

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

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

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

1	1	6		E	a	s	t		M	a	i	n		A	v	e	n	u	e	,		P	h	a	s	e		V	-
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Form Type

1	7	-	A
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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A	
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COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number

729-6205

Mobile Number

N/A

No. of Stockholders

25

Annual Meeting (Month / Day)

05/31

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Anthony Albert S. Buyawe

Email Address

as.buyawe@cirttek.ph

Telephone Number/s

N/A

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

116 East Main Avenue, Phase V-SEZ, Laguna Technopark, Biñan, Laguna

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.



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Cirtek Holdings Philippines Corporation
116 East Main Avenue
Phase V-SEZ
Laguna Technopark
Binan, Laguna

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Accounting for the Acquisition of Quintel Cayman Ltd. (Quintel)

On July 28, 2017, Cirtek Holdings Philippines Corporation's Board of Directors approved the acquisition of Quintel for \$83.2 million. This was accounted for as a business combination, which required the identification of the acquired assets and liabilities of Quintel and the determination of their fair values. The Group used the provisional fair values of the identified net assets of Quintel. As of December 31, 2017, the Group recognized goodwill on the acquisition amounting to \$61.9 million based on the provisional fair values. The identification of the acquired assets and liabilities and the determination of their fair values involved the use of judgement and estimates. Further, the valuation of the acquired intangible assets required the use of assumptions such as sales volume and price, variable costs, royalty rates and discount rate.

Refer to Notes 1, 5 and 13 to the consolidated financial statements for the detailed disclosures on the acquisition of Quintel.

Audit response

We reviewed the Agreement and Plan of Merger between the Group and the previous stockholders of Quintel, and the management's identification of Quintel's assets and liabilities. We reviewed the purchase price allocation prepared by an external specialist on a provisional basis. We considered management's use of the external specialist in relation to the determination of the fair value of intangible assets acquired. We evaluated the external specialist's competence, capabilities and objectivity. With the involvement of our internal specialist, we reviewed the methodology and assumptions used in the determination of fair values of Quintel's intangible assets by evaluating the relevant information supporting the forecasted sales volume and price, variable costs, and royalty rates. We also tested the parameters used in the determination of the discount rate against market data. We likewise reviewed the disclosures in the notes to the consolidated financial statements.

Impairment Testing of Provisional Goodwill

In circumstances where a provisional allocation of goodwill could be made, the Group should test the provisional goodwill for impairment in accordance with Philippine Accounting Standard 36, *Impairment of Assets*, during the annual period in which the acquisition occurred and in the following years annual impairment test, even before the allocation of goodwill is completed. The provisional goodwill amounting to \$61.9 million is material to the consolidated financial statements. Further, management's impairment assessment process requires significant judgment and is based on assumptions, specifically sales volume and price, variable costs, terminal growth rate and discount rate.

Refer to Note 3 to the consolidated financial statements for the discussion of significant management estimates and assumptions used in impairment testing of provisional goodwill.



Audit response

We involved our internal specialist in evaluating the methodology and assumptions used, which include sales volume and price, variable costs, terminal growth rate and discount rate. We compared the key assumptions used such as sales volume and price, and variable costs against the historical information and inquired from management about the plans to support the forecasted information. We tested the parameters used in the determination of the terminal growth rate and 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.

Presentation and Valuation of Noncurrent Assets Held for Sale

Land, building and related improvements valued at \$11.4 million as of December 31, 2017 have been classified as held for sale since 2014, as disclosed in Note 12 to the consolidated financial statements.

Assessing whether noncurrent assets may continue to be classified as held for sale even if such assets were not sold during the initial one-year period involves management's judgment and requires management to provide evidence that they are committed to selling the assets.

Noncurrent assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. Estimating fair value requires the assistance of an external appraiser whose calculations involve certain assumptions, such as sales price and adjustments to sales price based on internal and external factors, adjusted benchmark construction costs and replacement cost of machinery and equipment. Determining fair value and related costs to sell requires management to make judgments regarding the appropriate valuation methodology and involves estimation based on available inputs.

Audit response

We inquired from management the circumstances that caused the delay of the sale of the assets, as well as actions taken by management to respond to these circumstances. We also obtained relevant information from management's property consultants that supports management's commitment to its plan to sell these assets. For the assessment of the lower of carrying amount and fair value less costs to sell, we tested the calculation performed by management. For the fair value, we involved our internal specialist in the review of the methodology and assumptions used by an external appraiser in determining the fair value. We evaluated the competence, capabilities and objectivity of the external appraiser. We compared the assumptions used, specifically the sales price of comparable properties, adjusted benchmark construction costs and replacement cost of machinery and equipment, against relevant external information. We inquired from the external appraiser the basis of adjustments made. For the related costs to sell, such as marketing expenses, brokerage fees and relevant taxes, we evaluated the basis of the estimated costs.

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, 2017, 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, 2017 are expected to be made available to us after the date of this auditor's report.



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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

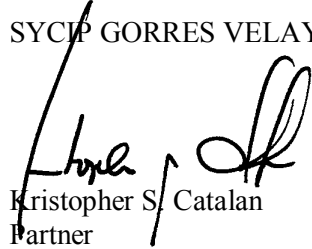
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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



The engagement partner on the audit resulting in this independent auditor's report is Kristopher S. Catalan.

SYCIP GORRES VELAYO & CO.



Kristopher S. Catalan
Partner

CPA Certificate No. 109712

SEC Accreditation No. 1509-A (Group A),

October 1, 2015, valid until September 30, 2018

Tax Identification No. 233-299-245

BIR Accreditation No. 08-001998-109-2018,

February 14, 2018, valid until February 13, 2021

PTR No. 6621237, January 9, 2018, Makati City

April 30, 2018



CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	\$37,222,737	\$24,511,493
Trade and other receivables (Note 7)	13,035,433	23,172,423
Inventories (Note 8)	38,996,592	15,281,893
Amounts owed by related parties (Note 19)	54,901,882	12,436,575
Held-to-maturity (HTM) investments (Note 11)	–	371,520
Financial asset at fair value through profit or loss (FVPL) (Note 9)	501	503
Other current assets (Note 10)	2,522,879	2,618,370
	146,680,024	78,392,777
Noncurrent assets held for sale (Note 12)	11,408,611	11,408,611
Total Current Assets	158,088,635	89,801,388
Noncurrent Assets		
Available-for-sale (AFS) financial asset (Note 14)	1,667,000	1,667,000
HTM investments (Note 11)	480,563	–
Property, plant and equipment (Note 12)	31,293,890	28,675,910
Intangible assets (Note 13)	93,228,107	922,220
Deferred income tax assets - net (Note 25)	207,375	174,578
Other noncurrent assets (Note 15)	2,002,376	1,248,639
Total Noncurrent Assets	128,879,311	32,688,347
TOTAL ASSETS	\$286,967,946	\$122,489,735
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 16)	\$39,952,560	\$19,135,593
Short-term loans (Note 17)	64,040,088	31,625,945
Current portion of long-term debt (Note 18)	4,253,270	6,882,126
Amounts owed to related parties (Note 19)	543,203	520,152
Income tax payable	235,000	327,656
Total Current Liabilities	109,024,121	58,491,472
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 18)	33,624,575	36,977,845
Retirement benefit obligation (Note 23)	1,890,149	1,807,847
Deferred income tax liabilities - net (Note 25)	2,781,785	3,373
Total Noncurrent Liabilities	38,296,509	38,789,065
Total Liabilities	147,320,630	97,280,537
Equity		
Common stock (Note 29)	9,594,321	9,594,321
Preferred stock (Note 29)	2,037,113	221,239
Additional paid-in capital (Note 29)	100,469,659	35,896,893
Equity reserve	4,030,214	4,138,375
Other comprehensive income (Note 23)	196,292	40,329
Retained earnings (Note 29)	25,819,024	24,884,576
	142,146,623	74,775,733
Parent Company shares held by a subsidiary (Note 29)	(2,499,307)	(49,566,535)
Total Equity	139,647,316	25,209,198
TOTAL LIABILITIES AND EQUITY	\$286,967,946	\$122,489,735

See accompanying Notes to Consolidated Financial Statements.



CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
NET SALES	\$88,709,634	\$74,322,312	\$59,548,534
COST OF SALES (Note 20)	(70,274,223)	(61,566,107)	(49,981,847)
GROSS PROFIT	18,435,411	12,756,205	9,566,687
OPERATING EXPENSES (Note 21)	(12,214,355)	(4,353,603)	(3,820,676)
FINANCIAL INCOME (EXPENSES)			
Interest income (Notes 6, 9 and 11)	84,463	380,095	385,973
Interest expense (Notes 17 and 18)	(3,404,730)	(1,375,227)	(1,327,413)
	(3,320,267)	(995,132)	(941,440)
OTHER INCOME - Net (Note 24)	506,256	747,890	831,945
INCOME BEFORE INCOME TAX	3,407,045	8,155,360	5,636,516
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)			
Current	521,332	559,457	475,638
Deferred	(1,410,497)	(12,125)	39,998
	(889,165)	547,332	515,636
NET INCOME	4,296,210	7,608,028	5,120,880
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on retirement benefit, net of deferred tax (Note 23)	155,963	(486,091)	208,841
TOTAL COMPREHENSIVE INCOME	\$4,452,173	\$7,121,937	\$5,329,721
Basic/Diluted Earnings Per Share (Note 26)	\$0.009	\$0.018	\$0.013

See accompanying Notes to Consolidated Financial Statements.



CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Common Stock		Preferred Stock	Additional Paid-in Capital	Equity Reserve	Other Comprehensive Income (Loss)	Retained Earnings	Parent Company Shares Held by a Subsidiary	Total
	Issued	Undistributed Stock Dividends							
BALANCES AT DECEMBER 31, 2014	\$7,203,869	\$689,265	\$–	\$4,733,511	\$4,138,375	\$317,579	\$17,875,668	\$–	\$34,958,267
Net income for the year	–	–	–	–	–	–	5,120,880	–	5,120,880
Other comprehensive income	–	–	–	–	–	208,841	–	–	208,841
Total comprehensive income	–	–	–	–	–	208,841	5,120,880	–	5,329,721
Issuance of additional capital stock:									
Common stock (Note 29)	1,701,187	–	–	32,322,545	–	–	–	–	34,023,732
Preferred stock (Note 29)	–	–	221,239	–	–	–	–	–	221,239
Total issuance of additional capital stock	1,701,187	–	221,239	32,322,545	–	–	–	–	34,244,971
Stock issue costs (Note 29)	–	–	–	(1,159,163)	–	–	–	–	(1,159,163)
Issuance of stock dividends (Note 29)	689,265	(689,265)	–	–	–	–	–	–	–
Cash dividends declared (Note 29)	–	–	–	–	–	–	(2,100,000)	–	(2,100,000)
BALANCES AT DECEMBER 31, 2015	9,594,321	–	221,239	35,896,893	4,138,375	526,420	20,896,548	–	71,273,796
Net income for the year	–	–	–	–	–	–	7,608,028	–	7,608,028
Other comprehensive income	–	–	–	–	–	(486,091)	–	–	(486,091)
Total comprehensive income	–	–	–	–	–	(486,091)	7,608,028	–	7,121,937
Cash dividends declared (Note 29)	–	–	–	–	–	–	(3,620,000)	–	(3,620,000)
Acquisition by subsidiary of the Parent Company's shares (Note 29)	–	–	–	–	–	–	–	(49,566,535)	(49,566,535)
BALANCES AT DECEMBER 31, 2016	9,594,321	–	221,239	35,896,893	4,138,375	40,329	24,884,576	(49,566,535)	25,209,198
Net income for the year	–	–	–	–	–	–	4,296,210	–	4,296,210
Other comprehensive income	–	–	–	–	–	155,963	–	–	155,963
Total comprehensive income	–	–	–	–	–	155,963	4,296,210	–	4,452,173
Issuance of capital stock (Note 29)	–	–	1,815,874	65,673,267	–	–	–	–	67,489,141
Stock issue costs (Note 29)	–	–	–	(1,100,501)	–	–	–	–	(1,100,501)
Cash dividends declared (Note 29)	–	–	–	–	–	–	(3,361,762)	–	(3,361,762)
Sale by subsidiary of the Parent Company's shares (Note 29)	–	–	–	–	(108,161)	–	–	47,067,228	46,959,067
BALANCES AT DECEMBER 31, 2017	\$9,594,321	\$–	\$2,037,113	\$100,469,659	\$4,030,214	\$196,292	\$25,819,024	(\$2,499,307)	\$139,647,316

See accompanying Notes to Consolidated Financial Statements.



CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	\$3,407,045	\$8,155,360	\$5,636,516
Adjustments for:			
Depreciation and amortization (Notes 12 and 13)	3,969,802	2,906,520	2,190,004
Interest expense (Notes 17 and 18)	3,404,730	1,375,227	1,327,413
Interest income (Notes 6, 9 and 11)	(84,463)	(380,095)	(385,973)
Movement in net retirement benefit obligation (Note 23)	245,263	34,812	6,561
Net unrealized foreign exchange gains	(48,619)	(19,282)	(78,835)
Change in fair value of financial assets at FVPL (Notes 9 and 24)	—	—	(293,349)
Gain on disposal of financial assets at FVPL (Note 24)	—	(262,332)	—
Operating income before working capital changes	10,893,758	11,810,210	8,402,337
Decrease (increase) in:			
Trade and other receivables	14,063,141	(9,508,529)	1,080,734
Inventories	(13,685,238)	(9,544,825)	5,031,613
Other current assets	472,975	(79,881)	(663,070)
Increase (decrease) in trade and other payables	(183,094)	5,628,543	3,631,226
Cash generated from (used in) operations	11,561,542	(1,694,482)	17,482,840
Interest received	78,888	465,984	228,187
Income taxes paid	(616,191)	(353,536)	(715,139)
Net cash from (used in) operating activities	11,024,239	(1,582,034)	16,995,888
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Note 12)	(5,553,216)	(7,546,010)	(9,016,368)
A subsidiary, net of cash acquired (Note 5)	(81,303,212)	—	—
Held-to-maturity financial asset (Note 11)	(480,563)	—	—
Financial assets at FVPL (Note 9)	—	—	(18,494,471)
AFS financial asset (Note 14)	—	—	(1,667,000)
Proceeds from disposal of financial assets at FVPL (Note 9)	—	19,709,049	—
Redemption of HTM investments	371,520	518,269	209,453
Increase (decrease) in other noncurrent assets	(754,094)	(1,291,781)	68,651
Net cash from (used in) investing activities	(87,719,565)	11,389,527	(28,899,735)

(Forward)



	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Short-term loans (Note 17)	\$94,414,857	\$22,080,857	\$11,135,088
Long-term debt (Note 18)	–	30,000,000	–
Proceeds from issuance of:			
Common stock	–	–	34,023,732
Preferred stock	67,489,141	–	221,239
Payments of:			
Cash dividends (Note 29)	(3,361,762)	(3,620,000)	(2,100,000)
Interest (Notes 17 and 18)	(3,823,363)	(1,271,687)	(1,499,983)
Long-term debts (Note 18)	(7,025,962)	(9,121,198)	(3,761,921)
Short-term loans (Note 17)	(62,000,714)	(1,290,000)	(2,400,000)
Debt issuance costs (Note 18)	–	(321,605)	–
Stock issue costs	(775,635)	–	(1,141,435)
Sale by subsidiary of the Parent Company shares (Note 29)	46,959,068	–	–
Acquisition by subsidiary of the Parent Company's shares (Note 28)	–	(49,566,535)	–
Net movement in amounts owed by and owed to related parties (Note 19)	(42,442,256)	(1,805,357)	(5,458,135)
Net cash from (used in) financing activities	89,433,374	(14,915,525)	29,018,585
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(26,804)	(157,341)	59,806
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,711,244	(5,265,373)	17,174,544
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	24,511,493	29,776,866	12,602,322
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	\$37,222,737	\$24,511,493	\$29,776,866

See accompanying Notes to Consolidated Financial Statements.



CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Cirtek Holdings Philippines Corporation (CHPC or the “Parent Company”) was incorporated under the laws of the Republic of the Philippines on February 10, 2011 to invest in, purchase or acquire personal property of every kind, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities.

The Parent Company was listed in the Philippine Stock Exchange on November 18, 2011.

Prior to the listing, the Parent Company had undergone a corporate reorganization on March 1, 2011 which includes an acquisition from Cirtek Holdings, Inc. (CHI) of 155,511,952 common shares of Cirtek Electronics Corporation (CEC), and 50,000 shares of Cirtek Electronics International Corporation (CEIC), representing 100% of the outstanding capital stock of both companies. The above transaction was treated as a business combination of entities under common control and was accounted for similar to pooling-of-interests method.

Camerton Inc. (Camerton) is the immediate parent of CHPC, while Carmetheus Holdings, Inc. is the ultimate parent company of CHPC and its subsidiaries (the “Group”).

CHPC, through its subsidiaries CEC and CEIC, is primarily engaged in two major activities: (1) the manufacture and sales of semiconductor packages as an independent subcontractor for outsourced semiconductor assembly, test and packaging services, and (2) the manufacture of value-added, highly integrated technology products. CEC provides turnkey solutions that include package design and development, wafer probing, wafer back grinding, assembly and packaging, final testing of semiconductor devices, and delivery and shipment to its customers’ end users. CEIC sells integrated circuits principally in the United States of America, and assigns the production of the same to CEC. In 2014, CEIC acquired Remec Broadband Wireless Inc. (RBWI or REMEC), renamed Cirtek Advanced Technologies and Solutions, Inc. (CATS), a manufacturer of value added, highly integrated technology products. CATS offers complete “box build” turnkey manufacturing solutions to radio frequency, microwave and millimeterwave products used in the wireless industry such as telecommunication, satellite, aerospace and defense, and automotive wireless devices.

The Parent Company’s registered address is 116 East Main Avenue, Phase V-SEZ, Laguna Technopark, Biñan, Laguna.

Incorporation of Cirtek Corporation and Cirtek Cayman Ltd. (CCL, Merger Subsidiary)

Cirtek Corporation was incorporated on July 7, 2017 under the laws of Delaware, USA, to engage in lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware. Cirtek Corporation is a wholly owned subsidiary of CEIC.

In the same period, CCL was incorporated in the Cayman Islands. CCL is a wholly owned subsidiary of Cirtek Corporation and was merged with Quintel Cayman Ltd. (Quintel) in accordance with the Agreement and Plan of Merger (“Agreement”) between the Group and the previous stockholders of Quintel.



Acquisition of Quintel

On July 28, 2017, the Parent Company's Board of Directors, (BOD) approved the acquisition of Quintel and its subsidiaries for \$83.2 million. Quintel is a leading innovator of spectrum and space-efficient base station antennas for wireless networks.

In accordance with the Agreement, CCL was merged with Quintel, with Quintel as the surviving corporation. All outstanding shares, warrants, and stock options of the previous stockholders of Quintel were converted to a right to receive the consideration from Parent Company and Cirtex Corporation for a total value of \$83.2 million. As a result of the merger, each of CCL's one hundred (100) issued and outstanding shares shall be converted into and exchanged for one (1) validly issued, fully paid and non-assessable share of the surviving company. On the other hand, each of Quintel's issued and outstanding shares before the merger shall be cancelled and extinguished. Quintel, being the surviving company, retains the 100 shares originally issued by CCL as its ending capital stock.

The Group believes that Quintel's cutting edge research and development and product capabilities significantly add to and complement the Group's growing portfolio in wireless communication, and is aligned with its business focus on high-growth market segments. Furthermore, being the strategic manufacturing partner of Quintel products places the Group in a unique situation to achieve significant synergies through value engineering, research and development collaboration as well as cost reduction, resulting in high-quality, reliable and cost-competitive products.

To partially finance the acquisition, the Group entered into bridge funding arrangement with several local banks (Note 17).

On August 4, 2017, the Assistant Registrar of Companies for the Cayman Islands issued a Certificate of Merger stating that the companies have merged effective on said date with Quintel as the surviving corporation.

Authorization and issuance of consolidated financial statements

The consolidated financial statements of the Group as at December 31, 2017 and 2016 and for each of the three years ended December 31, 2017 were approved and authorized for issuance by the Board of Directors (BOD) on April 30, 2018.

2. Basis of Presentation, Statement of Compliance, Basis of Consolidation and Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group are prepared on a historical cost basis except for financial asset at FVPL, which are carried at fair value, and noncurrent assets held for sale, which are stated at the lower of carrying amount and fair value less costs to sell. The consolidated financial statements are presented in United States (US) dollars (\$), which is the Parent Company's functional and presentation currency. All amounts are rounded off to the nearest US dollar except when otherwise indicated.



Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) as issued by the Financial Reporting Standards Council (FRSC). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations issued by the Philippine Interpretations Committee.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2017 and 2016 (see Notes 1 and 5):

	Country of Incorporation	Percentage of Ownership			
		2017		2016	
		Direct	Indirect	Direct	Indirect
CEC	Philippines	100	—	100	—
CEIC	BVI	100	—	100	—
CATS (formerly known as RBWI)	BVI	—	100	—	100
CATS - Philippine Branch	Philippines	—	100	—	100
RBW Realty and Property, Inc. (RBWRP)	Philippines	—	100	—	100
Cirtek Corporation	United States of America	—	100	—	—
Quintel Cayman	Cayman Islands	—	100	—	—
Quintel Technology, Ltd.	United Kingdom	—	100	—	—
Quintel USA	United States of America	—	100	—	—
Telecom Quintel Mauritius, Ltd.*	Republic of Mauritius	—	100	—	—

*In the process of dissolution.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e, existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- 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:

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

The Group re-assesses whether or not 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 in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the stand-alone financial statements of subsidiaries to bring their accounting policies into line



with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Common control business combinations

Where there are group reorganizations and business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent (i.e., controlling shareholders) before and after the business combination and the control is not transitory (business combinations under common control), the Group accounts for such group reorganizations and business combinations similar to a pooling-of-interests method. The assets and liabilities of the acquired entities and that of the Parent Company are reflected at their carrying values at the stand-alone financial statements of the investee companies. The difference in the amount recognized and the fair value of the consideration given is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction without loss of control, the difference in the amount recognized and the fair value of consideration received is also accounted for as an equity transaction.

The Group records the difference as equity reserve and is presented as a separate component of equity in the consolidated balance sheet. Comparatives shall be restated to include balances and transactions as if the entities have been acquired at the beginning of the earliest period presented in the consolidated financial statements, regardless of the actual date of the combination.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2017.

Effective beginning on or after January 1, 2017

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

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

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



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

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

In 2017, the Group presented additional disclosures on the movements of the financing activities in Note 30. As allowed under the transition provisions, the Group did not present comparative information for the years ended December 31, 2016 and 2015.

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

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

Adaption of these amendments did not have any impact on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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

Effective beginning on or after January 1, 2018

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

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

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

- PFRS 9, *Financial Instruments*

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



The Group is currently assessing the impact of adopting the new standard.

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

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

- 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. Early adoption is permitted.

The Group is currently assessing the impact of adopting PFRS 15.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 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.

- 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.

- Philippine Interpretation on 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.

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

Effective beginning on or after January 1, 2019

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

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

The Group is currently assessing the impact of adopting these amendments.

- PFRS 16, *Leases*

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

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



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

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

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

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

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

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

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

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

The interpretation specifically addresses the following:

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

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

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

Deferred effectivity

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combination*. 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 FRSC 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.

Summary of Significant Accounting Policies

Fair Value Measurement

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 to 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.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which 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 or 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 re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.



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

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash in banks earn interest at the respective bank deposit rates. 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 from dates of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments

Financial assets

Initial recognition

Financial assets within the scope of PAS 39 are classified as either financial assets at FVPL, loans and receivables, HTM investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such classifications at every reporting date.

Financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVPL, directly attributable transaction costs.

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

The Group's financial assets include cash and cash equivalents, trade and other receivables, financial assets at FVPL, HTM investments, AFS financial asset, amounts owed by related parties, loans to employees (reported as part of 'Other current assets' and 'Other noncurrent assets' in the consolidated balance sheet) and deposits (reported as part of 'Other current assets' and 'Other noncurrent assets' in the consolidated balance sheet).

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or purchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39. Financial assets at FVPL are carried in the consolidated balance sheet at fair value with gains or losses recognized in profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value when their risks and economic characteristics are not closely related to those of the host contracts and the host contracts are not held for trading or designated at FVPL. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of FVPL.



Financial assets designated as FVPL are designated by management on initial recognition when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

As of December 31, 2017 and 2016, the Group designated its investment in Unit Investment Trust Fund (UITF) as financial asset at FVPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate (EIR) method, less impairment. This method uses an EIR that exactly discounts estimated cash receipts through the expected life of the financial assets to the net carrying amount of the financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Assets in this category are included in current assets except for maturities greater than 12 months after the end of the reporting period, which are classified as noncurrent assets.

As of December 31, 2017 and 2016, the Group has designated as loans and receivables its cash in banks and cash equivalents, trade and other receivables, amounts owed by related parties, loans to employees (reported as part of 'Other current assets' and 'Other noncurrent assets' in the consolidated balance sheet) and deposits (reported as part of 'Other current assets' and 'Other noncurrent assets' in the consolidated balance sheet).

HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Group has the positive intention and ability to hold it to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the EIR. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2017 and 2016, the Group has HTM investments in Philippine government securities.

AFS financial assets

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or change in market conditions.



After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized directly in OCI until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in profit or loss, or determined to be impaired, at which time the cumulative loss recorded in equity is recognized in profit or loss.

As of December 31, 2017 and 2016, the Group's AFS financial asset pertains to investment in unquoted equity shares.

Financial liabilities

Initial recognition

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

Financial liabilities are recognized initially at fair value and, in the case of financial liabilities not at FVPL, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, short-term loans, long-term debt and amounts owed to related parties.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at FVPL

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by PAS 39.

Gains and losses on liabilities held for trading are recognized in profit or loss.

The Group does not have a financial liability at FVPL as of December 31, 2017 and 2016.

Other financial liabilities

Other financial liabilities are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, other financial liabilities are measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

As of December 31, 2017 and 2016, the Group's other financial liabilities includes trade and other payables, short-term loans, amount owed to related parties and long-term debt.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right



is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

'Day 1' Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the 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.

Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Impairment of Financial Assets

The Group assesses, at each balance sheet date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the debtors or a group of debtors 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss is recognized in profit or loss.

Financial assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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 of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into pass through arrangement and has neither transferred nor retained substantially all 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 this case the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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



When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

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

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

- | | |
|---|---|
| Raw materials, spare parts, supplies and others | - purchase cost on a first-in, first-out (FIFO) basis; |
| Finished goods and work-in-process inventories | - cost of direct materials and labor and a proportion of manufacturing overhead cost. Costs are determined on a standard cost basis. Standard costs take into account normal levels of materials and supplies, labor, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in light of current conditions. |

NRV of finished goods and work-in-process inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV of raw materials, spare parts, supplies and others is the current replacement cost.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment and borrowing cost when that cost is incurred and if the recognition criteria are met. Repairs and maintenance are recognized in profit or loss as incurred. Land is carried at cost less any impairment in value.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

Construction in progress represents property under construction and is stated at cost. This includes costs of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.



Depreciation commences when an asset is in its location and condition and capable of being operated in the manner intended by management. Depreciation is calculated on a straight-line method over the estimated useful lives of the property, plant and equipment as follows:

Category	Number of Years
Machinery and equipment	7-15
Buildings and improvements	5-25
Facility and production tools	5-8
Furniture, fixtures and equipment	2-5
Transportation equipment	5-7

Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The property, plant and equipment's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

Fully depreciated assets are retained in the accounts until these are no longer in use. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Noncurrent Assets Held for Sale

Property, plant and equipment are classified as held for sale if their carrying amount will be recovered principally through a sale transaction expected to be completed within one year from the date of classification, rather than through continuing use. Noncurrent assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale or distribution is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification, unless the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the assets.

Property, plant and equipment are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheet.

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. Foreign currency exchange differences are included in the determination of borrowing costs to be capitalized, but only to the extent that they are an adjustment to the interest cost on the borrowing.



Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible asset with finite life is amortized over its economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the assessment can be supported. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The Group recognizes an intangible asset acquired in a business combination if it is identifiable and distinguishable from goodwill. The Group considers an intangible asset as identifiable if:

- it is separable, i.e., there is evidence of exchange transactions for the asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the Group is involved in those transactions; or
- it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations (“contractual-legal” criterion).

The Group’s intangible assets recognized from business combination pertain to customer relationship, trademark and technology. Trademark and customer relationships are estimated to have an indefinite useful life, and will be subject to yearly impairment testing. The Group estimates that technology will have an economic life of 10 years.

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:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development



Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit, which is estimated to be five (5) to ten (10) years. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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 of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group as an acquirer shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete.

During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group as an acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

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 the consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the acquirer will be recognised 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. 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, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and



reviews the procedures used to measure the 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 any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated 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 and the portion of the CGU retained.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. The Group has designated as nonfinancial assets its prepaid expenses, advances to suppliers, property, plant and equipment, intangible assets, project development costs and other assets. If any such indication exists, or when annual impairment testing for a nonfinancial asset is required, the Group makes an estimate of the nonfinancial asset's recoverable amount. A nonfinancial asset's estimated recoverable amount is the higher of a nonfinancial asset's or CGU's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the nonfinancial asset does not generate cash inflows that are largely independent of those from other nonfinancial assets or groups of nonfinancial assets. Where the carrying amount of a nonfinancial asset exceeds its estimated recoverable amount, the nonfinancial asset is considered impaired and is written down to its estimated recoverable amount. In assessing VIU, 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 nonfinancial asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the nonfinancial asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the nonfinancial asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the non-financial asset in prior years. Such reversal is recognized in profit or loss.

Capital Stock

Capital stock, which consists of common stock and preferred stock, is measured at par value for all shares issued. Proceeds and/or fair value of consideration received in excess of par value, if any, are recognized as additional paid-in capital (APIC).



Subscription Receivable

The unpaid portion of the subscribed shares is deducted from capital stock and is measured at subscription price for all shares subscribed.

Retained Earnings

The amount included in retained earnings includes profit or loss attributable to the Group's equity holders and reduced by dividends on capital stock. Retained earnings may also include effect of changes in accounting policies as may be required by the standards' transitional provisions.

The Group may pay dividends in cash or by the issuance of shares of stock. Cash and property dividends are subject to the approval of the BOD, while stock dividends are subject to approval by the BOD, at least two-thirds of the outstanding capital stock of the shareholders at a shareholders' meeting called for such purpose, and by the Philippine SEC. Cash and property dividends on preferred and common stocks are recognized as liability and deducted from equity when declared. Stock dividends are treated as transfers from retained earnings to paid-in capital.

Equity Reserve

Equity reserve represents the effect of the application of the pooling-of-interests method and the difference of carrying amount and consideration of reissued Parent Company shares held by a subsidiary.

Parent Company Shares Held by a Subsidiary

These shares represent the Parent Company's common shares acquired by its subsidiary. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of these equity instruments. Any difference between the carrying amount and the consideration, if reissued, is charged or credited to Equity Reserve.

Other Comprehensive Income

Other comprehensive income comprises items of income and expenses that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income pertains to remeasurements of the Group's retirement benefit obligation and changes in fair value of AFS financial asset.

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 and excluding discounts, returns, rebates and other sales taxes or duties. The Group assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods (including scrap) is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods, net of discounts and returns. Discounts and returns are not significant to the Group.

Interest income

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



Deferred revenues

Deferred revenues pertain to the unearned income arising from the sale of goods wherein no actual shipment or transfer of risks and rewards to customers has occurred yet. No amortization is done to recognize the earned revenue since the Group will make subsequent reversals upon shipment of the goods to customers.

Costs and Expenses Recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Cost of sales

Cost of sales is recognized when the related sale has met the criteria for recognition.

Operating expenses

Operating expenses are recognized in the period in which they are incurred.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfillment of the arrangements is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. A renewal option is exercised and extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. There is a substantial change to the asset.

When a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances give rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

The Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term.

Retirement Benefits Costs

Defined benefit plans

CEC and CATS are covered by a noncontributory defined benefit retirement plan. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit 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. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.



Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset 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 defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

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). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value and when, and only when, reimbursement is virtually certain.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

The Group has a defined contribution plan covering substantially all employees of Quintel USA and Quintel Technology, Inc.

Foreign Currency-denominated Transactions

The consolidated financial statements are presented in US dollars, which is the Parent Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency spot rate ruling at the date of the transaction. Outstanding 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 rates as of the dates of the initial transactions.

Income Taxes

Current income tax

Current tax liabilities for the current and prior periods are measured at the amount expected to be paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the financial reporting date. Current income tax for the current and prior periods, shall, to the extent unpaid, be recognized as a liability in the consolidated balance sheet. If the amount already paid in respect of the current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset and be presented as part of "Other current assets" in the consolidated balance sheet.

Deferred income tax

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

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

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

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible temporary difference, and the carryforward of unused tax credits from excess MCIT over RCIT and unused NOLCO can be utilized, except:

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.



Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in equity is recognized directly in equity and not in profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to offset current tax assets against current tax liabilities exist and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax assets or liabilities are expected to be settled or recovered. Subsidiaries file income tax returns on an individual basis. Thus, the deferred income tax assets and deferred income tax liabilities are offset on a per entity basis.

Earnings Per Share (EPS)

Basic EPS is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year, with retroactive adjustments for any stock dividends and stock split.

For the purpose of calculating diluted earnings per share, the net income and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

Operating Segments

The Group operating businesses are organized and managed separately according to the nature of products as well as the geographical locations of businesses. The segments are segregated as follows: (a) manufacture and sale of semiconductor packages based in the Philippines through CEC, (b) manufacture and sale of radio frequency, microwave, and millimeterwave products based in the Philippines through CATS - Philippine Branch, and (c) sale of advanced high-efficiency, high-performance antenna solutions for wireless cellular networks based in the U.S. through Quintel. Information with respect to these subsidiaries is disclosed in Note 5. The Group operates and derives its revenue from its domestic operation and from its operation in the U.S. through Quintel (see Note 4).

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and 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. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. 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 current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.



Contingencies

Contingent liabilities are not recognized but are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognized but are disclosed in the notes to consolidated financial statements when an inflow of economic benefit is probable.

Events After the Balance Sheet Date

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, if any, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments

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

Determination of functional currency

The functional currencies of the entities under the Group are the currencies of the primary economic environment in which the entities operate. It is the currency that mainly influences the sales prices of goods and cost of goods sold. Based on the economic substance of the underlying circumstances, the functional currency of the Parent Company and its subsidiaries is the US dollar.

Determination of operating segments

Determination of operating segments is based on the information about components of the Group that management uses to make decisions about operating matters. Operating segments use internal reports that are regularly reviewed by the Parent Company's chief operating decision maker, which is defined to be the Parent Company's BOD, in order to allocate resources to the segment and assess its performance. The Parent Company reports separate information about an operating segment that meets any of the following quantitative thresholds: (a) its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; (b) the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and (c) its assets are 10% or more of the combined assets of all operating segments.

Management assessed that the Group's operating businesses are organized and managed separately according to the nature of products as well as the geographical locations of businesses (see Note 4).



Classification of noncurrent assets held for sale

When CEIC acquired CATS and RBWRP, the manufacturing activities of CATS had been transferred to CEC's facility for operational efficiency measures. As a result, the land and building improvements owned by CATS and RBWRP became idle; thus, on December 9, 2014, the BOD approved the plan to sell and dispose the said aforementioned assets to interested buyers. PFRS 5 requires entities to classify a noncurrent asset as held for sale if its carrying amount will be recovered mainly through sale rather than through continued use. The Group has made a judgment that the noncurrent assets are held for sale since management is committed to selling the assets and are active in looking for interested buyers. Furthermore, the assets are available for immediate sale in their present condition. As of December 31, 2017, the Parent Company's management expects that sale will be completed in 2018.

Classification of financial instruments

The Group classifies a financial instrument, or its component, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheets. The classification of the Group's financial instruments is disclosed in Note 27.

Deferred income tax liability on a subsidiary's undistributed profits

CEIC has undistributed profits as of December 31, 2017 and 2016 that will become taxable when distributed to the Parent Company. PAS 12 requires the recognition of deferred income tax liability on taxable temporary difference associated with investments in subsidiaries and interests in joint ventures, unless the Group has the ability to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group has made a judgment that it is probable that the temporary difference will not reverse in the foreseeable future based on management's plan that the Group will not be declaring dividends from CEIC in the foreseeable future. Accordingly, the Parent Company did not recognize deferred income tax liability on CEIC's undistributed earnings amounting to \$7.2 million and \$6.8 million as of December 31, 2017 and 2016, respectively.

Impairment of nonfinancial assets (excluding goodwill)

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its estimated recoverable amount which is the higher of an asset's fair value less costs to sell and VIU. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Based on management's evaluation, no indication of impairment was noted on the Group's nonfinancial assets as of December 31, 2017 and 2016.



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.

Determination of fair values in business combination and goodwill

The Group accounts for the acquired businesses using the acquisition method, which requires the identification of the assets and liabilities of the acquired entities and the determination of their fair values on acquisition date. Management exercises significant judgment and estimation to allocate the purchase price to the fair values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any difference in the purchase price and the fair values of the net assets acquired is recorded as either goodwill or gain on bargain purchase in profit or loss.

In 2015, management finalized the purchase price allocation of its 2014 acquisition of REMEC, which resulted to recognition of a gain on bargain purchase amounting to \$2.0 million. With respect to Quintel's technology, trademark and customer relationships, the provisional fair values were derived using valuation methodologies as disclosed in Note 5. Other assets and liabilities are recognized at carrying value which is equal to fair value.

The acquisition of Quintel resulted in recognition of provisional goodwill amounting to \$61.9 million (see Notes 5 and 13).

Estimation of useful life of intangible assets acquired as part of business combination

The assigned useful lives of intangibles assets acquired as part of business combination are estimated based on the period over which the asset is expected to be available for use. Such estimation is based on collective assessment of similar businesses, internal evaluation and experience with similar assets. Further, management considers the probability of renewal of certain permits and the cost and efforts in renewing such permits based on past experience. The useful life of each asset is reviewed at each financial year and updated if expectations differ from previous estimates due to technical or commercial obsolescence and legal or other limits on the use of the asset.

The Group estimates that technology will have an economic life of 10 years. Trademark and customer relationships are estimated to have an indefinite useful life, and will be subject to yearly impairment testing. As of December 31, 2017, the carrying value of technology, customer relationship and trademark amounted to \$7.7 million, \$17.8 million and \$5.1 million, respectively (see Notes 5 and 13).

Impairment testing of provisional goodwill

In circumstances where a provisional allocation of goodwill could be made, the Group should test the provisional goodwill for impairment in accordance with PAS 36, *Impairment of Assets*, during the annual period in which the acquisition occurred and in the following years annual impairment test, even before the allocation of goodwill is completed.

Impairment is determined by assessing the recoverable amount of the CGU or group of CGU's to which the goodwill relates, which in this case was determined to be Quintel. The recoverable amount of the cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets as approved by management covering five years of projections. The projected cash flows are based on expectations of future outcomes taking into account past experience and are consistent with external sources of information. Key assumptions on which management has based its cash flow projections include sales volume and price, variable costs, terminal growth rate and discount rate. Cash flows beyond the forecast period are



extrapolated into perpetuity assuming 1.90% growth rate for impairment test purposes. The discount rate is a pre-tax measure based on the weighted average cost of capital of listed entities with similar assets or similar in terms of potential risk. The discount rate used is 13%.

Management believes that no reasonably possible change in any of the above assumptions would cause the carrying value of the provisional goodwill to exceed its recoverable amount. Based on management's assessment, the recoverable amount of the provisional goodwill is higher than the carrying value, thus no impairment loss was recorded. The carrying value of the provisional goodwill subjected to impairment testing amounted to \$61.9 million as of December 31, 2017 (see Note 13).

Estimation of fair value less cost to sell of noncurrent assets held for sale

The determination of the fair value less cost to sell of noncurrent assets held for sale is made with reference to the selling price of the asset in the market and other factors such as the local market conditions and the asking price of the potential buyers. As of December 31, 2017 and 2016, the Group carries its noncurrent assets held for sale at lower of carrying amount and fair value less cost to sell of \$11.4 million (see Note 12).

Fair values of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, fair values are validated and periodically reviewed by qualified independent personnel. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The fair values of the financial instruments of the Group are disclosed in Note 28 to the consolidated financial statements.

Estimating useful lives of property, plant and equipment

The Group estimates the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation expense and decrease noncurrent assets. There were no changes in the useful lives of property, plant and equipment in 2017 and 2016.

Depreciation charged in the consolidated statements of comprehensive income amounted to \$3.4 million, \$2.7 million and \$2.2 million in 2017, 2016 and 2015, respectively. As of December 31, 2017 and 2016, the Group's property, plant and equipment have a net book value of \$31.3 million and \$28.7 million, respectively (see Note 12).

Estimating allowance for inventory obsolescence

The Group recognizes allowance for inventory obsolescence when the inventory items are no longer marketable and diminishes in value. Obsolescence is based on the physical and internal condition of inventory items. The Group reviews on a monthly basis the condition of its stocks. The assessment of the condition of the inventory goods either increase or decrease the expenses or total inventory.



The estimated allowance for inventory obsolescence amounted \$96,884 as of December 31, 2017 and 2016. The carrying amounts of inventories, net of allowance for inventory obsolescence, amounted to \$39.0 million and \$15.3 million as of December 31, 2017 and 2016, respectively (see Note 8).

Estimating impairment of loans and receivables

The Group maintains allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this impairment allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors, their payment behavior and known market factors. The Group reviews the age and status of receivable, and identifies accounts that are to be provided with allowance on a continuous basis either individually or collectively. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment would increase the Group's recorded expenses and decrease current assets.

The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing the impairment is the inability to collect from the counterparty based on the contractual terms of the receivables.

For collective assessment, allowance is assessed for receivables that are not individually significant and for individually significant receivables where there is not yet objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectability.

The Group recognized allowance for impairment loss on trade and other receivables amounting to \$0.2 million for the year ended December 31, 2017 (nil for the year ended December 31, 2016). Allowance for impairment losses on trade receivables as of December 31, 2017 and 2016 amounted to \$241,012 and \$41,012, respectively. The carrying amount of loans and receivables, which include cash in banks and cash equivalents, trade and other receivables, amounts owed by related parties, loans to employees and deposits amounted to \$107.0 million and \$61.8 million as of December 31, 2017 and 2016, respectively (see Notes 6, 7, 10, 15 and 19).

Estimating retirement benefit cost and liability (defined benefit plans)

The determination of the obligation for retirement benefits is dependent on the selection by management of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include among others, discount rate and salary increase rate. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While management believes that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement obligation.

The Group's retirement benefits costs arising from its defined benefit plans amounted to \$639,583, \$216,687 and \$233,513 in 2017, 2016 and 2015, respectively. As of December 31, 2017 and 2016, the Group's retirement benefit obligation amounted to \$1.9 million and \$1.8 million, respectively (see Note 23).



Estimating useful life of software costs and capitalized product development costs

The estimated useful lives of amortizing software costs and capitalized product development cost were determined on the basis of management's assessment of the period within which the benefits of these costs are expected to be realized by the Group.

As of December 31, 2017 and 2016, software with a total cost of \$39,278 has been fully amortized. The carrying amount of capitalized development costs amounted to \$720,829 and \$922,220 as of December 31, 2017 and 2016, respectively. The amortization of capitalized development cost amounted to \$201,391, \$194,888 and \$96,355 in 2017, 2016 and 2015, respectively (see Note 13).

Recoverability of deferred income tax assets

The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The Group has recognized gross deferred income tax assets amounting to \$3.9 million and \$0.2 million as of December 31, 2017 and 2016, respectively (see Note 25).

The Parent Company did not recognize deferred income tax assets on the carryforward benefit of NOLCO and unrealized foreign exchange losses amounting to \$7.1 million and \$3.4 million as of December 31, 2017 and 2016, respectively. Quintel Technology, Ltd. did not recognize deferred income tax asset on the carryforward benefit of NOLCO amounting to \$78.2 million as of December 31, 2017, while Quintel USA did not recognize deferred income tax asset on the unrealized gross profit amounting to \$0.6 million as of December 31, 2017 (see Note 25).

Determining provision for warranty

The Group estimates the total warranty reserve to be recognized on the total internal and external sales for the period using a predetermined percentage rate. Assumptions made by the Group such as percentage used is based on their cumulative and industry experience on approximate inventory returns made by the customers.

The provision for warranty amounted to \$2.3 million and \$1.4 million as of December 31, 2017 and 2016, respectively (see Note 16).

Legal contingencies

The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon analysis of potential claims.

Management, in consultation with these counsels, believes that the likely outcome of these legal proceedings will not have a material adverse effect on the Group's financial position and operating results. However, it is possible that the future results of operations could be materially affected on changes in estimates or in the effectiveness of the strategies relating to these litigations and claims. No provision for probable losses arising from legal contingencies was recognized in 2017 and 2016.



4. Operating Segments

Financial information on the Group's business segments as of and for the years ended December 31 are presented below. The amounts disclosed were determined consistent with the measurement basis under PFRS.

For the year ended December 31, 2017:

	CEC	CATS - Philippine Branch	Quintel	Eliminations and Consolidation Adjustments	Consolidated
Net sales:					
External customers	\$43,282,904	\$26,695,362	\$18,731,368	\$-	\$88,709,634
Inter-segment	-	18,972,071	-	(18,972,071)	-
Total net sales	\$43,282,904	\$45,667,433	\$18,731,368	(\$18,972,071)	\$88,709,634
Segment depreciation and amortization	\$2,896,683	\$616,011	\$123,775	\$333,333	\$3,969,802
Segment interest income	47,941	36,464	58	-	84,463
Segment interest expense	3,320,940	-	83,790	-	3,404,730
Segment profit (loss) before income tax	\$2,952,150	\$8,065,901	(\$4,230,097)	(\$3,380,909)	\$3,407,045
Segment provision for (benefit from) income tax	441,476	36,213	9,675	(1,376,529)	(889,165)
Segment profit (loss) after income tax	\$2,510,674	\$8,029,688	(\$4,239,772)	(\$2,004,380)	\$4,296,210



Other financial information of the operating segments as of December 31, 2017 is as follows:

	CEC	CATS - Philippine Branch	Quintel	Eliminations and Consolidation Adjustments	Consolidated
Assets:					
Current assets	\$121,617,539	\$63,013,402	\$24,158,971	(\$50,701,277)	\$158,088,635
Noncurrent assets	29,736,904	6,084,886	574,332	92,507,278	128,903,400
	\$151,354,443	\$69,098,288	\$24,733,303	\$41,806,001	\$286,992,035
Liabilities:					
Current liabilities	\$74,354,747	\$47,913,285	\$33,394,679	(\$46,638,590)	\$109,024,121
Noncurrent liabilities	34,862,589	136,223	540,000	2,781,786	38,320,598
	\$109,217,336	\$48,049,508	\$33,934,679	(\$43,856,804)	\$147,344,719

Prior to the Group's acquisition of Quintel, the Group has reported only one operating segment primarily because the Group operates out of one geographical location and the Group has previously reported information on an entity-wide basis.

The Group has re-presented segment information for prior years to align with the 2017 presentation.

For the year ended December 31, 2016:

	CEC	CATS - Philippine Branch	Eliminations and Consolidation Adjustments	Consolidated
Net sales	\$43,685,317	\$30,636,995	\$—	\$74,322,312
Segment depreciation and amortization	2,438,874	467,646	—	2,906,520
Segment interest income	371,733	8,362	—	380,095
Segment interest expense	1,288,209	87,018	—	1,375,227
Segment profit before income tax	\$6,921,946	\$1,233,414	\$—	\$8,155,360
Segment provision for income tax	437,561	109,771	—	547,332
Segment profit after income tax	\$6,484,385	\$1,123,643	\$—	\$7,608,028



Other financial information of the operating segments as of December 31, 2016 is as follows:

	CEC	CATS - Philippine Branch	Eliminations and Consolidation Adjustments	Consolidated
Assets:				
Current assets	\$68,299,396	\$45,706,790	(\$24,204,798)	\$89,801,388
Noncurrent assets	27,234,306	5,454,041	—	32,688,347
	<u>\$95,533,702</u>	<u>\$51,160,831</u>	<u>(\$24,204,798)</u>	<u>\$122,489,735</u>
Liabilities:				
Current liabilities	\$43,746,255	\$38,950,016	(\$24,204,799)	\$58,491,472
Noncurrent liabilities	38,725,567	63,498	—	38,789,065
	<u>\$82,471,822</u>	<u>\$39,013,514</u>	<u>(\$24,204,799)</u>	<u>\$97,280,537</u>

For the year ended December 31, 2015:

	CEC	CATS - Philippine Branch	Eliminations and Consolidation Adjustments	Consolidated
Net sales	\$42,219,077	\$17,329,457	\$—	\$59,548,534
Segment depreciation and amortization	1,815,899	374,105	—	2,190,004
Segment interest income	358,678	27,295	—	385,973
Segment interest expense	853,132	474,281	—	1,327,413
Segment profit before income tax	\$4,643,544	\$992,972	\$—	\$5,636,516
Segment provision for income tax	438,701	76,935	—	515,636
Segment profit after income tax	<u>\$4,204,843</u>	<u>\$916,037</u>	<u>\$—</u>	<u>\$5,120,880</u>



Inter-segment 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 inter-segment revenues aggregating to \$19.0 million in 2017 (nil in 2016 and 2015), intersegment cost of sales of \$15.9 million in 2017 (nil in 2016 and 2015), and intersegment operating expenses aggregating to \$0.6 million in 2017 and 2016, and \$0.4 million in 2015.

The Group's external customers are located in various countries, with the bulk of revenues contributed by customers located in Europe and the USA. Following shows the distribution of external customers by revenue contribution (amounts in thousands):

	2017	2016	2015
USA	\$55,801	\$41,144	\$32,436
Europe	22,307	19,390	16,941
Asia	10,602	13,788	10,172
	\$88,710	\$74,322	\$59,549

5. Business Combinations

Acquisition of REMEC

As discussed in Note 1, the Company acquired the ordinary shares of RBWHI's manufacturing division, CATS (formerly known as RBWI) on July 23, 2014. The authorized capital stock of CATS consists of 50,000 shares with a par value of US\$1.00 per share, of which 5,000 shares are issued and outstanding. CEIC bought all of the 5,000 ordinary shares issued representing 100% ownership in the acquired entity.

The acquisition of CATS allows the Group to expand its manufacturing capacity and capability into the high-growth wireless segment via a proven player with a strong customer base.

The amount of consideration transferred for the acquisition was \$7,465,105.

Acquisition of Quintel Cayman, Ltd. and Subsidiaries (Quintel Group)

As discussed in Note 1, the Group acquired the 100% of Quintel Group effective on August 4, 2017. The amount of all-cash consideration transferred for the acquisition was \$83,152,953.



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

Assets

Current Assets

Cash	\$1,849,741
Accounts receivable - net	3,920,576
Inventories - net	10,029,461
Prepayments and other current assets	306,517

Noncurrent Assets

Intangible assets (Note 13)	30,900,000
Property and equipment	499,842
Total Assets	47,506,137

Liabilities

Current Liabilities

Accounts payable and accrued expenses	\$21,209,518
Current portion of long-term debt	300,000

Noncurrent Liabilities

Long-term debt - net of current portion	625,962
Deferred income tax liabilities - net	4,158,315

Total Liabilities	26,293,795
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Fair value of identifiable net assets	21,212,342
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Acquisition cost	83,152,953
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Goodwill	\$61,940,611
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The cost of the acquired assets and liabilities of Quintel Group is equal to fair value (and gross contractual amounts for acquired receivables), except for the following assets and liabilities not previously recognized by Quintel Group:

- Accrued expenses amounting to \$1,019,000;
- Intangible assets comprising of technology, trademark and customer relationships valued at \$30,900,000 (see Note 13); and
- Carryforward benefit of net operating loss.

As a result, net deferred income tax liability on the fair value adjustment amounting to \$4,158,315 was recognized.

As provided for under PFRS 3, the Group has applied provisional accounting for the purchase price allocation, subject to finalization during the measurement period not exceeding one year from the acquisition date. The Group is in the process of completing the identification of the intangible assets arising from the acquisition and the determination of other possible adjustments such as inventories and contingent liabilities, among others, that may impact the amount of goodwill.

The provisional goodwill represents the expected synergies through value engineering, research and development collaboration, as well as cost reduction, resulting in high-quality, reliable and cost competitive products. None of the goodwill recognized will be deductible for tax purposes.



The consolidated statement of comprehensive income as of and for the year ended December 31, 2017 include the results of operations of Quintel from the date of acquisition to December 31, 2017, before elimination, as follows:

Net sales	\$18,731,368
Cost of sales	(16,904,277)
Gross income	1,827,091
Operating expenses	(6,508,884)
Other income - net	88,055
Financial expense - net	(83,733)
Loss before income tax	(4,677,471)
Provision for income tax	(9,675)
Net loss	(\$4,687,146)

The table below shows the analysis of cash flow on acquisition:

Cash consideration transferred	\$83,152,953
Net cash acquired with the subsidiary	(1,849,741)
Net cash flow on acquisition	\$81,303,212

Transaction costs of \$1,371,833 were expensed and are included in operating expenses in 2017 (see Note 21).

If the business combination had taken place at the beginning of 2017, the revenue of the Group would have been \$95,060,309 and net loss incurred would have been \$5,166,367.

6. Cash and Cash Equivalents

	2017	2016
Cash on hand	\$250	\$250
Cash in banks	37,219,322	24,511,243
Cash equivalents	3,165	—
	\$37,222,737	\$24,511,493

Cash in banks earns interest at prevailing bank deposit rates. Cash equivalents are made for varying periods of between one (1) day and three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Interest income earned from cash in banks and cash equivalents amounted to \$49,564, \$172,196 and \$19,469 in 2017, 2016 and 2015, respectively.



7. Trade and Other Receivables

	2017	2016
Trade receivables	\$12,728,285	\$22,729,497
Others	548,160	483,938
	13,276,445	23,213,435
Less allowance for impairment losses on trade receivables	(241,012)	(41,012)
	\$13,035,433	\$23,172,423

Trade receivables are noninterest-bearing and are generally on 30-120 days' terms.

In 2017, the Group recognized an additional allowance for impairment loss amounting \$200,000 pertaining to trade receivables (nil in 2016).

Quintel USA entered into an agreement whereby it could sell receivables due from a certain customer to a financial institution. Sale of receivables under this arrangement convey all rights to the financial institution without recourse at a discount of LIBOR plus 1.05%. Quintel USA incurred discounting fees and charges amounting to \$71,963, included in "Others" under operating expenses in profit or loss, pertaining to this arrangement since the date of acquisition.

Others include accrued interest receivable from short-term deposits and nontrade receivable from suppliers which are expected to be collected within one year.

8. Inventories

	2017	2016
At cost:		
Raw materials	\$16,781,199	\$13,692,165
Work-in-process	5,338,381	408,986
Finished goods	15,492,661	178,958
Spare parts and others	739,631	643,244
	38,351,872	14,923,353
At NRV:		
Supplies and others	644,720	358,540
Total inventories at lower of cost and NRV	\$38,996,592	\$15,281,893

Certain inventories have been provided with allowance to reflect valuation for non-movement and obsolescence. The allowance for inventory obsolescence of supplies and other inventories as of December 31, 2017 and 2016 amounted to \$96,884.

The cost of inventories recognized as cost of sales amounted to \$44,347,102, \$42,434,652 and \$35,035,653 in 2017, 2016 and 2015, respectively (see Note 20).



9. Financial Assets at FVPL

The reconciliation of the carrying amounts of financial assets at FVPL as of December 31 follows:

	2017	2016
Beginning balance	\$503	\$19,447,248
Disposals	—	(19,709,049)
Gain on disposal (Note 24)	—	262,332
Foreign currency translation	(2)	(28)
Ending balance	\$501	\$503

UITF

On November 23, 2015, the Group acquired additional \$9,994,471 investment in UITF from Security Bank Corporation (SBC). The fair values for the investment in UITF are determined through the Net Asset Valuation of each investee as of December 31, 2017 and 2016.

In 2015, the Group recognized fair value gains amounting to \$25,769, in the consolidated statement of comprehensive income. The balance of investment in UITF amounted to \$10,679,668 as of December 31, 2015.

In 2016, the investment in UITF was sold for \$10,847,799. Gain on disposal recognized in consolidated statement of comprehensive income amounted to \$168,662 in 2016.

Investment in RCBC Senior Note

On January 21, 2015, the Parent Company acquired \$8.5 million of the USD Senior Unsecured Fixed Rate Notes offered by the RCBC via a drawdown off its \$1 billion Medium Term Note Programme maturing on January 22, 2020. The senior note earns 4.25 % fixed rate per annum, payable semi-annually commencing July 21, 2015. The senior note is listed and actively traded in Singapore Exchange Securities Trading Limited (SGX). The senior note is designated as financial asset at FVPL as of December 31, 2015. The fair values for the investment in RCBC Senior Notes have been determined directly by reference to published prices quoted in an active market.

In 2015, the Group recognized fair value gains amounting to \$267,580 in the consolidated statement of comprehensive income. The balance of the investment in RCBC Senior Notes amounted to \$8,767,580 as of December 31, 2015.

On July 18, 2016, the investment in RCBC Senior Notes was sold for \$8,861,250. Gain on disposal recognized in consolidated statement of comprehensive income amounted to \$93,670 in 2016.

Interest income recognized on these notes amounted to nil, \$199,537 and \$339,174 in 2017, 2016 and 2015, respectively.



10. Other Current Assets

	2017	2016
Rental deposit (Note 19)	\$1,203,004	\$1,131,399
Advances to suppliers	564,519	953,821
Loans to employees	312,451	239,823
Prepaid expenses	208,786	80,488
Security deposit	182,510	180,387
Others	51,609	32,452
	\$2,522,879	\$2,618,370

Advances to suppliers pertain mainly to down payments for production materials and services that are still to be delivered.

11. HTM Investment

The movement of HTM investments is as follows:

	2017	2016
Beginning balance	\$371,520	\$371,520
Acquisition	487,030	—
Maturities	(366,827)	—
Amortization of premium	(11,160)	—
Balance at the end	\$480,563	\$371,520

As of December 31, 2017 and 2016, the details of HTM investments are as follows:

	2017	2016
Current portion	\$—	\$371,520
Noncurrent portion	480,563	—
	\$480,563	\$371,520

In compliance with the Corporation Code of the Philippines, foreign corporations doing business in the Philippines are required to deposit with the Philippine SEC securities worth at least \$2,300 (₱100,000) and additional securities with market values equivalent to a certain percentage of the amount by which CATS - Philippine Branch's gross income exceeds \$0.10 million (₱5.0 million).

The Philippine SEC shall also require a deposit of additional securities if the actual market values of the securities in deposit decreases by at least 10% of their actual market values at the time they were deposited.

The Group's HTM investments pertain to a government bond which was purchased by the Philippine Branch of CATS in compliance with above regulation.

In 2017, HTM investment with a face value of \$371,520 matured. In the same year, the Group acquired a new HTM investment amounting to \$480,563. The remaining bond will mature in 2021 and bears an effective interest rate of 1.948% per annum.



Interest income in 2017, 2016 and 2015 amounting to \$34,899, \$8,362 and \$27,330, respectively, are presented as part of “Interest income” account in the consolidated statement of comprehensive income.

12. Property, Plant and Equipment and Noncurrent Assets Held for Sale

Property, Plant and Equipment

December 31, 2017:

	Machinery and Equipment	Buildings and Improvements	Facility and Production Tools	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in progress	Total
Cost:							
Beginning balances	\$51,161,319	\$8,199,420	\$8,192,044	\$1,242,742	\$171,177	\$—	\$68,966,702
Additions from acquisition of Quintel (Note 5)	122,351	—	375,826	1,665	—	—	499,842
Additions	3,918,156	147,982	1,411,268	75,810	—	—	5,553,216
Disposals	(130,104)	—	—	—	—	—	(130,104)
Ending balances	55,071,722	8,347,402	9,979,138	1,320,217	171,177	—	74,889,656
Accumulated depreciation:							
Beginning balances	29,444,959	4,829,509	4,842,275	1,074,525	99,524	—	40,290,792
Depreciation (Notes 20 and 21)	2,056,920	485,300	800,852	71,775	20,231	—	3,435,078
Disposals	(130,104)	—	—	—	—	—	(130,104)
Ending balances	31,371,775	5,314,809	5,643,127	1,146,300	119,755	—	43,595,766
Net book values	\$23,699,947	\$3,032,593	\$4,336,011	\$173,917	\$51,422	\$—	\$31,293,890

December 31, 2016:

	Machinery and Equipment	Buildings and Improvements	Facility and Production Tools	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in progress	Total
Cost:							
Beginning balances	\$41,492,558	\$8,091,561	\$6,727,316	\$1,107,269	\$171,177	\$3,830,811	\$61,420,692
Additions	3,256,285	107,859	955,606	135,473	—	3,090,787	7,546,010
Reclassification	6,412,476	—	509,122	—	—	(6,921,598)	—
Ending balances	51,161,319	8,199,420	8,192,044	1,242,742	171,177	—	68,966,702
Accumulated depreciation:							
Beginning balances	27,840,187	4,399,021	4,341,626	923,784	74,542	—	37,579,160
Depreciation (Notes 20 and 21)	1,604,772	430,488	500,649	150,741	24,982	—	2,711,632
Ending balances	29,444,959	4,829,509	4,842,275	1,074,525	99,524	—	40,290,792
Net book values	\$21,716,360	\$3,369,911	\$3,349,769	\$168,217	\$71,653	\$—	\$28,675,910

The cost of fully depreciated property, plant and equipment still used in operations amounted to \$20,053,693 and \$18,780,185 as of December 31, 2017 and 2016, respectively.

Noncurrent Assets Held for Sale

On December 9, 2014, the Parent Company’s BOD approved the plan to sell and dispose certain assets such as land, building and other improvements, and building plant and machinery of CATS and RBWRP to any interested buyers as these are excess assets from the acquisition and are no longer needed in CATS - Philippine Branch’s operations. An independent valuation was obtained to determine the fair values of property, plant and equipment. Effective December 31, 2014, property, plant and equipment with carrying value of \$11,408,611 were classified as noncurrent assets held for sale in the consolidated balance sheets and have since been measured at the lower of carrying value and fair value less costs to sell.

The Parent Company’s management is committed to selling the assets which are available for immediate sale and is active in looking for interested buyers. During the one-year period from the date the assets were classified as held for sale, circumstances arose that were previously considered



unlikely and, as a result, the noncurrent assets held for sale were not sold by the end of the one-year period. Management took necessary actions to respond to the change in circumstances and ensured that the noncurrent assets are being actively marketed at a price that is reasonable, given the change in circumstances.

The fair value of the noncurrent assets held for sale was determined as the sum of:

- Fair value of land computed using the Market Approach (Level 3); and
- Fair value of improvements, and machinery and equipment computed as Replacement Cost New less estimated accrued depreciation (Level 3).

The valuations were performed by a Philippine SEC accredited appraiser as of December 31, 2017.

Market Approach is a method of comparing recent sales and sales offerings of similar properties located in the surrounding area, adjusted for time, size, location and other relevant factors. Price per square meter of market comparables range from \$125 to \$150. Significant increases (decreases) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value on a linear basis.

Replacement Cost New is estimated as follows:

- For improvements, the appraiser used the Comparative Unit Method. This method is derived by dividing the total known cost of similar buildings or structures by the total construction floor area of those structures, combining all the costs of a particular type and quality of structure into one value as a cost per square meter. The resulting benchmark costs are then adjusted to reflect the difference between the benchmark building and structures to the subject property in terms of market conditions, location and/or physical characteristics.

Construction cost per square meter range from \$308 to \$411. Adjustments are then made to reflect depreciation resulting from physical deterioration, functional and economic obsolescence.

- For machinery and equipment, the appraiser considered the cost to reproduce or replace in new condition the assets appraised in accordance with the prevailing market prices for materials, equipment, labor, contractor's overhead, profit and fees, and all other attendant cost associated with its acquisition, installation and construction in place, but without provision for overtime or bonuses for labor and premiums for materials. An allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history, is also considered.

Costs to sell, such as marketing expenses, brokerage fees and relevant taxes, were also estimated to arrive at the amount of fair value less costs to sell.

As of December 31, 2017 and 2016, the carrying value of noncurrent assets held for sale amounting to \$11,408,611 is lower than fair value less costs to sell.

Land and building owned by RBWRP with carrying value of \$8,768,248 as of December 31, 2015 were used as collateral for an interest-bearing loan with a local commercial bank. The Group prepaid the balance of the loan in 2016 (see Note 18).



13. Intangible Assets

	2017	2016
Goodwill	\$61,940,611	\$—
Customer relationships (Note 5)	17,800,000	—
Technology (net of accumulated amortization of \$133,333 as of December 31, 2017) (Note 5)	7,666,667	—
Trademark (Note 5)	5,100,000	—
Product development costs	720,829	922,220
	\$93,228,107	\$922,220

Goodwill

The goodwill recognized for the acquisition of Quintel is still at its provisional value as of December 31, 2017 as the Group is in the process of completing the identification of the intangible assets arising from the acquisition and the determination of other possible adjustments such as inventories and contingent liabilities, among others, that may impact the amount of goodwill.

Customer relationships

Customer relationships represent Quintel's established relationships with two of the largest telecom companies in the US. Such relationships are deemed valuable given the length of their relationships (from as far back as 2008) and the difficulty in establishing connections. Management strongly believes that the relationships with their current customers will drive Quintel's business in the long run.

The fair value of customer relationships is determined based on discounted excess earnings, which is the difference between the post-tax cash flows attributable to the sales made to Quintel's current customers and the contributory asset charges used to generate the cash flows (i.e., multi period excess earnings method). Customer relationships are estimated to have an indefinite useful life, and will be subject to yearly impairment testing.

Technology and Trademark

The fair values of Quintel's technology and registered trademark were determined based on discounted notional royalty savings after tax plus discounted tax amortization benefit resulting from the amortization of the acquired assets (i.e., relief from royalty method). The Group estimates that technology will have an economic life of 10 years, which will result in yearly amortization of \$0.8 million. Amortization of technology from the date of acquisition to December 31, 2017 amounted to \$333,333.

On the other hand, trademark is estimated to have an indefinite useful life, and will be subject to yearly impairment testing.

Product development costs

Product development costs pertain to CEC's and CATS - Philippine Branch's capitalized cost of developing certain packages or products for specific customers. The development costs met the requirements of PAS 38 for capitalization. The product development costs that were capitalized in 2016 and 2015 amounted to \$547,166, and \$105,365, respectively (nil in 2017). Amortization of product development cost charged to the consolidated statements of comprehensive income amounted to \$201,391, \$194,888, and \$96,355 in 2017, 2016 and 2015, respectively, as these are available for use.



14. AFS Financial Asset

The Group's AFS financial asset pertains to an investment in unquoted equity shares acquired at a cost of \$1,667,000 in 2015.

As the Group does not have access to the investee's financial information, the Group is unable to establish a reasonable basis to measure the financial asset's fair value and hence continues to measure the unquoted investment at cost.

15. Other Noncurrent Assets

	2017	2016
Advances to suppliers	\$1,818,041	\$1,066,014
Miscellaneous deposits	177,591	135,559
Loans to employees	233	7,889
Others	6,511	39,177
	\$2,002,376	\$1,248,639

Advances to suppliers pertain to down payments for the acquisition of software and building expansion.

Miscellaneous deposits pertain to refundable deposits with MERALCO for the installation of CEC's electrical meters and bill deposit equivalent to one month energy consumption.

As of December 31, 2017 and 2016, CEC has software with a total cost of \$39,278 which are fully amortized but are still used in operations.

16. Trade and Other Payables

	2017	2016
Trade	\$30,631,478	\$13,192,707
Accruals:		
Utilities	355,164	442,112
Payroll	711,426	404,116
Interest (Notes 17 and 18)	257,793	172,419
Others	2,433,654	337,454
Advances from customers	2,762,953	2,833,791
Provision for warranty	2,252,870	1,419,257
Others	547,222	333,737
	\$39,952,560	\$19,135,593

Trade payables are noninterest-bearing and are generally on 60-90 days' terms.

Other accruals comprise mainly of accruals for communication, security, shuttle services and professional services.

Advances from customers pertain mainly to downpayments for sales orders.

Provision for warranty pertains to the Group's estimate of the cost to repair or replace defective products in accordance with agreed specifications.



The reconciliation of the carrying amounts of provision for warranty as of December 31 follows:

	2017	2016
Beginning balance	\$1,419,257	\$130,300
Provision during the year (Note 20)	479,513	1,288,957
Additions from acquisition of Quintel	354,100	—
Ending balance	\$2,252,870	\$1,419,257

Other payables pertain to statutory liabilities and are generally payable within 12 months from the balance sheet date.

17. Short-term Loans

	2017	2016
Rizal Commercial Banking Corporation (RCBC) (a)	\$29,872,000	\$16,190,857
Bank of the Philippine Islands (BPI) (b)	22,268,088	5,435,088
Security Bank Corporation (SBC) (c)	10,000,000	10,000,000
Metropolitan Bank and Trust Company (MBTC) (d)	1,900,000	—
	\$64,040,088	\$31,625,945

- a. Revolving loan facilities with RCBC which have payment terms ranging from 60 to 360 days. The facility is unsecured and charged interest of 2.25% to 4.00% and 2.25% to 2.50% per annum in 2017 and 2016, respectively.
- b. Revolving loan facilities with BPI which have payment terms ranging from 180 to 360 days. The facility is unsecured and charged interest of 1.80% to 3.60% per annum in 2017 and 2016, respectively.
- c. Revolving loan facilities with SBC which have payment terms ranging from 90 to 180 days. The facility is unsecured and charged interest of 1.95% to 2.54% and 1.95% to 2.10% per annum in 2017 and 2016, respectively.
- d. Revolving loan facilities with MBTC which have payment terms of 180 days. The facility is unsecured and charged interest of 3% per annum in 2017.

Interest expense incurred from these short-term loan facilities amounted to \$1,640,261, \$153,247 and \$95,423 in 2017, 2016 and 2015, respectively.



18. Long-term Debt

As of December 31, 2017 and 2016, the details of long-term debts are as follow:

	2017	2016
Principal	\$38,150,000	\$44,250,000
Less deferred financing costs	272,155	390,029
	37,877,845	\$43,859,971
Less current portion - net of deferred financing costs amounting to \$106,730 and \$272,155 in 2017 and 2016, respectively	4,253,270	6,882,126
	\$33,624,575	\$36,977,845

Movement in deferred financing costs follow:

	2017	2016
Beginning of year	\$390,029	\$154,780
Transaction costs recognized during the year	—	321,605
Less amortization	(117,874)	(86,356)
End of year	\$272,155	\$390,029

Parent Company

2012 Note Facility Agreement (NFA)

On July 25, 2012, the Parent Company entered into a \$10.0 million NFA with MBTC (Initial Note Holder), MBTC - Trust Banking Group (Facility and Paying Agent) and First Metro Investment Corporation (Arranger). The NFA provided for the issuance of 5-year fixed rate corporate note which bears interest of 3.6% per annum payable quarterly. On July 27, 2012 (Issue Date), the Parent Company drew \$10.0 million from the facility. The net proceeds from the issuance of the Notes shall be used to finance the Group's strategic acquisitions and for general corporate purposes.

Under the NFA, the Parent Company shall pay 30% of the loan outstanding on issue date in 12 equal consecutive quarterly installments in the amount equivalent to 2.5% of loan outstanding on issue date commencing on the end of the 5th quarter until end of the 16th quarter from the Issue Date. The remaining 70% of the loan outstanding on issue date is payable in four (4) equal consecutive quarterly installments in the amount equivalent to 17.5% of the loan outstanding on issue date commencing on the 17th quarter from the issue date until the maturity date, provided that each such date shall coincide with an interest payment date, and that the last installment shall be in an amount sufficient to fully pay the loan.

The NFA contained an embedded derivative arising from voluntary prepayment option where the Parent Company may redeem in whole but not in part, the relevant outstanding notes beginning on and after the third anniversary of the issue date, by paying the amount that is equivalent to 102% of the unpaid principal amount together with any and all accrued interest up to the date of prepayment. The Parent Company assessed that the embedded derivative in the NFA is closely related to the host contract, thus was not bifurcated from the host contract based on the provisions of PAS 39.

In accordance with the NFA, the following financial ratios must be maintained:

- debt to equity ratio shall not, at any time, exceed 2:1;
- debt service coverage ratio shall not, as of relevant testing date, be less than 1.5; and
- current ratio shall not, at any time, be less than 1:1, provided however, this ratio shall not apply after the fourth anniversary of the issue date.



Equity is defined in the agreement as the aggregate of outstanding capital stock, additional paid-in capital stock, equity reserve and retained earnings at any date and as shown in the latest consolidated balance sheet of the Parent Company. Debt, on the other hand, is defined in the agreement as the aggregate of all obligations (whether actual or contingent) of the Issuer and its subsidiaries to pay or repay money.

The loan was fully paid in 2017. The carrying amount of the loan from the 2012 NFA as of December 31, 2016 amounted to \$5.2 million.

2014 NFA

On December 18, 2014, the Parent Company entered into another \$10.0 million Notes Facility Agreement with Metropolitan Bank & Trust Company (Initial Noteholder), Metropolitan Bank & Trust Company - Trust Banking Group (Facility and Paying Agent) and First Metro Investment Corporation (Arranger). The Notes Facility bears interest of 3.14% per annum payable quarterly. The net proceeds of the issuance of the Notes shall be used to finance the Group's strategic acquisitions and for general corporate purposes.

Under the NFA, the Parent Company shall pay 30% of the loan outstanding on issue date in 12 equal consecutive quarterly installments in the amount equivalent to 2.5% of loan outstanding on issue date commencing on the end of the 5th quarter until end of the 16th quarter from the Issue date. The remaining 70% of the loan outstanding on issue date is payable in 4 equal consecutive quarterly installments in the amount equivalent to 17.5% of the loan outstanding on issue date commencing on the 17th quarter from the issue date until the maturity date, provided that each such date shall coincide with an interest payment date, and that the last installment shall be in an amount sufficient to fully pay the loan.

The NFA contained an embedded derivative arising from voluntary prepayment option where the Parent Company may redeem in whole but not in part, the relevant outstanding notes beginning on and after the third anniversary of the issue date, by paying the amount that is equivalent to 102% of the unpaid principal amount together with any and all accrued interest up to the date of redemption at the applicable rate. The Parent Company assessed that the embedded derivative in the NFA is closely related to the host contract, thus was not bifurcated from the host contract based on the provisions of PAS 39.

Under this agreement, the following financial ratios must be maintained:

- debt to equity ratio shall not, at any time, exceed 2:1;
- debt service coverage ratio shall not, as of relevant testing date, be less than 1.5; and
- current ratio shall not at any time be less than 1:1, provided however, this ratio shall not apply after the fourth anniversary of the issue date.

Equity is defined in the agreement the aggregate of outstanding capital stock, additional paid-in capital stock, equity reserve and retained earnings at any date and as shown in the latest consolidated balance sheet of the Parent Company. Debt, on the other hand, is defined in the agreement as the aggregate of all obligations (whether actual or contingent) of the Issuer and its subsidiaries to pay or repay money.

The carrying amount of the loan from the 2014 NFA as of December 31, 2017 and 2016 amounted to \$8.0 million and \$8.9 million, respectively.



2016 NFA

On September 20, 2016, the Parent Company entered into a \$30.0 million NFA with BPI (Initial Note Holder), BPI Asset Management and Trust Group (Facility and Paying Agent) and BPI Capital Corporation (Arranger). The NFA provided for the issuance of 5-year fixed rate corporate note which bears interest of 4.0% per annum payable quarterly. The net proceeds from the issuance of the Notes shall be used for capital expenditures, including production facilities and to refinance existing debt obligation and for working capital requirement.

Under the NFA, the Parent Company shall pay the 30% of the loan outstanding on issue date in 12 equal consecutive quarterly installments in the amount equivalent to 2.5% of loan outstanding on issue date commencing on the end of the 5th quarter until the end of the 16th quarter from the issue date. The remaining 70% of the loan outstanding on issue date in four (4) equal consecutive quarterly installments in the amount equivalent to 17.5% of the loan outstanding on issue date commencing on the 17th quarter from the issue date until the maturity date, provided that each such date shall coincide with an interest payment date, and that the last installment shall be in an amount sufficient to fully pay the loan.

The NFA contained an embedded derivative arising from voluntary prepayment option where the Parent Company may redeem in whole or in part, equivalent to an amount not less than \$100,000, the relevant outstanding notes on any interest payment date beginning on the third anniversary of the issue date, by paying the amount that is equivalent to the higher of (i) 102% of the unpaid principal amount together with any and all accrued interest up to the date of redemption at the applicable rate, and (ii) 100% of the unpaid principal amount of the loans together with any and all accrued interest up to date of redemption at the applicable rate and any related breakage costs (net of any breakage gains). The Parent Company assessed that the embedded derivative in the NFA is closely related to the host contract, thus was not bifurcated from the host contract based on the provisions of PAS 39.

In accordance with the NFA, the following financial ratios must be maintained:

- debt to equity ratio shall not, at any time, exceed 2:1;
- debt service coverage ratio shall not, as of relevant testing date, be less than 1.5; and
- current ratio shall not at any time be less than 1:1, provided however, this ratio shall not apply after the fourth anniversary of the issue date.

Equity is defined in the agreement the aggregate of outstanding capital stock, additional paid-in capital stock, equity reserve and retained earnings at any date and as shown in the latest consolidated balance sheet of the Parent Company. Debt, on the other hand, is defined in the agreement as the aggregate of all obligations (whether actual or contingent) of the Issuer and its subsidiaries to pay or repay money.

The carrying amount of the loan from the 2016 NFA as of December 31, 2017 and 2016 amounted to \$29.0 million and \$29.7 million, respectively.

The Parent Company is in compliance with the debt covenants as of December 31, 2017 and 2016.

CATS

In 2012, CATS obtained a secured interest-bearing loan from a local commercial bank amounting to \$13.0 million. The principal is payable in 28 quarterly payments of \$464,286 until 2018 and bears annual interest rate of 3.0% plus three month London inter-bank offer rate (LIBOR). This bank loan was specifically borrowed to refinance the parcel of land with improvements located along Innovation Drive, Carmelray Industrial Park 1, Brgy. Canlubang, Calamba City, Laguna and registered in the name of RBWRP. The land and building owned by RBWRP were used as collateral for the secured interest-bearing loan (see Note 12). The Group assumed the loan upon acquisition of REMEC's manufacturing division in 2014.



The loan contract gives the Group an option to prepay the loan in part or in full, subject to the Group giving the creditor at least 30 days advance notice of its intention to make such prepayment counted from the date of receipt by the creditor of such written notice.

On September 26, 2016, the Group prepaid the balance of the loan, including accrued interest, for \$4,684,319.

Quintel USA

Long-term debt amounting to \$900,000 as of December 31, 2017 pertains to a term note payable to a state development corporation accruing interest monthly through July 2021. The agreement includes a Convertible Loan Principal Reduction feature providing that if Quintel achieves annual minimum full-time permanent employment targets through 2021, as defined in the loan agreement, the principal is reduced by 20% at each annual measurement date. The first measurement date was amended to June 30, 2015. The note bears interest at 3.0% per annum.

The loan agreement does not require Quintel USA to maintain any financial ratio, but instead comply with certain financial reporting requirements.

Quintel is in compliance with the financial reporting requirements as of December 31, 2017.

Interest Expense

Total interest expense (including amortization of deferred financing costs) recognized in the consolidated statements of comprehensive income amounted to \$1,764,469, \$1,221,980, and \$1,231,990 in 2017, 2016 and 2015, respectively.

19. Related Party Disclosures

Related party relationship exists when the party has the ability to control, directly or indirectly through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships.

In the normal course of business, the Group has entered into transactions with affiliates. The significant transactions consist of the following:

- a. Advances for operating requirements of CHI, former parent of CEC and CEIC;
- b. Rental of land and lease deposit with Cirtex Land Corporation (CLC), an affiliate, where the manufacturing building 1 and administrative building is situated;
- c. Payments and /or reimbursements of expenses made or in behalf of the affiliates; and
- d. Rental of land with Cayon Holdings, Inc. (Cayon), an affiliate, where the building 2 of the Group is situated;
- e. Collections made by Camerton in behalf of the Group;
- f. Advances to officers and stockholders.



The consolidated balance sheets and consolidated statements of comprehensive income include the following significant account balances resulting from the above transactions with related parties:

a. Amounts owed to related parties

		Transactions		Balances as of		Terms	Conditions
		2017	2016	2017	2016		
<i>Other related entities</i>							
CLC	Rental	\$12,078	\$12,776	\$459,048	\$446,970	Due on demand; non-interest bearing	Unsecured
Cayon	Rental	10,973	11,690	84,155	73,182	Due on demand; non-interest bearing	Unsecured
				\$543,203	\$520,152		

b. Amounts owed by related parties

		Transactions		Balances as of			
		2017	2016	2017	2016	Terms	Conditions
Parent							
Camerton	Collections on behalf of the Group	\$4,477,174	\$78,833	\$4,589,168	\$111,994	Due on demand; non-interest bearing	Unsecured; no impairment
Individual stockholders	Advances	37,980,190	1,750,990	48,289,231	10,309,041	Due on demand; non-interest bearing	Unsecured; no impairment
Other related entities							
CHI	Advances for working capital	—	—	1,809,256	1,809,256	Due on demand; non-interest bearing	Unsecured; no impairment
Cayon	Reimbursement of expenses	7,943	—	214,227	206,284	Due on demand; non-interest bearing	Unsecured; no impairment
				\$54,901,882	\$12,436,575		

c. Rental deposit

	Transactions		Balances as of		Terms	Conditions
	2017	2016	2017	2016		
<i>Other related entities</i>						
CLC	\$—	\$—	\$1,203,004	\$1,131,399	Due on demand; non-interest bearing	Unsecured; no impairment

The above related parties, except the stockholders, are entities under common control of the ultimate parent company.

Transactions with individual stockholders

As of December 31, 2017 and 2016, advances to individual stockholders, which are due and demandable and noninterest-bearing, amounted to \$43.8 million and \$ 5.8 million, respectively. As of April 30, 2018, the Parent Company has collected \$14.1 million from the outstanding balance of advances to individual stockholders as of December 31, 2017.

Transactions with CHI, Charmview Enterprises Ltd (CEL)

The amount owed by an officer amounting to \$7.7 million as of December 31, 2010 was transferred in 2011 to CEL, the former ultimate parent of CEC and CEIC. CEL now owns 40% interest in Camerton, the parent of CHPC.

The amounts owed by and to CHI as of December 31, 2010 represent advances for working capital in the normal course of business when CEC and CEIC were then still subsidiaries of CHI.



For purposes of settling outstanding balances with the Group and as part of corporate restructuring in preparation for the planned Initial Public Offering (IPO) of the Parent Company, on March 17, 2011, CHI, CEL and the officer, with the consent of the Group, entered into assignment agreements whereby CHI absorbed the amounts owed by CEL and by the officer as of March 17, 2011 amounting to \$7.7 million and \$0.8 million, respectively.

The Group, with the consent of the related parties, entered into assignment agreements whereby the Parent Company absorbed the amount owed by CEIC to CHI totaling \$3.6 million representing unpaid advances of \$2.3 million and dividends of \$1.3 million as of March 17, 2011 (see Note 28).

Thereafter, on March 18, 2011, the Parent Company and CHI, in view of being creditors and debtors to each other as a result of the assignment agreements above, entered into a set-off agreement for the value of the Group's liability aggregating \$6.8 million. The amount represents the above mentioned total liability of \$3.6 million and the balance outstanding from the Parent Company's purchase of CEC and CEIC amounting to \$3.2 million, as revalued from the effect of foreign exchange rate.

The amount owed by CHI as of December 31, 2017 and 2016 pertains to the outstanding receivable arising from the assignments and set-off agreements as discussed above.

Transactions with CLC and Cayon

CLC is an entity under common control of the ultimate parent company. CEC had a lease agreement on the land where its manufacturing plant (Building 1) is located with CLC for a period of 50 years starting January 1, 1999. The lease was renewable for another 25 years at the option of CEC. The lease agreement provided for an annual rental of \$151,682, subject to periodic adjustments upon mutual agreement of both parties.

On January 1, 2005, CEC terminated the lease agreement with CLC but has continued to occupy the said land for no consideration with CLC's consent. With the termination of the lease agreement, the Group has classified the rental deposit amounting to ₱60.1 million (\$1.2 million and \$1.1 million as of December 31, 2017 and 2016, respectively) as current asset as the deposit has become due and demandable anytime from CLC (see Note 10).

On January 1, 2011, CEC entered into an agreement with CLC to lease the land where CEC's Building 1 is located. The agreement calls for a ₱640,704 rent per annum for a period of 10 years and renewable thereafter by mutual agreement of the parties subject to such new terms and conditions as they may then be mutually agreed-upon. Total rent expense charged to operations amounted to \$12,713, \$12,777 and \$13,515 in 2017, 2016 and 2015, respectively.

CEC also entered into an agreement with Cayon starting January 1, 2011 to lease the land where CEC's Building 2 is located. The agreement calls for an annual rental of ₱582,144 for a period of 10 years and renewable thereafter by mutual agreement of the parties subject to such new terms and conditions as they may then be mutually agreed upon. Total rent expense charged to operations amounted to \$11,551, \$11,690 and \$12,025 in 2017, 2016 and 2015, respectively.

Future minimum rental payables under these operating leases are as follows:

	2017	2016
Within one year	\$24,491	\$24,595
After one year but not more than five years	48,983	73,784
	\$73,474	\$98,379



The compensation of key management personnel of the Group are as follows:

	2017	2016	2015
Salaries and wages	\$2,177,795	\$1,716,534	\$520,374
Other employee benefits	420,730	246,575	275,117
	\$2,598,525	\$1,963,109	\$795,491

20. Cost of Sales

	2017	2016	2015
Raw materials, spare parts, supplies and other inventories used, and changes in inventories (Note 8)	\$44,347,102	\$42,434,652	\$35,035,653
Salaries, wages and employees' benefits (Note 22)	12,691,030	10,535,487	8,234,391
Inward freight and duties and others	5,397,160	2,283,854	898,991
Utilities	3,962,713	3,490,477	3,696,519
Depreciation and amortization (Notes 12 and 13)	3,876,218	2,821,637	2,116,293
	\$70,274,223	\$61,566,107	\$49,981,847

21. Operating Expenses

	2017	2016	2015
Salaries, wages and employees' benefits (Note 22)	\$5,181,761	\$2,563,292	\$2,035,832
Professional fees	2,965,595	191,305	264,495
Commissions	1,050,523	152,020	57,660
Taxes and licenses	676,068	84,242	163,242
Transportation and travel	601,944	304,568	356,524
Utilities	630,039	349,377	505,530
Supplies	274,472	47,688	27,210
Entertainment, amusement and recreation	186,020	192,109	208,554
Insurance premiums	122,041	71,871	12,497
Depreciation and amortization (Notes 12 and 13)	93,584	84,883	73,711
Others (Note 7)	432,308	312,248	115,421
	\$12,214,355	\$4,353,603	\$3,820,676

Quintel incurred research and development costs totaling \$2.0 million from the date of acquisition to December 31, 2017.

Other operating expenses mainly consist of director's fees, bank and other individually immaterial charges.



22. Salaries and Wages and Employees' Benefits

	2017	2016	2015
Salaries and wages	\$15,174,955	\$10,480,573	\$8,597,053
Retirement benefits costs (Note 23)	639,583	216,687	233,513
Other employee benefits	2,058,253	2,401,519	1,439,657
	\$17,872,791	\$13,098,779	\$10,270,223

Other employee benefits consist of statutory contributions and other allowances.

23. Retirement Benefit Obligation

Defined Benefit Plans

CEC has a funded, noncontributory defined benefit retirement plan administered by the Board of Directors while CATS - Philippine Branch has an unfunded and non-contributory defined benefit retirement plan, with both entities covering all regular employees. Retirement benefits costs are determined in accordance with an actuarial study and are based on the employees' years of service and monthly basic salary. CEIC has not established a retirement plan while the Parent Company and RBWRP have no employees.

Under the existing regulatory framework, R.A. No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The below tables summarize the components of retirement benefits cost recognized in consolidated statement of comprehensive income and amounts recognized in the consolidated balance sheets:

- a. Retirement benefits costs recognized in the consolidated statements of comprehensive income are as follows:

For the year ended December 31, 2017:

	CEC	CATS - Philippine Branch	Total
Current service cost	\$142,990	\$39,068	\$182,058
Net interest cost	88,768	3,290	92,058
Past service cost	310,331	55,136	365,467
	\$542,089	\$97,494	\$639,583

For the year ended December 31, 2016:

	CEC	CATS - Philippine Branch	Total
Current service cost	\$98,124	\$50,189	\$148,313
Net interest cost	66,294	2,080	68,374
	\$164,418	\$52,269	\$216,687



For the year ended December 31, 2015:

	CEC	CATS - Philippine Branch	Total
Current service cost	\$117,356	\$42,653	\$160,009
Net interest cost	73,504	—	73,504
	\$190,860	\$42,653	\$233,513

- b. The amounts recognized in the consolidated balance sheets as retirement benefit obligation are as follows:

December 31, 2017:

	CEC	CATS - Philippine Branch	Total
Present value of defined benefit obligation	\$2,204,062	\$112,135	\$2,316,197
Fair value of plan assets	(426,048)	—	(426,048)
	\$1,778,014	\$112,135	\$1,890,149

December 31, 2016:

	CEC	CATS - Philippine Branch	Total
Present value of defined benefit obligation	\$2,020,158	\$60,124	\$2,080,282
Fair value of plan assets	(272,435)	—	(272,435)
	\$1,747,723	\$60,124	\$1,807,847

- c. Changes in the present value of the defined benefit obligations are as follows:

December 31, 2017

	CEC	CATS - Philippine Branch	Total
Opening present value defined benefit obligation	\$2,020,158	\$60,124	\$2,080,282
Current service cost	142,990	39,068	182,058
Past service cost	310,331	55,136	365,467
Interest cost	99,261	3,290	102,551
Remeasurement gains	(139,287)	(45,747)	(185,034)
Benefits paid	(222,700)	—	(222,700)
Translation difference	(6,691)	264	(6,427)
	\$2,204,062	\$112,135	\$2,316,197



December 31, 2016

	CEC	CATS - Philippine Branch	Total
Opening present value defined benefit obligation	\$1,569,419	\$41,238	\$1,610,657
Current service cost	98,124	50,189	148,313
Interest cost	75,894	2,080	77,974
Remeasurement losses (gains)	420,824	(28,818)	392,006
Benefits paid	(34,875)	—	(34,875)
Translation difference	(109,228)	(4,565)	(113,793)
	\$2,020,158	\$60,124	\$2,080,282

- d. Changes in the fair value of plan assets of CEC are as follows:

	2017	2016
Opening fair value of plan assets	\$272,435	\$252,846
Interest income included in net interest cost	10,493	9,600
Remeasurement losses	(20,863)	(121,918)
Contributions	169,054	147,002
Benefits paid	(5,378)	—
Translation difference	307	(15,095)
	\$426,048	\$272,435

CEC has an agreement with an insurance company to fund the retirement benefits of its employees. CEC believes that the insurance coverage qualifies as plan assets because the proceeds of the policy can be used only to pay or fund the retirement benefits. As of December 31, 2017 and 2016, the asset mix is a combination of 34% long-term investments, composed of government securities and corporate bonds, 62% investments in quoted equity securities and 4% short-term investments, composed of short-term placements and others.

- e. The details of the remeasurement losses (gains) in other comprehensive income follow:

For the year ended December 31, 2017:

	CEC	CATS - Philippine Branch	Total
Remeasurement losses (gains) on defined benefits obligation arising from changes in:			
Changes in assumptions	(\$177,175)	(\$2,797)	(\$179,972)
Experience adjustments	51,035	(39,632)	11,403
Changes in demographic assumptions	(13,147)	(3,318)	(16,465)
Remeasurement losses on plan assets	20,863	—	20,863
	(\$118,424)	(\$45,747)	(\$164,171)



For the year ended December 31, 2016:

	CEC	CATS - Philippine Branch	Total
Remeasurement losses (gains) on defined benefits obligation arising from changes in:			
Changes in assumptions	\$251,438	(\$4,961)	\$246,477
Experience adjustments	169,386	(23,857)	145,529
Remeasurement losses on plan assets	121,918	—	121,918
	<u>\$542,742</u>	<u>(\$28,818)</u>	<u>\$513,924</u>

- f. The principal actuarial assumptions used to determine retirement obligations for the Group's retirement plan as of December 31 are as follows:

	2017		2016	
	CEC	CATS - Philippine Branch	CEC	CATS - Philippine Branch
Discount rate	5.73%	5.70%	5.43%	5.55%
Future salary increase rate	3.00%	2.00%	3.50%	2.00%

- g. The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the pension obligations as of December 31, 2017 and 2016, assuming all other assumptions were held constant:

	2017		2016	
	Change in variables	Impact on present value of defined benefits obligations Increase (Decrease)	Change in variables	Impact on present value of defined benefits obligations Increase (Decrease)
CEC				
Discount rate	+1.00%	(\$183,983)	+1.00%	(\$178,325)
	-1.00%	216,046	-1.00%	214,354
Salary increase rate	+1.00%	232,015	+1.00%	208,473
	-1.00%	(200,825)	-1.00%	(176,601)
CATS - Philippine Branch				
Discount rate	+1.00%	(12,708)	+1.00%	(9,230)
	-1.00%	14,281	-1.00%	11,458
Salary increase rate	+1.00%	15,598	+1.00%	11,916
	-1.00%	(13,329)	-1.00%	(9,703)

There were no changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis.



- h. The latest actuarial valuation reports of the Group is as of December 31, 2017. The average duration of the defined benefit obligation at the end of the reporting date ranges from 19 to 22 years. Shown below is the maturity analysis of the undiscounted benefit payments:

	2017		2016	
	CEC	CATS - Philippine Branch	CEC	CATS - Philippine Branch
1 year or less	\$392,288	\$—	\$349,863	\$—
More than 1 year to 5 years	627,983	52,910	469,827	631
More than 5 years	8,437,157	1,879,547	9,009,790	2,380,251

Defined Contribution Plans

Quintel USA has a retirement savings plan under Section 401(k) of the United States Internal Revenue Code. Employees are eligible to participate in the plan after completing three months of service. Quintel USA makes a matching contribution of 100% of each employee's contributions up to 4% of such employee's compensation. From the date of acquisition to December 31, 2017, Quintel USA made approximately \$94,544 in matching contributions.

Quintel Technology, Ltd. has a defined contribution plan covering substantially all UK employees. From the date of acquisition to December 31, 2017, Quintel Technology, Ltd. made approximately \$6,915 in contributions.

24. Other Income - Net

	2017	2016	2015
Sale of scrap	\$258,610	\$231,552	\$320,199
Foreign exchange gains (losses) - net	178,456	(3,222)	178,986
Gain on disposal of financial assets at FVPL (Note 9)	—	262,332	—
Mark-to-market gain (Note 9)	—	—	293,349
Others - net	69,190	257,228	39,411
	\$506,256	\$747,890	\$831,945

Others pertains to the miscellaneous receipts from customers in prior periods.

25. Income Taxes

CEC

On March 24, 1998, the Philippine Economic Zone Authority (PEZA) approved CEC's registration as an ecozone export enterprise at the Laguna Technopark for the manufacture of standard integrated circuits, discrete, hybrid and potential new packages.

Beginning October 30, 2002, the manufacture and export of integrated circuits, discrete and hybrid transferred to PEZA from Board of Investments (where originally registered) and became subject to the 5% gross income tax incentive, as defined under R.A. No. 7916, the law creating the PEZA.

CATS - Philippine Branch

CATS - Philippine Branch was registered with PEZA as an Ecozone Export Enterprise to engage in the manufacture, fabrication and design of millimeterwave components and subsystems in a special



economic zone to be known as the Carmelray Industrial Park I - Special Economic Zone (CIP I-SEZ) and Laguna Technopark in accordance with the project study, representations, commitments and proposals set forth in its application forming integral parts, subject to the terms and conditions provided in its registration.

As a PEZA-registered entities, CEC and CATS - Philippine Branch are entitled to tax incentives equivalent to 5% of the gross income earned on its registered activities after the income tax holiday (ITH) of four years.

Details of provision for (benefit from) income tax are as follows:

	2017	2016	2015
Current	\$521,332	\$559,457	\$475,638
Deferred	(1,410,497)	(12,125)	39,998
	(\$889,165)	\$547,332	\$515,636

The provision for current income tax in 2017, 2016 and 2015 pertains to the special rate of 5% on taxable gross income of CEC and CATS - Philippine Branch.

Based on the National Internal Revenue Code Sec. 27, MCIT of two percent (2%) of the gross income as of the end of taxable year is imposed on corporation beginning on the fourth taxable year immediately following the year in which such corporation started its commercial operation when the MCIT is greater than the regular corporate income computed for the taxable year. The Parent Company is subject to MCIT beginning 2015.

A reconciliation of provision for income tax computed at the statutory income tax rate to provision for (benefit from) income tax shown in the consolidated statements of comprehensive income follows:

	Years Ended December 31		
	2017	2016	2015
Income tax at applicable statutory rate	\$921,771	\$637,810	\$478,334
Additions to (reduction in) income tax:			
Effect of change in tax rates arising from the Tax Act	(1,854,524)	—	—
Movement of temporary differences	389,467	(12,125)	—
Taxable income subject to ITH	(275,165)	(19,665)	(68,042)
Nontaxable income	(123,161)	(139,433)	(82,272)
Income subject to higher tax rate	29,000	33,356	86,046
Other taxable income subject to 5%	12,930	—	—
Nondeductible expenses	8,926	34,930	97,041
Translation difference and others	1,591	12,459	4,529
Provision for (benefit from) income tax	(\$889,165)	\$547,332	\$515,636

In 2017, 2016 and 2015, CATS - Philippine Branch and CEC have availed ITH for certain product lines. Total gross income for the registered activities of CEC under ITH in 2015 amounted to \$480,477 (nil in 2017 and 2016). Total gross income for the registered activities of CATS - Philippine Branch under ITH in 2017, 2016, and 2015 amounted to \$8,888,216, \$393,300 and \$810,345, respectively.



The components of the net deferred income tax assets of the Group are as follows:

	2017	2016
<i>Deferred income tax assets recognized in profit or loss:</i>		
Fair value adjustment on nonfinancial assets	\$127,849	\$127,849
Retirement benefit obligation	114,997	98,648
HTM investments	1,408	1,408
	244,254	227,905
<i>Deferred income tax liabilities recognized in profit or loss:</i>		
Effect of foreign exchange differences between tax base and financial reporting base	(19,773)	(7,502)
Fair value adjustment on long-term debt	—	(14,932)
Unrealized foreign exchange gains	(8,765)	(30,140)
	(28,538)	(52,574)
<i>Deferred income tax liability related to retirement benefit obligation recognized under other comprehensive income</i>	(8,341)	(4,126)
<i>Deferred income tax assets (liabilities) acquired in business combination:</i>		
Intangible assets	(6,419,000)	—
NOLCO	3,528,204	—
Accrued expenses	109,011	—
	(2,781,785)	—
Net deferred income tax assets (liabilities)	(\$2,574,410)	\$171,205

The net deferred income tax assets and liabilities as reflected in the consolidated balance sheets are as follows:

	2017	2016
Net deferred income tax assets	\$207,375	\$174,578
Net deferred income tax liabilities	2,781,785	3,373

The following are the Group's deductible temporary differences for which no deferred income tax assets have been recognized as management believes that it may not be probable that sufficient future taxable profit will be available against which the deferred income tax assets can be utilized:

	2017	2016
<i>Parent Company</i>		
NOLCO	\$7,120,033	\$3,288,743
Unrealized foreign exchange losses	—	143,589
<i>Quintel Technology, Ltd.</i>		
NOLCO	78,167,925	—
<i>Quintel USA</i>		
Unrealized gross profit	639,991	—



As of December 31, 2017, the Parent Company incurred NOLCO that can be claimed as deduction from future taxable income as follows:

Year incurred	Balances as of December 31, 2016	Additions	Applied	Expired	Balance as of December 31, 2017	Tax effect	Available until
2014	\$952,273	\$—	\$—	\$952,273	\$—	\$—	2017
2015	1,006,718	—	—	—	1,006,718	302,015	2018
2016	1,329,752	—	—	—	1,329,752	398,926	2019
2017	—	4,783,563	—	—	4,783,563	1,435,069	2020
	\$3,288,743	\$4,783,563	\$—	\$952,273	\$7,120,033	\$2,136,010	

As of December 31, 2017, Quintel USA and Quintel Technology, Inc. incurred NOLCO that can be claimed as deduction from future taxable income as follows:

	NOLCO	Deferred income tax asset recognized	Expiration
Quintel Technology, Inc.	\$78,167,925	\$—	No expiration
Quintel USA	16,800,970	3,528,204	2027 to 2037

In 2015, the Parent Company recognized deferred income tax asset on the carryforward benefit of its NOLCO amounting to \$80,274. CEIC and CATS are exempt from income tax under the tax privileged status as a BVI business company under the BVI Business Companies Act.

Changes in Legislation

United States of America (U.S.)

The Group is subject to income taxes in the U.S. owing to Quintel USA.

The Tax Act was enacted on December 22, 2017 and introduces significant changes to U.S. income tax law. Effective in 2018, the Tax Act reduces the U.S. statutory tax rate from 35% to 21% and creates new taxes on certain foreign-sourced earnings and certain related-party payments, which are referred to as the global intangible low-taxed income tax and the base erosion tax, respectively.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, Quintel has made reasonable estimates of the effects and recorded provisional amounts in the consolidated financial statements for the year ended December 31, 2017. As Quintel collects and prepares necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS or other standard-setting bodies, Quintel may make adjustments to the provisional amounts. Those adjustments may materially impact the provision for income taxes and the effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the enactment of the Tax Act will be completed in 2018.

Philippines

Republic Act No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax laws and includes several provisions that will generally affect businesses on a prospective basis, management assessed that the same will not have any significant impact on the consolidated financial statement balances as of balance sheet date.



26. Earnings Per Share (EPS)

The following table presents information necessary to calculate EPS on net income.

	2017	2016	2015
Net income attributable to common shareholders of the Parent Company*	\$3,938,737	\$7,596,228	\$5,112,080
Weighted average number of common shares outstanding	419,063,353	416,859,291	383,220,650
Basic and diluted EPS	\$0.009	\$0.018	\$0.013

**Net of dividends declared on preferred A shares in 2017, 2016 and 2015 amounting to \$8,400, \$11,800 and \$8,800, respectively, and undeclared dividends on cumulative preferred B-1 and B-2 shares amounting to \$349,073 in 2017 [(nil in 2016 and 2015) (see Note 29)].*

As of December 31, 2017, 2016 and 2015, the Parent Company has no potential dilutive common shares.

The weighted average number of common shares outstanding used in the calculation of EPS is based on the outstanding shares of the Parent Company. The additional shares from stock dividends during the period, including the unissued stock dividends and stock dividends declared after the reporting period but before the approval of the financial statements, were reflected in the calculation of the EPS as if these shares have been issued in all earlier periods presented.

27. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash and cash equivalents, short term loans and long-term debt. The main purpose of these financial instruments is to support the Group's operations. The Group has various other financial instruments such as trade and other receivables, amounts owed by related parties, rental deposits and loans to employees (presented as part of other current assets), miscellaneous deposits (presented under other noncurrent assets), trade and other payables, amounts owed to related parties and derivative liability which generally arise directly from its operations.

Risk Management Structure

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

The main risks arising from the financial instruments of the Group are credit risk, liquidity risk and foreign currency risk. The Group's management reviews and approves policies for managing each of these risks and they are summarized below.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties failed to discharge their contractual obligations.

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.



The table below shows the maximum exposure to credit risk of the Group's financial assets. The maximum exposure is shown net of impairment losses, if any:

	2017	2016
Cash and cash equivalents*	\$37,222,487	\$24,511,243
Trade and other receivables	13,035,433	23,172,423
Financial assets at FVPL	501	503
Amounts owed by related parties	54,901,882	12,436,575
Other current assets:		
Rental deposit	1,203,004	1,131,399
Loans to employees	312,451	239,823
Security deposit	182,510	180,387
HTM investments	480,563	371,520
AFS financial asset	1,667,000	1,667,000
Other noncurrent assets:		
Miscellaneous deposits	177,591	135,559
Loans to employees	233	7,889
Total credit risk exposure	\$109,183,655	\$63,854,321

*Excluding cash on hand as of December 31, 2017 and 2016 amounting to \$250.

The aging analyses per class of financial assets that are past due but not yet impaired are as follows:

		December 31, 2017					
	Neither Past Due nor Impaired	Past Due but not Impaired				Impaired Financial Assets	Total
		< 30 days	30< 60 days	60-90 days	> 90 days		
Cash and cash equivalents*	\$37,222,487	\$—	\$—	\$—	\$—	\$—	\$37,222,487
Trade and other receivables	8,935,352	1,213,089	102,510	2,548,579	235,903	241,012	13,276,445
Financial assets at FVPL	501	—	—	—	—	—	501
Amounts owed by related parties	54,901,882	—	—	—	—	—	54,901,882
Other current assets:							
Rental deposit	1,203,004	—	—	—	—	—	1,203,004
Loans to employees	312,451	—	—	—	—	—	312,451
Security deposit	182,510	—	—	—	—	—	182,510
AFS financial asset	1,667,000	—	—	—	—	—	1,667,000
HTM investments	480,563	—	—	—	—	—	480,563
Other noncurrent assets:							
Loans to employees	233	—	—	—	—	—	233
Miscellaneous deposits	177,591	—	—	—	—	—	177,591
	\$105,083,574	\$1,213,089	\$102,510	\$2,548,579	\$235,903	\$241,012	\$109,424,667

*Excluding cash on hand amounting to \$250.



	Neither Past Due nor Impaired	December 31, 2016				Impaired Financial Assets	Total
		Past Due but not Impaired					
		< 30 days	30< 60 days	60-90 days	> 90 days		
Cash and cash equivalents*	\$24,511,243	\$—	\$—	\$—	\$—	\$—	\$24,511,243
Trade and other receivables	17,226,175	2,031,535	601,105	3,286,553	27,055	41,012	23,213,435
Financial assets at FVPL	503	—	—	—	—	—	503
Amounts owed by related parties	12,436,575	—	—	—	—	—	12,436,575
Other current assets:							
Rental deposit	1,131,399	—	—	—	—	—	1,131,399
Security deposit	—	—	—	—	180,387	—	180,387
Loans to employees	239,823	—	—	—	—	—	239,823
AFS financial asset	1,667,000	—	—	—	—	—	1,667,000
HTM investments	371,520	—	—	—	—	—	371,520
Other noncurrent assets:							
Loans to employees	7,889	—	—	—	—	—	7,889
Miscellaneous deposits	135,559	—	—	—	—	—	135,559
	\$57,727,686	\$2,031,535	\$601,105	\$3,286,553	\$207,442	\$41,012	\$63,895,333

*Excluding cash on hand amounting to \$250.

The tables below summarize the credit quality per class of the Group's financial assets that are neither past due nor impaired:

December 31, 2017

	Neither Past Due nor Impaired			Total
	High Grade	Medium Grade	Low Grade	
Cash and cash equivalents*	\$37,222,487	\$—	\$—	\$37,222,487
Trade and other receivables	8,935,352	—	—	8,935,352
Financial assets at FVPL	501	—	—	501
Amounts owed by related parties	—	54,901,882	—	54,901,882
Other current assets:				
Rental deposit	1,203,004	—	—	1,203,004
Loans to employees	312,451	—	—	312,451
Security deposit	182,510	—	—	182,510
HTM investments	480,563	—	—	480,563
AFS financial asset	—	1,667,000	—	1,667,000
Other noncurrent assets:				
Loans to employees	233	—	—	233
Miscellaneous deposits	177,591	—	—	177,591
	\$48,514,692	\$56,568,882	\$—	\$105,083,574

* Excluding cash on hand.

December 31, 2016

	Neither Past Due nor Impaired			Total
	High Grade	Medium Grade	Low Grade	
Cash and cash equivalents*	\$24,511,243	\$—	\$—	\$24,511,243
Trade and other receivables	17,226,175	—	—	17,226,175
Financial assets at FVPL	503	—	—	503
Amounts owed by related parties	—	12,436,575	—	12,436,575
Other current assets:				
Rental deposit	1,131,399	—	—	1,131,399
Loans to employees	239,823	—	—	239,823
HTM investments	371,520	—	—	371,520
AFS financial asset	—	1,667,000	—	1,667,000
Other noncurrent assets:				
Loans to employees	7,889	—	—	7,889
Miscellaneous deposits	135,559	—	—	135,559
	\$43,624,111	14,103,575	\$—	\$57,727,686

* Excluding cash on hand.



High grade - These are receivables which have a high probability of collection (the counterparty has the apparent ability to satisfy its obligation and the security on the receivables are readily enforceable).

Medium grade - These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay and that have history of sliding beyond the credit terms but pay within 60 days.

Low grade - These are receivables where the counterparty's capability of honoring its financial obligation is doubtful.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties in raising funds to meet commitments from financial instruments. Liquidity risk may result from a counterparty's failure on repayment of a contractual obligation or inability to generate cash inflows as anticipated.

The Group maintains sufficient cash to finance its operations and major capital expenditures and satisfy its maturing obligations. It may also from time to time seek other sources of funding, which may include debt or equity financing, including dollar and peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

The tables below summarize the maturity analysis of the Group's financial assets used for liquidity management and financial liabilities based on contractual undiscounted payments:

December 31, 2017

	On demand	Less than 1 year	1 to 2 years	> 2 to 5 years	Total
Financial Assets					
Cash and cash equivalents	\$37,222,737	\$-	\$-	\$-	\$37,222,737
Trade and other receivables	8,935,352	4,100,081	-	-	13,035,433
Amounts owed by related parties	54,901,882	-	-	-	54,901,882
	\$101,059,971	\$4,100,081	\$-	\$-	\$105,160,052
Financial Liabilities					
Trade and other payables					
Trade payables	\$30,631,478	\$-	\$-	\$-	\$30,631,478
Accrued expenses	-	3,758,037	-	-	3,758,037
Short-term loans*	-	65,133,176	-	-	65,133,176
Amounts owed to related parties	543,203	-	-	-	543,203
Long-term debts*	-	5,421,181	18,987,590	16,009,000	40,417,771
	\$31,174,681	\$74,312,394	\$18,987,590	\$16,009,000	\$140,483,665

*Includes future interest payments



December 31, 2016

	On demand	Less than 1 year	1 to 2 years	> 2 to 5 years	Total
Financial Assets					
Cash and cash equivalents	\$24,511,493	\$—	\$—	\$—	\$24,511,493
Trade and other receivables	17,743,459	5,428,964	—	—	23,172,423
Amounts owed by related parties	12,436,575	—	—	—	12,436,575
	<u>\$54,691,527</u>	<u>\$5,428,964</u>	<u>\$—</u>	<u>\$—</u>	<u>\$60,120,491</u>
Financial Liabilities					
Trade and other payables					
Trade payables	\$13,192,707	\$—	\$—	\$—	\$13,192,707
Accrued expenses*	—	1,328,378	—	—	1,328,378
Short-term loans**	—	32,323,672	—	—	32,323,672
Amounts owed to related parties	520,152	—	—	—	520,152
Long-term debts**	—	8,504,914	16,579,760	24,450,000	49,534,674
	<u>\$13,712,859</u>	<u>\$42,156,964</u>	<u>\$16,579,760</u>	<u>\$24,450,000</u>	<u>\$96,899,583</u>

*Excluding statutory liabilities

**Includes future interest payments

Foreign currency risk

The Group uses the US dollar as its functional currency and is therefore exposed to foreign exchange movements. The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-US dollar currencies.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's income before income tax as of December 31, 2017 and 2016:

US Dollars

	December 31, 2017	
	Original Currency in Php ¹	Total Dollar Equivalent
Financial Assets		
Cash and cash equivalents	₱272,996,324	\$5,467,581
HTM investments	23,994,511	480,563
Financial asset at FVPL	25,000	501
Other current assets	72,744,455	1,454,929
Other noncurrent assets	6,418,252	128,545
Total Financial Assets	376,178,542	7,532,119
Financial Liability		
Trade and other payables	88,901,769	1,780,528
Net Financial Assets	₱287,276,773	\$5,751,591

¹ ₱ 1 = \$0.0200



	December 31, 2016	
	Original Currency in Php ¹	Total Dollar Equivalent
Financial Assets		
Cash and cash equivalents	₱48,683,931	\$979,162
HTM investments	18,238,638	371,520
Amounts owed by related parties	512,565,468	10,309,040
Other current assets	38,988,542	784,162
Other noncurrent assets	53,002,204	1,066,014
Total Financial Assets	671,478,783	13,509,898
Financial Liabilities		
Trade and other payables	80,312,280	1,615,291
Net Financial Assets	₱591,166,503	\$11,894,607

¹₱ 1 = \$0.0201

British Pounds

	December 31, 2017	
	Original Currency in GPB ¹	Total Dollar Equivalent
Financial Asset		
Cash and cash equivalents	£197,511	\$266,502

¹£1 = \$1.3493

US Dollars

	December 31, 2017			
	Foreign Currency Appreciates by	Effect on Income Before Tax	Foreign Currency Depreciates by	Effect on Income Before tax
Peso denominated assets	+1%	(\$75,321)	-1%	\$75,321
Peso denominated liabilities	+1%	17,805	-1%	(17,805)
		(\$57,516)		\$57,516

	December 31, 2016			
	Foreign Currency Appreciates by	Effect on Income Before Tax	Foreign Currency Depreciates by	Effect on Income Before tax
Peso denominated assets	+6%	(\$810,594)	-6%	\$810,594
Peso denominated liabilities	+6%	96,917	-6%	(96,917)
		(\$713,677)		\$713,677



British Pounds

December 31, 2017				
	Foreign Currency Appreciates by	Effect on Income Before Tax	Foreign Currency Depreciates by	Effect on Income Before tax
Peso denominated assets	+9%	\$23,985	-9%	(\$23,985)

The change in currency rate is based on the Group's best estimate of its expected change considering the historical trends and experiences. There is no other effect on the Group's equity other than those already affecting income before tax.

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.

The Group's manages its capital structure, which pertains to its equity as shown in the balance sheet, and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes in 2017 and 2016.

The Company considers the following as capital:

	2017	2016
Common stock	\$9,594,321	\$9,594,321
Preferred stock	2,037,113	221,239
Additional paid-in capital	100,469,659	35,896,893
Equity reserve	4,030,214	4,138,375
Other comprehensive income	196,292	40,329
Retained earnings	25,819,024	24,884,576
	\$142,146,623	\$74,775,733

As of December 31, 2017 and 2016, the Group is subject to externally imposed capital requirements.

As of December 31, 2017 and 2016, the Group was able to meet its capital requirements and management objectives.

28. Fair Value Measurement

As of December 31, 2017 and 2016, the carrying values of the Group's financial assets and liabilities, excluding AFS financial asset carried at cost because its fair value cannot be reliably measured, are equal to or approximate their respective fair value.

Cash and cash equivalents, trade and other receivables, loans to employees, trade and other payables, short-term loans, amounts owed by and owed to related parties and deposits

The carrying amounts approximate fair value since these are mostly short-term in nature or due and demandable.



Financial assets at FVPL - UITF

The investments in Unit Investment Trust Fund classified as financial asset at FVPL are stated at their fair value based on lowest level input (Level 2).

HTM Investments

The fair value of HTM investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date or last trading day as applicable (Level 1).

Miscellaneous deposits

The miscellaneous deposits are carried at cost since the timing and related amounts of future cash flows cannot be reasonably and reliably estimated for purposes of establishing its fair value using an alternative valuation technique.

Long-term debt

The fair value of long-term debt is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discounts rates used range from 4.74% and 4.01% to 4.29% in 2017 and 2016, respectively (Level 3).

Fair Value Hierarchy

The Group held the following financial assets and liabilities measured at fair value or at cost, but for which fair values are disclosed and their corresponding level in fair value hierarchy:

December 31, 2017				
	Total	Level 1	Level 2	Level 3
<i>Financial asset measured at fair value</i>				
Financial asset at FVPL	\$501	\$—	\$501	\$—
<i>Financial asset and liability measured at amortized cost but for which fair values are disclosed</i>				
HTM investments	480,563	480,563	—	—
Long-term debt	38,210,093	—	—	38,210,093
December 31, 2016				
	Total	Level 1	Level 2	Level 3
<i>Financial asset measured at fair value</i>				
Financial asset at FVPL	\$503	\$—	\$503	\$—
<i>Financial asset and liability measured at amortized cost but for which fair values are disclosed</i>				
HTM investments	371,520	371,520	—	—
Long-term debt	43,859,971	—	—	43,859,971

As at December 31, 2017 and 2016, there were no transfers between Level 1, 2 and 3 fair value measurements.



29. Equity

a. Common Shares

	2017	2016
<i>Number of shares</i>		
Authorized - common shares (₱1.00 par value)	520,000,000	520,000,000
<i>Issued</i>		
Beginning and end of year	419,063,353	419,063,353
<i>Amount</i>		
Issued - 419,063,353 shares	\$9,594,321	\$9,594,321

On November 18, 2011, the Parent Company listed with the PSE its common stock, wherein it offered 42,163,000 shares to the public at issue price of ₱7 per share. The total proceeds with issuance of new shares amounted to ₱295.1 million (\$6.8 million). The Parent Company incurred transaction costs incidental to the IPO amounting to ₱47.3 million (\$1.1 million), which was charged against “Additional paid-in capital” in the 2011 consolidated balance sheets. As of December 31, 2011, the Parent Company’s has 162,163,000 issued common shares.

On May 25, 2012, the BOD declared a twenty percent (20%) stock dividend to stockholders. On the same date, the stockholders approved and ratified the stock dividend payable to stockholders as of record as of June 8, 2012, to be distributed on June 29, 2012.

On September 14, 2012, the BOD declared a twenty percent (20%) stock dividend to stockholders of record as of December 21, 2012, to be distributed on January 10, 2013. On December 7, 2012, the stockholders approved the twenty percent (20%) stock dividend.

On January 16, 2013, the BOD declared a twenty percent (20%) stock dividend to stockholders. On the same date, the stockholders approved the stock dividend payable to stockholders of record as of March 15, 2013, to be distributed on April 5, 2013.

On January 29, 2014, the BOD also declared a ten (10%) stock dividend. During the special stockholders meeting on July 11, 2014, the shareholders approved and ratified the declaration of 10% stock dividend payable to stockholders of record as of July 25, 2014, to be distributed on August 20, 2014.

On March 24, 2015, the BOD also declared a ten (10%) stock dividend. On May 12, 2015, the shareholders approved and ratified the declaration of 10% stock dividend payable to stockholders of record as of May 26, 2015, to be distributed on June 18, 2015.

On March 24, 2015, the Parent Company’s BOD, by majority vote, and shareholders representing two-thirds of the outstanding capital stock thereof approved the amendment of the articles of incorporation to increase the Parent Company’s authorized capital stock by ₱160,000,000 or from ₱400,000,000 divided into 400,000,000 common shares with a par value of ₱1.00 per share, to ₱560,000,000 divided into 520,000,000 common shares with a par value of ₱1.00 per share and 400,000,000 preferred shares with a par value of ₱0.10 per share.

The BOD also authorized the Parent Company to offer 120,000,000 shares for sale or subscription through a follow-on offering (FOO).



On July 22, 2015, the Philippine SEC approved the Company's application to increase its authorized capital stock.

On November 4, 2015, the Parent Company's FOO was completed. The Parent Company issued 80,000,000 new shares at issue price of ₱20 per share for a total amount of \$34.2 million. The Parent Company incurred transactions costs incidental to FOO amounting to \$1.2 million which was charged against "Additional paid-in capital" in the 2015 consolidated balance sheet.

On October 24, 2016, the Parent Company's BOD approved by majority vote the amendment of the articles of incorporation to increase the Parent Company's authorized capital stock by ₱1,440,000,000 or from ₱560,000,000 divided into 520,000,000 common shares with a par value of ₱1.00 per share and 400,000,000 preferred shares with a par value of ₱0.10 per share ("Preferred A" shares), to ₱860,000,000 divided into 520,000,000 common shares with a par value of ₱1.00 per share and 700,000,000 preferred shares classified into "Preferred A shares" with a par value of ₱0.10 per share, and ₱270,000,000 worth of new preferred shares classified into "Preferred B shares" with par value ₱1.00 per share, with preferences, convertibility voting rights and other features of which shall be determined by the Parent Company's BOD. On the same date, the Parent Company's BOD, by majority vote, approved the declaration of ten percent (10%) stock dividend for each of the 419,063,353 issued and fully paid common shares, and 400,000,000 issued and fully paid preferred shares of the Corporation. To date the shareholders have not approved and ratified the said declaration.

On May 26, 2017, the Parent Company's shareholders representing at least two-thirds of the outstanding capital stock thereof approved the amendment of the articles of incorporation to increase the Parent Company's authorized capital stock as endorsed by the BOD. The shareholders also approved a resolution to delegate to the BOD the power and authority to: (i) determine the manner (either in one or more tranches) by which the proposed increase in the authorized capital stock of the Parent Company will be implemented; and (ii) the manner by which the increase in the authorized capital stock will be subscribed and paid for, such as, but not limited to, a private placement transaction or public offering. The BOD was also granted authority to issue in one or more series the new preferred shares and to determine the preferences, convertibility, voting rights, features and other terms and conditions for each such series of the new preferred shares.

The Parent Company's application to increase its authorized capital stock, which was approved by Philippine SEC on September 29, 2017, did not include increase on authorized capital stock on common shares.

Parent Company Shares Held by a Subsidiary

On December 23, 2016, CEC acquired a total of 102,018,659 common shares of the Parent Company for ₱2.3 billion (\$49.7 million). The shares purchased were recorded at cost and deducted from equity in the consolidated balance sheet.

In 2017, CEC sold 96,972,537 common shares for ₱47.0 million. The difference between the proceeds from the sale of shares held by CEC and the cost of these shares amounting to \$0.1 million was offset against "Equity reserve" account.

As of December 31, 2017 and 2016, the carrying value of Parent Company shares held by a subsidiary amounted to \$2.5 million and \$49.7 million, respectively.

As of December 31, 2017 and 2016, the Parent Company has a total number of 25 stockholders.



b. Preferred Shares

	2017	2016
<i>Number of shares</i>		
Authorized		
Preferred shares A (₱0.10 par value)	700,000,000	400,000,000
Preferred shares B-1 (₱1.00 par value)	70,000,000	—
Preferred shares B-2 (₱1.00 par value)	200,000,000	—
Issued and Subscribed		
Preferred A shares	700,000,000	400,000,000
Preferred B-1 shares	70,000,000	—
Preferred B-2 shares	67,000,000	—
<i>Amount</i>		
Preferred A shares - (net of subscriptions receivable amounting to \$1,103,944 and \$663,717 as of December 31, 2017 and 2016, respectively)	\$367,981	\$221,239
Preferred B-1 shares - (net of subscriptions receivable amounting to \$1,027,196 as of December 31, 2017)	342,399	—
Preferred B-2 shares	1,326,733	—

In 2015, the 400,000,000 preferred shares at par value of ₱0.10 were subscribed by Camerton, a principal shareholder of the Parent Company.

On September 8, 2017, the Parent Company's BOD, by majority vote, approved the amendment in the Company's articles of incorporation to increase the Company's authorized capital stock by ₱300,000,000, or:

a) from ₱560,000,000, consisting of:

- i. ₱520,000,000 worth of common shares divided into 520,000,000 common shares with par value of ₱1.00 per share; and
- ii. ₱40,000,000 worth of preferred shares divided into 40,000,000 Preferred A shares with par value of ₱0.10 per share,

b) to ₱860,000,000, consisting of:

- i. ₱520,000,000 worth of common shares divided in to 520,000,000 common shares with par value of ₱1.00 per share;
- ii. ₱70,000,000 worth of preferred A shares divided into 700,000,000 preferred A shares with par value of ₱0.10 per share; and
- iii. ₱270,000,000 worth of preferred B shares with par value of ₱1.00 per share. The preferred B shares are further classified into the following series: (a) ₱70,000,000 worth of preferred B-1 shares, and (b) ₱200,000,000 worth of preferred B-2 shares, both having a par value of ₱1.00 per share.



On the same date, the additional 300,000,000 preferred A shares and 70,000,000 preferred B-1 shares shall be issued to and subscribed by Camerton at their par value of ₱0.10 per share and ₱1.00 per share, respectively. The Parent Company recognized preferred stock and additional paid-in capital amounting to \$0.1 million and \$0.3 million, respectively, net of subscriptions receivable. Preferred B-1 shares are not listed in the PSE.

On September 29, 2017, the Philippine SEC approved the Company's application for the increase in authorized capital stock.

The features of the preferred A shares are (i) full voting rights, one vote for each share; (ii) preferred non-cumulative cash dividends at the rate of 1% of their par value per year, with no participation in further cash dividends which may be declared and paid to the common shares or any other class or series of shares; and (iii) the same stock dividends which may be declared and paid to the common shares or any other class or series of shares.

On September 15, 2017 and November 9, 2017, the Parent Company BOD approved the following features, rights and privileges of preferred B-2 shares:

- a. Non-voting;
- b. Preferred, cumulative cash dividends of up to 6.125% of the issue price per year, at the discretion of the Parent Company's BOD, with no participation in further cash dividends which may be declared and paid to the common shares, provided that, other than the basis being their respective issue prices, the cash dividend rate for preferred B-1 shares and preferred B-2 shares shall be paid before any cash dividends are paid to holders of common shares and preferred A shares;
- c. The same stock dividends which may be declared and paid to the common shares;
- d. As and if approved by the Parent Company BOD, redeemable in whole and not in part, at the sole option of the Parent Company at a price and at such time that the Parent Company BOD shall determine;
- e. In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Parent Company, the holders of preferred B-1 shares and preferred B-2 shares that are outstanding at that time shall enjoy preference in the payment in full or, if the remaining assets of the Parent Company are insufficient, on a pro-rata basis as among all holders of outstanding preferred B-1 shares and preferred B-2 shares, of the issue price of their shares plus any previously declared and unpaid dividends before any asset of the Parent Company is paid or distributed to the holders of other classes of shares.

On October 23, 2017 and November 9, 2017, the Parent Company BOD approved the following features, rights and privileges of preferred B-1 shares:

- a. Non-voting;
- b. Preferred, cumulative, non-participating, non-convertible;
- c. Entitled to cash dividends of up to 6.125% of the issue price per year, with no participation in further cash dividends which may be declared and paid to the common shares, and with no entitlement to any stock or property dividends;
- d. As and if approved by the Parent Company BOD, redeemable in whole and not in part, at the sole option of the Parent Company at a price and at such time that the Parent Company BOD shall determine; provided that management may grant up to 3% step-up rate on the cash dividends if the Parent Company is unable to redeem the preferred B-1 shares on the 5th anniversary of their issuance;
- e. In the event of change in control event where any person or persons acting in concert or any third person or persons acting on behalf of such person(s) at any time acquire(s) directly or



indirectly a controlling participation in the Parent Company pursuant to the Philippine Laws, the dividend rate shall be increased by 4% commencing and including the day falling 180 days after the day on which a change in control event has occurred;

- f. In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Parent Company, the holders of preferred B-1 shares that are outstanding at that time shall enjoy preference in the payment in full or, if the remaining assets of the Parent Company are insufficient, on a pro-rata basis as among all holders of outstanding preferred B-1 shares and preferred B-2 shares, of the issue price of their shares plus any previously declared and unpaid dividends before any asset of the Parent Company is paid or distributed to the holders of other classes of shares; and
- g. Holders of preferred B-1 shares shall have no pre-emptive rights to subscribe to any class of shares (including, without limitation, treasury shares) that will be issued or sold by the issuer.

On November 8, 2017, the PSE BOD approved the public offering of up to \$200,000,000 preferred B-2 shares. A total of 140,000,000 preferred B-2 shares were offered to the public during the offer period.

On November 29, 2017, the Parent Company's public offering was completed. The Parent Company issued 67,000,000 preferred B-2 shares with par value of ₱1.00 at issue price of \$1.00 per share for a total amount of \$67.0 million. The Parent Company recognized preferred stock and additional paid-in capital stock amounting to \$1.3 million and \$65.7 million, respectively. The Parent Company incurred transaction costs incidental to FOO amounting to \$1.1 million which was charged against "Additional paid-in capital" in 2017 consolidated balance sheet. As of December 31, 2017, unpaid stock issue costs amounted to \$324,866 recorded under "Accrued expenses and other payables" account.

On December 8, 2017, the Parent Company listed with the PSE its 67,000,000 preferred B-2 shares. As of December 31, 2017, the Parent Company has unrecognized dividends on cumulative preferred B-1 and B-2 shares totaling to \$349,073.

c. Retained Earnings

On January 28, 2016, the Parent Company's BOD approved the declaration of cash dividends of \$0.0050 per share for each of 419,063,353 fully paid and issued common shares and \$0.000021 per share for each of the 400,000,000 outstanding preferred shares, amounting to an aggregate sum of \$2,100,000, for payment and distribution on February 29, 2016 to shareholders of record of February 12, 2016. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

On June 9, 2016, the Parent Company's BOD approved the declaration of cash dividends of \$0.00362 per share for each of 419,063,353 fully paid and issued common shares and \$0.000001 per share for each of the 400,000,000 outstanding preferred shares, amounting to an aggregate sum of \$1,520,000, for payment and distribution on July 7, 2016 to shareholders of record of June 23, 2016. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

On January 23, 2017 the Parent Company's BOD approved the declaration of cash dividends of \$0.00432 per share for each of 419,063,353 fully paid and issued common shares and \$0.000021 per share for each of the 400,000,000 outstanding preferred shares, amounting to an aggregate sum of \$1,820,000, for payment and distribution on February 22, 2017 to shareholders of record of February 6, 2017. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.



On September 15, 2017 the Parent Company's BOD approved the declaration of cash dividends of \$0.004629 per share for each of 419,063,353 fully paid and issued common shares amounting to an aggregate sum of \$1,940,000, for payment and distribution on October 6, 2017 to shareholders of record of September 29, 2017. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

Accumulated earnings of the subsidiaries are not yet available for dividend distribution to the Parent Company's stockholders, unless received as cash dividends from the subsidiaries.

The retained earnings are restricted to dividend declaration to the extent of subsidiaries' deferred income tax assets amounting to \$114,997 and \$100,021 as of December 31, 2017 and 2016, respectively.

30. Changes in Liabilities Arising from Financing Activities

The table below presents the changes in Group's liabilities arising from financing activities:

	Beginning	Net cash flows	Amortization of deferred financing costs	Liabilities arising from acquisition of Quintel	Ending
Short-term loans	\$31,625,945	\$32,414,143	\$—	\$—	\$64,040,088
Long-term debt	43,859,971	(7,025,962)	117,874	925,962	37,877,845
Amounts owed to related parties	520,152	23,051	—	—	543,203
	\$76,006,068	\$25,411,232	\$117,874	\$925,962	\$102,461,136

31. Events After the Reporting Period

- a) The Parent Company acquired 441,000 shares of Multipay Corporation ("Multipay"), equivalent to a 49% interest in Multipay. The deed to effect the transfer was executed on January 24, 2018 but the actual transfer of the shares in the name of the Parent Company remains in process.

Multipay is a Philippine corporation engaged in the business of development, promotion and marketing of technology, systems solutions and application that can be utilized as a platform for connectivity, processing and delivery of electronic services.

- b) On February 2, 2018, the Parent Company's BOD approved the declaration of cash dividends of \$0.004609 per share for each of 419,063,353 fully paid and issued common shares and \$0.000012 per share for each of the 700,000,000 outstanding preferred A shares, amounting to an aggregate sum of \$1,940,000, for payment and distribution on February 21, 2018 to shareholders of record of February 19, 2018. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

On February 27, 2018, the Parent Company's BOD approved the declaration of cash dividend of ₱0.015313 per share for each of the outstanding and issued preferred B-1 shares amounting to an aggregate sum of ₱1,071,875 (\$20,601), for payment and distribution on March 8, 2018 to shareholders of record as of March 6, 2018.



On the same date, the Parent Company's BOD approved the declaration of cash dividend of \$0.015313 per share for each of the outstanding and issued preferred B-2 shares amounting to an aggregate sum of \$1,025,938, for payment and distribution on March 8, 2018 to shareholders of record as of March 6, 2018.

- c) On April 11, 2018, the Parent Company's BOD authorized the Parent Company to enter into Notes Facility Agreement with BPI and RCBC, whereby the short-term loans totaling to \$40.0 million was converted into long-term credit facility.

32. Commitments

The following are the significant commitments and contingencies involving the Group:

Outsourcing Manufacturing Agreement (OMA)

On July 30, 2014, CATS entered into an OMA (herein referred to as the "Agreement") with RBWHI in conjunction with the Share Purchase Agreement (SPA) entered into between CEIC and RBWHI. CATS will perform manufacturing services to RBWHI in accordance with the production files and specifications as provided in the Agreement. The contract term is for ten (10) years with automatic renewal of additional one (1) year period. All payments to CATS shall be made in US Dollars and shall be paid sixty (60) days after the receipt of the invoice.

Master Service Agreement (MSA)

CATS entered into an MSA with RBWHI on July 30, 2014 where CATS will provide to RBWHI the services of selected employees and consultants (or "Business Services") of CATS. CATS shall be responsible for and shall timely pay any and all compensation and benefits payable to the employees of and consultants of CATS who perform Business Services. MSA has a ten (10) year term with automatic renewal of additional one year period.

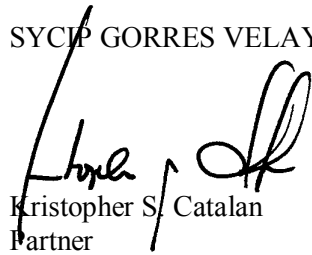


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
Cirtek Holdings Philippines Corporation
116 East Main Avenue
Phase V-SEZ
Laguna Technopark
Biñan, Laguna

We have audited in accordance with Philippine Standards on Auditing the consolidated financial statements of Cirtek Holdings Philippines Corporation and its subsidiaries (the Group) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 included in this Form 17-A, and have issued our report thereon dated April 30, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules I to III and A to H listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic 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 financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Kristopher S. Catalan
Partner

CPA Certificate No. 109712
SEC Accreditation No. 1509-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 233-299-245
BIR Accreditation No. 08-001998-109-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621237, January 9, 2018, Makati City

April 30, 2018

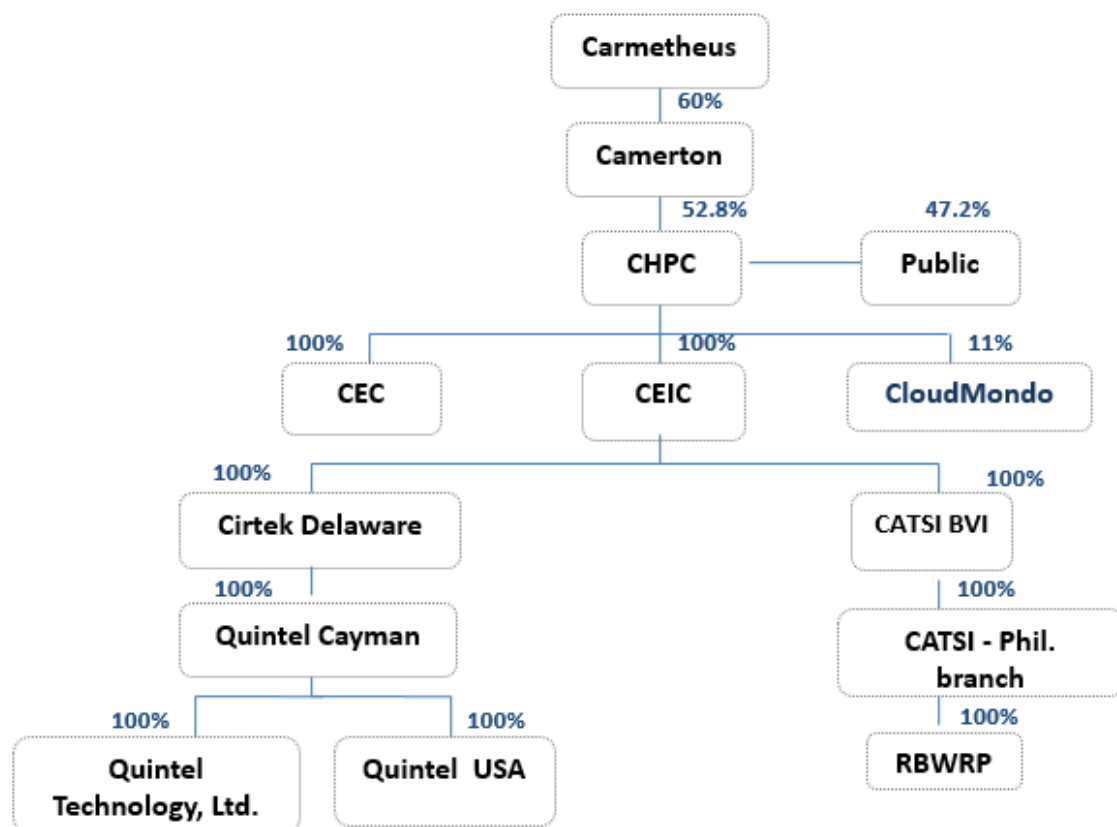


CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

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III	Reconciliation of Retained Earnings Available for Dividend Declaration
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A	Financial Assets
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CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE
COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-
SUBSIDIARIES
DECEMBER 31, 2017



CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS
DECEMBER 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRS Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9 with PFRS 4*			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Amendment to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendment to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments*		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		✓	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*		✓	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	Amendment to PFRS 12, Clarification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers*		✓	
PFRS 16	Leases*		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16: Bearer Plants			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution	✓		
	Amendments to PAS 19: Regional market issue regarding discount rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment to PAS 21: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities			✓
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			✓
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value*			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendment to PAS 34: Disclosure of information 'elsewhere in the interim financial report'			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property			✓
	Amendments to PAS 40: Transfers of Investment Property*			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	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*		✓	
IFRIC 23	Uncertainty over Income Tax Treatments*		✓	
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	✓		

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Philippine Interpretations				
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓



CIRTEK HOLDINGS PHILIPPINES CORPORATION
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
DECEMBER 31, 2017

Unappropriated retained earnings, beginning	\$456,036
Add: Net income actually earned/realized during the period	
Net income during the period closed to retained earnings	3,711,920
Less: Unrealized foreign exchange losses, net of tax (except for those attributable to cash)	5,214
Net income actually earned during the period	3,717,134
Less: Cash dividends declared	(3,760,000)
Retained earnings available for dividend declaration	\$413,170



CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017**

	Name of Issuing entity and association of each issue	Amount shown in the balance sheet	Valued based on market quotation at the end of reporting period	Income received or accrued
Cash and cash equivalents	N/A	\$37,222,737	\$37,222,737	\$49,564
Trade and other receivables	N/A	13,035,432	13,235,432	—
Financial asset at FVPL	N/A	501	501	—
Amounts owed by related parties	N/A	54,901,882	54,901,882	—
Other current assets:				
Rental deposit	N/A	1,203,004	1,203,004	—
Security deposit	N/A	182,510	182,510	—
Loan to employees	N/A	312,451	312,451	—
HTM investments	N/A	480,563	480,563	34,899
AFS financial asset	N/A	1,667,000	1,667,000	—
Other noncurrent assets:				
Loans to employees	N/A	233	233	—
Miscellaneous deposits	N/A	177,591	177,591	—
		\$109,183,904	\$109,383,904	\$84,463



SCHEDULE B

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM
DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND
PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

Amounts Receivable from Officers, Employees and Related Parties under Trade and Other Receivables

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Not Current	Balance at the end of the period
Cirtek Holdings Philippines Corporation from:						
Jerry Liu (Chairman)	\$5,786,862	\$18,918,318	\$-	\$24,705,180	\$-	\$24,705,180
Cirtek Electronics Corporation from:						
Jerry Liu (Chairman)	4,522,178	-	-	4,522,178	-	4,522,178
	\$10,309,040	\$18,918,318	\$-	\$29,227,358	\$-	\$29,227,358

Amounts owed by Related Parties

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Not Current	Balance at the end of the period
Cirtek Holdings Philippines Corporation from:						
Cirtek Holdings, Inc.	\$1,809,256	\$-	\$-	\$1,809,256	\$-	\$1,809,256
Cirtek Electronics Corporation from:						
Camerton, Inc.	111,994	4,477,174	-	4,589,168	-	4,589,168
Cayon Holdings, Inc.	206,284	7,944	-	214,228	-	214,228
Total	318,278	4,485,118	-	4,803,396	-	4,803,396
TOTAL	\$2,127,534	\$4,485,118	\$-	\$6,612,652	\$-	\$6,612,652



SCHEDULE C

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM
RELATED PARTIES WHICH ARE ELIMINATED DURING THE
CONSOLIDATION OF FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

Receivables from related parties which are eliminated during the consolidation
(under Trade and Other Receivables)

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Noncurrent	Balance at end of period
Quintel	\$-	\$39,238,685	17,909,219	\$-	\$21,329,466	\$-	\$21,329,466

Amounts owed by related parties which are eliminated during the consolidation

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Not current	Balance at end of period
Cirtek Holdings Philippines Corporation from:							
CEC	\$81,335,790	\$-	\$-	\$-	\$81,335,790	\$-	\$81,335,790
CEIC	9,000,000	-	-	-	9,000,000	-	9,000,000
Total	90,335,790	-	-	-	90,335,790	-	90,335,790
Cirtek Electronics Corporation from:							
CHPC	17,597,866	55,431,097	25,793,388	-	47,235,575	-	47,235,575
CATS	24,204,799	6,135,479	4,020,669	-	26,319,609	-	26,319,609
Total	41,802,665	61,566,576	29,814,057	-	73,555,184	-	73,555,184
Cirtek Electronics International Corporation from:							
CHPC	2,339,865	-	-	-	2,339,865	-	2,339,865
CEC	20,675,997	19,475,306	17,361,800	-	22,789,503	-	22,789,503
Cirtek Corporation	-	83,152,953	-	-	83,152,953	-	83,152,953
Total	23,015,862	102,628,259	17,361,800	-	108,282,321	-	108,282,321
Cirtek Advanced Technologies and Solutions, Inc from:							
CEIC	192,816	365,433	553,621	-	4,628	-	4,628
RBWRP	4,174,460	4,795	-	-	4,179,255	-	4,179,255
Total	4,367,276	370,228	553,621	-	4,183,883	-	4,183,883
RBW Realty and Property, Inc from:							
CATS	18,389	-	-	-	18,389	-	18,389
Total	18,389	-	-	-	18,389	-	18,389
TOTAL	\$159,539,982	\$164,565,063	\$47,729,478	\$-	\$276,375,567	\$-	\$276,375,567



SCHEDULE D

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS
AS OF DECEMBER 31, 2017

Intangible Assets - Other Assets						
Description	Beginning Balance	Additions at cost	Charged to cost and Expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
Product development costs	\$922,220	\$—	\$201,391	\$—	\$—	\$720,829
Goodwill	—	61,940,611	—	—	—	61,940,611
Customer relationship	—	8,000,000	—	—	—	8,000,000
Technology	—	5,100,000	333,333	—	—	4,766,667
Trademark	—	17,800,000	—	—	—	17,800,000
Total	\$922,220	\$92,840,611	\$534,724	\$—	\$—	\$93,228,107



CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT**

AS OF DECEMBER 31, 2017

Long-term Debt			
Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption “current portion of long-term” in related balance sheet	Amount shown under caption “long-term debt” in related balance sheet
Notes payable	\$40,000,000	\$4,253,270	\$33,624,575



CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES
(LONG-TERM LOANS FROM RELATED COMPANIES)
AS OF DECEMBER 31, 2017

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		



CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF
OTHER ISSUERS
AS OF DECEMBER 31, 2017

Guarantees of Securities of Other Issuers				
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 statement is file	Nature of guarantee
Not Applicable				



SCHEDULE H**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK****AS OF DECEMBER 31, 2017**

Capital Stock						
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	Number of shares held by directors, officers and employees	Others
Common Stock	520,000,000	419,063,353	—	320,907,217	9	—
Preferred A Shares	700,000,000	700,000,000	—	700,000,000	—	—
Preferred B-1 Shares	70,000,000	70,000,000	—	70,000,000	—	—
Preferred B-2 Shares	200,000,000	67,000,000	—	—	—	—



CIRTEK HOLDINGS PHILIPPINES CORPORATION**FINANCIAL SOUNDNESS INDICATORS****DECEMBER 31, 2017**

Ratios	Formula	December 31, 2017	December 31, 2016
(i) Current Ratio	Current Assets/Current Liabilities	1.45	1.54
(ii) Debt/Equity Ratio	Bank Debts ¹ / Total Equity	0.73	2.99
(iii) Net Debt/Equity Ratio	Bank Debts ¹ -Cash & Equivalents/Total Equity	0.46	2.02
(iii) Asset to Equity Ratio	Total Assets/Total Equity	2.05	4.86
(iv) Interest Cover Ratio	EBITDA ² /Interest Expense	3.17	8.76
(v) Profitability Ratios			
GP Margin	Gross Profit/Revenues	0.21	0.17
Net Profit Margin	Net Income/Revenues	0.05	0.10
EBITDA Margin	EBITDA/Revenues	0.12	0.16
Return on Assets	Net Income/Total Assets ³	0.01	0.06
Return on Equity	Net Income/Total Equity ³	0.03	0.30

¹ Sum of short-term loans and long-term debts

² EBITDA is calculated as income before income tax plus depreciation and amortization and financial income (expense).

³ Based on balances as at December 31, 2017 and 2016

