Last year, our Philippine site received the Preferred Supplier status from a major Tier 1 automotive customer for the seventh consecutive year. The same site also won the first automotive power module program for safety application in power steering and has been nominated by a customer as their preferred module partner with four new programs in the pipeline.

IMI Chengdu received the ISO/TS certification, a worldwide quality management systems standard for the automotive sector. IMI Kuichong was a recipient of the Huawei 2016 Excellent Quality Award and garnered third place for the Huawei Gemba Kaizen Award, while IMI Jiaxing received the Best Electronic Supplier Award from Bosch-Siemens Hausgerate (BSH) GmbH.

IMI Bulgaria won several new programs in 2016, as it continues to perform at exceptional levels. We are in the process of building a new plant in Niš, Republic of Serbia to support our European operations and leverage on IMI Bulgaria's corps of highly skilled engineers. IMI Czech was also recognized for new projects that will require surface expansion in the next few years.

IMI Mexico received an Export Achievement Award last year from the government of Jalisco, Mexico for its significant contribution to the export sector. We also completed a facility re-layout and retooling of our facility, which included the installation of a fully automated back-end line with robots capable of producing more than one million of Electronic Control Unit (ECU) per year for electrically assisted power steering.

AMONG EMS COMPANIES IN THE WORLD

AMONG THE TOP AUTOMOTIVE EMS PROVIDERS

There are other upcoming growth strategies that we are working on as we expand our global footprint. We are restructuring our geographical capabilities to tap different markets on a global scale.

HOW WILL YOU STEER IMI TOWARD MEDIUM- AND LONG-TERM GOALS?

Our values and culture will drive us to success. We strive to live what we call Collaborative Coordinated Effort (CCE), to elevate the ethical foundation within the organization and in all IMI sites—creating a value system of excellence, passion, and respect. Living the CCE entails constant support and collaboration among different teams—from operations to support groups, from top management to the last employee hired. We will not be successful without each other's support.

We are determined to grow organically with our customers, whom we will continue to serve in terms of quality, on-time delivery, and competitive pricing. We have ample experience creating our technology platforms (camera, motor drive, lighting, and power module) to bring design and process, and even components, and solutions to our customers.

We strive to promote competence and communication in all levels of the organization, instill efficiency and excellence, and work toward optimal allocation of resources in all aspects of operations. All of these will take us on the high road to industrial excellence.

WHAT ARE IMI'S CORE STRENGTHS THAT YOU WILL BUILD MOVING FORWARD?

We will continue to build on our strong position in the global manufacturing industry. Through the years, we have created a trusted brand through our strong customer focus and collaboration. We will continuously hone our technical expertise, competence, and resources to deliver quality solutions and products to customers.

We will maintain and strengthen our financial stability and the long-term support of all our shareholders. We have fully integrated multicultural teams that embody the culture of excellence and flexibility in all our 14 plants across the globe. This, to me, is IMI's greatest and most unique asset: enthusiastic people who are passionate about the tasks and the company's mission.

If I were to make a list of some of our strengths that we need to continue to develop, it would include: efficiency, flexibility, accountability, respect for people, our practicing of *gemba* (a Japanese concept used in business process improvement where value is added), the ability to analyze risks, and take action. In short, to walk the talk, think deeper, and welcome the challenges that come our way. In a word: EXCELLENCE.

HOW ARE IMI'S SUSTAINABILITY INITIATIVES EVOLVING?

Here at IMI, we have been managing our business not only for profit but also keeping in mind the impact—ours and our business'—on society as a whole. Our commitment to embark on sustainability programs that continuously create shared value, such as going beyond the usual corporate social responsibility projects, remains. We always make sure we marry profit with purpose. To do so, we focus on both economic and social benefits that create value for the communities and other IMI stakeholders.

We have a good number of shared value initiatives, as we make sure that our business remains innovative, at scale, and profitable while at the same time addressing a social or environmental issue. These include safety electronics in cars, automotive camera, and airbag control to help prevent road accidents, pollution reduction systems to help care for our environment, theft prevention systems for homes and buildings, and medical diagnostic devices.

Our business is anchored on good governance while ensuring transparency and compliance with existing national, international, and environmental laws. We thrive in our culturally diverse workforce of approximately 14,000 around the globe (with 5,000 Filipinos), while trying to instill our corporate core values of integrity, customer focus, concern for others, and excellence across all sites via our strong values integration program.

2016: A FRUITFUL AND EXCITING YEAR FOR IMI

Q1

- IMI's Analytical Testing and Calibration laboratory is the first in the Philippines accredited for Reliability Testing and Scanning Electron Microscopy for Failure Analysis

- Celebrated twenty (20) years of partnership with IIDA Denki Kogyo Company Limited and SIIX Corporation

- Garnered 93 percent rating in Ayala Group's Employee Engagement Survey administered by Towers Watson

Q2

- Ranked 21st on the latest Manufacturing Market Insider's top 50 list of EMS companies in the world

- Won the Philippine Quill Award of Merit for the Launch of the Sustainability Programs

- Received Preferred Supplier status from Robert Bosch; 7th year in a row

- Over-all champion Ayala Group Olympics

Q3

- Ranked sixth among the top automotive EMS providers in the world based on 2015 automotive EMS revenues per New Venture Research

- Expanded technology and product portfolio with acquisition of VIA Optronics

- Cited in two categories during the Ayala 2016 Risk Awards

- Won Best Paper in 2016 National Instruments ASEAN/ ANZ Engineering Impact Awards

Q4

- Received the 2016 Asia CEO Award for ASEAN Company of the Year

- IMI Jiaxing, recognized as Best Electronics Supplier by Bosch Siemens Hausgerate (BSH) GmbH

- IMI Mexico received the Jalisco Export Achievement Award

- IMI Kuichong received from Huawei Technologies Co. Ltd. (Huawei), the Excellent Quality Award

- Won the Chairman's Prize award for the development of the fourth generation Minicube Automotive Camera Platform during the first Ayala Innovation Excellence Awards

"WE STRIVE TO LIVE WHAT WE CALL **COLLABORATIVE COORDINATED EFFORT**, TO ELEVATE THE ETHICAL FOUNDATION WITHIN THE ORGANIZATION AND IN ALL IMI SITES—CREATING A VALUE SYSTEM OF **EXCELLENCE, PASSION, AND RESPECT**."

WHAT CHALLENGES DOES IMI FACE IN A GLOBALLY COMPETITIVE ENVIRONMENT?

We are in an era of shifting priorities and disruptive changes that reshape the global economy as we know it. The main ones include the localization of market demands, which require us to deliver the same product of the same quality simultaneously in different continents.

Some customers require us to produce from the three continents and will only want one kickoff meeting, and with the same quality everywhere. For this reason, we are recruiting key talents to have the right people at the right place. As we have access to the world's best and brightest, I am confident that our corporate culture, top-notch technical orientation, and solid international position will attract precisely the right people.

WHAT IS YOUR VISION FOR IMI?

My vision for IMI is to be the leading global manufacturing solutions provider. I believe we can achieve this by continuously focusing on high-margin, non-traditional industry segments, providing global scale for global customers, employing LEAN manufacturing and best practices to continue to boost efficiency and lower costs, enhancing supply chain management capabilities, and strengthening the organization to continuously reinforce our ability to venture into new growth areas.

We intend to be the partner of choice for markets, especially those requiring highly technical and secure quality solutions.

I have no doubt IMI will remain among the top six in the automotive EMS because we have a solid vision. We can attract talent that can flourish and grow with us. We are flexible enough to quickly adapt and find solutions when needed.

I invite all our shareholders—the IMI global workforce and management, and our partner communities—to experience this exciting journey with us.

GILLES BERNARD
PRESIDENT AND CHIEF OPERATING OFFICER

BUSINESS OVER

Few companies in the modern world have managed to stay strong and resilient after 36 years. For nearly four decades, IMI has survived several storms and upheavals on all fronts, transforming these challenges into opportunities that have helped us continue to grow. We have expanded our coverage in a number of disruptive technologies and increased manufacturing in many high-value segments.

At IMI, we have been adopting strategic and collaborative business models in response to rising competition levels in the industry, including a deeper knowledge of customer needs, and a relentless focus on our core competencies to provide customized solutions and provide a comprehensive range of capabilities that allow better flexibility, options, and convenience to our customers.

With the global economy's flat growth year-on-year, 2016 was a transition year as we aggressively pushed onward as the only Filipino company in the top 30 EMS firms in the world, and among the top 10 EMS providers in the automotive market.

We went beyond our core competency in manufacturing and focused on high-value offerings for our customers, creating our own domains of expertise by:

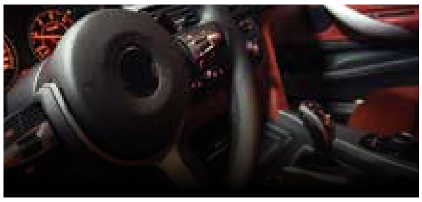
- Moving to higher value markets in manufacturing—from consumer and computing markets to industrial, automotive, medical, and aerospace, with focus on system builds and automation
- Creating synergies within the Ayala group
- Expanding our global footprint through acquisitions
- Raising operational excellence through LEAN manufacturing

This year, IMI will be housed under AC Industrials to serve as a manufacturing pillar in the Southeast Asian industrial hub. IMI will house the manufacturing operations of the partnership between Ayala and KTM Asia Motorcycle Manufacturing Inc., the world's fourth largest motorcycle firm, in addition to our existing manufacturing and automotive businesses.

We continue to invest in equipment, people, competence, and innovation in segments that we believe will deliver sustainable returns. Last year we spent $52.2 million in capital expenditures, 46 percent higher than the previous year's, for the development of platforms and technologies.

In 2016, we won more than 200 new projects—an increase of 23 percent from 2015 in terms of annual revenue potential. Around 77 percent of those projects are for automotive and industrial customers.

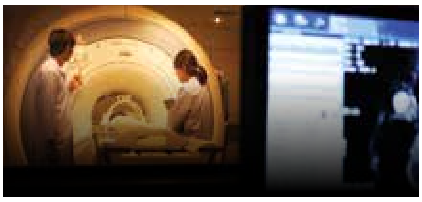
BUSINESS SEGMENTS



AUTOMOTIVE

Last year was a breakthrough year for IMI, having moved up to the sixth spot among top automotive EMS providers in the world, according to New Venture Research's 2015 automotive EMS revenues per electronics market.

We remain engaged with 80 percent of the top 15 global Tier 1 automotive suppliers based on the annual ranking from *Automotive News*, a testament to our expertise in many areas of the vehicle including passive and active safety electronics, body controls, and steering systems.



IMI is well-entrenched in this segment with the highest potential for growth. The global advanced driver assistance systems (ADAS) market is expected to grow from an estimated $19.8 billion in 2015 to $99.6 billion in 2022, with a CAGR of 27 percent (from 2016–2022) (P&S Market Research).

Considerable innovation in the automotive lighting industry also contributed significantly to IMI's revenues. Our facility in Bulgaria has been manufacturing such products, ranging from light source used in basic leveling systems, to the latest adaptive front-light systems.

IMI plants in Jiaxing (China), Botevgrad (Bulgaria), and Guadalajara (Mexico) have been on expansion mode to accommodate increased businesses from Tier 1 automotive parts suppliers.

INDUSTRIAL

Power modules. IMI Philippines' Insulated-Gate Bipolar Transistor power module facility remains to be the only local integrated power module line with the capability to not only perform package design and manufacturing, but also provide test solutions for high power devices in hundreds of kW range. We are now able to provide complete solutions from the product creation at the front end to product testing and assurance at the back end—the only Filipino company that does so here in the country, an edge that IMI has on renewable energy and autonomous driving.

Security applications. For the last 16 years, IMI has been designing and building applications, for one of the largest global providers of security and door-locking systems that can be found in airports, hotels, casinos, cruise ships, and other establishments.

Broadening our engines of growth, we have also begun our next wave of major projects with the setup of the KTM assembly plant in July 2016. The first batch of units is expected to roll out within the first quarter of 2017.

MEDICAL ELECTRONICS

IMI continues to build capabilities and explore more opportunities in this sector. Portable life-saving and diagnostic devices such as wireless vital signs monitors, implantable nerve stimulators and incontinence controllers are some of the many products being developed at IMI Tustin.

Since 2014, IMI Kuichong (China) has been manufacturing an ultrasound system to address the imaging needs of clinicians and point-of-care specialists that delivers exceptional image quality and uncompromised diagnostic capabilities. The site also continues to produce various patient monitoring equipment to perform critical functions.

TECHNOLOGY & ENGINEERING

We provide high-quality engineering services from concept to product realization. Our robust engineering systems and full-service engineering capabilities worldwide can fulfill the most stringent customer requirements in any location.

Design & Development (D&D). To provide greater focus on IMI's automotive camera development, the Camera and Vision Technology (CVT) group was spun off from D&D in 2016. With the advent of driverless cars, the group was created to focus on camera platform development and design services. The CVT group engages in platform development and design services of the automotive cameras. In 2016, IMI's D&D team also shifted its focus on the IoT and has been pursuing industrial opportunities. The CVT group has begun working on two customer programs involving design and manufacturing. Focus is also now being made on the whole vision and sensing systems.

TELECOMMUNICATIONS

With converging technologies enhancing communications, connectivity, and mobility, IMI remains focused on high-value niches in this segment, particularly in areas involving power supply units, optical networks, and satellite receivers. Such focal points contribute 59 percent of the revenue from our Chinese operation sites, with a 4 percent year-on-year growth.

IMI is set to relocate one manufacturing site to a bigger location in China and embark on a factory modernization in 2017, implementing mid-range automation for cost efficiency and quality.

Analytical Testing & Calibration (ATC) Laboratory. Early last year, the lab received ISO 17025 accreditation on all nine scopes, the single most important international standard for calibration and testing laboratories in the world. Accredited laboratories are considered technically competent to produce precise and accurate test and calibration data.

IMI's ATC Laboratory is also the first in the Philippines to be granted accreditation on Reliability Testing and Scanning Electron Microscopy (SEM) inspection on Failure Analysis by the Philippine Accreditation Bureau, an internationally recognized accrediting conformity assessment body.

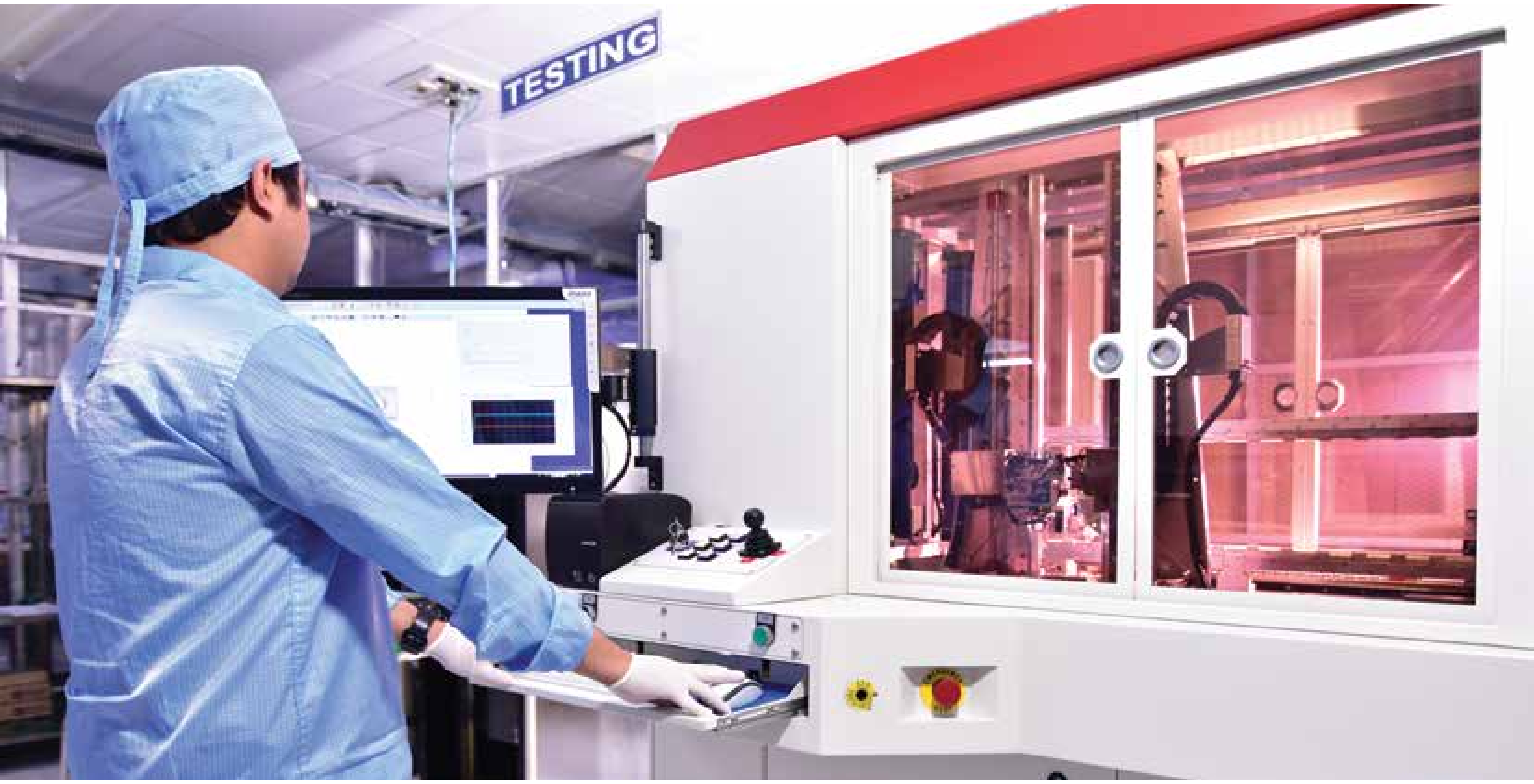
Advanced Manufacturing Engineering (AME). As automotive and medical products get smaller, IMI Tustin continues to provide value to product miniaturization. In 2016, IMI's global AME focused on several industrial micro-electromechanical systems-based inertial measurement unit modules, commercial laser display modules, and automotive camera modules, including the IMI minicube camera platform.

AME also developed a fully automated assembly line that manufactures a complex electro-mechanical assembly for automotive safety and security electronic control at IMI Jiaxing as well as in IMI Mexico. High-power modules for automotive and industrial applications, from design and development, and NPI to mass production are growing briskly.

Test & Systems Development (TSD). With the major shift in complexity of test requirements for new and emerging technology products, IMI's TSD group expanded the development and application of fully automated test systems that integrate common backend process requirements—product marking, automated inspection, and unit sorting. The Flexible Automated Standardized Tester Platform (FAST-P) implemented this concept, a collaboration between IMI Czech Republic and TSD Philippines. The result is a compact tester with a high throughput of up to a thousand units per hour. The prototype will undergo full evaluation and roll-out in 2017.

At IMI's Jiaxing factory in China, robotic automation processes are extensively implemented in various tester platforms for automotive products. Similar test platforms share common software and hardware architectures, helping accelerate the development process and ensure high performance.

"IMI'S ANALYTICAL TESTING AND CALIBRATION LABORATORY IS **THE FIRST TO BE ACCREDITED IN THE PHILIPPINES** FOR RELIABILITY AND SCANNING ELECTRON MICROSCOPY FOR FAILURE ANALYSIS."



Systems Integration (SI). The SI group of IMI Philippines was organized to meet a wide variety of complex "build-to-print" and automation requirements. The group brings modules together, combining complex PCBAs, electronics, and mechanical assemblies with robotics into one system, while ensuring that the subsystems function together as a system. The group also provides project engineering, documentation, installation, testing, and commissioning for build-to-print and contract design manufacturing programs.

Automation. Our global Automation group continues to expand in IMI Czech Republic, Mexico, China, and the Philippines, developing fully automated production lines as well as cost-effective automation systems to help drive cost reduction efforts. Last year, IMI's first fully automated final assembly line was installed in IMI Jiaxing, while a faster and improved version of the same assembly line was installed in IMI Mexico. Its competency center in IMI Czech Republic continues to develop robot-based systems and has completed the installation of a fully automated plastic injection molding cell as well as high-speed automated assembly and testing line at IMI Bulgaria. Several customized machines were also developed and installed in IMI Mexico.

The company's first Industry 4.0 pilot installation kicked off early this year, and recruitment has begun for a new R&D group focused on low-cost automation initiatives.

IMI IS **FUTURE**-READY

Our company expects to grow and take market share in these sectors in the next five years as industry standards get more stringent, and consumers become more discriminating. IMI is in the best position to fill the needs of these product lines on a global scale.

1 DRIVERLESS CARS

We develop, manufacture, and improve on products deployed in automated driving systems, which are built into cars, available as an add-on package or aftermarket solution. As one of the fastest-growing segments in the automotive industry, and with the steadily rising rates of adoption of industry-wide quality standards, next generation advanced driver assistance systems, including a wide array of sensing cameras, sensors, lasers and electronic control units, are expected to leverage on wireless network connectivity to offer enhanced value.

2 CONNECTIVITY

We are also expanding our wireless connectivity capabilities for the rapidly growing IoT, well aware of the wide variety-of-use cases in different environments and in the service of diverse requirements. Our systems are also in place for the much-anticipated arrival of 5G, a network that will not only be significantly faster but also much smarter, and which will better manage the burgeoning trend of IoT as it enhances machine-to-machine (M2M) interface. These developments, in which IMI is an active participant, have implications on dramatically changing lives for the better.

3 SMART ENERGY

IMI is one of the few companies in the world capable of handling not only the electronics manufacturing side of the power modules but also their power semiconductor aspect. With our capability to scale and produce within a wide breadth of module specifications, our power module business aligns with our strategy of offering innovative solutions in line with expanding businesses in the automotive and industrial segments. As cities of the future will demand more sophisticated modular power solutions at the sensor level, IMI will continue to integrate these solutions into various subsystems for use in a range of applications.

CREATING AND SHARING VALUE THROUGH IMI'S CAPITAL AND KEY ACTIVITIES

GOVERNANCE
- Board of Directors
- Management Committee
- Audit and Risk Committee

RISK MANAGEMENT
- Strategic Risks
- Operations Risks
- Compliance Risks
- Financial Risks

STRATEGIC PLANNING RESOURCE ALLOCATION
- Key Strategies
- Budgeting and Forecasting

DESIGN AND ENGINEERING
- Core Focus on Advanced Driver Assistance Systems (ADAS)
- Simultaneous Engineering with Customers

MATERIALS MANAGEMENT
- Greening the Supply Chain
- Adherence to Conflict Materials Sourcing
- Hazardous Substance Process Management System

MANUFACTURING
- Industrial Excellence
- Lean Manufacturing
- Business Excellence Program
- Green Manufacturing

ORDER FULFILLMENT AND OTHER SERVICES
- Employees Training through IMI University
- Community Development
- Academe and International Funding Institutions Engagement

CAPITAL		2016	2015
FINANCIAL			
	Capital	US$236.6M	US$232.2M
	Borrowings	US$180.8M	US$119.9M
MANUFACTURED			
	Assets	US$635.9M	US$516.5M
	Manufacturing Plants	14	13
	SMT Lines	118	113
	Information and Communications Technology Support	US$3.9M	US$659,794
	Capital Expenditures	US$52.2M	US$35.8M
INTELLECTUAL			
	Capabilities	Automotive, Industrial, Medical, Telecommunications, Consumer, Multiple Markets	Automotive, Industrial, Medical, Telecommunications, Consumer, Multiple Markets
	R&D Geographic Presence	US, China, Bulgaria, Philippines	US, China, Bulgaria, Philippines
	Engineering-Oriented Services	195 Technical Personnel	201 Technical Personnel
HUMAN			
	Employees	14,580	14,328
	Competency-Based Training for Employees	313	161
SOCIAL AND RELATIONSHIPS			
	Key Customers	16	16
	Total Annual Revenue of Key Customers	US$515M	US$511M
	Partners and Other Relationships	Suppliers, Regulatory Agencies, Industry Associations, Academe	Suppliers, Regulatory Agencies, Industry Associations, Academe
NATURAL (PHILIPPINES DATA ONLY)			
	Electricity	50,355,209 kwh	50,398,915 kwh
	Industrial Water	823,334 m^3	711,496 m^3

KEY FACTORS AFFECTING PERFORMANCE

- Foreign market performance
- Demand for devices
- Innovations in process design, development, and manufacturing

OUTLOOK

- Evolving trends and opportunities in technology and automation. New innovations, such as next generation mobile networks, advanced sensors, the IoT, the Connected Home Ecosystems, assisted driving and driverless cars, smart energy, among others
- Demand for high-tech products will increase as the middle class in Asia will reach three billion by 2030 and account for 80 percent of global middle class. Growing aging population in developed countries presents new opportunities for telemedicine and medical electronics.
- Urbanization will usher in a growth of smart cities and smart homes that will use more than 1.6B connected devices in 2018.


BRITISH COUNCIL
Ayala
CHANGEMAKER
BEYOND CSR


COMMUNITY OUTREACH
Week of Caring
DENTAL



METAL WASTE


GRI INDICATORS

The coverage for this set of indicators is IMI Philippines, comprising IMI's manufacturing sites at Laguna Technopark and Cavite.

INDICATOR	2016	2015
Environment		
EN 3: Direct energy consumption by primary energy source	256 MT	154 MT
EN 4: Indirect energy Scope 2. energy consumption by primary source (C02 emission)	30,374 MT	30,401 MT
EN 4: Indirect energy Scope 3. energy consumption by primary source (C02 emission)	2,097 MT	2,068 MT
EN 4: Indirect energy Scope 2. energy consumption by primary source	50,355,209 KWH	50,398,915 KWH
EN 5: Energy saved due to conservation and efficiency improvements	389,109 KWH	473,644 KWH
EN 10: Total volume of water recycled and reused	57,787 m^3	17,383.48 m^3
EN 16: Total indirect greenhouse gas emissions by weight	30,374 MT	30,401 MT
EN 22: Total weight of waste by type and disposal method	Common Residual Waste = 22MT Hazardous Waste = 202 MT Recyclable Waste = 1,072 MT	Common Residual Waste = 23 MT Hazardous Waste = 171 MT Recyclable Waste = 941 MT
EN 28: Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	None	None
Initiatives to mitigate environmental impacts of products and services	Energy Management, Water Management, Waste Management, Chemical and Hazardous Substance Process Management	Energy Management, Water Management, Waste Management, Chemical and Hazardous Substance Process Management
Human Rights		
HR 4: Total number of incidents of discrimination and actions taken	None	None
HR 6: Operations identified as having significant risk for incidents of child labor, and measures taken to contribute the elimination of child labor	None	None
HR 7: Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	None	None

INDICATOR	2016	2015
Labor		
LA 1: Total workforce by employment type, gender, and age	**Total Workforce: 4,218** **Employment Type:** Permanent - 3,909 Contractual - 309 **Gender:** Male - 1,107 Female - 3,111 **Age:** over 50 - 95 31 to 50 - 3,123 under 30 - 1,000	**Total Workforce: 4,953** **Employment Type:** Permanent - 4,872 Contractual - 81 **Gender:** Male - 1,059 Female - 3,894 **Age:** over 50 - 82 31 to 50 - 3,252 under 30 - 1,619
LA 2: Total number and rate of employee turnover by age group and gender	**Employee Turnover: 1,250** **Turnover by age group :** over 50 - 13 31 to 50 - 819 30 below - 418 **Gender:** Male - 147 Female - 1,103	**Employee Turnover: 422** **Turnover by age group :** over 50 - 1 31 to 50 - 271 30 below - 150 **Gender:** Male - 74 Female - 348
LA 3: Benefits provided to full-time employees that are not provided to temporary or part-time employees by major operations	1. **Life Insurance** – 24x Monthly Basic Salary; double indemnity for Accidental Death & Dismemberment	1. **Life Insurance** – 24x Monthly Basic Salary; double indemnity for Accidental Death & Dismemberment
	2. **Medical Insurance** – group hospitalization with inner limits (depending on rank) per illness per confinement.	2. **Medical Insurance** – group hospitalization with inner limits (depending on rank) per illness per confinement.
	3. **Out-patient Benefit** – consultation and laboratory exams within annual benefit limits (depending on rank)	3. **Out-patient Benefit** – consultation and laboratory exams within annual benefit limits (depending on rank)
	4. **Annual Physical Exam** – routine medical examination every year	4. **Annual Physical Exam** – routine medical examination every year
	5. **Vacation leave** – 12 days per year; paid leave starts after one year of continuous service. Unused VL with maximum of four (varies by tenure) shall be converted to cash for supervisors and up.	5. **Vacation leave** – 12 days per year; paid leave starts after one year of continuous service. Unused VL with max of four (varies by tenure) shall be converted to cash for supervisors and up.
	6. **Sick Leave** – 12 days per year; paid leave starts after six months of continuous service. All unused sick leave credits will be converted to cash at the end of each year.	6. **Sick Leave** – 12 days per year; paid leave starts after six months of continuous service. All unused sick leave credits will be converted at the end of each year.
	7. **Emergency Leave** – three days per year; paid leave starts after one year of continuous service.	7. **Emergency Leave** – three days per year; paid leave starts after one year of continuous service.
	8. **Computer / Gadget Loan** – up to max of ₱50,000 at zero interest; for supervisors and up.	8. **Computer Loan** – up to max of ₱50,000 at zero interest; for supervisors and up.
	9. **Emergency Loan** – up to max of ₱5,000 at zero interest.	9. **Emergency Loan** – up to max of ₱5,000 at zero interest.
	10. **Multipurpose loan** – eligibility starts after five years of continuous service; for supervisors and engineers.	10. **Multipurpose loan** – eligibility starts after five years of continuous service; for supervisors and engineers.

INDICATOR	2016	2015
LA 8: Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, and community members regarding serious diseases	• **Goiter Awareness Week** - Intensive awareness program through posters, e-mail blasts, and lectures. • **Expanded Immunization Program** - Initiative for employees' pediatric dependents to cover for vaccinations not given by the Department of Health (DOH). - Pneumococcal, Typhoid Fever, Meningococcal, Dengue Fever, Influenza (Flu), and Cervical Cancer • **Blood Donation Program** - Employees donated blood in cooperation with St. Luke's Hospital and Philippine Red Cross, Sta. Cruz, Laguna • **Random Drug Testing** - Four scheduled random drug testing to ensure a Drug-Free Workplace • **Medical Outreach Program** - Volunteers from IMI, in cooperation with clinic nurses and doctors, offered help to a community by giving free medical, dental, and optical consultations, hair cuts, seminars, and medicines • **Annual Audiometric Examination** - Employees exposed to noise level of ≥84dBA underwent hearing test • **Blood Lead Test** - Employees exposed to processes and materials with Lead content underwent Lead test • **Family Health Da**y - Employees brought their family to IMI for bonding and free medical, dental, and optical consultation, tooth extraction, medicines, seminars, breakfast, and giveaways provided by IMI and volunteers • **Annual Physical Exam** - To ensure employees' health and well-being • **AIDS Awareness Program** - Awareness program through e-mail blasts and posters • **Asthma Awareness Month** - E-mail blasts to relay information about asthma and how to prevent it • **National Diabetes Awareness Week** - Information dissemination about diabetes via e-mail blasts and posters	• **Goiter Awareness Week** - Intensive awareness program through posters, e-mail blasts, and lectures. • **Expanded Immunization Program** - Influenza vaccines for seasonal flu - Cervical cancer vaccine extended to women above 45 years old • **Heart Month / Hypertension Program** - Weekly e-mail blasts about taking care of the heart and ways to avoid heart diseases • **Blood Donation** - Employees donated blood • **Special Health Bulletins on MERS CoV** - Information dissemination through e-mail and posters • **Random Drug Testing** (2 sessions conducted for the year) • **Summer Health Bulletin** - Employees were informed through a series of bulletin posts and e-mail blasts on safety during the summer season • **Medical Outreach Program** - Volunteers from IMI, in cooperation with clinic nurses and doctors, offered help to a community by giving free medical, dental, and optical consultations, hair cuts, seminars, and medicines • **Pneumonia Vaccination** - Employees and dependents who availed were given large discounts • **Breast Cancer Awareness Month** - Breast cancer awareness through e-mail blasts and posters • **Annual Physical Exam** - To ensure employees' health and well-being • **Ayala Fun Run** - Employees who participated were also treated with Zumba, fitness advice, dietary plans, and dancing activities

INDICATOR	2016	2015
LA10: Average hours of training per year per employee by employee category	Managers: 8.2 hrs/yr Supervisors: 12 hrs/yr Staff: 0.9 hr/yr	Managers: 6.6 hrs/yr Supervisors: 6.2 hrs/yr Staff: 0.5 hr/yr
LA13: Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	**BOD Total Number of Members:** 11 Gender: Male - 10; Female - 1 Age Group: over 50: 10 30 to 50: 1	**BOD Total Number of Members:** 11 Gender: Male - 10; Female - 1 Age Group: over 50: 9 30 to 50: 2
Economic		
EC 1: Economic value generated and distributed, included revenues, operating costs, employee compensation, donations and other community investments, and payments to capital providers and government	**Economic Value (in Million Pesos)** Revenues: 10,478 Net Income: 348 **Distribution:** Suppliers/contractors - 10,620 Employees (salaries and benefits) - 1,468 Government (taxes) - 98 Stockholders (dividends) - 411 Charitable contributions - 0.5 **Total Distribution** - 12,597 **Investments** Equity Investment - 8,956 Capex - 385 **Total Investment** - 9,341	**Economic Value (in Million Pesos)** Revenues: 10,243 Net Income: 537 **Distribution:** Suppliers/contractors - 9,198 Employees (salaries and benefits) - 1,424 Government (taxes) - 87 Stockholders (dividends) - 337 Charitable contributions - 0.5 **Total Distribution** - 11,046 **Investments** Equity Investment - 5,911 Capex - 424 **Total Investment** - 6,335
EC 3: Coverage of the organization's defined benefit plan obligations	**Tenure** / **Separation Benefit** 5<10 / 25% of monthly basic pay per yr of service 10<15 / 50% of monthly basic pay per yr of service 15<20 / 75% of monthly basic pay per yr of service 20 yrs and above / 100% of monthly basic pay per yr of service	**Tenure** / **Separation Benefit** 5<10 / 25% of monthly basic pay per yr of service 10<15 / 50% of monthly basic pay per yr of service 15<20 / 75% of monthly basic pay per yr of service 20 yrs and above / 100% of monthly basic pay per yr of service
Social		
SO 8: Monetary value of signficant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	None	None
Product Responsibility		
PR 5 - Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	**Overall CSAT Rating :** Key Accounts - 4.38 Non-Key Accounts - 4.59	**Overall CSAT Rating :** Key Accounts - 4.12 Non-Key Accounts - 4.59

2016 FINANCIAL STATEMENTS

MANAGEMENT'S **DISCUSSION AND ANALYSIS**

Review of 2016 Performance versus 2015

IMI brought 2016 to a close with consolidated revenues of $843.0M (₱40.0 billion), an increase of 4 percent year-over-year. Excluding acquisition, revenues went up by 1 percent driven by Europe and Mexico operations. The company also delivered a positive operating income growth of 13 percent and improved gross profit margin by 50 bps to 12 percent. Net income of $28.1 million (₱1.3 billion) was slightly lower by 2 percent from that of the previous year owing to transaction and financing costs related to acquisitions and foreign exchange impact of the Renminbi.

The company's strong presence in the automotive and industrial segments undergoing disruption enabled the company to seize many opportunities ahead and continues to accelerate growth. New won projects in 2016, mostly from these segments, grew 23 percent from the previous year. IMI's automotive business now accounts for 45 percent of the total global revenues and rose 10 percent versus that of 2015. Europe remains to be our dominant market, comprising 54% of global sales, followed by America at 24%.

Performance of Geographic Locations

Our Europe and Mexico operations reported combined revenues of $308.0 million or 15 percent growth year-on-year as we continue our expansion to accommodate growing automotive business.

China operations posted $261.4 million, down 6 percent from the previous year as a result of China's slower economic activities affecting the consumer electronics segment and foreign currency impact on revenues.

The exit from the declining segment in computing peripherals mainly drove the drop in the Philippines's electronics services operations which delivered $220.7 million, 2 percent lower than the previous year, while the semiconductor assembly and test subsidiary posted $33.0 million in revenues, down 2 percent year-on-year.

The newly acquired VIA Optronics contributed $19.4 million in revenues for three months, majority of which were derived from its consumer segment.

Capital Expenditure

In 2016, IMI spent $52.2 million on capital expenditures, 46 percent higher than that of 2015, as it continued to invest in innovative projects that will deliver sustainable returns. For 2017, the company allocated $51.5 million for capital expenditures to build more complex and higher value-add manufacturing capabilities and growth platforms.

Financial Condition

IMI's balance sheet remains robust with a current ratio of 1.51:1 and debt-to-equity ratio of 0.74:1.

REPORT OF THE **AUDIT AND RISK COMMITTEE** TO THE BOARD OF DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016

The Audit and Risk Committee's roles and responsibilities are defined in the Audit and Risk Committee Charter approved by the Board of Directors. The Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to: (a) the integrity of the Company's financial statements and financial reporting process; (b) the appointment, remuneration, qualifications, independence and performance of the independent external auditors and the integrity of the audit process as a whole; (c) the effectiveness of the systems of internal control and the risk management process; (d) the performance and leadership of the internal audit function; (e) the company's compliance with applicable legal, regulatory and corporate governance requirements; and (f) the preparation of year-end report of the Committee for approval of the Board and to be included in the annual report.

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

- An independent director chairs the Committee;
- We had four (4) regular meetings during the year with all the members present;
- We met separately with the external auditors in an executive session during the year;
- 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 plans for the respective audit reviews of the internal auditors and SGV & Co.;
- We have discussed the audit results of SGV & Co. and their assessment of the overall quality of IMI's financial reporting process, mainly on financial statements and compliance to financial reporting standards, and their management letter of comments on internal control weaknesses observed during the audit;
- We have discussed the audit results and reports of the internal auditors and their follow-ups on the implementation of audit recommendations, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues;
- 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 the audit services of SGV & Co. and approved all audit-related and permitted non-audit services provided by SGV & Co. to IMI including 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.

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, 2016 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 2017 based on the review of their performance and qualifications.

14 February 2017

EDGAR O. CHUA	**RAFAEL MA. 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, 2016 and 2015, 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 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 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 auditors appointed by the stockholders, has audited the consolidated financial statements of the Group 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.

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, 2016 and 2015, 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, 2016, 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 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.

Valuation of the put options arising from the acquisition of VIA Optronics GmbH (VIA)

In 2016, the Group acquired 76.01% interest in VIA. The terms of the acquisition included put options that granted the non-controlling shareholder the right to sell his shares in VIA to the Group. The put options resulted in a financial liability of $11.3 million as of December 31, 2016. 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 of VIA, discount rate, forecasted interest rate and the probability of trigger events occurring. Details of the transaction and the valuation of the put options are disclosed in Notes 2 and 30 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, discount rate, forecasted interest rate and probability of trigger events occurring. We evaluated the revenue growth rate by comparing against VIA's recent financial performance, the Group's business plan for VIA and industry outlook. 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 inquired with management its basis for the probability of trigger events occurring.

Recoverability of Goodwill

As of December 31, 2016, goodwill acquired by the Group through business combinations amounted to $96.0 million, which is considered significant to the consolidated financial statements. The goodwill acquired through business combinations had been allocated to the following cash-generating units (CGUs): Integrated Micro-Electronics, Inc., Speedy-Tech Electronics, Ltd., IMI Czech Republic s.r.o. and VIA. Under PFRS, the Group is required to annually test the amount of goodwill for impairment. In addition, management's assessment process requires significant judgement and is based on assumptions, specifically revenue growth rate, gross margin and discount rate. Management's disclosures on goodwill are included in Note 10 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group's impairment assessment process and the related controls. We involved our internal specialist in reviewing 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 most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 Arnel F. de Jesus.

SYCIP GORRES VELAYO & CO.

Arnel F. De Jesus
Partner
CPA Certificate No. 43285
SEC Accreditation No. 0075-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 152-884-385
BIR Accreditation No. 08-001998-15-2015,
June 26, 2015, valid until June 25, 2018
PTR No. 5908688, January 3, 2017, Makati City

February 15, 2017

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**$86,548,735**	$101,532,409
Receivables - net (Note 6)	**198,202,754**	169,291,581
Inventories (Note 7)	**106,132,529**	88,255,209
Other current assets (Note 8)	**16,090,797**	10,935,700
Total Current Assets	**406,974,815**	370,014,899
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	**117,405,004**	93,101,971
Goodwill (Note 10)	**96,044,622**	46,876,213
Intangible assets (Note 11)	**10,469,078**	2,398,461
Available-for-sale financial assets (Notes 12 and 30)	**740,949**	583,510
Deferred tax assets (Note 23)	**1,552,362**	1,527,537
Other noncurrent assets (Note 13)	**2,722,057**	2,032,068
Total Noncurrent Assets	**228,934,072**	146,519,760
	$635,908,887	$516,534,659
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 14)	**$195,675,304**	$152,817,225
Trust receipts and loans payable (Note 15)	**51,445,169**	42,297,356
Financial liabilities on put options (Notes 2 and 30)	**11,334,282**	–
Current portion of long-term debt (Note 16)	**8,185,053**	42,953,009
Income tax payable	**3,451,416**	2,533,995
Total Current Liabilities	**270,091,224**	240,601,585
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 16 and 30)	**121,144,043**	34,648,756
Advances from customers (Note 17)	**1,137,865**	1,123,343
Net retirement liabilities (Note 25)	**4,091,990**	5,791,612
Deferred tax liabilities (Note 23)	**1,275,651**	1,358,303
Accrued rent (Note 28)	**84,731**	454,878
Other noncurrent liabilities	**216,253**	118,418
Total Noncurrent Liabilities	**127,950,533**	43,495,310
Total Liabilities	**398,041,757**	284,096,895
EQUITY		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common (Note 18)	**34,935,709**	34,933,728
Subscribed capital stock (Note 18)	**1,857,440**	1,907,584
Additional paid-in capital (Note 18)	**70,927,567**	82,527,542
Subscriptions receivable (Note 18)	**(12,334,692)**	(13,131,734)
Retained earnings unappropriated	**168,932,158**	149,437,014
Treasury stock (Note 18)	**(1,012,586)**	(1,012,586)
Reserve for fluctuation on available-for-sale financial assets	**368,531**	251,030
Cumulative translation adjustment	**(20,639,608)**	(16,544,691)
Other comprehensive loss	**(6,428,260)**	(6,295,673)
Other reserves	**–**	170,714
	236,606,259	232,242,928
Equity Attributable to Non-controlling Interests in Consolidated Subsidiaries	**1,260,871**	194,836
Total Equity	**237,867,130**	232,437,764
	$635,908,887	$516,534,659

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2016	2015	2014
REVENUES			
Sale of goods	**$774,643,182**	$750,514,863	$746,158,727
Sale of services	**68,323,242**	63,849,241	98,315,342
	842,966,424	814,364,104	844,474,069
COST OF SALES (Note 19)			
Cost of goods sold	**680,844,830**	663,659,753	664,495,465
Cost of services	**60,812,213**	56,672,880	86,045,599
	741,657,043	720,332,633	750,541,064
GROSS PROFIT	**101,309,381**	94,031,471	93,933,005
OPERATING EXPENSES (Note 20)	**(58,366,442)**	(56,098,525)	(64,232,479)
OTHERS - Net			
Interest expense and bank charges (Note 22)	**(3,884,454)**	(2,716,385)	(2,814,803)
Foreign exchange gains (losses) - net	**(2,437,818)**	(2,419,021)	36,401
Gains on insurance claims (Notes 7 and 9)	**360,895**	–	334,695
Interest income (Note 5)	**294,035**	658,003	196,271
Gain (loss) on sale and retirement of property, plant and equipment - net (Note 9)	**(143,034)**	165,776	14,506,946
Mark-to-market loss on put options (Note 2)	**(40,785)**	–	–
Impairment loss on goodwill (Note 10)	**–**	–	(7,478,980)
Miscellaneous income (loss) - net (Note 21)	**(2,269,225)**	1,054,201	710,235
	(8,120,386)	(3,257,426)	5,490,765
INCOME BEFORE INCOME TAX	**34,822,553**	34,675,520	35,191,291
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**6,942,950**	5,731,204	8,927,759
Deferred	**(136,306)**	174,204	(2,727,851)
	6,806,644	5,905,408	6,199,908
NET INCOME	**$28,015,909**	$28,770,112	$28,991,383
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$28,115,891**	$28,789,740	$29,117,024
Non-controlling interests	**(99,982)**	(19,628)	(125,641)
	$28,015,909	$28,770,112	$28,991,383
Earnings Per Share (Note 24)			
Basic and diluted	**$0.015**	$0.015	$0.017

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2016	2015	2014
NET INCOME FOR THE YEAR	**$28,015,909**	$28,770,112	$28,991,383
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	**(4,094,917)**	(5,835,345)	(9,284,204)
Fair value changes on available-for-sale financial assets	**117,501**	66,911	(5,482)
	(3,977,416)	(5,768,434)	(9,289,686)
Other comprehensive income (loss) not to be reclassified into profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans (Note 25)	**(132,587)**	(722,109)	3,384,509
	(4,110,003)	(6,490,543)	(5,905,177)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**$23,905,906**	$22,279,569	$23,086,206
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$24,005,888**	$22,299,197	$23,211,847
Non-controlling interests	**(99,982)**	(19,628)	(125,641)
	$23,905,906	$22,279,569	$23,086,206

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, 2016, 2015 AND 2014

	Attributable to Equity Holders of the Parent Company											
	Capital Stock - Common (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Subscriptions Receivable (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss (Note 25)	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 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 26)	–	–	744,130	–	–	–	–	–	–	–	–	744,130
Collections on subscriptions	–	–	–	462,377	–	–	–	–	–	–	–	462,377
Forfeitures during the year	–	(48,163)	(286,502)	334,665	–	–	–	–	–	–	–	–
Effect of recognition of financial liability arising from put options on business combination (Note 2)	–	–	(12,057,603)	–	–	–	–	–	–	–	–	(12,057,603)
Increase in non-controlling interest due to the acquisition of a subsidiary during the year (Note 2)	–	–	–	–	–	–	–	–	–	–	1,355,604	1,355,604
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)	–	1,360,853	213,961,224
Net income (loss)	–	–	–	–	28,115,891	–	–	–	–	–	(99,982)	28,015,909
Other comprehensive income (loss)	–	–	–	–	–	–	117,501	(4,094,917)	(132,587)	–	–	(4,110,003)
Total comprehensive income (loss)	–	–	–	–	28,115,891	–	117,501	(4,094,917)	(132,587)	–	(99,982)	23,905,906
Balances at December 31, 2016	$34,935,709	$1,857,440	$70,927,567	($12,334,692)	$168,932,158	($1,012,586)	$368,531	($20,639,608)	($6,428,260)	$–	$1,260,871	$237,867,130

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	Attributable to Equity Holders of the Parent Company													
	Capital Stock - Common (Note 18)	Capital Stock - Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Subscriptions Receivable (Note 18)	Retained Earnings Appropriated for Expansion (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss (Note 25)	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2015	$34,876,616	$26,601,155	$1,797,638	$80,480,981	($12,906,784)	$20,660,981	$109,481,277	($1,012,586)	$184,119	($10,709,346)	($5,573,564)	$170,714	$214,464	$244,265,665
Issued shares during the year	57,112	–	(57,112)	–	–	–	–	–	–	–	–	–	–	–
Redemption of preferred shares	–	(26,601,155)	–	–	–	–	(1,834,644)	–	–	–	–	–	–	(28,435,799)
Subscriptions during the year (Note 26)	–	–	222,366	913,925	(1,136,291)	–	–	–	–	–	–	–	–	–
Collections on subscriptions	–	–	–	–	460,634	–	–	–	–	–	–	–	–	460,634
Forfeitures during the year	–	–	(55,308)	(395,399)	450,707	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 26)	–	–	–	1,528,035	–	–	–	–	–	–	–	–	–	1,528,035
Reversal of appropriated retained earnings	–	–	–	–	–	(20,660,981)	20,660,981	–	–	–	–	–	–	–
Reversal of cash dividends declared in advance	–	–	–	–	–	–	207,625	–	–	–	–	–	–	207,625
Cash dividends	–	–	–	–	–	–	(7,867,965)	–	–	–	–	–	–	(7,867,965)
	34,933,728	–	1,907,584	82,527,542	(13,131,734)	–	120,647,274	(1,012,586)	184,119	(10,709,346)	(5,573,564)	170,714	214,464	210,158,195
Net income (loss)	–	–	–	–	–	–	28,789,740	–	–	–	–	–	(19,628)	28,770,112
Other comprehensive income (loss)	–	–	–	–	–	–	–	–	66,911	(5,835,345)	(722,109)	–	–	(6,490,543)
Total comprehensive income (loss)	–	–	–	–	–	–	28,789,740	–	66,911	(5,835,345)	(722,109)	–	(19,628)	22,279,569
Balances at December 31, 2015	$34,933,728	$–	$1,907,584	$82,527,542	($13,131,734)	$–	$149,437,014	($1,012,586)	$251,030	($16,544,691)	($6,295,673)	$170,714	$194,836	$232,437,764

	Attributable to Equity Holders of the Parent Company													
	Capital Stock - Common (Note 18)	Capital Stock - Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Subscriptions Receivable (Note 18)	Retained Earnings Appropriated for Expansion (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss (Note 25)	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2014	$30,016,551	$26,601,155	$1,229,926	$51,263,933	($9,590,746)	$20,660,981	$83,503,457	($1,012,585)	$189,601	($1,425,142)	($8,958,073)	$170,714	($2,604,272)	$190,045,500
Issued shares during the year	4,860,065	–	(70,580)	31,131,655	–	–	–	–	–	–	–	–	–	35,921,140
Subscriptions during the year (Note 26)	–	–	708,590	3,479,175	(4,187,765)	–	–	–	–	–	–	–	–	–
Transaction costs on shares issuance	–	–	–	(1,502,981)	–	–	–	–	–	–	–	–	–	(1,502,981)
Cost of share-based payments (Note 26)	–	–	–	165,006	–	–	–	–	–	–	–	–	–	165,006
Accretion of subscriptions receivable	–	–	–	79,418	(79,418)	–	–	–	–	–	–	–	–	–
Collections on subscriptions	–	–	–	–	328,621	–	–	–	–	–	–	–	–	328,621
Forfeitures during the year	–	–	(70,298)	(552,226)	622,524	–	–	–	–	–	–	–	–	–
Acquisition of non-controlling interests (Note 2)	–	–	–	(3,582,999)	–	–	–	–	–	–	–	–	2,944,377	(638,622)
Cash dividends	–	–	–	–	–	–	(3,139,204)	–	–	–	–	–	–	(3,139,204)
Acquisition of treasury stock	–	–	–	–	–	–	–	(1)	–	–	–	–	–	(1)
	34,876,616	26,601,155	1,797,638	80,480,981	(12,906,784)	20,660,981	80,364,253	(1,012,586)	189,601	(1,425,142)	(8,958,073)	170,714	340,105	221,179,459
Net income (loss)	–	–	–	–	–	–	29,117,024	–	–	–	–	–	(125,641)	28,991,383
Other comprehensive income (loss)	–	–	–	–	–	–	–	–	(5,482)	(9,284,204)	3,384,509	–	–	(5,905,177)
Total comprehensive income (loss)	–	–	–	–	–	–	29,117,024	–	(5,482)	(9,284,204)	3,384,509	–	(125,641)	23,086,206
Balances at December 31, 2014	$34,876,616	$26,601,155	$1,797,638	$80,480,981	($12,906,784)	$20,660,981	$109,481,277	($1,012,586)	$184,119	($10,709,346)	($5,573,564)	$170,714	$214,464	$244,265,665

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**$34,822,553**	$34,675,520	$35,191,291
Adjustments for:			
Depreciation of property, plant and equipment (Note 9)	**22,472,246**	21,016,819	20,859,849
Interest expense (Note 22)	**3,297,733**	2,208,551	2,739,455
Amortization of intangible assets (Note 11)	**1,989,548**	2,231,851	2,120,434
Cost of share-based payments (Note 26)	**744,130**	1,528,035	165,006
Gain on insurance claims (Notes 7 and 9)	**(360,895)**	–	(334,695)
Interest income (Note 5)	**(294,035)**	(658,003)	(196,271)
Loss (gain) on sale and retirement of property, plant and equipment (Note 9)	**143,034**	(165,776)	(14,506,946)
Loss (gain) on derivative transactions (Note 31)	**113,455**	(225,162)	35,096
Unrealized foreign exchange losses (gains) - net	**(57,843)**	412,921	385,512
Impairment on goodwill (Note 10)	**–**	–	7,478,980
Impairment on available-for-sale financial assets (Note 12)	**–**	–	1,753,589
Write-off of available-for-sale financial assets (Note 12)	**–**	–	1,350,368
Operating income before working capital changes	**62,869,926**	61,024,756	57,041,668
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(10,639,358)**	18,436,043	(21,670,295)
Inventories	**(13,358,078)**	2,054,060	785,080
Other current assets	**(3,414,550)**	1,068,255	4,748,248
Increase (decrease) in:			
Accounts payable and accrued expenses	**10,771,185**	(26,235,224)	7,529,186
Advances from third party	**6,538,462**	–	–
Advances from customers	**2,029,988**	(301,952)	(299,476)
Retirement liabilities	**(1,569,301)**	654,925	1,398,735
Accrued rent	**(370,147)**	(25,817)	37,668
Other noncurrent liabilities	**97,835**	(63,499)	(1,638)
Net cash generated from operations	**52,955,962**	56,611,547	49,569,176
Income tax paid	**(6,025,529)**	(6,848,877)	(6,925,623)
Interest paid	**(3,037,688)**	(2,148,829)	(2,761,850)
Interest received	**306,506**	667,492	288,192
Net cash provided by operating activities	**44,199,251**	48,281,333	40,169,895
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Note 9)	**(48,344,218)**	(35,120,182)	(24,213,138)
Intangible assets (Note 11)	**(3,886,107)**	(659,794)	(1,287,611)
Acquisition through business combination, net of cash acquired (Note 2)	**(46,878,629)**	–	–
Capitalized development costs, excluding depreciation (Notes 11 and 33)	**(4,004,265)**	–	–
Proceeds from sale and retirement of property, plant and equipment	**289,493**	672,955	19,193,171
Decrease (increase) in other noncurrent assets	**(689,989)**	(154,315)	705,533
Net cash used in investing activities	**(103,513,715)**	(35,261,336)	(5,602,045)

(Forward)

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans	**$265,905,842**	$50,465,041	$24,299,485
Payments of:			
Loans payable	**(129,611,778)**	(38,053,777)	(16,301,258)
Long-term debt	**(83,007,267)**	(2,397,400)	(2,903,578)
Dividends paid to equity holders of the Parent Company (Note 18)	**(8,620,747)**	(8,559,041)	(3,099,043)
Collections of subscriptions receivable (Note 18)	**462,377**	460,634	328,621
Cash paid on acquisition of non-controlling interests (Note 2)	**(360,301)**	–	(638,622)
Settlement of derivatives (Note 31)	**(114,400)**	169,612	(75,702)
Redemption of preferred shares (Note 18)	**–**	(28,435,799)	–
Decrease in obligations under finance lease	**–**	(2,257,583)	(1,452,792)
Proceeds from shares issuance (Note 18)	**–**	–	35,921,140
Transaction costs on shares issuance (Note 18)	**–**	–	(1,502,981)
Acquisition of treasury shares	**–**	–	(1)
Net cash provided by (used in) financing activities	**44,653,726**	(28,608,313)	34,575,269
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**(322,936)**	(504,766)	(560,227)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(14,983,674)**	(16,093,082)	68,582,892
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**101,532,409**	117,625,491	49,042,599
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**$86,548,735**	$101,532,409	$117,625,491

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

Integrated Micro-Electronics, Inc. (the “Parent Company”), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four wholly-owned subsidiaries, namely: IMI International (Singapore) Pte. Ltd. (IMI Singapore), IMI USA, Inc. (IMI USA), IMI Japan, Inc. (IMI Japan) and PSi Technologies, Inc. (PSi) (collectively referred to as the “Group”). The Parent Company is 50.64% owned by AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd. under the umbrella of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE). AC is 49.01% owned by Mermac, Inc., 10.18% owned by Mitsubishi Corporation and the rest by the public. The registered office address of the Parent Company is North Science Avenue, Laguna, Technopark, Biñan, Laguna.

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

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board 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.

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

On April 16, 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.

On July 29, 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 “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.

On September 14, 2016, Cooperatief acquired a 76.01% ownership interest in VIA Optronics GmbH (VIA), a Germany-based company with operations in Germany and China and sales offices in the USA and Taiwan. VIA is a leading provider for optical bonding, a key technology to lower reflections thus enabling sunlight readability and increasing robustness, which is mandatory to allow thinner and lighter portable display solutions. The acquisition will allow the Group to strengthen its partnerships with customers by offering complementary automotive camera and display monitor solutions for advanced driver assistance systems. Once combined, the Group together with VIA will have the scale to introduce patented technology into automotive camera monitor systems for increased safety.

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, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 were authorized for issue by the Parent Company's Board of Directors (BOD) on February 15, 2017.

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 2016	2015	2014	Country of Incorporation	Functional Currency
IMI Singapore	**100.00%**	100.00%	100.00%	Singapore	United States Dollar (USD)
IMI ROHQ	**100.00%**	100.00%	100.00%	Philippines	USD
STEL Group	**100.00%**	100.00%	100.00%	Singapore	USD
IMI (Chengdu) Ltd. (IMICD) [a]	**100.00%**	100.00%	100.00%	China	Renminbi (RMB)
Shenzhen Speedy-Tech Electronics Co., Ltd. (SZSTE)	**100.00%**	99.48%	99.48%	China	USD
Speedy-Tech Electronics (HK) Limited (STHK)	**100.00%**	100.00%	100.00%	Hong Kong	USD
Speedy-Tech Electronics (Chong Qing) Co. Ltd. (STCQ) [b]	**100.00%**	100.00%	100.00%	China	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. (STJX)	**100.00%**	100.00%	100.00%	China	USD
Speedy-Tech (Philippines), Inc. (STPH) [c]	**100.00%**	100.00%	100.00%	Philippines	USD
Speedy-Tech Electronics, Inc.	**100.00%**	100.00%	100.00%	USA	USD
Monarch Elite Ltd. (Monarch)	**100.00%**	100.00%	100.00%	Hong Kong	USD
Cooperatief [d]	**100.00%**	100.00%	100.00%	Netherlands	Euro (EUR)
IMI BG [e]	**100.00%**	100.00%	100.00%	Bulgaria	EUR
Microenergia EOOD (Microenergia)	**100.00%**	100.00%	100.00%	Bulgaria	EUR
IMI CZ	**100.00%**	100.00%	100.00%	Czech Republic	Czech Koruna (CZK)
IMI MX [f]	**100.00%**	100.00%	100.00%	Mexico	USD
Integrated Micro-Electronics Manufactura S.A.P.I. de C.V.	**100.00%**	100.00%	100.00%	Mexico	Mexican Peso (MXP)
IMI France SAS (IMI France)	**100.00%**	100.00%	100.00%	France	EUR
VIA	**76.01%**	–	–	Germany	EUR
VIA Optronics Suzhou Co. Ltd. (VIA Suzhou)	**76.01%**	–	–	China	RMB
VIA Optronics LLC (VIA LLC)	**76.01%**	–	–	USA	USD
IMI USA	**100.00%**	100.00%	100.00%	USA	USD
IMI Japan	**100.00%**	100.00%	100.00%	Japan	USD
PSi	**100.00%**	100.00%	100.00%	Philippines	USD
PSiTech Realty, Inc. (PSiTech Realty) [g]	**40.00%**	40.00%	40.00%	Philippines	USD
Pacsem Realty, Inc. (Pacsem Realty) [g]	**64.00%**	64.00%	64.00%	Philippines	USD

[a] *On August 1, 2014, IMI CD changed its functional currency from USD to RMB.*
[b] *On June 30, 2014, STEL Group's BOD passed a resolution to wind up STCQ. The dissolution was completed in 2016.*
[c] *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.*
[d] *Cooperatief is 99% owned by Monarch and 1% owned by IMI Singapore.*
[e] *On January 1, 2016, IMI BG changed its functional currency from Bulgarian Lev (BGN) to EUR.*
[f] *On March 1, 2014, IMI MX changed its functional currency from MXP to USD.*
[g] *On June 21, 2012, the BOD of PSiTech Realty and Pacsem Realty authorized the dissolution of PSiTech Realty and Pacsem Realty, subject to the Philippine SEC approval. As of February 15, 2017, such approval is still pending.*

Business Combinations

Acquisition of VIA

On August 16, 2016, Cooperatief and the shareholders of VIA entered into a Sale and Purchase Agreement (SPA) under which Cooperatief will acquire a 76.01% stake in VIA for a total cash consideration of €47.79 million ($53.46 million), while the remaining 23.99% to be retained by the company founder.

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

Options	Description	Trigger Events	Option Shares	Option Price
Call option	Right of IMI to buy all shares held by the non-controlling shareholder	• Termination for a cause or expiration of the service agreement	All shares of non-controlling shareholder at the date of exercise	FV of the shares at the time of exercise determined either by agreement by the parties or by an appointed auditor or expert
Exit put option	Right of the non-controlling shareholder to sell all shares held to IMI	• Termination for a cause or expiration of the service agreement • Share capital of VIA is increased that will dilute the holding of non-controlling interest to below 10%	All shares of non-controlling shareholder at the date of exercise	FV of the shares at the time of exercise determined either by agreement by the parties or by an appointed auditor or expert
5% put option	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	• Exercisable any time between 1st and 3rd anniversary of the agreement • If prior to the 3rd anniversary, the share capital of VIA is increased, the option may be exercised within 3 months from registration of the capital increase	One share with a nominal value of €3,666	€3.1 million

Management assessed that it does not have present access to the returns associated with the non-controlling interest. The Group takes the view that the non-controlling interest should be accounted for in accordance with PFRS 10, *Consolidated Financial Statements,* and must be presented within equity, separate from the equity of the owners of the Parent Company, until the put option is exercised. The Group has elected to measure non-controlling interest in the acquiree at the proportionate share of the non-controlling interest in the recognized amounts of the acquiree's identifiable net assets. The carrying amount of non-controlling interest changes due to allocation of profit or loss, changes in other comprehensive income and dividends declared for the reporting period.

The call option is accounted for under PAS 39, *Financial Instruments: Recognition and Measurement,* as a derivative asset carried at fair value through profit or loss. Given that the call option is exercisable at the fair value of the shares at the exercise date, the value of the derivative is nil. The financial liability for the put option is accounted for under PAS 39 like any other written put option on equity instruments. On initial recognition, the corresponding debit is made to a component of equity attributable to the parent, not to the non-controlling interest. All subsequent changes in the carrying amount of the financial liability that result from the remeasurement of the present value payable on exercise are recognized in profit or loss also attributable to the parent.

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

The Group accounted for the put options as financial liabilities measured at the present value of the redemption amount, with a debit to "Additional paid-in capital" account, amounting to $12.06 million on initial valuation. Mark-to-market loss from valuation date until December 31, 2016 amounting to $0.40 million was recognized in the consolidated statements of income.

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

Assets	
Cash and cash equivalents	$6,584,881
Receivables	18,744,735
Inventories	5,448,266
Prepayments and other current assets	660,401
Property, plant and equipment	3,149,309
Intangible asset	493,368
Deferred tax asset	558,287
Other noncurrent assets	158,792
	35,798,039

(Forward)

Liabilities	
Accounts payable	$18,392,913
Accrued expenses	1,757,545
Current portion of long-term debt	125,854
Loans payable	8,477,907
Other current liabilities	1,183,946
Long-term debt	209,169
	30,147,334
Net Assets	**$5,650,705**
Cost of acquisition	$53,463,510
Less: Share in the fair value of net assets acquired (76.01%)	4,295,101
Provisional goodwill (Note10)	**$49,168,409**
Non-controlling interest (23.99%)	**$1,355,604**

The purchase price allocation for the acquisition of VIA has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. This include information based on appraisal reports for property, plant and equipment and information necessary for the valuation of identified intangible assets (patents, trademark and customer relationships). Reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property, plant and equipment, intangible assets and goodwill. The provisional goodwill recognized on the acquisition can be attributed to its strong position to address the growing demand for displays in automotive and industrial outdoor applications and its experience in high reliability markets that matches the Group's existing offerings in the automotive, industrial, and medical markets.

Philippine Financial Reporting Standards (PFRS) 3, *Business Combinations*, provides that 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. The comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting had been completed from the acquisition date.

Analysis of cash flows on acquisition:

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

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

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

Acquisition of Non-controlling Interests

Acquisition of additional interest in SZSTE

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

The details of the transaction are as follows:

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

Acquisition of additional interest in PSi

Effective December 31, 2014, the Parent Company acquired the remaining 16.75% interest in PSi from the minority shareholders, Narra Venture Capital II, LP (Narra VC) and Narra Associates II Limited, for a total consideration of $500,000. The purchase of the remaining shares resulted to IMI's full ownership of IMI in PSi.

The details of the transaction are as follows:

Non-controlling interest acquired	($3,144,660)
Consideration paid to the non-controlling shareholder	(500,000)
Total amount recognized in “Additional paid-in capital” account within equity	($3,644,660)

Acquisition of additional interest in Microenergia
In October 2014, IMI BG acquired the remaining 30% ownership interest in Microenergia for a total consideration of $138,622.

The details of the transaction are as follows:

Non-controlling interest acquired	$200,283
Consideration paid to the non-controlling shareholder	(138,622)
Total amount recognized in “Additional paid-in capital” account within equity	$61,661

3. Summary of Significant Accounting and Financial Reporting Policies

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

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

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016.

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

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

a. The contractual arrangement with the other vote holders of the investee;
b. Rights arising from other contractual arrangements; and
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.

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, 2016. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance, unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures, Investment Entities: Applying the Consolidation Exception*

  These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

  These amendments are not applicable to the Group since none of the entities within the Group is an investment entity nor does the Group have investment entity associates or joint ventures.

- Amendments to PFRS 11, *Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations*

  The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

  These amendments do not have any impact to the Group as there has been no interest acquired in a joint operation during the period.

- PFRS 14, *Regulatory Deferral Accounts*

  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

  Since the Group is an existing PFRS preparer, this standard would not apply.

- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative*

  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements

    - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  These amendments do not have any material impact to the Group.

- Amendments to PAS 16, *Property, Plant and Equipment* and *PAS 38, Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*

  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

  These amendments are applied prospectively and do not have any impact to the Group, given that the Group has not used a revenue-based method to depreciate or amortize its property, plant and equipment and intangible assets.

- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

  The amendments are applied retrospectively and do not have any impact to the Group as the Group does not have any bearer plants.

- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*

  The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

  These amendments do not have any impact to the Group’s consolidated financial statements.

- Annual Improvements to PFRSs 2012 - 2014 Cycle

    - Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*

      The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

    - Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*

      PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

    - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

      This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*

  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

<u>Standards and Interpretation Issued but not yet Effective</u>
The Group will adopt the following new and amended Standards and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the consolidated financial statements.

Effective beginning on or after January 1, 2017

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

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

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

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

  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

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

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

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

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

Effective beginning on or after January 1, 2018

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

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

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

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

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

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

- PFRS 15, *Revenue from Contracts with Customers*

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

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Group is currently assessing the impact of PFRS 15.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

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.

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

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

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

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

The financial instruments of the Group as of December 31, 2016 and 2015 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 and financial liabilities on put options.

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value Measurement
The Group measures derivatives, AFS financial assets and the financial liabilities on put options at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 30.

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

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

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

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

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

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

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

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

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

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

Derecognition of Financial Instruments

Financial asset

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

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

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

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

Financial liability

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

Impairment of Financial Assets

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

Loans and receivables

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

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

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

AFS financial assets

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

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

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

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

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

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

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

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

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability, that is a financial instrument and within the scope of PAS 39 is measured at fair value, with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

After initial recognition, goodwill is measured at cost, less accumulated impairment losses. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's 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.

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 on 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
Computer software	3
Patents and trademarks	5
Product development cost	7

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 is tested for impairment annually as of September 30 and 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.

Subscriptions receivable

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

Retained earnings and dividends on capital stock of the Parent Company

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

Treasury stock

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

Revenue Recognition

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

Sale of goods

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

Rendering of services

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

Interest income

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

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

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

Expenses
Expenses of the Group include cost of sales, operating expenses and interest expense.

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

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

Interest expenses
Interest expense is recognized in profit and loss for all interest-bearing financial instruments using the EIR method.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

PRC
The subsidiaries incorporated and operating in PRC are required to provide certain staff retirement benefits to their employees under existing PRC regulations, a defined contribution scheme. Retirement contributions are provided at rates stipulated by PRC regulations and are contributed to a retirement fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees. 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.

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, Singapore/China, Europe, Mexico, Germany (VIA), and USA/ Japan. These geographical businesses are the basis upon which the Group reports its operating segment information presented in Note 27.

Leases
The determination of whether an arrangement is, or contains, a lease, is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets, or whether the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Operating and finance lease commitments - Group as lessee
Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in the "Property, plant and equipment" account, with the corresponding liability to the lessor included in the "Accounts payable and accrued expenses" account for the current portion, and "Noncurrent portion of obligation under finance lease" account for the noncurrent portion in the consolidated balance sheets. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized under "Interest expense and bank charges" account in the consolidated statements of income.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets and the respective lease terms.

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the respective lease terms.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss should be recognized immediately. If the sale price is below fair value, any profit or loss should be recognized immediately, unless the loss is compensated by future lease payments over the period for which the asset is expected to be used. If the sales price is above fair value, the excess over fair value should be deferred and amortized over the period for which the asset is expected to be used.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the consolidated financial statements when an inflow of economic benefits is probable.

Events after the Balance Sheet Date
Post period events that provide additional information about the Group's financial position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post period events that are non-adjusting events are disclosed in the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Uncertainty about these judgments, assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities affected in future periods.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Product development costs
Expenditures for the development of new products or production systems are recognized as intangible assets if such expenditures, with a high degree of certainty, will result in future economic benefits for the Group. The rules require stringent criteria to be met for these development expenditures to be recognized as assets such as determining technical feasibility of completing the intangible asset. Management assessed that it is able to meet the identifiability and separability criteria provided in PAS 38, *Intangible Assets,* on the premise that the projects involved are in

separate locations from other existing lines and that each project arises from a contractual right between the Group and each customer. Moreover, management is able demonstrate that the projects are in the advanced stage of development.

Functional currency
PAS 21, *Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine each entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Group. In making this judgment, each entity within the Group considers the currency in which the sales prices for its goods and services are denominated and settled.

Effective January 1, 2016, IMI BG changed its functional currency from BGN to EUR. Effective March 1, 2014, IMI MX changed its functional currency from MXP to USD while IMICD changed its functional currency from USD to RMB on August 1, 2014. Management believes that the change in the functional currency was necessary to define the currency of the primary economic environment in which these entities operate.

Operating lease commitments - Group as 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 28.

Contingencies
The Group is currently involved in various legal proceedings and tax assessments. The estimates of the probable costs of the resolutions and assessments of these claims have been developed in consultation with outside counsels handling the defense in these matters and are based upon analyses of potential results. The Group currently does not believe that these proceedings and tax assessments will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

Further details are disclosed in Note 32.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Fair value of the put options financial liabilities
The acquisition of VIA during the year included call and put options over the non-controlling interest. 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 interest in a subsidiary and, therefore, accounted for the non-controlling interest 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. In determining the current equity value, management is required to make an estimate of the expected future cash flows of the acquiree using the forecasted revenue growth rate and also to choose a suitable discount rate in order to calculate the present value of cash flows.

Further details on the valuation of the put options are disclosed in Note 30.

Impairment of receivables
The Group reduces the carrying amount of its receivables through the use of an allowance account if there is objective evidence that an impairment loss on receivables has been incurred, based on the result of the individual impairment assessment. Factors considered are payment history and past due status.

Further details on receivables are disclosed in Note 6.

Estimating NRV of inventories
Inventories are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, costs of completion and costs necessary to make a sale to determine the NRV. In the event that NRV is lower than cost, the decline is recognized as an expense.

Further details on inventories are disclosed in Note 7.

Depreciation and amortization
The Group computes depreciation and amortization of property, plant and equipment and intangible assets with finite useful life on a straight-line basis over the assets' EUL. The EUL and depreciation and amortization method are reviewed annually to ensure that these are consistent with the expected pattern of the economic benefits from the assets. This requires the Group to make an estimate of the expected asset utilization from business plans and strategies, future technical developments and market behavior to determine the expected pattern of economic benefits from the assets. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the depreciation and amortization period or method, as appropriate, and are treated as changes in accounting estimates. The depreciation and amortization expense on property, plant and equipment and intangible assets with finite useful lives are recognized in profit or loss, in the expense category, consistent with the function of the property, plant and equipment and intangible assets.

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

Evaluation of impairment of nonfinancial assets
The Group reviews property, plant and equipment, goodwill and intangible assets for impairment of value. Impairment for goodwill is assessed at least annually. 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. 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 cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows. Further details on property, plant and equipment, goodwill and intangible assets are disclosed in Notes 9, 10 and 11, respectively.

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable profits. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience on previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax losses, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused tax losses can be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on taxes are disclosed in Note 23.

Retirement and other employee benefits
The cost of defined benefit plans and other long-term employee benefits as well as the present value of defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rates, turnover rates, mortality rates, salary increase rates, and future retirement increases. Due to the complexity of the actuarial valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The turnover rate represents the proportion of the current plan members who will resign from service prior to their retirement date and hence, be entitled to resignation benefits instead of retirement benefits. The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Salary increase rates and future retirement increases are based on expected future inflation rates.

The Group also estimates other short-term employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policies. These estimates may vary depending on the future changes in salaries and actual experiences during the period.

Further details on retirement and other employee benefits are disclosed in Note 25.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The expected volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Parent Company.

Further details on ESOWN are disclosed in Note 26.

5. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand	**$83,701**	$34,756
Cash in banks	**75,816,054**	67,159,479
Short-term investments	**10,648,980**	34,338,174
	$86,548,735	$101,532,409

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months and earn interest at the respective short-term investment rates.

Interest income earned from cash in banks and short-term investments amounted to $0.29 million in 2016, $0.66 million in 2015, and $0.20 million in 2014.

6. Receivables - net

This account consists of:

	2016	2015
Trade	**$192,152,117**	$165,831,122
Nontrade	**3,804,516**	1,737,293
Receivable from insurance	**1,860,624**	1,066,414
Receivable from employees	**553,745**	735,464
Due from related parties (Note 29)	**299,713**	196,341
Others	**1,265,782**	1,420,361
	199,936,497	170,986,995
Less allowance for doubtful accounts	**1,733,743**	1,695,414
	$198,202,754	$169,291,581

Trade
Trade receivables arise from manufacturing and other related services for electronic products and components and have credit terms averaging 80 days from invoice date.

Nontrade
Nontrade receivables represent billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These receivables have credit terms averaging 45 days from invoice date.

Receivable from insurance
Insurance for damages to property, plant, and equipment, inventories and business interruptions caused by fire in January 2016 amounting to $1.20 million was claimed by STJX, $0.41 million of which have been collected in 2016 (see Notes 7 and 9).

Claims to damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu in 2009 amounting to $1.07 million was fully provided with allowance for doubtful accounts.

Others
Others include government creditable tax and receivables from the plan assets managed by BPI.

Allowance for Doubtful Accounts
Trade receivables, nontrade receivables, receivable from insurance and receivable from employees with aggregate nominal value of $1.73 million and $1.70 million as of December 31, 2016 and 2015, respectively, were individually assessed to be impaired and fully provided with allowance for doubtful accounts.

Movements in the allowance for doubtful accounts are as follows:

	December 31, 2016				
	Trade	**Nontrade**	**Receivable from Employees**	**Receivable from Insurance**	**Total**
At beginning of year	**$543,800**	**$67,762**	**$17,438**	**$1,066,414**	**$1,695,414**
Provisions (reversals)	**217,768**	**–**	**(13,161)**	**–**	**204,607**
Accounts written-off	**(9,737)**	**–**	**–**	**–**	**(9,737)**
Foreign currency exchange difference	**(156,278)**	**(5,188)**	**80**	**4,845**	**(156,541)**
At end of year	**$595,553**	**$62,574**	**$4,357**	**$1,071,259**	**$1,733,743**

	December 31, 2015				
	Trade	Nontrade	Receivable from Employees	Receivable from Insurance	Total
At beginning of year	$1,020,047	$72,075	$17,895	$1,066,423	$2,176,440
Provisions (reversals)	442,247	(4,312)	409	–	438,344
Accounts written-off	(303,823)	–	–	–	(303,823)
Foreign currency exchange difference	(614,671)	(1)	(866)	(9)	(615,547)
At end of year	$543,800	$67,762	$17,438	$1,066,414	$1,695,414

Provisions (reversals) during the year form part of "Operating expenses" account and are included under "Facilities costs and others" (see Note 21).

7. Inventories

This account consists of:

	2016	2015
Raw materials and supplies	**$75,849,560**	$64,279,114
Work-in-process	**17,195,051**	15,814,870
Finished goods	**19,654,056**	17,696,686
	112,698,667	97,790,670
Less allowance for:		
Inventory obsolescence	**6,331,871**	9,351,194
Decline in value of inventories	**234,267**	184,267
	6,566,138	9,535,461
	$106,132,529	$88,255,209

The cost of the inventories carried at NRV amounted to $24.06 million and $30.17 million as of December 31, 2016 and 2015, respectively. The amount of inventories recognized as an expense under "Cost of goods sold and services" account amounted to $571.52 million in 2016, $546.90 million in 2015, and $547.25 million in 2014 (see Note 19).

In 2016, STJX claimed and collected an insurance amounting to $0.41 million for the damaged inventories caused by a fire in January 2016. The net book value of the affected stocks amounted to $0.26 million.

In 2014, the Parent Company claimed and collected an insurance amounting to $0.43 million for the damaged inventories caused by a typhoon in August 2013. The total cost of affected stocks amounted to $0.25 million while the related allowance for inventory obsolescence amounted to $0.15 million.

Movements in the allowance for inventory obsolescence are as follows:

	2016	2015
At beginning of year	**$9,351,194**	$7,811,593
Provisions (reversals) (Note 21)	**(2,660,809)**	1,591,170
Write-offs	**(358,514)**	(51,569)
At end of year	**$6,331,871**	$9,351,194

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

	2016	2015
At beginning of year	**$184,267**	$84,267
Provisions (Note 21)	**50,000**	100,000
At end of year	**$234,267**	$184,267

The Group recognized gains from sale of materials amounting to $0.05 million in 2016, $0.08 million in 2015, and $0.08 million in 2014. Gains from sale of materials are included under "Miscellaneous income (loss) - net" account in the consolidated statement of income.

8. Other Current Assets

This account consists of:

	2016	2015
Advances to suppliers	**$8,838,927**	$3,368,484
Tax credits	**3,585,118**	4,845,950
Prepayments	**2,372,073**	1,944,718
Input taxes	**524,748**	710,431
Noncurrent assets held for sale (Note 9)	**362,124**	–
Derivative assets (Notes 30 and 31)	**67,062**	66,117
Others	**340,745**	–
	$16,090,797	$10,935,700

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

Tax credits include amounts withheld from income tax payments of the Parent Company and PSi and value added tax refund claims of IMI MX and IMI BG.

Noncurrent assets held for sale relates to the sale and purchase agreement between STSN and Jinnuo Century Trading Limited in connection with the plan to relocate its manufacturing facility in Liantang, Luohu, in line with the urban redevelopment projects of the Shenzhen City government. The sale is subject to certain conditions which are expected to be completed within the next year. The carrying value of the manufacturing facility amounted to $0.36 million included as part of building and improvement (see Note 9).

Prepayments include prepayments for life and fire insurance, rent and product liability, and recall insurance, which cover product recall expenses and liability to third parties seeking damage in the event the Group recalls any of its products.

9. Property, Plant and Equipment - net

Movements in this account are as follows:

	2016						
	Buildings and Improvements	**Machineries and Facilities Equipment**	**Furniture, Fixtures and Office Equipment**	**Transportation Equipment**	**Tools and Instruments**	**Construction in Progress**	**Total**
Cost							
At beginning of year	**$72,113,546**	**$108,898,005**	**$17,900,646**	**$1,468,326**	**$5,489,876**	**$9,509,131**	**$215,379,530**
Additions	**7,975,777**	**26,216,435**	**1,901,351**	**684,538**	**2,234,803**	**9,331,314**	**48,344,218**
Acquisition through business combination (Note 2)	**137,613**	**1,948,746**	**166,896**	**7,255**	**98,158**	**790,641**	**3,149,309**
Disposals	**(365,758)**	**(9,971,185)**	**(480,689)**	**(400,842)**	**(367,119)**	**–**	**(11,585,593)**
Asset held for sale (Note 8)	**(6,491,739)**	**–**	**–**	**–**	**–**	**–**	**(6,491,739)**
Transfers	**2,409,552**	**7,270,342**	**573,303**	**3,885**	**260,898**	**(10,517,980)**	**–**
Foreign currency exchange difference	**(538,686)**	**(2,370,350)**	**(135,044)**	**(62,579)**	**(161)**	**(256,140)**	**(3,362,960)**
At end of year	**75,240,305**	**131,991,993**	**19,926,463**	**1,700,583**	**7,716,455**	**8,856,966**	**245,432,765**

(Forward)

	2016						
	Buildings and Improvements	**Machineries and Facilities Equipment**	**Furniture, Fixtures and Office Equipment**	**Transportation Equipment**	**Tools and Instruments**	**Construction in Progress**	**Total**
Accumulated depreciation							
At beginning of year	**$39,524,650**	**$64,001,044**	**$13,632,345**	**$538,637**	**$2,848,671**	**$–**	**$120,545,347**
Depreciation	**3,749,666**	**16,389,876**	**1,648,253**	**478,473**	**205,978**	**–**	**22,472,246**
Depreciation capitalized as development cost	**235,940**	**1,578,553**	**46,738**	**5,493**	**29,001**	**–**	**1,895,725**
Disposals	**(278,258)**	**(9,447,148)**	**(469,979)**	**(379,189)**	**(2,301)**	**–**	**(10,576,875)**
Asset held for sale (Note 8)	**(6,129,615)**	**–**	**–**	**–**	**–**	**–**	**(6,129,615)**
Transfers	**(884)**	**(261,715)**	**10,888**	**–**	**251,711**	**–**	**–**
Foreign currency exchange difference	**(87,202)**	**(1,673,075)**	**(97,814)**	**(52,721)**	**(467)**	**–**	**(1,911,279)**
At end of year	**37,014,297**	**70,587,535**	**14,770,431**	**590,693**	**3,332,593**	**–**	**126,295,549**
Accumulated impairment losses							
At beginning and end of year	**736,565**	**983,421**	**12,226**	**–**	**–**	**–**	**1,732,212**
Net book value	**$37,489,443**	**$60,421,037**	**$5,143,806**	**$1,109,890**	**$4,383,862**	**$8,856,966**	**$117,405,004**

	2015						
	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	$67,855,568	$107,813,052	$17,072,026	$1,348,489	$4,033,096	$3,166,512	$201,288,743
Additions	5,114,407	15,796,577	1,688,760	357,988	2,055,485	10,106,965	35,120,182
Disposals	(153,057)	(14,112,822)	(608,948)	(188,637)	(582,097)	(101,934)	(15,747,495)
Retirement	–	–	(32,678)	–	–	–	(32,678)
Transfers	157,786	3,152,302	9,275	15,140	(16,608)	(3,317,895)	–
Foreign currency exchange difference	(861,158)	(3,751,104)	(227,789)	(64,654)	–	(344,517)	(5,249,222)
At end of year	72,113,546	108,898,005	17,900,646	1,468,326	5,489,876	9,509,131	215,379,530
Accumulated depreciation							
At beginning of year	36,259,558	65,122,088	12,865,245	296,404	3,325,306	–	117,868,601
Depreciation	3,668,656	15,241,827	1,542,250	471,850	92,236	–	21,016,819
Disposals	(149,789)	(13,758,091)	(606,493)	(183,395)	(568,871)	–	(15,266,639)
Retirement	–	–	(6,354)	–	–	–	(6,354)
Foreign currency exchange difference	(253,775)	(2,604,780)	(162,303)	(46,222)	–	–	(3,067,080)
At end of year	39,524,650	64,001,044	13,632,345	538,637	2,848,671	–	120,545,347
Accumulated impairment losses							
At beginning and end of year	736,565	983,421	12,226	–	–	–	1,732,212
Net book value	$31,852,331	$43,913,540	$4,256,075	$929,689	$2,641,205	$9,509,131	$93,101,971

The Group capitalized depreciation related to development phase for certain projects amounting to $1.90 million in 2016. The capitalized cost was part of product development under “Intangible assets” account.

In 2016, STJX claimed an insurance amounting to $0.70 million as proceeds for the fixed assets damaged by a fire in January 2016. The net book value of the affected assets amounted to $0.44 million.

The Group recognized a loss from disposal and retirement of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments amounting to $0.14 million in 2016, and gains amounting to $0.17 million in 2015 and $0.18 million in 2014. The 2016 loss is net of the proceeds from the disposal of scrap equipment related to the fire amounting to $0.09 million.

As of December 31, 2016 and 2015, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to $212.82 million and $161.79 million, respectively.

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

	2016	2015	2014
Cost of goods sold and services (Note 19)	**$20,036,576**	$18,570,445	$18,332,968
Operating expenses (Note 20)	**2,435,670**	2,446,374	2,526,881
	$22,472,246	$21,016,819	$20,859,849

10. **Goodwill**

As of December 31, 2016 and 2015, goodwill acquired through business combinations had been allocated to the following CGUs:

	2016	2015
VIA	**$49,168,409**	$–
STEL	**45,128,024**	45,128,024
Parent Company	**1,097,776**	441,166
IMI CZ	**650,413**	650,413
IMI USA	**–**	656,610
	$96,044,622	$46,876,213

As mentioned in Note 4, goodwill is tested for impairment annually as of September 30 every year and when circumstances indicate that the carrying amount is impaired.

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 are as follows:

	2016	2015
VIA	**11.20%**	–
STEL	**11.89%**	13.36%
IMI CZ	**9.56%**	8.79%
IMI USA	**–**	10.87%

Cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate (CAGR) for the global EMS industry.

Key assumptions used in the value-in-use calculations
The calculations of value-in-use for the CGUs are most sensitive to the following assumptions:

- Forecasted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Revenue - Revenue forecasts are management's best estimates considering factors such as industry CAGR, customer projections, and other economic factors.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital.

No impairment loss was assessed for VIA, STEL, and IMI CZ in 2016, 2015, and 2014.

Sensitivity to changes in assumptions
With regard to the assessment of value-in-use of VIA, STEL and IMI CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of these CGUs to exceed their recoverable amount.

Parent Company and IMI USA
The goodwill of the Parent Company pertains to its acquisition of M. Hansson Consulting, Inc. (MHCI) in 2006. MHCI was subsequently merged to the Parent Company as testing and development department. The recoverable amount was based on the market price of the Parent Company's shares at valuation date less estimated costs to sell.

The impairment test for the goodwill of IMI USA was previously based on value-in-use calculations using cash flow projections of IMI USA covering a 5-year period. In 2016, the Group changed the basis of the recoverable amount using the market price of the Parent Company's shares at valuation date less estimated costs to sell (see Note 4).

The Group re-assessed the basis of recoverable amounts of the goodwill of IMI USA. The assessment resulted to change in activities of the CGU from an operating segment to a global support entity.

The comparison of the recoverable amounts and the carrying amounts resulted to no impairment loss in 2016, 2015, and 2014.

11. **Intangible Assets**

Movements in this account are as follows:

	December 31, 2016					
	Customer Relationships	**Unpatented Technology**	**Computer Software**	**Patents and Trademarks**	**Product Development**	**Total**
Cost						
At beginning of year	**$19,666,617**	**$100,000**	**$5,384,182**	**$–**	**$–**	**$25,150,799**
Additions	**–**	**–**	**3,886,107**	**–**	**–**	**3,886,107**
Capitalized development costs	**–**	**–**	**–**	**–**	**5,899,990**	**5,899,990**
Acquisition through business combination (Note 2)	**–**	**–**	**–**	**493,368**	**–**	**493,368**
Foreign currency exchange difference	**–**	**–**	**(260,613)**	**(29,134)**	**–**	**(289,747)**
At end of year	**19,666,617**	**100,000**	**9,009,676**	**464,234**	**5,899,990**	**35,140,517**
Accumulated amortization						
At beginning of year	**18,877,177**	**100,000**	**3,775,161**	**–**	**–**	**22,752,338**
Amortization	**789,440**	**–**	**1,132,321**	**67,787**	**–**	**1,989,548**
Foreign currency exchange difference	**–**	**–**	**(67,597)**	**(2,850)**	**–**	**(70,447)**
At end of year	**19,666,617**	**100,000**	**4,839,885**	**64,937**	**–**	**24,671,439**
Net book value	**$–**	**$–**	**$4,169,791**	**$399,297**	**$5,899,990**	**$10,469,078**

	December 31, 2015			
	Customer Relationships	Unpatented Technology	Computer Software	Total
Cost				
At beginning of year	$19,666,617	$100,000	$4,854,715	$24,621,332
Additions	–	–	659,794	659,794
Foreign currency exchange difference	–	–	(130,327)	(130,327)
At end of year	19,666,617	100,000	5,384,182	25,150,799
Accumulated amortization				
At beginning of year	17,523,854	100,000	2,994,733	20,618,587
Amortization	1,353,323	–	878,528	2,231,851
Foreign currency exchange difference	–	–	(98,100)	(98,100)
At end of year	18,877,177	100,000	3,775,161	22,752,338
Net book value	$789,440	$–	$1,609,021	$2,398,461

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 relationship of STEL Group amounting to $12.90 million is fully amortized as of December 31, 2016 and 2015.

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.

Computer Software
This includes acquisitions of computer software, applications and modules.

Patents and Trademarks
VIA's patents and trademarks pertain to display system optically bonded to a display region and enhanced liquid crystal display system and methods.

Product Development Costs
This includes capitalized costs arising from the development phase of certain projects which are still under qualification.

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 12.54% to 14.44%. Key assumptions used in the value-in-use calculations are consistent with those disclosed in Note 10.

No impairment loss was assessed for the product development costs in 2016.

Research expenditure recognized as expense amounted to $0.26 million, $0.11 million, and $0.14 million in 2016, 2015, and 2014, respectively.

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

	2016	2015	2014
Cost of goods sold and services (Note 19)	**$34,951**	$15,604	$6,182
Operating expenses (Note 20)	**1,954,597**	2,216,247	2,114,252
	$1,989,548	$2,231,851	$2,120,434

12. Available-for-Sale Financial Assets

This account consists of:

	2016	2015
Investment securities	**$1,753,589**	$1,753,589
Club shares	**740,949**	583,510
	2,494,538	2,337,099
Less allowance for impairment loss on AFS financial assets	**1,753,589**	1,753,589
	$740,949	$583,510

As of December 31, 2016 and 2015, the balance of investment securities pertains to Class A common stock of a customer. This investment was provided with full allowance in prior year due to the investee company’s financial difficulties.

13. Other Noncurrent Assets

This account consists of:

	2016	2015
Miscellaneous deposits	**$2,512,368**	$1,897,070
Others	**209,689**	134,998
	$2,722,057	$2,032,068

Miscellaneous deposits include electric meter deposits to AC Energy Holdings Inc. (ACEHI) and water meter deposits.

14. Accounts Payable and Accrued Expenses

This account consists of:

	2016	2015
Trade payables	**$136,114,721**	$103,563,112
Accrued compensation and benefits	**21,685,525**	23,263,280
Accrued expenses	**16,676,506**	15,734,289
Nontrade payables	**8,050,234**	5,121,760
Advances from a third party	**6,538,462**	–
Advances from customers (Note 17)	**2,567,552**	552,086
Taxes payable	**1,094,518**	1,366,363
Customers’ deposits	**896,712**	572,997
Accrued interest payable	**769,072**	509,027
Due to related parties (Note 29)	**590,369**	4,681
Employee-related contributions	**455,272**	580,374
Derivative liabilities (Note 30)	**10,567**	10,567
Others	**225,794**	1,538,689
	$195,675,304	$152,817,225

Trade Payables
Trade payables are noninterest-bearing and are normally settled on 30 to 90-day average terms.

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

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

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.

Advances from a Third Party
The amount pertains to the deposit received related to the sale and purchase agreement between STSN and Jinnuo Century Trading Limited in connection with the plan to relocate its manufacturing facility in Liantang, Luohu, in line with the urban redevelopment projects of the Shenzhen City government. The sale is subject to certain conditions which are expected to be completed within the next year.

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%, current portion of PSi's advances from local customers, and advance payments made by customers for goods and services of the Parent Company and STEL (see Note 17).

Taxes Payable
Taxes payable pertain to taxes withheld such as fringe benefits tax and withholding taxes on purchased goods and services. Withholding taxes payable are expected to be settled within the next financial year.

Customers' Deposits
The amount pertains to advance payments made by customers as manufacturing bond.

Employee-related Contributions
This account consists mainly of remittances related to government agencies such as social security and insurance, housing fund and health insurance.

Others
This account consists of unreleased checks and consignment payables of the Parent Company for the materials received from its customers.

15. Trust Receipts and Loans Payable

This account consists of borrowings of the following entities:

	2016	2015
Parent Company	**$25,000,000**	$25,000,000
PSi	**9,449,192**	9,297,356
STEL	**8,000,000**	8,000,000
VIA	**7,903,449**	–
IMI CZ	**1,092,528**	–
	$51,445,169	$42,297,356

Parent Company
As of December 31, 2016 and 2015, the Parent Company has short-term loans aggregating to $25.0 million with maturities ranging from 30 to 180 days, and fixed annual interest rates ranging from 1.23% to 1.24% in 2016, from 1.03% to 1.50% in 2015, and from 1.75% to 2.20% in 2014.

The Parent Company incurred interest expense on its short-term loans amounting to $0.65 million in 2016, $0.46 million in 2015 and $0.64 million in 2014 (see Note 22).

PSi
PSi has short-term loans from a local bank amounting to $9.20 million as of December 31, 2016 and 2015, and trust receipts payable amounting to $0.25 million and $0.10 million as of December 31, 2016 and 2015, respectively. These loans fall under an unsecured Omnibus Line Credit Facility of $10.00 million granted on November 24, 2010. The credit facility includes 30 to 360-day Promissory Notes (maybe denominated in USD or Philippine Peso (PHP), Letter of Credit (LC)/Trust Receipt Line, Export Packing Credit Line, FX Forward Cover, and Foreign Bills Line and Domestic Bill Purchase Line, subject to interest rates of 3.17% in 2016, from 2.03% to 2.82% in 2015 and from 2.23% to 2.53% in 2014.

The undrawn credit facility amounted to $0.55 million and $0.70 million as of December 31, 2016 and 2015, respectively.

PSi incurred interest expense on its short-term loans and trust receipts payable amounting to $0.28 million in 2016, $0.24 million in 2015, and $0.23 million in 2014 (see Note 22).

STEL
The loans of STEL are clean loans from existing revolving credit facilities with a Singaporean bank and bear annual interest rate of 2.24% in 2016, 1.73% in 2015, and from 1.93% to 2.38% in 2014, and have maturities of 30 to 60 days from the date of issue, with renewal options.

STEL incurred interest expense on its short-term loans amounting to $0.16 million in 2016, $0.16 million in 2015, and $0.17 million in 2014 (see Note 22).

VIA
The loans of VIA consists of factoring loan from China-based banks denominated in USD and RMB amounting to a total of $5.81 million with terms ranging from 140 to 180 days and loan from a German-based bank amounting to €2.0 million ($2.09 million) with term of 90 days with renewable options and bears interest rate of 1.95% per annum.

VIA incurred interest expense on its short-term loans payable amounting to $0.05 million (see Note 22).

IMI CZ
The loans of IMI CZ are clean loans from existing revolving credit facilities with Unicredit Czech and Citibank and bear interest based on 1-month EURIBOR plus 1.20%.

IMI CZ incurred interest expense on its short-term loans payable amounting to $3,463 (see Note 22).

16. **Long-Term Debt**

This account consists of borrowings of the following entities:

	2016	2015
Parent Company	**$120,222,000**	$65,494,000
Cooperatief	**6,586,800**	8,980,407
IMI CZ	**1,818,198**	2,467,864
IMI BG	**417,760**	659,494
VIA	**284,338**	–
	129,329,096	77,601,765
Less current portion:		
Parent Company	**5,222,000**	40,000,000
Cooperatief	**2,108,200**	2,177,400
IMI CZ	**528,478**	555,778
IMI BG	**208,880**	219,831
VIA	**117,495**	–
	8,185,053	42,953,009
Noncurrent portion	**$121,144,043**	$34,648,756

Parent Company
On October 10, 2016, the Parent Company obtained a $40.00 million 5-year term loan from a local bank, subject to a fixed interest rate of 2.70%.

On September 29, 2016, the Parent Company obtained a $15.00 million 3-year term loan from a local bank, subject to a fixed interest rate of 2.42%.

On August 12, 2015, the Parent Company obtained a $20.00 million 5-year term loan from a local bank payable at the end of the loan term, subject to a fixed interest rate per annum equal to the 5-year Dollar Benchmark rate plus a spread of 5 bps or the rate of 2.8%, whichever is higher. Interests are payable quarterly in arrears on each interest payment date.

On February 29, 2012, the Parent Company obtained a €5.00 million ($5.22 million), 5-year term clean loan from a local bank, payable in a single balloon payment at the end of the loan term. Interest is payable semi-annually at the rate of 6-month LIBOR plus 1.50% spread per annum. The loan which will mature in February 2017 was reclassified to current portion of long-term debt in 2016.

In October 2011, the Parent Company obtained a 5-year term clean loan from a local bank amounting to $40.00 million, payable in a single balloon payment due in 2016. Interest on the loan is payable quarterly and re-priced quarterly at the rate of 3-month LIBOR plus margin of 0.80%. In October 2016, the loan was settled in full and the

Parent Company obtained a new 5-year term loan with the same bank, subject to a fixed interest rate of 2.70% per annum.

The Parent Company incurred interest expense on its long-term loans amounting to $1.83 million in 2016, $0.98 million in 2015, and $0.81 million in 2014 (see Note 22).

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

- The ratio of debt to earnings before interest, taxes, depreciation and amortization (EBITDA) shall not exceed 3:1 at all times, with reference to the borrower's consolidated financial statements;
- Maintenance of debt service coverage ratio of at least 1.5:1;
- Maintenance at all times of a current ratio of at least 1:1; and
- Maintenance of a debt-to-equity ratio, computed with reference to the borrower's consolidated financial statements, of not greater than 1.75:1.

As of December 31, 2016 and 2015, the Parent Company has complied with all of the above-mentioned loan covenants.

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

Cooperatief had already paid an aggregate amount of €8.00 million from 2013 to 2016 with an annual payment of €2.00 million every July of each year.

Below is the amortization schedule:

Due Dates	In EUR	In USD
2017	€2,000,000	$2,108,200
2018	4,248,743	4,478,600
	€6,248,743	$6,586,800

Cooperatief incurred interest expense on its long-term debt amounting to $0.26 million in 2016, $0.32 million in 2015, and $0.47 million in 2014 (see Note 22).

IMI CZ
On August 14, 2015, IMI CZ obtained a term loan facility from Citibank amounting to €2.00 million that was used to settle intercompany loans. The principal shall be paid in 60 regular monthly installments and bears interest of 3-month EURIBOR plus 1.20%, but is not to exceed 15% per annum.

In 2013, IMI CZ obtained a long-term debt from Citibank that relates to a term loan facility for the purchase of its new SMT machine. The debt bears annual interest of 1-month EURIBOR plus 2.70% and matures on July 31, 2019.

IMI CZ incurred interest expense on its long-term debt amounting to $0.03 million in 2016, and $0.02 million in 2015 and 2014 (see Note 22).

IMI BG
IMI BG has a long-term debt from BNP Paribas amounting to $0.42 million that relates to the term loan facility for financing the construction of a new warehouse, with a term of five years and bears interest based on 3-month EURIBOR plus 2.90%. The warehouse was completed in 2013.

The credit facility with BNP Paribas is subject to the following collateral: Security of Transfer of Ownership Title relating to office and factory equipment with a carrying value of $1.35 million.

IMI BG incurred interest expense amounting to $0.02 million in 2016 and $0.02 million in 2015 (see Note 22).

VIA
VIA has a long-term debt from Sparkasse Bank amounting to €0.27 million. The debt bears annual interest of 5.35% and matures on June 30, 2019.

VIA incurred interest expense on its long-term debt amounting to $3,803 (see Note 22).

17. Noncurrent Advances from Customers

On June 28, 2010, PSi and a local customer entered into a Subcontracting Services Agreement (SSA) for PSi to provide subcontracted services. In consideration, the local customer shall pay PSi service fees as provided for in the SSA. The subcontracted services shall be effective starting from July 15, 2010 and ending February 29, 2020, renewable upon mutual agreement by both parties.

In September 2009, PSi received noninterest-bearing cash advances amounting to $3.00 million from a foreign customer, an affiliate of the local customer. On July 15, 2010, the foreign customer assigned all of its rights with respect to the cash advances, including payments thereof, to the above local customer. The local customer and PSi agreed that upon termination of the SSA, the full cash advances amounting to $3.00 million will be applied to pre-pay and cover any and all of the fees payable, under Annex B of the SSA, for the facilities support services that will be rendered by PSi to the local customer. Moreover, PSi shall return to the local customer, if any, the residual cash advances, less any amount applied to pay the fees as detailed in the SSA.

As of December 31, 2016 and 2015, the current and noncurrent portion of Group's advances from the local customers follows:

	2016	2015
Total outstanding advances from local customers	**$1,788,232**	$1,675,429
Less current portion (Note 14)	**650,367**	552,086
Noncurrent portion	**$1,137,865**	$1,123,343

18. Equity

Capital Stock
This account consists of:

	2016		2015		2014	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized - ₱1 par value						
Common	**2,250,000,000**		2,250,000,000		2,250,000,000	
Preferred (Note 34)	**1,500,000,000**		1,500,000,000		1,500,000,000	
Issued - Common						
At beginning of year	**1,793,429,765**	**$34,933,728**	1,790,416,179	$34,876,616	1,572,129,429	$30,016,551
Issuances during the year:						
ESOWN	**88,876**	**1,981**	3,013,586	57,112	3,286,750	70,580
Public offering	**–**	**–**	–	–	215,000,000	4,789,485
At end of year*	**1,793,518,641**	**$34,935,709**	1,793,429,765	$34,933,728	1,790,416,179	$34,876,616
Issued - Preferred						
At beginning of year	**–**	**$–**	1,300,000,000	$26,601,155	1,300,000,000	$26,601,155
Redemption	**–**	**–**	(1,300,000,000)	(26,601,155)	–	–
At end of year	**–**	**$–**	–	$–	1,300,000,000	$26,601,155

* *Out of the total issued shares, 15,892,124 shares as of December 31, 2016, 2015, and 2014 pertain to treasury shares.*

On June 25, 2015, the BOD of the Parent Company approved the redemption of all of the outstanding 1,300,000,000 redeemable preferred shares which were issued in 2008. The shares, which were redeemed at a price of ₱1.00 per share, were paid on August 24, 2015 to the stockholders of record as of July 24, 2015, including all accumulated unpaid cash dividends (see Note 34).

On December 5, 2014, the Parent Company has completed its public offering and listing of 215,000,000 common shares at an offer price of ₱7.50 per share, with a par value of ₱1.00 per share, raising ₱1.61 billion ($35.92 million) cash to fund capital expenditure, support business expansion, refinance debt, and fund working capital requirements.

As of December 31, 2016, 2015, and 2014, there were 338, 367, and 456 registered common stockholders, respectively.

Subscribed Capital Stock
Details of this account follow:

	2016		2015		2014	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**87,200,345**	**$1,907,584**	82,375,866	$1,797,638	57,141,000	$1,229,926
Subscriptions during the year - ESOWN	**–**	**–**	10,393,394	222,366	31,797,958	708,590
Issuances during the year - ESOWN	**(88,876)**	**(1,981)**	(3,013,586)	(57,112)	(3,286,750)	(70,580)
Forfeitures during the year - ESOWN	**(2,175,240)**	**(48,163)**	(2,555,329)	(55,308)	(3,276,342)	(70,298)
At end of year	**84,936,229**	**$1,857,440**	87,200,345	$1,907,584	82,375,866	$1,797,638

Subscriptions Receivable
Details of this account are as follows:

	2016	2015	2014
At beginning of year	**$13,131,734**	$12,906,784	$9,590,746
Subscriptions during the year	**–**	1,136,291	4,187,765
Forfeitures during the year	**(334,665)**	(450,707)	(622,524)
Collections during the year	**(462,377)**	(460,634)	(328,621)
Accretion during the year (Note 26)	**–**	–	79,418
At end of year (Note 26)	**$12,334,692**	$13,131,734	$12,906,784

Additional Paid-in Capital
The grant of equity-settled awards to the Group’s employees was recognized as increase in the “Additional paid-in capital” account.

Costs directly attributable to the issuance of new common shares in relation to the public offering amounting to $1.50 million in 2014 were accounted for by the Parent Company as deduction from “Additional paid-in capital” account. These transaction costs include, among others, underwriting fees, legal and audit professional fees, documentary stamp tax, registration fees, prospectus design, and printing and publication costs.

The financial liability arising from the written put options over the non-controlling interest of VIA was recognized with a corresponding debit to the “Additional paid-in capital” account.

Dividends
2016
On February 06, 2016, the BOD of the Parent Company approved the declaration of cash dividend of $0.0046 or ₱0.2204 per share to all outstanding common shares as of record date of February 23, 2016, payable on March 10, 2016.

2015
On February 17, 2015, the BOD of the Parent Company approved the declaration of cash dividend of $0.0042 or ₱0.1868 per share to all outstanding common shares as of record date of March 4, 2015, payable on March 19, 2015.

2014
On December 2, 2014, the BOD of the Parent Company approved and authorized the declaration and payment of cash dividends for 2015 to all preferred shareholders of the Parent Company, at a dividend rate of 2.90% per annum. Details of the dividend payment are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Record date	February 6, 2015	May 8, 2015	August 7, 2015	November 11, 2015
Payment date	February 20, 2015	May 22, 2015	August 24, 2015	November 25, 2015
Amount	$209,958	$209,958	$216,956	$214,623

The fourth quarter dividends payable amounting to $0.21 million was cancelled and credited back to the “Retained Earnings” account upon redemption of the preferred shares on August 17, 2015.

On February 17, 2014, the BOD of the Parent Company approved the declaration of cash dividend of $0.00140 or ₱0.06319 per share to all outstanding common shares as of record date of March 3, 2014, payable on March 19, 2014.

Retained Earnings
On February 17, 2015, the BOD of the Parent Company approved the reclassification of the remaining balance of the appropriated retained earnings to unappropriated retained earnings amounting to $20.66 million.

The foreign exchange translation difference between the redemption date and the original issuance of preferred shares amounting to $1.83 million was charged against "Retained earnings" account.

Accumulated net earnings of the subsidiaries amounting to $143.76 million and $105.76 million as of December 31, 2016 and 2015, respectively, are not available for dividend declaration. This accumulated equity in net earnings becomes available for dividend upon receipt of cash dividends from the investees.

The retained earnings are restricted to dividend declaration to the extent of the cost of treasury shares amounting to $1.01 million.

In accordance with Securities Regulation Code Rule 68, As Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2016 amounted to $16.18 million.

19. Cost of Goods Sold and Services

This account consists of:

	2016	2015	2014
Direct, indirect and other material-related costs (Note 7)	**$571,521,298**	$546,897,934	$547,251,922
Direct labor, salaries, wages and employee benefits (Note 25)	**116,183,955**	121,291,155	144,418,120
Depreciation and amortization (Notes 9 and 11)	**20,071,527**	18,586,049	18,339,150
Facilities costs and others (Note 21)	**33,880,263**	33,557,495	40,531,872
	$741,657,043	$720,332,633	$750,541,064

20. Operating Expenses

This account consists of:

	2016	2015	2014
Salaries, wages and employee benefits (Note 25)	**$31,222,323**	$31,366,967	$35,769,440
Depreciation and amortization (Notes 9 and 11)	**4,390,267**	4,662,621	4,641,133
Facilities costs and others (Note 21)	**22,753,852**	20,068,937	23,821,906
	$58,366,442	$56,098,525	$64,232,479

21. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			**Operating Expenses**		
	2016	2015	2014	**2016**	2015	2014
Utilities	**$15,750,396**	$15,786,733	$19,066,162	**$1,468,908**	$1,217,805	$845,160
Outsourced activities	**7,868,740**	7,359,668	8,613,743	**9,225,760**	6,799,414	6,006,755
Repairs and maintenance	**6,722,042**	6,874,986	8,112,925	**702,432**	502,700	531,423
Travel	**968,879**	541,422	545,473	**2,862,709**	1,550,962	1,906,188
Insurance	**731,918**	710,192	692,566	**1,248,871**	1,193,732	1,177,782
Government-related	**693,687**	981,847	1,235,608	**3,218,639**	3,098,023	3,439,593
Staff house	**487,016**	587,741	577,605	**395,817**	222,900	346,955
Postal and communication	**314,889**	319,625	404,019	**932,780**	708,817	867,256
Promotional materials, representation and entertainment	**152,529**	154,098	148,576	**1,153,585**	782,715	900,744
Technology-related	**56,817**	71,019	637,437	**1,593,971**	774,398	1,361,518
Membership fees	**16,041**	2,289	2,187	**160,137**	134,131	90,386
Sales commission	**–**	–	–	**1,251,399**	362,708	1,084,492
Provision (reversal of provision) for inventory obsolescence (Note 7)	**–**	–	–	**(2,660,809)**	1,591,170	3,737,353
Provision (reversal of provision) for doubtful accounts (Note 6)	**–**	–	–	**204,607**	438,344	(899,304)

(Forward)

	Cost of Goods Sold and Services			Operating Expenses		
	2016	2015	2014	**2016**	2015	2014
Provision for allowance for decline in value of inventories (Note 7)	**$–**	$–	$–	**$50,000**	$100,000	$84,267
Others	**117,309**	167,875	495,571	**945,046**	591,118	2,341,338
	$33,880,263	$33,557,495	$40,531,872	**$22,753,852**	$20,068,937	$23,821,906

Others include amortization expense of deferred licensing fee, additional licensing fee, donations, small tools and instruments, spare parts, brokerage charges, freight out, test material, service processing fees, scrap materials, office supplies, copying expenses, and impairment loss on machineries and equipment.

Miscellaneous income and loss
Miscellaneous income and loss pertains to nonrecurring engineering services and gains on sale of materials (see Note 7).

22. Interest Expense and Bank Charges

This account consists of:

	2016	2015	2014
Interest expense on loans (Notes 15 and 16)	**$3,296,499**	$2,207,309	$2,517,542
Bank charges	**586,721**	507,834	75,348
Others	**1,234**	1,242	221,913
	$3,884,454	$2,716,385	$2,814,803

Others include interest on employee housing and car loans in 2016 and 2015, and finance lease obligations in 2014.

23. Income Tax

Current Tax
Parent Company
The Parent Company is registered with PEZA and is entitled to certain incentives, which include ITH. As of December 31, 2016, there are five 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 and STJX
In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax (EIT) for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

IMICD is subject to taxation at the statutory rate of 15% in 2016, 2015, and 2014 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 and STJX are subject to taxation at the statutory tax rate of 25% in 2016, 2015, and 2014 on their taxable income as reported in their respective financial statements prepared in accordance with the accounting regulations in the PRC.

STHK and Monarch
Hong Kong profits tax has been provided at the rate of 16.5% in 2016, 2015, and 2014 on the 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 in 2016, 2015, and 2014 is 10%.

IMI CZ
Income tax due is calculated by multiplying the tax base by the rate as defined by the income tax law of Czech Republic. The tax base comprises the book income from operations, which is increased or decreased by permanently or temporarily tax-decreasing costs and tax-deductible revenues (for example, creation and recording of other provisions and allowances, entertainment expenses, and difference between book and tax depreciations). The applicable tax rate in 2016, 2015, and 2014 is 19%.

IMI MX
IMI MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in profit or loss in the year they are incurred. Income tax rate in 2016, 2015, and 2014 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%.

Income tax incurred will be the higher of Income Tax and Business Flat Tax.

IMI France
Income tax is computed based on the income earned by the entity during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back one year. The tax rate applicable in 2016, 2015, and 2014 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 for the years 2016, 2015, and 2014. 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 40% and 25%, respectively.

PSi
As a PEZA-registered entity, PSi is subject to a 5% tax on gross income less allowable deductions, as defined in R.A. No. 7916, as amended by R.A. No. 8748, in lieu of all national and local taxes, except real property tax on land being leased by PSi in Food Terminal, Inc. (FTI) - Special Economic Zone and Carmelray Industrial Park II. The 5% tax on gross income shall be paid and remitted as follows: (a) 3% to the National Government; and (b) 2% to the treasurer's office of the municipality or city where the enterprise is located. Income from other income-producing activities that are not registered with PEZA is subject to RCIT rate of 30%.

As at December 31, 2016, 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:

	2016	2015
Deferred tax assets:		
Net operating loss carry-over	**$1,169,731**	$726,440
Allowance for inventory obsolescence	**350,404**	414,315
Fair value adjustment on property, plant and equipment arising from business combination	**282,192**	436,416
Allowance for doubtful accounts	**127,996**	159,768
Unamortized past service cost	**118,400**	106,931
Allowance for impairment loss on AFS	**–**	100,867
Others	**87,679**	124,857
	$2,136,402	$2,069,594
Deferred tax liabilities:		
Fair value adjustment on property, plant and equipment arising from business combination	**$1,457,809**	$1,536,602
Unrealized foreign exchange loss on monetary assets - net	**157,942**	281,248
Unrealized foreign exchange loss on AFS	**30,277**	82,213
Prepaid expenses	**206,337**	–
Others	**7,326**	297
	$1,859,691	$1,900,360

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, 2016			
	Deferred Tax Assets	**Deferred Tax Liabilities**	**Total Deferred Tax Assets - net**	**Total Deferred Tax Liabilities - net**
Parent Company	**$234,011**	**($188,219)**	**$45,792**	**$–**
IMI BG	**450,468**	**(395,821)**	**54,647**	**–**
IMI CZ	**276,566**	**–**	**276,566**	**–**
IMI MX	**393,547**	**–**	**393,547**	**–**
VIA	**499,618**	**(206,337)**	**499,618**	**(206,337)**
STEL	**–**	**(32,186)**	**–**	**(32,186)**
Others	**282,192**	**(1,037,128)**	**282,192**	**(1,037,128)**
	$2,136,402	**($1,859,691)**	**$1,552,362**	**($1,275,651)**

	December 31, 2015			
	Deferred Tax Assets	Deferred Tax Liabilities	Total Deferred Tax Assets - net	Total Deferred Tax Liabilities - net
Parent Company	$242,101	($363,461)	$–	($121,360)
IMI BG	462,083	(299,956)	162,127	–
IMI CZ	677,157	–	677,157	–
IMI MX	688,253	–	688,253	–
STEL	–	(63,887)	–	(63,887)
Others	–	(1,173,056)	–	(1,173,056)
	$2,069,594	($1,900,360)	$1,527,537	($1,358,303)

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

As of December 31, 2016 and 2015, the temporary differences for which no deferred tax assets have been recognized are as follows:

PSi

	2016	2015
Accumulated impairment losses on property, plant and equipment	**$10,138,416**	$10,138,416
Advances from customer	**1,425,009**	1,440,377
Excess of:		
Cost over NRV of inventories	**976,574**	1,200,211
Rent expense under operating lease arrangement computed on a straight-line basis over the amount computed based on lease agreement	**84,731**	454,878
Accrued retirement benefits obligation	**672,537**	1,132,864
Allowance for doubtful accounts	**54,206**	67,630
	$13,351,473	$14,434,376

STEL

	2016	2015
Depreciation	**$6,693,000**	$5,747,000
Allowance for inventory obsolescence	**2,626,000**	2,170,000
Unused tax losses	**–**	960,000
	$9,319,000	$8,877,000

IMI CZ

	2016	2015
Noncurrent assets	**$706,864**	$1,337,664
Provisions	**375,769**	360,029
Allowance for doubtful accounts	**201,236**	69,411
Excess of cost over NRV of inventories	**170,991**	211,680
	$1,454,860	$1,978,784

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, 2016 and 2015, 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:

	2016	2015	2014
Statutory income tax	**30.00%**	30.00%	30.00%
Tax effects of:			
Nondeductible expenses	**20.02%**	22.12%	59.96%
Income subject to gross income tax	**(21.02%)**	(22.56%)	(14.49%)
Difference in tax jurisdiction	**(8.40%)**	(11.15%)	(54.04%)
Income subject to ITH	**(1.02%)**	(1.27%)	(3.79%)
Interest income subjected to final tax	**(0.03%)**	(0.11%)	(0.02%)
Provision for income tax	**19.55%**	17.03%	17.62%

24. Earnings per Share

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

	2016	2015	2014
Net income	**$28,115,891**	$28,789,740	$29,117,024
Less dividends on preferred stock (Note 18)	**–**	–	851,495
	$28,115,891	$28,789,740	$28,265,529
Weighted average number of common shares outstanding	**1,863,320,708**	1,858,578,676	1,632,132,778
Basic and diluted EPS	**$0.015**	$0.015	$0.017

As of December 31, 2016, 2015, and 2014, the Group has no dilutive potential common shares.

25. Personnel Costs

Salaries, wages, and employee benefits follow:

	2016	2015	2014
Salaries and wages	**$120,086,764**	$118,268,993	$130,621,781
Retirement expense under defined contribution plans	**6,225,339**	5,379,119	5,649,301
Net retirement expense under defined benefit plans	**1,787,924**	1,857,985	2,061,727
Social security costs	**1,432,134**	2,212,856	2,357,681
Others	**17,874,117**	24,939,169	39,497,070
	$147,406,278	$152,658,122	$180,187,560

Others include expenses for employee benefits which include 13th month pay, employee insurance expenses, housing premium, leave benefits, training and seminars, employee social and recreation, bonuses, health premium, subcontracting costs, and other employee benefits.

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

	2016	2015	2014
Cost of goods sold and services (Note 19)	**$116,183,955**	$121,291,155	$144,418,120
Operating expenses (Note 20)	**31,222,323**	31,366,967	35,769,440
	$147,406,278	$152,658,122	$180,187,560

Defined Benefit Plans
The Parent Company, PSi, and IMI BG have defined benefit plans covering substantially all of their employees. The latest actuarial valuations were made on December 31, 2016.

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:

	2016	2015
Parent Company	**$2,782,817**	$4,155,241
PSi	**672,537**	1,132,864
IMI BG	**636,636**	503,507
	$4,091,990	$5,791,612

Parent Company, PSi, and IMI BG

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

2016

		Net Retirement Expense					Remeasurements						
	January 1	**Current Service Cost**	**Net Interest**	**Loss on Curtailments and Settlements**	**Subtotal**	**Separation and Benefits Paid**	**Return on Plan Assets (Excluding Amount Included in Net Interest)**	**Actuarial Changes Due to Experience Adjustments**	**Actuarial Changes Due to Demographic Assumptions**	**Actuarial Changes Arising from Changes in Financial Assumptions**	**Subtotal**	**Foreign Currency Exchange Difference**	**December 31**
Present value of defined benefit obligation	**$18,642,181**	**$1,610,453**	**$875,380**	**($29,832)**	**$2,456,001**	**($3,505,705)**	**$–**	**$1,830,464**	**$424,077**	**($2,523,613)**	**($269,072)**	**($958,150)**	**$16,365,255**
Fair value of plan assets	**(12,850,569)**	**–**	**(668,077)**	**–**	**(668,077)**	**148,480**	**401,659**	**–**	**–**	**–**	**401,659**	**695,242**	**(12,273,265)**
Net retirement liabilities	**$5,791,612**	**$1,610,453**	**$207,303**	**($29,832)**	**$1,787,924**	**($3,357,225)**	**$401,659**	**$1,830,464**	**$424,077**	**($2,523,613)**	**$132,587**	**($262,908)**	**$4,091,990**

2015

		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 Arising from Changes in Financial Assumptions	Subtotal	Foreign Currency Exchange Difference	December 31
Present value of defined benefit obligation	$17,819,360	$1,653,303	$801,282	$–	$2,454,585	($1,203,060)	$–	$1,225,579	($691,992)	$533,587	($962,291)	$18,642,181
Fair value of plan assets	(13,107,809)	–	(596,600)	–	(596,600)	–	188,522	–	–	188,522	665,318	(12,850,569)
Net retirement liabilities	$4,711,551	$1,653,303	$204,682	$–	$1,857,985	($1,203,060)	$188,522	$1,225,579	($691,992)	$722,109	($296,973)	$5,791,612

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, 2016 and 2015 follows:

	2016	2015
Government securities	**$8,079,938**	$8,297,792
Mutual funds	**1,708,112**	313,464
Trust funds	**1,099,889**	1,285,735
Corporate bonds	**421,629**	445,040
Investment properties	**408,608**	697,238
Cash and cash equivalents	**318,481**	1,606,341
Equities	**236,163**	262,643
Liabilities	**(131)**	(271)
Others	**576**	(57,413)
	$12,273,265	$12,850,569

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

	December 31, 2016			
	Equity Securities	**Debt Securities**	**Other Securities**	**Total**
Fair Value				
BPI UITF	**$342,029**	**$–**	**$755,543**	**$1,097,572**
AC bonds	–	**264,436**	**–**	**264,436**
ALI bonds	–	**31,162**	**–**	**31,162**
ALAI funds	–	**–**	**23,475**	**23,475**
	$342,029	**$295,598**	**$779,018**	**$1,416,645**
Carrying Value				
BPI UITF	**$352,133**	**$–**	**$754,712**	**$1,106,845**
AC bonds	–	**261,464**	**–**	**261,464**
ALI bonds	–	**30,169**	**–**	**30,169**
ALAI funds	–	**–**	**23,197**	**23,197**
	$352,133	**$291,633**	**$777,909**	**$1,421,675**
Unrealized Gain (Loss)				
BPI UITF	**($11,104)**	**$–**	**$831**	**($10,273)**
AC bonds	–	**2,972**	**–**	**2,972**
ALI bonds	–	**993**	**–**	**993**
ALAI funds	–	**–**	**278**	**278**
	($11,104)	**$3,965**	**$1,109**	**($6,030)**

	December 31, 2015			
	Equity Securities	Debt Securities	Other Securities	Total
Fair Value				
BPI UITF	$867,674	$–	$–	$867,674
AC bonds	–	279,383	–	279,383
ALI bonds	–	32,407	–	32,407
BPI deposits	–	–	1,597,292	1,597,292
	$867,674	$311,790	$1,597,292	$2,776,756
Carrying Value				
BPI UITF	$870,118	$–	$–	$870,118
AC bonds	–	276,243	–	276,243
ALI bonds	–	31,874	–	31,874
BPI deposits	–	–	1,599,045	1,599,045
	$870,118	$308,117	$1,599,045	$2,777,280
Unrealized Gain (Loss)				
BPI UITF	($2,444)	$–	$–	($2,444)
AC bonds	–	3,140	–	3,140
ALI bonds	–	533	–	533
BPI deposits	–	–	(1,753)	(1,753)
	($2,444)	$3,673	($1,753)	($524)

The plan assets pertain to diverse investments and do not have any concentration risk.

The overall investment policy and strategy of the Group’s defined benefit plans are guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay retirement benefits as they fall due while also mitigating the various risk of the plans.

The Group expects to contribute $2.29 million to the defined benefit plans for 2017.

The actual return of plan assets amounted to ($0.22 million), $0.41 million, and $0.42 million in 2016, 2015 and 2014, respectively.

The average duration of net retirement liabilities at the end of the balance sheet date is 17.71 to 23.41 years as of December 31, 2016, and 21.69 to 24.5 years as of December 31, 2015.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2016 and 2015:

	2016	2015
Less than one year	**$1,226,047**	$449,305
More than one year to five years	**4,100,043**	1,313,428
More than five years to ten years	**7,968,662**	3,033,503
More than ten years to fifteen years	**11,725,227**	6,864,091
More than fifteen years	**47,427,976**	70,466,253
	$72,447,955	$82,126,580

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

	2016	2015
Discount rate	**2.00% - 5.51%**	2.00% - 5.09%
Turnover rate	**5.75% - 10.00%**	2.92% - 12.75%
Salary increase rate	**3.00% - 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 **2016**	2015
Discount rate	+1%	**($1,401,526)**	($2,013,320)
	-1%	**1,646,102**	2,429,869
Turnover rate	+2%	**99,863**	(889,152)
	-2%	**(139,665)**	855,599
Salary increase rate	+1%	**1,778,038**	2,372,810
	-1%	**(1,534,545)**	(2,006,458)

PSi

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability **2016**	2015
Discount rate	+1%	**($103,133)**	($186,960)
	-1%	**125,025**	232,012
Turnover rate	+2%	**(8,990)**	(35,418)
	-2%	**7,185**	36,780
Salary increase rate	+1%	**134,019**	222,583
	-1%	**(112,014)**	(183,624)

IMI BG

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability **2016**	2015
Discount rate	+1%	**($34,219)**	($29,337)
	-1%	**37,802**	30,829
Turnover rate	+2%	**64,864**	110,470
	-2%	**(64,022)**	(108,455)
Salary increase rate	+1%	**25,849**	21,447
	-1%	**(25,799)**	(21,449)

The mortality rate in 2016 and 2015 is based on the 1994 Group Annuity Mortality for the Parent Company and PSi. Meanwhile, IMI BG used the table for mortality and average life continuance population in the period 2008-2010 from National Statistical Institute (of Bulgaria) for 2016 and 2015.

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

	2016	2015	2014
Cost of goods sold and services	**$1,283,259**	$1,453,575	$1,654,285
Operating expenses	**504,665**	404,410	407,442
	$1,787,924	$1,857,985	$2,061,727

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:

	2016	2015	2014
Cost of goods sold and services	**$4,866,249**	$4,300,805	$4,652,375
Operating expenses	**1,359,090**	1,078,314	996,926
	$6,225,339	$5,379,119	$5,649,301

26. **Employee Stock Ownership Plan (ESOWN)**

The Group has an ESOWN, which is a privilege extended to the Group's eligible managers and staff whereby the Group allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the ESOWN.

The key features of the plan are as follows:

- The subscription price per share shall be based on the average closing price at the PSE for 20 consecutive trading days with a discount to be determined by the Parent Company's Compensation Committee.
- Term of payment is eight years reckoned from the date of subscription:

Initial payment	2.5%
1st Anniversary	5.0%
2nd Anniversary	7.5%
3rd Anniversary	10.0%
Over the remaining years	75.0% balance

- Holding period:

40%	after one (1) year from subscription date
30%	after two (2) years from subscription date
30%	after three (3) years from subscription date

On August 5, 2015, the Executive Committee of the Parent Company approved the grant of stock options to qualified executives covering up to 27,189,000 shares at a subscription price of ₱5.11 per share, equivalent to the average closing price of the Parent Company's common shares, at the PSE for 20 consecutive trading days ending June 25, 2015, net of 15% discount. Out of the total shares granted, 10,393,394 shares were subscribed by 78 executives of the Group.

On October 13, 2014, the Executive Committee of the BOD of the Parent Company approved the grant of stock options to qualified executives covering up to 35,900,000 shares at a subscription price of ₱5.91 per share, equivalent to the average closing price of the Parent Company's common shares, at the PSE for 20 consecutive trading days ending September 24, 2014, net of 15% discount. Out of the total shares granted, 31,797,958 shares were subscribed by 38 executives of the Group, of which 7,821,848 shares are from unissued shares, and 23,976,110 shares were issued from ESOWN Trust Account, where all the previously cancelled ESOWN subscriptions were held.

The fair value of stock options granted in 2015 and 2014 is estimated at the date of grant using the Black-Scholes Melton Formula, taking into account the terms and conditions upon which the stock options were granted. The expected volatility was determined based on an independent valuation.

Movements in the number of shares outstanding under ESOWN in 2016, 2015, and 2014 follow:

	2016		2015		2014	
	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	**143,740,493**	**₱6.69**	135,902,428	₱6.71	107,380,812	₱6.95
Forfeitures	**(2,175,240)**	**6.99**	(2,555,329)	6.37	(3,276,342)	6.95
Subscriptions	**–**	**–**	10,393,394	5.11	31,797,958	5.91
At end of year	**141,565,253**	**₱6.69**	143,740,493	₱6.69	135,902,428	₱6.71

The balance of the subscriptions receivable amounted to $12.33 million, $13.13 million, and $12.91 million as of December 31, 2016, 2015, and 2014, respectively (see Note 18).

The share option expense amounted to $0.74 million, $1.53 million, and $0.17 million in 2016, 2015, and 2014, respectively. The accretion is recognized as an increase in "Subscriptions receivable" account and "Additional paid-in capital" account presented in the consolidated statements of changes of equity amounted to nil for the years 2016 and 2015, and $0.08 million for 2014 (see Note 18).

27. **Segment Information**

Management monitors operating results per geographical area for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue, interest income, and net income before and after tax of its major manufacturing sites. Philippine operation is further subdivided into the Parent Company and PSi, IMI BG and IMI CZ are combined under Europe based on the industry segment and customers served, while IMI USA and IMI Japan are combined being the support facilities for 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, 2016, 2015, and 2014:

December 31, 2016	**Philippines**		**Singapore/ China**	**Europe**	**Mexico**	**Germany (VIA)**	**USA/ Japan**	**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**	**3,747,017**	**–**	**–**	**–**	**4,201,296**	**(8,249,868)**	**–**
Total revenue	**$220,955,530**	**$33,008,941**	**$265,169,899**	**$242,735,718**	**$65,219,469**	**$19,405,163**	**$4,721,572**	**($8,249,868)**	**$842,966,424**
Segment interest income	**$926,620**	**$1,443**	**$153,199**	**$35,192**	**$–**	**$12,852**	**$28**	**($835,299)**	**$294,035**
Segment interest expense	**$2,712,102**	**$681,371**	**$289,555**	**$620,590**	**$305,477**	**$105,275**	**$4,589**	**($834,505)**	**$3,884,454**
Segment profit (loss) before income tax	**$8,594,851**	**($2,463,930)**	**($1,660,198)**	**$32,664,770**	**($2,347,967)**	**($452,949)**	**$707,315**	**($219,339)**	**$34,822,553**
Segment provision for income tax	**(1,244,834)**	**–**	**(1,699,393)**	**(3,476,137)**	**(434,797)**	**58,063**	**(9,546)**	**–**	**(6,806,644)**
Segment profit (loss) after income tax	**$7,350,017**	**($2,463,930)**	**($3,359,591)**	**$29,188,633**	**($2,782,764)**	**($394,886)**	**$697,769**	**($219,339)**	**$28,015,909**
Net income (loss) attributable to the equity holders of the Parent Company	**$7,350,017**	**($2,463,930)**	**($3,354,342)**	**$29,188,633**	**($2,782,764)**	**($300,153)**	**$697,769**	**($219,339)**	**$28,115,891**

December 31, 2015	Philippines		Singapore/ China	Europe	Mexico	USA/ Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue:								
Third party	$225,258,796	$42,062,621	$279,263,000	$206,098,789	$61,314,195	$366,703	$–	$814,364,104
Intersegment	163,415	256,310	5,584,234	34,932	–	3,661,247	(9,700,138)	–
Total revenue	$225,422,211	$42,318,931	$284,847,234	$206,133,721	$61,314,195	$4,027,950	($9,700,138)	$814,364,104
Segment interest income	$1,140,205	$1,831	$288,410	$–	$–	$39	($772,482)	$658,003
Segment interest expense	$1,497,509	$580,928	$302,780	$394,067	$386,870	$3,313	($449,082)	$2,716,385
Segment profit (loss) before income tax	$13,309,497	($1,534,782)	$1,508,553	$24,379,024	$70,081	$470,954	($3,527,807)	$34,675,520
Segment provision for income tax	(1,750,946)	(93,592)	(1,084,167)	(2,775,475)	(196,951)	(4,277)	–	(5,905,408)
Segment profit (loss) after income tax	$11,558,551	($1,628,374)	$424,386	$21,603,549	($126,870)	$466,677	($3,527,807)	$28,770,112
Net income (loss) attributable to the equity holders of the Parent Company	$11,558,551	($1,628,374)	$444,014	$21,603,549	($126,870)	$466,677	($3,527,807)	$28,789,740

December 31, 2014	Philippines		Singapore/China	Europe	Mexico	USA/ Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue:								
Third party	$204,940,387	$44,932,489	$325,647,491	$212,631,747	$55,958,214	$363,741	$–	$844,474,069
Intersegment	200,256	–	4,362,775	–	–	3,855,856	(8,418,887)	–
Total revenue	$205,140,643	$44,932,489	$330,010,266	$212,631,747	$55,958,214	$4,219,597	($8,418,887)	$844,474,069
Segment interest income	$801,508	$1,657	$158,954	$–	$1,501	$29	($767,378)	$196,271
Segment interest expense	$1,512,464	$604,941	$191,172	$342,376	$456,384	$3,857	($296,391)	$2,814,803
Segment profit (loss) before income tax	($12,046,881)	($1,213,530)	$25,371,530	$28,015,334	($5,867,410)	($651,759)	$1,584,007	$35,191,291
Segment provision for income tax	(1,122,750)	(121,146)	(4,376,209)	(2,315,038)	1,735,815	(580)	–	(6,199,908)
Segment profit (loss) after income tax	($13,169,631)	($1,334,676)	$20,995,321	$25,700,296	($4,131,595)	($652,339)	$1,584,007	$28,991,383
Net income (loss) attributable to the equity holders of the Parent Company	($13,169,631)	($1,111,118)	$20,976,438	$25,621,262	($4,131,595)	($652,339)	$1,584,007	$29,117,024

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

The operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $8.25 million in 2016, $9.70 million in 2015, and $8.42 million in 2014, intersegment cost of sales of $0.99 million in 2016, $0.17 million in 2015, and $0.20 million in 2014, and intersegment operating expenses aggregating to $7.12 million in 2016, $9.12 million in 2015, and $8.22 million in 2014.

The following table presents segment assets of the Group's geographical segments as of December 31, 2016 and 2015:

	Philippines		Singapore/ China	Europe	Mexico	Germany (VIA)	USA/ Japan	Consolidation and Eliminations	Total
	Parent Company	PSi							
2016	**$323,142,918**	**$15,430,820**	**$224,745,194**	**$199,169,397**	**$64,528,625**	**$33,074,977**	**$3,249,280**	**($227,432,324)**	**$635,908,887**
2015	$273,699,329	$15,305,610	$216,719,333	$125,968,453	$50,762,577	$–	$2,587,783	($168,508,426)	$516,534,659

Segment assets do not include investments in subsidiaries and intersegment receivables amounting to $180.13 million and $46.88 million as of December 31, 2016, respectively, and $125.60 million and $42.68 million as of December 31, 2015, respectively. These are eliminated in consolidation.

Goodwill arising from the acquisition of VIA, STEL Group, IMI USA and IMI CZ amounting to $49.17 million, $45.13 million, $0.66 million, and $0.65 million, respectively, are recognized at consolidated level for both years ended December 31, 2016 and 2015.

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

	2016	2015	2014
Europe	**$458,851,700**	$426,440,705	$418,391,628
America	**204,853,252**	205,280,233	208,581,244
Japan	**40,861,642**	52,900,214	71,620,075
Rest of Asia/Others	**138,399,830**	129,742,952	145,881,122
	$842,966,424	$814,364,104	$844,474,069

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 14.97%, 13.29%, and 12.63% of the Group's total revenue in 2016, 2015, and 2014, respectively.

The following table presents revenues per product type:

	2016	2015	2014
Automotive	**$377,639,245**	$349,864,147	$320,532,486
Telecommunication	**157,770,276**	151,351,589	176,669,820
Industrial	**150,801,775**	116,711,182	106,273,619
Consumer	**71,038,949**	84,232,744	101,939,801
Multiple market	**53,047,268**	63,060,796	66,556,982
Computer peripherals	**11,387,952**	21,825,130	49,137,199
Medical	**21,280,959**	27,318,516	23,364,162
	$842,966,424	$814,364,104	$844,474,069

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

	2016	2015
Europe	**$92,406,035**	$36,563,576
America	**31,286,745**	19,745,926
Rest of Asia/Others	**100,225,924**	86,067,143
	$223,918,704	$142,376,645

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:

	2016	2015	2014
Europe	**$5,412,631**	$5,599,379	$5,800,582
America	**2,765,263**	2,013,240	1,611,235
Rest of Asia/Others	**16,283,900**	15,636,051	15,568,466
	$24,461,794	$23,248,670	$22,980,283

28. **Lease Commitments**

Operating Lease Commitments - Group as Lessee

Parent Company

The Parent Company entered into an amended lease contract with Technopark Land, Inc. (TLI), an affiliate, for the lease of parcels of land situated at the Special Export Processing Zone, Laguna Technopark, Biñan, Laguna. The lease shall be for a period of three years, commencing on January 2, 2014 up to December 31, 2016, renewable at the option of the Parent Company upon such terms and conditions, and upon such rental rates as the parties may agree upon at the time of the renewal, taking into consideration comparable rental rates for similar properties prevailing at the time of renewal. The monthly rent shall be equivalent to ₱44.00 per sqm.

On March 7, 2014, the Parent Company executed a Lease Agreement with PEZA for the use of land located at the Blk 16, Phase 4, PEZA, Rosario, Cavite, to be used exclusively for IMI Cavite's registered activities. The lease is for a period of 50 years renewable once at the option of the lessee for a period of not more than 25 years. The average monthly rental payment amounts to $2,072 in 2016 with an escalation rate every year.

IMI Singapore and STEL Group

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

On August 27, 2014, STEL Group entered into an agreement related to the sale and leaseback of the building with DBS Trustee Limited (DBSTL), in its capacity as trustee of Soilbuild Business Space REIT. The existing light industrial building is sited on a land area of 3,993 square meters and is held under lease issued by Jurong Town Corporation (JTC), for a term of 30 years from May 1, 2000, with a covenant by JTC to grant further term of 20 years subject to the terms and conditions of the lease.

The transaction was completed on December 23, 2014 with the approval of JTC for DBSTL to takeover the lease of STEL with JTC. Pursuant to a Lease Agreement, DBSTL will lease the property to STEL for a term of ten years.

IMI Japan

On February 15, 2010, IMI Japan entered into a 2-year lease contract with Kabushikigaisha Tokyu Community, for the lease of office premises located in Nagoya, whereby it is committed to pay a monthly rental of ¥245,490, and monthly maintenance fee of ¥35,070, inclusive of tax. The lease contract provides for the automatic renewal of the lease contract, unless prior notice of termination is given to the lessor. On February 15, 2012, IMI Japan renewed its lease contract for another six years.

IMI USA

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

PSi

Taguig facilities

PSi has a cancellable operating lease agreement with FTI for its plant facilities, office spaces, and other facilities, for Lot Nos. 92-A-1, 92-B and 92, with lease term August 15, 2004 up to August 14, 2020, and January 1, 2016 up to December 31, 2017, respectively. The operating lease agreement with FTI provides for a 5% increase in rental per year starting on the second year and annually thereafter until the end of the lease term.

Laguna facilities

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

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

Accrued rent amounting to $0.08 million and $0.45 million as of December 31, 2016 and 2015, respectively, represents the difference in accounting for rent expenses versus the rental payments under the lease contract.

The aggregate rental expense of the Group recognized on those operating lease commitments are included in the "Facilities costs and others - outsourced activities", account under cost of goods sold and services and operating expenses in the consolidated statements of income amounting to $6.01 million in 2016, $5.91 million in 2015, and $5.37 million in 2014.

Future minimum rentals payable under operating leases of the Group as of December 31, 2016 and 2015 follow:

	2016	2015
Within one year	**$4,905,841**	$5,904,705
After one year but not more than five years	**13,686,398**	11,702,448
More than five years	**4,808,727**	5,727,526
	$23,400,966	$23,334,679

29. **Related Party Transactions**

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

Terms and Conditions of Transactions with Related Parties
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2016, 2015, and 2014, the Group has not recorded any impairment on receivables, except for the receivable from Narra VC, relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

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

a. Transactions with BPI, an affiliate

As of December 31, 2016 and 2015, the Group maintains current and savings accounts with BPI amounting to $0.93 million and $1.53 million, respectively.

Total interest income earned from investments with BPI amounted to $4,247, $25,698, and $5,338 for the years ended December 31, 2016, 2015, and 2014, respectively.

The Parent Company has receivables from the plan assets managed by BPI amounting to $0.30 million and $0.20 million for the years ended December 31, 2016 and 2015, respectively.

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

	Receivables/Deposits		Payables	
	2016	2015	**2016**	2015
ACEHI	**$482,844**	$–	**$–**	$–
AC	–	–	**584,070**	–
Innove Communication Inc. (ICI)	–	–	**276**	295
Globe Telecom, Inc. (GTI)	–	–	**6,023**	4,386
	$482,844	$–	**$590,369**	$4,681

i. 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.

ii. Payables to AC are nontrade in nature and pertain to transaction costs paid in advance in relation to VIA acquisition.

iii. Payables to ICI are nontrade in nature and pertain to leased lines, internet connections, and automated teller machines connections. These are noninterest-bearing and are due every month.

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

c. Outstanding balances of transactions with subsidiaries from the Parent Company's point of view follow:

	Receivables		Payables	
	2016	2015	**2016**	2015
IMI EU/MX Subsidiaries	**$24,100,160**	$22,298,478	**$8,570**	$71
PSi	**16,722,133**	13,471,568	**98,735**	99,229
IMI Singapore	**1,464,524**	1,010,247	**58,353**	–
IMI Japan	**992,531**	992,795	**604,196**	527,563
IMI USA	**261,963**	251,917	**370,856**	292,243
STEL	**191,271**	214,955	**1,449,193**	1,756,603
IMI ROHQ	**25,213**	362,925	**779,761**	1,162,377
	$43,757,795	$38,602,885	**$3,369,664**	$3,838,086

The outstanding balances are eliminated upon consolidation.

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

   Advances to PSi and IMI EU/MX Subsidiaries have a 90-day term, subject to interest rates ranging from 1.00%% to 2.88% in 2016, from 1.25% to 2.85% in 2015, and from 2.33% to 2.73% in 2014.

   Receivables from IMI ROHQ are nontrade in nature and represent the retirement expense for IMI ROHQ's employees, to be funded by the Parent Company's retirement plan upon availment. In 2016, the retirement expense is being included in the service fees billed by ROHQ to the Parent Company.

   Payables to STEL pertain to non-trade related transactions, which include freight and handling charges, business travel expenses, and consideration for the net assets transferred by STPH to the Parent Company. These advances are noninterest-bearing and are payable on demand.

ii. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ to the Parent Company which serves as an administrative, communications, and coordinating center for its affiliates. These advances are noninterest-bearing and are payable on demand.

iii. Payables to IMI Japan and IMI USA are nontrade in nature and pertain to administrative expenses paid by the Parent Company on their behalf.

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

	Revenue/Income			Expenses		
	2016	2015	2014	**2016**	2015	2014
BPI	**$4,247**	$25,698	$6,021	**$–**	$–	$–
Manila Water Asia Pacific (MWAP)	**–**	–	9,868	–	–	–
TLI	**–**	–	7,371	**1,045,948**	1,093,559	1,115,426
AC	**–**	–	–	**687,142**	–	–
AG Legal	**–**	–	–	**197,308**	93,108	118,774
ICI	**–**	–	–	**92,923**	88,936	55,971
GTI	**–**	–	–	**85,755**	86,260	73,337
	$4,247	$25,698	$23,260	**$2,109,076**	$1,361,863	$1,363,508

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

i. Interest income earned from investments and gain on foreign currency forwards with BPI.

ii. Rental income earned by STEL for the lease of its office premises to MWAP in 2014.

iii. Revenue from TLI pertains to administrative services such as professional, clerical, financial and accounting services provided by the Parent Company to TLI in 2014.

Expenses incurred from related party transactions include:

i. Rental expense from the lease contract with TLI (see Note 28).

ii. Transaction costs related to VIA acquisition advanced by AC.

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

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

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

e. Revenue and expenses eliminated at the Group level follow:

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

ii. Expenses incurred from related party transactions include interest expense of PSi, IMI MX, and IMI CZ from loans granted by the Parent Company.

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

	2016	2015
Short-term employee benefits	**$7,940,519**	$8,825,529
Post-employment benefits	**280,248**	361,372
Share-based payments	**643,098**	1,442,721
	$8,863,865	$10,629,622

30. **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, receivables, accounts payables and accrued expenses, with maturity of less than one year, 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, 2016 and 2015:

	Carrying Amounts		Fair Values	
	2016	2015	**2016**	2015
Financial assets:				
Derivative assets	**$67,062**	$66,117	**$67,062**	$66,117
AFS financial assets	**740,949**	583,510	**740,949**	583,510
	$808,011	$649,627	**$808,011**	$649,627
Financial liabilities:				
Derivative liabilities	**$10,567**	$10,567	**$10,567**	$10,567
Financial liabilities on put options	**11,334,282**	–	**11,334,282**	–
Noncurrent portion of:				
Long-term debt	**121,144,043**	34,648,756	**118,083,096**	33,311,349
	$132,488,892	$34,659,323	**$129,427,945**	$33,321,916

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

Derivatives - These 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.

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

Financial liabilities on put options - These pertain to the liabilities of the Parent Company arising from the written put options over the non-controlling interest of VIA. The fair value of the financial liabilities is estimated using the discounted, probability-weighted cash flow method. The future cash flows were projected using the equity forward pricing formula, with reference to the current equity value of the acquiree and the forecasted interest rate which is the risk-free rate in Germany. The risk-free rate used range from 0.02% to 0.15%. Management applied weights on the estimated future cash flows, based on management's judgment on the chance that the trigger events for the put option will occur.

The current equity value of the acquiree is determined using the discounted cash flow approach. The future cash flows are projected using the projected revenue growth rate of VIA. The discount rate represents the current market assessment of the risk specific to the acquiree, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the acquiree and is derived from its weighted average cost of capital.

Noncurrent portion of long-term debt - The fair value of long-term debt that is re-priced on a semi-annual basis is estimated by using the discounted cash flow method, using the current incremental borrowing rates for similar borrowings, with maturities consistent with those remaining for the liability being valued. The discount rates used for 2016 and 2015 ranged from 1.00% to 2.91% and from 1.20% to 3.10%, respectively.

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

	December 31, 2016			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets measured at fair value:				
Derivative assets	**$67,062**	**$–**	**$–**	**$67,062**
AFS financial assets	**740,949**	**–**	**–**	**740,949**
	$808,011	**$–**	**$–**	**$808,011**
Liabilities measured at fair value:				
Derivative liabilities	**$10,567**	**$–**	**$–**	**$10,567**
Financial liabilities on put options	**–**	**–**	**11,334,282**	**11,334,282**
	$10,567	**$–**	**$11,334,282**	**$11,344,849**
Liabilities for which fair values are disclosed:				
Long-term debt	**$–**	**$–**	**$118,083,096**	**$118,083,096**

	December 31, 2015			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets measured at fair value:				
Derivative assets	$66,117	$–	$–	$66,117
AFS financial assets	583,510	–	–	583,510
	$649,627	$–	$–	$649,627
Liabilities measured at fair value - Derivative liabilities	$10,567	$–	$–	$10,567
Liabilities for which fair values are disclosed - Long-term debt	$–	$–	$33,311,349	$33,311,349

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	1%-3% (2%)	1% increase in growth rate would result in an increase in fair value by $0.91 million. Decrease in growth rate by 1% would result in a fair value decrease of $0.65 million.
		Discount rate	10%-13% (12%)	1% increase in discount rate would result in a decrease in fair value by $0.78 million. Decrease in discount rate by 1% would result in a fair value increase of $1.44 million.
		Probability of trigger events occurring	1% – 10% (5%)	Increase in the probability to 10% would result in an increase in fair value by $2.31 million. Decrease in the probability to 1% would result in a decrease in fair value by $5.60 million.

31. **Financial Risk Management Objectives and Policies**

The Group's principal financial instruments, composed of trust receipts and loans payable, long-term debt, and other financial liabilities, were issued primarily to raise financing for the Group's operations. The Group has various financial instruments such as cash and cash equivalents, receivables, and accounts payable and accrued expenses which arise directly from its operations.

The main purpose of the Group's financial instruments is to fund its operational and capital expenditures. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk, and foreign currency risk. The Group also enters into currency forwards to manage the currency risk arising from its operations and financial instruments.

The Group's risk management policies are summarized below:

<u>Interest Rate Risk</u>
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, 2016 and 2015. 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	**2016**	2015
+100	**($85,505)**	($686,214)
-100	**85,505**	686,214

The following table shows the information about the Group's debt as of December 31, 2016 and 2015 that are exposed to interest rate risk presented by maturity profile:

	2016	2015
Within one year	**$7,051,886**	$40,775,609
One to five years	**1,498,600**	27,845,749
	$8,550,486	$68,621,358

Liquidity Risk
Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group's exposure to liquidity risk relates primarily to its short-term and long-term obligations. The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and operations. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover financing requirements, the Group intends to use internally-generated funds and loan facilities with local and foreign banks. Surplus funds are placed with reputable banks.

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities based on contractual undiscounted payments:

	2016				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Financial assets					
Cash and cash equivalents*	**$75,816,054**	**$10,648,980**	**$–**	**$–**	**$86,465,034**
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	**–**	**136,114,721**	**–**	**–**	**136,114,721**
Accrued expenses**	**–**	**12,907,253**	**–**	**–**	**12,907,253**
Accrued compensation and benefits	**–**	**21,685,525**	**–**	**–**	**21,685,525**
Nontrade payables	**–**	**8,050,234**	**–**	**–**	**8,050,234**
Accrued interest payable	**–**	**–**	**769,072**	**–**	**769,072**
Derivative liabilities	**–**	**10,567**	**–**	**–**	**10,567**
Due to related parties	**–**	**590,369**	**–**	**–**	**590,369**
Others	**–**	**1,701,386**	**–**	**–**	**1,701,386**
Financial liabilities on put options	**11,334,282**	**–**	**–**	**–**	**11,334,282**
Trust receipts and loans payable	**–**	**34,341,720**	**17,103,449**	**–**	**51,445,169**
Current portion of long-term debt	**–**	**5,222,000**	**2,108,200**	**854,853**	**8,185,053**
Noncurrent portion of long-term debt	**–**	**115,367**	**338,288**	**122,463,114**	**122,916,769**
	11,334,282	**220,739,142**	**20,319,009**	**123,317,967**	**375,710,400**
	$64,481,772	**($210,090,162)**	**($20,319,009)**	**($123,317,967)**	**($289,245,366)**

	2015				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets					
Cash and cash equivalents*	$67,108,584	$34,338,174	$–	$–	$101,446,758
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	–	103,563,112	–	–	103,563,112
Accrued expenses**	–	11,753,000	–	–	11,753,000
Accrued compensation and benefits	–	23,263,280	–	–	23,263,280
Nontrade payables	–	5,121,760	–	–	5,121,760
Employee-related payables**	–	149,444	–	–	149,444
Accrued interest payable	–	–	509,027	–	509,027
Derivative liabilities	–	10,567	–	–	10,567
Due to related parties	–	4,681	–	–	4,681
Others	–	1,538,689	–	–	1,538,689
Trust receipt and loans payable	–	–	42,449,644	–	42,449,644
Current portion of long-term debt	–	–	43,296,039	–	43,296,039
Noncurrent portion of long-term debt	–	187,856	563,568	34,836,960	35,588,384
	–	145,592,389	86,818,278	34,836,960	267,247,627
	$67,108,584	($111,254,215)	($86,818,278)	($34,836,960)	($165,800,869)

** Excluding cash on hand*
*** Excluding statutory payables*

Credit lines
The Group has credit lines with different financing institutions as of December 31, 2016 and 2015, as follows:

	2016		2015	
Financial Institution	**Credit Limit**	**Available Credit Line**	Credit Limit	Available Credit Line
Local:				
USD	**54,000,000**	**44,550,000**	64,000,000	54,800,000
PHP	**100,000,000**	**100,000,000**	100,000,000	100,000,000
Foreign:				
USD	**89,318,841**	**56,318,841**	76,544,838	43,544,838
Singapore Dollar (SGD)	**17,000,000**	**17,000,000**	25,000,000	25,000,000
EUR	**9,830,000**	**6,897,783**	9,830,000	7,626,802

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’s maximum exposure to credit risk as of December 31, 2016 and 2015 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 37% and 40% of trade receivables relating to three major customers as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the aging analysis of receivables and miscellaneous deposits follows:

	December 31, 2016							
		Neither Past Due Nor	Past Due but not Impaired					Specifically
	Total	**Impaired**	**<30 Days**	**30-60 Days**	**60-90 Days**	**90-120 Days**	**>120 Days**	**Impaired**
Trade	**$192,152,117**	**$155,163,040**	**$24,242,735**	**$5,877,578**	**$2,927,958**	**$1,632,926**	**$1,712,327**	**$595,553**
Nontrade	**3,804,516**	**3,667,305**	**3,191**	**16,807**	**14,248**	**1,220**	**39,171**	**62,574**
Receivable from insurance	**1,860,624**	**789,365**	–	–	–	–	–	**1,071,259**
Receivable from employees	**553,745**	**549,388**	–	–	–	–	–	**4,357**
Due from related parties	**299,713**	**299,713**	–	–	–	–	–	–
Others	**1,265,782**	**1,265,782**	–	–	–	–	–	–
	$199,936,497	**$161,734,593**	**$24,245,926**	**$5,894,385**	**$2,942,206**	**$1,634,146**	**$1,751,498**	**$1,733,743**
Miscellaneous deposits	**$2,512,368**	**$2,512,368**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**

	December 31, 2015							
		Neither Past Due Nor	Past Due but not Impaired					Specifically
	Total	Impaired	<30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	Impaired
Trade	$165,831,122	$141,317,546	$18,807,293	$3,520,896	$196,297	$281,231	$1,164,059	$543,800
Nontrade	1,737,293	1,223,268	105,264	71,430	73,791	77,572	118,206	67,762
Receivable from insurance	1,066,414	–	–	–	–	–	–	1,066,414
Receivable from employees	735,464	687,268	6,193	6,153	1,695	74	16,643	17,438
Due from related parties	196,341	196,341	–	–	–	–	–	–
Others	1,420,361	1,420,361	–	–	–	–	–	–
	$170,986,995	$144,844,784	$18,918,750	$3,598,479	$271,783	$358,877	$1,298,908	$1,695,414
Miscellaneous deposits	$1,897,070	$1,897,070	$–	$–	$–	$–	$–	$–

The following table summarizes the credit quality of the Group’s financial assets as of December 31, 2016 and 2015:

	December 31, 2016					
	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	**Average Risk**	**Fairly High Risk**	**High Risk**	**Individually Impaired**	**Total**
Cash and cash equivalents	**$86,465,034**	**$–**	**$–**	**$–**	**$–**	**$86,465,034**
Receivables:						
Trade	**3,853,310**	**151,309,730**	**–**	**–**	**36,989,077**	**192,152,117**
Nontrade	**3,667,305**	**–**	**–**	**–**	**137,211**	**3,804,516**
Receivable from insurance	**789,365**	**–**	**–**	**–**	**1,071,259**	**1,860,624**
Receivable from employees	**549,388**	**–**	**–**	**–**	**4,357**	**553,745**
Due from related parties	**299,713**	**–**	**–**	**–**	**–**	**299,713**
Others	**1,265,782**	**–**	**–**	**–**	**–**	**1,265,782**
AFS financial assets	**740,949**	**–**	**–**	**–**	**1,753,589**	**2,494,538**
Miscellaneous deposits	**2,512,368**	**–**	**–**	**–**	**–**	**2,512,368**
	$100,143,214	**$151,309,730**	**$–**	**$–**	**$39,955,493**	**$291,408,437**

	December 31, 2015					
	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	Average Risk	Fairly High Risk	High Risk	Individually Impaired	Total
Cash and cash equivalents	$101,497,653	$–	$–	$–	$–	$101,497,653
Receivables:						
Trade	4,456,008	136,861,538	–	–	24,513,576	165,831,122
Nontrade	1,223,268	–	–	–	514,025	1,737,293
Receivable from insurance	–	–	–	–	1,066,414	1,066,414
Receivable from employees	687,268	–	–	–	48,196	735,464
Due from related parties	196,341	–	–	–	–	196,341
Others	1,420,361	–	–	–	–	1,420,361
AFS financial assets	583,510	–	–	–	1,753,589	2,337,099
Miscellaneous deposits	1,897,070	–	–	–	–	1,897,070
	$111,961,479	$136,861,538	$–	$–	$27,895,800	$276,718,817

The Group classifies credit quality as follows:

Minimal Risk - Credit can proceed with favorable credit terms; can offer term of 15 to maximum of 45 days.

Average Risk - Credit can proceed normally; can extend term of 15 to maximum of 30 days.

Fairly High Risk - Credit could be extended under a confirmed and irrevocable LC and subject to semi-annual review for possible upgrade.

High Risk - Transaction should be under advance payment or confirmed and irrevocable Stand-By LC; subject to quarterly review for possible upgrade after one year.

Foreign Currency Risk

The Group's foreign exchange risk results primarily from movements of the USD against other currencies. As a result of significant operating expenses in PHP, the Group's consolidated statements of income can be affected significantly by movements in the USD versus the PHP. In 2015 and 2014, 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 53**%** and 47% of the Group's sales for the years ended December 31, 2016 and 2015, respectively, and 43**%** and 39% of costs for the years ended December 31, 2016 and 2015, respectively, are denominated in currencies other than the Group's functional currency.

The Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider hedging any material exposure where appropriate.

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

Philippine Peso (₱)

	2016		2015	
	In USD	**In PHP**	In USD	In PHP
Cash and cash equivalents	**$3,188,406**	**₱158,548,273**	$10,517,705	₱494,950,826
Receivables	**676,493**	**33,639,648**	764,995	35,999,784
Miscellaneous deposits	**1,059,645**	**52,692,422**	1,221,963	57,504,123
Accounts payable and accrued expenses	**(17,222,268)**	**(856,403,199)**	(19,141,155)	(900,760,226)
Net retirement liabilities	**(3,174,729)**	**(157,868,158)**	(5,288,105)	(248,852,011)
Other noncurrent liabilities	**(398,392)**	**(19,810,638)**	(420,976)	(19,810,638)
Net foreign currency-denominated liabilities	**($15,870,845)**	**(₱789,201,652)**	($12,345,573)	(₱580,968,142)

Euro (€)

	2016		2015	
	In USD	**In EUR**	In USD	In EUR
Cash and cash equivalents	**$19,841,755**	**€18,998,233**	$22,622,321	€20,588,206
Receivables	**73,091,714**	**69,984,406**	37,983,693	34,568,341
Accounts payable and accrued expenses	**(49,795,811)**	**(47,678,869)**	(18,370,780)	(16,718,948)
Long-term debt	**(7,457,958)**	**(7,140,902)**	(8,621,358)	(7,846,158)
Net foreign currency-denominated assets	**$35,679,700**	**€34,162,868**	$33,613,876	€30,591,441

	2016	2015
Trust receipts and loans payable	**$51,445,169**	$42,297,356
Long-term bank borrowings	**122,742,296**	68,621,358
Total bank debt	**174,187,465**	110,918,714
Less cash and cash equivalents	**86,548,735**	101,532,409
Net bank debt	**$87,638,730**	$9,386,305
Equity attributable to equity holders of the Parent Company	**$236,606,259**	$232,242,928
Debt-to-equity ratio	**0.74:1**	0.48:1
Net debt-to-equity ratio	**0.37:1**	0.04:1

The Group is not subject to externally imposed capital requirements.

32. Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested. The outcome of these cases is not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims, and assessments.

33. Notes to Consolidated Statements of Cash Flows

The Group's noncash investing activities includes capitalization by the Group of depreciation related to the development phase of certain projects amounting to $1.90 million for 2016, and insurance receivables amounting to $0.79 million in relation to insurance for damages to property, plant and equipment.

34. Events after Balance Sheet Date

On February 15, 2017, the Parent Company's Board of Directors 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.

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"We have set up IMI to lock in on seamless customer experience,
and continue to explore the limits of our customer base
for emerging trends, unfulfilled needs, opportunities and are thus
well-equipped to manage and influence disruptions."

ARTHUR R. TAN
VICE CHAIRMAN AND CEO

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