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

SEC Registration Number: 9 4 4 1 9

C O M P A N Y   N A M E

INTEGRATED MICRO-ELECTRONICS, INC.

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

NORTH SCIENCE AVE., LAGUNA TECHNOPARK, BINAN, LAGUNA

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

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

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
338	April 7	December 31

CONTACT PERSON INFORMATION

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

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

CONTACT PERSON's ADDRESS

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

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

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

SEC Number: 94419
File Number: ______

INTEGRATED MICRO-ELECTRONICS, INC.

(Company's Full Name)

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

(Company Address)

(632) 756-6840

(Telephone Number)

December 31, 2016

(Fiscal Year Ending)
(Month & Day)

SEC Form 17-A

(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended: **December 31, 2016**

2. SEC Identification Number: **94419**

3. BIR Tax Identification No. **000-409-747-000**

4. Exact name of issuer as specified in its charter: **INTEGRATED MICRO-ELECTRONICS, INC.**

5. Province, Country or other jurisdiction of incorporation or organization: **Philippines**

6. Industry Classification Code: __________ (SEC Use Only)

7. Address of principal office: **North Science Avenue, Laguna Technopark-Special Economic Zone (LT-SEZ), Bo. Binan, Binan, Laguna** Postal Code: **4024**

8. Registrant's telephone number: **(632) 756-6840**

9. Former name, former address, and former fiscal year: **Not applicable**

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares Issued and Outstanding
Common *	1,867,293,315

* Net of 15,892,124 treasury shares

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

    1,883,185,439 common shares are listed with the Philippine Stock Exchange, including 15,892,124 treasury shares.

12. Check whether the registrant:

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

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

13. The aggregate market value of the voting stock held by non-affiliates of the Company is about ₱4.9 billion (based on closing stock price of IMI common shares as of December 31, 2016)

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PART I - BUSINESS AND GENERAL INFORMATION

ITEM 1. BUSINESS

(A) Description of Business

(1) Business Development

Integrated Micro-Electronics, Inc. (IMI), 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, IMI and its subsidiaries are referred to as the "Group"). IMI is 50.64% owned by AYC Holdings, Ltd., a corporation incorporated in the British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd. under the umbrella of Ayala Corporation.

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

IMI 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 Singapore. STEL and its subsidiaries are principally engaged in the provision of Electronic Manufacturing Services (EMS) and Power Electronics solutions to original equipment manufacturing customers in the consumer electronics, computer peripherals/information technology, industrial equipment, telecommunications and medical device sectors, among others.

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

IMI, 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") in 2011. IMI EU/MX Subsidiaries design and produce printed circuit board assemblies (PCBAs), engage in plastic injection, embedded toolshop, supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, and industrial equipment, among others. IMI EU/MX Subsidiaries also provide engineering, test and system development, and logistics management services.

In 2016, Cooperatief acquired a 76.01% stake 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.

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 (SATS) company serving niche markets in the global power semiconductor market. It provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices.

(2) Business of Issuer

Principal Products and Services

Design and Engineering Solutions

Partnering with IMI allows a complete and successful product development. This is made possible by IMI's capability to design and develop complete products and subsystems, analyze product design and materials for costs reduction through value engineering, and develop solutions for cost-effective production and fast time-to-market while safeguarding intellectual property. IMI's product development and engineering service offerings include hardware and software design, test and systems development, advanced manufacturing engineering (AME), custom automation, product reliability, failure analysis, calibration and repair services, and EMC pre-certification solutions.

Supply Chain Solutions

IMI's supply chain management solutions are equipped to help partners reduce the risk brought about by a volatile global market. The three-pronged approach include a systematic order management solution, a dynamic supply chain strategy hinged on supplier managed inventory, continuous replenishment and buffer stock programs, and a comprehensive cost management solution that revolves around regular price reviews and negotiations with leading materials strategic supplier-partners, distributors and manufacturers.

Manufacturing Solutions

IMI's comprehensive manufacturing experience allows a prospective client to leverage its strength in RoHS-compliant and cleanroom manufacturing process, complex manufacturing using consigned equipment and materials, complete turnkey manufacturing, and ERP-based planning. IMI has the essential infrastructure equipment, manpower and quality systems to assure quick start of operations and turnaround time. These include: PCBA and FCBA assembly (flexible PCBA, aluminum PCBA, ceramic PCBA, flip chip on flex, chip-on-board, chip-on-flex, chip-on-glass, hybrid module PCBA, automotive camera module), automated through-hole assembly, PCBA with multiple BGA SMT - automated manufacturing, complete box build solutions, test boards, customized testers, complex equipment, power modules, sub assembly services, component assembly, manufacturing of enclosure systems, and plastic injection capability.

Business Models

IMI recognizes the uniqueness of each customer's requirements. To satisfy specific requests, IMI offers global manufacturing solutions that allow it to build the perfect assembly for its client's manufacturing requirements.

The "Standard" and "Semi-custom" business models pertain to IMI's PCBA processes. IMI invests in SMT lines which support multiple customer requirements. Back-end and box build processes are also set-up depending on customer requirements.

The “Custom” business model gives the client a free hand in designing the systems by offering a dedicated facility manned by an independent and exclusive organization that will build the system from ground up. With quality structures and operational procedures compatible with the client’s systems, IMI’s line serves as the client’s extension or satellite plant, assuring that all the parts and processes are customized to the client’s particular needs.

Capabilities and Solutions

IMI’s capabilities allow it to take on the specific outsourcing needs of its customers, providing them with flexible solutions that encompass design and engineering, new product introduction, manufacturing, and support and order fulfilment. It develops platforms to customize solutions in response to its customers’ unique requirements. Its platforms in areas like short-range wireless systems, embedded systems, and sensors and imaging technology represent capabilities to manufacture products. New manufacturing capabilities are developed by IMI’s AME group. Its expertise includes immersion silver process, pre-flow underfill process, thermally enhanced flip chip technology, traceless flip chip technology, and flip chip on flex assembly, among others. IMI has a complete range of manufacturing solutions – from PCBA to complete box build. Through its flexible, efficient, and cost-effective end-to-end EMS solutions, IMI gives OEMs the luxury of focusing on their core competencies of technology R&D and brand marketing.

Subsidiary in Power Semiconductor Assembly and Test

IMI through its subsidiary, PSi, provides outsourced power semiconductor assembly and test services for legacy packages, power QFNs, and power modules.

Subsidiary in Display Product Solutions

VIA Optronics GmbH, another subsidiary of IMI, is a leading optical bonding and display solutions provider that specializes in sunlight readable, ultrathin displays and touch solutions.

Global Materials and Supply Chain Management

IMI continues to strengthen and enhance its supply chain management capabilities through its global scale of operations which it believes will enable it to achieve greater leverage with its supply chain, thus, affording itself with the cost competitiveness needed to meet customer requirements as well as supply assurance, continuity of supply and better quality of raw materials.

IMI’s turnkey capabilities involve major commodities for direct/indirect materials: passive/active/mechanical/electro-mechanical components, existing vendor base for over 36,000 line items, and Global sourcing in Asia, US and Europe of over 200 major and strategic suppliers from over 2,000 suppliers listed in our database. IMI is not or is not expected to be dependent upon one supplier for raw materials or other items. IMI also has Vendor Partnership Programs to leverage for the most competitive cost and engaged the supply base on vendor qualification, certification and development.

With regard to inbound and outbound logistics, IMI are partners with the best in the industry. The major lines inbound are Singapore, Japan, Hong Kong, Taiwan, Malaysia, Thailand, Germany, and the U.S. Major lines outbound are U.S., Germany, Malaysia, Hong Kong, Israel, Switzerland, Vietnam, UK, Japan, Singapore, and France.

IMI’s warehousing capabilities include housing all direct and indirect materials, management of internal as well as third party logistics provider, satellite warehouses in other IMI plants and under the mySAPTM ERP System. Its mission is to offer strategic and competitive Supply Chain Management for complete order fulfilment of its Customers.

Product Capabilities

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

Automotive Electronics

Safety

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

Advanced Driver Assistance Systems

- Front Vision
- Surround View
- Rear View Camera

Sensors

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

Industrial Electronics

Security

- Electronic Door Access System

Automation

- Automated Meter Reading
- Point of Sales System

Smart Grid

- Modules for Renewable Energy Generation, Transmission and Conversion
- Solar Panel
- Solar Inverters

Controls and Sensors

- Printer Control
- Power Amplifier
- DC-DC Power Converter
- Engine Controllers

LED Lighting

Medical Electronics

Diagnostics

- Auto Body Contouring Imaging Equipment
- Defibrillator Component
- Biomedical and Laboratory Equipment
- Centrifuge Control
- Fitness Equipment Control

Dental

- Imaging System

Hearing Aids

Communications Electronics

Telecom Equipment and Devices

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

Consumer Electronics

White goods

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

Personal devices and lighting

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

Power Semiconductor

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

Optical Bonding and Display Solutions (VIA)

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

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

Segment Information

The following tables present revenue and profit information regarding the Group's geographical segments 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

Inter-segment revenues, cost of sales and operating expenses are eliminated on consolidation.

Please refer also to Note 27 (“Segment Information”) of the Notes to Consolidated Financial Statements of the 2016 Audited Consolidated Financial Statements which is incorporated herein as Exhibit 1.

Revenue Contribution by Industry Segment (in US$)

	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

Revenue Contribution by Customer Nationality (in US$)

	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

Foreign Subsidiaries' Contribution

	2016		**2015**		**2014**	
	Revenue	**Net Income∗**	**Revenue**	**Net Income∗**	**Revenue**	**Net Income∗**
Foreign Subsidiaries:						
China/SG	31%	-12%	34%	2%	39%	72%
Europe/Mexico	39%	93%	33%	75%	32%	58%
Germany (VIA)	2%	-1%	-	-	-	-
TOTAL	**72%**	**80%**	**67%**	**77%**	**71%**	**130%**

∗ *Attributable to equity holders of the Parent Company*

Revenues are attributed to countries on the basis of customer's location. Certain customers that are independent of each other but within the same group account for 15% of the Group's total revenue in 2016.

Sales and Distribution

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

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

Strategic Partnerships

IMI is global manufacturing solutions provider in the automotive, industrial, telecommunications, medical, and consumer electronics segments as well as emerging industries like renewable energy. Global economy grew by 3.1% in 2015, a slowdown compared with 3.4% in 2014. IMF estimates the global economy to bounce back to 3.4% in 2016. Major economic regions such as US, Europe and

Japan all ended the year with a Purchasing Managers' Index (PMI) of above 50, indicating expansion. China on the other hand has had a PMI below 50 since 2012 a sign of contraction. The eight largest public EMS companies, excluding Hon Hai, merely had flat growth in 2015. If Hon Hai is added, the growth is only at 1.5%.

IMI competes worldwide, with focus on Asia (including Japan and China), North America, and Europe.

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

HonHai/Foxconn is a Taiwanese company with estimated annual revenues of US$135.2 billion in 2016. Foxconn saw its first-ever annual sales decline in 2016 since it went public in 1991. The company's decline is being blamed on "lukewarm" demand from Apple, its biggest client. HonHai is a competitor of IMI in the computing and telecommunication infrastructure markets.

Flextronics is a Singapore-headquartered company with annual revenues of US$22.2 billion in 2016; its cost structure is very competitive it is vertically integrated as well. Flextronics poses competition to IMI in the automotive space.

Plexus, a U.S.-based EMS, recorded US$2.55 billion revenues in 2016. Plexus is a key EMS player in industrial and medical sectors, which are target markets of IMI.

IMI is focused on delivering customized solutions of highest quality at reasonable prices. It collaborates with the customers in finding the right solutions to their problems. IMI even challenges its own systems and processes if needed. It has a distinct advantage in serving customers who value quality over price and require complex non-standard solutions. Living up to the flexible expertise brand, IMI is adaptable to the needs and conditions of its customers. This expertise has propelled IMI onto the current list of the top 30 EMS providers in the world and earned for IMI several accolades from its customers. IMI also ranked 6th among the largest EMS providers in the automotive segment based on 2015 revenues according to New Venture Research.

Principal Suppliers

IMI's suppliers are situated globally and are managed by the Global Procurement organization. The Company's top 10 suppliers in 2016 comprise about 25% of global purchases. Purchases from suppliers generally comprise of electronic components processed by our facilities. The Company strives to manage the quality of the products supplied to ensure strict adherence to quality standards and only purchase from suppliers whose product meet all applicable health and safety standards.

Transactions with Related Parties

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 Bank of the Philippine Islands, 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
Ayala Corporation Energy Holdings Inc.	**$482,844**	$–	**$–**	$–
Ayala Corporation	**–**	–	**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

Intellectual Property

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

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

Existing / Pending Patents	Descriptions	Location / Filing Date	Expiration Date
Pending **USPTO 13457670**	Used for die attach of power devices that require very minimal voiding between device and substrate to avoid localized heating and potential failure. Describes a new process to perform soldering in a vacuum environment to promote minimal voiding without the use of specialized and expensive equipment, solder preform and gas atmospheres, but with the efficiency of a standard reflow soldering process.	April 2012	In Process
Pending PCT/US12/51573	A flip chip video camera mounted on a flexible substrate with glass stiffener	August 2012	In Process
Pending USPTO 14109918	Unique construction of camera module that enhances the dissipation of heat generated by the image sensor while being easy to manufacture.	December 2013	In Process
United States Patent 6,571,468 6,846,701	A method for forming a fine-pitch flip chip assembly interconnects fine pitch devices after they have been connected to a carrier substrate.	California, USA, 2001	2021
United States Patent 6,776,859	An improved anisotropic bonding system and method connects two conductive surfaces together using an anisotropic material having elastic conductive particles dispersed in an insulating heat-curable carrier.	California, USA, 2000	2020
United States Patent 6,648,213	A method for manufacturing a chip assembly that includes the steps of applying a controlled amount of flux to plurality of solder balls on a die, applying a non-fluxing underfill material to a substrate, and assembling the die and substrate together to form the chip assembly such that the non-fluxing underfill material is trapped between the die and the substrate.	California, USA and Singapore, 2001	2021
United States Patent 6,414,859	A passive component circuit comprising a bridge rectifier that is coupled in parallel to three capacitors.	Singapore, 2000	2020
United States Patent 7,787,265 B2	A dual switch forward power converter, and a method of operating the same, employs a self- coupled driver to achieve among other advantages higher efficiency, lower part count and component cost.	Singapore, 2007	2027
United States Patent 8,937,432 B2	Light Source Having LED Arrays for Direct Operation in Alternating Current Network and Production Method Thereof.	USA, 2015	2031
Japan - Applied	Bezelless display system	Divisional application filed	In Process
Taiwan - I 444 942		November 2014	July 2017
USA - US7924362		April 2011	October 2018
China - Applied	Nozzle to apply dry bonding preform	April 2014	In Process

Germany – 102013219628B4		August 2016	September 2017
South Korea – 10-1 703 383		January 2017	January 2020
Taiwan – I 530 330		April 2016	April 2018
Europe - EP2137570A1	Enhanced liquid crystal display system and methods	Published	In Process
Japan - JP 5513136		April 2014	April 2018
Taiwan - I 437 068		May 2014	May 2018
USA – 9 348 167		May 2016	November 2019
Germany – 600 42 590.8-08	SBLR (Super Bright Low Reflectance	July 2009	January 2018
Canada – 2 359 228		August 2005	January 2018
Taiwan – I 280 443		May 2007	April 2018
USA – 6 181 394		January 2001	January 2019
USA – 7 405 779		July 2008	January 2017
USA – 6 933 991		August 2005	January 2021
USA – 7 649 577		January 2010	July 2017
China - CN103820041A	Method for bonding two substrates used during manufacturing process of display device	May 2014	
Germany – Filed		Filed	
South Korea - 10-2014-0063470		May 2014	
Taiwan - 2014 32008		August 2014	

Government Regulations and Approvals

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

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

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

Among these regulations are the following:

- DENR Administrative Order No. 35, Series of 1990 (Revised effluent regulations);
- Board Resolution No. 25, Series of 1996 (Implementation of the Environmental User Fee System in the Laguna de Bay Region);
- Resolution No. 33, Series of 1996 (Approving the Rules and Regulations implementing the Environmental User Fee System in the Laguna de Bay Region);
- DENR Administrative Order No. 26, Series of 1992 (Appointment/Designation of Pollution Control Officers);
- Philippine Clean Water Act of 2004 – Republic Act No. 9275; and
- Republic Act (RA 6969) Control of Toxic Substances and Hazardous and Nuclear Wastes
- RA 8749 - Clear Air Act of 1999, Philippine Clean Air Act of 1999;
- DENR Administrative Order No. 2003-27(Amending DAO 26, DAO 29 and DAO 2000-81)
- RA 9003 "Philippine Ecological Solid Waste Management Act of 2000" DENR Administrative Order No. 2001-34
- MC 2009-004 Ammendment of annex 2 of MC 2007-003, regarding the policy on compliance and permitting for facilities relating to air quality

- DAO Revised Proceeds and Standard for the Management of Hazardous wastes (Revising DAO 2004-36
- RA 6549 National Building Code of the Philippines – PEZA
- RA 9165 Dangerous Drug Act of the Philippines – PDEA
- Republic Act No. 9516 amended provisions of Presidential Decree No. 1866 (PNP)

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

Research and Development Activities

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

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

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

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

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

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

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

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

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

		% to Revenues
2016	$ 4,048,719	0.48
2015	$ 3,435,791	0.42
2014	$ 3,930,365	0.47

Human Resources

The Company has a total workforce of 14,580 employees as of December 31, 2016, shown in the following table:

Job Groups	Total	Philippines	China/ Singapore	USA	Japan	Europe	Mexico
Managers	**425**	160	172	6	4	65	18
Supervisors	**1,686**	583	680	6	1	267	149
Rank-and-File	**2,444**	885	892	2	-	197	468
Technicians	**1,423**	326	881	-	-	95	121
Operators	**8,602**	3,372	3,094	-	-	1,462	674
TOTAL	**14,580**	**5,326**	**5,719**	**14**	**5**	**2,086**	**1,430**

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

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

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

Risk Factors

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

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

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

limited to labor conditions, political instability, changes in law and regulation, economic disruptions or changes in economic policies affecting flow of capital, entry of competition, and substantial rate hikes of utilities required for production. The company may also experience possible business disruptions as a result of natural events such as fire and explosion due to presence and use of flammable materials in the operations.

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

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

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

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

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

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

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

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

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

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

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

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

IMI may encounter difficulties in connection with its global expansion

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

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

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

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

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

The price of the Company's products tends to decline over the later years of the product life cycle, reflecting decreased costs of input components, improved efficiency, decreased demand, and

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

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

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

IMI operates in a highly competitive industry

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

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

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

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

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

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

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

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

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

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

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

IMI may be involved in intellectual property disputes

The Company's business depends in part on its ability to provide customers with technologically sophisticated products. The Company's failure to protect its intellectual property or the intellectual property of its customers exposes it to legal liability, loss of business to competition and could hurt customer relationships and affect its ability to obtain future business. It could incur costs in either defending or settling any intellectual property disputes. Customers typically require that the Company indemnify them against claims of intellectual property infringement. If any claims are brought against the Company's customers for such infringement, whether these have merit or not, it could be required to expend significant resources in defending such claims. In the event the Company is subjected to

any infringement claims, it may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. The Company may not be successful in developing such alternatives or in obtaining such licenses on reasonable terms or at all, which could disrupt manufacturing processes, damage its reputation, and affect its profitability.

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

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

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

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

The impact of these risks was very evident in the aftermath of the global financial crisis which resulted in global reduction of demand for electronics products by end-customers. The Company mitigates the impact of industry downturns on demand by rationalizing excess labor and capacity to geographical areas that are most optimal, and by initiating cost containment programs. With indications of global financial recovery already in place, the Company has been able to re-hire some of its employees. There are also electronics requirements resulting from global regulations, such as those for improving vehicle safety and promoting energy-efficient technologies that would increase the demand for electronic products and equipment.

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

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

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

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

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

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

The Company sources materials from various countries and different natural disasters may affect supply. Typhoons, earthquakes, and other natural disaster may cause a delay in delivery of the raw materials to the company, manufacturing of ordered products may not be met, resulting to a loss in potential sales.

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

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

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

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

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

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

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

The Company may be exposed to a risk of inventory obsolescence because of rapidly changing technology and customer requirements. Inventory obsolescence may require it to make adjustments to write down inventory to the lower of cost or net realizable value, and its operating results could be adversely affected. The Company is cognizant of these risks and accordingly exercises due diligence in materials planning. The Company also provides in its inventory systems and planning a reasonable amount for obsolescence. It is working with key suppliers to establish supplier-managed inventory

arrangements that will mutually reduce the risk. In addition, the Company often negotiates buy back arrangements with customers where, in the event the customers' purchase orders are delayed, canceled, or enter in the end-of life phase, the customers assumes the risk and compensates the Company for the excess inventory.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Under existing foreign exchange controls in the Philippines, as a general rule, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. Restrictions exist on the sale and purchase of foreign exchange in the Philippine banking system. In the past, the Government has instituted restrictions on the ability of foreign companies to use foreign exchange revenues or to convert Philippine pesos into foreign currencies to satisfy foreign currency- denominated obligations, and no

assurance can be given that the Government will not institute such or other restrictive exchange policies in the future.

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

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

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

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

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

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

When President Rodrigo Roa Duterte took the presidential office in June 2016, the Philippines War Against Drug was initiated focusing on combatting illegal drug trade. Following criticism from United Nations human right experts that extrajudicial killings had increased since the election, he threatened to withdraw the Philippines from the UN and form a new organization with China and African nations. He has vowed to pursue an "independent Foreign policy". Leila De Lima, who serves as a Philippines senator in the Philippines in 2016 and was then the Philippines Secretary of the Department of Justice in 2010 until October 2015, condemned the Philippine Drug War and urged the Philippines congress to investigate. She called for an end of vigilante killings of drug suspects. On August 2016, the President alleged De Lima of having an affair with her driver, Ronnie Dayan, who Duterte also alleged functioned as De Lima's collector for drug protection money when she was the Justice secretary. De Lima was removed for her position chairing a Senate Justice and Human Rights committee investigating extrajudicial killings. De Lima, later, admitted her relationship with Dayan. Just recently, February 17, 2017, the Duterte administration pressed drug-related charges against De Lima and was later issued an arrest warrant by Muntinlupa Regional Trial Court for allegedly violating the drug trafficking law. Other accused were Dayan and former Director of Bureau of Corrections Officer-in-charge Ragos for asking for money from jailed drug lords to fund de Lima's senatorial bid last year, 2016.

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

Historically, the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. Although the Philippines' long-term foreign currency-denominated debt was recently upgraded by each of Standard & Poor's, Fitch Ratings and Moody's to investment-grade, no assurance can be given that Standard & Poor's, Fitch Ratings or Moody's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and,

therefore, Philippine companies. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Parent Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

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

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

On an as-need basis, the Company seeks the help of consultants and subject matter experts for changes in laws and regulations that may have a significant impact in the Company's business operations. It also maintains good relationship with local government, customs, and tax authorities through business transparency and compliance and/or payment of all government-related assessments in a timely manner. The Company has been able to overcome major crises brought about by economic and political factors affecting the countries where it operates. The strong corporate governance structure of the Company and its prudent management team are the foundations for its continued success. The Company also constantly monitors its macroeconomic risk exposure, identifies unwanted risk concentration, and modifies its business policies and activities to navigate such risks. There is no single customer that the Company is dependent on or accounts for more than 15% of the Company's revenues. The Company also serves global customers which are not concentrated on a specific geographic market. Severe macroeconomic contractions may conceivably lead the Company to tweak or modify its investment decisions to meet the downturn. As a holding company, the Company affirms the principles of fiscal prudence and efficiency in the operations to its subsidiaries operating in various countries.

IMI face risks of international expansion and operation in multiple jurisdictions

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

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

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

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

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

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

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

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

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

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

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

Increased political instability threats or occurrence of terrorist attacks, enhanced national security measures, and conflicts, as well as territorial and other disputes which strain international relations, may reduce consumer confidence and economic weakness. Any impact on the following cases in countries in which the Company has operations could materially and adversely affect the Company's business plans and prospects, financial condition and results of operations

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

tribunal had no jurisdiction. China is also in dispute with Japan and India over claims to a separate set of islands.

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

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

Investors may face difficulties enforcing judgments against the Company

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

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

ITEM 2. PROPERTIES

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

The Company's global facilities and capabilities of each location as of December 31, 2016 are shown below:

Location	Floor Area (in square meters)	Capabilities
Philippines-Laguna	96,182	▪ 31 SMT lines, 2 FC lines ▪ 5 COB/COF lines ▪ Box build to Complex Equipment manufacturing ▪ LVHM, HVLM ▪ Solder Wave, Potting, Al & AG W/B ▪ Protective Coating ▪ ICT, FCT, AOI, RF Testing ▪ Design & Development ▪ Test & System Development ▪ Cleanroom to class 100 ▪ Low Pressure Molding (Overmold) ▪ Precision Metals/Machining
Philippines-Cavite	2,350	▪ 3 SMT lines ▪ Box Build ▪ PTH, Solder Wave ▪ ICT, FCT, AOI ▪ 3D X-ray ▪ LVHM
Philippines-PSi Taguig	2,322	▪ Customer Specific Quality Requirements ▪ Low/ Med Power Discrete Packaging and Processes including Au Wire Bonding Al Ribbon, Cu Clip interconnect ▪ 3D Packaging, MCM, High Reliability OFN Packages: 3 x 3 mm to 12x12 mm.
Philippines-PSi Laguna	7,536	▪ Power Component Discrete Packaging, e.g., 3 - 7L TO-220, 3L TO-247, etc. ▪ Diversified Packaging - from Low to High Power and Small to Large Outline ▪ R&D line
China-Liantang	18,600	▪ 17 SMT lines, 1 COB line ▪ Box Build ▪ PTH, Solder Wave ▪ POP, Auto Pin Insertion ▪ Potting, Conformal coating and Burn-in ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ Design & Development ▪ LVHM, HVLM
China-Kuichong	23,480	▪ 19 SMT lines ▪ Box Build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ LVHM, HVLM

China-Jiaxing	13,000	▪ 13 SMT lines ▪ PCBA ▪ Box Build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ Conformal Coating, Potting ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ LVHM, HVLM
China-Chengdu	7,500	▪ 7 SMT lines ▪ Box Build ▪ PTH, Auto Pin Insertion, BGA, X-Ray, COB ▪ Solder Wave ▪ Automated Conformal Coating ▪ ICT, FCT, AOI ▪ HVLM / LVHM ▪ Test Development
Hong Kong*	300	• Procurement, marketing and supply chai support
Japan*	110	• Sales Support
USA-Tustin, CA*	1,184	▪ 2 SMT prototyping lines ▪ Engineering Development ▪ Prototype Manufacturing Center ▪ Precision Assembly ▪ SMT, COB FCOF ▪ Process Development
Botevgrad, Bulgaria	26,928	▪ 15 SMT lines ▪ Box build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ Protective Coating ▪ ICT, FCT, AOI ▪ Test & System Development ▪ Design & Development ▪ Plastic Injection, Embedded Toolshop, Overmolding
El Salto, Guadalajara, Mexico	25,000	▪ 6 SMT lines ▪ Box build ▪ PTH, Auto Pin Insertion, Solder Wave, Protective Coating, Polymer Coating ▪ ICT, FCT, AOI, ▪ X-ray ▪ Plastic Injection (50-1,600T) ▪ Overmolding ▪ Embedded Toolshop ▪ Automated BE Assembly
Třemošná, Plzeňská, Czech Republic	7,740	▪ 4 SMT lines ▪ PTH ▪ Pin Insertion ▪ Solder Wave ▪ Selective soldering ▪ Ultrasonic Welding ▪ Selective coating ▪ ICT, FCT, AOI ▪ Mechanical Assembly ▪ Automated line

Mörsdorf, Germany (VIA)	5,450	▪ Manual optical bonding lines, including different processes ▪ Semi-automatic optical bonding line, for medium and large size application ▪ Display backlight enhancement and modification ▪ Display and touch film lamination ▪ Film cutting for different application ▪ Mechanical assembly including electronics and housing ▪ Prototyping ▪ R&D process development ▪ R&D material development ▪ Engineering, prototyping and production process improvement ▪ Test & system development (electrical) ▪ Optical test labor (mainly for display evaluation) ▪ Environmental test labor ▪ 3 Cleanrooms, class 1000, partial class 100
Suzhou, China (VIA)	9,750	▪ 4 Cleanrooms, class 1000, partial class 100 ▪ 4 optical bonding lines, including 1 fully auto line , 1 semi-auto line and 2 manual lines. ▪ Semi and full automatic optical bonding capacity to balance volume and flexibility ▪ High volume capacity and capable support from size 1.5" up to 85" ▪ R&D touch product development ▪ R&D display standard product development ▪ R&D bonding process development ▪ Test & system development (electrical) ▪ Prototyping ▪ Display and touch film lamination ▪ Film cutting for different application ▪ Mechanical assembly including electronics and housing ▪ Engineering, prototyping and production process improvement ▪ Optical test lab (mainly for display evaluation) ▪ Environmental test lab
Total	**247,342**	

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

Capital Expenditures

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

ITEM 3. LEGAL PROCEEDINGS

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

The Company filed a civil case on April 11, 2011 against Standard Insurance ("Standard") seeking to collect Standard's share in the loss incurred by the Company consisting in damage to production equipment and machineries as a result of the May 24, 2009 fire at the Company's Cebu facility which the Company claims to be covered by Standard's "Industrial All Risks Material Damage with Machinery Breakdown and Business Interruption" policy. The share of Standard in the loss is 22% or US $1,117,056.84 after its co-insurers all paid the amount of loss respectively claimed from them. The Company had to resort to court action after Standard denied its claim on the ground that the claim is an excepted peril. Standard filed a motion to dismiss on various grounds, such as lack of cause of action and of prescription. The Regional Trial Court denied the motion to dismiss but Standard filed a Motion for Reconsideration with the Court of Appeals (CA). On April 26, 2013, the CA dismissed the case on the ground that the claim has prescribed. On April 19, 2013, the Company filed a Motion for Reconsideration. On December 10, 2013, the Company received a decision promulgated on December 2, 2013 denying the said Motion for Reconsideration.

The Company filed a Petition for Review on Certiorari dated January 23, 2014 which is pending with the Supreme Court as of December 31, 2016.

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

The following table shows the high and low prices (in PhP) of IMI's shares in the Philippine Stock Exchange in 2016 and 2015.

Philippine Stock Exchange
Prices in PhP/share

	High		Low		Close	
	2016	2015	2016	2015	2016	2015
First Quarter	5.91	7.00	4.85	5.39	5.81	6.53
Second Quarter	6.00	6.57	5.40	5.75	5.63	5.82
Third Quarter	7.40	6.14	5.16	5.16	6.10	5.70
Fourth Quarter	6.23	6.23	5.79	5.61	6.08	5.64

The market capitalization of the Company's common shares as of December 31, 2016, based on the closing price of ₱ 6.08/share, was approximately ₱ 11.35 billion.

The price information of IMI's common shares as of the close of the latest practicable trading date, March 8, 2017, is ₱ 6.90 per share.

Holders

There are approximately 337 registered common stockholders as of January 31, 2017. The following are the top 20 registered holders of common shares of the Company.

	Stockholder Name	No. of Common Shares	Percentage of Common Shares
1.	AYC Holdings, Ltd.	945,537,373	50.6368%
2.	PCD Nominee Corporation (Filipino)	484,937,585	25.9700%
3.	EPIQ NV	200,000,000	10.7107%
4.	PDC Nominee Corporation (Non-Filipino)	125,564,126	6.7244%
5.	2014 ESOWN Subscription	31,663,496	1.6957%
6.	2007 ESOWN Subscription	30,372,413	1.6265%
7.	2009 ESOWN Subscription	17,982,534	0.9630%
8.	2015 ESOWN Subscription	10,393,394	0.5566%
9.	SIIX Corporation	6,581,622	0.3525%
10.	Josef Pfister	1,415,860	0.0758%
11.	Ayala Corporation	1,380,492	0.0739%
12.	Rafael Nestor Velez Mantaring	1,057,930	0.0567%
13.	Richard D. Bell	910,572	0.0488%
14.	Helmut Baumgart	865,448	0.0463%
15.	Meneleo J. Carlos, Jr.	805,288	0.0431%
16.	Timothy Patterson	700,000	0.0375%
17.	Lucrecio B. Mendoza	540,245	0.0289%
18.	Rolando Maizo Vicente	402,644	0.0216%
19.	Allen B. Paniagua	357,726	0.0192%
20.	Transtechnology Pte. Ltd.	304,836	0.0163%

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

Dividends

Stock Dividend-Common Shares

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

Cash Dividends-Common Shares

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

Cash Dividends-Preferred Shares

PAYMENT DATE	RATE	RECORD DATE
May 21, 2013	8.25% p.a.	May 8, 2013
August 23, 2013	8.25% p.a.	August 9, 2013
November 22, 2013	8.25% p.a.	November 11, 2013
February 21, 2014	2.90% p.a.	February 7, 2014
May 21, 2014	2.90% p.a.	May 7, 2014
August 22, 2014	2.90% p.a.	August 7, 2014
November 21, 2014	2.90% p.a.	November 7, 2014
February 20, 2015	2.90% p.a.	February 6, 2015
May 22, 2015	2.90% p.a.	May 8, 2015
August 24, 2015	2.90% p.a.	August 7, 2015

Dividend policy

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

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

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

Recent Sale of Securities

The following shares were subscribed by the Company's executives as a result of their subscription to the stock ownership (ESOWN) plans:

Year	No. of Shares*
2016	0
2015	9,743,144

**Net of cancelled subscriptions.*

On July 20, 2004, the SEC approved the issuance of 150,000,000 ESOWN shares as exempt transactions pursuant to Section 10.2 of the Securities Regulation Code.

ITEM 6. MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATION

Results of Operations

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

	For the years ended December 31		
	2016	**2015**	**2014**
	(in US$ thousands, except Basic EPS)		
Revenues from sales and services	842,966	814,364	844,474
Cost of goods sold and service	(741,657)	(720,333)	(750,541)
Gross profit	101,309	94,031	93,933
Net income attributable to equity holders of the Parent Company	28,116	28,790	29,117
EBITDA[1]	64,967	58,763	52,717
Basic Earnings per Share (EPS)	0.015	0.015	0.017

2016 vs. 2015

Revenues from Sales and Services

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

The company's operations in Asia delivered lower growth as a result of China's slower economic activity and IMI's strategic decision to disengage from one consumer electronics business. In addition, its Philippine operations also drew away from the declining segment in computing peripherals, driving lower growth. China operations posted $261.4 million, down 6 percent from last year. Philippines's electronics services operations delivered $221.0 million, 2 percent lower than last year, while PSi Technologies, IMI's semiconductor assembly and test subsidiary, posted $33.0 million in revenues, down 2 percent year-on-year.

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

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

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

Cost of Goods Sold and Services

Cost of sales higher by 3% relative to revenue growth.

Gross Profit and Gross Profit Margin

The Company's operations generated gross profit of US$101.3 million, an increase of 8% from last year with corresponding improvement in gross profit margin by 50 bps to 12 percent.

Net Income

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

EBITDA

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

Financial Condition

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

Capital Expenditure

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

Key Performance Indicators of the Company

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

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

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

Return on assets[f]	4%	6%	5%
EBITDA margin[2]	8%	7%	6%

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

In the above:

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

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

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

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

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

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

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

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

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

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

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

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

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

17% increase in Loans and receivables - net ($169.3M to $198.2M)
Revenue driven and integration of accounts of the newly-acquired VIA Optronics

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

47% decrease in Other current assets ($10.9M to 16.1M)
Increase in advances to suppliers

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

336% increase in Intangible assets ($2.4M to $10.5M)
Capitalized costs arising from the development phase of certain projects under qualification

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

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

	2016	2015
Compensation and benefits	**21,554,903**	$23,263,280
Taxes	**3,786,543**	3,981,289
Professional fees	**1,330,888**	1,321,161
Light and water	**1,141,476**	1,232,481
Sales return	**382,021**	636,024
Subcontracting costs	**157,262**	339,918
Sales commission	**130,622**	144,034
Supplies	**206,307**	1,072,819
Interest payable	**769,072**	509,027
Others	**9,672,009**	7,006,563
	$39,131,103	$39,506,596

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

100% increase in Financial liabilities on put options ($0 to $11.3M)
Put options recognized in the acquisition of VIA measured at the fair value of the redemption amount

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

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

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

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

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

2015 vs. 2014

Revenues from Sales and Services

The company's consolidated revenues of $814.4 million went down by 4 percent year over year due mainly to a weak euro and the downturn in the computing and telecommunications segments. Excluding the impact of changes in currency exchange, automotive revenues climbed by 21 percent during the year and total revenues by 2 percent.

The revenue headwinds were offset by IMI's strong volume growth in the automotive segment. In particular, its advanced driver assistance systems or ADAS programs (such as automotive camera programs) posted a 66 percent increase in revenues in 2015.

IMI's China operations recorded $279.3 million in revenues in 2015, a 14 percent decline from the previous year as the 4G telecommunications network rollout in China reaches its projected volume and the consumer electronics segment experiences a slowdown.

IMI's Europe and Mexico operations recorded combined revenues of $267.4 million, flat from last year. The persistent weakness in the euro resulted in a 3 percent revenue decline for IMI's Bulgaria and Czech Republic factories. In Mexico, IMI revenues increased by 9 percent due to higher demand for plastic injection and assembly. Overall revenues for IMI's Europe and Mexico plants would have increased by 15 percent if not for the weak euro.

IMI's electronics manufacturing services operations in the Philippines posted $225.3 million in revenues, a 10 percent growth from $204.9 million in 2014 due to a strong demand for automotive cameras and security and access control devices.

PSi Technologies Inc., posted $42.3 million in revenues, down 5.8 percent year-over-year due to low volume hit rate of certain models.

The Company continues to make advances on initiatives started some five years ago such as focus on high-margin segments, full integration of acquisitions, rationalization of costs, expansion of global footprint, and development of human capital and equipment. The company's automotive electronics business now accounts for 43% of IMI's total revenues and grew 9% year-on-year. The telecom industry is still second to the top contributors accounting for 19% of the total business, although slowdown was anticipated due to normalization of 4G rollout. Industrial segment continues to grow by 12% year-over-year from strong demand in security and access control devices.

Europe remains to be the dominant market of the company's products, comprising 52% of global sales, followed by America at 25%.

Cost of Goods Sold and Services

Cost of sales lower by 4% mainly from cessation of labor-intensive consignment businesses which is one of the reasons for the revenue drop.

Gross Profit and Gross Profit Margin

The Company's operations generated gross profit of US$94.0 million, at par with last year despite challenges in topline figures. Revenue headwinds and weak euro were offset by strong demand in auto and industrial business segment and improved capacity, efficiency and quality in our Mexico facility. GP% improved from 11.1% to 11.5%.

Operating Expenses

The Company's operating expenses decreased by 13% due to reversal of prior year excess accruals, lower accrual for benefits, decrease in inventory provisions, software costs, taxes and licenses, sales commission expenses and travel and transportation.

Net Income

The Company generated US$28.79 million net income, almost flat from $29.1 million in 2014 despite volatility in the foreign currency markets and weakness in China's economy. NIAT% better at 3.5% despite revenue and FX challenges.

EBITDA

EBITDA higher by US$6.0 million or 11% evident at operating income level with growth of 28% from last year, however, offset by foreign exchange impact by US$2.4 million due to RMB devaluation against USD.

Financial Condition

The company's balance sheet at the end of 2015 remains strong. The current ratio and debt-to-equity ratio are at 1.54:1 and 0.48:1, respectively.

Capital Expenditure

For the full year 2015, the Company's capital expenditures amounted to US$35.1 million in line with the company's renewed focus on higher margin market segments. For 2016, the Company expects to spend US$40.8 million for capital expenditures to be partially funded by the remaining balance of the proceeds from the follow-on offering, cash from operations and debt. This will support on-going expansion programs particularly in Mexico, China and the Philippines.

Key Performance Indicators of the Company

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

	As of the Years Ended		
	Dec 31, 2015	**Dec 31, 2014**	**Dec 31, 2013**
Performance indicators			
Liquidity:			
Current ratio[a]	1.54	1.73	1.53
Solvency:			
Debt-to-equity ratio[b]	0.48	0.41	0.48

	For the Years Ended December 31		
	2015	**2014**	**2013**
Operating efficiency:			
Revenue growth[c]	(4%)	13%	13%
Profitability:			
Return on equity[d]	12%	13%	5%
Return on common equity[e]	13%	15%	6%

Return on assets[f]	6%	5%	2%
EBITDA margin[3]	7%	6%	5%

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

In the above:

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

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

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

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

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

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

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

Income Statement Items
(Year ended December 31, 2015 versus December 31, 2014)

13% decrease in Operating expenses ($64.2M to $56.1M)
The Company's operating expenses decreased by 13% due to reversal of prior year excess accruals, lower accrual for benefits, decrease in inventory provisions, software costs, taxes and licenses, sales commission expenses and travel and transportation.

159% decrease in Non-operating items ($5.5M to -$3.3M)
Recognition of gain on sale of property in SG ($14M) and gain on insurance claims ($0.3M), net of PSi goodwill impairment (-$7.5M), forex loss of $2.4M in 2015 due to RMB devaluation and lower rental income related to sale of property (↓0.8M).

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

5% decrease in Provision for income ta ($6.2M to $5.9M)
Decrease in current tax due to lower income tax base resulting from decreased revenues.

Balance Sheet items
(As of December 31, 2015 versus December 31, 2014)

14% decrease in Cash and cash equivalents ($117.6M to $101.5M)
Cash provided by operating activities +$49.8M from positive results of operations; cash used in investing -$35.3M mainly capital expenditures related to ongoing expansion programs; cash used in financing redemption of preferred shares - $28.4M, dividend payment -$8.6M and settlement of finance leases -$2.3M.

13% decrease in Loans and receivables - net ($195.1M to $169.3M)
Mainly due to China and Europe's revenue drop.

8% decrease in Other current assets ($11.9M to 10.9M)
From collection of tax credits offset by increase in advances to suppliers

14% increase in Property, plant and equipment ($81.7M to $93.1M)
Attributable to higher capital expenditures over depreciation.

40% decrease in Intangible assets ($4.0M to $2.4M)
Due to amortization of customer relationship recognized upon acquisition of Europe and Mexico subsidiaries (5-year amortization)

12% increase in Available-for-sale financial assets ($522K to $584KM)
Increase in fair value of club shares

12% decrease in Deferred income tax assets ($1.7M to $1.5M)
Decrease in deferred tax assets on loss carry overs.

16% decrease in Accounts payable and accrued expenses ($182.1M to $152.8M)
Mainly due to the decrease in trade payables of China and Europe and accrued expenses.

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

	2015	2014
Compensation and benefits	**$23,263,280**	$24,691,621
Taxes	**3,981,289**	5,005,217
Professional fees	**1,321,161**	2,311,496
Light and water	**1,232,481**	1,340,435
Sales return	**636,024**	1,233,490
Subcontracting costs	**339,918**	2,204,049
Sales commission	**144,034**	696,410
Supplies	**1,072,819**	2,612,679
Interest payable	**509,027**	449,305
Others	**7,006,563**	9,818,643
	$39,506,596	$50,363,345

19% decrease in Trust receipts and loans payable ($52.1M to $42.3M)
Net payment of short-term loans of IMI Philippines ($4M) and STEL ($5.5M)

31% decrease in Income tax payable ($3.7M to $2.5M)
Lower tax liability due to lower tax base.

1434% increase in Current Portion of Long-term debt ($2.8M to $43M)
Reclass of the $40M long term loan due in 2016

40% decrease in Long-term debt ($57.3M to $34.6M)
Increase was mainly due to reclass of $40M debt to current and third installment payment of Cooperatief to EPIQ NV of EUR 2M related to the European acquisition, offset by additional $20M loan obtained by IMI Philippines.

22% decrease in Advances from customers ($1.4M to $1.1M)
Amortization of cash advances from a customer of PSi related to subcontracting service agreement.

23% increase in Pension liability ($4.7M to $5.8M)
Increase in current service cost and actuarial changes due to experience adjustments.

100% decrease in Obligations under finance lease ($2.3M to nil)
Decrease was mainly due to full settlement of IMI BG's finance lease.

100% decrease in Capital stock - preferred ($26.6M to nil)
Redemption of 1.3 billion preferred shares.

100% decrease in Retained earnings appropriated for expansion ($20.7M to nil)
Decrease was due to the reversal of appropriation for business expansion.

36% increase in Retained earnings unappropriated ($109.5M to $149.4)
Net income +$28.8M, reversal of appropriation (+$20.7M), dividends (-$7.9M); redemption of preferred shares (-$1.6M)

32% decrease in Cumulative translation adjustments (-$10.7M to -$16.5M)
Arising from translation of management accounts in Europe denominated in their respective local currencies to the Parent Company's functional currency. Movement is attributable to appreciation of USD against Europe subsidiaries' local currencies (BGN and CZK) with regard to its net assets. Local currencies are pegged against EUR which declined by 10%.

13% increase in Other comprehensive loss (-$5.6M to -$6.3M)
Actuarial changes due to experience adjustments.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

Please see attached Exhibit 1.

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

The 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 re-measured 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 on 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 on 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 on 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).

Standards and Interpretation Issued but not yet Effective
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)
- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- PFRS 15, *Revenue from Contracts with Customers*
- PFRS 9, *Financial Instruments*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

Deferred effectivity

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

Information on Independent Public Accountant

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

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

   Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor of the Company, and Mr. Arnel F. de Jesus is the Partner-in-Charge since audit year 2014.

c. Changes in and disagreements with accountants on accounting and financial disclosure

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

External Audit Fees and Services

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

	Audit & Audit-related Fees	Tax Fees	Other Fees
2016	₱ 3.70M	₱ 0.35M	₱ 0.07M
2015	₱ 3.60M	₱ 0.73M	₱ 0.07M

SGV & Co. was engaged by the Company to audit its annual financial statements.

Tax fees

The Company engaged SGV & Co. to perform tax advisory services in 2016. The Company engaged SGV & Co. and Isla Lipana & Co. to perform tax advisory services in 2015.

All other fees

The Company engaged the services of SGV & Co. to perform the validation of votes during its 2016 and 2015 annual stockholders' meetings for ₱ 0.07M each year.

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

PART III - CONTROL AND COMPENSATION INFORMATION

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

The write-ups below include positions held by the directors and executive officers currently and during the past five years and their personal circumstances as of December 31, 2016.

Board of Directors

Jaime Augusto Zobel de Ayala	Chairman of the Board of Directors
Arthur R. Tan	Director& Chief Executive Officer
Gilles Bernard	Director, President & Global Chief Operating Officer
Fernando Zobel de Ayala	Director
Jose Ignacio A. Carlos	Director
Delfin L. Lazaro	Director
Jose Teodoro K. Limcaoco	Director
Rafael Ma. C. Romualdez	Director
Edgar O. Chua	Independent Director
Alelie T. Funcell	Independent Director
Hiroshi Nishimura	Independent Director

Jaime Augusto Zobel de Ayala, Filipino*,* 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 Asia Pacific Economic Cooperation (APEC) Summit.

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

Gilles Bernard, French, 59, has been a Director and the President of IMI since June 23, 2016, and the Global Chief Operating Officer of IMI since February 2016. He holds this position on top of his role as Head of Global Operations Support. Concurrently, he is also the President of PSi Technologies

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

Fernando Zobel de Ayala, Filipino, 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 Technology 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.

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.

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 AC Industrial Technology 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.

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.

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.

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 Mitsubishi 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.

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

Hiroshi Nishimura**,** Japanese, 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.

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

All incumbent directors.

Management Committee Members and Key Executive Officers

*	Jaime Augusto Zobel de Ayala	Chairman of the Board
*	Arthur R. Tan	Chief Executive Officer
*	Gilles Bernard	President and Global Chief Operating Officer
**	Jerome S. Tan	Senior Managing Director, Global Chief Financial Officer/ICT
**	Linardo Z. Lopez	Senior Managing Director, Global Head of Materials Management

Jaime G. Sanchez	Vice President, Deputy Chief Financial Officer, Group Controller, and Compliance Officer
Anthony Raymond P. Rodriguez	Assistant Vice President, Head of Treasury & Credit
Solomon M. Hermosura	Corporate Secretary
Joanne M. Lim	Assistant Corporate Secretary

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

Jerome S. Tan, Singaporean, 55, is a Senior Managing Director and the Global Chief Financial Officer of IMI since January 2011. He oversees Finance, Treasury, Credit, Controllership and ICT functions of the IMI global operation. He brings more than 20 years of broad-based experience and various achievements in finance, strategic planning, business development and acquisition/integration. He has assumed regional leadership roles in multinational Banking and Finance companies, and Food and Beverage industry located in different regions in the Asia Pacific. Prior to joining IMI, he was connected with NBC Universal, the media unit of General Electric Corporation by serving as the CFO of the TV Group and was responsible for the overall Finance function in Asia Pacific for CNBC and Universal Network. He was also a key member of the management team of San Miguel Brewing International Ltd., managing Treasury and Financial Planning, and Regional Business Planning and Development. Before his exposure in the food and beverage industry, he was an Assistant Director in First Pacific Bank Asia, Ltd., in Hong Kong. He started his career as an Associate in Robert Fleming, Inc., in New York City, USA. He graduated with B.A. in Economics from De La Salle University in 1982 and obtained an MBA from University of Virginia in 1987.

Linardo Z. Lopez, Filipino, 59, joined IMI as Senior Managing Director and Global Head of Materials Management in March 2008 and has served as such up to the present. He spent a significant part of his career in OEM and contract manufacturing industries, notably with industry leaders such as Solectron and Flextronics in China. He finished a degree in Management and Industrial Engineering at Mapua Institute of Technology in 1978.

Jaime G. Sanchez, Filipino, 61, is a Vice President and the Deputy CFO, Group Controller and Compliance Officer of IMI. He has worked with different Ayala companies for more than thirty (30) years including twelve (18) years at IMI. He was also assigned as OIC – Chief Financial Officer of IMI starting August 2010 up to early part of 2011. He brings with him solid professional experience from his stints in FGU, BPI-MS and Universal Reinsurance. He finished a degree in Bachelor of Science in Commerce major in Accounting at Polytechnic University of the Philippines in 1978.

Anthony Raymond P. Rodriguez, Filipino, 49, is an Assistant Vice President and Head of Treasury and Credit of IMI since February 2009. Prior to IMI, he has gained nineteen (19) years of extensive professional experience from Banco de Oro – EPCI Bank as Senior Dealer –FX and Derivatives Desk and from Far East Bank & Trust Co. as International Desk Head for Treasury Marketing. He finished a degree in Industrial Engineering at University of Sto. Tomas in 1990 and obtained an MBA from De La Salle University in 1997.

Solomon M. Hermosura, Filipino, 54, has served as Corporate Secretary of IMI since November 2013. He is a Managing Director of Ayala Corporation and a member of its Management Committee since 2009 and the Ayala Group Management Committee since 2010. He is also the Group Head of Corporate Governance, General Counsel, Compliance Officer, and Corporate Secretary of Ayala Corporation. He is the CEO of Ayala Group Legal. He serves as Corporate Secretary and Group General Counsel of Ayala Land, Inc.; Corporate Secretary of Globe Telecom, Inc., Manila Water Company, Inc., and Ayala Foundation, Inc.; and a member of the Board of Directors of a number of companies in the Ayala group. He served as a Director of Bank of the Philippine Islands from April 18, 2003 to April 9, 2014 and of Integrated Micro-Electronics, Inc. from April 14, 2009 and April 12, 2012. He graduated valedictorian with Bachelor of Laws degree from San Beda College in 1986 and placed third in the 1986 Bar Examination.

Joanne M. Lim, Filipino, 34, has served as Assistant Corporate Secretary of IMI since June 23, 2016. She is also the Assistant Corporate Secretary of Ayala Corporation, AC Industrial Technology Holdings, Inc., Ayala Healthcare Holdings, Inc., AC Education, Inc., LiveIt Investments Limited, and other companies within the Ayala Group to which she also provides other legal services. She is a Counsel at Ayala Group Legal. Prior to joining Ayala Group Legal in 2015, she was a Project Legal

Advisor for CFT Transaction Advisors. She served as Director of the Legal Affairs Office of the Department of Finance from 2011 to 2013 and was an Associate at SyCip, Salazar, Hernandez & Gatmaitan Law Offices from 2007 to 2010. She obtained her Bachelor of Laws degree in 2007 and her Bachelor of Arts degree in Broadcast Communication (*magna cum laude*) in 2003, both from the University of the Philippines, Diliman. She has a Master of Laws degree in Global Business Law from New York University and a Master of Laws degree in Corporate and Financial Services Law from National University of Singapore. She was admitted to the Philippine Bar in 2008 and to the New York State Bar in 2015.

Significant Employees

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

Family Relationships

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

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

ITEM 10. EXECUTIVE COMPENSATION

Name and Principal Position	Year	Salary	Other Income
Arthur R. Tan Chief Executive Officer			
Gilles Bernard President & Global Chief Operating Officer			
Linardo Z. Lopez Senior Managing Director, Global Head of Materials Management			
Jaime G. Sanchez Vice President, Deputy Chief Financial Officer, Group Controller and Compliance Officer			
Jerome S. Tan Senior Managing Director, Global Chief Financial Officer/ICT			
CEO & Other Named Executive Officers	Actual 2015	₱ 71.99M	₱ 32.44M
	Actual 2016	₱ 81.74M	₱ 33.93M
	Projected 2017	₱ 87.70M	₱ 35.12M
All officers as a group unnamed*	Actual 2015	₱ 476.85M	₱ 125.32M
	Actual 2016	₱ 473.48M	₱ 140.74M
	Projected 2017	₱ 491.88M	₱ 141.63M

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

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

Compensation of Directors

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

Section 9 - Each director shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as

director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of directors exceed five percent (5%) of the net income before income tax of the Corporation during the preceding year. (As amended on February 23, 2011.)

x x x

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

(i) Standard arrangement

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

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

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

(i) Other arrangement

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

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

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

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

Warrants and options outstanding, repricing

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

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security ownership of certain record and beneficial owners (of more than 5%) as of January 31, 2017.

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of Outstanding Shares
Common	AYC Holdings, Ltd.[4] 33/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Ave., Makati City	AYC Holdings, Ltd.[5]	BVI	945,537,373	50.6368%
Common	PCD Nominee Corporation (Filipino)[6] 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City	PCD participants acting for themselves or for their customers[7]	Filipino	245,525,281	13.1487%
Common	PCD Nominee Corporation (Filipino)[3] 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City	Resins, Inc.[8]	Filipino	239,412,304	12.8214%
Common	EPIQ NV[9] Transportstraat 1, 3980 Tessenderlo, Belgium	EPIQ NV[10]	Belgian	200,000,000	10.7107%
Common	PCD Nominee Corporation (Non-Filipino)[3] 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City	PCD participants acting for themselves or for their customers[4]	Various Non-Filipino	125,564,126	6.7244%

1) Security ownership of directors and management as of January 31, 2017.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percentage of Ownership
Directors					
Common	Jaime Augusto Zobel de Ayala	100	(direct)	Filipino	0.0000%
Common	Fernando Zobel de Ayala	100	(direct)	Filipino	0.0000%
Common	Delfin L. Lazaro	100	(direct)	Filipino	0.0000%
Common	Jose Teodoro K. Limcaoco	100	(direct)	Filipino	0.0000%
Common	Arthur R. Tan	20,173,552	(direct & indirect)	Filipino	1.0804%
Common	Gilles Bernard	1,280,575	(direct & indirect)	French	0.0686%
Common	Rafael Ma. C. Romualdez	115	(direct)	Filipino	0.0000%
Common	Jose Ignacio A. Carlos	115	(direct)	Filipino	0.0000%
Common	Edgar O. Chua	100	(direct)	Filipino	0.0000%

[4] AYC Holdings, Ltd. (AYC) is a stockholder of the Company.
[5] The Board of Directors of AYC has the power to decide how AYC's shares in IMI are to be voted. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power.
[6] The PCD is not related to the Company.
[7] Each beneficial owner of shares through a PCD participant is the beneficial owner to the extent of the number of shares in his account with the PCD participant. Aside from BPI Securities Corporation where the 239,412,304 shares of Resins, Inc. is lodged, there is no other PCD participant handling 5% or more of the outstanding voting shares of the Company.
[8] Resins, Inc. (Resins) is a customer of a participant of PCD. Resins is not related to the Company. The Board of Directors of Resins has the power to decide how Resins shares in IMI are to be voted. Mr. Jose Ignacio A. Carlos is usually appointed to exercise the voting power.
[9] EPIQ NV is a stockholder of the Company.
[10] The Board of Directors of EPIQ NV has the power to decide how EPIQ NV shares in IMI are to be voted.

Common	Hiroshi Nishimura	600,115	(direct & indirect)	Japanese	0.0321%
Common	Alelie T. Funcell	115	(direct)	Filipino	0.0000%
CEO and Most Highly Compensated Officers					
Common	Arthur R. Tan	20,173,552	(direct & indirect)	Filipino	1.0804%
Common	Gilles Bernard	1,280,575	(direct & indirect)	French	0.0686%
Common	Linardo Z. Lopez	3,479,425	(direct & indirect)	Filipino	0.1863%
Common	Jaime G. Sanchez	420,895	(indirect)	Filipino	0.0225%
Common	Jerome S. Tan	3,241,033	(indirect)	Singaporean	0.1736%
Other Executive Officers					
Common	Anthony Raymond P. Rodriquez	397,561	(direct & indirect)	Filipino	0.0213%
Common	Solomon M. Hermosura	336,415	(direct & indirect)	Filipino	0.0180%
Common	Joanne M. Lim	0		Filipino	0.0000%
All Directors and Officers as a group		**29,930,416**			**1.6029%**

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

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

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

As of December 2016, 19.29% of IMI's common shares were owned by the public.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

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

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

PART IV – CORPORATE GOVERNANCE

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

PART V - EXHIBITS AND SCHEDULES

Exhibit 1: 2016 Audited Consolidated Financial Statements, Integrated Micro-Electronics, Inc. and Subsidiaries

Statement of Management's Responsibility for the Financial Statements
Report of Independent Auditors
Consolidated Balance Sheets as of December 31, 2016 and 2015
Consolidated Statements of Income for the Years ended December 31, 2016, 2015 and 2014
Consolidated Statements of Comprehensive Income for the Years ended December 31, 2016, 2015 and 2014
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2016, 2015 and 2014

Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015 and 2014
Notes to Consolidated Financial Statements

Exhibit 2: Supplementary Schedules

Report of Independent Public Accountant on Supplementary Schedules

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

Reconciliation of Retained Earnings Available For Dividend Declaration

Schedule of Financial Ratios

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

Schedule of All Effective Standards and Interpretations under Philippine Financial Reporting Standards as of December 31, 2015

2016 Audited Annual Financial Statements of Significant Foreign Subsidiaries

Exhibit 3: IMI International (Singapore) Pte Ltd

Exhibit 4: Speedy-Tech Electronics Ltd and its subsidiaries

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

Reports on SEC Form 17-C

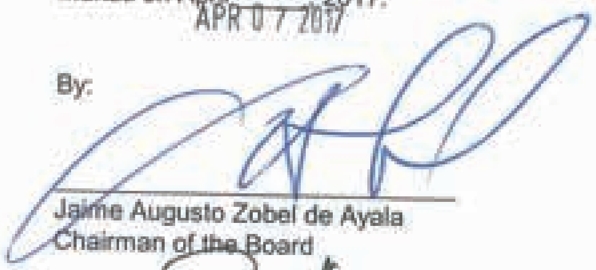
Reports on SEC Form 17-C were filed during the last six month period covered by this report and are listed below:

Date	Particulars
August 17, 2016	PRESS RELEASE_IMI Expands Technology and Product Portfolio with VIA Optronics Acquisition
October 20, 2016	IMI's Investors' / Analyst Briefing
November 4, 2016	Press Release: IMI's Operating Profit up 4% in the First Nine Months of 2016
November 14, 2016	SEC Form 17-Q for 2016 3rd Quarter
November 28, 2016	IMI-PSE-SEC-Results of the Regular Meeting of the Board of Directors
December 1, 2016	IMI News Clarification
January 3, 2017	Attendance of Directors in 2016
January 23, 2017	Notice of Agenda of 2017 Annual Stockholders Meeting
February 10, 2017	IMI's Investors' / Analyst Briefing
February 16, 2017	Press Release: FY 2016 Performance
March 23, 2017	Awarding of Grant Incentives to IMI Nis, Republic of Serbia
March 29, 2017	Change in Principal Owner
April 7, 2017	Acquisition of STI Enterprises Limited

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April APR 0 7 2017 2017.

By:



Jaime Augusto Zobel de Ayala
Chairman of the Board

Arthur R. Tan
Chief Executive Officer

Jerome S. Tan
Chief Finance Officer

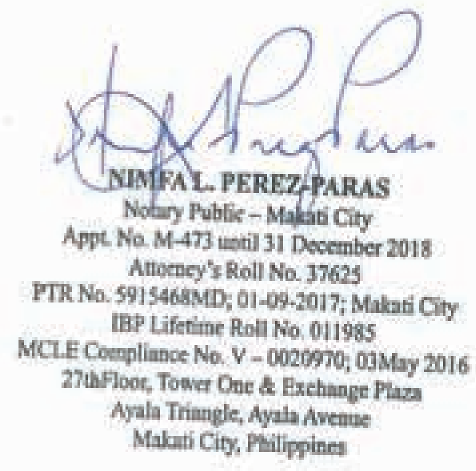
Solomon M. Hermosura
Corporate Secretary

Jaime G. Sanchez
Deputy CFO and Group Controller

SUBSCRIBED AND SWORN to before me this APR 0 7 2017 day of April 2017, affiants exhibiting to me their respective passports as follows:

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

Doc. No. 297
Page No. 61
Book No. I
Series of 2017.



NIMFA L. PEREZ-PARAS
Notary Public – Makati City
Appt. No. M-473 until 31 December 2018
Attorney's Roll No. 37625
PTR No. 5915468MD; 01-09-2017; Makati City
IBP Lifetime Roll No. 011985
MCLE Compliance No. V – 0020970; 03May 2016
27thFloor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

EXHIBIT 1

2016 Audited Consolidated Financial Statements, Integrated Micro-Electronics, Inc. and Subsidiaries

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

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

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

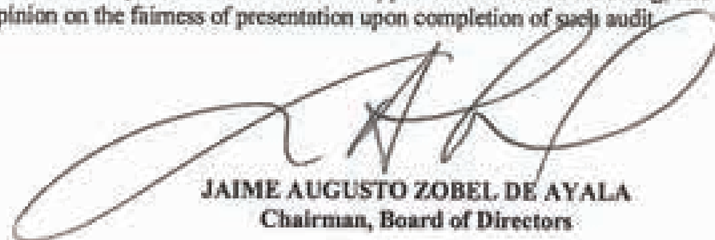
The management of Integrated Micro-Electronics, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework 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

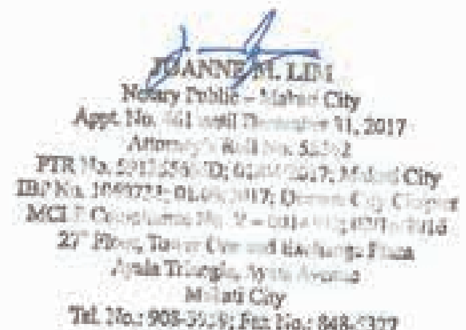
ARTHUR R. TAN
Chief Executive Officer

JEROME S. TAN
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this FEB 15 2017 at MAKATI CITY, affiants exhibiting to me their respective Passports, to wit:

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

Doc. No. 224 ;
Page No. 47 ;
Book No. III ;
Series of 2017.



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

Integrated Micro-Electronics, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2016 and 2015
and Years Ended December 31, 2016, 2015
and 2014

and

Independent Auditor's Report

A member firm of Ernst & Young Global Limited

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Integrated Micro-Electronics, Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 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.

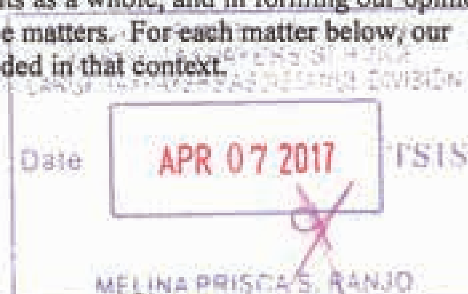
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated balance sheet of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period 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.



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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.

Date APR 07 2017
MELINA PRISCA S. PANJO

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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

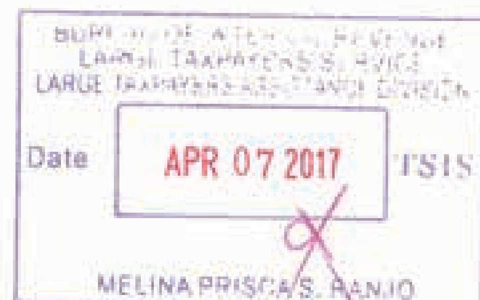
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement,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



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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.

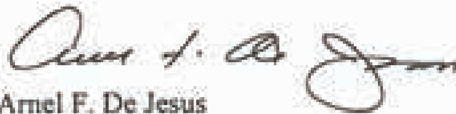
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

(Forward)

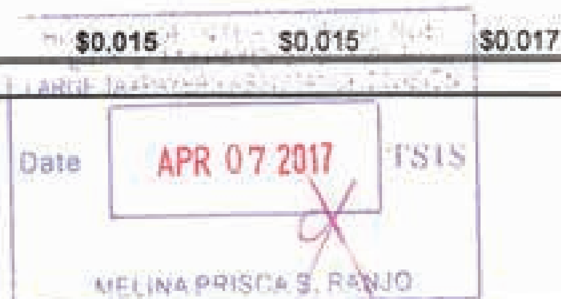
	December 31	
	2016	2015
EQUITY		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common (Note 18)	**$34,935,709**	$34,933,728
Subscribed capital stock (Note 18)	**1,857,440**	1,907,584
Additional paid-in capital (Note 18)	**70,927,567**	82,527,542
Subscriptions receivable (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	$194,835	$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)	–	–	(12,087,603)	–	–	–	–	–	–	–	–	(12,087,603)
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)	–	–	–	–	–	–	117,601	(4,094,917)	(132,587)	–	–	(4,110,003)
Total comprehensive income (loss)	–	–	–	–	28,115,891	–	117,601	(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)	$368,631	($20,639,608)	($6,428,260)	$–	$1,260,871	$227,867,130

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 07 2017 TSIS
MELINA PRISCA S. RANJO

	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
	Attributable to Equity Holders of the Parent Company													
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	–	–	–	–	–	–	(7,887,965)	–	–	–	–	–	–	(7,887,965)
	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

	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
	Attributable to Equity Holders of the Parent Company													
Balances at January 1, 2014	$30,016,551	$26,601,155	$1,229,926	$51,263,933	($8,590,746)	$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 of 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

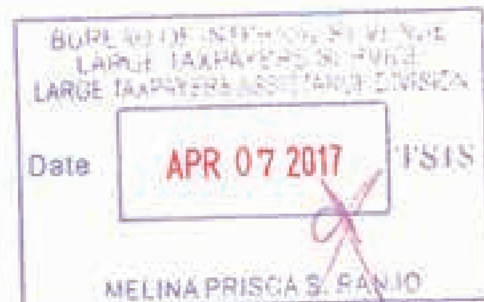
LARGE TAXPAYERS
Date APR 07 2017

See accompanying Notes to Consolidated Financial Statements.

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

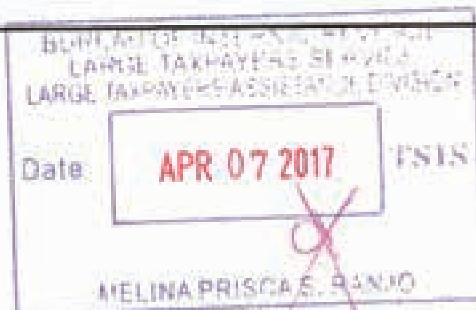
	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**$34,822,553**	$34,675,520	$35,191,291
Adjustments for:			
Depreciation of property, plant and equipment (Note 9)	**22,472,246**	21,016,819	20,859,849
Interest expense (Note 22)	**3,297,733**	2,208,551	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

(Forward)



	Years Ended December 31		
	2016	2015	2014
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)
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.



INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES
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

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
MELINA PRISCA S. BANJO

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:

	Percentage of Ownership			Country of	
Subsidiary	**2016**	2015	2014	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

(Forward)

Subsidiary	Percentage of Ownership 2016	2015	2014	Country of Incorporation	Functional Currency
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
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
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).

Standards and Interpretation Issued but not yet Effective
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.

<u>Income Taxes</u>

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.

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

Fair value of the 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 includes 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**
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 includes 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)
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

<u>Current Tax</u>

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, 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

	2016	2015
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

(Forward)

	2016	2015
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

(Forward)

	December 31, 2015			
	Equity Securities	Debt Securities	Other Securities	Total
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:

<u>Parent Company</u>

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability **2016**	Effect on Net Retirement Liability 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	Consoli-dation 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 pertains to currency forwards hedged by the Group for risks associated with foreign currency fluctuations. The fair value of the currency forwards is calculated by reference to current forward exchange rates for contracts with similar maturities as advised by the counterparty to the currency forwards contracts.

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

Financial liabilities on put options - These pertain to the liabilities of the Parent Company arising from the written put options over the non-controlling interest of VIA. 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:

Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings) for the years ended December 31, 2016 and 2015. There is no other impact on the Group's equity other than those already affecting income.

Increase/Decrease in Basis Points	Effect on Net Income before Tax 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

Renminbi (RMB)

	2016		2015	
	In USD	**In RMB**	In USD	In RMB
Cash and cash equivalents	**$16,577,471**	**RMB115,209,331**	$12,006,713	RMB77,879,699
Receivables	**60,578,249**	**421,003,887**	61,492,725	398,863,107
Accounts payable and accrued expenses	**(42,505,531)**	**(295,402,952)**	(35,463,931)	(230,031,336)
Net foreign currency-denominated assets	**$34,650,189**	**RMB240,810,266**	$38,035,507	RMB246,711,470

Sensitivity Analysis
The following tables demonstrate sensitivity to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2016 and 2015. The reasonably possible change was computed based on one year average historical movement of exchange rates between the USD and other currencies.

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

Currency	Increase/Decrease in USD Rate	**Effect on Net Income before Tax**	
		2016	2015
PHP	+1%	**$88,429**	$82,143
	-1%	**(88,429)**	(82,143)
EUR	+1%	**(211,361)**	(323,885)
	-1%	**211,361**	323,885
RMB	+1%	**(197,413)**	482,952
	-1%	**197,413**	(482,952)

Derivatives
The Parent Company and IMI BG entered into various short-term currency forwards with an aggregate notional amount of $9.00 million in 2016 and $11.00 million and €16.25 million ($14.79 million) in 2015. As of December 31, 2016 and 2015, the outstanding forward contracts have a net positive fair value of $0.06 million. The changes in fair value of currency forwards recognized in 2016 and 2015 amounted to $0.11 million loss and $0.23 million gain, respectively. The changes in fair value of currency forwards are recognized in the consolidated statements of income under "Foreign exchange gains (losses) - net" account.

Fair Value Changes on Derivatives
The net movements in the fair value of the Group's derivative instruments as of December 31, 2016 and 2015 follow:

	2016	2015
Derivative assets:		
At beginning of year	**$66,117**	$–
Fair value of currency forwards	**100,807**	243,475
Fair value of settled currency forwards	**(99,862)**	(177,358)
At end of year	**$67,062**	$66,117
Derivative liabilities:		
At beginning of year	**$10,567**	$–
Fair value of currency forwards	**214,262**	18,313
Fair value of settled currency forwards	**(214,262)**	(7,746)
At end of year	**$10,567**	$10,567

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

No changes were made in the objectives, policies and processes for the years ended December 31, 2016 and 2015.

The Group monitors capital using a gearing ratio of debt to equity and net debt to equity. The Group considers bank borrowings in the determination of debt, which consist of trust receipts and loans payable and long-term bank debt. Net debt is equivalent to the total bank borrowings, less cash and cash equivalents.

	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.

SyCip Gorres Velayo & Co.
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1226 Makati City
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ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the parent company financial statements of Integrated Micro-Electronics, Inc. (the "Company") for the year ended December 31, 2016, on which we have rendered the attached report dated February 15, 2017.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the Company has three hundred thirty eight (338) stockholders owning one hundred (100) or more shares each.

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

EXHIBIT 2

Supplementary Schedules

SGV
Building a better
working world

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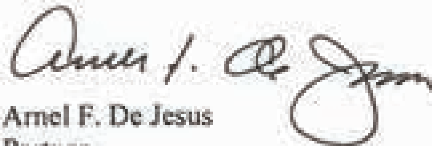
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Integrated Micro-Electronics, Inc. and Subsidiaries (the "Group") as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated February 15, 2017. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



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
Schedule A. Financial Assets
December 31, 2016

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
NOT APPLICABLE				
Total		0	0	0

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2016
(in U.S. Dollars)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
Receivables from Employees:							
Various Officers and Employees*	735,464	6,402,390	(6,584,109)	-	553,745	-	553,745
Total	**735,464**	**6,402,390**	**(6,584,109)**	**-**	**553,745**	**-**	**553,745**

* Consist of receivables from approximately more than 2,000 Officers and Employees.

Integrated Microelectronics, Inc. and Subsidiaries
Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
December 31, 2016
(in U.S. Dollars)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
Accounts receivable -trade							
Speedy-Tech Electronics (STEL) Group			-		-		
IMI International (Singapore) Pte Ltd.	-						-
Monarch and EPIQ Subsidiaries	-	106,597	-		106,597		106,597
PSi Technologies Inc.	-		-		-		-
IMI USA	-	11,963	-		11,963		11,963
Accounts receivable -nontrade							
STEL Group	214,955		(23,684)		191,271		191,271
Monarch and EPIQ Subsidiaries	1,177,887		(341,409)		836,477		836,477
PSi Technologies Inc.	13,471,568	3,250,565			16,722,133		16,722,133
IMI International (Singapore) Pte Ltd.	200,000	454,277			654,277		654,277
IMI Japan	992,795		(264)		992,531		992,531
IMI USA	1,917		(1,917)		-		-
IMI International ROHQ	-	24,924	-		24,924		24,924
Due From							
STEL Group	-		-		-		-
Monarch and EPIQ Subsidiaries	21,120,591	2,036,495			23,157,086		23,157,086
IMI International (Singapore) Pte Ltd.	810,247				810,247		810,247
IMI Japan	-				-		-
IMI USA	250,000	-			250,000		250,000
IMI International ROHQ	362,925		(362,636)		290		290
Total	**38,602,884**	**5,884,821**	**(729,910)**	**-**	**43,757,795**	**-**	**43,757,795**

These related party receivables are collectible on demand.

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule D. Intangible Assets
December 31, 2016
(in U.S. Dollars)

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance	Remarks
Customer relationships	789,440		789,440		-	-	
Patents and trademarks	-	493,368	67,787		(26,284)	399,297	
Computer software	1,609,021	3,886,107	1,132,321		(193,016)	4,169,791	Other changes represent foreign currency exchange difference
Product development		5,899,990				5,899,990	
	2,398,461	**10,279,465**	**1,989,548**	**-**	**(219,300)**	**10,469,078**	

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule E. Long-Term Debt
December 31, 2016
(in U.S. Dollars)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet	Remarks
Clean loan (Parent Company)	120,222,000	5,222,000	115,000,000	Please see Note 16 of the Audited Financial Statement
Deferred payment to EPIQ NV (Cooperatief)	6,586,800	2,108,200	4,478,600	
Long-term Debt from BNP Paribas (IMI BG)	417,760	208,880	208,880	
Long-term Debt from Citibank (IMI CZ)	1,818,198	528,478	1,289,720	
Long-term debt from Sparkasse Bank (Via)	284,338	117,495	166,843	
Total	**129,329,096**	**8,185,053**	**121,144,043**	

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule F. Indebtedness to Related Parties
December 31, 2016
(in U.S. Dollars)

Indebtedness to Related Parties (Long-term Loans from Related Companies)

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
NOT APPLICABLE		

Related party payables eliminated during consolidation:

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
Accounts Payable - Trade		
Speedy-Tech Electronics Ltd.	1,033,873	12,073
IMI USA	22,608	26,128
Monarch and EPIQ Subsidiaries	71	
Accounts Payable - Nontrade		
Speedy-Tech Electronics Ltd.	188,089	191,530
IMI USA	267,588	311,172
IMI International ROHQ	1,162,377	609,490
IMI International (Singapore) Pte Ltd.		58,352
IMI Japan		142,315
Due To		
Speedy-Tech Electronics Ltd.	534,642	1,245,590
PSi Technologies Inc.	99,229	98,735
IMI Japan	527,563	461,881
IMI USA	2,047	33,555
IMI International ROHQ	-	170,271
Monarch and EPIQ Subsidiaries		8,570
Total	**3,838,086**	**3,369,663**

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

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule G. Guarantees of Securities of Other Issuers
December 31, 2016
(in U.S. Dollars)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which this statement if filed	Nature of Guarantee
NOT APPLICABLE				
Total		-	-	-

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule H. Capital Stock
December 31, 2016

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Stocks	2,250,000,000	1,878,454,870				
Less: Treasury Shares		(15,892,124)				
Common shares	**2,250,000,000**	**1,862,562,746**	84,936,229		120,784,569	1,656,841,948

INTEGRATED MICRO-ELECTRONICS, INC
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2016
(in U.S. Dollars)

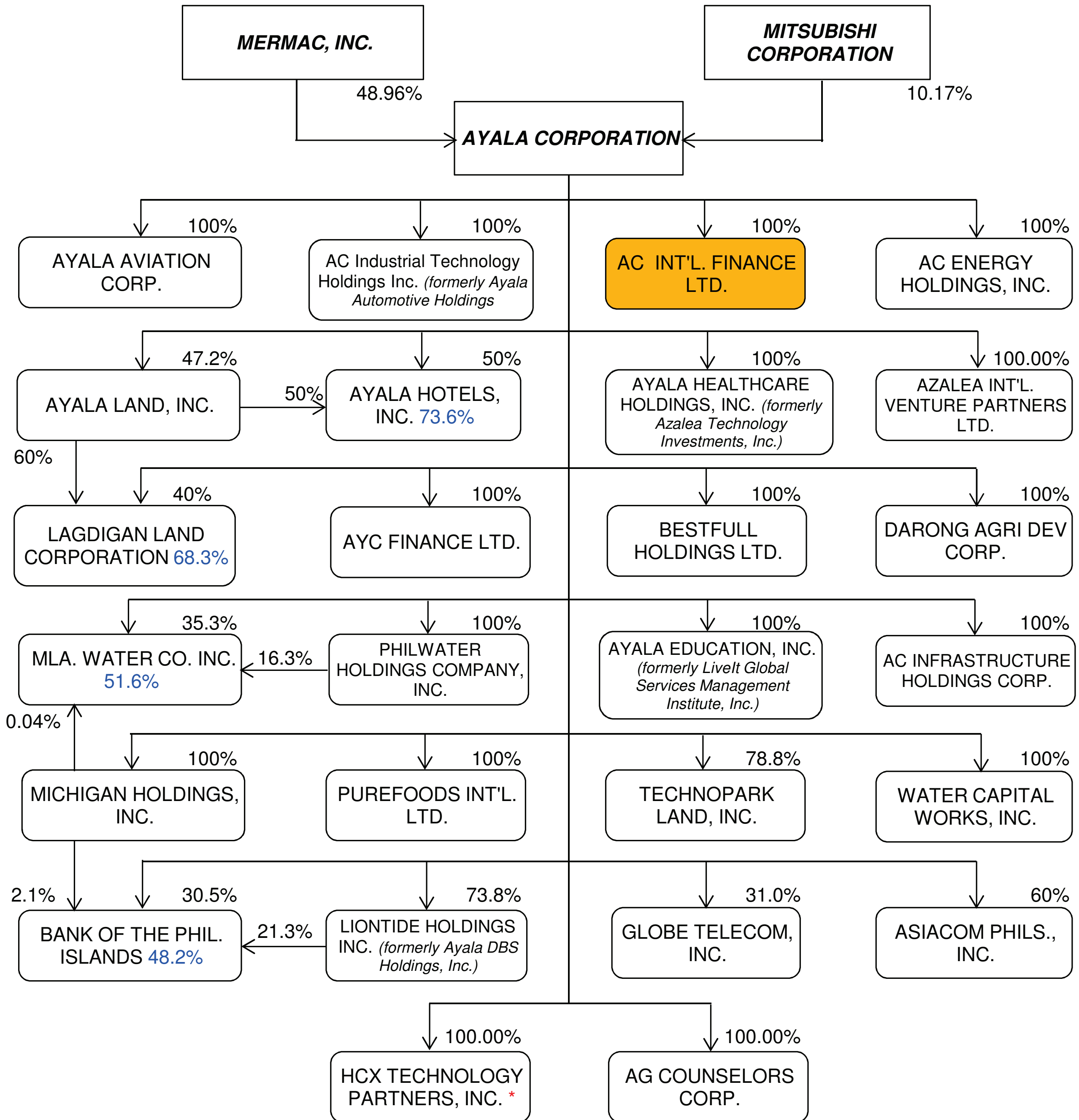
Unappropriated retained earnings, as adjusted for dividend distribution, beginning		**$17,528,097**
Add: Net income actually earned/realized during the year		
Net loss during the year closed to Retained Earnings	7,350,017	
Less: Non-actual/unrealized income, net of tax		
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	(81,497)	
Subtotal	7,268,520	
Net income actually earned during the year		**7,268,520**
Add (less):		
Dividend declarations during the year	(8,620,747)	**(8,620,747)**
TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, END		**$16,175,870**

INTEGRATED MICRO-ELECTRONICS INC. AND SUBSIDIARIES
FINANCIAL RATIOS
DECEMBER 31, 2016 and 2015

Ratios	Formula	Dec 31, 2016	Dec 31, 2015
(i) Current ratio	Current assets / Current Liabilities	**1.51**	1.54
(ii) Debt/Equity ratio	Bank debts / Equity attributable to parent	**0.74**	0.48
(iii) Asset to Equity ratio	Total Assets / Equity attributable to parent	**2.69**	2.22
(iv) Interest rate coverage ratio	Earnings before interest and taxes / Interest Expense	**9.89**	13.52
(v) Profitability ratios			
GP margin	Gross Profit / Revenues	**12.0%**	11.5%
Net profit margin	Net Income after Tax / Revenues	**3.3%**	3.5%
EBITDA margin	EBITDA / Revenues	**7.7%**	7.2%
Return on assets	Net Income after Tax / Total Asset	**4.4%**	5.6%
Return on equity	Net Income after Tax / Average equity attributable to parent	**12.0%**	12.1%
Return on common equity	Net Income after Tax / Average common equity attributable to parent	**12.0%**	12.8%

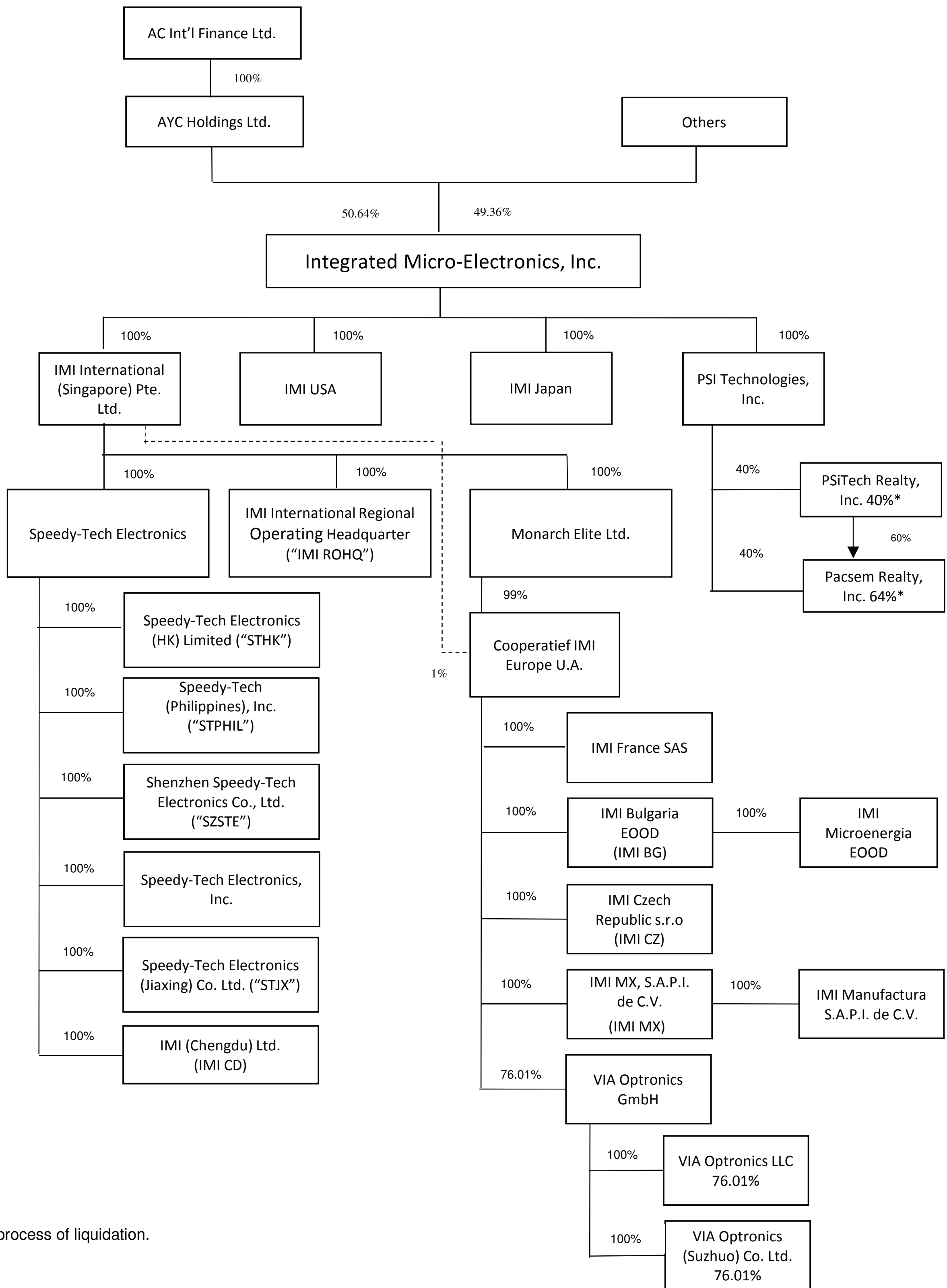
	(in US$'000)	
	Dec 31, 2016	**Dec 31, 2015**
Current Assets	406,974,816	370,014,899
Current Liabilities	270,091,223	240,601,585
Total Assets	635,908,888	516,534,659
Bank Debts	174,187,465	110,918,714
Equity attributable to parent	236,606,260	232,242,928
Average equity attributable to parent	234,424,594	238,147,065
Average common equity attributable to parent	234,424,594	225,272,235
Revenues	842,966,424	814,364,104
Gross Profit	101,309,381	94,031,471
Net income attributable to equity holders of the parent	28,115,891	28,789,740
Earnings before interest and taxes	38,412,972	36,733,903
Interest expense	3,884,454	2,716,385
EBITDA	64,966,916	58,762,594

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES
As of December 31, 2016



** Investment in HCXI was made in October 2016*

Legend:
% of ownership appearing on top of the box - direct economic % of ownership
% of ownership appearing inside the box - effective % of economic ownership



* In the process of liquidation.

Integrated Micro-electronics, Inc. and Subsidiaries

Schedule of All Philippine Financial Reporting Standards, Philippine Accounting Standards and Philippine Interpretations effective as at December 31, 2016

		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework for Financial Reporting		✓		
Philippine Financial Reporting Standards (PFRS) Practice Statement Management Commentary		✓		
PFRS				
PFRS 1	First-time Adoption of PFRS			✓
	PFRS 1 and Philippine Accounting Standards (PAS) 27 (Amendments) - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*			✓
	PFRS 1 (Amendments) - *Additional Exemptions for First-time Adopters*			✓
	PFRS 1 (Amendments) - *Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters*			✓
	PFRS 1 (Amendments) - *Severe Hyperinflation and Removal of Fixed Date of First-time Adopters*			✓
	PFRS 1 (Amendments) - *Government Loans*			✓
PFRS 2	Share-based Payment	✓		
	PFRS 2 (Amendments) - *Vesting Conditions and Cancellations*	✓		
	PFRS 2 (Amendments) - *Group Cash-settled Share-based Payment Transactions*			✓
	PFRS 2 (Amendments) - *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*	NOT EARLY ADOPTED		
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	PAS 39 and PFRS 4 (Amendments) - *Financial Guarantee Contracts*			✓
	PFRS 4 (Amendments) - *Applying PFRS 9 with PFRS 4*	NOT EARLY ADOPTED		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓

		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	PFRS 7 (Amendments) - *Reclassification of Financial Assets*			✓
	PFRS 7 (Amendments) - *Reclassification of Financial Assets - Effective Date and Transition*			✓
	PFRS 7 (Amendments) - *Improving Disclosures about Financial Instruments*	✓		
	PFRS 7 (Amendments) - *Disclosures - Transfers of Financial Assets*			✓
	PFRS 7 (Amendments) - *Offsetting Financial Assets and Financial Liabilities*			✓
	PFRS 7 (Amendments) - *Mandatory Effective Date of PFRS 9 and Transition Disclosures*	NOT EARLY ADOPTED		
	PFRS 7 (Amendments) – *Hedge Accounting*	NOT EARLY ADOPTED		
PFRS 8	Operating Segments	✓		
PFRS 9 (2014)	Financial Instruments	NOT EARLY ADOPTED		
PFRS 10	Consolidated Financial Statements	✓		
	PFRS 10 (Amendments) - *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*			✓
	PFRS10 (Amendments) – Investment Entities: Applying the Consolidation exceptions			✓
	PFRS 10 (Amendments) - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[a]	NOT EARLY ADOPTED		
PFRS 11	Joint Arrangements			✓
	PFRS 11 (Amendments) - *Accounting for Acquisitions of Interests in Joint Operations*			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	PFRS 12 (Amendments) – *Transition Guidance*			✓
	PFRS 12 (Amendments) - *Investment Entities*			✓
	PFRS 12 (Amendments) - *Investment Entities: Applying the Consolidation Exception*			✓

		Adopted	Not Adopted	Not Applicable
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	NOT EARLY ADOPTED		
PFRS 16	Leases	NOT EARLY ADOPTED		
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	PAS 1 (Amendments) - *Puttable Financial Instruments and Obligations Arising from Liquidation*			✓
	PAS 1 (Amendments) - *Presentation of Items of Other Comprehensive Income*	✓		
	PAS 1 (Amendments) – *Disclosure Initiative*	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	PAS 7 (Amendments) – *Disclosure Initiative*	NOT EARLY ADOPTED		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	PAS 12 (Amendments) - *Deferred Tax: Recovery of Underlying Assets*	✓		
	PAS 12 (Amendments) - *Recognition of Deferred Tax Assets for Unrealized Losses*	NOT EARLY ADOPTED		
PAS 16	Property, Plant and Equipment	✓		
	PAS 16 (Amendments) - *Clarification of Acceptable Methods of Depreciation and Amortization*			✓
	PAS 16 (Amendments) - *Bearer Plants*			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	PAS 19 (Amendments) - *Defined Benefit Plans: Employee Contributions*	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign	✓		

		Adopted	Not Adopted	Not Applicable
	Exchange Rates			
	PAS 21 (Amendments) - *Net Investment in a Foreign Operation*	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	PAS 27 (Amendments) – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	PAS 27 (Amendments) - *Investment Entities*	✓		
	PAS 27 (Amendments) - *Equity Method in Separate Financial Statements*			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	PAS 28 (Amendments) – *Investment Entities: Applying the Consolidation Exception*			✓
	PAS 28 (Amendments) - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[a]	NOT EARLY ADOPTED		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	PAS 32 and PAS 1 (Amendments) - *Puttable Financial Instruments and Obligations Arising on Liquidation*			✓
	PAS 32 (Amendments) - *Classification of Rights Issues*			✓
	PAS 32 (Amendments) - *Offsetting Financial Assets and Financial Liabilities*	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	PAS 36 (Amendments) - *Recoverable Amount Disclosures for Non-financial Assets*	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		

		Adopted	Not Adopted	Not Applicable
PAS 38	Intangible Assets	✓		
	PAS 38 (Amendments) - *Clarification of Acceptable Methods of Depreciation and Amortization*			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	PAS 39 (Amendments) - *Transition and Initial Recognition of Financial Assets and Financial Liabilities*	✓		
	PAS 39 (Amendments) - *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*			✓
	PAS 39 (Amendments) - *The Fair Value Option*			✓
	PAS 39 and PFRS 4 (Amendments) - *Financial Guarantee Contracts*			✓
	PAS 39 and PFRS 7 (Amendments) - *Reclassification of Financial Assets*			✓
	PAS 39 and PFRS 7 (Amendments) - *Reclassification of Financial Assets - Effective Date and Transition*			✓
	Philippine Interpretation IFRIC 9 and PAS 39 (Amendments) - *Embedded Derivatives*			✓
	PAS 39 (Amendments) - *Eligible Hedged Items*			✓
	PAS 39 (Amendments) - *Novation of Derivatives and Continuation of Hedge Accounting*			✓
	PAS 39 (Amendments) – *Hedge Accounting*			✓
PAS 40	Investment Property			✓
	PAS 40 (Amendments) - *Transfers of Investment Property*	NOT EARLY ADOPTED		
PAS 41	Agriculture			✓
	PAS 41 (Amendments) - *Bearer Plants*			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining whether an Arrangement Contains a Lease	✓		

		Adopted	Not Adopted	Not Applicable
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
IFRIC 15 [a]	Agreements for the Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration	NOT EARLY ADOPTED		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓

		Adopted	Not Adopted	Not Applicable
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓
Annual Improvements to PFRSs (2010-2012 Cycle)				
PAS 16	Property, Plant and Equipment - *Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*			✓
PAS 38	Intangible Assets - *Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*			✓
PAS 24	Related Party Disclosures - *Key Management Personnel*	✓		
PFRS 2	Share-based Payment - *Definition of Vesting Condition*	✓		
PFRS 3	Business Combinations - *Accounting for Contingent Consideration in a Business Combination*	✓		
PFRS 8	Operating Segments - *Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*			✓
Annual Improvements to PFRSs (2011-2013 Cycle)				
PAS 40	Investment Property			✓
PFRS 3	Business Combinations - *Scope Exceptions for Joint Arrangements*			✓
PFRS 13	Fair Value Measurement - *Portfoliio Exception*			✓
Annual Improvements to PFRSs (2012-2014 Cycle)				
PAS 19	Employee Benefits - *Regional Market Issue Regarding Discount Rate*			✓
PAS 34	*Disclosure of Information 'Elsewhere in the Interim Financial Report'*			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations - *Changes in Methods of Disposal*			✓
PFRS 7	Financial Instruments: Disclosures - *Servicing Contracts*			✓
PFRS 7	Financial Instruments: *Applicability of the amendments to PFRS 7 to condensed interim financial statements*			✓

		Adopted	Not Adopted	Not Applicable
Annual Improvements to PFRSs (2014-2016 Cycle)				
PFRS 12	*Clarification of the Scope of the Standard*	NOT EARLY ADOPTED		
PAS 28	*Measuring an Associate or Joint Venture at Fair Value*	NOT EARLY ADOPTED		

[a]The effective date of this amendment was deferred until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

EXHIBIT 3

2016 Audited Annual Financial Statements,
IMI International (Singapore) Pte Ltd

IMI International (Singapore) Pte. Ltd.

General information

Directors

Arthur R. Tan
Chng Poh Guan
Jerome Su Tan

Company Secretary

Kavitha d/o Annadorai

Registered Office

50 Raffles Place
Singapore Land Tower, #32-01
Singapore 048623

Bankers

Bank of the Philippine Islands
Citibank
DBS Bank Ltd

Auditor

Ernst & Young LLP

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Balance sheet	7
Statement of changes in equity	8
Cash flow statement	9
Notes to the financial statements	10

IMI International (Singapore) Pte. Ltd.

Statement of comprehensive income
For the financial year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Revenue	3	1,188	6,143
Cost of sales		(1,132)	(6,074)
Gross profit		56	69
Other operating income	4	12,501	3,006
Administrative expenses		(8,527)	(715)
Finance costs	7	(5)	(2)
Profit before taxation	5	4,025	2,358
Taxation	8	(21)	(78)
Profit for the financial year		4,004	2,280
Other comprehensive income		–	–
Total comprehensive income for the financial year		4,004	2,280

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Balance sheet
As at 31 December 2016

	Note	2016 $'000	2015 $'000
Non-current assets			
Property, plant and equipment	9	189	244
Investment in subsidiaries	10	182,428	128,339
Current assets			
Other receivables, deposits and prepayments	12	223	179
Due from immediate holding company	13	509	1,426
Due from related parties	13	329	329
Due from subsidiaries	13	28,815	28,815
Cash and cash equivalents	14	6,347	1,168
		36,223	31,917
Current liabilities			
Other payables and accruals	15	2,250	2,724
Due to related companies	15	454	–
Due to immediate holding company	16	80,154	80,289
		82,858	83,013
Net current liabilities		(46,635)	(51,096)
Net assets		135,982	77,487
Equity attributable to owner of the Company			
Share capital	17	89,839	35,958
Reserves	18	46,143	41,529
Total equity		135,982	77,487

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

IMI International (Singapore) Pte. Ltd.

Statement of changes in equity
For the financial year ended 31 December 2016

	Share capital (Note 17) $'000	Capital contribution reserves (Note 18a) $'000	Revenue reserves (Note 18b) $'000	Total $'000
At 1 January 2015	35,958	3,295	37,566	76,819
Profit for the year	–	–	2,280	2,280
Total comprehensive income for the year	–	–	2,280	2,280
Contributions by and distributions to owner				
Grant of equity-settled share options in immediate holding company to employees	–	1,388	–	1,388
Dividend on ordinary shares (Note 11)	–	–	(3,000)	(3,000)
Total transactions with owner in their capacity as owner	–	1,388	(3,000)	(1,612)
At 31 December 2015	35,958	4,683	36,847	77,487
At 1 January 2016	35,958	4,683	36,847	77,487
Profit for the year	–	–	4,004	4,004
Total comprehensive income for the year				
Contributions by and distributions to owner				
Issuance of ordinary shares	53,881	–	–	53,881
Grant of equity-settled share options in immediate holding company to employees	–	609	–	609
Dividend on ordinary shares (Note 11)	–	–	–	–
Total transactions with owner in their capacity as owner				
At 31 December 2016	89,839	5,292	40,851	135,981

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Cash flow statement
For the financial year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Profit before taxation		4,025	2,358
Adjustments for:			
Depreciation of property, plant and equipment	9	147	159
Finance costs	7	5	2
Interest income	4	(1)	(1)
Share option expenses	6	401	1,084
Unrealised exchange gain		(38)	(117)
Dividend income	4	(12,500)	(3,000)
Operating cash flows before working capital changes		(7,961)	485
Increase in other receivables, deposits and prepayments		(76)	(37)
Decrease/(increase) in amount due from immediate holding company		918	(526)
Increase in amount due from a related parties		–	(79)
Increase in other payables and accruals		49	574
Cash flows (used in)/generated from operations		(7,070)	417
Interest received		1	1
Finance costs paid		(5)	(2)
Net cash flows (used in)/generated from operating activities		(7,074)	416
Cash flows from investing activities			
Investment in subsidiaries	10	(53,881)	–
Purchase of property, plant and equipment	9	(92)	(72)
Net cash flows used in investing activities		(53,973)	(72)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	17	53,881	–
Dividend income	4	12,500	3,000
Dividend paid	11	–	(3,000)
Increase in amount due to immediate holding company		(136)	(277)
Net cash flows generated from/(used in) from financing activities		66,245	(277)
Net increase in cash and cash equivalents		5,198	67
Effect of exchange rate fluctuations on cash and cash equivalents		(19)	(33)
Cash and cash equivalents at beginning of the financial year	14	1,168	1,134
Cash and cash equivalents at end of the financial year	14	6,347	1,168

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

10. Investment in subsidiaries

	2016 $'000	2015 $'000
At 1 January	128,339	128,034
Additions	54,089	305
At 31 December	182,428	128,339

The increase in the Investment in subsidiaries is mainly attributed to the increase of investment in Monarch by ordinary shares amounting to US$53,343,000 and by stock options granted amounting to US$119,000 and increase of investment in Cooperatief by ordinary shares amounting to US$538,000. The increase in Investment in Speedy-Tech Electronics Ltd is due to additional stock options granted amounting to US$89,000 by immediate holding company, Integrated Micro-electronics Inc. during the year.

Details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group 2016 %	2015 %
Held by the Company				
Speedy-Tech Electronics Ltd *	Singapore	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
Monarch Elite Ltd #	Hong Kong	Investment holding	99	99
Cooperatief IMI Europe U.A.**	Netherlands	Provision of material needs of its members, pursuant to agreements concluded with its members in respect of the business that it carries on or procures to be carried on for the benefit of its members	1	1
Held by Speedy-Tech Electronics Ltd				
Speedy-Tech Electronics (HK) Limited ("STHK") #	Hong Kong	Procurement, marketing and supply chain services	100	100
Speedy-Tech (Philippines) Inc. ("STPHIL") #	Philippines	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement (dormant)	100	100

10. Investment in subsidiaries (cont'd)

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group 2016 %	2015 %
Held by Speedy-Tech Electronics Ltd (cont'd)				
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE") #	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing, procurement and research and development	100	99.48
Speedy-Tech Electronics Inc. **	United States of America	Marketing, liaison and support services (dormant)	100	100
Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX") #	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ") ## ***	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	–	100
IMI (Cheng Du) Ltd. ("IMICD") #	People's Republic of China	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	100	100
Held by Monarch Elite Ltd ("Monarch")				
Cooperatief IMI Europe U.A.**	Netherlands	Provision of material needs of its members, pursuant to agreements concluded with its members in respect of the business that it carries on or procures to be carried on for the benefit of its members	99	99

10. Investment in subsidiaries (cont'd)

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group 2016 %	2015 %
Held by Cooperatief IMI Europe U.A. ("Cooperatief")				
IMI Bulgaria EOOD (IMI BG) #	Bulgaria	Production of electronic modules for domestic goods and automobile manufacturing	100	100
Microenergia EOOD #	Bulgaria	Supply of water, refurbishment and infrastructure maintenance activities	100	70
IMI Czech Republic s.r.o (IMI CZ) #	Czech Republic	Installation and repairs of products and equipment of consumer electronics; purchase of goods for the purpose of resale thereof, and sale of goods; leasing of real property, residential and non-residential premises without provision of other than basic services ensuring proper operation of the real property, residential and non-residential premises	100	100
IMI Mexico, S.A.P.I de C.V. (IMI MX) #	Mexico	Manufacture and sale of electronic components and plastic injection moulding primarily for the automotive and household industries	100	100
IMI Manufactura S.A.P.I de C.V. #	Mexico	Provides operation and management services	100	100
IMI France SAS @	France	Employer of executives in EPIQ subsidiaries	100	100
VIA Optronics GmbH #	Germany	Manufactures enhanced LCD displays and provides optical bonding solutions	76	–
VIA Optronics Suzhou Co. Ltd. (VIA Suzhou) #	People's Republic of China	Manufactures enhanced LCD displays and provides optical bonding solutions	76	–
VIA Optronics LLC (VIA LLC) #	USA	Manufactures enhanced LCD displays and provides optical bonding solutions	76	–

* Audited by Ernst & Young LLP, Singapore.
# Audited by member firms of Ernst & Young Global in the respective countries.
** No audit is required by the law of its country of incorporation.
Audited by SiChuan Tianrun Certified Public Accountant Co., Ltd, Certified Public Accountants in the PRC.
@ Audited by SEGEC in France.
*** Winding up of STQC during 2016.

11. Dividend

	2016 $'000	2015 $'000
Declared and paid during the financial year:		
Dividend on ordinary shares:		
- Interim exempt (one-tier) dividend for 2015: 6.9 cents per share	–	3,000

12. Other receivables, deposits and prepayments

	2016 $'000	2015 $'000
Other receivables	–	11
Tax recoverables	207	164
Prepayments	16	5
	223	179

Included in other receivables are the following amounts denominated in foreign currencies at 31 December:

	2016 $'000	2015 $'000
Philippine Peso	–	11

The carrying amounts of loans and receivables comprise:

	2016 $'000	2015 $'000
Other receivables and deposits	–	11
Cash and cash equivalents	6,347	1,168
Due from immediate holding company	509	1,426
Due from related parties	329	329
Due from subsidiaries	28,815	28,815
Total loans and receivables	36,000	31,749

13. Due from immediate holding company, related parties and subsidiaries

Amounts due from immediate holding company and related parties are trade related, unsecured, interest-free, with a 30 days of credit term and to be settled in cash.

Amounts due from subsidiaries are non-trade related, unsecured, interest-free, repayable on demand and to be settled in cash.

14. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following at the balance sheet date:

	2016	**2015**
	$'000	$'000
Cash and cash equivalents	6,347	1,168

Cash and cash equivalents denominated in foreign currencies at 31 December are as follows:

	2016	**2015**
	$'000	$'000
Singapore Dollar	250	164
Philippine Peso	140	216

15. Other payables and accruals

	2016	**2015**
	$'000	$'000
Accrued operating expenses	2,058	2,654
Other payables	192	70
	2,250	2,724
Add:		
Due to immediate holding company	80,154	80,289
Due to related companies	454	–
Total financial liabilities carried at amortised cost	82,858	83,013

Accrued operating expenses include accruals for salaries and benefits such as leave credits and bonuses.

Due to related companies relates to global expenses incurred on behalf of the company's subsidiaries.

15. Other payables and accruals (cont'd)

Included in other payables and due to related companies are the following amounts denominated in foreign currencies at 31 December:

	2016 $'000	2015 $'000
Singapore Dollar	11	14
Japanese Yen	304	–
Philippine Peso	2,129	2,370

16. Due to immediate holding company and subsidiaries

Amounts due to immediate holding company and subsidiaries of the Company are non-trade in nature, unsecured, interest-free, repayable on demand and to be settled in cash.

17. Share capital

	2016		2015	
	No. of Shares '000	$'000	No. of Shares '000	$'000
Issued and fully paid				
At 1 January and 31 December	117,709	89,839	43,277	35,958

The holder of ordinary shares is entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

The increase in share capital pertains to increase issuance of 74,431,529 ordinary shares of the Company to IMI equivalent to $53,881,000 and additional stock options granted to the Company's subsidiaries by IMI amounting to $208,000.

18. Reserves

(a) ***Capital contribution reserves***

Capital contribution reserves are made up of the difference between the fair value and the subscription price of the share of the immediate holding company's Employee Stock Ownership Plan ("ESOWN") granted to employees of the Group.

(b) ***Revenue reserves***

Revenue reserves of the Company are available for distribution as dividends.

20. Financial risk management objectives and policies (cont'd)

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Company's exposure to credit risk arises primarily from other receivables. For other financial assets (including cash and cash equivalents), the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Credit risk, or the risk of counterparties defaulting, is managed through the application of credit approvals, credit limits and monitoring procedures. Where appropriate, the Company and its subsidiaries obtain collateral from the customer or arrange master netting agreements. Cash terms, advance payments, and letters of credit are required for customers of lower credit standing.

Exposure to credit risk

At the balance sheet date, the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

21. Fair value of financial instruments

(a) ***Fair value hierarchy***

The Group categories fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date,
- Level 2 – Inputs other that quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(b) ***Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value***

Bank balances, other liquid funds and short-term receivables

The carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.

Other current liabilities

The carrying amounts approximate fair values because of the short period to maturity of these instruments.

EXHIBIT 4

2016 Audited Annual Financial Statements,
Speedy-Tech Electronics Ltd and its subsidiaries

Speedy-Tech Electronics Ltd and its subsidiaries

General information

Directors

Arthur R. Tan
Chng Poh Guan
Mary Ann Natividad
Jerome Su Tan

Company Secretary

Kavitha d/o Annadorai

Registered Office

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Singapore Land Tower, #32-01
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Bankers

BNP Paribas
DBS Bank Ltd
OCBC Bank
Standard Chartered Bank
JP Morgan Bank
Australia and New Zealand Bank Group Limited

Auditor

Ernst & Young LLP

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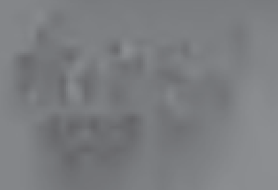


Speedy-Tech Electronics Ltd and its subsidiaries

Statements of comprehensive income
For the financial year ended 31 December 2016
(Amounts expressed in United States Dollars)

	Note	Group		Company	
		2016	**2015**	**2016**	**2015**
		$'000	$'000	$'000	$'000
Revenue	3	261,438	280,065	66,690	91,962
Cost of sales		(236,473)	(260,080)	(63,194)	(87,363)
Gross profit		24,965	19,985	3,496	4,599
Other operating income	4	1,694	1,918	11,837	891
Distribution and selling expenses		(6)	(5)	(5)	(4)
Administrative expenses		(23,136)	(23,385)	(5,694)	(5,251)
Finance costs	7	(284)	(300)	(184)	(180)
Profit/(loss) before tax	5	3,233	(1,787)	9,450	55
Income tax expense	8	(1,682)	(1,035)	(34)	–
Profit/(loss) for the year		1,551	(2,822)	9,416	55
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation		(26)	(121)	–	–
Other comprehensive income for the year, net of tax		(26)	(121)	–	–
Total comprehensive income for the year		1,525	(2,943)	9,416	55
Attributable to:					
Owner of the Company		1,530	(2,923)	9,416	55
Non-controlling interests		(5)	(20)	–	–
Total comprehensive income for the year		1,525	(2,943)	9,416	55
Attributable to :					
Owner of the Company		1,556	(2,802)	9,416	55
Non-controlling interests		(5)	(20)	–	–
Profit/(loss) for the year		1,551	(2,822)	9,416	55

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Speedy-Tech Electronics Ltd and its subsidiaries

Balance sheets
As at 31 December 2016
(Amounts expressed in United States Dollars)

	Note	Group 2016 $'000	Group 2015 $'000	Company 2016 $'000	Company 2015 $'000
Non-current assets					
Property, plant and equipment	10	25,269	16,798	488	348
Intangible asset	11	2,214	–	–	–
Investment in subsidiaries	12	–	–	63,445	65,049
		27,483	16,798	63,933	65,397
Current assets					
Inventories	13	30,268	25,574	1	152
Trade receivables	14	73,063	80,274	12,278	12,788
Other receivables, deposits and prepayments	15	5,676	4,256	660	1,257
Due from intermediate holding company	16	1,452	1,770	725	1,031
Due from subsidiaries	16	–	–	15,461	10,442
Due from related companies	16	20,368	13,546	20,006	13,545
Properties held for sale	17	362	–	–	–
Cash and cash equivalents	18	38,369	47,005	13,141	12,573
		169,558	172,425	62,272	51,788
Total assets		197,041	189,223	126,205	117,185
Current liabilities					
Trade payables	19	57,813	49,483	4,016	4,722
Other payables and accruals	20	27,374	17,714	8,061	2,065
Due to intermediate holding company	16	227	205	–	–
Due to subsidiaries	16	–	–	37,192	30,435
Due to related companies	16	4	–	–	–
Tax payable		2,174	1,084	–	33
Short term bank loan (unsecured)	21	8,000	8,000	8,000	8,000
		95,592	76,486	57,269	45,255
Net current assets		73,966	95,939	5,003	6,533
Non-current liabilities					
Deferred tax liabilities	22	32	64	1	1
Net assets		101,417	112,673	68,935	71,929
Equity attributable to owner of the Company					
Share capital	23	26,872	26,872	26,872	26,872
Reserves	24	74,545	85,608	42,063	45,057
		101,417	112,480	68,935	71,929
Non-controlling interests		–	193	–	–
Total equity		101,417	112,673	68,935	71,929

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Speedy-Tech Electronics Ltd and its subsidiaries

Statements of changes in equity
For the financial year ended 31 December 2016 (cont'd)
(Amounts expressed in United States Dollars)

Company	Share capital (Note 23) $'000	Share option reserve (Note 24c) $'000	Capital contribution reserves (Note 24d) $'000	Revenue reserves (Note 24f) $'000	Total $'000
At 1 January 2015	26,872	743	2,029	45,124	74,768
Profit for the year	–	–	–	55	55
Total comprehensive income for the year	26,872	743	2,029	45,179	74,823
Contributions by and distributions to owner					
Grant of equity-settled share options in intermediate holding company to employees	–	–	106	–	106
Dividend paid on ordinary shares (Note 9)	–	–	–	(3,000)	(3,000)
Total transactions with owner in its capacity as owner	–	–	106	(3,000)	(2,894)
At 31 December 2015	26,872	743	2,135	42,179	71,929
At 1 January 2016	26,872	743	2,135	42,179	71,929
Profit for the year	–	–	–	9,416	9,416
Total comprehensive income for the year	26,872	743	2,135	51,595	81,345
Contributions by and distributions to owner					
Grant of equity-settled share options in intermediate holding company to employees	–	–	90	–	90
Dividend paid on ordinary shares (Note 9)	–	–	–	(12,500)	(12,500)
Total transactions with owner in its capacity as owner	–	–	90	(12,500)	(12,410)
At 31 December 2016	26,872	743	2,225	39,095	68,935

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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

2.4 *Basis of consolidation and business combinations*

(a) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when controls is lost;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

2.25 *Related parties*

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

- (i) Has control or joint control over the Company;
- (ii) Has significant influence over the Company; or
- (iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

4. Other operating income

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Sundry income	495	692	253	65
Dividend income from subsidiaries	–	–	10,707	–
Provision of test services	443	475	443	472
Interest income from loans and receivables	555	619	406	353
Gain on disposal of property, plant and equipment	151	132	28	1
Gain on trading of materials	50	–	–	–
	1,694	1,918	11,837	891

5. Profit/(loss) before taxation

Profit/(loss) before taxation is stated after charging/(crediting) the following:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Depreciation of property, plant and equipment (Note10)	5,526	11,956	124	111
Exchange loss, net	2,738	2,923	79	297
Employee benefits expense (Note 6)	57,956	59,732	3,053	3,088
(Reversal)/allowance for doubtful debts (Note 14)	–	(41)	–	11
Reversal for inventory obsolescence, net (Note 13)	–	(60)	–	–
Inventories written down (Note 13)	456	–	–	–
Operating lease expenses	2,875	2,739	492	500
Impairment of investment in a subsidiary (Note 12)	–	–	–	77
Impairment loss on property, plant and equipment (Note 10)	–	167	–	–

6. Employee benefits expense

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Wages, salaries and bonuses	34,372	52,163	1,822	2,677
Central Provident Fund/pension contributions	2,221	6,203	222	229
Other personnel benefits	21,274	1,260	920	76
Share options expenses	89	106	89	106
	57,956	59,732	3,053	3,088

Share option expenses relate to the difference between the fair value and the subscription price of the share of the intermediate holding company's ESOWN granted to employees of the Group. Details of the ESOWN are disclosed in the financial statement of the intermediate holding company.

7. Finance costs

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Interest expense on bank loans	166	161	164	161
Bank charges	118	139	20	19
Total finance costs	284	300	184	180

8. Income tax expense

Major components of income tax expense

The major components of taxation for the year ended 31 December 2016 and 2015 are:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Current income tax				
Current year	1,467	1,267	–	–
Under/(over) provision in respect of prior years	247	(262)	34	–
	1,714	1,005	34	–
Deferred income tax				
Origination and reversal of temporary differences	(32)	30	–	–
	1,682	1,035	–	–
Income tax expense recognised in profit or loss	1,682	1,035	34	–

8. Income tax expense (cont'd)

Relationship between taxation and accounting profit

A reconciliation between the taxation and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2016 and 2015 is as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Profit/(loss) before tax	3,233	(1,787)	9,450	55
Tax at the domestic rates applicable to profits in the countries concerned *	780	(510)	1,607	9
Adjustments:				
Tax effect of expenses not deductible for tax purposes	329	334	158	77
Utilisation of previously unrecognised tax benefits	(414)	–	–	–
Under/(Over) provision of current tax in respect of prior years	246	(262)	34	–
Income not subject to tax	(118)	(150)	(1,938)	(101)
Deferred tax asset not recognised	846	1,597	193	15
Others	13	(26)	(20)	–
Income tax expense recognised in profit or loss	1,682	1,035	34	–

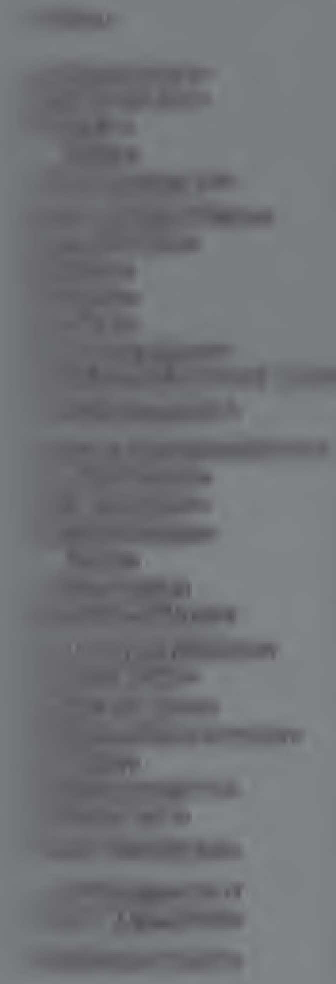
* The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

Speedy Tech Electronics (HK) Limited ("STHK")

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year.

Speedy-Tech (Philippines) Inc. ("STPHIL")

Speedy-Tech (Philippines) Inc. is registered with the Philippine Economic Zone Authority ("PEZA") as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to 5% on gross income, as defined under Republic Act No. 7916, in lieu of all local and national taxes.



12. Investment in subsidiaries

	Company 2016	Company 2015
	$'000	$'000
Unquoted equity shares at cost	63,987	66,418
Less : impairment losses	(542)	(1,369)
Carrying amount of investment	63,445	65,049
Movement in impairment losses:		
At 1 January	1,369	1,292
Charge for the year	(827)	77
At 31 December	542	1,369

The Group has the following investments in subsidiaries:

Name	Principal activities	Country of incorporation	Effective equity interest held by the Group 2016 %	Effective equity interest held by the Group 2015 %
Held by the Company				
Speedy Tech Electronics (HK) Limited ("STHK") #	Procurement, marketing and supply chain services	Hong Kong	100	100
Speedy-Tech (Philippines) Inc. ("STPHIL") #	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	The Philippines	99.99	99.99
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE") #	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing, procurement and research and development	People's Republic of China	100	99.48
Speedy-Tech Electronics Inc.*	Marketing, liaison and support services (dormant)	United States of America	100	100
Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX") #	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	People's Republic of China	100	100

14. Trade receivables

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Trade receivables	73,074	80,285	12,289	12,799
Less : Allowance for doubtful trade debts	(11)	(11)	(11)	(11)
Trade receivables, net	73,063	80,274	12,278	12,788
Add:				
Other receivables (Note 15)	4,199	3,462	23	610
Deposits (Note 15)	626	626	608	608
Due from intermediate holding company	1,452	1,770	725	1,031
Due from subsidiaries	–	–	15,461	10,442
Due from related companies	20,368	13,546	20,006	13,545
Cash and short-term deposits (Note 18)	38,369	47,005	13,141	12,573
Total loans and receivables	138,077	146,683	62,242	51,597

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Included in trade receivables are the following amounts denominated in foreign currencies at 31 December:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Renminbi	56,415	45,046	–	–
Euro	–	47	–	47

<u>Receivables that are past due but not impaired</u>

The Group and Company have trade receivables amounting to $53,611,000 (2015: $50,830,000) and $12,204,000 (2015: $12,720,000) respectively, that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Trade receivables past due but not impaired:				
Less than 30 days	52,047	49,504	10,745	12,222
30-60 days	1,430	1,189	1,334	487
61-90 days	124	76	124	10
More than 90 days	10	61	1	1
	53,611	50,830	12,204	12,720

14. Trade receivables (cont'd)

Receivables that are impaired

The Group's and Company's trade receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Trade receivables – nominal amounts	11	11	11	11
Less: Allowance for doubtful trade debts	(11)	(11)	(11)	(11)
	–	–	–	–
Movements in allowance account:				
At 1 January	11	52	11	11
Reversal for the year	–	(41)	–	–
At 31 December	11	11	11	11

Trade receivables that are determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

15. Other receivables, deposits and prepayments

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Other receivables	4,199	3,462	23	610
Deposits	626	626	608	608
Prepayments	221	161	18	32
Sales tax recoverable	630	7	11	7
	5,676	4,256	660	1,257

Included in other receivables are the following amounts denominated in foreign currencies at 31 December:

	Group 2016	Group 2015	Company 2016	Company 2015
Singapore Dollar	628	63	628	63
Renminbi	2,221	2,590	–	–

18. Cash and cash equivalents (cont'd)

Cash and short-term deposits denominated in foreign currencies at 31 December are as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Singapore Dollar	1,189	1,002	1,189	1,002
Euro	715	788	704	777
Renminbi	16,578	11,029	–	–

19. Trade payables

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Trade payables	57,813	49,483	4,016	4,722
Add:				
Other payables (Note 20)	12,865	6,567	6,904	1,036
Accrued operating expenses (Note 20)	14,366	10,307	1,157	1,029
Due to intermediate holding company	227	205	–	–
Due to subsidiaries	–	–	37,192	30,435
Due to related companies	4	–	–	–
Short term bank loan (unsecured)	8,000	8,000	8,000	8,000
Total financial liabilities carried at amortised cost	93,275	74,562	57,269	45,222

Trade payables are non-interest bearing and are generally on 30 to 60 days' terms.

Included in trade payables are the following amounts denominated in foreign currencies at 31 December:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Euro	737	427	1	2
Singapore Dollar	3	138	3	138
Hong Kong Dollar	274	337	–	–
Renminbi	20,412	18,974	–	–

20. Other payables and accruals

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Other payables	12,865	6,567	6,904	1,036
Sales tax payable	110	840	–	–
Accrued operating expenses	14,366	10,307	1,157	1,029
Withholding tax	33	–	–	–
	27,374	17,714	8,061	2,065

Other payables are non-interest bearing and are normally settled on 30 to 90 days' terms.

Included in other payables are the following amounts denominated in foreign currencies at 31 December:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Singapore Dollar	1,395	67	1,395	67
Japanese Yen	532	–	–	–
Renminbi	18,355	4,809	–	–

21. Short term bank loan (unsecured)

The unsecured Singapore Dollar denominated short term bank loan of the Group and Company is revolving in nature and bears interest at rates ranging from 1.93% to 2.27% (2015: 1.69% to 2.85%) per annum.

22. Deferred taxation

	Group		Company	
	2016	**2015**	**2016**	**2015**
	$'000	$'000	$'000	$'000
Deferred tax liabilities				
Excess of net book value over tax written down value of property, plant and equipment	1	1	1	1
Revaluation reserve	31	63	–	–
Total deferred tax liabilities	32	64	1	1

Deferred tax asset not recognised

At the balance sheet date, the Group has allowance for inventory obsolescence, depreciation and unused tax losses of approximately $1,535,000 (2015: $2,170,000), $748,000 (2015: $5,747,000) and $1,697 (2015: $960,000) that are available for offset against future taxable profits of the companies in which the provision of inventory, depreciation and losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability.

EXHIBIT 5

2016 Audited Annual Financial Statements,
Cooperatief IMI Europe U.A. and Subsidiaries

Cooperatief IMI Europe U.A. and Subsidiaries

Consolidated Financial Statements
December 31, 2016 and 2015

and

Independent Auditors' Report

A member firm of Ernst & Young Global Limited

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

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

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

INDEPENDENT AUDITOR'S REPORT

The Members and the Board of Directors
Cooperatief IMI Europe U.A. and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Cooperatief IMI Europe U.A. and 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 members' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Basis of Accounting and Restriction of Use

Without modifying our opinion, we draw attention to Note 3 to the consolidated financial statements, which describes the basis of preparation. The consolidated financial statements are prepared to assist Integrated Micro-Electronics, Inc. (IMI) to meet the requirements of the Philippine Securities and Exchange Commission (SEC). As a result, the consolidated financial statements may not be suitable for another purpose. Our auditors' report is intended solely for IMI and the Philippine SEC and should not be used by parties other than IMI and the Philippine (SEC).

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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.

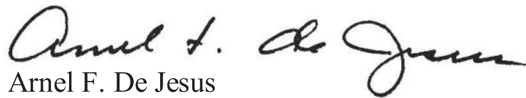
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we 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.

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

SYCIP GORRES VELAYO & CO.



Arnel F. De Jesus
Partner
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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

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash (Note 5)	**$25,985,365**	$28,707,415
Receivables - net (Note 6)	**81,694,186**	47,906,753
Inventories (Note 7)	**52,605,624**	36,236,194
Other current assets (Note 8)	**10,886,273**	6,491,579
Total Current Assets	**171,171,448**	119,341,941
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	**69,317,308**	53,406,410
Goodwill (Note 10)	**49,818,822**	650,413
Intangible assets (Note 11)	**4,589,997**	1,505,943
Deferred tax assets (Note 21)	**1,506,570**	1,527,537
Other noncurrent assets (Note 12)	**557,609**	299,271
Total Noncurrent Assets	**125,790,306**	57,389,574
	$296,961,754	$176,731,515
LIABILITIES AND EQUITY		
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses (Note 13)	**$62,563,915**	$33,364,361
Loans payable (Note 14)	**51,880,374**	34,620,751
Financial liabilities on put options (Notes 2 and 25)	**11,334,282**	–
Current portion of long-term debt (Note 15)	**2,963,053**	2,953,009
Income tax payable	**698,190**	733,088
Total Current Liabilities	**129,439,814**	71,671,209
Noncurrent Liabilities		
Due to related parties (Note 24)	**28,808,733**	28,808,733
Noncurrent portion of long-term debt (Notes 15 and 25)	**6,144,043**	9,154,755
Deferred tax liabilities (Note 21)	**1,243,148**	1,172,761
Retirement liability (Note 22)	**636,636**	503,507
Total Noncurrent Liabilities	**36,832,560**	39,639,756
Total Liabilities	**166,272,374**	111,310,965
MEMBERS' EQUITY		
Members' contribution (Note 16)	**60,269,893**	6,388,893
Additional Paid-in Capital (Note 16)	**(11,656,905)**	282,308
Retained earnings	**100,656,035**	74,530,892
Cumulative translation adjustment	**(19,840,514)**	(15,781,543)
	129,428,509	65,420,550
Equity Attributable to Non-controlling Interest in a Consolidated Subsidiary (Note 2)	**1,260,871**	–
Total Members' Equity	**130,689,380**	65,420,550
	$296,961,754	$176,731,515

See accompanying Notes to Consolidated Financial Statements.

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2016	2015
REVENUES		
Sale of goods	**$322,176,512**	$264,994,300
Sale of services	**5,183,838**	2,465,300
	327,360,350	267,459,600
COST OF SALES (Note 17)		
Cost of goods sold	**275,077,606**	225,678,359
Cost of services	**3,880,273**	1,918,506
	278,957,879	227,596,865
GROSS PROFIT	**48,402,471**	39,862,735
OPERATING EXPENSES (Note 18)	**(14,383,907)**	(13,313,377)
OTHERS - net		
Interest and other financing charges (Note 20)	**(1,432,830)**	(1,435,550)
Foreign exchange losses - net	**(425,071)**	(745,655)
Interest income (Note 5)	**48,044**	2,849
Miscellaneous income - net (Note 19)	**(2,325,426)**	90,139
INCOME BEFORE INCOME TAX	**29,883,281**	24,461,141
PROVISION FOR INCOME TAX (Note 21)		
Current	**3,746,297**	2,967,339
Deferred	**106,574**	52,116
	3,852,871	3,019,455
NET INCOME	**$26,030,410**	$21,441,686
Net Income Attributable to:		
Equity holders of the Parent Company	**$26,125,143**	$21,441,686
Non-controlling interests	**(94,733)**	–
	$26,030,410	$21,441,686

See accompanying Notes to Consolidated Financial Statements.

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
NET INCOME FOR THE YEAR	**$26,030,410**	$21,441,686
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences arising from translation of foreign operations	**(4,058,971)**	(5,705,124)
TOTAL COMPREHENSIVE INCOME	**$21,971,439**	$15,736,562
Total Comprehensive Income Attributable to:		
Equity holders of the Parent Company	**$22,066,172**	$15,736,562
Non-controlling interests	**(94,733)**	–
	$21,971,439	$15,736,562

See accompanying Notes to Consolidated Financial Statements.

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Attributable to Equity Holders of the Parent Company				Attributable to Non-controlling Interests in a Consolidated Subsidiary	
	Members' Contribution (Note 16)	Additional Paid-in Capital	Retained Earnings	Cumulative Translation Adjustment		Total
Balances at January 1, 2016	**$6,388,893**	**$282,308**	**$74,530,892**	**($15,781,543)**	**$–**	**$65,420,550**
Allocation of share-based payments (Note 23)	**–**	**118,390**	**–**	**–**	**–**	**118,390**
Effect of recognition of financial liability arising from put options on business combination (Note 2)	**–**	**(12,057,603)**	**–**	**–**	**–**	**(12,057,603)**
Members' contribution during the year	**53,881,000**	**–**	**–**	**–**	**–**	**53,881,000**
Increase in non-controlling interest due to the acquisition of a subsidiary during the year (Note 2)	**–**	**–**	**–**	**–**	**1,355,604**	**1,355,604**
	60,269,893	**(11,656,905)**	**74,530,892**	**(15,781,543)**	**1,355,604**	**108,717,941**
Net income	**–**	**–**	**26,125,143**	**–**	**(94,733)**	**26,030,410**
Other comprehensive loss	**–**	**–**	**–**	**(4,058,971)**	**–**	**(4,058,971)**
Total comprehensive income (loss)	**–**	**–**	**26,125,143**	**(4,058,971)**	**(94,733)**	**21,971,439**
Balances at December 31, 2016	**$60,269,893**	**($11,656,905)**	**$100,656,035**	**($19,840,514)**	**$1,260,871**	**$130,689,380**
Balances at January 1, 2015	$6,388,893	$82,452	$53,089,206	($10,076,419)	$–	$49,484,132
Allocation of share-based payments (Note 23)	–	199,856	–	–	–	199,856
	6,388,893	282,308	53,089,206	(10,076,419)	–	49,683,988
Net income	–	–	21,441,686	–	–	21,441,686
Other comprehensive loss	–	–	–	(5,705,124)	–	(5,705,124)
Total comprehensive income (loss)	–	–	21,441,686	(5,705,124)	–	15,736,562
Balances at December 31, 2015	$6,388,893	$282,308	$74,530,892	($15,781,543)	$–	$65,420,550

See accompanying Notes to Consolidated Financial Statements.

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**$29,883,281**	$24,461,141
Adjustments for:		
Depreciation of property, plant and equipment (Note 9)	**7,053,479**	6,046,215
Interest expense (Note 20)	**1,157,838**	1,146,816
Amortization of intangible assets (Note 11)	**1,123,945**	1,498,017
Unrealized foreign exchange loss - net	**(78,910)**	673,654
Cost of share-based payments (Note 23)	**118,390**	199,856
Interest income (Note 5)	**(48,044)**	(2,849)
Loss (gain) on sale of property, plant and equipment (Note 9)	**5,108**	(2,261)
Operating income before working capital changes	**39,215,087**	34,020,589
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	**(16,786,810)**	5,830,011
Inventories	**(11,927,229)**	(3,654,478)
Other current assets	**(3,734,293)**	2,627,870
Increase (decrease) in:		
Accounts payable and accrued expenses	**6,885,784**	(7,808,543)
Retirement liabilities	**160,727**	(139,160)
Net cash generated from operations	**13,813,266**	30,876,289
Income tax paid	**(3,781,195)**	(2,649,331)
Interest paid	**(1,245,611)**	(1,145,568)
Interest received	**48,044**	2,849
Net cash provided by operating activities	**8,834,504**	27,084,239
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition through business combination, net of cash acquired (Note 2)	**(46,878,629)**	–
Acquisitions of:		
Property, plant and equipment (Notes 9)	**(21,089,469)**	(15,026,587)
Intangible assets (Note 11)	**(3,165,572)**	(291,189)
Capitalized development cost, excluding depreciation (Note 11)	**(729,109)**	–
(Cost of) proceeds from sale of property, plant and equipment	**(5,108)**	11,645
Increase in other noncurrent assets	**(99,546)**	(299,271)
Net cash used in investing activities	**(71,967,433)`**	(15,605,402)
CASH FLOWS FROM FINANCING ACTIVITIES		
Members contribution (Note 16)	**53,881,000**	–
Availment of loans payable	**23,815,873**	10,576,040
Payments of:		
Loans payable	**(14,410,000)**	(557,350)
Long-term debt	**(3,007,267)**	(2,397,400)
Finance lease	**–**	(2,257,584)
Net cash provided by financing activities	**60,279,606**	5,363,706
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH	**131,273**	(424,593)
NET INCREASE (DECREASE) IN CASH	**(2,722,050)**	16,417,950
CASH AT BEGINNING OF YEAR	**28,707,415**	12,289,465
CASH AT END OF YEAR (Note 5)	**$25,985,365**	$28,707,415

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Cooperatief IMI Europe U.A. ("Cooperatief" or the "Parent Company"), a non-stock holding entity registered under the laws of Amsterdam, the Netherlands on May 2, 2011, has four wholly-owned subsidiaries, namely: Integrated Micro-Electronics Bulgaria EOOD (IMI BG), Integrated Micro-Electronics Czech Republic s.r.o. (IMI CZ), Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (IMI MX) and IMI France SAS (IMI France) (collectively referred to as the "Group"). The Group's Parent Company is Monarch Elite Ltd. (Monarch), a limited liability company incorporated in Hong Kong and a subsidiary of IMI International (Singapore) Pte Ltd. ("IMI Singapore"). IMI Singapore is a wholly-owned subsidiary of Integrated Micro-Electronics, Inc. (IMI), a company registered under the laws of the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE). IMI is 50.64% owned AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd. under the umbrella of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the PSE. 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 Locatellikade 1, 1077 MA Amsterdam, the Netherlands.

On July 29, 2011, the Parent Company acquired IMI BG, IMI CZ and IMI MX (collectively referred to as "IMI EU/MX Subsidiaries"). IMI EU/MX Subsidiaries design and produce printed circuit board assemblies, engage in plastic injection, embedded 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 United States America (USA) and Taiwan. VIA is a leading provider for optical bonding, a key technology to lower reflections thus enabling sunlight readability and increasing robustness, which is mandatory to allow thinner and lighter portable display solutions. The acquisition will allow the Group to strengthen its partnerships with customers by offering complementary automotive camera and display monitor solutions for advanced driver assistance systems. Once combined, the Group together with VIA will have the scale to introduce patented technology into automotive camera monitor systems for increased safety.

The consolidated financial statements as of and for the years ended December 31, 2016 and 2015 were authorized for issue by the Cooperatief'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:

Name of Subsidiary	Percentage of Ownership 2016	2015	Country of Incorporation	Functional Currency
IMI BG*	**100.00%**	100.00%	Bulgaria	Euro (EUR)
Microenergia EOOD	**100.00%**	100.00%	Bulgaria	EUR
IMI CZ	**100.00%**	100.00%	Czech Republic	Czech Koruna (CZK)
IMI MX**	**100.00%**	100.00%	Mexico	United States Dollar (USD)
Integrated Micro-Electronics Manufactura S.A.P.I de C.V.	**100.00%**	100.00%	Mexico	Mexican Peso (MXP)
IMI France	**100.00%**	100.00%	France	EUR

Name of Subsidiary	Percentage of Ownership 2016	2015	Country of Incorporation	Functional Currency
VIA	**76.01%**	–	Germany	EUR
VIA Optronics Suzhou Co. Ltd. (VIA Suzhuo)	**76.01%**	–	China	Renminbi (RMB)
VIA Optronics LLC (VIA LLC)	**76.01%**	–	USA	USD

** On January 1, 2016, IMI BG changed its functional currency from Bulgarian Lev (BGN) to EUR*
***On March 1, 2014, IMI MX changed its functional currency from MXP to USD.*

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% ownership interest in VIA for a total cash consideration of €47.79 million ($53.46 million), while the remaining 23.99% to be retained by the founder of VIA.

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.

In its stand-alone financial statements, the Parent Company accounted for the 5% put option as a derivative liability carried at fair value through profit or loss with a corresponding increase in its investment in subsidiary. Mark-to-market loss from valuation date until December 31, 2016 amounting to $6,641 was recognized in the Parent Company statements of income but reversed at consolidated level.

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
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.

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.

Material Partly-owned Subsidiary
The summarized financial information of VIA for 2016 is as follows:

Current assets	$29,019,169
Noncurrent assets	4,055,808
Current liabilities	27,885,470
Noncurrent liabilities	373,180
Equity	4,816,327
Income	19,405,163
Expenses	19,984,965
Net Income	(394,886)

3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation
The consolidated financial statements have been prepared under the historical cost basis, except for financial liabilities at fair value through profit or loss (FVPL) and are presented in USD. All amounts are rounded off to the nearest USD, unless otherwise indicated.

The consolidated financial statements are prepared to assist Integrated Micro-Electronics, Inc. to meet the requirements of the Philippine Securities and Exchange Commission (SEC). In this regard, the consolidated financial statements may not be suitable for another purpose.

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

a. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
b. Exposure, or rights, to variable returns from its involvement with the investee, and
c. The ability to use its power over the investee to affect its returns.

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

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

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

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

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

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

If the Group losses control over a subsidiary, it 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.

<u>Changes in Accounting Policies and Disclosures</u>
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).

Standards and Interpretation Issued but not yet Effective

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 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.

- 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.

- 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.

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

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

All other liabilities are classified as noncurrent.

<u>Cash</u>
Cash includes cash on hand and in banks. Cash in banks which earns interest at prevailing bank deposit rates and is stated at face 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. Available-for-sale (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 loans and receivables, financial liabilities at FVPL, and other financial liabilities.

Date of recognition of financial instruments

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

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

Financial assets or financial liabilities at FVPL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value Measurement
The Group measures derivatives 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 25.

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability, that is a financial instrument and within the scope of PAS 39 is measured at fair value, with changes in fair value recognized either in profit or loss or as a change to other comprehensive income. 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
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.

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

Equity

Members' contribution

Members' contribution pertains to the capital contributed by members.

Additional paid-in capital

Additional paid-in capital pertains to the difference of the par value and selling price of issued and outstanding shares of stock. Direct costs incurred related to equity issuance are charged to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against "Retained earnings" account.

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

Retained earnings

Retained earnings represent the net accumulated earnings of the Group.

Revenue Recognition

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

Sale of goods

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

Rendering of services

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

Interest income

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

Dividends

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

Miscellaneous income

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

Expenses

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

Cost of sales

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Retirement and Other Employee Benefits

Defined benefit plan

IMI BG maintains separate defined benefit plans covering substantially all of their employees. The plan of IMI BG is unfunded and noncontributory.

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

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

Net interest on net retirement liabilities is the change during the period in net retirement liabilities that arises from the passage of time which is determined by applying the discount rate based on

government bonds to net retirement liabilities. Net interest on retirement liabilities is recognized as expense or income in profit or loss.

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

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

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

Defined contribution plans
IMI CZ, IMI MX and VIA participate in the respective national retirement schemes defined by the laws of the countries in which it has operations. These retirement schemes are considered as defined contribution plans. A defined contribution plan is a plan under which the subsidiary pays fixed contributions. Each subsidiary has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The required contributions to the national retirement schemes are recognized as retirement expense as accrued.

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

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

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

VIA
VIA only has defined contribution plans relating to statutory pension.

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.

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

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

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

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

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, while, IMI MX changed its functional currency from MXP to USD on March 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.

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 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.

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 25.

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

Further details on receivables are disclosed in Note 6.

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

Further details on inventories are disclosed in Note 7.

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

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

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

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

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

Further details on taxes are disclosed in Note 21.

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

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

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

Further details on retirement and other employee benefits are disclosed in Note 22.

5. Cash

This account consists of:

	2016	2015
Cash on hand	**$13,710**	$13,004
Cash in banks	**25,971,655**	28,694,411
	$25,985,365	$28,707,415

Cash in banks earns interest at the respective bank deposit rates. Interest income earned from cash in banks amounted to $48,044 and $2,849 in 2016 and 2015, respectively. Bank charges amounted to $274,992 and $288,734 in 2016 and 2015, respectively.

6. Receivables - net

This account consists of:

	2016	2015
Trade	**$80,459,171**	$47,509,572
Nontrade	**1,786,443**	716,339
Due from related parties (Note 24)	**10,051**	2,024
Others	**150,195**	97,226
	82,405,860	48,325,161
Less allowance for doubtful accounts	**711,674**	418,408
	$81,694,186	$47,906,753

Trade
Trade receivables arise from manufacturing and other related services for electronic products and components and have credit terms averaging 70 days from invoice date.

Nontrade
Nontrade receivables represent advances to suppliers and contractors, receivables from employees and insurance, and guaranty. These receivables have credit terms averaging 45 days from invoice date.

Allowance for Doubtful Accounts
Trade receivables with aggregate nominal value of $0.71 million and $0.42 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:

	2016	2015
At beginning of year	**$418,408**	$670,721
Provisions (Note 19)	**341,575**	164,955
Accounts written-off	**(48,309)**	(417,268)
At end of year	**$711,674**	$418,408

Provisions during the year form part of “Operating expenses” account and are included under “Facilities costs and others” account (see Note 19).

7. **Inventories**

This account consists of:

	2016	2015
Cost		
Raw materials and supplies	**$32,378,403**	$20,515,123
Work-in-process	**6,183,188**	5,406,736
Finished goods	**15,892,519**	13,635,246
	54,454,110	39,557,105
Allowance for inventory obsolescence		
Raw materials and supplies	**1,453,742**	2,926,249
Work-in-process	**32,497**	28,753
Finished goods	**362,247**	365,909
	1,848,486	3,320,911
	$52,605,624	$36,236,194

The amount of inventories recognized as an expense under “Cost of goods sold and services” account amounted to $228.25 million in 2016 and $183.62 million in 2015 (see Note 17).

Movements in the allowance for inventory obsolescence are as follows:

	2016	2015
At beginning of year	**$3,320,911**	$2,610,547
Provisions (Reversals) (Note 19)	**(1,472,425)**	710,364
At end of year	**$1,848,486**	$3,320,911

8. Other Current Assets

This account consists of:

	2016	2015
Advances to suppliers	**$4,854,188**	$270,328
Tax credits	**3,647,365**	4,651,851
Prepayments	**1,513,129**	1,477,579
Input taxes	**524,748**	84,946
Others	**346,843**	6,875
	$10,886,273	$6,491,579

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

Tax credits include value added tax (VAT) refund claims of IMI MX and IMI BG.

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.

Others include deposits for rents, receivables from employees and receivables from other taxes.

9. Property, Plant and Equipment - net

Movements in this account are as follows:

	2016						
	Buildings and Improvements	**Machinery and Facilities Equipment**	**Furniture, Fixtures and Office Equipment**	**Transportation Equipment**	**Tools and Instruments**	**Construction in Progress**	**Total**
Cost							
At beginning of year	**$21,781,544**	**$36,096,442**	**$2,731,621**	**$255,442**	**$–**	**$8,122,110**	**$68,987,159**
Additions	**4,332,936**	**7,514,691**	**296,896**	**88,772**	**–**	**8,856,174**	**21,089,469**
Acquisition through business combination (Note 2)	**137,613**	**1,948,746**	**166,896**	**7,255**	**98,158**	**790,641**	**3,149,309**
Disposals	**(132,866)**	**(963,071)**	**(52,225)**	**(132,866)**	**–**	**–**	**(1,281,028)**
Transfers	**1,965,741**	**6,900,480**	**304,227**	**3,885**	**–**	**(9,174,333)**	**–**
Foreign currency exchange difference	**(497,379)**	**(2,221,911)**	**(119,907)**	**(255,950)**	**(161)**	**(256,140)**	**(3,351,448)**
At end of year	**27,587,589**	**49,275,377**	**3,327,508**	**(33,462)**	**97,997**	**8,338,452**	**88,593,461**
Accumulated depreciation							
At beginning of year	**1,329,224**	**12,772,043**	**1,431,885**	**47,597**	**–**	**–**	**15,580,749**
Depreciation	**916,629**	**5,812,006**	**232,047**	**81,683**	**11,114**	**–**	**7,053,479**
Disposals	**(132,866)**	**(963,071)**	**(52,225)**	**(132,866)**	**–**	**–**	**(1,281,028)**
Foreign currency exchange difference	**(52,042)**	**(1,689,544)**	**(87,842)**	**(247,152)**	**(467)**	**–**	**(2,077,047)**
At end of year	**2,060,945**	**15,931,434**	**1,523,865**	**(250,738)**	**10,647**	**–**	**19,276,153**
Net book value	**$25,526,644**	**$33,343,943**	**$1,803,643**	**$217,276**	**$87,350**	**$8,338,452**	**$69,317,308**

	2015					
	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Construction in Progress	Total
Cost						
At beginning of year	$20,146,135	$34,341,153	$2,512,532	$286,905	$3,067,897	$60,354,622
Additions	2,447,849	3,330,600	481,608	46,586	8,719,944	15,026,587
Disposals	(17,075)	(938,162)	(59,123)	(28,533)	–	(1,042,893)
Transfers	65,794	3,215,888	9,275	15,140	(3,306,097)	–
Foreign currency exchange difference	(861,159)	(3,853,037)	(212,671)	(64,656)	(359,634)	(5,351,157)
At end of year	21,781,544	36,096,442	2,731,621	255,442	8,122,110	68,987,159
Accumulated depreciation						
At beginning of year	902,621	11,413,931	1,268,817	49,752	–	13,635,121
Depreciation	695,473	4,881,947	384,482	84,313	–	6,046,215

	2015					
	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Construction in Progress	Total
Disposals	(15,096)	(919,055)	(59,111)	(40,247)	–	(1,033,509)
Foreign currency exchange difference	(253,774)	(2,604,780)	(162,303)	(46,221)	–	(3,067,078)
At end of year	1,329,224	12,772,043	1,431,885	47,597	–	15,580,749
Net book value	$20,452,320	$23,324,399	$1,299,736	$207,845	$8,122,110	$53,406,410

The group capitalized depreciation related to development phase of a certain project amounting to $0.12 million in 2016. The capitalized cost was part of product development under “Intangible assets” account.

As of December 31, 2016 and 2015, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to $23.06 million and $22.60 million, respectively.

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

	2016	2015
Cost of goods sold and services (Note 17)	**$6,318,040**	$5,251,787
Operating expenses (Note 18)	**735,439**	794,428
	$7,053,479	$6,046,215

Gains (losses) from disposal of property, plant and equipment included under “Miscellaneous income - net” account in the consolidated statements of income amounted to ($5,108) and $2,261 in 2016 and 2015, respectively.

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**	$–
IMI CZ	**650,413**	650,413
	$49,818,822	$650,413

As mentioned in Note 3, goodwill is tested for impairment annually as of September 30 every year and when circumstances indicate that the carrying amount is impaired.

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

	2016	2015
VIA	**11.20%**	–
IMI CZ	**9.56%**	8.79%

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 and IMI CZ in 2016 and 2015.

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

11. Intangible Assets

Movements in this account are as follows:

	2016				
	Customer Relationships	**Computer Software**	**Patents and Trademarks**	**Product Development**	**Total**
Cost					
At beginning of year	**$6,766,617**	**$1,063,919**	**$–**	**$–**	**$7,830,536**
Additions	**–**	**3,165,572**	**–**	**–**	**3,165,572**
Capitalized development cost	**–**	**–**	**–**	**729,109**	**729,109**
Acquisition through business combination (Note 2)	**–**	**–**	**493,368**	**–**	**493,368**
Foreign currency exchange difference	**–**	**(222,088)**	**(29,134)**	**–**	**(251,222)**
At end of year	**6,766,617**	**4,007,403**	**464,234**	**729,109**	**11,967,363**
Accumulated amortization					
At beginning of year	**5,977,178**	**347,415**	**–**	**–**	**6,324,593**
Amortization	**789,439**	**266,719**	**67,787**	**–**	**1,123,945**
Foreign currency exchange difference	**–**	**(68,322)**	**(2,850)**	**–**	**(71,172)**
At end of year	**6,766,617**	**545,812**	**64,937**	**–**	**7,377,366**
Net book value	**$–**	**$3,461,591**	**$399,297**	**$729,109**	**$4,589,997**

	2015		
	Customer Relationships	Computer Software	Total
Cost			
At beginning of year	$6,766,617	$903,056	$7,669,673
Additions	–	291,189	291,189
Foreign currency exchange difference	–	(130,326)	(130,326)
At end of year	6,766,617	1,063,919	7,830,536
Accumulated amortization			
At beginning of year	4,623,854	310,306	4,934,160
Amortization	1,353,324	144,693	1,498,017
Foreign currency exchange difference	–	(107,584)	(107,584)
At end of year	5,977,178	347,415	6,324,593
Net book value	$789,439	$716,504	$1,505,943

Customer Relationships
Customer relationships pertain to IMI BG's contractual agreements with certain customers which lay out the principal terms upon which the parties agree to undertake business.

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

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.

Impairment testing of product development cost
Intangible assets not yet available for use are tested for impairment following the value-in-use approach. The projects to which the development costs pertain to represent the CGU of the intangible assets. The recoverable amounts of these CGUs have been determined using cash flow projections from financial budgets approved by management covering a 5-year period, which is within the expected life cycle of the projects. The pre-tax discount rates applied to cash flow projections is 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 $0.20 million in 2016 and nil for 2015.

Amortization of intangible assets included in "Operating expenses" account amounted to $1.12 million and $1.50 million in 2016 and 2015, respectively (see Note 18).

12. **Other Noncurrent Assets**

Noncurrent assets pertain to miscellaneous deposits for rental and utilities amounting to $0.56 million and $0.30 million in 2016 and 2015, respectively. Rental deposit will be returned to the lessor upon termination of the lease after deducting damages on the property. Utility deposits are deposits for thermogas oil tanks that are used in the production.

13. **Accounts Payable and Accrued Expenses**

This account consists of:

	2016	2015
Trade	**$50,408,568**	$26,121,677
Accrued expenses:		
Taxes and licenses	**2,003,717**	1,890,148
Employee salaries and benefits	**1,992,268**	920,917
Tooling expense	**1,853,083**	1,786,964
Professional and management fees	**325,211**	521,203
Supplies	**61,406**	74,766
Others	**1,524,777**	390,400
Due to related parties (Note 24)	**1,027,393**	1,108,254
Accrued interest payable:		
Affiliates (Note 24)	**123,920**	179,955
External parties	**86,446**	118,184
Advances from customers	**1,917,752**	12,037
Others	**1,239,374**	239,856
	$62,563,915	$33,364,361

Trade Payables
Trade payables are noninterest-bearing and are normally settled on 60-day average terms.

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

Tooling Expenses
Accrued payables are noninterest-bearing and are normally settled on 30 to 90-day average terms.

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

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%.

14. **Loans Payable**

This account consists of borrowings of the following entities:

	2016	2015
IMI MX (Note 24)	**$33,207,202**	$32,013,000
IMI CZ (Note 24)	**4,302,724**	2,607,751
Cooperatief (Note 24)	**6,467,000**	–
VIA	**7,903,448**	–
	$51,880,374	$34,620,751

IMI MX

IMI MX has outstanding loans from IMI and IMI Singapore to fund its working capital requirements. In 2016 and 2015, the loans bear interest rates ranging from 1.86% to 2.00% with terms ranging from 90 to 360 days. Breakdown of the loan from IMI and IMI Singapore follows:

	2016	2015
IMI	**$19,707,202**	$18,513,000
IMI Singapore	**13,500,000**	13,500,000
	$33,207,202	$32,013,000

Interest expense incurred on these loans amounted to $0.70 million and $0.71 million in 2016 and 2015, respectively (see Note 20).

IMI CZ

	2016	2015
IMI	**$3,210,196**	$2,607,751
UniCredit	**607,196**	
Citibank	**485,332**	–
	$4,302,724	$2,607,751

IMI CZ has outstanding loans from IMI aggregating to $3.21 million and $2.61 million as of December 31, 2016 and 2015, respectively, to fund its working capital requirements. In 2016 and 2015, the loans bear interest rates ranging from 2.00% to 2.66% with terms not exceeding twelve months.

Interest expense incurred on these loans amounted to $0.05 million and $0.07 million in 2016 and 2015 respectively (see Note 20).

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

Cooperatief
Cooperatief obtained a loan from Speedy-Tech Electronics, Inc. (STEL) in 2016 to fund the acquisition of VIA Optronics. The loan bears interest rate of 2.00% with terms of 360 days. Interest expense incurred on these loan amounted to $0.10 million (see Note 20).

VIA
The loans of VIA consists of factoring loan from China-based banks denominated in USD and RMB amounting to a total of $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.

15. **Long-Term Debt**

This account consists of borrowings of the following entities:

	2016	2015
Cooperatief	**$6,586,800**	$8,980,407
IMI CZ	**1,818,198**	2,467,863
IMI BG	**417,760**	659,494
VIA	**284,338**	–
	9,107,096	12,107,764
Less current portion:		
Cooperatief	**2,108,200**	2,177,400
IMI CZ	**528,478**	555,778
IMI BG	**208,880**	219,831
VIA Optronics	**117,495**	–
	2,963,053	2,953,009
Noncurrent portion	**$6,144,043**	$9,154,755

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 and $0.33 million in 2015 (see Note 20).

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 (see Note 20).

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 2015 (see Note 20).

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 20).

16. **Member's Equity**

Members' contribution
Details of the members of the Cooperatief follow:

	Country of Incorporation	Ownership Interest
Monarch	Hong Kong	99%
IMI Singapore	Singapore	1%

The movements in "Members' contribution" account are as follows:

	2016	2015
At beginning of year	**$6,388,893**	$6,388,893
Contributions during the year	**53,881,000**	–
At end of year	**$60,269,893**	$6,388,893

Members' contribution during the year relates to capital infusion for the repayment of intercompany loan of IMI MX and to fund the acquisition of VIA.

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

17. **Cost of Goods Sold and Services**

This account consists of:

	2016	2015
Direct, indirect and other material-related costs (Note 7)	**$228,252,523**	$183,616,023
Direct labor, salaries, wages and employee benefits (Note 22)	**36,908,099**	31,067,664
Depreciation (Note 9)	**6,318,040**	5,251,787
Facilities costs and others (Note 19)	**7,479,217**	7,661,391
	$278,957,879	$227,596,865

18. **Operating Expenses**

This account consists of:

	2016	2015
Salaries, wages and employee benefits (Note 22)	**$7,327,235**	$5,278,789
Depreciation and amortization (Notes 9 and 11)	**1,859,384**	2,292,445
Facilities costs and others (Note 19)	**5,197,288**	5,742,143
	$14,383,907	$13,313,377

19. **Facilities Costs and Others**

This account consists of:

	Cost of Goods Sold and Services		**Operating Expenses**	
	2016	2015	**2016**	2015
Utilities	**$3,478,360**	$3,232,584	**$–**	$–
Repairs and maintenance	**1,398,171**	2,404,231	**190,393**	73,883
Outsourced activities	**1,026,993**	964,449	**2,692,103**	1,926,549
Travel	**1,005,529**	822,820	**533,210**	715,110
Insurance	**14,963**	11,309	**792,322**	812,650
Government-related	**5,687**	15,318	**212,089**	265,199
Postal and communication	–	–	**125,023**	187,833
Provision for (Reversal of) inventory obsolescence (Note 7)	–	–	**(1,472,425)**	710,364
Promotional materials, representation and entertainment	–	–	**284,313**	148,371
Provision for doubtful accounts (Note 6)	–	–	**341,575**	164,955
Others	**549,514**	210,680	**1,498,685**	737,229
	$7,479,217	$7,661,391	**$5,197,288**	$5,742,143

"Others" include small tools and instruments, technology related expenses, copying expenses, office supplies and other miscellaneous expenses.

Miscellaneous income and loss
Miscellaneous income and loss pertains to non-recurring engineering expenses.

20. **Interest and Other Financing Charges**

This account consists of:

	2016	2015
Interest expense on intercompany loans (Notes 14)	**$848,983**	$780,966
Interest expense on bank loans (Notes 15)	**308,855**	365,850
Bank charges (Note 5)	**274,992**	288,734
	$1,432,830	$1,435,550

21. **Income Tax**

Current Tax
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 and 2015 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 the 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. The applicable tax rate in 2016 and 2015 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 and 2015 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%.

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

IMI France
Income tax is computed based on the income earned by the entity during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back one year. The tax rate applicable in 2016 and 2015 is 33% based on net profits.

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.

Deferred Tax
Deferred taxes of the Group relates to the following:

	2016	2015
Deferred tax assets:		
Net operating loss carry-over	**$893,165**	$688,253
Fair value adjustment on property, plant and equipment arising from business combination	**41,829**	136,460
Allowance for inventory obsolescence	**227,058**	267,980
Allowance for doubtful accounts	**152,299**	151,681
Unamortized past service cost	**–**	–
Others	**192,219**	283,163
	$1,506,570	$1,527,537
Deferred tax liabilities:		
Fair value adjustment on property, plant and equipment arising from business combination	**$1,036,812**	$1,172,761
Prepaid expenses	**206,336**	–
	$1,243,148	$1,172,761

The temporary differences and tax losses for which no deferred tax assets have been recognized follows:

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

As of December 31, 2016 and 2015, deferred tax liabilities have not been recognized on the undistributed earnings of subsidiaries and related cumulative translation adjustments since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future.

The reconciliation of the statutory income tax rate to the effective income tax rate of the Group follows:

	2016	2015
Statutory income tax	**25.00%**	25.00%
Tax effects of:		
Nondeductible expenses	**2.84%**	3.39%
Nontaxable income	**(12.96%)**	–
Difference in tax jurisdiction	**(1.99%)**	(16.05%)
Effective income tax rate	**12.89%**	12.34%

22. **Personnel Costs**

Salaries, wages, and employee benefits follow:

	2016	2015
Salaries and benefits	**$39,939,316**	$32,838,189
Retirement expense under defined contribution plans	**2,036,383**	1,421,018
Leave benefits	**980,982**	998,098
Social security costs	**584,027**	555,991
Net retirement expense under defined benefit plans	**169,019**	183,585
Others	**525,607**	349,572
	$44,235,334	$36,346,453

Others include expenses for subcontracting costs, training and seminars, employee social and recreation, bonuses, health premium, employee insurance expenses, and other employee benefits.

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

	2016	2105
Cost of goods sold and services (Note 17)	**$36,908,099**	$31,067,664
Operating expenses (Note 18)	**7,327,235**	5,278,789
	$44,235,334	$36,346,453

IMI BG has a defined benefit plan covering substantially all of its employees. The latest retirement valuation was made on December 31, 2016.

The tables below summarize the amount of IMI BG's retirement liability recognized in the consolidated balance sheets and components of retirement expense recognized in the consolidated statements of income as of and for the years ended December 31, 2016 and 2015:

Retirement Expense

	2016	2015
Current service cost	**$158,392**	$175,888
Net interest	**10,627**	7,697
	$169,019	$183,585

The retirement expense of the Group is included under "Salaries, wages, and employee benefits" account.

Retirement Liability

	2016	2015
At beginning of year	**$503,507**	$393,606
Retirement expense	**169,019**	183,585
Separation and benefits paid	**(8,292)**	(32,444)
Foreign currency exchange difference	**(27,598)**	(41,240)
At end of year	**$636,636**	$503,507

The average duration of net retirement liabilities at the end of the balance sheet date is 23.41 years as of December 31, 2016 and 23.14 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	**$125,697**	$84,886
More than one year to five years	**159,369**	122,458
More than twenty years	**341,689**	289,489
	$626,755	$496,833

Principal Actuarial Assumptions

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

	2016	2015
Discount rate	**2.00%**	**2.00%**
Salary increase rate	**5.00%**	**5.00%**
Turnover rate	**5.00%**	**5.00%**

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

	Increase/Decrease in	Effect on Retirement Liability	
Actuarial Assumption	Actuarial Assumption	**2016**	2015
Discount rate	+1%	**($34,219)**	($29,337)
	-1%	**37,802**	30,829
Turnover rate	+1%	**64,864**	(54,227)
	-1%	**(64,022)**	55,235
Salary increase rate	+1%	**25,849**	21,447
	-1%	**(25,799)**	(21,449)

23. Employee Stock Ownership Plan

IMI has an ESOWN plan, which allows the grantees to purchase IMI's share at a discounted price.

The allocation of cost of share-based payments by IMI to the Group in 2016 and 2015 amounted to $0.12 million and $0.20 million, respectively.

24. Related Party Transactions

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

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 and 2015, the Group has not recorded any impairment on receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

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

a. Outstanding balances of related party transactions follow:

	Receivables		**Payables**	
	2016	2015	**2016**	2015
STEL.	**$–**	$472	**$6,467,000**	$–
IMI:				
Nontrade	**8,570**	71	**1,027,393**	1,108,254
Interest	**–**	–	**84,878**	135,090
Loans	**–**	–	**22,917,397**	21,120,751
Monarch	**1,466**	1,466	**28,520,645**	28,520,645
IMI Singapore:				
Nontrade	**15**	15	**–**	–
Interest	**–**	–	**39,042**	44,865
Loans	**–**	–	**13,500,000**	13,500,000
Noncurrent	**–**	–	**288,088**	288,088
	$10,051	$2,024	**$72,844,443**	$64,717,693

i. Receivables from Monarch and IMI Singapore are nontrade in nature and pertain to the initial members' contribution amounting to €1,000 ($1,466) based on the agreed allocation of 99.00% and 1.00%, respectively.

ii. Receivables from STEL are trade in nature, unsecured, noninterest-bearing, repayable on demand and to be settled in cash.

iii. Nontrade payables to Monarch and IMI Singapore, presented as "Due to related parties" in the consolidated balance sheets, are nontrade in nature and relate to the acquisition of IMI EU/MX Subsidiaries. Management intends to convert these payables into equity in the future.

iv. Payables to IMI and IMI Singapore include nontrade transactions and operating cash advances. Nontrade transactions are unsecured, noninterest-bearing, repayable on demand and to be settled in cash. Cash advances of IMI to IMI MX and IMI CZ have a 90-day term subject to interest rates ranging from 2.79% to 2.81%. Intercompany loans from IMI Singapore bear interest rates ranging from 2.79% to 3.08% with terms ranging from 90 to 360 days.

v. Payable to STEL pertains to intercompany loan of Cooperatief with a one-year term and bears interest at 2% which was used to fund the acquisition of VIA.

Payables to IMI and IMI Singapore are summarized as follows:

	2016	2015
Loans payable (Note 14)	**$42,884,398**	$34,620,751
Due to related parties (Note 13)	**1,027,393**	1,108,254
Accrued interest payable (Note 13)	**123,920**	179,956
	$44,035,711	$35,908,961

Noncurrent liabilities due to related parties are summarized as follows:

	2016	2015
Monarch	**$28,520,645**	$28,520,645
IMI Singapore	**288,088**	288,088
	$28,808,733	$28,808,733

b. Revenues and expenses from related parties follow:

	Revenues		**Expenses**	
	2016	2015	**2016**	2015
STEL	**$–**	$14,202	**$402,998**	$331,270
IMI	–	–	**445,985**	449,696
	$–	$14,202	**$848,983**	$780,966

Details of revenue and expenses follow:

i. Intercompany revenues of STEL from IMI BG.
ii. Interest expense from IMI's intercompany advances to IMI EU/MX Subsidiaries.

Compensation of Key Management Personnel of the Group
Key management personnel of the Group include all management committee members. Short-term employee benefits of key management personnel amounted to $1.49 million and $1.30 million in 2016 and 2015, respectively.

25. **Fair Values of Financial Instruments**

Fair Values of Financial Assets and Financial Liabilities where the Carrying Amounts Approximate Fair Values

Financial assets and financial liabilities that are liquid or are short-term in nature, such as cash, receivables and accounts payable and accrued expenses are assumed to have carrying amounts approximating their fair values.

Below are the fair values of financial liabilities where the carrying amounts do not approximate fair values as at December 31, 2016 and 2015:

	Carrying Amounts		Fair Values	
	2016	2015	**2016**	2015
Financial liabilities				
Financial liabilities on put options	**$11,334,282**	$–	**$11,334,282**	$–
Noncurrent portion of:				
Long-term debt (Note 15)	**6,144,043**	9,154,755	**5,299,626**	7,960,624
	$17,478,325	$9,154,755	**$16,633,908**	$7,960,624

The following methods and assumptions were used to estimate the fair value:

Financial liabilities on put options - These pertain to the liabilities of the Parent Company arising from the written put options over the non-controlling interest of VIA. The fair value of the financial liabilities is estimated using the discounted, probability-weighted cash flow method. The future cash flows were projected using the equity forward pricing formula with reference to the current equity value of the acquiree and the forecasted interest rate which is the risk-free rate in Germany. The risk-free rate used range from 0.02% 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 is estimated by using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used ranged from 1.20% to 5.35% in 2016 and 1.20% to 3.10% in 2015.

Fair Value Hierarchy

The following table provides the fair value hierarchy of the inputs to the valuation of the financial liabilities:

		December 31, 2016		
		Fair Value Measurement Using		
	Total	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Liabilities measured at fair value:				
Financial liabilities on put options	**$11,334,282**	**$–**	**$–**	**11,334,282**
Liabilities for which fair values are disclosed:				
Long-term debt	**$5,299,626**	**$–**	**$–**	**$5,299,626**

		December 31, 2015		
		Fair Value Measurement Using		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities for which fair values are disclosed:				
Long-term debt	$7,960,624	$–	$–	$7,960,624

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.

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

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

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

The Group's risk management policies are summarized below:

Interest Rate Risk
The Group's exposure to market risk for changes in interest rates relates primarily to its debt obligations with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings) as of December 31, 2016 and 2015.

	Effect on Income before Tax	
Increase/Decrease in Basis Points	**2016**	2015
+100	**($332,849)**	($312,736)
-100	**$332,849**	$312,736

There is no other impact on the Group's equity other than those already affecting income.

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

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

2016

	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Financial assets:					
Cash*	**$25,971,655**	**$–**	**$–**	**$–**	**$25,971,655**
Financial liabilities:					
Accounts payable and accrued expenses:					
Trade payables	**–**	**50,408,568**	**–**	**–**	**50,408,568**
Accrued expenses**	**–**	**5,756,746**	**–**	**–**	**5,756,746**
Due to related parties	**–**	**1,027,393**	**–**	**–**	**1,027,393**
Accrued interest payable	**–**	**86,446**	**–**	**–**	**86,446**
Others	**–**	**1,239,371**	**–**	**–**	**1,239,371**
Financial liabilities on put options	**11,334,282**	**–**	**–**	**–**	**11,334,282**
Current portion of long-term debt	**–**	**2,963,053**	**–**	**–**	**2,963,053**
Loans payable***	**–**	**–**	**51,908,572**	**–**	**51,908,572**
Noncurrent portion of long-term debt***	**–**	**–**	**–**	**6,316,718**	**6,316,718**
	11,334,282	**61,481,577**	**51,908,572**	**6,316,718**	**131,041,149**
	$14,637,373	**($61,481,577)**	**($51,908,572)**	**($6,316,718)**	**($105,069,494)**

**Excluding cash on hand*
***Excluding statutory payables*
****Includes future interest payable (as applicable)*

2015

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets:					
Cash*	$28,694,411	$–	$–	$–	$28,694,411
Financial liabilities:					
Accounts payable and accrued expenses:					
Trade payables	–	26,121,677	–	–	26,121,677
Accrued expenses**	–	3,694,250	–	–	3,694,250
Due to related parties	–	1,108,254	–	–	1,108,254
Accrued interest payable	–	298,139	–	–	298,139
Current portion of obligation under finance lease	–	29,506	–	–	29,506
Others	–	–	–	–	2,953,009
Current portion of long-term debt	–	2,953,009	–	–	34,701,492
Noncurrent portion of long-term debt ***	–	–	34,701,492	9,406,250	9,406,250
	–	34,204,835	34,701,492	9,406,250	78,312,577
	$28,694,411	($34,204,835)	($34,701,492)	($9,406,250)	($49,618,166)

**Excluding cash on hand*
***Excluding statutory payables*
****Includes future interest payable (as applicable)*

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

	2016		2015	
Financial Institutions	**Credit Limit**	**Available Credit Line**	Credit Limit	Available Credit Line
Local:				
EUR	**9,830,000**	**6,177,019**	**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 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 asset. The Group's maximum exposure for cash excludes the carrying amount of cash on hand.

The Group has 54% and 63% 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 follows:

2016

	Total	Neither Past Due nor Impaired	Past Due but not Impaired					Specifically Impaired
			<30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	
Trade	$80,459,171	$65,622,227	$8,828,743	$3,457,781	$488,247	$407,553	$942,946	$711,674
Nontrade	1,786,443	1,786,443	–	–	–	–	–	–
Due from related parties	10,051	10,051	–	–	–	–	–	–
Others	150,195	150,195	–	–	–	–	–	–
	$82,405,860	$67,568,916	$8,828,743	$3,457,781	$488,247	$407,553	$942,946	$711,674

2015

	Total	Neither Past Due nor Impaired	Past Due but not Impaired					Specifically Impaired
			<30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	
Trade	$47,509,572	$43,413,430	$3,228,230	$436,720	$6,721	$6,063	$–	$418,408
Nontrade	716,339	716,339	–	–	–	–	–	–
Due from related parties	2,024	2,024	–	–	–	–	–	–
Others	97,226	97,226	–	–	–	–	–	–
	$48,325,161	$44,229,019	$3,228,230	$436,720	$6,721	$6,063	$–	$418,408

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

2016

	Neither Past Due nor Impaired				Past Due or Individually Impaired	Total
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		
Cash in banks	$25,971,655	$–	$–	$–	$–	$25,971,655
Receivables:						
Trade	65,622,227	–	–	–	14,836,944	80,459,171
Nontrade	1,786,443	–	–	–	–	1,786,443
Due from related parties	10,051	–	–	–	–	10,051
Others	150,195	–	–	–	–	150,195
	$93,540,571	$–	$–	$–	$14,836,944	$108,377,515

2015

	Neither Past Due nor Impaired				Past Due or Individually Impaired	Total
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		
Cash in banks	$28,694,411	$–	$–	$–	$–	$28,694,411
Receivables:						
Trade	43,413,430	–	–	–	4,096,142	47,509,572
Nontrade	716,339	–	–	–	–	716,339
Due from related parties	2,024	–	–	–	–	2,024
Others	97,226	–	–	–	–	97,226
	$72,923,430	$–	$–	$–	$4,096,142	$77,019,572

The Group classifies credit quality as follows:

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

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

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

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

Foreign Currency Risk
Foreign currency risk arises when future commercial transactions and recognized financial assets and financial liabilities are denominated in a currency that is not the Group's functional currency. For subsidiaries with functional currency other than USD, there is a minimal exposure to foreign currency risk within the financial assets and financial liabilities thus no sensitivity analysis has been prepared.

Capital Management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business.

No changes were made in the objectives, policies and processes during the years ended December 31, 2016 and 2015.

The Group monitors capital using a gearing ratio of debt to equity and net debt to equity. The Group considers bank borrowings in the determination of debt, which consist of trust receipts and loans payable and long-term bank debt. Net debt is equivalent to the total bank borrowings, less cash and cash equivalents.

	2016	2015
Loans payable	**$51,880,374**	$34,620,751
Long-term debt	**2,520,296**	3,127,358
Total bank debt	**54,400,670**	37,748,109
Less cash and cash equivalents	**25,985,365**	28,707,415
Net bank debt	**28,415,305**	9,040,694
Equity	**$130,689,380**	$65,420,550
Debt-to-equity ratio	**0.42:1**	0.58:1
Net debt-to-equity ratio	**0.22:1**	0.14:1

The Group is not subject to externally imposed capital requirements.

27. **Notes to Consolidated Statements of Cash Flows**

The Group's noncash investing activities includes capitalization by the Group of depreciation related to the developmental phase of certain projects amounting to $0.11 million for 2016.