

# COVER SHEET

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SEC Registration Number

[illegible]

(Company's Full Name)

[illegible]

(Business Address: No. Street City/Town/Province)

**Mr. Anthony Albert S. Buyawe**  
(Contact Person)

(Contact Person)

729-6205

(Company Telephone Number)

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Month \_\_\_\_\_ Day \_\_\_\_\_  
(Calendar Year)

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(Form Type)



<i>Month</i>	<i>Day</i>
(Annual Meeting)	

**Not Applicable**

(Secondary License Type, If Applicable)

SEC

Dept. Requiring this Doc.

**Not Applicable**

Amended Articles Number/Section

27

Total No. of Stockholders

\_\_\_\_\_

Domestic

\_\_\_\_\_

## Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document ID

LCU

Cashier

STAMPS

## STAMPS

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(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ ☒ ]      No [ ☐ ]

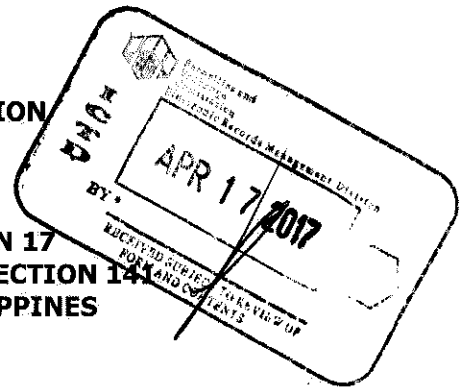
13. State the aggregate market value of the voting stock held by non-affiliates of the registrant

PhP 2,812,074,346 (118,652,926 @ 23.90 per share as of March 31, 2017)

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

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



1. For the fiscal year ended **December 31, 2016**
2. SEC Identification Number: **CS2011102137**
3. BIR Tax Identification No: **007-979-726**
4. Exact name of issuer as specified in its charter  
**Cirtek Holdings Philippines Corporation**
5. Province, Country or other jurisdiction of incorporation or organization: **Philippines**
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of principal office: **116 East Main Avenue, Phase V-SEZ Laguna Technopark, Binan Laguna**  
Postal Code: **4024**
8. Issuer's telephone number, including area code: **+63 2 729 6206 / +63 49 541 2317**
9. Former name, former address, and former fiscal year, if changed since last report: **N/A**
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class

Number of Shares of Common Stock  
Outstanding and Amount of Debt Outstanding

Common Shares

**419,063,353 Common Shares**

Preferred Shares

**400,000,000 Preferred Shares**

11. Are any or all of these securities listed on a Stock Exchange.

Yes [ ☒ ] No [ ☐ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

**Philippine Stock Exchange, Inc. (PSE)**

**Common Shares**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [ ☐ ]

No [ ☐ ]

## **PART I BUSINESS AND GENERAL INFORMATION**

### **ITEM 1 BUSINESS**

Cirtek Holdings Philippines Corporation (CHCP or the Company) through its subsidiaries, Cirtek Electronics Corporation (CEC) and Cirtek Electronics International Corporation (CEIC), (collectively the Cirtek Group), 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. CEC has over 64 regular customers spread out in Europe, the US and Asia. CEIC sells integrated circuits principally in the US and assigns the production of the same to CEC. CEIC recently acquired Remec Broadband Wireless Inc. (RBWI), recently renamed Cirtek Advanced Technologies and Solutions, Inc. (CATS), a proven Philippine-based manufacturer of value added, highly integrated technology products. CATS offers complete "box build" turnkey manufacturing solutions to RF, microwave, and millimeterwave products used in the wireless industry such as telecommunication, satellite, aerospace and defense, and automotive wireless devices.

The Cirtek Group has earned a strong reputation from its customers for its high-quality products, production flexibility, competitive costing and capability to work with customers to develop application and customer specific packages. The Cirtek Group has been accredited and certified by several international quality institutions, namely TÜD SÜD Management Service GmbH, TÜV Product Service Asia Ltd., Taiwan Branch, Defense Supply Center & British Approval Board Telecom, for the latest quality system standards, which include ISO9001, ISO14001, and QS9000/TS16949.

The Company's principal office is located at 116 East Main Avenue, Phase V-SEZ, Laguna Technopark, Binan, Laguna.

The Company was registered with the SEC on February 10, 2011, with an initial authorized capital stock of ₱400,000,000 divided into 400,000,000 common shares with a par value of One Peso (₱1.00) per share. Of the authorized capital stock, 30% equivalent to 120,000,000 shares or ₱120,000,000.00 was subscribed and fully paid-up.

On February 17, 2011, the Company's Board of Directors and Stockholders approved the acquisition from CHI of 155,511,952 common shares (representing 99.99% of the outstanding capital stock) of CEC and 50,000 shares (representing 100% of the outstanding capital) of CEIC. On March 1, 2011, the two (2) deeds of sale were executed by the Company and CHI in order to implement the transfers.

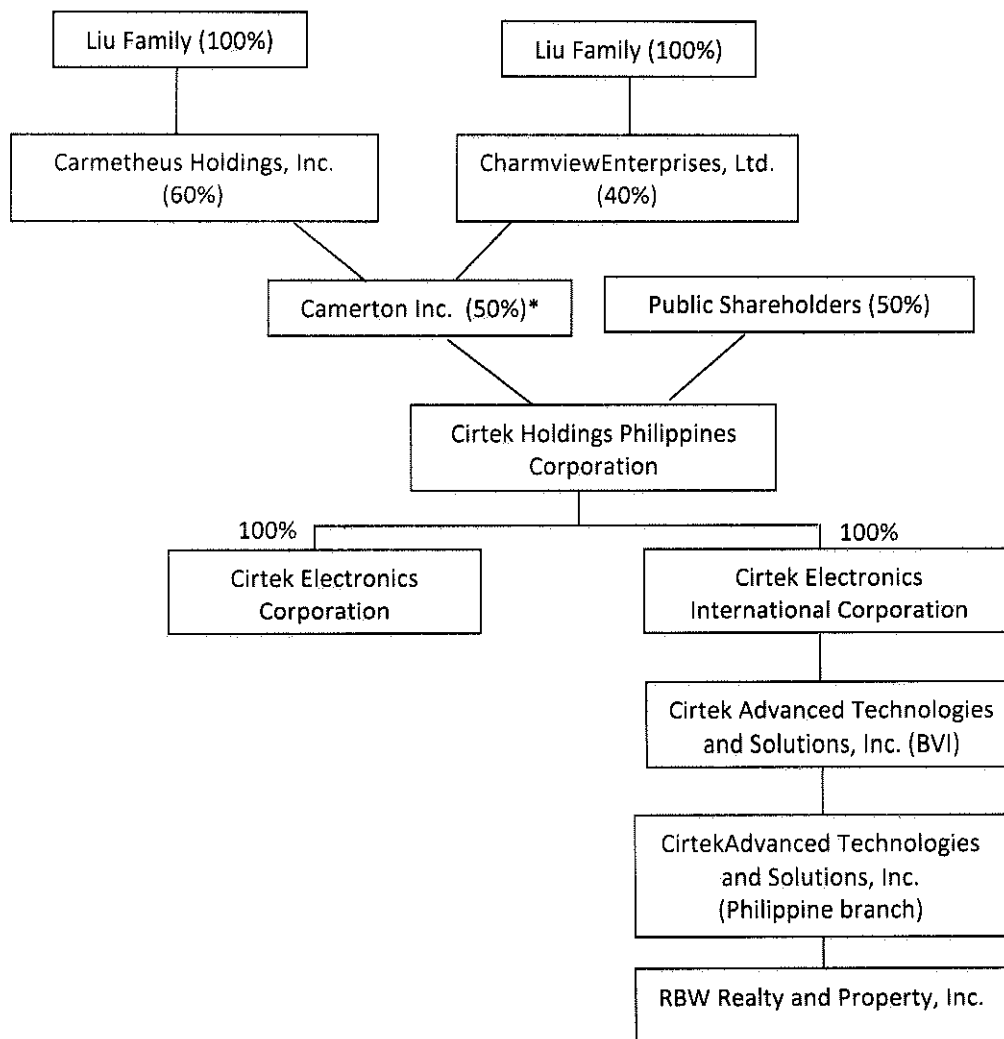
<b>Corporate Name</b>	<b>Date of Incorporation</b>
Cirtek Electronics Corporation	May 31, 1984
Cirtek Electronics International Corporation	April 4, 1995

In 2016, the Cirtek Group had total revenues of US\$74 million, and net income of US\$7.6 million. As of December 31, 2016, the Cirtek Group had total assets of US\$122 million and total liabilities of US\$97.3million.



## CORPORATE STRUCTURE

### Corporate Structure



\* Camerton has 50% economic interest and 74.4% voting rights

### ***Cirtek Electronics Corporation***

CEC was incorporated with the SEC on May 31, 1984, primarily to engage as an independent subcontractor for semiconductor assembly, test and packaging services.

Prior to the Company's acquisition of CEC in 2011, CEC was majority-owned by Charmview, a holding company incorporated in the British Virgin Islands on November 1, 1994 and is owned by the Liu family, wherein the US\$50,000 authorized capital stock is divided equally among Jerry Liu, Nelia Liu, Michael Liu, Justin Liu and Brian Gregory Liu.

In March 24, 2008, Charmview and CHI entered into a Share Swap Agreement whereby Charmview transferred all of its interest in CEC, constituting 155,511,959 common shares, to CHI in exchange for 50,000 common shares of stock of CHI. As a result of the share swap, CEC became a subsidiary of CHI.

On March 1, 2011, CHI and the Company executed the Deed of Absolute Sale of Shares wherein CHI transferred all of its 155,511,959 shares in CEC in favor of the Company for and in consideration of ₱130,000,000, making CEC a wholly-owned subsidiary of the Company.

CEC owns the manufacturing plants in Technopark as well as machinery such as bonder, auto test handler, optical inspection system, wafer back grinder, mold set, and other machinery necessary for the manufacture, assembly and testing of semiconductors.

CEC was previously registered with the Board of Investments (BOI) under Presidential Decree No. 1789, as amended by Batas Pambansa Blg. 391, as a preferred pioneer enterprise for the manufacture and export of integrated circuits. As a registered enterprise, CEC was entitled to certain tax and nontax incentives provided for in PD 1789.

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 BOI. Since its income tax holiday incentive expired in 2003, CEC is subject to tax at the preferential rate of 5% of its gross income in accordance with Republic Act No. 7916, the law creating the PEZA. In order to maximize the incentives granted under Republic Act No. 7916, CEC applied for the registration of its new products and was granted income tax holiday therefor from 2003 to 2005.

On April 27, 2011, PEZA approved CEC's application for the registration of a new project involving the manufacture of devices which will be used as components for smart phones, automotive sensor applications, battery chargers, and industrial applications.

### ***Cirtek Electronics International Corporation***

CEIC was incorporated under the International Business Companies Act of the British Virgin Islands on April 4, 1995. CEIC was incorporated with primarily purpose of selling integrated circuits principally in the United States of America and subcontracts the production of the same to CEC.

Beginning June 8, 1995, CEIC after securing the sales from its customers abroad, would subcontract the assembly, test and/or packaging of the devices to CEC pursuant to a Master Subcontractor Agreement. Under said agreement, CEIC issued purchase orders to CEC stating therein the type of product it will require, the quantity, delivery date and destination together with such other instructions the former may have. In consideration for its services, CEC was paid a service fee depending on the services contracted for a particular purchase order.

Prior to the Company's acquisition of CEIC in 2011, CEIC was majority-owned by Charmview. In March 24, 2008, Charmview and CHI entered into a Share Swap Agreement whereby Charmview transferred all of its interest in CEIC, constituting 50,000 common shares, to CHI in exchange for 50,000 common shares of stock of CHI. As a result of the share swap, CEIC became a subsidiary of CHI.

On March 1, 2011, CHI and the Company executed the Deed of Absolute Sale of Shares wherein CHI transferred all of its 50,000,000 shares in CEIC in favor of the Company for and in consideration of ₱130,000,000, making CEIC a wholly-owned subsidiary of the Company.

After the reorganization, the Company became the parent company of both CEC and CEIC while CHI remains a holding company of the Liu family, which no longer forms part of the post-reorganization structure of the Company.

## **CEC PRODUCTS**

CEC offers a broad range of products that go into various applications. The end application covers practically everything from consumer products to high reliability industrial and military products.

The following are CEC's product lines:

### **1. Protection products**

These products are designed to protect electronic devices from damaging voltage or current spikes. These are in multi-chip SOIC packages, with up to 32 diodes in a single unit.

### **2. Light sensors**

These optical devices sense the intensity of light and trigger the automatic switching on and off of headlights and the automatic adjustment of air conditioning settings in cars. The package is a transparent custom-body QFN.

### **3. Real time clock**

These are precision time keeping devices which contain features like calendars, time of day, trickle charger and memory functions. These devices come with tuning fork cylindrical crystals and are packaged in 16/20L SOIC 300mil body version.

### **4. Voltage control oscillators (VCO)**

This is an electronic oscillator that is designed to be controlled in oscillation frequency by a DC voltage input. Signals may also be fed into the VCO to cause frequency modulation or phase modulation.

### **5. Electronic Relays**

These are opto relays that are used in controlling high voltage and high power equipment. The control is achieved through the physical isolation of high voltage output and the low voltage input side of the device protecting the circuit components and the users. These are packaged in PDIP with an LED and a driver IC coupled together, without electrical connection between them.

### **6. Power management devices**

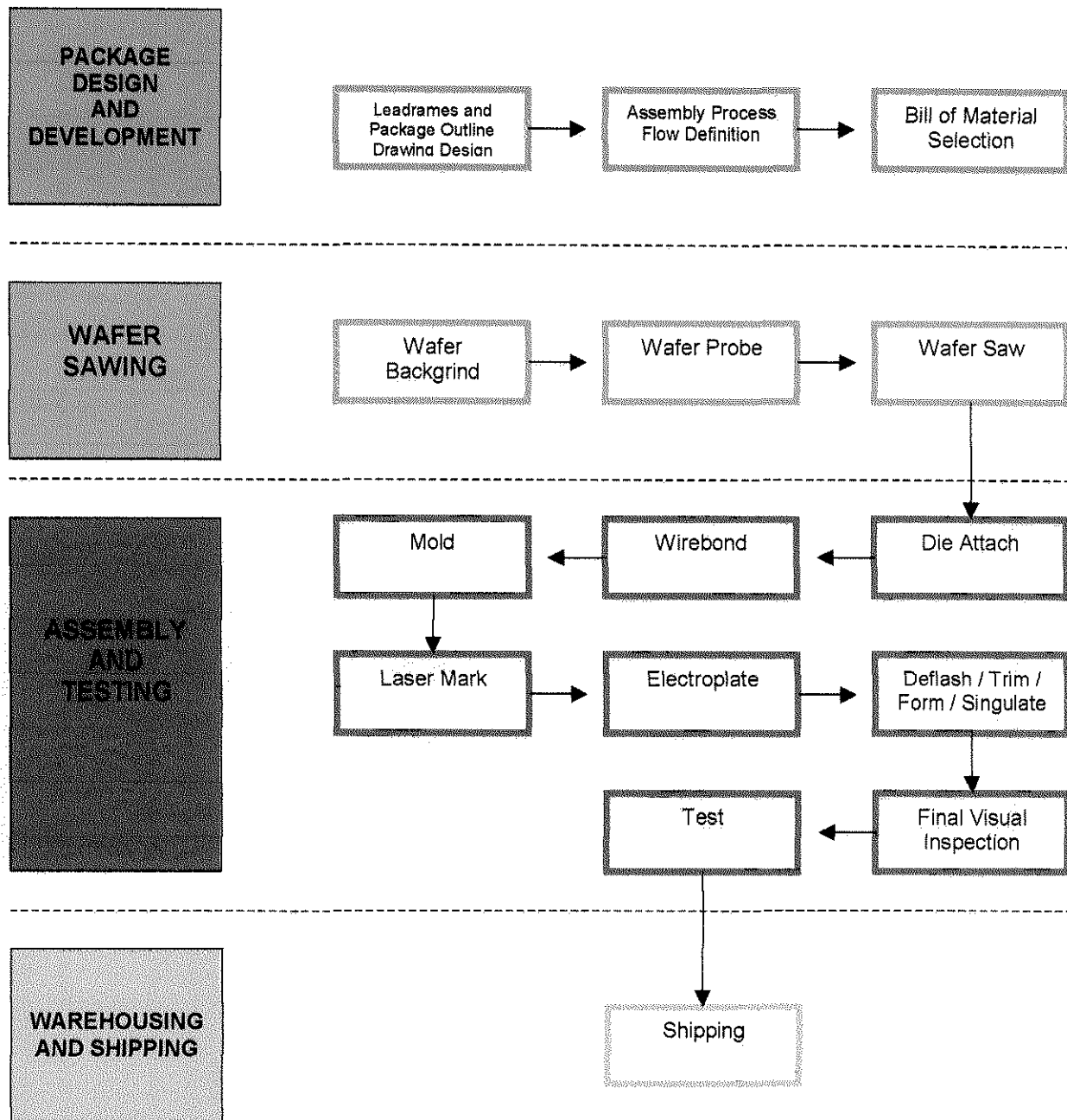
These devices are used in a wide range of power management applications from telecommunications, industrial equipment, portable devices, computers, and networks. These are packaged in SOIC with the die pad exposed.

## **CEC MANUFACTURING PROCESS FLOW**

The Company, through its subsidiary CEC, assembles and tests semiconductor devices at its manufacturing complex located on a 12,740 square meter property in Biñan, Laguna. CEC currently leases the property from Cirtek Land, Inc. and Cayon Holdings, Inc., both of which are majority owned by one of the Company's directors, Nelia T. Liu. CEC's manufacturing facility is composed of two buildings, with a total floor area of 152,000 square feet.

## Process Flow

The figure below illustrates the typical manufacturing process for the back-end production of semiconductor products:



The back end semiconductor operation starts with package design and development. The design phase pertains to a.) the determination of the type of package to be used that conforms to industry standards, b.) the substrates that will match the intended package, and c.) the material set that will be used to meet customer specifications. This is followed by tooling selection and ordering.

The development process follows a systematic approach which takes into account the standards required by the end user product. Advanced quality planning is made part of the process to ensure that the critical quality characteristics are fully understood, characterized and tested. Customers are involved as they have to approve the design and any changes that will happen later in the development stage.

The development is only deemed complete once critical processes are proven capable and qualification units and lots are produced and tested for reliability internally and or by the customers.

The fundamental package assembly process starts after the Company receives the wafer silicon from customers. Pre-assembly, the wafers are back grinded to the desired thickness, probed for electrical performance and then sawn to dice the wafers to its individual chip size following customer requirements. The individually sawn dies are then mounted on a copper substrate typically using epoxy adhesives. Other packages made by the Company however, may require other mounting adhesives for enhanced functional performance. Examples of these include, E0201 DFN (used in smart phones) which requires a gold eutectic process or the PQFN (used in charges) which requires solder paste.

The interconnection between die to leads is normally done using gold fine wire. Power packages however use copper clips for higher electrical conductivity. The parts are then encapsulated by an epoxy molding compound, which are usually opaque.

The parts are then electroplated for protection of the metal leads, trimmed and formed into its final shape or sawn into its final dimensions in the case of 0201DFN, ODFN and PQFN.

These assembled units are electrically tested for functional screening. The good parts are then packed per customer specifications and shipped to its intended destination.

Customers may opt to contract for the entire process flow or for portions thereof, as well require changes, subject to mutual consent to suit the customers' product needs.

## **CATS PRODUCTS**

CATS offers a broad range of microwave products that go into various applications. The end application covers microwave/wireless solutions for carrier and private data networks catering mobile backhaul, service provider, education, enterprise, government/municipalities and healthcare.

In March 2016, CATS begun commercial shipment to Quintel, a leading innovator of efficient and space-saving base station antennas used for cellular networks.

The following are CATS' major products:

### **1. CTT ODU**

The CTT ODU is available in 6L, 6U, 7GHz, 8GHz, 11GHz, 13GHz, 15GHz, 18GHz, 23GHz, 26GHz, 28GHz, 32GHz and 38GHz. The CTT ODU supports QPSK to 256QAM modulation and 7MHz to 56MHz channel bandwidth.

### **2. IRFU**

The Indoor RFU is available in L6, U6, 7GHz, 8GHz, and 11GHz frequency bands. The channel spacing supported for North American ANSI rates is between 3.75 MHz and 60 MHz. The channel spacing supported for ETSI rates is between 7 MHz and 56 MHz.

### **3. OIPR**

The OIPR is available in 6L, 6U, 7GHz, 8GHz, 11GHz, 13GHz, 15GHz, 18GHz, 23GHz, 26GHz, 28GHz, 32GHz and 38GHz. The supported modulation is QPSK to 256QAM. The channel spacings supported for North American ANSI rates is between 10MHz and 50 MHz. The channel spacings supported for ETSI rates are 7MHz, 14MHz, 28-30MHz, 40MHz and 56MHz.

### **4. FLEX4G-UHA**

Flex4G-UHA-UHA operates in the 71-76/81-86 GHz frequency range in compliance to ECC/REC 05/07 Recommendations and is subject to use based on each EU member country's individual regulations for operation in this band. The FLEX4G-UHA uses BPSK modulation and supports a maximum data rate of 1,000 Mbps in a 1,250 MHz channel.

### **5. SMART ANTENNAS**

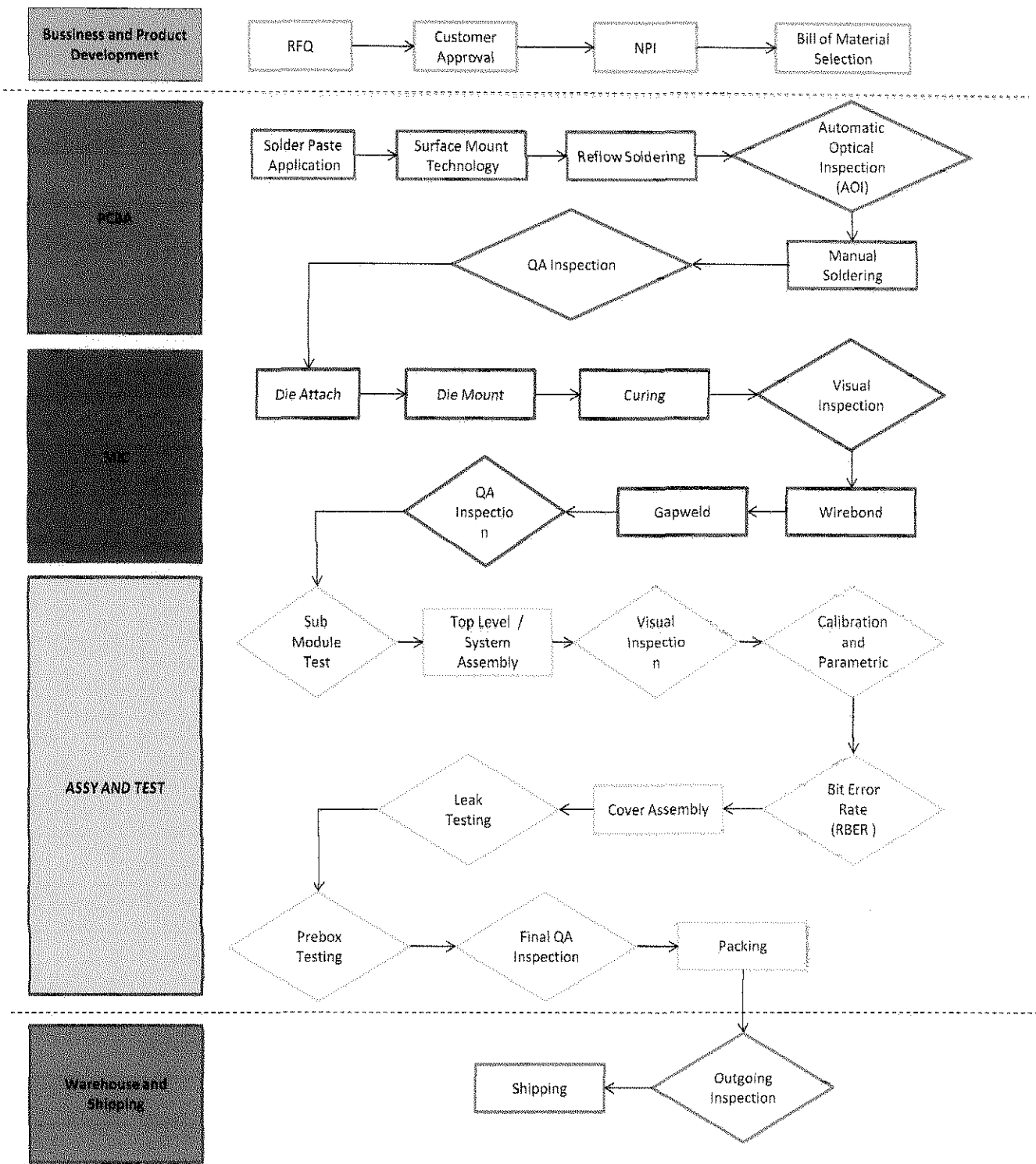
Multi-port, multi-band wireless antennas that are offered with various combinations of ports and lengths. The product supports various access technologies (4G LTE, 3G, 2G).

### **CATS MANUFACTURING PROCESS FLOW**

The Company assembles and tests microwave products at its manufacturing complex located on a 12,740 square meters property in Biñan, Laguna. CATSI currently leases the property from Cirtek Land, Inc. and Cayon Holdings, Inc., both of which are majority owned by one of the Company's directors, Nelia T. Liu. The manufacturing facility is composed of two buildings, with a total floor area of 152,000 square feet.

**Process Flow**

The figure below illustrates the typical manufacturing process for the production of microwave products:





The manufacturing process starts with business and product development. The business development pertains to a) RFQ (Request for Quote) from customer and b) customer approval. Once the customer approves the quote, product development proceeds. The product development pertains to a) NPI (New Product Introduction) and b) bill of materials selection. During NPI, the factory will qualify the product and the process (to manufacture the product). The NPI process is considered completed once critical processes are proven capable and qualification units are produced and tested for reliability internally and or by the customers. If NPI is successful, the bill of materials is finalized. This includes the product BOM, fixtures and packaging. Mass production follows.

The fundamental assembly process starts with PCBA (Printed Circuit Board Assembly). Solder paste is applied to the PCB, followed by placement of components during SMT pick and place. The populated board is then loaded to the reflow oven for solder paste curing. After the oven reflow, the board undergoes AOI (Automatic Optical Inspection). All boards with reject (assembly rejects, i.e. missing components, wrong part mounted, tombstone, insufficient solder, mis-oriented, tilted, etc.) during AOI are reworked. All boards without rejects proceed to 2<sup>nd</sup> operation or manual soldering (if required).

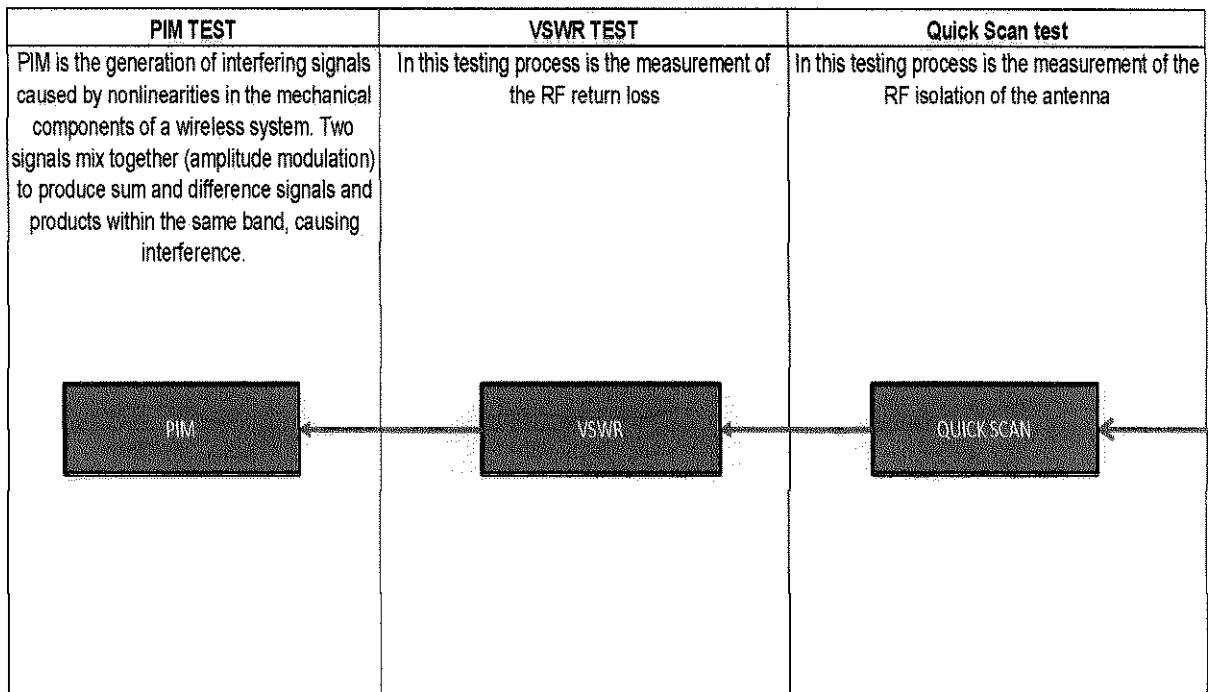
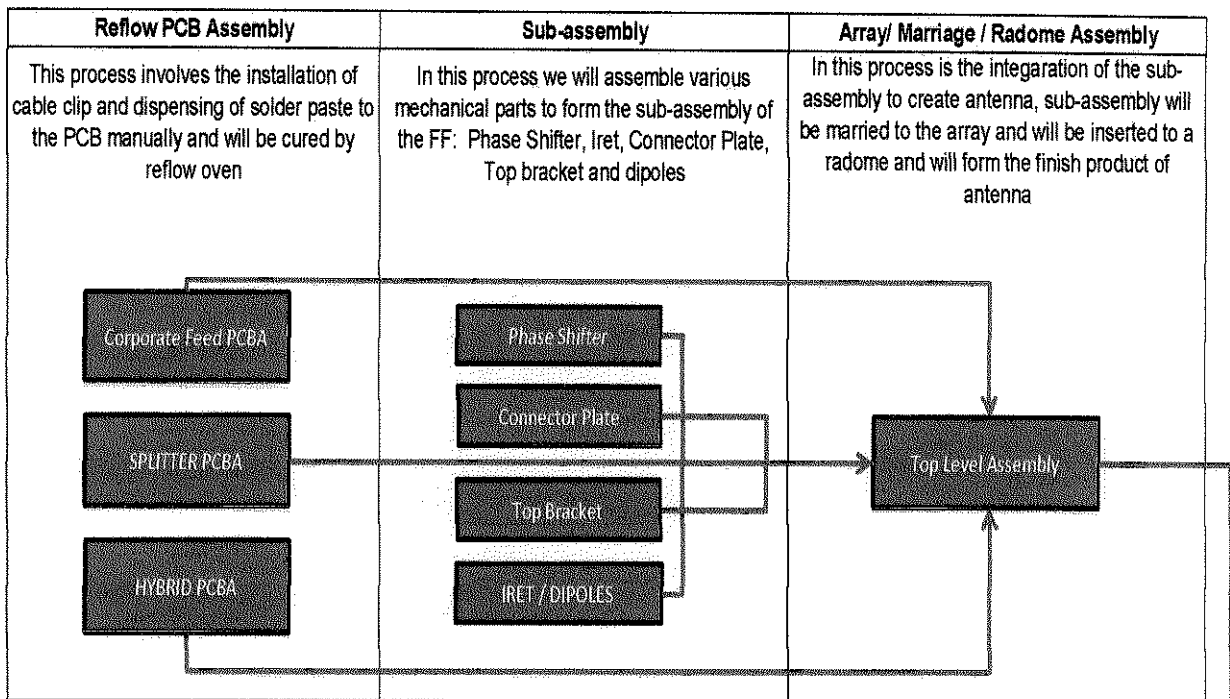
Some modules/sub-assembly boards from PCBA undergo MIC process (Microwave Integrated Circuit). During this process, a component (MMIC) is attached or mounted to the board with epoxy, either manually or automated. The board is then cured to the required temperature depending on the type of epoxy used. Wirebond/gapweld is performed depending on the required assembly drawing. Inspection follows to ensure conformance to the assembly drawing.

The modules/sub-assembly boards will then undergo test and tune (if required). All passing modules are then integrated to form the ODU (final product) during Top level assembly. System level testing follows (Calibration and Parametric test, Bit Error Rate (BER) Test, etc.). The ODUs should conform to the specifications set by the customer.

Finished products are then packed per customer specifications and shipped to the intended destination.

The figure below illustrates the typical manufacturing process for the production of multiport antennas:

## Multiport Antennas Proces flow chart



## **CUSTOMERS**

Beginning in 1984 with 3 customers, the Cirtek Group has significantly grown its customer base to over 70 major and regular customers as of present date. The Cirtek Group's Company's customers are located in various countries, with the bulk of revenues contributed by customers located in Europe and the United States of America. The figure below illustrates the geographic distribution of customers by revenue contribution, over the past 2 years.

### **% Contribution to Revenue Per Region 2015, 2016**

	<b>2015</b>	<b>2016</b>
Asia	17%	19
Europe	28%	26
USA	54%	55

The Company is not dependent upon a single customer or a few customers or industry, the loss of any of which would have a material adverse effect on the Company. Neither is the Company reliant on any specific industry since its products have varied applications in different industries. However, in 2016, Quintel contributed 26% of the Company's total revenues.

## **MARKETING**

The Company appoints non-exclusive sales agents around the globe to promote its products and services. These agents help promote and maintain strong relationships by working closely with customers to address and resolve quality issues and communicate timely responses to specific requirements and delivery issues. The Company through its subsidiaries currently maintains a sales director in the USA and sales agents in the USA, Europe and Asia.

Cirtek also performs marketing research for technology development by working closely with its customers through collaboration, conducting surveys and gathering market trends to keep the Company abreast of new packaging techniques and product introductions.

## **SUPPLIERS**

Direct materials used by the Company in the manufacturing process are leadframes, molding compound, wires (gold and copper) and epoxy adhesives. Silicon wafers are provided by Cirtek's customers.

These direct materials are sourced abroad, mainly from Hongkong, Singapore, Malaysia and Korea. Shipment is mostly by air, except for the molding compound, which is by sea because of its weight. In order to mitigate the risk of shortage of these direct materials, the Company has at least two suppliers for each material.

## COMPETITORS IN THE INDUSTRY

### CEC

The assembly and testing segment of the semiconductor industry is highly competitive. The Company's competitors in the semiconductor space include IDM's with their own in-house assembly and testing capabilities, and similar independent semiconductor assembly and test subcontractors, located in the Philippines and in the Asia-Pacific region. Among the Company's competitors are Amkor Technology in Korea and in the Philippines; ASE, Orient Semiconductor Electronics, Ltd., Siliconware Precision Industries Co., Ltd in Taiwan; Unisem and Carsem Semiconductor in Malaysia; Hana Microelectronics in Thailand; STATS ChipPac Ltd. in Singapore, and other Chinese subcontractors such as Diodes Inc. and JCET.

The principal areas of competition are pricing and product quality. The Company believes however, that it has an advantage over its competitors not only in the above-mentioned areas but also because of the following reasons: advanced packaging technology in multiple component products; focus on jointly developed application-specific packages; dedicated line services; and quick turnaround time on customer requirements.

### CATS

The Company's competitors in the RF/Satcom EMS space include large OEMs with international presence such as Benchmark Electronics, Plexus, Flextronics, and MTI Electronics. Among the Company's local competitors for certain product lines are Ionics and IMI.

The Company believes its competitive strength lies in its ability to provide complete turnkey solutions for complex, box build electronic and microwave products. The Company also believes it has unique RF/microwave expertise to deliver vertically integrated products from components to modules and system levels.

## EMPLOYEES

As of March 31, 2016, the Cirtek Group has 1,735 regular employees.

<b>Position</b>	<b>Total</b>
Managers and Executives	42
Engineers	40
Administration	39
Other support Cirtek Groups	538
Rank and File	1,094
<b>Total</b>	<b>2,807</b>

The Cirtek Group is not unionized. However, to foster better employee-management relations, the Cirtek Group has a labor management council ("LMC") composed of committees with representatives from both labor and management. These committees include the committee on employee welfare and benefit, employees cooperative committee, employee discipline committee and sports and recreation committee, among others.

LMCs are established to enable the workers to participate in policy and decision-making processes in establishment, in so far as said processes will directly affect their rights, benefits and welfare, except those which are covered by collective bargaining agreement or are traditional areas of bargaining. The

scope of the council/committee's functions consists of information sharing, discussion, consultation, formulation, or establishment of programs or projects affecting the employees in general or the management.

## **INTELLECTUAL PROPERTY**

The Company does not believe that its operations are dependent on any patent, trademark, copyright, license, franchise, concession or royalty agreement.

## **RESEARCH AND DEVELOPMENT**

Research and development work is performed by a team of over 40 experienced engineers with skills developed internally and learned from previous work experiences. Skills are brought in through hiring when necessary while training is a continuing concern to hone the skills of the technical staff.

The Company, through CEC and CATS, has successfully cooperated with customers on many projects, co-developing with them new technology that are customer specific that will ensure continuing engagement by the customers. This approach ties up customer with the Company over a long period of time generating revenues from a captive market.

The Company's technology roadmap covers material development and process improvement to improve on cost and to help maintain the margins. The latest materials are identified to meet ever increasing demand for higher quality and lower cost. These are product-application specific that are jointly co-developed with the customers bringing benefits to both parties.

The same technology roadmap resulted in bringing down the material and labor cost. For 2012, there was a reduction of 0.5% in cost of sales from new material developed.

Although the Company engages in research and development activities, the expenses incurred by the Company in connection with these activities are not material.

## **GOVERNMENT APPROVAL AND PERMITS**

All government approvals and permits issued by the appropriate government agencies or bodies which are material and necessary to conduct the business and operations of the Company, were obtained by the Company and are in full force and effect. As a holding company, the Company is only required to obtain a mayor's permit, which was issued to the Company on March 4, 2012 by the City of Biñan, Laguna. Such mayor's permit is required to be renewed within the first twenty (20) days from the beginning of January of the following year.

## **REGULATORY FRAMEWORK**

As a PEZA-registered entity, CEC and CATS are required to submit periodic financial and other reports. CEC is also required to submit quarterly, semi-annual and annual reports to the Department of Environment and Natural Resources as part of its Environmental Compliance Certificate requirements. The failure to comply with these reports and with any other requirements or regulations of these government agencies could expose CEC and CATS to penalties and the revocation of the registrations.

CEC and CATS ensures compliance with these requirements by assigning dedicated personnel to monitor, prepare the necessary filings and liaise with the relevant government agencies.

## **ITEM 2        PROPERTIES**

The Company, through its subsidiary, owns the manufacturing plants in the Laguna Technopark as well as machinery such as bonder, auto test handler, optical inspection system, wafer back grinder, mold set, and other machinery necessary for the manufacture, assembly and testing of semiconductors. All of these properties are free and clear of liens, encumbrances and other charges, and are not subject of any mortgage or other security arrangement.

## **ITEM 3        LEGAL PROCEEDINGS**

There are no pending legal cases against the Company and its management that will have immediate material effect on the financial position and operating results of the Company.

## **ITEM 4        SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No stockholders' meeting was held between the period June to December, 2016.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

The registrant's common equity is principally traded in the Philippine Stock Exchange (PSE). The high and low sales prices for every quarter ended are indicated in the table below:

	2016		2017	
	HIGH	LOW	HIGH	LOW
<b>Q1</b>	20.75	17.20	24.00	22.05
<b>Q2</b>	20.60	15.90		
<b>Q3</b>	24.00	15.40		
<b>Q4</b>	23.40	22.25		

The price of the Corporation's common shares as of March 31, 2017 trading date was PhP23.7 per share.

The number of Shareholders of record as of March 31 2017 is 27.

*Recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction*

The Corporation has not sold any unregistered or exempt securities including recent issuances of securities constituting an exempt transaction.

*Top 20 Stockholders of Record as of March 31, 2017*

Stockholder Name	Number of Shares Held	Percentage of Shareholding
Camerton, Inc.	208,888,558	49.85
PCD Nominee Filipino	143,816,827	34.32
Cirtek Electronics Corporation	49,371,700	11.78
PCD Nominee Non-Filipino	16,806,610	4.01
Ambrosio J. Makalintal or Maripi A. Makalintal	94,089	.02
Beant Singh Grewal	37,000	.01
Anna Loraine M. Mendoza	17,500	0
Pio Ma. Victor H. Garayblas	15,000	0
Raymond Alvin M. Mendoza	13,100	0
Myra P. Villanueava	2,000	0
Stephen G. Soliven	535	0
Julius Victor Emmanuel D. Sanvictores	145	0
Owen Nathaniel S. Au ITF Li Marcus Au	106	0
Joselito C. Herrera	100	0
Jesus San Luis Valencia	62	0
Dondi Ron R. Limgenco	11	0
Robert Juanchito T. Dispo	1	0
Anthony S. Buyawe	1	0
Brian Gregory Liu	1	0
Jerry Liu	1	0

Justin T. Liu	1	0
Michael Stephen Liu	1	0
Nicanor P. Lizares	1	0
Martin Lorenzo	1	0
Ernest Fritz Server	1	0
Total	419,063,353	100

### *Dividends Declaration*

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.

There are presently no restrictions that limit the payment of dividend on common shares of the Corporation.

Owners of record of more than 5% of the Corporation's voting securities as of March 31 2017:

<b>Title of Class</b>	<b>Name, Address of Record Owner, and Relationship with Issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>Number of Shares Held</b>	<b>% of Class</b>
Common	Camerton, Inc.	Camerton, Inc.	Filipino	208,888,558	49.85
Common	PCD Nominee Corporation	PCD Nominee Corporation	Filipino	143,816,827	34.32
Common	Cirtek Electronics Corporation	Cirtek Electronics Corporation	Filipino	49,371,700	11.78
Common	Total			402,077,085	95.95%

Under PCD account, the following participants hold shares representing more than 5% of the company's outstanding shares



Participant	Number of Shares	Percentage
Guild Securities	67,072,828	19%
Citibank N.A.	27,561,862	6.6%

## ITEM 6 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

### Overview

Cirtek Holdings Philippines Corp. (CHPC), through its subsidiaries Cirtek Electronics Corp. (CEC) and Cirtek Electronics International Corp. (CEIC), provides a broad range of assembly and testing services for various semiconductor devices and complex RF, microwave, millimeterwave, and advance antenna systems.

CHPC through its subsidiaries harnesses more than 53 years of combined operating track record. The Company's products cover a wide range of applications and industries, including communications, consumer electronics, power devices, computing, automotive and industrial.

### Factors Affecting the Company's Results of Operations and Financial Conditions

#### *Cyclical Nature of the Electronics Industry*

The worldwide electronics industry has experienced peaks and troughs over the years. From 2011 to 2013, the market has experience single-digit growth.

#### *Market Conditions for End-User Application of Electronics*

Market conditions in the electronics industry, to a large degree, track those for their end-user applications. Any deterioration in the market conditions for the end-user applications of semiconductors that the Company assembles and tests may reduce demand for our services and, in turn, materially adversely affect our financial condition and results of operations.

The Company has a diversified customer base that operates in different industry spaces. Because of this, the Company's products are likewise used in different industries; this mitigates the effect of downturn in certain industries to the Company's operating results and financial outcomes. Customers are also geographically diverse among Europe, U.S. and Asia; thus, the Company is not dependent on a single geographical market.

#### *Competitive Selling Prices of Semiconductor and RF/Microwave Products*

The semiconductor industry is characterized by a general decrease in prices for products and services over time as a result of product and technology life cycles.

The Company constantly reviews and makes innovations in its product and assembly techniques to improve yield and optimize productivity. The Company also prepares cost-reduction roadmaps which it eventually pres Basis of Preparation.

The consolidated financial statements of the Group are prepared on a historical cost basis except for derivative liability and financial asset at fair value through profit or loss (FVPL) which is carried at fair

value. The consolidated financial statements are presented in United States (US) dollars (\$), which is also the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. All amounts are rounded off to the nearest US dollar except when otherwise indicated.

#### 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 assets at FVPL which are carried at fair value. 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 of International Financial Reporting Interpretations Committee (IFRIC) issued by FRSC.

##### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2016 and 2015 (see Notes 1 and 4):

	Country of Incorporation	Percentage of Ownership			
		2016		2015	
		Direct	Indirect	Direct	Indirect
CEC	Philippines	100	—	100	—
CEIC	British Virgin Islands (BVI)	100	—	100	—
CATS (formerly known as RBWI)	BVI	—	100	—	100
CATS - Philippine Branch	Philippines	—	100	—	100
Remec Broadband Wireless Real Property(RBWRP)	Philippines	—	100	—	100

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

- 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 statement of comprehensive income 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'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 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, 2016. These pronouncements are either not applicable to the Group or their adoption did not have a significant impact on the Group's financial position or performance.

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

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

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

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

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

- PFRS 14, Regulatory Deferral Accounts

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

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

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

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

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

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

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

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

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

- Annual Improvements to PFRSs 2012 - 2014 Cycle

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

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

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

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

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

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

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

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

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

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

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, 2017

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

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

The amendments do not have any impact on the Group's financial position and results of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

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

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

The amendments do not have any impact on the Group's financial position and results of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

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

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

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

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

Effective beginning on or after January 1, 2018

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

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

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

These amendments are not applicable to the Group.

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

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

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

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

- PFRS 15, Revenue from Contracts with Customers

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual

periods beginning on or after January 1, 2018. The Group is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

- PFRS 9, Financial Instruments

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after

January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

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

These amendments are not applicable to the Group.

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

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

These amendments are not applicable to the Group.

- 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 adoption of the interpretation is not expected to have any significant impact on the consolidated financial statements.

Effective beginning on or after January 1, 2019

- PFRS 16, Leases

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

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

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

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

#### Deferred effectivity

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the 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 by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial 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 are 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 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 investments not 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 in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in the consolidated balance sheet at fair value with gains or losses recognized in the consolidated statement of comprehensive income.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and 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 the consolidated statement of comprehensive income. 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, 2016 and 2015, the Group designated its investments in Unit Investment Trust Fund (UITF) and Rizal Commercial Banking Corporation (RCBC) Senior Notes as financial assets 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. Gains and losses are recognized in the consolidated statement of comprehensive income 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, 2016 and 2015, the Group has designated as loans and receivables its cash in banks and cash equivalents, trade and other receivables, amounts owed by related parties, security deposit, 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 the consolidated statement of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2016 and 2015, 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 equity until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in the consolidated statement of comprehensive income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognized in the consolidated statement of comprehensive income.

As of December 31, 2016 and 2015, the Group's AFS financial asset pertains to unquoted equity shares of CloudMondo, Ltd.

#### 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 the consolidated statement of comprehensive income.

The Group does not have a financial liability at FVPL as of December 31, 2016 and 2015.

## 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. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process.

As of December 31, 2016 and 2015, 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 the consolidated statement of comprehensive income 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 consolidated statement of comprehensive income 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 the consolidated statement of comprehensive income.

#### 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 the consolidated statement of comprehensive income. 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 the consolidated statement of comprehensive income, 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 the consolidated statement of comprehensive income.

#### 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 basis (FIFO);

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, supplies, spare parts and others is the current replacement cost.

### Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost and costs of day-to-day servicing, 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 the consolidated statement of comprehensive income as incurred. Land is carried at cost less any impairment in value.

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	10-15
Buildings and improvements	5-25
Facility and production tools	5-8
Furniture, fixtures and equipment	2-5
Transportation equipment	5-7

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

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.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

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 the consolidated statement of comprehensive income 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. Property, plant and equipment 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.



#### 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 charged against income in the period in which the expenditure is incurred.

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

Intangible assets with finite lives are amortized over seven (7) years, which represents their 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 intangible assets 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 the consolidated statement of comprehensive income.

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

#### 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

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 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 the consolidated statement of comprehensive income or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate IFRS. 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 re-assesses 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 the consolidated statement of comprehensive income.

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 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, 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 the consolidated statement of comprehensive income.

#### Capital Stock

Capital stock is measured at par value for all shares issued. Subscriptions receivable are accounted for as a deduction from equity. Proceeds and/or fair value of consideration received in excess of par value, if any, are recognized as additional paid-in capital (APIC).

#### 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.

#### Treasury Shares

Treasury shares represent reacquired equity instruments, which no gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is charged or credited to APIC.

#### 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 is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

#### 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 the consolidated statement of comprehensive income 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 consolidated statement of comprehensive income 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).

#### 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 the consolidated statement of comprehensive income on a straight-line basis over the lease term.

#### Retirement Benefits Costs

The Group is 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.

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 the consolidated statement of comprehensive income.

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.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. 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.

#### Foreign Currency-denominated Transactions

The consolidated financial statements are presented in US dollars, which is the Group'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 the consolidated statement of comprehensive income. 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 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.

##### Deferred 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 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 operating in the Philippines 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 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.

#### Segment Reporting

For management purposes, the Group has determined that it is operating as one operating segment. Sales are reported internally per division, however, profit or loss, assets and liabilities are reported on an entity-wide basis. These information are measured using the same accounting policies and estimates as the Group's consolidated financial statements (see Note 25).

#### 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 the statement of comprehensive income, 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.

## Results of Operations

**For the 12-month period ending December 31, 2016 compared to the 12-month period ending December 31, 2015**

### Revenue

The Company recorded consolidated revenues of US\$74.3 million for the 12 months ending December 31, 2016, an increase of 25% from US\$59.1 million for the same period in 2015. The increase was accounted for by the growth of both the Company's semiconductor and Antenna Systems businesses.

### Sales per division

<i>In US\$ 000</i>	<b>For the 12 months ended December 31</b>		<b>% Inc /</b>
	<b>2016</b>	<b>2015</b>	<b>(Dec)</b>
<u>CEC</u>			
Discrete	12,486	11,296	11
Multichip	9,681	10,163	(5)
IC	9,818	8,119	21
QFN	4,937	5,143	(4)
New Products	5,273	5,415	(3)
Hermetics	1,488	2,083	(29)
<u>CATS</u>			
Cougar	241	329	(27)
Outdoor Unit	6,488	10,200	(36)
Indoor Unit	-	1,691	(100)
Bridgewave	3,024	2,332	30
IRFU	1,372	2,493	(45)
RMS	127	285	(53)
Antenna Systems	19,387	-	-
Total	<b>74,322</b>	<b>59,549</b>	<b>25%</b>

### Cost of Sales and Gross Margin

The Company's cost of sales (COS) is composed of: raw materials, spare parts, supplies; direct salaries, wages and employees' benefits; depreciation and amortization; utility expenses directly attributable to production, freight and duties; and changes in finished goods and work in process inventories. The Company's cost of sales increased by 23% to US\$61.6 million in the 12 months ending December 31, 2016 from US\$50 million for the same period in 2015. The increase was mainly due to a rise in raw materials expenses as a result of higher sales, higher salaries and wages, , depreciation, and increase in inward freight and duties.

- Raw materials, spare parts, supplies and other inventories grew by 38% to US\$42.4 million for the 12 months ending December 31, 2016 from US\$35.0 million for the same period in 2015.
- Salaries, wages and employees' benefits increased by 28% to US\$10.5 million for the 12 months ending December 31, 2016, from US\$8.2 million for the same period in 2015.
- Utility expenses amounted to US\$3.5 million for the 12 months ending December 31, 2016, from US\$3.7 million for the same period in 2015, a decrease of 6%. Depreciation and amortization increased by 24% to US\$2.6 million for the 12 months ending December 31, 2016, from US\$2.1 million for the same period in 2015.



- Freight and duties increased by 176% to US\$2.5 million for the 12 months ending December 31, 2016 from US\$899 thousand for the same period in 2015.

The Company's gross margin was 17% for the 12 months ending December 31, 2016, one percentage point higher than the gross margin recorded for the same period in 2015.

#### *Operating Expenses*

The Company's operating expenses for the 12 months ending December 31, 2016 amounted to US\$4.4 million, 14% higher compared to the US\$3.8 million recorded during the same period in 2015.

#### *Net Income (Loss) Before Income Tax*

For the 12 months ending December 31, 2016, the Company recorded a net income before income tax of US\$8.2 million, an increase of 45% compared with US\$5.6 million recorded for the same period in 2015.

#### *Provision for Income Tax*

Provision for income tax for the 12 months ending December 31, 2016 amounted to US\$547 thousand compared with US\$516 thousand for the same period in 2015, an increase of 6%.

#### *Net Income After Tax*

The Company's net income for the 12 months ending December 31, 2016 amounted to US\$7.6 million, an increase of 49% compared with US\$5.1 million for the same period in 2015.

#### *Total Comprehensive Income*

The Company's total comprehensive income for the 12 months ending December 31, 2016 amounted to US\$7.1 Mn, compared to US\$5.3 Mn for the same period in 2015, a 34% increase.

## **Financial Condition**

### ***For the 12-month period ending December 31, 2016 compared to the period ending December 31, 2015***

#### *Assets*

The Company's cash and cash equivalent for the 12 months ending December 31, 2016 amounted to US\$24.5 million, compared with US\$29.8 million for the period ending December 31, 2015, a decrease of US\$5.3 million or 18%. The decrease was mainly due to the increase in trade receivables and inventories

Trade and other receivables for the 12 months ending December 31, 2016 amounted to US\$23.2 million, compared with US\$13.7 million for the period ending December 31, 2015, a 69% increase. The increase was mainly due increase in sales and longer AR days for certain key customers.

Inventory levels for the 12 months ending December 31, 2016 amounted to US\$15.3 million, 166% higher compared with US\$5.7 million for the period ending December 31, 2015. The increase was mainly due to longer lead times for certain major raw materials and ramp up of product volume runners.

Financial assets at fair value through profit and loss refer to short-term investments of the Company. For the 12 months ending December 31, 2016, the Company sold its short-term investments in UITF and RCBC senior notes.

The Company's HTM investments pertain to government bonds which were purchased by the Philippine Branch of CATS in compliance with the Corporation Code for foreign companies to maintain securities with the SEC. Other current assets for the 12 months ending December 31, 2016 totaled US\$2.6 million, compared with US\$2.5 million for the period ending December 31, 2015, an increase of 3%. The change was mainly due to advances to suppliers.

Non-current assets held for sale pertain to the Company's Carmelray property which is being actively marketed for sale.

Non-current assets, comprised of Property, plant and equipment (PPE), Available-for-sale (AFS) financial asset, deferred income taxes and other noncurrent assets for the 12 months ending December 31, 2016 amounted to US\$32.7million compared with US\$26.9 million for the period ending December 31, 2015, an increase of 21% The increase was mainly due to increase in PPE and non-current assets.

#### *Liabilities*

The Company's current liabilities is comprised of trade and other payables, short-term loans, long-term debt – current portion, amounts owed to related parties, deferred revenue, income tax payable, provision for warranty. For the 12 months ending December 31, 2016, current liabilities were at US\$58.5 million compared with US\$30.1 million for the period ending December 31, 2015, a 192% increase. This can be mainly attributed to increase in trade and other receivables, short-term loan, current portion of long-term debt, income tax payable, and provision for warranty.

For the 12 months ending December 31, 2016, the Company's non-current liabilities, comprised of long-term debt – net of current portion, retirement benefit obligation, and deferred income tax liability amounted to US\$38.8 million, a 100%% increase compared to US\$19.3 million for the period ending December 31, 2015. The increase was mainly due to increase in long-term debt and increase in retirement benefit obligation.

## Equity

The Company's shareholders' equity as of the 12 months ending December 31, 2016 amounted to US\$25.2 million compared with US\$71.3 million for the period ending December 31, 2015, a 65% decrease. The decrease in equity was due to acquisition of parent company shares by subsidiary.

## Liquidity and Capital Resources

For the 12 months ending December 31, 2016, the Company's principal sources of liquidity was cash from sales of its products, IPO proceeds, bank credit facilities, proceeds from its 5-year corporate notes issuance, and proceeds from its follow-on offering. The Company expects to meet its working capital, capital expenditure, dividend payment and investment requirements for the next 12 months primarily from the proceeds of the Company's Initial Public Offering, proceeds of the Company's corporate notes issuance, short-term credit facilities and cash flows from operations. It may also from time to time seek other sources of funding, which may include debt or equity financings, including dollar and peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

For the next 12 months, the Company plans to increase its production further by increasing volume deliveries to existing customers, entering into new production agreements, and expanding its customer base by intensifying its sales and marketing activities.

The following table sets out the Company's cash flows for the 12 months ending December 31, 2016 and the same period 2015:

<i>In US\$ Thousands</i>	<b>For the 12 months ending December 31</b>	
	<b>2016</b>	<b>2015</b>
Net cash flows provided by/ (used for) operating activities	(1,582)	16,996
Net cash flows provided by/ (used for) investing activities	11,390	(28,900)
Net cash flows provided by/ (used for) financing activities	(14,916)	29,019
Net increase (decrease) in cash equivalents	(5,265)	17,174

### *Net Cash Flows from Operating Activities*

Net cash flow provided by operating activities was US\$(1.6) million for the 12 months ending December 31, 2016, compared with US\$17.6 million for the same period in 2015.

For the 12 months ending December 31, 2016, net income before tax was US\$8.2 million. After adjustments for depreciation, unrealized foreign exchange gain/losses, interest income/expense, and excess of the fair value of net assets acquired over the aggregate consideration transferred, operating income before change in working capital was US\$11.6 million. Changes in working capital decreased operating income to US\$1.6 million. This was mainly due to increase in inventories and receivables, and increase in trade and other payables.

### *Investing Activities*

Net cash from investing activities amounted to US\$11.4 million for the 12 months ending December 31, 2016. Investing activities in 2016 mainly involved disposal of financial assets at FVPL, increase in PPA, and increase in other noncurrent assets. acquisition of property, plant and equipment. For the same

period in 2015, major investing activities involved investment in financial asset at FVPL, acquisition of property, plant and equipment and AFS financial asset.

#### *Financing Activities*

Net cash flow used in financing activities for the 12 months ending December 31, 2016 amounted to US\$14.9 million. Major financing activities involved proceeds from availment of short-term loans, proceeds from issuance of corporate notes, less payment of cash dividends, payment of short-term and long-term loans, interest, acquisition by subsidiary of Parent Company Shares, stock issue cost, and net movement in amounts owed by and owed to related parties. For the same period in 2015 financing activities amounted to US\$29 million and mainly involved proceed from short-term loans, proceeds from FOO, less payment of cash dividends, interest payments, payments of short term and long term loan and net movement in amounts owed by and owed to related parties.

#### **Material Changes to the Company's Audited Income Statement as of December 31, 2016 compared to the Audited Income Statement as of December 31, 2015 (increase/decrease of 5% or more)**

- 25% increase in net sales  
Sales growth for both CEC and CATS
- 23% increase in cost of sales  
Increase in net sales
- 14% increase in operating expenses  
Higher operating expenses to support expansion of operations
- 45% increase in Net Income Before Tax  
Higher sales, higher gross margins, higher operating margins
- 6% increase in Provision for Income Tax  
Higher taxable income for CEC and CATS
- 49% increase in Net Income After Tax  
Increase in sales, gross profit, and operating income before tax

#### **Material Changes to the Company's Audited Balance Sheet as of December 31, 2016 compared to the Audited Balance Sheet as of December 31, 2015 (increase/decrease of 5% or more)**

- 18% decrease in Cash and Cash Equivalent  
Increase in working capital, investments in PPE, investment, purchase by subsidiary of parent company shares
- 69% increase in Trade and Other Receivables – Net  
-Longer payment term for certain key customers
- 166% increase in inventories  
Longer lead times for certain raw materials

- 100% decrease in Financial assets at fair value through profit or loss  
Sale of short-term investments
- 21% increase in Non-current Assets  
Increase in PPE and other non-current assets
- 94% increase in Current Liabilities  
Increase in trade and other receivables, short-term loans, current portion of long-term debt, income tax payable, provision for warranty
- 97% in Non-current Liabilities  
Increase in long-term debt and retirement benefit obligation
- 65% decrease in Total Equity  
Investment by a subsidiary in parent company shares

## KEY PERFORMANCE INDICATORS

The Company's top five (5) key performance indicators are listed below:

<i>Amounts in thousand US\$, except ratios, and where indicated</i>	<b>2014</b>	<b>2015</b>	<b>2016</b>
EBITDA	9,558	8,767	11,862
EBITDA Margin	18%	15%	16%
Sales Growth	18%	15%	25%
Current Ratio (x)	3.5x	3.1 x	1.5x
Earnings per share (US\$)	0.017	0.013	0.018

*Note:*

*\*\*Earnings per Share was calculated using CHPC's average outstanding common shares for the years 2014, 2015 and 2016*

### ▪ EBITDA and EBITDA Margin

Earnings before interest, tax, depreciation and amortization (EBITDA) provides an indication of the rate of earnings growth achieved.

The EBITDA margin shows earnings before interest, tax, depreciation and amortization as a percentage of revenue. It is a measure of how efficiently revenue is converted into EBITDA.

EBITDA and EBITDA Margin are not measures of performance under PFRS, and investors should not consider EBITDA and EBITDA Margin in isolation or as alternatives to net income as an indicator of our Company's operating performance or to cash flow from operating, investing and financing activities as a measure of liquidity, or any other measures of performance under PFRS. Because there are various EBITDA and EBITDA Margin calculation methods, the Company's presentation of these measures may not be comparable to similarly titled measures used by other companies.

The following table sets out the Company's EBITDA after consolidation entries.

<b>For the years ended December 31</b>			
<b><i>In US\$ 000</i></b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Net income	5,844	5,120	7,608
Add back:			
Interest expense/income-			
net	519	941	995
Provision for			
income tax	79	516	547
Depreciation and			
amortization	2,901	2,190	2,712
<b>EBITDA</b>	<b>9,558</b>	<b>8,767</b>	<b>11,862</b>

The table sets forth a reconciliation of the Company's consolidated EBITDA to consolidated net income.

<b>For the years ended December 31</b>			
<b><i>In US\$ 000</i></b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
EBITDA	9,558	8,767	11,862
Deduct:			
Interest			
expense/(income)	(519)	(941)	(995)
Provision for			
income tax	(79)	(516)	(547)
Depreciation and			
amortization	(2,901)	(2,190)	(2,712)
<b>Net Income</b>	<b>5,844</b>	<b>5,120</b>	<b>7,608</b>

- *Sales growth*

Sales growth is a key indicator of the Company's ability to grow the business

- *Current ratio*

Current ratio measures a company's short-term liquidity, i.e. its ability to pay its debts that are due within the next 12 months. It is expressed as the ratio between current assets and current liabilities.

- *Earnings per share*

Earnings per share show the Company's attributable profit earned per share. At constant outstanding number of shares, as the Company's earnings increase, the earnings per share correspondingly increase.

## **FINANCIAL RISK DISCLOSURE**

The Company is not aware of any known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

The Company is not aware of any event that will trigger direct or contingent financial obligation that is material to the Company, including default or acceleration of any obligation.

The Company does not have any off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.

The Company has allocated up to US\$8 Million for capital expenditure for full year 2017, from the proceeds of the Company's Initial Public Offering, Follow-one Offering, Corporate Notes Issuances and cash flows from operations. It may also from time to time seek other sources of funding, which may include debt or equity financings, including dollar and peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

The Company is not aware of any trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

The Company does not have any significant elements of income or loss that did not arise from its continuing operations.

The Company does not have any seasonal aspects that had a material effect on the financial conditions or results of operations.

**ITEM 7        FINANCIAL STATEMENTS**

Please see attached Audited Financial Statements ending 31 December 2016.

**ITEM 8        CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING  
AND FINANCIAL DISCLOSURE**

None.



## PART III - CONTROL AND COMPENSATION INFORMATION

### ITEM 9 DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

Except for Mr. Roberto Juanchito T. Dispo, who was elected as Director, President and Vice Chairman of the Corporation, the rest of the Directors and officers named herein have served in their respective positions since May 11 2015. The Directors of the Corporation were elected at the annual meeting of the stockholders of the Corporation to hold office until the next succeeding annual meeting of the stockholders and until the respective successors have been elected and qualified.

The Officers were elected by the Board of Directors at the organizational meeting of the Board on May 11 2016. The Board also elected during the said meeting the chairman and members of the Audit Committee, the Nominations Committee, and the Compensation Committee.

The following is a brief profile of the Corporation's Directors and Officers for the year 2016-2017.

**Jerry Liu**, 69 years old was elected as the Company's Chairman and President on May 25, 2012. He is concurrently President/CEO of CEC, Director of Cirtek Land and Cayon Holdings, Inc. and Chairman of Silicon Link, Inc., Mr. Liu holds a Bachelor of Science degree in Physics from Chung Yuan University of Taiwan and an MBA from the University of the East.

**Roberto Juanchito T. Dispo**, 52 years old was elected Vice Chairman and Director of the Company on January 4, 2016. Mr. Dispo is also Vice Chairman of Cosco Capital, and sits on the Board of PB Com Bank and Axa Philippines. Prior to joining the Company, Mr. Dispo was President and Director of First Metro Investment Corporation. Mr. Dispo holds BSC Economics and Business Management from San Sebastian College and Pamantasan ng Lungsod ng Maynila, respectively. He also completed Masters in Business Administration and Masters in Business Economics from Pamantasan ng Lungsod ng Maynila and the University of Asia & the Pacific, respectively.

**Nicanor Lizares**, 53 years old was elected as a director of the Company on February 17, 2011. He is also a director of Pancake House, Inc., and Cirtek Holdings, Inc. He is a partner of Aureos Philippine Advisers, Inc., Mr. Lizares has a Master of Science in Industrial Economics from the Center for Research and Communications and an M.A. in International Relations from Boston University.

**Anthony Buyawe**, 49 years old was elected as the Company's Treasurer and Chief Financial Officer on February 17, 2011. He is concurrently the CFO of CEC, CEIC and the Figaro Coffee Company. Prior to joining the Company, Mr. Buyawe was CFO of ITP Technologies (2003 – 2005) and SMEDC (2008-2009) and Senior Director of Ernst and Young (2005-2008). Mr. Buyawe obtained his BA degree from the University of the Philippines and his MBA from the Asian Institute of Management.

**Rafael G. Estrada**, 64, is Chairman and President of First National Holdings Corporation and Chairman of Delta Agrivet Commercial, Inc. and Waterfor Calasiao, Inc. Previously, Mr. Estrada served as Vice Chairman of the Social Security System, and served as director for Land Bank of the Philippines, Union Bank of the Philippines, Manila Doctors Hospital and Medical Center Manila. He obtained is BS Management degree from the University of Sto. Tomas and his MBA (candidate) from the University of Virginia.

**Michael Stephen Liu**, 32 years old, is currently the General Manager of Cirtek Advanced Technology and Solutions (CATSI) a Cirtek company catering to the telecom and wireless broadband space. He was first elected as Director on May 11, 2015. Mr. Liu obtained his degree in Electronics and Communications Engineering from De La Salle University in 2007 and is a licensed Electrical Engineer.

**Brian Gregory T. Liu**, 30 years old, has been the Assistant Corporate Secretary of the Company since March 2011. He is concurrently a stockholder in Cirtek Electronics Corporation, Cirtek Land Corporation, and Turborg Trading. Mr. Liu trained as an Operations Trainee in Dominos Pizza from 2001 to 2002, then as an Analyst in Evergreen Stockbrokerage & Securities Inc. from 2003 to 2005. He obtained his degree in Management in Financial Institutions from De La Salle University in 2009.

**Martin Ignacio P. Lorenzo**, 51 years old was elected as an Independent Director of the Company on February 17, 2011 and shall serve as such for one year or until his successor is elected and qualified. Mr. Lorenzo is the Chairman and President of Pancake House, Inc and Chairman as well as partner of Macondray & Co., Inc., Mr. Lorenzo graduated from the Ateneo de Manila University with a Bachelor of Science in Management Engineering and earned his MBA from the Wharton Graduate School, University of Pennsylvania in 1990.

**Ernest Fritz Server**, 73 years old, was elected as an Independent Director of the Company on February 17, 2011 and shall serve as such for one year or until his successor is elected and qualified. Mr. Server serves as the President of Multimedia Telephony Inc., Vice Chairman of RFM Corporation and a director of Philippine Township, Inc. Previously, Mr. Server served as Vice Chairman of the Commercial Bank of Manila, Consumer Bank and Cosmos Bottling Company and President of Philippine Home Cable Holdings, Inc. and Philam Fund. Mr. Server graduated from the Ateneo de Manila University in 1963 with degree in Bachelor of Arts degree in Economics and holds an MBA Major in Banking and Finance from the University of Pennsylvania, Wharton Graduate School.

#### **Key Officers**

**Tadeo Hilado**, 64 years old, was elected as the Company's Corporate Secretary on February 17, 2011. Atty. Tadeo is a senior partner at the Angara Abello Concepcion Regala & Cruz law offices. He also serves as director and corporate secretary of several companies including Cocoa Specialties, Inc., Nissan Motor Philippines, Inc., Nissan Autoparts Manufacturing Corporation, Sumisetsu Philippines, Inc., and Samsonite Philippines, Inc., among others. Atty. Tadeo holds a Bachelor of Arts degree from the De La Salle University, Bachelor of Laws degree from the University of the Philippines and a Master of Laws degree from the University of Michigan.

## ITEM 10 EXECUTIVE COMPENSATION

As a newly incorporated holding company, the Company has not paid or accrued any compensation prior to 2011. The aggregate compensation during the last fiscal year and to be paid in the ensuing fiscal year to the company's 4 most highly compensated officers and to its officers and directors as a Cirtek Group unnamed is as follows:

Name & Position	Year	Salary	Bonus
Jerry Liu (Chairman) Roberto Juanchito Dispo Anthony Buyawe (CFO)  Rolando Enriquez (Vice President CATS) Jorge Aguilar (President CEC	2016	₱40.0 million	8.0 million
Aggregate compensation paid to all officers and directors as a Cirtek Group unnamed	2015	₱ 45.0 million	₱ 10.0 million

Name & Position	Year	Estimated Salary	Estimated Bonus
Jerry Liu (Chairman) Roberto Juanchito Dispo (President) Anthony Buyawe (CFO) Rolando Enriquez (Vice President CATS) Jorge Aguilar (President CEC)	2017	₱42.0 million	₱8.4 million
Aggregate compensation paid to all officers and directors as a Cirtek Group unnamed	2016	₱ 48 million	₱ 12.0 million

### Compensation of Directors

Under the By-Laws of the Company, by resolution of the Board, each director, shall receive a reasonable per diem allowance for his attendance at each meeting of the Board. As compensation, the Board shall receive and allocate an amount of not more than ten percent (10%) of the net income before income tax of the corporation during the preceding year. Such compensation shall be determined and apportioned among directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least majority of the outstanding capital stock at a regular or special meeting of the stockholders.

### Standard Arrangements and Other Arrangements

There are no other arrangements for compensation either by way of payments for committee participation or special assignments.

There are no other arrangements for compensation either by way of payments for committee participation or special assignments other than reasonable per diem. There are also no outstanding warrants or options held by the Company's Chief Executive Officer, other officers and/or directors.

### **Employment Contracts, Termination of Employment, Change-in-Control Arrangements**

The Cirtek Group has executed employment contract with some of its key officers. Such contracts provide the customary provision on job description, benefits, confidentiality, non-compete, and non-solicitation clauses. There are no special retirement plans for executives. There is also no existing arrangement for compensation to be received by any executive officer from the Company in the event of change in control of the Company.

### **Warrants and Options**

There are no outstanding warrants and options held by any of the Company's directors and executive officers.

## **ITEM 11 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Owners of record of more than 5% of the corporation's voting securities as of 31 March 2017:

<b>Title of Class</b>	<b>Name, Address of Record Owner, and Relationship with Issuer</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>Number of Shares Held</b>	<b>% of Class</b>
Common	Camerton, Inc.	Camerton, Inc.	Filipino	208,888,558	49.85
Common	PCD Nominee Corporation	PCD Nominee Corporation	Filipino	143,816,827	34.32
Common	Cirtek Electronics Corporation	Cirtek Electronics Corporation	Filipino	49,371,700	11.78
Common	Total			402,077,085	95.95%

Under PCD account, the following participants hold shares representing more than 5% of the company's outstanding shares:

<b>Participant</b>	<b>Number of Shares</b>	<b>Percentage</b>
Guild Securities	67,072,828	19%
Citibank N.A.	27,561,862	6.6%

Except as stated above, the corporation has no knowledge of any person or any Cirtek Group who, directly or indirectly, is the beneficial owner of more than 5% of the corporation's outstanding shares or who has a voting power, voting trust, or any similar agreement with respect to shares comprising more than 5% of the corporation's outstanding common stock.

The number of common shares beneficially owned by directors and executive officers as of 31 March 2017 are as follows:

<b>Title of Class</b>	<b>Name of Beneficial Owner</b>	<b>No. of Shares Held</b>	<b>Citizenship</b>	<b>Percent</b>
Common	Jerry Liu	1	Chinese	0.0000
Common	Rafael G. Estrada	1	Filipino	0.0000
Common	Nicanor Lizares	1	Filipino	0.0000
Common	Anthony Buyawe	1	Filipino	0.0000
Common	Roberto Juanchito Dispo	1	Filipino	0.0000
Common	Martin Lorenzo	1	Filipino	0.0000
Common	Ernest Fritz Server	1	Filipino	0.0000
Common	Michael Stephen Liu	1	Filipino	0.0000
Common	Brian Gregory Liu	1	Filipino	0.0000

#### **Voting Trust Holder of 5% or More**

The corporation is not aware of any person holding more than 5% of the common shares of the corporation under a voting trust or similar agreement as there has been no voting trust agreement which has been filed with the corporation and the Securities and Exchange Commission.

#### **Description of any arrangement which may result in a change in control of the corporation**

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

#### **Item 12 Certain Relationships and Related Transactions**

The Liu family, primarily through Camerton, Inc., is the largest shareholder in the Corporation, and as of March 31 2016 owns 208,888,558 shares, or approximately 49.85% of the Corporation's issued and outstanding common shares.

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; and
- c. Payments and /or reimbursements of expenses made or in behalf of the affiliates
- d. Rental of land with Cayon Holdings, Inc. (Cayon), an affiliate, where the building 2 of the Group is situated

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
		2016	2015	2016	2015		
<i>Other related parties</i>							
CLC	Rental	\$12,776	\$13,515	\$446,970	\$434,194	Due on demand; non-interest bearing	Unsecured
Cayon	Rental	11,690	12,025	73,182	61,492	Due on demand; non-interest bearing	Unsecured
				\$520,152	\$495,686		

- b. Amounts owed by related parties

		Transactions		Balances as of		Terms	Conditions
		2016	2015	2016	2015		
<i>Other related parties</i>							
Camerton	Reimbursement of expenses	\$78,833	\$—	\$111,994	\$33,161	Due on demand; non-interest bearing	Unsecured; no impairment
CHI	Advances for working capital	—	—	1,809,256	1,809,256	Due on demand; non-interest bearing	Unsecured; no impairment
Cayon	Reimbursement of expenses	—	—	206,284	206,284	Due on demand; non-interest bearing	Unsecured; no impairment
Jerry Liu	Reimbursement of expenses	1,750,990	5,483,674	10,309,041	8,558,051	Due on demand; non-interest bearing	Unsecured; no impairment
				\$12,436,575	\$10,606,752		

- c. Rental deposit

		Transactions		Balances as of		Terms	Conditions
		2016	2015	2016	2015		
<i>Other related parties</i>							
CLC		\$—	\$—	\$1,131,399	\$1,131,399	Due on demand; non-interest bearing	Unsecured; no impairment

The above related parties, except Jerry Liu, are entities under common control of the ultimate parent company. Jerry Liu is a stockholder and the chairman of the Parent Company's BOD.

Transactions with CHI, Charmview Enterprises Ltd (CEL) and officer

*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 lines 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, 2016 and 2015 pertains to the outstanding receivable arising from the assignments and set-off agreements as discussed above.

#### Transactions with Camerton

Camerton is the majority shareholder of the Parent Company. Amounts owed by Camerton as of December 31, 2016 and 2015 pertain mainly to working capital advances and advances for incorporation expenses of Camerton.

#### 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 \$1.1 million as current asset as the deposit has become due and demandable anytime from CLC (see Note 9).

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 P=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 \$12,777, \$13,515 and \$14,434 in 2016, 2015 and 2014, 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 P=582,144 for a period of 10 years and renewable thereafter. Total rent expense charged to operations amounted to \$11,690, \$12,025 and \$13,114 in 2016, 2015 and 2014, respectively.

## **PART IV – CORPORATE GOVERNANCE**

### **ITEM 13 CORPORATE GOVERNANCE**

The Corporation is committed to the ideals of good corporate governance. In compliance with the SEC requirement, The Corporation is studying best practices in good corporate governance to further improve the current corporate governance practices of the Corporation and to develop an efficient and effective evaluation system to measure or determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance.

Corporate governance rules/principles were established to ensure that the interest of stakeholders are always taken into account; that directors, officers and employees are conducting business in a safe and sound manner; and that transactions entered into between the Corporation and related interests are conducted at arm's length basis and in the regular course of business. There are no incidences of deviation from the Corporation's Manual of Corporate Governance.

The Corporation has sufficient number of independent directors that gives the assurance of independent views and perspective.

## **PART V - EXHIBITS AND SCHEDULES**

### **ITEM 14 EXHIBITS**

<b>Schedule</b>	<b>Contents</b>
I	Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-subsiidiaries
II	Schedule of All Effective Standards and Interpretations Under Philippine Financial Reporting Standards
III	Reconciliation of Retained Earnings Available for Dividend Declaration
IV	Financial Soundness Indicators
<i>Supplementary Schedules</i>	
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties)
C	Amounts Receivable from Related Parties and Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets - Other Assets
E	Long-Term Debt
F	Indebtedness to Related Parties
G	Guarantees of Securities of Other Issuers
H	Capital Stock



**(b) Reports on SEC Form 17-C**

The following disclosures were filed during the period June to December 2013:

July 4, 2014                      Annual Corporate Governance Report for 2012

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of

APR 17 2017 on MAKATI CITY

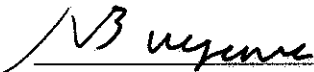
By:




JERRY LIU  
Chairman of the Board



ROBERTO JUANCHITO DISPO  
President



ANTHONY BUYAWE  
Chief Financial Officer/Controller



TADEO HILADO  
Corporate Secretary

APR 17 2017

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_ affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
<u>JERRY LIU</u>	<u>307391436</u>	<u>1 JULY 2013</u>	<u>AKNA</u>
<u>ROBERTO DISPO</u>	<u>688527897</u>	<u>1 JULY 2013</u>	<u>AKA MANILA</u>
<u>ANTHONY BUYAWE</u>	<u>EC8472013</u>	<u>2 AUG. 2016</u>	<u>AKA MANILA</u>
<u>TADEO HILADO</u>	<u>NK2482</u>	<u>25 FEB. 2017</u>	<u>TRAGUIC</u>

Doc. No. 295  
Page No. 50  
Book No. 551  
Series of 2017

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**Notary Public**  
**ROBERT M. RAMIREZ**  
**NOTARY PUBLIC**  
**UNTIL DEC. 31, 2017**  
2734 M. AURORA ST. MAKATI CITY  
IBP NO. 1052369 / CY 2015 APPT. NO. M, 17  
ROLL NO. 28947 / MCLE-4 NO. 0006324 / 11-22-16  
PTR NO. MKT. 5909552 / 1-3-17 MAKATI CITY



Building a better  
working world

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

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

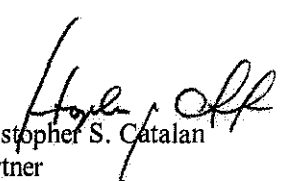
BOA/PRC Reg. No. 0001,  
December 14, 2015, valid until December 31, 2018  
SEC Accreditation No. 0012-FR-4 (Group A),  
November 10, 2015, valid until November 9, 2018

## INDEPENDENT AUDITOR'S REPORT 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 the accompanying consolidated financial statements of Cirtek Holdings Philippines Corporation and its Subsidiaries (the Group) as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 in accordance with Philippine Standards on Auditing, and have issued our report thereon dated April 12, 2017. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules I to IV 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. 08-001998-109-2015,

March 4, 2015, valid until March 3, 2018

PTR No. 5908679, January 3, 2017, Makati City

April 12, 2017

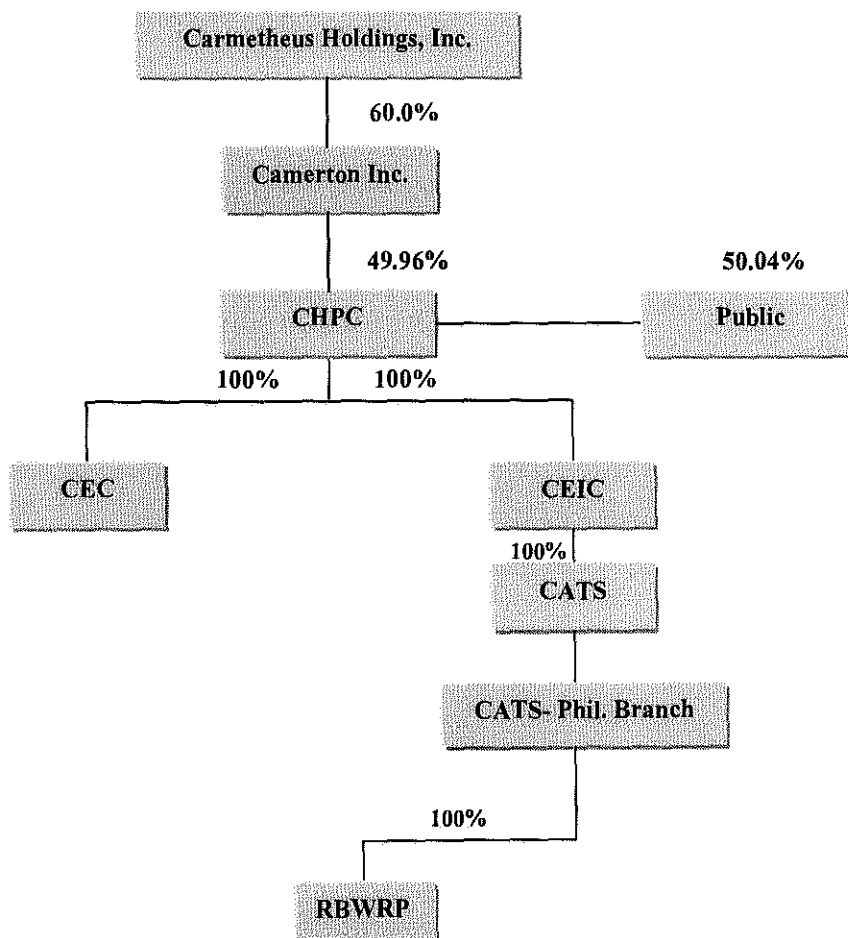


**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Schedule</b>	<b>Contents</b>
<i>Index to the Consolidated Financial Statements</i>	
I	Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-subsiidiaries
II	Schedule of All Effective Standards and Interpretations Under Philippine Financial Reporting Standards
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H	Capital Stock



**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, 2016**



**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SCHEDULE OF EFFECTIVE STANDARDS AND INTERPRETATIONS**  
**DECEMBER 31, 2016**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRS Practice Statement Management Commentary</b>				✓
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	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			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*		✓	
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Amendments to PFRS 3 : Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3 : Scope Exceptions for Joint Arrangements			✓

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4*		✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Changes in Method 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	✓		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
	Amendments to PFRS 7: Servicing Contracts			✓
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 Asset			✓
PFRS 9	Financial Instruments*		✓	

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		✓	
<b>PFRS 11</b>	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Clarification of the Scope of the Standard*		✓	
<b>PFRS 13</b>	Fair Value Measurement	✓		
	Amendments to PFRS 13 : Portfolio Exception			✓
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers*		✓	
<b>PFRS 16</b>	Leases*		✓	
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	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	✓		

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.





PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
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	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16 and 38: Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
	Regional Market Issue Regarding Discount Rate	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>PAS 23 (Revised)</b>	Borrowing Costs	✓		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
	Key Management Personnel	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Amended)</b>	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendment: Equity Method in Separate Financial Statements	✓		
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*		✓	
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	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	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
	Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendment to PAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	✓		

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
<b>PAS 39</b>	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			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
<b>PAS 40</b>	Investment Property			✓
	Interrelationship between PFRS 3 and PAS 40			✓
	Amendments to PAS 40: Transfers of Investment Property*			✓
<b>PAS 41</b>	Agriculture			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
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 8	Scope of PFRS 2			✓
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 11	PFRS 2- Group and Treasury Share Transactions			✓
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	✓		

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration*		✓	
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

*\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.*



**CIRTEK HOLDINGS PHILIPPINES CORPORATION**  
**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR**  
**DIVIDEND DECLARATION**  
**DECEMBER 31, 2016**

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Unappropriated retained earnings, as adjusted, beginning		\$405,556
<b>Add: Net income actually earned/realized during the period</b>		
Net income during the period closed to retained earnings	\$3,670,480	
Add: Non-actual losses	-	
Less: Non-actual/unrealized income net of tax	-	
<b>Net income actually earned during the period</b>		<b>3,670,480</b>
Unappropriated retained earnings, as adjusted, ending		4,076,036
Less: Cash dividends declared		(3,620,000)
<b>Retained earnings available for dividend declaration</b>		<b>\$456,036</b>

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**CIRTEK HOLDINGS PHILIPPINES CORPORATION****FINANCIAL SOUNDNESS INDICATORS****DECEMBER 31, 2016**

<b>Ratios</b>	<b>Formula</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
(i) Current Ratio	Current Assets/Current Liabilities	<b>1.54</b>	3.11
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	<b>2.99</b>	0.48
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	<b>2.02</b>	0.06
(iii) Asset to Equity Ratio	Total Assets/Total Equity	<b>4.86</b>	1.69
(iv) Interest Cover Ratio	EBITDA/Interest Expense	<b>8.90</b>	6.90
(v) Profitability Ratios			
GP Margin	Gross Profit/Revenues	<b>0.17</b>	0.16
Net Profit Margin	Net Income/Revenues	<b>0.10</b>	0.09
EBITDA Margin	EBITDA/Revenues	<b>0.16</b>	0.15
Return on Assets	Net Income/Total Assets	<b>0.06</b>	0.04
Return on Equity	Net Income/Total Equity	<b>0.30</b>	0.07



SCHEDULE A

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

	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	\$24,511,493	\$24,511,493	\$172,196
Trade and other receivables	N/A	23,172,423	23,172,423	—
Financial asset at FVPL	N/A	503	503	199,537
Amounts owed by related parties	N/A	12,436,575	12,436,575	—
Other current assets:				
Rental deposit	N/A	1,131,399	1,131,399	—
Security deposit	N/A	180,387	180,387	—
Loan to employees	N/A	239,823	239,823	—
HTM investments	N/A	371,520	371,520	8,362
AFS financial asset	N/A	1,667,000	1,667,000	—
Other noncurrent assets:				
Loans to employees	N/A	7,889	7,889	—
Miscellaneous deposits	N/A	135,559	135,559	—
		\$63,854,571	\$63,854,571	\$380,095





**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, 2016**

**Amounts Receivable from Officers, Employees and 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
Jerry Liu (Chairman)	\$8,558,051	\$1,750,990	\$-	\$10,309,041	\$-	\$10,309,041
Employees	122,062	30,306	35,866	116,502	-	116,502
	<b>\$8,680,113</b>	<b>\$1,781,296</b>	<b>\$35,866</b>	<b>\$10,425,543</b>	<b>\$-</b>	<b>\$10,425,543</b>

**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, Inc.	\$1,809,256	\$-	\$-	\$1,809,256	\$-	\$1,809,256
Camerton, Inc.	33,161	78,833	-	111,994	-	111,994
Cayon Holdings, Inc.	206,284	-	-	206,284	-	206,284
	<b>\$2,048,701</b>	<b>\$78,833</b>	<b>\$-</b>	<b>\$2,127,534</b>	<b>\$-</b>	<b>\$2,127,534</b>



**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 PERIOD ENDED DECEMBER 31, 2016**

<b>Receivables from related parties which are eliminated during the consolidation</b>							
<b>Name and designation of debtor</b>	<b>Balance at beginning of period</b>	<b>Additions</b>	<b>Amount collected</b>	<b>Amount written off</b>	<b>Current</b>	<b>Noncurrent</b>	<b>Balance at end of period</b>
Cirtek Electronics Corporation	\$13,121,898	\$61,154,767	32,474,001	\$-	\$41,802,664	\$-	\$41,802,664
Cirtek Electronics International Corporation	21,851,682	20,170,548	19,006,369	-	23,015,861	-	23,015,861
Cirtek Holdings Philippines Corporation	40,769,256	49,566,534	-	-	90,335,790	-	90,335,790
Cirtek Advanced Technologies and Solutions, Inc.	4,354,635	12,641	-	-	4,367,276	-	4,367,276
RBW Realty and Property, Inc.	297,394	-	274,775	-	22,619	-	22,619
	<b>\$80,394,865</b>	<b>\$130,904,490</b>	<b>\$51,755,145</b>	<b>\$-</b>	<b>\$159,544,210</b>	<b>\$-</b>	<b>\$159,544,210</b>

<b>Amounts owed by related parties which are eliminated during the consolidation</b>							
<b>Name and designation of debtor</b>	<b>Balance at beginning of period</b>	<b>Additions</b>	<b>Amount collected</b>	<b>Amount written off</b>	<b>Current</b>	<b>Not current</b>	<b>Balance at end of period</b>
Cirtek Electronics Corporation	\$50,897,189	\$69,737,287	\$18,622,689	\$-	\$102,011,787	\$-	\$102,011,787
Cirtek Electronics International Corporation	9,000,000	1,131,522	938,706	-	9,192,816	-	9,192,816
Cirtek Advanced Technologies and Solutions, Inc.	5,877,751	19,183,720	834,053	-	24,227,418	-	24,227,418
Cirtek Holdings Philippines Corporation	10,265,290	41,696,069	32,023,638	-	19,937,721	-	19,937,721
RBW Realty and Property, Inc.	4,354,635	-	180,167	-	4,174,468	-	4,174,468
	<b>\$80,394,865</b>	<b>\$131,748,598</b>	<b>\$52,599,253</b>	<b>\$-</b>	<b>\$159,544,210</b>	<b>\$-</b>	<b>\$159,544,210</b>



SCHEDULE D

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER**  
**ASSETS**  
**AS OF DECEMBER 31, 2016**

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	\$569,942	\$547,166	\$194,888	\$-	\$-	\$922,220



**SCHEDULE E**

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT**  
**AS OF DECEMBER 31, 2016**

Title of issue and type of obligation	Long-term Debt		Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
	Amount authorized by indenture			
Notes payable	\$44,250,000		\$6,882,126	\$36,977,845



**SCHEDULE F**

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED**  
**PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**  
**AS OF DECEMBER 31, 2016**

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		



**SCHEDULE G**

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF**  
**OTHER ISSUERS**  
**AS OF DECEMBER 31, 2016**

<b>Guarantees of Securities of Other Issuers</b>				
<b>Name of issuing entity of securities guaranteed by the company for which this statement is filed</b>	<b>Title of issue of each class of securities guaranteed</b>	<b>Total amount guaranteed and outstanding</b>	<b>Amount owned by person for which statement is file</b>	<b>Nature of guarantee</b>
<b>Not Applicable</b>				



SCHEDULE H

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK**  
**AS OF DECEMBER 31, 2016**

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 Stock	400,000,000	—	—	—	—	—



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

- when 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 income 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 benefits 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 differences, and the carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized except:

- when 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 income 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 income 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 income tax asset to be recovered.

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

Income tax relating to items recognized directly in equity is recognized in other comprehensive income and not in the parent company statement of comprehensive income.

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

#### Provisions and Contingencies

Provisions are recognized when the Parent Company 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 Parent Company 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 the parent company statement of comprehensive income, 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.

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

#### Events After the Balance Sheet Date

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

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### **3. Summary of Significant Judgments, Accounting Estimates and Assumptions**

The preparation of the parent company 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, at the reporting date.

However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

#### Judgments

In the process of applying the Parent Company's accounting policies, management has made the following judgment, apart from those involving estimations, which had the most significant effect on the amounts recognized in the parent company financial statements:

##### *Determining functional currency*

Based on the economic substance of underlying circumstances relevant to the Parent Company, the functional currency of the Parent Company has been determined to be the US dollar. The US dollar is the currency of the primary economic environment in which the Parent Company operates and it is the currency that mainly influences operating activities of the Parent Company.

##### *Impairment of investments in subsidiaries*

The Parent Company assesses at the end of each balance sheet date whether there is any indication that its investments in subsidiaries are impaired. If any such indication exists, the Parent Company estimates the recoverable amount of its investments. Determining the fair value of these investments, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the parent company financial statements. Future events could cause management to conclude that these investments are impaired. Any resulting impairment loss could have a material adverse impact on the Parent Company's financial position and financial performance. The preparation of the estimated future cash flows involves significant judgment and estimations. While management believes that the assumptions made are appropriate and reasonable, significant changes in management assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.



Based on management's assessment, there is no indication of impairment on the Parent Company's investments in subsidiaries as of December 31, 2016 and 2015. The carrying value of investments in subsidiaries amounted to \$5,981,499 as of December 31, 2016 and 2015 (see Note 6).

*Impairment of AFS financial asset*

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, 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.

Based on management's evaluation, no indication of impairment was noted on the Parent Company's AFS financial asset as of December 31, 2016 and 2015.

Estimation Uncertainty

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.

*Estimation of allowance for doubtful accounts*

Allowance for doubtful accounts is provided for accounts that are specifically identified to be doubtful of collection. The level of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts, such as historical performance of counterparties, among others. In addition to specific allowance against individually significant receivables, the Parent Company also assesses, at least on an annual basis, a collective impairment allowance against credit exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally recognized.

As of December 31, 2016 and 2015, management has assessed that the amounts owed by related parties are fully recoverable. The carrying value of amounts owed by related parties amounted to \$97,931,908 and \$44,692,827 as of December 31, 2016 and 2015, respectively (see Note 11).

As of December 31, 2016 and 2015, management has assessed that the carrying amount of the Parent Company's investments in subsidiaries are fully recoverable. The carrying value of investments in subsidiaries amounted to \$5,981,499 as of December 31, 2016 and 2015 (see Note 6).

*Recognition of deferred income tax assets*

The Parent Company 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.

Management believes that sufficient future taxable profits will not be available in the near future against which the carryforward benefits of NOLCO and unrealized foreign exchange losses can be utilized. Carryforward benefits of NOLCO and unrealized foreign exchange losses for which no deferred income tax assets were recognized amounted to \$3,432,332 and \$2,784,422 as of December 31, 2016 and 2015, respectively (see Note 13).



#### 4. Cash and Cash Equivalents

	2016	2015
Cash on hand and in banks	\$13,322,629	\$2,279,706
Cash equivalents	—	14,980,876
	<u>\$13,322,629</u>	<u>\$17,260,582</u>

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents pertain to the Company's money market placements that are readily convertible to cash and earns interest at respective short-term investment rates.

Interest income earned from cash and cash equivalents amounted to \$158,693 and \$4,019 in 2016 and 2015, respectively.

#### 5. Financial Asset at FVPL

The reconciliation of carrying amount of financial asset at FVPL is as follows:

	2016	2015
Beginning of year	\$8,767,580	\$—
Disposal	(8,861,250)	—
Gain on disposal	93,670	—
Acquisition during the year	—	8,500,000
Fair value gains	—	267,580
End of year	<u>\$—</u>	<u>\$8,767,580</u>

On January 21, 2015, the Parent Company acquired \$8.5 million of the USD Senior Unsecured Fixed Rate Notes offered by RCBC via a drawdown from its \$1.0 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. 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 Parent Company recognized fair value gains amounting to \$267,580 in the parent company statement of comprehensive income.

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

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



## 6. Investments in Subsidiaries

The Parent Company's subsidiaries and the corresponding percentage equity ownership are as follows:

Subsidiaries	Country of Incorporation	Percentage of Ownership		Number of Shares
		Direct	Indirect	
CEC	Philippines	100	—	155,511,952
CEIC	BVI	100	—	50,000
Cirtek Advanced Technologies Solutions, Inc. (CATS), (formerly known as RBWI)	BVI	—	100	—
CATS - Philippine Branch	Philippines	—	100	—
Remec Broadband Wireless Real Property (RBWRP)	Philippines	—	100	—

The details of the Parent Company's investments in subsidiaries as of December 31 follow:

	2016	2015
CEC	\$2,990,749	\$2,990,749
CEIC	2,990,750	2,990,750
	<b>\$5,981,499</b>	<b>\$5,981,499</b>

CEC manufactures standard integrated circuits, discrete, hybrid and potential new packages and provides complete turnkey solutions that include wafer probing, wafer back grinding, assembly and packaging and final testing of semiconductor devices. CEIC sells integrated circuits principally in the United States of America and assigns the production of the same to CEC. CATS - Philippine Branch is primarily engaged in the manufacture, fabrication and design of microwave and millimeter wave components and subsystems primarily for export.

## 7. AFS Financial Asset

The Parent Company's AFS financial asset pertains to the unquoted investment in CloudMondo, Ltd. which is acquired at a cost of \$1,667,000 in 2015.

## 8. Accrued Expenses

	2016	2015
Accrued interest	\$100,670	\$77,085
Accrued professional fees	56,389	56,366
	<b>\$157,059</b>	<b>\$133,451</b>



## 9. Short-term Loans

On September 23, 2015, the Parent Company entered into a loan agreement with RCBC for a 180-day dollar-denominated loan amounting to \$2,900,000, subject to an interest rate of 2.25% per annum. In 2016, total payments for the loan amounted to \$290,000. The Parent Company renewed the loan upon maturity.

On October 26, 2015, the Parent Company obtained an additional 360-day dollar-denominated loan amounting to \$1,600,000 from RCBC subject to 2.25% interest per annum. The Parent Company renewed the loan upon maturity.

On September 26, 2016, the Parent Company obtained an additional 360-day dollar denominated loan amounting to \$4,642,857 from RCBC subject to 2.50% interest per annum.

As of December 31, 2016 and 2015, the outstanding balance of short-term loans amounted to \$8,852,857 and \$4,500,000, respectively.

Interest expense incurred from these short-term loan facilities amounted to \$132,094 and \$22,594 in 2016 and 2015, respectively.

## 10. Long-term Debt

	2016	2015
Principal	\$44,250,000	\$17,750,000
Less deferred financing costs	(390,029)	(154,780)
	43,859,971	17,595,220
Less current portion - net of deferred financing costs amounting to \$272,155 in 2016 and \$71,699 in 2015	(6,882,126)	(3,433,849)
	\$36,977,845	\$14,161,371

On July 25, 2012, the Parent Company entered into a \$10.0 million Notes Facility Agreement (NFA) 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 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.



On July 25, 2012, CEC and CEIC signed their respective Suretyship 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). Under this agreement, the Surety, solidarily with the Parent Company, binds itself to the Finance Parties, to perform and pay any and all obligations under the NFA.

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 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.

The debt service coverage ratio shall be tested annually based on the Issuer's most recent audited consolidated financial statements.

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.



In accordance with the NFA, the following 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.

The debt service coverage ratio shall be tested annually based on the Issuer's most recent audited consolidated financial statements.

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.

On September 20, 2016, CEC signed Suretyship Agreement with with Bank of the Philippine Islands (BPI) (Initial Holder), acting through its Asset Management and Trust Group (Facility and Paying Agent) and BPI (Arranger). Under this agreement, the Surety, solidarily with the Parent Company, binds itself to the Finance Parties, to perform and pay any and all obligations under the NFA.

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 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.

The debt service coverage ratio shall be tested annually based on the Issuer's most recent audited consolidated financial statements.



The Parent Company is in compliance with the debt covenants as of December 31, 2016 and 2015.

Total interest expense charged to the parent company statements of comprehensive income amounted to \$1,002,868 and \$757,709 in 2016 and 2015, respectively.

The movement of deferred financing cost is as follows:

	2016	2015
Unamortized deferred financing cost at beginning	\$154,780	\$65,320
Transaction costs recognized	321,605	161,159
Amortization of deferred financing cost	(86,356)	(71,699)
Unamortized deferred financing cost at year end	\$390,029	\$154,780

## 11. 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 Parent Company has entered into transactions with affiliates. The significant transactions consist of the following:

- Working capital advances to subsidiaries
- Rental of office space from CEC
- Payments and reimbursements of expenses made and in behalf of the subsidiaries
- Guaranty
- Dividends received from CEC

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

- Amounts owed by related parties

		Amount		Outstanding Balances		Terms	Conditions
		2016	2015	2016	2015		
Subsidiaries CEC	Working capital advances	\$49,566,534	\$3,396,780	\$81,335,790	\$31,769,256	Due and demandable; non-interest bearing	Unsecured, no impairment
	Dividends	4,820,000	3,050,000	-	-	Due and demandable; non-interest bearing	Unsecured, no impairment
CEIC	Working capital advances	-	-	9,000,000	9,000,000	Due and demandable; non-interest bearing	Unsecured, no impairment
Other related party CHI	Result of assignments and settlement in 2011	-	-	1,809,256	1,809,256	Due and demandable; non-interest bearing	Unsecured, no impairment

(Forward)





		Amount		Outstanding Balances		Terms	Conditions
		2016	2015	2016	2015		
Jerry Liu	Advances	\$3,672,547	\$2,114,315	\$5,786,862	\$2,114,315	Due and demandable; non-interest bearing	Unsecured, no impairment
				\$97,931,908	\$44,692,827		

b. Amounts owed to related parties

		Amount		Outstanding Balances		Terms	Conditions
		2016	2015	2016	2015		
<i>Subsidiaries</i>							
CEC	Rental of office space	\$193	\$511	\$10	\$203	Due and demandable; non-interest bearing	Unsecured
	Payments and reimbursement of expenses made in behalf of CHPC	9,672,644	13,477,519	17,597,856	7,925,222	Due and demandable; non-interest bearing	Unsecured
CEIC	Result of assignments and settlement in 2011; payment	-	-	2,339,865	2,339,865	Due and demandable; non-interest bearing	Unsecured
				\$19,937,731	\$10,265,290		

The above related parties, except Jerry Liu, are entities under common control of the ultimate parent company. Jerry Liu is a stockholder and the chairman of the Parent Company's BOD.

*Transaction with CHI and officer*

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 CHPC and Subsidiaries (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 14).

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, 2016 and 2015 pertains to the outstanding receivable arising from the assignments and set-off agreements as discussed above.

*Suretyship agreements*

On July 25, 2012, CEC and CEIC signed their respective Suretyship 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). Under this agreement, the Surety, solidarily with the Parent Company, binds itself to the Finance Parties, to perform and pay any and all obligations under the NFA (see Note 10).



On September 20, 2016, CEC signed Suretyship Agreement with Bank of the Philippine Islands (BPI) (Initial Holder), acting through its Asset Management and Trust Group (Facility and Paying Agent) and BPI (Arranger). Under this agreement, the Surety, solidarily with the Parent Company, binds itself to the Finance Parties, to perform and pay any and all obligations under the NFA (see Note 10).

The accounting and administrative functions are provided by CEC at no cost to the Parent Company.

## 12. General and Administrative Expenses

	2016	2015
Management fees	\$103,898	\$64,278
Professional fees	61,561	111,946
Service fee	50,478	14,188
Taxes and licenses	20,651	102,954
Depreciation	16,939	—
Advertising	7,147	15,050
Office supplies	4,458	2,914
Marketing fee	—	10,000
Penalties	—	6,169
Others	12,908	13,303
	<u>\$278,040</u>	<u>\$340,802</u>

## 13. Income Taxes

a. There was no provision for current income tax in 2016 and 2015 because of the Parent Company's taxable loss position. The Parent Company is subjected to MCIT effective 2015.

b. The Parent Company has no provision for income tax as shown below:

	2016	2015
Income tax at statutory tax rate	\$1,101,144	\$730,166
Additions to (reduction in) income tax:		
Dividend income exempt from income tax	(1,446,000)	(915,000)
Carryforward benefits of NOLCO and unrealized foreign exchange losses for which no deferred income tax assets were recognized in the current year	442,002	160,307
Interest income subject to final tax	(107,464)	(102,958)
Nondeductible expense	38,424	127,485
Foreign currency translation adjustment	(28,106)	—
Provision for income tax	<u>\$—</u>	<u>\$—</u>



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

	2016	2015
NOLCO	\$3,288,743	\$2,741,201
Unrealized foreign exchange losses	143,589	43,221

- d. As of December 31, 2016 and 2015, NOLCO that can be claimed as deduction from future taxable income follows:

Year incurred	Balances as of December 31, 2015	Additions	Applied	Expired	Balance as of December 31, 2016	Tax effect	Available until
2013	\$782,210	\$-	\$-	\$782,210	\$-	\$-	2016
2014	952,273	-	-	-	952,273	285,682	2017
2015	1,006,718	-	-	-	1,006,718	302,015	2018
2016	-	1,329,752	-	-	1,329,752	398,926	2019
	\$2,741,201	\$1,329,752	\$-	\$782,210	\$3,288,743	\$986,623	

#### 14. Equity

##### a. Common Shares

The rollforward of the capital stock of the Parent Company follows:

	2016	2015
<i>Number of shares</i>		
Authorized common shares (P1.00 par value)	560,000,000	560,000,000
<i>Issued</i>		
Beginning of year	419,063,353	308,239,419
Stock dividend - issued and distributed	-	30,823,934
Issuance of stock	-	80,000,000
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 is charged against "Additional paid-in capital" in 2011 balance sheet.

On May 25, 2012, the BOD declared a twenty percent (20%) stock dividend to stockholders. On the same date, the stockholders approved and ratified to stock dividend payable to stockholders as of record as of June 8, 2012, 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, 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, distributed on April 5, 2013.

On January 29, 2014, the BOD also declared a ten (10%) stock dividend. During the special stockholders meeting dated July 11, 2014, the shareholders approved and ratified the declaration of 10% stock dividend payable to stockholders of record as of July 25, 2014 and payment date of 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 and payment date of 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 is charged against "Additional paid-in capital" in 2015 balance sheet. As of December 31, 2015, unpaid stock issue costs amounted to \$17,728 recorded under "Accrued expenses" account.~~

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 ₱2,000,000,000 divided into 1,400,000,000 common shares with a par value of ₱1.00 per share and 600,000,000 preferred shares classified into ₱140,000,000 "Preferred A" with a par value of ₱1.00 per share, and ₱460,000,000 worth of new preferred shares, the par values, series, classes, preferences, convertibility voting rights and other features of which shall be determined by the Parent Company's BOD. The stockholders have yet to vote on these matters as of April 12, 2017.

As of December 31, 2016 and 2015, the Parent Company has a total number of 25 and 19 stockholders, respectively.



b. Preferred Shares

	2016	2015
<i>Number of shares</i>		
Authorized - preferred shares (P0.10 par value)	400,000,000	400,000,000
Subscribed	400,000,000	400,000,000
<i>Amount</i>		
Subscribed - 400,000,000 shares (net of subscriptions receivable amounting to \$663,717)	\$221,239	\$221,239

In 2015, the 400,000,000 preferred shares at par value of P0.10 were subscribed by Camerton Inc. (Camerton), a principal shareholder of the Parent Company. As of December 31, 2016 and 2015, unpaid subscriptions amounted to \$663,717.

The features of the preferred 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.

c. Retained Earnings

On February 23, 2015, the Parent Company's BOD approved the declaration of cash dividends of \$1,200,000 million or \$0.003893 per share, payable on March 27, 2015 to stockholders of record as of March 10, 2015. The cash dividend shall be paid in Philippine Peso at Bangko Sentral ng Pilipinas (BSP) exchange rate one day before payment date.

On August 10, 2015, the Parent Company's BOD approved the declaration of cash dividends of \$891,200 or \$0.002628 per share for each of 339,063,353 fully paid and issued common shares and \$8,800 or \$0.000022 per share for each of the 400,000,000 outstanding preferred shares, amounting to an aggregate sum of \$900,000, for payment and distribution on August 28, 2015 to shareholders of record of August 25, 2015. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

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.



## 15. Financial Risk Management Objectives and Policies

The Parent Company's principal financial instruments comprise of cash in banks and cash equivalents. The main purpose of these financial instruments is to support the Parent Company's operation. The Parent Company has various other financial instruments such as trade and other amounts owed by related parties, financial asset at FVPL, AFS financial asset, accrued expenses, amounts owed to related parties short-term loans and long-term debt 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 Parent Company.

The main risks arising from the financial instruments of the Parent Company are credit risk, liquidity risk and foreign currency risk. The Parent Company'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 Parent Company will incur a loss because its counterparties failed to discharge their contractual obligations.

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

Credit quality per class of financial instrument follows:

December 31, 2016

	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Standard Grade	Sub-standard Grade			
Cash and cash equivalents	\$13,322,629	\$-	\$-	\$-	\$-	\$13,322,629
Amounts owed by related parties	97,931,908	-	-	-	-	97,931,908
AFS financial asset	1,667,000	-	-	-	-	1,667,000
	<b>\$112,921,537</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$112,921,537</b>

December 31, 2015

	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Standard Grade	Sub-standard Grade			
Cash and cash equivalents	\$17,260,582	\$-	\$-	\$-	\$-	\$17,260,582
Financial asset at FVPL	8,767,580	-	-	-	-	8,767,580
Amounts owed by related parties	44,692,827	-	-	-	-	44,692,827
AFS financial asset	1,667,000	-	-	-	-	1,667,000
	<b>\$72,387,989</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$72,387,989</b>



The Parent Company's financial assets are categorized based on the Parent Company's collection experience with the third parties as follows:

- High Grade - settlements are obtained from counterparty following the terms of the contracts without much collection effort
- Standard Grade - some reminder follow-ups are performed to obtain settlement from the counterparty
- Sub-standard Grade - constant reminder follow-ups are performed to collect accounts from counterparty
- Impaired - difficult to collect with some uncertainty as to collectibility of the accounts

*Liquidity risk*

Liquidity risk is the risk that the Parent Company 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 Parent Company 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 financings, including dollar and peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

The table below summarizes the maturity analysis of the Parent Company's financial assets used for liquidity management and financial liabilities based on contractual undiscounted payments:

December 31, 2016

	Less than 3 months	3 to 12 months	More than 1 year but less than 5 years	Total
<b>Financial Liabilities</b>				
Amounts owed to related parties	\$19,937,731	\$-	\$-	\$19,937,731
Accrued expenses*	56,380	-	-	56,380
Short-term loans	-	8,852,857	-	8,852,857
Long-term debt**	2,318,729	6,186,185	41,029,760	49,534,674
	\$22,312,840	\$15,039,042	\$41,029,760	\$78,381,642
<b>Financial Assets</b>				
Cash and cash equivalents	\$13,322,629	\$-	\$-	\$13,322,629
Amounts owed by related parties	97,931,908	-	-	97,931,908
	\$111,254,537	\$-	\$-	\$111,254,537

\*Excluding statutory liabilities

\*\*Includes future interest payments



December 31, 2015

	Less than 3 months	3 to 12 months	More than 1 year but less than 5 years	Total
<b>Financial Liabilities</b>				
Amounts owed to related parties	\$10,265,290	\$-	\$-	\$10,265,290
Accrued expenses*	37,950	-	-	37,950
Short-term loans	2,900,000	1,600,000	-	4,500,000
Long-term debt**	642,260	3,421,347	14,982,816	19,046,423
	\$13,845,500	\$5,021,347	\$14,982,816	\$33,849,663
<b>Financial Assets</b>				
Cash and cash equivalents	\$17,260,582	\$-	\$-	\$17,260,582
Financial asset at FVPL	-	8,767,580	-	8,767,580
Amounts owed by related parties	44,692,827	-	-	44,692,827
	\$61,953,409	\$8,767,580	-	\$70,720,989

\*Excluding statutory liabilities

\*\*Includes future interest payments

#### Foreign currency risk

The Parent Company uses the US dollar as its functional currency and is therefore exposed to foreign exchange movements, primarily in Philippine Peso currency. The Parent Company 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 Parent Company's income before income tax as of December 31:

	Foreign Currency appreciates by	Effect on Income Before Tax	Foreign Currency depreciates by	Effect on Income Before tax
2016				
Peso denominated assets	+6%	(\$32,118)	-6%	\$32,118
Peso denominated liabilities	+6%	3,187	-6%	(3,187)
		(\$28,931)		\$28,931
2015				
Peso denominated assets	+5%	(\$38,477)	-5%	\$38,477
Peso denominated liabilities	+5%	378,962	-5%	(378,962)
		\$340,485		(\$340,485)

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

#### Capital Management

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





The Parent Company manages its capital structure, which pertains to amounts owed from related parties and 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 Parent Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

# 16. Fair Value of Financial Instruments

The following table sets out the comparison by category of carrying amounts and fair values of all the Parent Company's financial instruments:

December 31, 2016

	Carrying Amount	Fair Value
<i>Financial assets</i>		
Loans and receivables:		
Cash and cash equivalents	\$13,322,629	\$13,322,629
Amounts owed by related parties	97,931,908	97,931,908
	111,254,537	111,254,537
AFS financial asset	1,667,000	1,667,000
	\$112,921,537	\$112,921,537
<i>Financial liabilities</i>		
Other financial liabilities:		
Amounts owed to related parties	\$19,937,731	\$19,937,731
Accrued expenses*	56,380	56,380
Short-term loans	8,852,857	8,852,857
Long-term debt	43,859,971	43,859,971
	\$72,706,939	\$72,706,939

\*Excluding statutory liabilities

December 31, 2015

	Carrying Amount	Fair Value
<i>Financial assets</i>		
Loans and receivables:		
Cash and cash equivalents	\$17,260,582	\$17,260,582
Financial asset at FVPL	8,767,580	8,767,580
Amounts owed by related parties	44,692,827	44,692,827
Interest receivable*	157,786	157,786
	70,878,775	70,878,775
AFS financial asset	1,667,000	1,667,000
	\$72,545,775	\$72,545,775
<i>Financial liabilities</i>		
Other financial liabilities:		
Amounts owed to related parties	\$10,265,290	\$10,265,290
Accrued expenses**	37,950	37,950
Short-term loans	\$4,500,000	\$4,500,000
Long-term debt	17,595,220	17,595,220
	\$32,398,460	\$32,398,460

\*Presented as other current assets in the 2015 parent company balance sheet

\*\*Excluding statutory liabilities



#### Fair Values of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's-length transaction, other than in a forced liquidation or sale.

*Cash and cash equivalents, interest receivable, amounts owed by and owed to related parties, short-term loans and accrued expenses (excluding statutory liabilities)*

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

#### *Financial asset at FVPL*

The investment in RCBC Senior Notes classified as financial asset at FVPL is stated at its fair values based on the quoted prices in an active market (Level 1).

#### *AFS financial asset*

The fair value of investment in CloudMondo, Ltd. cannot be reliably measured as it is not traded in the financial market. Hence, the investment is carried at cost.

#### *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 4.01% to 4.29% and 3.63% to 4.01% in 2016 and 2015, respectively.

#### Fair Value Hierarchy

The Parent Company uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Only the financial asset at FVPL, which is classified under Level I, is measured and carried at fair value. There were no transfers made in the fair value measurements in 2016 and 2015.

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#### **17. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010**

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued Revenue Regulations No. 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying tax returns. It includes provisions for additional disclosure requirements in the notes to the parent company financial statements, particularly on taxes, duties and licenses paid or accrued during the year.

##### **a. Output VAT**

The Parent Company did not earn any income subject to output VAT in 2016.

##### **b. Input VAT**

The Parent Company did not record any input VAT arising from purchases of services in 2016.



c. Taxes on Importation

The Parent Company has not paid or accrued any custom duties and tariff fees as it has no importations in 2016.

d. Excise Tax

The Parent Company did not have any transactions in 2016 that are subject to excise tax.

e. Documentary Stamp Tax

The Company did not incur any documentary stamp tax (DST) in 2016 as it did not execute any documents, instruments, loan agreements and paper evidencing the acceptance, assignment, sale or transfer of an obligation, and any right or property

f. Withholding taxes

Total expanded withholding tax paid amounted to ₱719,600 in 2016.

g. Taxes and Licenses, local and national, include licenses and permit fees for 2016:

Business permit	₱950
Registration fees	500
Others	200,826
	<u>₱202,276</u>

Taxes and licenses, local and national, include licenses and permit fees amounted to ₱981,754 in 2016.

h. Deficiency Tax Assessments and Tax Cases

As of December 31, 2016, the Parent Company does not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.





Building a better  
working world

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

## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders  
Cirtex 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 parent company financial statements of Cirtex Holdings Philippines Corporation as at and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated April 12, 2017. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of All Effective Standards and Interpretations and Reconciliation of Retained Earnings Available for Dividend Declaration are the responsibility of the Parent Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic 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.

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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. 08-001998-109-2015,

March 4, 2015, valid until March 3, 2018

PTR No. 5908679, January 3, 2017, Makati City

April 12, 2017



**CIRTEK HOLDINGS PHILIPPINES CORPORATION**

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR  
DIVIDEND DECLARATION**

**DECEMBER 31, 2016**

Unappropriated retained earnings, as adjusted, beginning	\$405,556
<b>Add: Net income actually earned/realized during the period</b>	
Net income during the period closed to retained earnings	\$3,670,480
Add: Non-actual losses	—
Less: Non-actual/unrealized income net of tax	—
<b>Net income actually earned during the period</b>	<b>3,670,480</b>
Unappropriated retained earnings, as adjusted, ending	4,076,036
Less: Cash dividends declared	(3,620,000)
<b>Retained earnings available for dividend declaration</b>	<b>\$456,036</b>



**CIRTEK HOLDINGS PHILIPPINES CORPORATION**  
**SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE**  
**STANDARDS AND INTERPRETATIONS**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Early Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRS Practice Statement Management Commentary</b>				✓
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	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			✓
<b>PFRS 2</b>	<b>Share-based Payment</b>			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*		✓	
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Amendments to PFRS 3 : Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3 : Scope Exceptions for Joint Arrangements			✓

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Early Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4*		✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Changes in Method 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	✓		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
	Amendments to PFRS 7: Servicing Contracts			✓
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 Asset			✓
PFRS 9	Financial Instruments*		✓	

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Early Adopted	Not Applicable
<b>PFRS 10</b>	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		✓	
<b>PFRS 11</b>	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Clarification of the Scope of the Standard*		✓	
<b>PFRS 13</b>	Fair Value Measurement	✓		
	Amendments to PFRS 13 : Portfolio Exception			✓
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers*		✓	
<b>PFRS 16</b>	Leases*		✓	
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	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	✓		

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Early Adopted	Not Applicable
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	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16 and 38: Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits			✓
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
	Regional Market Issue Regarding Discount Rate			✓
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Early Adopted	Not Applicable
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendment: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*		✓	
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	✓		
	Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	✓		

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Early Adopted	Not Applicable
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 16 and 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			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Interrelationship between PFRS 3 and PAS 40			✓
	Amendments to PAS 40: Transfers of Investment Property*			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Early Adopted	Not Applicable
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 8</b>	Scope of PFRS 2			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment			✓
<b>IFRIC 11</b>	PFRS 2- Group and Treasury Share Transactions			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	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			✓
<b>IFRIC 15</b>	Agreements for the Construction of Real Estate*			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies	✓		

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Early Adopted	Not Applicable
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration*		✓	
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓		
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

*\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.*



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AFTER THE DOR HAS DULY  
STAMPED "RECEIVED."

## COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 1 1 0 2 1 3 7

## 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  
  
  

## 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 - S E Z ,   L a g u n a  
T e c h n o p a r k ,   B i ñ a n ,   L a g u n a  
  

Form Type

A A F S

Department requiring the report

C F D

Secondary License Type, If Applicable

## 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)

5/11

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  
Cirtex Holdings Philippines Corporation  
116 East Main Avenue  
Phase V-SEZ  
Laguna Technopark  
Biñan, Laguna

### Report on the Audit of the Parent Company Financial Statements

#### Opinion

We have audited the parent company financial statements of Cirtex Holdings Philippines Corporation (the Company), which comprise the parent company balance sheets as at December 31, 2016 and 2015, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

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

#### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Company 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 parent company 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.

#### Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

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



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

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

### **Auditor's Responsibilities for the Audit of the Parent Company Financial Statements**

Our objectives are to obtain reasonable assurance about whether the parent company 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 parent company 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 parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.







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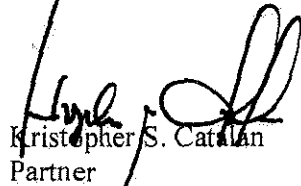
- 3 -

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.

#### **Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010**

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 17 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Cirtek Holdings Philippines Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCP 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. 08-001998-109-2015,

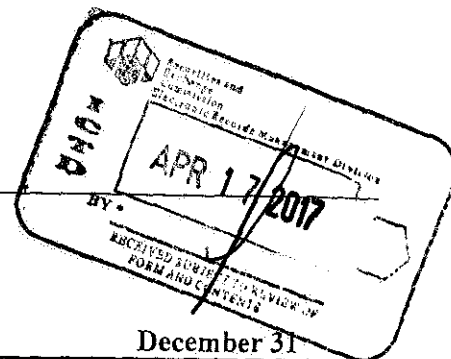
March 4, 2015, valid until March 3, 2018

PTR No. 5908679, January 3, 2017, Makati City

April 12, 2017



**CIRTEK HOLDINGS PHILIPPINES CORPORATION**  
**PARENT COMPANY BALANCE SHEETS**



December 31

	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	\$13,322,629	\$17,260,582
Amounts owed by related parties (Note 11)	97,931,908	44,692,827
Financial asset at fair value through profit and loss (FVPL) (Note 5)	—	8,767,580
Other current assets	5,314	157,786
<b>Total Current Assets</b>	<b>111,259,851</b>	<b>70,878,775</b>
<b>Noncurrent Assets</b>		
Available-for-sale (AFS) financial asset (Note 7)	1,667,000	1,667,000
Investments in subsidiaries (Note 6)	5,981,499	5,981,499
Property and equipment	67,757	84,696
<b>Total Noncurrent Assets</b>	<b>7,716,256</b>	<b>7,733,195</b>
<b>TOTAL ASSETS</b>	<b>\$118,976,107</b>	<b>\$78,611,970</b>

**LIABILITIES AND EQUITY**

<b>Current Liabilities</b>		
Accrued expenses (Note 8)	\$157,059	\$133,451
Short-term loans (Note 9)	8,852,857	4,500,000
Current portion of long-term debt - net of deferred financing cost (Note 10)	6,882,126	3,433,849
Amounts owed to related parties (Note 11)	19,937,731	10,265,290
<b>Total Current Liabilities</b>	<b>35,829,773</b>	<b>18,332,590</b>
<b>Noncurrent Liability</b>		
Long-term debt - net of current portion and deferred financing cost (Note 10)	36,977,845	14,161,371
<b>Total Liabilities</b>	<b>72,807,618</b>	<b>32,493,961</b>
<b>Equity (Note 14)</b>		
Common stock	9,594,321	9,594,321
Preferred stock - net of subscription receivable	221,239	221,239
Additional paid-in capital	35,896,893	35,896,893
Retained earnings	456,036	405,556
<b>Total Equity</b>	<b>46,168,489</b>	<b>46,118,009</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$118,976,107</b>	<b>\$78,611,970</b>

See accompanying Notes to Parent Company Financial Statements



**CIRTEK HOLDINGS PHILIPPINES CORPORATION**  
**PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31	
	2016	2015
<b>DIVIDEND INCOME</b> (Note 11)	\$4,820,000	\$3,050,000
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 12)	(278,040)	(340,802)
<b>FINANCIAL INCOME (EXPENSES)</b>		
Interest expense (Notes 9 and 10)	(1,134,962)	(780,303)
Interest income (Notes 4 and 5)	358,230	343,193
	(776,732)	(437,110)
<b>OTHER INCOME (CHARGES) - Net</b>		
Foreign exchange losses - net	(187,263)	(52,906)
Gain on disposal	93,670	—
Bank charges	(1,155)	(1,768)
Input value-added tax (VAT) written off	—	(51,109)
Mark-to-market gain (Note 5)	—	267,580
	(94,748)	161,797
<b>INCOME BEFORE TAX</b>	3,670,480	2,433,885
<b>PROVISION FOR INCOME TAX</b> (Note 13)	—	—
<b>NET INCOME</b>	3,670,480	2,433,885
<b>OTHER COMPREHENSIVE INCOME</b>	—	—
<b>TOTAL COMPREHENSIVE INCOME</b>	\$3,670,480	\$2,433,885

*See accompanying Notes to Parent Company Financial Statements.*



**CIRTEK HOLDINGS PHILIPPINES CORPORATION**

**PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Common stock					
	Issued	Undistributed Stock Dividends	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Total
<b>BALANCES AT DECEMBER 31, 2014</b>	<b>\$7,203,869</b>	<b>\$689,265</b>	<b>\$-</b>	<b>\$4,733,511</b>	<b>\$71,671</b>	<b>\$12,698,316</b>
Issuance of additional capital stock (Note 14):						
Common stock	1,701,187	-	-	32,322,545	-	34,023,732
Preferred stock	-	-	221,239	-	-	221,239
Stock issue cost (Note 14)	-	-	-	(1,159,163)	-	(1,159,163)
Total comprehensive income for the year	-	-	-	-	2,433,885	2,433,885
Issuance of undistributed stock dividends (Note 14)	689,265	(689,265)	-	-	-	-
Cash dividends declared (Note 14)	-	-	-	-	(2,100,000)	(2,100,000)
<b>BALANCES AT DECEMBER 31, 2015</b>	<b>9,594,321</b>	<b>-</b>	<b>221,239</b>	<b>35,896,893</b>	<b>405,556</b>	<b>46,118,009</b>
Total comprehensive income for the year	-	-	-	-	3,670,480	3,670,480
Cash dividends declared (Note 14)	-	-	-	-	(3,620,000)	(3,620,000)
<b>BALANCES AT DECEMBER 31, 2016</b>	<b>\$9,594,321</b>	<b>\$-</b>	<b>\$221,239</b>	<b>\$35,896,893</b>	<b>\$456,036</b>	<b>\$46,168,489</b>

*See accompanying Notes to Parent Company Financial Statements.*



**CIRTEK HOLDINGS PHILIPPINES CORPORATION**  
**PARENT COMPANY STATEMENTS OF CASH FLOWS**

	Years Ended December 31	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$3,670,480	\$2,433,885
Adjustments for:		
Dividend income (Note 11)	(4,820,000)	(3,050,000)
Interest expense (Notes 9 and 10)	1,134,962	780,303
Interest income (Notes 4 and 5)	(358,230)	(343,193)
Unrealized foreign exchange loss - net	143,588	43,490
Gain on disposal of financial asset at FVPL (Note 5)	(93,670)	-
Depreciation	16,939	-
Mark-to-market gain	-	(267,580)
Operating loss before working capital changes	(305,931)	(403,095)
Decrease (increase) in:		
Amounts owed by related parties (Note 11)	(53,239,081)	(5,511,095)
Other current assets	(5,448)	8,449
Increase in accrued expenses	1,019	26,305
Cash used in operations	(53,549,441)	(5,879,436)
Dividends received	4,820,000	3,050,000
Interest received	516,016	185,407
Net cash used in operating activities	(48,213,425)	(2,644,029)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of financial asset at FVPL	8,861,250	-
Acquisitions of:		
Financial asset at FVPL (Note 5)	-	(8,500,000)
AFS financial asset (Note 7)	-	(1,667,000)
Property and equipment	-	(84,696)
Cash from (used in) investing activities	8,861,250	(10,251,696)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Availment of long-term debt (Note 10)	30,000,000	-
Availment of short-term loans (Note 9)	4,642,857	4,500,000
Stock issuance (Note 14)	-	34,244,971
Increase (decrease) in amounts owed to related parties (Note 11)	9,672,441	(15,578,233)
Payments of:		
Cash dividends (Note 14)	(3,620,000)	-
Long-term debt (Note 10)	(3,500,000)	(1,000,000)
Interest (Note 9)	(1,025,021)	(698,894)
Debt issuance costs (Note 10)	(321,605)	(161,159)
Short-term loans	(290,000)	-
Stock issue costs (Note 14)	-	(1,141,435)
Net cash from financing activities	35,558,672	20,165,250
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(144,450)	(44,309)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(3,937,953)	7,225,216
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	17,260,582	10,035,366
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	\$13,322,629	\$17,260,582

See accompanying Notes to Parent Company Financial Statements.



# **CIRTEK HOLDINGS PHILIPPINES CORPORATION**

## **NOTES TO PARENT COMPANY FINANCIAL STATEMENTS**

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### **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 (PSE) on November 18, 2011.

Prior to the listing, the Parent Company had undergone a corporate re-organization 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. is the immediate parent of CHPC, while Carmetheus Holdings, Inc. is the ultimate parent company of the Group.

The Company has no employees as of December 31, 2016 and 2015. The accounting and administrative function of the Parent Company are handled by CEC.

#### *Business Acquisition*

On July 30, 2014, CEIC entered into a sale and purchase agreement with REMEC Broadband Wireless Holdings ("REMEC"), for the purchase of 100% shares of REMEC's manufacturing division, REMEC Broadband Wireless International, Inc. ("RBWI"), a Philippine-based manufacturer of value added, highly integrated technology products. Based on the terms of the sale, REMEC and its remaining subsidiaries will continue to design and market its top-of-class telecommunications products globally under its "REMEC" brand, and, REMEC will enter into a manufacturing agreement with RBWI to manufacture REMEC's products under a long-term contract manufacturing relationship. CEIC acquired RBWI for a consideration of \$7.5 million. CHPC funded the acquisition through a combination of available cash on hand and proceeds from a corporate notes issuance.

The closing date of the transactions was effective July 30, 2014.

#### *Authorization and issuance of parent company financial statements*

The parent company financial statements as at and for the years ended December 31, 2016 and 2015 were approved and authorized for issuance by the Board of Directors (BOD) on April 12, 2017.

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### **2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies**

#### Basis of Preparation

The parent company financial statements are prepared on a historical cost basis, except for financial asset at FVPL which is carried at fair value. The parent company financial statements are presented in United States (US) dollar, 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 parent company financial statements are prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS, in general, includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the Standing Interpretations Committee, Philippine Interpretations Committee and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Philippine Financial Reporting Standards Council (FRSC) and adopted by the Philippine Securities and Exchange Commission (SEC).

The Parent Company also prepares and issues consolidated financial statements for the same period as the separate financial statements in compliance with PFRS. These may be obtained at the Parent Company's registered office address.

### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Parent Company has adopted the following new accounting pronouncement and amendments to existing pronouncements starting January 1, 2016. Adoption of these pronouncements did not have a significant impact on the Parent Company's financial position or performance.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and Philippine Accounting Standards (PAS) 28, *Investments in Associates and Joint Ventures, Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative*
- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

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

### *Effective beginning on or after January 1, 2017*

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



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

The amendments do not have any impact on the Parent Company's financial position and results of operation. The Parent Company will include the required disclosures in its 2017 parent company financial statements.

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

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

The amendments do not have any impact on the Parent Company's financial position and results of operation. The Parent Company will include the required disclosures in its 2017 parent company financial statements.

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

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

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

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

*Effective beginning on or after January 1, 2018*

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

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





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

The amendments will not have any impact on the Parent Company.

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

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

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

The amendments are not applicable to the Parent Company.

- PFRS 15, *Revenue from Contracts with Customers*

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

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

The adoption of PFRS 15 is not expected to have a significant impact on the Parent Company.

- PFRS 9, *Financial Instruments*

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

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



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

These amendments are not applicable to the Parent Company.

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

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

These amendments are not applicable to the Parent Company.

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

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

The adoption of the interpretation is not expected to have any significant impact on the parent company financial statements.



*Effective beginning on or after January 1, 2019*

- **PFRS 16, *Leases***

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

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

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The adoption of PFRS 16 is not expected to have a significant impact on the Parent Company.

*Deferred effectivity*

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the 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 Parent Company. 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 non-financial 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 Parent Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are 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 parent company 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; and
- 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 financial statements on a recurring basis, the Parent Company 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 Parent Company 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 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, held-to-maturity (HTM) investments, AFS financial asset, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Parent Company 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 investments not 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 Parent Company commits to purchase or sell the asset.

The Parent Company's financial assets include cash and cash equivalents, financial assets at FVPL, AFS financial asset and amounts owed by related parties.

*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 in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in the parent company balance sheet at fair value with gains or losses recognized in the parent company statement of comprehensive income.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the parent company statement of comprehensive income. 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.

Financial assets designated as at 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.

The Parent Company designated its investment in Rizal Commercial Banking Corporation (RCBC) Senior Notes as financial asset at FVPL as of December 31, 2015.

*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 subsequently at amortized cost using the effective interest rate (EIR) method. 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. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned is recognized as "Interest income" in the parent company statement of comprehensive income. 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.

The Parent Company's loans and receivables include cash in bank and cash equivalents and amounts owed by related parties.

#### *HTM investments*

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Parent Company's management has the positive intention and ability to hold to maturity. When HTM investments, other than insignificant amounts are sold, the entire category would be tainted and reclassified as AFS investments. 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 an integral part of the EIR.

The Parent Company does not have any HTM investments as of December 31, 2016 and 2015.

#### *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 changes in market conditions. After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in the parent company statement of comprehensive income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognized in the parent company statement of comprehensive income. Unquoted equity instruments are measured at cost less any impairment, if fair value cannot be reliably measured.

As of December 31, 2016 and 2015, the Parent Company's AFS financial asset pertains to its investment in CloudMondo, Ltd.

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#### *Financial liabilities*

##### *Initial recognition*

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Parent Company determines the classification of its financial liabilities at initial recognition and where allowed and appropriate, re-evaluates such designation at each balance sheet date.

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

The Parent Company's financial liabilities include accrued expenses (excluding statutory liabilities), short-term loans, long-term debt and amounts owed to related parties.

##### *Subsequent measurement*

The subsequent 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 as 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 Parent Company that do not meet the hedge accounting criteria as defined by PAS 39.

Financial liabilities at FVPL are carried in the parent company balance sheet at fair value with gains and losses recognized in the parent company statement of comprehensive income. The criteria for designating financial liabilities at FVPL on initial recognition are the same as those applied for financial assets.

The Parent Company has not classified any financial liabilities at FVPL as of December 31, 2016 and 2015.

#### *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 subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the parent company statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process.

As of December 31, 2016 and 2015, the Parent Company's other financial liabilities include accrued expenses, 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 parent company balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The Parent Company 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 Parent Company and all of the counterparties.

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#### '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 Parent Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the parent company statement of comprehensive income 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 parent company statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Parent Company 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 Parent Company; 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 Parent Company 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 Parent Company assesses at each balance sheet date whether 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 an 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 contracting parties 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 the parent company statement of comprehensive income.

#### *Financial assets carried at amortized cost*

The Parent Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it has 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 an 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 expected credit losses that have not been incurred) discounted at the financial assets' original EIR (i.e., the EIR computed at initial recognition date). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognized in the parent company statement of comprehensive income. 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 the parent company statement of comprehensive income 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 when:

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

When the Parent Company has transferred its rights to receive cash flows from an asset 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 Parent Company's continuing involvement in the asset. In this case, the Parent Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that affects the rights and obligations that the Parent Company 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 Parent Company 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 Parent Company's continuing involvement is the amount of the transferred asset that the Parent Company 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 Parent Company'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, cancelled or has 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 the parent company statement of comprehensive income.



### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures, such as repairs and maintenance, incurred after the property and equipment have been put into operations are normally charged to the parent company statement of comprehensive income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

When assets are sold or retired, their cost, accumulated depreciation and any impairment in value are eliminated from the accounts.

Any gain or loss resulting from the disposal is included in the parent company statement of comprehensive income.

Depreciation commences when an asset is in its location and condition and capable of being operated in the manner intended by management. The initial cost is depreciated using the straight-line method, based on the estimated useful life of five (5) years.

The estimated useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment. Such a review takes into consideration the nature of the assets, their intended use and evaluation of the technology.

---

### Investments in Subsidiaries

Subsidiaries are entities over which the Parent Company has the power, exposure, or rights to variable returns from its involvement with its subsidiaries and the ability to use its power over the investees to affect the amount of returns to the Parent Company. Investments in subsidiaries are carried at cost less accumulated impairment in value, if any.

### Impairment of Investments in Subsidiaries

The Parent Company assesses at the end of each reporting period whether there is an indication that investments in subsidiaries may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU's) fair value less costs to sell and its value in use, and is determined for an individual item, unless such item does not generate cash inflows that are largely independent of those from other assets or group of assets or CGUs. When the carrying amount exceeds its recoverable amount, such item is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows to be generated by such item are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU. Impairment losses of continuing operations are recognized in the parent company statement of comprehensive income in the expense categories consistent with the function of the impaired asset.



An assessment is made at least on each balance sheet 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 recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

#### Capital Stock

Capital stock is measured at par value for all shares issued. Incremental costs incurred that are directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of consideration received in excess of par value, if any, are recognized as additional paid-in capital.

#### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend distributions, prior period adjustments, effect of changes in accounting policies and other capital adjustments. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date. Unappropriated retained earnings represent that portion which can be declared as dividends to stockholders. Appropriated retained earnings represent that portion which has been restricted for a specific purpose and, therefore, not available for dividend declaration.

The Parent Company 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.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Parent Company 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, rebates, sales taxes or duty. The Parent Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Parent Company has concluded that it is acting as principal in all of its revenue arrangements.

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

#### *Dividend income*

Dividend income is recognized when the Parent Company's right to receive payment is established.

#### *Interest income*

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



### Costs and Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized when 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; or
- b. a renewal option is exercised and extension granted, unless the term of the renewal or extension was initially included in the lease term; or
- 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).

### *Parent Company 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 the parent company statement of comprehensive income on a straight-line basis over the lease term.

### Foreign Currency-denominated Transactions and Translations

The parent company financial statements are presented in US dollars, which is the functional and presentation currency of the Parent Company. ~~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 the parent company statement of comprehensive income. 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

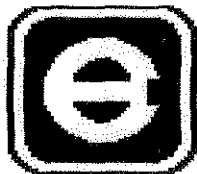
#### *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date.

#### *Deferred income tax*

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





# CIRTEK

## Holdings Philippines Corporation

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

The management of CIRTEK HOLDINGS PHILIPPINES CORPORATION is responsible for the preparation and fair presentation of the financial statements for the years ended **December 31, 2016, 2015 and 2014**, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submit the same to the stockholders.

*Sycip Gorres Velayo & Co., the independent auditor, appointed by the stockholders for the period December 31, 2016, 2015, and 2014, have examined the financial statements of the Company in accordance with Philippine Standards on Review Auditing, and its report to stockholders, have expressed their opinion on the fairness of presentation upon completion of such examination.*

Jerry Liu  
Chairman of the Board

Roberto Juanchito Dispo  
President

Anthony Buyawe  
Chief Financial Officer & Treasurer

Signed this \_\_\_\_\_ day of \_\_\_\_\_.

APR 17 2017

MAKATI CITY

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of \_\_\_\_\_ at \_\_\_\_\_, Philippines, affiants  
exhibited to me their \_\_\_\_\_ as follows:

NAMES RES. CERT. NO. DATE OF ISSUE PLACE OF ISSUE

_____	_____	_____
_____	_____	_____
_____	_____	_____

NOTARY PUBLIC

Doc. No. 291

Page No. 50

Book No. 351

Series of 2015 - 2017

RUBENT. M. RAMIREZ  
NOTARY PUBLIC  
UNTIL DEC. 31, 2017

2734 M. AURORA ST. MAKATI CITY  
IBP NO. 1052369 / CY 2015 APPT. NO. M. 17  
ROLL NO. 28947 / MCLE-4 NO. 0006324 / 11-22-16  
PTR NO. MKT. 5909552 / 1-3-17 MAKATI CITY

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	1	1	0	2	1	3	7
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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	-
S	E	Z	,		L	a	g	u	n	a		T	e	c	h	n	o	p	a	r	k	,		B	i	ñ	a	n	,
L	a	g	u	n	a																								

Form Type

A	A	F	S
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Department requiring the report

C	R	M	D
---	---	---	---

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@cirtek.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, 2016 and 2015, 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, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### Basis for Opinion

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

### Key Audit Matters

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

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





procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

### **Presentation and Valuation of Noncurrent Assets Held for Sale**

Land, building and related improvements valued at \$11.41 million as of December 31, 2016 have been classified as held for sale since 2014, as disclosed in Note 11 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. 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, against relevant external information. We inquired from the external appraiser the basis of adjustments made to the sales price. 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, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

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

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



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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to



the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

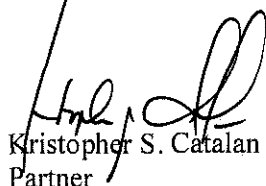
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is 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. 08-001998-109-2015

March 4, 2015, valid until March 3, 2018

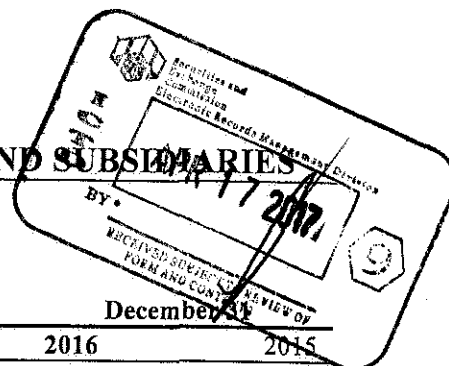
PTR No. 5908679, January 3, 2017, Makati City

April 12, 2017



# CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS



	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 5)	\$24,511,493	\$29,776,866
Trade and other receivables (Note 6)	23,172,423	13,749,783
Inventories (Note 7)	15,281,893	5,737,068
Amounts owed by related parties (Note 17)	12,436,575	10,606,752
Held-to-maturity (HTM) investments (Note 10)	371,520	521,215
Financial assets at fair value through profit or loss (FVPL) (Note 8)	503	19,447,248
Other current assets (Note 9)	2,618,370	2,534,181
	78,392,777	82,373,113
Noncurrent assets held for sale (Note 11)	11,408,611	11,408,611
<b>Total Current Assets</b>	<b>89,801,388</b>	<b>93,781,724</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment (Note 11)	28,675,910	23,841,532
Available-for-sale (AFS) financial asset (Note 12)	1,667,000	1,667,000
HTM investments (Note 10)	—	368,574
Deferred income tax assets - net (Note 23)	174,578	135,555
Other noncurrent assets (Note 13)	2,170,859	893,853
<b>Total Noncurrent Assets</b>	<b>32,688,347</b>	<b>26,906,514</b>
<b>TOTAL ASSETS</b>	<b>\$122,489,735</b>	<b>\$120,688,238</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 14)	\$19,135,593	\$13,385,642
Short-term loans (Note 15)	31,625,945	10,835,088
Current portion of long-term debt (Note 16)	6,882,126	5,303,642
Amounts owed to related parties (Note 17)	520,152	495,686
Income tax payable (Note 23)	327,656	123,794
<b>Total Current Liabilities</b>	<b>58,491,472</b>	<b>30,143,852</b>
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Note 16)	36,977,845	17,912,779
Retirement benefit obligation (Note 21)	1,807,847	1,357,811
Deferred income tax liabilities - net (Note 23)	3,373	—
<b>Total Noncurrent Liabilities</b>	<b>38,789,065</b>	<b>19,270,590</b>
<b>Total Liabilities</b>	<b>97,280,537</b>	<b>49,414,442</b>
<b>Equity</b>		
Common stock (Note 28)	9,594,321	9,594,321
Preferred stock (Note 28)	221,239	221,239
Additional paid-in capital	35,896,893	35,896,893
Equity reserve	4,138,375	4,138,375
Other comprehensive income	40,329	526,420
Retained earnings (Note 28)	24,884,576	20,896,548
	74,775,733	71,273,796
Parent Company shares held by a subsidiary (Note 28)	(49,566,535)	—
<b>Total Equity</b>	<b>25,209,198</b>	<b>71,273,796</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$122,489,735</b>	<b>\$120,688,238</b>

See accompanying Notes to Consolidated Financial Statements.



**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2016	2015	2014
<b>NET SALES</b>	<b>\$74,322,312</b>	<b>\$59,548,534</b>	<b>\$51,792,081</b>
<b>COST OF SALES</b> (Note 18)	<b>(61,566,107)</b>	<b>(49,981,847)</b>	<b>(44,251,335)</b>
<b>GROSS PROFIT</b>	<b>12,756,205</b>	<b>9,566,687</b>	<b>7,540,746</b>
<b>OPERATING EXPENSES</b> (Note 19)	<b>(4,353,603)</b>	<b>(3,820,676)</b>	<b>(3,328,456)</b>
<b>FINANCIAL INCOME (EXPENSES)</b>			
Interest income (Notes 5, 8 and 10)	380,095	385,973	42,563
Interest expense (Notes 15 and 16)	(1,375,227)	(1,327,413)	(565,460)
	<b>(995,132)</b>	<b>(941,440)</b>	<b>(522,897)</b>
<b>OTHER INCOME - Net</b> (Note 22)	<b>747,890</b>	<b>831,945</b>	<b>2,361,516</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>8,155,360</b>	<b>5,636,516</b>	<b>6,050,909</b>
<b>PROVISION FOR (BENEFIT FROM)</b> <b>INCOME TAX</b> (Note 23)			
Current	559,457	475,638	202,011
Deferred	(12,125)	39,998	4,814
	<b>547,332</b>	<b>515,636</b>	<b>206,825</b>
<b>NET INCOME</b>	<b>7,608,028</b>	<b>5,120,880</b>	<b>5,844,084</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<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 21)	(486,091)	208,841	383,993
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$7,121,937</b>	<b>\$5,329,721</b>	<b>\$6,228,077</b>
<b>Basic/Diluted Earnings Per Share</b> (Note 24)	<b>\$0.018</b>	<b>\$0.013</b>	<b>\$0.017</b>

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, 2016, 2015 AND 2014

	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							
<b>BALANCES AT DECEMBER 31, 2013</b>	<b>\$6,559,066</b>	<b>\$-</b>	<b>\$-</b>	<b>\$4,733,511</b>	<b>\$4,138,375</b>	<b>(\$66,414)</b>	<b>\$15,165,652</b>	<b>\$-</b>	<b>\$30,530,190</b>
Net income for the year, as previously reported	-	-	-	-	-	-	6,541,692	-	6,541,692
Restatement due to finalization of purchase price allocation (Note 4)	-	-	-	-	-	-	(697,608)	-	(697,608)
Net income for the year, as restated	-	-	-	-	-	-	5,844,084	-	5,844,084
Other comprehensive income	-	-	-	-	-	383,993	-	-	383,993
Total comprehensive income	-	-	-	-	-	383,993	5,844,084	-	6,228,077
Cash dividends declared and paid at \$0.00428 per share	-	-	-	-	-	-	(1,200,000)	-	(1,200,000)
Declaration of stock dividends	644,803	689,265	-	-	-	-	(1,334,068)	-	-
Cash dividends declared at \$0.00214 per share	-	-	-	-	-	-	(600,000)	-	(600,000)
<b>BALANCES AT DECEMBER 31, 2014</b>	<b>7,203,869</b>	<b>689,265</b>	<b>-</b>	<b>4,733,511</b>	<b>4,138,375</b>	<b>317,579</b>	<b>17,875,668</b>	<b>-</b>	<b>34,958,267</b>
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 28)	1,701,187	-	-	32,322,545	-	-	-	-	34,023,732
Preferred stock (Note 28)	-	-	221,239	-	-	-	-	-	221,239
Stock issue costs (Note 28)	-	-	-	(1,159,163)	-	-	-	-	(1,159,163)
Issuance of stock dividends (Note 28)	689,265	(689,265)	-	-	-	-	-	-	-
Cash dividends declared at \$0.003893 per common stock (Note 28)	-	-	-	-	-	-	(1,200,000)	-	(1,200,000)
Cash dividends declared at \$0.002628 and \$0.000022 per common and preferred stock, respectively (Note 28)	-	-	-	-	-	-	(900,000)	-	(900,000)
<b>BALANCES AT DECEMBER 31, 2015</b>	<b>\$9,594,321</b>	<b>\$-</b>	<b>\$221,239</b>	<b>\$35,896,893</b>	<b>\$4,138,375</b>	<b>\$526,420</b>	<b>\$20,896,548</b>	<b>\$-</b>	<b>\$71,273,796</b>

(Forward)



	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							
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 at \$0.0050 and \$0.000021 per common and preferred stock, respectively (Note 28)	-	-	-	-	-	-	(2,100,000)	-	(2,100,000)
Cash dividends declared at \$0.00362 and \$0.000001 per common and preferred stock, respectively (Note 28)	-	-	-	-	-	-	(1,520,000)	-	(1,520,000)
Acquisition by subsidiary of the Parent Company's shares (Note 28)	-	-	-	-	-	-	-	(49,566,535)	(49,566,535)
<b>BALANCES AT DECEMBER 31, 2016</b>	<b>\$9,594,321</b>	<b>\$-</b>	<b>\$221,239</b>	<b>\$35,896,893</b>	<b>\$4,138,375</b>	<b>\$40,329</b>	<b>\$24,884,576</b>	<b>(\$49,566,535)</b>	<b>\$25,209,198</b>

See accompanying Notes to Consolidated Financial Statements.



**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	\$8,155,360	\$5,636,516	\$6,050,909
Adjustments for:			
Depreciation and amortization (Note 11)	2,711,632	2,190,004	2,900,520
Interest expense (Notes 15 and 16)	1,375,227	1,327,413	565,460
Interest income (Notes 5, 8 and 10)	(380,095)	(385,973)	(42,563)
Change in fair value of financial assets at FVPL (Notes 8 and 22)	—	(293,349)	184,985
Gain on disposal of financial assets at FVPL (Note 22)	(262,332)	—	—
Movement in net retirement benefit obligation (Note 21)	34,812	6,561	179,765
Excess of the fair value of net assets acquired over the aggregate consideration transferred (Note 4)	—	—	(2,041,059)
Net unrealized foreign exchange gains	(19,282)	(78,835)	(28,054)
Operating income before working capital changes	11,615,322	8,402,337	7,769,963
Decrease (increase) in:			
Inventories	(9,544,825)	5,031,613	3,414,890
Trade and other receivables	(9,508,529)	1,080,734	(7,312,607)
Other current assets	(79,881)	(663,070)	107,565
Increase (decrease) in trade and other payables	5,823,431	3,631,226	(138,433)
Cash generated from (used in) operations	(1,694,482)	17,482,840	3,841,378
Interest received	465,984	228,187	31,704
Income taxes paid	(353,536)	(715,139)	(22,004)
Net cash from (used in) operating activities	(1,582,034)	16,995,888	3,851,078
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Property, plant and equipment (Note 11)	(7,546,010)	(9,016,368)	(1,860,794)
Financial assets at FVPL	—	(18,494,471)	7,353,292
AFS financial asset	—	(1,667,000)	—
Proceeds from disposal of financial assets at FVPL	19,709,049	—	—
Redemption of HTM investments	518,269	209,453	—
Decrease in other noncurrent assets	(1,291,781)	68,651	39,231
Net payment for the acquisition of REMEC entities (Note 4)	—	—	(7,173,926)
Net cash from (used in) investing activities	\$11,389,527	(\$28,899,735)	(\$1,642,197)

(Forward)





	Years Ended December 31		
	2016	2015	2014
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from avallment of:			
Short-term loans (Note 15)	\$22,080,857	\$11,135,088	\$3,300,000
Long-term debt (Note 16)	30,000,000	—	10,000,000
Proceeds from issuance of:			
Common stock	—	34,023,732	—
Preferred stock	—	221,239	—
Payments of:			
Cash dividends	(3,620,000)	(2,100,000)	(1,800,000)
Interest	(1,271,687)	(1,499,983)	(415,198)
Long-term debts	(9,121,198)	(3,761,921)	(3,495,131)
Short-term loans	(1,290,000)	(2,400,000)	(1,100,000)
Debt issuance costs (Note 16)	(321,605)	—	—
Stock issue costs	—	(1,141,435)	—
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	(1,805,357)	(5,458,135)	(3,169,115)
Net cash from (used in) financing activities	(14,915,525)	29,018,585	3,320,556
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(157,341)	59,806	49,138
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(5,265,373)	17,174,544	5,578,575
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	29,776,866	12,602,322	7,023,747
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)</b>	\$24,511,493	\$29,776,866	\$12,602,322

See accompanying Notes to Consolidated Financial Statements.



# **CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **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).

The Group is primarily engaged in the manufacture and sale of semiconductor packages as an independent subcontractor for outsourced semiconductor assembly, test and packaging services. CEC manufactures standard integrated circuits, discrete, hybrid and potential new packages and provides complete turnkey solutions that include wafer probing, wafer back grinding, assembly and packaging and final testing of semiconductor devices with majority of its client base located in United States of America (USA). CEIC sells integrated circuits principally in the USA and assigns the production of the same to CEC. The Parent Company's registered address is 116 East Main Avenue, Phase V-SEZ, Laguna Technopark, Biñan, Laguna.

#### *Business Acquisition*

On July 30, 2014, CEIC entered into a sale and purchase agreement with REMEC Broadband Wireless Holdings (REMEC), for the purchase of 100% shares of REMEC's manufacturing division, REMEC Broadband Wireless International, Inc. (RBWI), a Philippine-based manufacturer of value-added, highly integrated technology products. Based on the terms of the sale, REMEC and its remaining subsidiaries will continue to design and market its top-of-class telecommunications products globally under its "REMEC" brand, and, REMEC will enter into a manufacturing agreement with RBWI to manufacture REMEC's products under a long-term contract manufacturing relationship. CEIC acquired RBWI for a consideration of \$7.5 million. CHPC funded the acquisition through a combination of available cash on hand and proceeds from a corporate notes issuance.

The closing date of the transaction is effective July 30, 2014 (see Note 4).

RBWI is primarily engaged in the manufacture, fabrication and design of microwave components and subsystems primarily for export. RBWI was renamed to Cirtek Advanced Technologies and Solutions, Inc. (CATS) on November 21, 2014 at the British Virgin Islands and on February 18, 2015 at the Philippine Securities and Exchange Commission (SEC).



*Authorization and issuance of consolidated financial statements*

The consolidated financial statements of the Group as at December 31, 2016 and 2015 and for each of the three years ended December 31, 2016 were approved and authorized for issuance by the Board of Directors (BOD) on April 12, 2017.

**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 assets at FVPL which are carried at fair value. 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, 2016 and 2015 (see Notes 1 and 4):

	Country of Incorporation	Percentage of Ownership			
		2016		2015	
		Direct	Indirect	Direct	Indirect
CEC	Philippines	100	—	100	—
CEIC	British Virgin Islands (BVI)	100	—	100	—
CATS (formerly known as RBWI)	BVI	—	100	—	100
CATS - Philippine Branch	Philippines	—	100	—	100
Remec Broadband Wireless Real Property (RBWRP)	Philippines	—	100	—	100

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 statement of comprehensive income 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'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 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, 2016. These pronouncements are either not applicable to the Group or their adoption did not have a significant impact on the Group's financial position or performance.

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

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

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

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

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

- PFRS 14, *Regulatory Deferral Accounts*

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



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

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

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

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

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

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

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

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



- Annual Improvements to PFRSs 2012 - 2014 Cycle

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

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

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

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

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

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

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

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

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

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



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, 2017*

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

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

The amendments do not have any impact on the Group's financial position and results of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

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

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

The amendments do not have any impact on the Group's financial position and results of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

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

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

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

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





*Effective beginning on or after January 1, 2018*

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

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

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

These amendments are not applicable to the Group.

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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group is currently assessing the impact of PFRS 15.



- PFRS 9, *Financial Instruments*

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

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

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

These amendments are not applicable to the Group.

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

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

These amendments are not applicable to the Group.



- 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 adoption of the interpretation is not expected to have any significant impact on the consolidated financial statements.

*Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*

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

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

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

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

*Deferred effectivity*

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.



On January 13, 2016, the 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 non-financial 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 are 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 investments not 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 in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets 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 when their risks and 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, 2016 and 2015, the Group designated its investments in Unit Investment Trust Fund (UITF) and Rizal Commercial Banking Corporation (RCBC) Senior Notes as financial assets 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. 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, 2016 and 2015, the Group has designated as loans and receivables its cash in banks and cash equivalents, trade and other receivables, amounts owed by related parties, security deposit, 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, 2016 and 2015, 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 equity 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, 2016 and 2015, the Group's AFS financial asset pertains to unquoted equity shares of CloudMondo, Ltd.



### *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, 2016 and 2015.

#### *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. Amortized cost is calculated by taking into account any related issue costs, discount or premium. 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, 2016 and 2015, 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 basis (FIFO);  |
| 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, supplies, spare parts and others is the current replacement cost.

#### Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost and costs of day-to-day servicing, 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.

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	10-15
Buildings and improvements	5-25
Facility and production tools	5-8
Furniture, fixtures and equipment	2-5
Transportation equipment	5-7

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

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.



Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

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. Property, plant and equipment 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.

#### 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.

#### 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

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 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 the consolidated statement of comprehensive income or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, 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 re-assesses 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, 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 is measured at par value for all shares issued. Subscriptions receivable are accounted for as a deduction from equity. Proceeds and/or fair value of consideration received in excess of par value, if any, are recognized as additional paid-in capital (APIC).

#### 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.

#### 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 APIC.

#### 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 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 the consolidated statement of comprehensive income 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 the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Retirement Benefits Costs

The Group is 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.

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.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

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.

#### Foreign Currency-denominated Transactions

The consolidated financial statements are presented in US dollars, which is the Group'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 the consolidated statement of comprehensive income. 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 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.

##### *Deferred 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 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 operating in the Philippines 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.

#### Segment Reporting

For management purposes, the Group has determined that it is operating as one operating segment. Sales are reported internally per division, however, profit or loss, assets and liabilities are reported on an entity-wide basis. These information are measured using the same accounting policies and estimates as the Group's consolidated financial statements (see Note 25).

#### 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 the statement of comprehensive income, 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.

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### **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, 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 entity operates. 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 segment*

The Group has determined that it is operating as one operating segment. Based on management's assessment, no part or component of the business of the Group meets the qualifications of an operating segment as defined in PFRS 8, *Operating Segments*.

##### *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, 2016, the Parent Company's management expects that sale will be completed in 2017.

#### *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 Company's financial instruments is disclosed in Note 26.

#### *Deferred income tax liability on a subsidiary's undistributed profits*

CEIC has undistributed profits as of December 31, 2016 and 2015 that 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 \$6,786,090 and \$6,262,423 as of December 31, 2016 and 2015, respectively.

#### *Impairment of nonfinancial assets*

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 in the Group's nonfinancial assets as of December 31, 2016 and 2015 (see Notes 9, 11 and 13).

#### 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.

#### *Estimation of fair value of identifiable net assets of an acquiree in a business combination*

In accounting for business combinations, the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. The determination of fair values requires estimates of economic conditions and other factors. The fair values of identifiable net assets are in Note 4 to the consolidated financial statements.



*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, 2016 and 2015, the Group carries its noncurrent assets held for sale at lower of carrying amount and fair value less cost to sell amounting to \$11,408,611 (see Note 11).

*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 27 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.

In 2015, the Group's review indicated that the estimated useful lives of machinery and equipment should be extended from 6 to 12 years to 10 to 15 years and facility and production tools from 3 to 5 years to 5 to 8 years from January 1, 2015 based on the Group's reassessment of the expected period over which the Group will benefit from the use of these assets. There were no changes in the useful lives of property, plant and equipment in 2016.

Estimated impact on future annual depreciation expense is as follows:

Years Ended December 31	Increase (Decrease)
2015	(\$1,338,607)
2016 to 2020	(2,233,408)
2021 to 2025	3,572,015

Depreciation charged in the consolidated statements of comprehensive income amounted to \$2,711,632, \$2,190,004 and \$2,900,520 in 2016, 2015 and 2014, respectively. As of December 31, 2016 and 2015, the Group's property, plant and equipment have a net book value of \$28,675,910 and \$23,841,532, respectively (see Note 11).

*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, 2016 and 2015. The carrying amounts of inventories, net of allowance for inventory obsolescence, amounted to \$15,281,893 and \$5,737,068 as of December 31, 2016 and 2015, respectively (see Note 7).

*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, allowances are 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.

As of December 31, 2016 and 2015, the Group has not provided any impairment allowance since receivables were assessed to be fully collectible. The carrying amount of loans and receivables, which include cash in banks and cash equivalents, trade and other receivables, amounts owed by related parties, security deposit, loans to employees and deposits amounted to \$62,000,208 and \$55,834,400 as of December 31, 2016 and 2015, respectively (see Notes 5, 6, 9 and 13).

*Estimating retirement benefit cost and liability*

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 21 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 amounted to \$216,687, \$233,513 and \$242,529 in 2016, 2015 and 2014, respectively. As of December 31, 2016 and 2015, the Group's retirement benefit obligation amounted to \$1,807,847 and \$1,357,811, respectively (see Note 21).

*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, 2016 and 2015, software with a total cost of \$39,278 has been fully amortized. The carrying amount of capitalized development costs amounted to \$922,220 and \$569,942 as of December 31, 2016 and 2015, respectively. The amortization of capitalized development cost amounted to \$194,888, \$96,355 and \$72,940 in 2016, 2015 and 2014, 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 deferred income tax assets amounting to \$223,779 and \$274,903 as of December 31, 2016 and 2015, respectively (see Note 23).

The Parent Company did not recognize deferred income tax assets on the carryforward benefit of NOLCO and unrealized foreign exchange losses amounting to \$3,496,061 and \$2,784,422 as of December 31, 2016 and 2015, respectively.

*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 \$1,419,257 and \$130,300 as of December 31, 2016 and 2015, respectively.

*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 2016 and 2015.

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#### 4. **Business Combination**

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.



As of July 30, 2015, the Group valuation was completed and the acquisition date fair value of the HTM investments, long-term debt, retirement benefit obligation and the related deferred income tax assets amounted to \$1,156,722, \$10,933,214, \$691,855, and \$113,593, respectively, a net decrease of \$532,778 over the provisional fair value of net assets. The 2014 comparative information was restated to reflect the adjustment to the provisional amounts of assets and liabilities. Correspondingly, the amortization of HTM investment and long-term debt from August to December 2014 have been adjusted by \$164,994. As a result, there was a corresponding reduction in the retained earnings amounting to \$697,608 as of December 31, 2014. Excess of the fair value of net assets acquired over the aggregate consideration transferred amounted \$2,041,059 and is presented under "Other income - net" account in the consolidated statements of comprehensive income (see Note 22).

From the date of acquisition, CATS contributed \$11,729,914 of revenue and \$1,349,426 to profit before tax from continuing operations of the Group for the year ended December 31, 2014. If the combination had taken place at the beginning of 2014, the Group's revenue from continuing operations would have been \$67,890,213 and the profit before tax from continuing operations would have been \$9,715,181.

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

Cash consideration transferred	\$7,465,105
Net cash acquired with the subsidiary	(291,179)
<b>Net cash flow on acquisition</b>	<b>\$7,173,926</b>

Transaction costs of \$30,253 were expensed and are included in administrative expenses.

## 5. Cash and Cash Equivalents

	2016	2015
Cash on hand and in banks	\$24,511,493	\$14,792,686
Cash equivalents	—	14,984,180
	<b>\$24,511,493</b>	<b>\$29,776,866</b>

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 \$172,196, \$19,469 and \$23,524 in 2016, 2015 and 2014, respectively.

## 6. Trade and Other Receivables

	2016	2015
Trade	\$22,688,485	\$13,615,734
Others	483,938	134,049
	<b>\$23,172,423</b>	<b>\$13,749,783</b>

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



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

## 7. Inventories

	2016	2015
At cost:		
Raw materials	\$13,692,165	\$4,197,113
Work-in-process	408,986	519,595
Finished goods	178,958	105,852
Spare parts and others	643,244	556,485
	14,923,353	5,379,045
At NRV:		
Supplies and others	358,540	358,023
Total inventories at lower of cost and NRV	\$15,281,893	\$5,737,068

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, 2016 and 2015 amounted to \$96,884.

The cost of inventories recognized as cost of sales amounted to \$42,377,215, \$30,689,257 and \$28,352,936 in 2016, 2015 and 2014, respectively (see Note 18).

## 8. Financial Assets at FVPL

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

	2016	2015
Beginning balance	\$19,447,248	\$701,747
Disposals	(19,709,049)	—
Gain on disposal (Note 22)	262,332	—
Acquisition	—	18,494,471
Fair value gains (Note 22)	—	293,349
Foreign currency translation	(28)	(42,319)
Ending balance	\$503	\$19,447,248

### 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 2016 and 2015.

In 2015 and 2014, the Group recognized fair value gains amounting to \$25,769 and \$184,985, respectively, 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, 2016 and 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 \$199,537 and \$339,174 in 2016 and 2015, respectively.

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**9. Other Current Assets**

	2016	2015
Rental deposit (Note 17)	\$1,131,399	\$1,131,399
Advances to suppliers	953,821	773,277
Loans to employees	239,823	252,871
Security deposit	180,387	180,387
Prepaid expenses	80,488	102,079
Others	32,452	94,168
	<b>\$2,618,370</b>	<b>\$2,534,181</b>

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

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**10. HTM Investments**

As of December 31, 2016 and 2015, the details of HTM investments are as follows (see Note 4):

	2016	2015
Current portion	\$371,520	\$521,215
Noncurrent portion	—	368,574
	<b>\$371,520</b>	<b>\$889,789</b>



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 government bonds which were purchased by the Philippine Branch of CATS in compliance with above regulation. The bonds have maturity dates which range from 2015-2017 and bear an average effective interest rate of 1.97% to 4.63% per annum.

In May 2015, one of the HTM bonds with a face value of \$111,632 (₱5.0 million) matured and as a result, CATS received cash amounting to \$115,478.

Interest income in 2016, 2015 and 2014 amounting to \$8,362, \$27,330, and \$34,717, respectively, are presented as part of "Interest income" account in the consolidated statements of comprehensive income.

## 11. Property, Plant and Equipment and Noncurrent Assets Held for Sale

### Property, plant and equipment

December 31, 2016

	Machinery and Equipment	Buildings and Improvements	Facility and Production Tools	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in progress	Total
<b>Cost:</b>							
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
Disposal and other adjustments	-	-	-	-	-	-	-
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
<b>Accumulated depreciation:</b>							
Beginning balances	27,840,187	4,399,021	4,341,626	923,784	74,542	-	37,579,160
Depreciation (Notes 18 and 19)	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



December 31, 2015

	Machinery and Equipment	Buildings and Improvements	Facility and Production Tools	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in progress	Total
<b>Cost:</b>							
Beginning balances	\$38,385,288	\$7,071,084	\$5,994,069	\$1,058,977	\$104,365	\$-	\$52,613,783
Additions	3,254,022	1,049,796	733,247	63,192	85,300	3,830,811	9,016,368
Disposal and other adjustments	(146,752)	(29,319)	-	(14,900)	(18,488)	-	(209,459)
<b>Ending balances</b>	<b>41,492,558</b>	<b>8,091,561</b>	<b>6,727,316</b>	<b>1,107,269</b>	<b>171,177</b>	<b>3,830,811</b>	<b>61,420,692</b>
<b>Accumulated depreciation:</b>							
Beginning balances	26,587,628	4,154,904	3,958,418	818,862	78,803	-	35,598,615
Depreciation (Notes 18 and 19)	1,404,291	267,753	383,208	120,678	14,074	-	2,190,004
Disposal and other adjustments	(151,732)	(23,636)	-	(15,756)	(18,335)	-	(209,459)
<b>Ending balances</b>	<b>27,840,187</b>	<b>4,399,021</b>	<b>4,341,626</b>	<b>923,784</b>	<b>74,542</b>	<b>-</b>	<b>37,579,160</b>
<b>Net book values</b>	<b>\$13,652,371</b>	<b>\$3,692,540</b>	<b>\$2,385,690</b>	<b>\$183,485</b>	<b>\$96,635</b>	<b>\$3,830,811</b>	<b>\$23,841,532</b>

Additions to construction in progress amounting to \$3,090,787 and \$3,830,811 in 2016 and 2015, respectively, represent construction costs incurred for the new production facility of CATS - Philippine Branch's new product venture. Construction was completed in 2016.

Land and building owned by RBWRP with carrying value of \$8,768,248 as of December 31, 2016 and 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 16).

The cost of fully depreciated property, plant and equipment still used in operations amounted to \$18,780,185 and \$18,394,022 as of December 31, 2016 and 2015, 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 which were based on recent transactions for similar assets within the same industry. Property, plant and equipment with carrying value of \$11,408,611 were classified as noncurrent assets held for sale in the consolidated balance sheets effective December 31, 2014. 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.

## **12. AFS Financial Asset**

The Group's AFS financial asset pertains to the unquoted investment in CloudMondo, Ltd. which is acquired at a cost of \$1,667,000 in 2015.



### 13. Other Noncurrent Assets

	2016	2015
Advances to suppliers	\$1,066,014	\$55,644
Product development costs	922,220	569,942
Miscellaneous deposits	135,559	136,168
Loans to employees	7,889	87,987
Others	39,177	44,112
	<b>\$2,170,859</b>	<b>\$893,853</b>

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

Product development costs pertain to the 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, 2015 and 2014 amounted to \$547,166, \$105,365, and \$163,907, respectively. Amortization of product development cost charged to the consolidated statements of comprehensive income amounted to \$194,888, \$96,355, and \$72,940 in 2016, 2015 and 2014, respectively, as these are available for use.

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, 2016 and 2015, CEC has software with a total cost of \$39,278 which are fully amortized but are still used in operations.

### 14. Trade and Other Payables

	2016	2015
Trade	\$13,192,707	\$8,569,122
Accruals:		
Utilities	442,112	453,145
Payroll	404,116	259,583
Interest (Notes 15 and 16)	172,419	155,235
Others	337,454	285,966
Advances from customers	2,833,791	2,884,311
Provision for warranty	1,419,257	130,300
Others	333,737	647,980
	<b>\$19,135,593</b>	<b>\$13,385,642</b>

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

Accruals comprise mainly of accruals for electricity, water, 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 increase in provision for warranty is due to the introduction of new products for its new customer (see Note 29). Provision for (reversal of)



warranty in 2016 and 2015 amounted to \$1,288,957 and (\$18,654), respectively, and is presented as part of "Cost of sales" account in the consolidated statements of comprehensive income.

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

## 15. Short-term Loans

The Group has the following loan facilities:

		2016	2015
Banks:			
SBC	(a)	\$10,000,000	\$900,000
Bank of the Philippine Island (BPI)	(b)	5,435,088	5,435,088
RCBC	(c)	16,190,857	4,500,000
		<b>\$31,625,945</b>	<b>\$10,835,088</b>

- Revolving loan facilities with the SBC which have payment terms ranging from 90 to 180 days. The facility is unsecured and charged interest of 1.95% to 2.10% per annum in 2016 and 2015.
- Revolving loan facilities with the BPI which have payment terms of 180 days. The facility is unsecured and charged interest of 1.80% per annum in 2016 and 2015.
- Revolving loan facilities with the RCBC which have payment terms ranging from 60 to 167 days. The facility is unsecured and charged interest of 2.25% per annum in 2016 and 2015.

Interest expense incurred from these short-term loan facilities amounted to \$153,247, \$95,423, and \$181,636 in 2016, 2015 and 2014, respectively.

## 16. Long-term Debt

As of December 31, 2016 and 2015, the details of long-term debts are as follow:

	2016	2015
Principal	\$44,250,000	\$23,371,201
Less deferred financing costs	390,029	154,780
	<b>\$43,859,971</b>	<b>23,216,421</b>
Less:		
Current portion - net of deferred financing costs amounting to \$272,155 and \$71,699 in 2016 and 2015, respectively	6,882,126	5,290,995
Subsequent adjustments in PPA	—	12,647
	<b>6,882,126</b>	<b>5,303,642</b>
	<b>\$36,977,845</b>	<b>\$17,912,779</b>



Movement in deferred financing costs follow:

	2016	2015
Beginning of year	\$154,780	\$130,122
Transaction costs recognized during the year	321,605	146,127
Less amortization	86,356	121,469
End of year	\$390,029	\$154,780

#### CHPC

On July 25, 2012, the Parent Company entered into a \$10.0 million Notes Facility Agreement (NFA) 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 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.

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.

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 Parent Company is in compliance with the debt covenants as of December 31, 2016 and 2015.

Total interest expense (including amortization of deferred financing costs) recognized in the consolidated statements of comprehensive income amounted to \$1,134,962, \$757,709, and \$188,302 in 2016, 2015 and 2014, respectively.

#### *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 Group assumed the loan upon acquisition of REMEC's manufacturing division in 2014. As of December 31, 2015, the land and building owned by RBWRP were used as collateral for the secured interest-bearing loan (see Note 11).

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. Interest expense charged to operations in 2016, 2015 and 2014 amounted to \$87,018, \$474,281 and \$154,856, respectively.

Carrying values of long-term debt held by the Parent Company and CATS - Philippine Branch follow:

	2016	2015
Parent Company	\$43,859,971	\$17,595,220
CATS - Philippine Branch	—	5,621,201
	<b>\$43,859,971</b>	<b>\$23,216,421</b>





## 17. 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:

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

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

- Amounts owed to related parties

		Transactions		Balances as of		Terms	Conditions
		2016	2015	2016	2015		
<i>Other related parties</i>							
CLC	Rental	\$12,776	\$13,515	\$446,970	\$434,194	Due on demand; non-interest bearing	Unsecured
Cayon	Rental	11,690	12,025	73,182	61,492	Due on demand; non-interest bearing	Unsecured
				\$520,152	\$495,686		

- Amounts owed by related parties

		Transactions		Balances as of		Terms	Conditions
		2016	2015	2016	2015		
<i>Other related parties</i>							
Camerton	Reimbursement of expenses	\$78,833	\$—	\$111,994	\$33,161	Due on demand; non-interest bearing	Unsecured; no impairment
CHI	Advances for working capital	—	—	1,809,256	1,809,256	Due on demand; non-interest bearing	Unsecured; no impairment
Cayon	Reimbursement of expenses	—	—	206,284	206,284	Due on demand; non-interest bearing	Unsecured; no impairment
Jerry Liu	Advances	1,750,990	5,483,674	10,309,041	8,558,051	Due on demand; non-interest bearing	Unsecured; no impairment
				\$12,436,575	\$10,606,752		

- Rental deposit

	Transactions		Balances as of		Terms	Conditions
	2016	2015	2016	2015		
<i>Other related parties</i>						
CLC	\$—	\$—	\$1,131,399	\$1,131,399	Due on demand; non-interest bearing	Unsecured; no impairment



The above related parties, except Jerry Liu, are entities under common control of the ultimate parent company. Jerry Liu is a stockholder and the chairman of the Parent Company's BOD.

*Transactions with CHI, Charmview Enterprises Ltd (CEL) and officer*

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, 2016 and 2015 pertains to the outstanding receivable arising from the assignments and set-off agreements as discussed above.

*Transactions with Camerton*

Camerton is the majority shareholder of the Parent Company. Amounts owed by Camerton as of December 31, 2016 and 2015 pertain mainly to working capital advances and advances for incorporation expenses of Camerton.

*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 \$1.1 million as current asset as the deposit has become due and demandable anytime from CLC (see Note 9).

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 \$12,777, \$13,515 and \$14,434 in 2016, 2015 and 2014, 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. Total rent expense charged to operations amounted to \$11,690, \$12,025 and \$13,114 in 2016, 2015 and 2014, respectively.

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

	2016	2015	2014
Salaries and wages	\$1,716,534	\$520,374	\$953,896
Employee benefits	246,575	275,117	246,477
	<u>\$1,963,109</u>	<u>\$795,491</u>	<u>\$1,200,373</u>

#### 18. Cost of Sales

	2016	2015	2014
Raw materials, spare parts, supplies and other inventories used, and changes in inventories (Note 7)	\$42,434,652	\$35,035,653	\$27,679,587
Salaries, wages and employees' benefits (Note 20)	10,535,487	8,234,391	7,821,742
Utilities	3,490,477	3,696,519	3,556,257
Depreciation (Note 11)	2,626,749	2,116,293	2,838,858
Inward freight and duties and others	2,478,742	898,991	2,354,891
	<u>\$61,566,107</u>	<u>\$49,981,847</u>	<u>\$44,251,335</u>

#### 19. Operating Expenses

	2016	2015	2014
Salaries, wages and employees' benefits (Note 20)	\$2,563,292	\$2,035,832	\$1,594,075
Utilities	349,377	505,530	290,845
Transportation and travel	304,568	356,524	284,608
Entertainment, amusement and recreation	192,109	208,554	168,981
Professional fees	191,305	264,495	132,542
Commissions	152,020	57,660	159,935
Depreciation (Note 11)	84,883	73,711	61,662
Taxes and licenses	84,242	163,242	47,792
Insurance premiums	71,871	12,497	31,191
Office supplies	47,688	27,210	27,815
Others	312,248	115,421	529,010
	<u>\$4,353,603</u>	<u>\$3,820,676</u>	<u>\$3,328,456</u>

"Others" mainly consist of receivables directly written off and other charges.



## 20. Salaries and Wages and Employees' Benefits

	2016	2015	2014
Salaries and wages	\$10,480,573	\$8,597,053	\$7,771,711
Other employees' benefits	2,401,519	1,439,657	1,401,577
Retirement benefits costs (Note 21)	216,687	233,513	242,529
	<b>\$13,098,779</b>	<b>\$10,270,223</b>	<b>\$9,415,817</b>

Other employees' benefits consist of allowances and mandatory contributions.

## 21. Retirement Benefit Obligation

The Group has a funded, noncontributory defined benefit retirement plan based on the normal retirement benefits equivalent to the minimum retirement benefit as provided by Republic Act (R.A.) No. 7641, otherwise known as the Retirement Pay Law, covering all of its 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.

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.

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

	2016	2015	2014
Current service cost	\$148,313	\$160,009	\$140,308
Interest cost	68,374	73,504	102,221
	<b>\$216,687</b>	<b>\$233,513</b>	<b>\$242,529</b>

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

	2016	2015
Present value of obligations	\$2,080,282	\$1,610,657
Fair value of plan assets	(272,435)	(252,846)
	<b>\$1,807,847</b>	<b>\$1,357,811</b>

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

	2016	2015
Opening present value defined benefit obligation	\$1,610,657	\$1,780,923
Current service cost	148,313	160,009
Interest cost	77,974	79,667
Remeasurement losses (gains)	392,006	(203,202)
Benefits paid	(34,875)	(121,045)
Translation difference	(113,793)	(85,695)
	<b>\$2,080,282</b>	<b>\$1,610,657</b>



Changes in the fair value of plan assets are as follows:

	2016	2015
Opening fair value of plan assets	\$252,846	\$135,136
Contributions	147,002	105,907
Interest income included in net interest costs	9,600	6,163
Remeasurement gains (losses) on plan assets	(121,918)	16,630
Translation difference	(15,095)	(10,990)
	<u>\$272,435</u>	<u>\$252,846</u>

Movements in the net retirement plan liabilities follow:

	2016	2015
Beginning of year	\$1,357,811	\$1,645,787
Retirement benefits costs	216,687	233,513
Contributions	(147,002)	(105,907)
Remeasurement losses (gains) recognized in other comprehensive income	513,924	(219,832)
Benefits paid	(34,875)	(121,045)
Translation difference	(98,698)	(74,705)
End of year	<u>\$1,807,847</u>	<u>\$1,357,811</u>

The details of the remeasurement losses (gains) in other comprehensive income as of December 31 follow:

	2016	2015	2014
Remeasurement losses (gains) on defined benefits obligation arising from changes in:			
Experience adjustments	\$145,529	(\$174,143)	(\$128,760)
Changes in assumptions	246,477	(29,059)	(272,601)
Remeasurement losses (gains) on plan assets	121,918	(16,630)	9,723
	<u>\$513,924</u>	<u>(\$219,832)</u>	<u>(\$391,638)</u>

As a result of the business combination, the Group recognized an additional present value of the defined benefit obligations of \$1,878,867 for the year ended December 31, 2014.

The principal actuarial assumptions used to determine retirement obligations for the Group's retirement plan are as follows:

	2016	2015	2014
Discount rate	5.43% - 5.55%	4.35 - 5.08%	4.64%
Salary increase rate	3.50% - 2%	2.00%	2.00%



The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the pension obligations as of December 31, 2016 and 2015, assuming all other assumptions were held constant:

	Increase (Decrease)	Effect on Present Value of Defined Benefit Obligation	
		2016	2015
Discount rate	+1%	<b>(\$187,575)</b>	(\$155,646)
	-1%	<b>225,665</b>	185,184
Future salary increase rate	+1%	<b>220,431</b>	197,098
	-1%	<b>(186,465)</b>	(167,737)

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

The latest actuarial valuation report of the Group is as of December 31, 2016. 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:

	2016	2015
1 year or less	<b>\$349,863</b>	\$125,072
More than 1 year to 5 years	<b>470,458</b>	672,062
More than 5 years	<b>11,251,717</b>	7,548,519

## 22. Other Income - Net

	2016	2015	2014
Sale of scrap	<b>\$231,552</b>	\$320,199	\$259,819
Gain on disposal of financial assets at FVPL (Note 8)	<b>262,332</b>	—	—
Foreign exchange gains (losses) - net	<b>(3,222)</b>	178,986	(67,297)
Mark-to-market gain (Note 8)	—	293,349	184,985
Excess of the fair value of net assets acquired over the aggregate consideration transferred (Note 4)	—	—	2,041,059
Others - net	<b>257,228</b>	39,411	(57,050)
	<b>\$747,890</b>	\$831,945	\$2,361,516

Other non-operating income pertains to the miscellaneous receipts from customers in prior periods.

## 23. 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 activity, CATS - Philippine Branch is 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:

	2016	2015	2014
Current	\$559,457	\$475,638	\$202,011
Deferred	(12,125)	39,998	4,814
	<u>\$547,332</u>	<u>\$515,636</u>	<u>\$206,825</u>

The provision for current income tax in 2016, 2015 and 2014 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 income tax shown in the consolidated statements of comprehensive income follows:

	Years Ended December 31		
	2016	2015	2014
Income tax at applicable statutory rate	\$637,810	\$478,334	\$377,037
Additions to (reduction in) income tax:			
Nontaxable income	(139,433)	(82,272)	(128,692)
Nondeductible expenses	34,930	97,041	13,071
Income subject to higher tax rate	33,356	86,046	—
Taxable income subject to ITH	(19,665)	(68,042)	(53,519)
Movement of temporary differences	(12,125)	—	(60,008)
Interest income subject to final tax	—	—	(283)
Translation difference and others	12,459	4,529	59,219
Provision for income tax	<u>\$547,332</u>	<u>\$515,636</u>	<u>\$206,825</u>



In 2016, 2015 and 2014, CATS - Philippine Branch and CEC have availed ITH for certain product lines. Total gross income for the registered activities of CEC in 2015 and 2014 amounted to \$480,477 and \$1,070,379, respectively. Total gross income for the registered activities of CATS - Philippine Branch in 2016 and 2015 amounted to \$393,300 and \$810,345, respectively.

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

	2016	2015
<i>Deferred income tax assets recognized in profit or loss:</i>		
Fair value adjustment on noncurrent assets held for sale	\$127,849	\$127,849
Retirement benefit obligation	98,648	92,452
HTM investments	1,408	1,408
NOLCO	—	80,274
	<b>227,905</b>	<b>301,983</b>
<i>Deferred income tax liabilities recognized in profit or loss:</i>		
Effect of foreign exchange differences between tax base and financial reporting base	(7,502)	(8,819)
Fair value adjustment on long-term debt	(14,932)	(14,932)
Unrealized foreign exchange gains	(30,140)	(25,849)
Unrealized gain on financial assets at FVPL	—	(88,938)
	<b>(52,574)</b>	<b>(138,538)</b>
<i>Deferred income tax liability related to retirement benefit obligation recognized under other comprehensive income</i>	<b>(4,126)</b>	<b>(27,890)</b>
Net deferred income tax assets	<b>\$171,205</b>	<b>\$135,555</b>

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

	2016	2015
Net deferred income tax assets	<b>\$174,578</b>	<b>\$135,555</b>
Net deferred income tax liabilities	<b>\$3,373</b>	<b>—</b>

The following are the Parent Company'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:

	2016	2015
NOLCO	<b>\$3,352,472</b>	<b>\$2,741,201</b>
Unrealized foreign exchange losses	<b>143,589</b>	<b>43,221</b>





As of December 31, 2016 and 2015, the Parent Company incurred NOLCO that can be claimed as deduction from future taxable income as follows:

Year incurred	Amount	Addition	Expired	Balance as of December 31, 2016	Tax effect	Available until
2013	\$782,210	\$-	\$782,210	\$-	\$-	2016
2014	952,273	-	-	952,273	285,682	2017
2015	1,006,718	-	-	1,006,718	302,015	2018
2016	-	1,393,481	-	1,393,481	418,044	2019
	<b>\$2,741,201</b>	<b>\$1,393,481</b>	<b>\$782,210</b>	<b>\$3,352,472</b>	<b>\$1,005,741</b>	

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.

## 24. Earnings Per Share (EPS)

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

	2016	2015	2014
Net income attributable to common shareholders of the Parent Company*	<b>\$7,596,228</b>	\$5,112,080	\$5,844,084
Weighted average number of common shares outstanding	<b>416,859,291</b>	383,220,650	336,261,197
Basic and diluted EPS	<b>\$0.018</b>	\$0.013	\$0.017

\*Net of dividends declared on preferred shares

As of December 31, 2016, 2015 and 2014, 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.

## 25. Operating Segments

The Group has determined that it is operating as one operating segment. Based on management's assessment, no part or component of the business of the Group meets the qualifications of an operating segment as defined by PFRS 8. More specifically:

- There is no significant or obvious distinction among the products assembled by the Group. The assembly process is likewise similar;
- The Group's production facility and head office is located in the Philippines;
- Although production of goods is divided into thirteen divisions, the commercial, technical, operating, marketing and selling matters are made at the executive committee level and not at the division levels. The role of the respective division managers is to ensure that production is on track in meeting its volume forecasts, and that quality standards are consistently met.



Sales are reported internally per division, but profit or loss, assets and liabilities are reported on an entity-wide basis. Information is measured using the same accounting policies and estimates as the Group's consolidated financial statements.

Sales from external customers per division as reported internally are as follows (amounts in thousands):

	2016	2015	2014
Sales to Quintel	\$19,371	\$-	\$-
Discrete	12,487	11,296	10,800
Integrated Circuits	9,818	8,119	8,556
Multichip	9,681	10,163	9,629
New Products	5,273	5,415	5,221
Quad-Flat No-Leads	4,938	5,143	3,848
Outdoor Unit	4,903	7,519	2,008
Bridgewave Ems	3,024	2,368	2,969
Hermetics	1,488	2,083	2,008
Indoor Radio Frequency Unit	1,373	2,493	5,073
Cougar	241	329	94
Remec Manufacturing Services	125	272	124
Indoor Unit	-	1,691	562
	<b>\$72,722</b>	<b>\$56,891</b>	<b>\$50,892</b>

CATS - Philippine Branch's service income amounted to \$1.6 million and \$2.2 million in 2016 and 2015, respectively. In 2016, service income pertains to sales and production of ODR, EMS and IRFU and billings to customers for inventory variances. In 2015, service income is primarily related to the sales and production of IRFU.

Below are customers contributing at least 10% of the Group's total sales for each year. Sales to these customers are as follows (amounts in thousands):

	2016	2015	2014
Major Customer A*	\$19,371	\$-	\$-
Major Customer B	10,060	12,728	10,778
Major Customer C	7,728	8,858	10,495

*\*After the acquisition of CATS, the Group's revenue grew from a single major customer*

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

	2016	2015	2014
USA	\$41,144	\$32,436	\$23,880
Europe	19,390	16,941	17,238
Asia	13,788	10,172	10,674
	<b>\$74,322</b>	<b>\$59,549</b>	<b>\$51,792</b>

There are no sales made to entities under common control with the Group.



## 26. 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:

	2016	2015
Cash and cash equivalents*	\$24,511,243	\$29,776,426
Trade and other receivables	23,172,423	13,749,783
Financial assets at FVPL	503	19,447,248
Amounts owed by related parties	12,436,575	10,606,752
Other current assets		
Rental deposit	1,131,399	1,131,399
Loans to employees	239,823	165,498
Security deposit	180,387	180,387
HTM investments	371,520	889,789
AFS financial asset	1,667,000	1,667,000
Other noncurrent assets		
Miscellaneous deposits	135,559	136,168
Loans to employees	7,889	87,987
<b>Total credit risk exposure</b>	<b>\$63,854,321</b>	<b>\$77,838,437</b>

\*Excluding cash on hand as of December 31, 2016 and 2015 amounting to \$250 and \$440, respectively.



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

	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	—	23,172,423
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	\$—	\$63,854,321

\*Excluding cash on hand amounting to \$250.

		December 31, 2015					
	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*	\$29,776,426	\$—	\$—	\$—	\$—	\$—	\$29,776,426
Trade and other receivables	9,318,862	1,838,198	190,185	98,815	2,344,735	—	13,790,795
Financial assets at FVPL	19,447,248	—	—	—	—	—	19,447,248
Amounts owed by related parties	10,606,082	—	—	—	—	—	10,606,082
Other current assets							
Rental deposit	1,131,399	—	—	—	—	—	1,131,399
Security deposit	—	—	—	—	180,387	—	180,387
Loans to employees	165,499	—	—	—	—	—	165,499
AFS financial asset	1,667,000	—	—	—	—	—	1,667,000
HTM investments	889,789	—	—	—	—	—	889,789
Other noncurrent assets							
Loans to employees	87,987	—	—	—	—	—	87,987
Miscellaneous deposits	136,168	—	—	—	—	—	136,168
	\$73,226,460	\$1,838,198	\$190,185	\$98,815	\$2,525,122	\$—	\$77,878,780

\*Excluding cash on hand amounting to \$440.



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

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	17,194,529	31,646	-	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	-	-	371,250
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
	\$57,696,040	\$31,646	\$-	\$57,727,686

December 31, 2015

	Neither Past Due nor Impaired			Total
	High Grade	Medium Grade	Low Grade	
Cash and cash equivalents*	\$29,776,426	\$-	\$-	\$29,776,426
Trade and other receivables	9,194,991	123,871	-	9,318,862
Financial assets at FVPL	19,447,248	-	-	19,447,248
Amounts owed by related parties	10,606,082	-	-	10,606,082
Other current assets				
Rental deposit	1,131,399	-	-	1,131,399
Loans to employees	165,499	-	-	165,499
HTM investments	889,789	-	-	889,789
AFS financial asset	1,667,000	-	-	1,667,000
Other noncurrent assets				
Loans to employees	87,987	-	-	87,987
Miscellaneous deposits	136,168	-	-	136,168
	\$73,102,589	\$123,871	\$-	\$73,226,460

\* 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 financings, 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, 2016

	On demand	Less than 1 year	1 to 2 years	> 2 to 5 years	Total
<b>Financial Assets</b>					
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	12,428,669	-	-	-	12,428,669
	<b>\$54,683,621</b>	<b>\$5,428,964</b>	<b>\$-</b>	<b>\$-</b>	<b>\$60,112,585</b>
<b>Financial Liabilities</b>					
Trade and other payables					
Trade payables	\$13,192,707	\$-	\$-	\$-	\$13,192,707
Accrued expenses*	-	1,328,378	-	-	1,328,378
Short-term loans	-	31,625,945	-	-	31,625,945
Amounts owed to related parties	327,336	-	-	-	327,336
Long-term debts**	-	8,504,914	16,579,760	24,450,000	49,534,674
	<b>\$13,520,043</b>	<b>\$41,459,237</b>	<b>\$16,579,760</b>	<b>\$24,450,000</b>	<b>\$96,009,040</b>

\*Excluding statutory liabilities

\*\*Includes future interest payments

December 31, 2015

	On demand	Less than 1 year	1 to 2 years	> 2 to 5 years	Total
<b>Financial Assets</b>					
Cash and cash equivalents	\$29,776,866	\$-	\$-	\$-	\$29,776,866
Trade and other receivables	4,430,921	4,881,011	6,930	-	9,318,862
Amounts owed by related parties	10,625,082	-	-	-	10,625,082
	<b>\$44,832,869</b>	<b>\$4,881,011</b>	<b>\$6,930</b>	<b>\$-</b>	<b>\$49,720,810</b>
<b>Financial Liabilities</b>					
Trade and other payables					
Trade payables	\$8,569,122	\$-	\$-	\$-	\$8,569,122
Accrued expenses*	-	1,153,929	-	-	1,153,929
Short-term loans	-	10,835,088	-	-	10,835,088
Amounts owed to related parties	495,686	-	-	-	495,686
Long-term debts	-	9,636,827	7,953,550	7,163,975	24,754,352
	<b>\$9,064,808</b>	<b>\$21,625,844</b>	<b>\$7,953,550</b>	<b>\$7,163,975</b>	<b>\$45,808,177</b>

\*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, primarily in Philippine Peso currency. 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, 2016 and 2015:

	December 31, 2016	
	Original Currency in Php <sup>1</sup>	Total Dollar Equivalent
<b>Financial Assets</b>		
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
<b>Total Financial Assets</b>	<b>671,478,783</b>	<b>13,509,898</b>
<b>Financial Liability</b>		
Trade and other payables	80,312,280	1,615,291
<b>Net Financial Assets</b>	<b>₱591,166,503</b>	<b>\$11,894,607</b>

<sup>1</sup> ₱ 1 = \$.0201

	December 31, 2015	
	Original Currency in Php <sup>1</sup>	Total Dollar Equivalent
<b>Financial Assets</b>		
Cash and cash equivalents	₱113,436,344	\$2,410,462
Trade and other receivables	5,760,369	122,405
Financial asset at FVPL	502,585,192	10,679,668
HTM investments	41,652,610	885,096
Amounts owed by related parties	38,025,000	808,011
Other current assets	2,144,234	45,564
Other noncurrent assets	6,408,057	136,168
<b>Total Financial Assets</b>	<b>710,011,806</b>	<b>15,087,374</b>
<b>Financial Liabilities</b>		
Trade and other payables	47,709,773	1,013,807
Amounts owed to related parties	374,513,357	7,958,210
<b>Total Financial Liabilities</b>	<b>422,223,130</b>	<b>8,972,017</b>
<b>Net Financial Assets</b>	<b>₱287,788,676</b>	<b>\$6,115,357</b>

<sup>1</sup> ₱ 1 = \$.0213



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)

December 31, 2015				
	Foreign Currency Appreciates by	Effect on Income Before Tax	Foreign Currency Depreciates by	Effect on Income Before tax
Peso denominated assets	+5%	(\$758,836)	-5%	\$758,836
Peso denominated liabilities	+5%	314,054	-5%	(314,054)
		(\$444,782)		\$444,782

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 2016 and 2015.

The Company considers the following as capital:

	2016	2015
Common stock	\$9,594,321	\$9,594,321
Preferred stock	221,239	221,239
Additional paid-in capital	35,896,893	35,896,893
Equity reserve	4,138,375	4,138,375
Other comprehensive income	40,329	526,420
Retained earnings	24,884,576	20,896,548
	\$74,735,404	\$70,747,376

As of December 31, 2016, the Group is subject to externally imposed capital requirements. As of December 31, 2016, the Group was able to meet its capital requirements and management objectives.





## 27. Fair Value Measurement

As of December 31, 2016 and 2015, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Financial assets at FVPL	\$503	\$503	\$19,447,248	\$19,447,248
HTM investments	371,520	71,520	889,789	965,286
	<b>\$372,023</b>	<b>\$372,023</b>	<b>\$20,337,037</b>	<b>\$20,412,534</b>
<b>Financial liabilities</b>				
Other financial liabilities				
Long-term debts	\$43,859,971	\$43,859,971	\$23,216,421	\$24,516,928

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale.

*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 a 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).

### *Financial assets at FVPL - RCBC Senior Notes*

The investment in RCBC Senior Notes classified as financial asset at FVPL is stated at its fair values based on the quoted prices in an active market (Level 1).

### *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 3.63% to 3.70% in 2016.



### 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:

	2016			
	Total	Level 1	Level 2	Level 3
<b>Financial assets measured at fair value</b>				
Financial assets at FVPL	\$503	\$503	\$-	\$-
<b>Financial assets and liabilities measured at amortized cost but for which fair values are disclosed</b>				
HTM investments	371,520	371,520	-	-
Long-term debt	36,977,844	-	-	36,977,844
	2015			
	Total	Level 1	Level 2	Level 3
<b>Financial assets measured at fair value</b>				
Financial assets at FVPL	\$19,447,248	\$8,767,580	\$10,679,668	\$-
<b>Financial assets and liabilities measured at amortized cost but for which fair values are disclosed</b>				
HTM investments	889,789	889,789	-	-
Long-term debt	24,516,928	-	-	24,516,928

## 28. Equity

### a. Common Shares

The rollforward of the capital stock of the Parent Company follows:

	2016	2015
<i>Number of shares</i>		
Authorized - common shares (₱1.00 par value)	520,000,000	520,000,000
Issued		
Beginning of year	419,063,353	308,239,419
Stock dividend - issued and distributed (see Note 15c)	-	30,823,934
Issuance of stock	-	80,000,000
End of year	419,063,353	419,063,353
<i>Amount</i>		
Issued - shares 419,063,353 in 2016 and 2015	\$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 is charged against "Additional paid-in capital" in 2011. 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 to stock dividend payable to stockholders as of record as of June 8, 2012, 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, 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, distributed on April 5, 2013.

On January 29, 2014, the BOD also declared a ten (10%) stock dividend. During the special stockholders meeting dated July 11, 2014, the shareholders approved and ratified the declaration of 10% stock dividend payable to stockholders of record as of July 25, 2014 and payment date of 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 and payment date of 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 is 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 ₱2,000,000,000 divided into 1,400,000,000 common shares with a par value of ₱1.00 per share and 600,000,000 preferred shares classified into ₱140,000,000 "Preferred A" with a par value of ₱1.00 per share, and ₱460,000,000 worth of new preferred shares, the par values, series, classes, preferences, convertibility voting rights and other



features of which shall be determined by the Parent Company's BOD. The stockholders have yet to vote on these matters as of April 12, 2017.

*Parent Company Shares Held by a Subsidiary*

On December 23, 2016, CEC acquired a total of 112,018,659 common shares of the Parent Company for ₱2.3 billion (\$49.6 million). The shares purchased were recorded at cost and deducted from equity in the consolidated balance sheet.

As of December 31, 2016 and 2015, the Parent Company has a total number of 25 and 19 stockholders, respectively.

b. Preferred Shares

	2016	2015
<i>Number of shares</i>		
Authorized (₱0.10 par value)	400,000,000	400,000,000
Subscribed	400,000,000	400,000,000
<i>Amount</i>		
Subscribed - 400,000,000 shares (net of subscriptions receivable amounting to \$663,717)	\$221,239	\$221,239

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. As of December 31, 2016 and 2015, unpaid subscriptions amounted to \$663,717.

The features of the preferred 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.

c. Retained Earnings

On February 23, 2015, the Parent Company's BOD approved the declaration of cash dividends of \$1,200,000 or \$0.003893 per share, payable on March 27, 2015 to stockholders of record as of March 10, 2015. The cash dividend shall be paid in Philippine Peso at Bangko Sentral ng Pilipinas (BSP) exchange rate one day before payment date.

On August 10, 2015, the Parent Company's BOD approved the declaration of cash dividends of \$891,200 or \$0.002628 per share for each of 339,063,353 fully paid and issued common shares and \$8,800 or \$0.000022 per share for each of the 400,000,000 outstanding preferred shares, amounting to an aggregate sum of \$900,000, for payment and distribution on August 28, 2015 to shareholders of record of August 25, 2015. The cash dividend shall be paid in Philippine Peso at the BSP exchange rate one day prior to payment date.

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.

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## 29. 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.

### Manufacturing Services Agreement (MSA)

On October 20, 2015, CATS, "the Seller", entered into a manufacturing service agreement with a customer, whereas the customer desires to purchase the products defined in the agreement specifically for its latest range of mm-Wave converter products. The term of the agreement is 3 years from the effective date subject to automatic renewal for one year every year thereafter.

On November 4, 2015, CATS and Quintel Technology Ltd. entered into a master supply agreement that covers the manufacturing of specific antennas and other Quintel products set forth in individual purchase order agreements. The initial term for this agreement shall be for a period of 3 years. CATS shall also provide support services for the following: New Product Introduction, Production experiments, and Mass volume production. All payments to CATS shall be placed within 90 days following the end of the month after receipt of invoice.

On April 20, 2016, the contract was amended to extend the contract term, from a period of 3 years to a period of 5 years from the commencement date of the original agreement.



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**30. Note to Statement of Cash Flows**

The Group has noncash investing activity representing the transfer of ownership over the assets and liabilities assumed related to the acquisition of CATS entities in 2014, as discussed in Note 4 to the consolidated financial statements. This transaction has resulted to an increase in certain assets and liabilities as enumerated in Note 4.

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**31. Other Matters**

CEC is a defendant in certain legal cases which are currently pending before the courts and other government bodies. In the opinion of management and CEC's legal counsel, any adverse decision on these cases would not materially affect the consolidated financial position as of December 31, 2016 and 2015 and results of operations for the years ended December 31, 2016, 2015 and 2014.

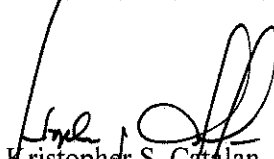


## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

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

We have audited the accompanying consolidated financial statements of Cirtek Holdings Philippines Corporation and its Subsidiaries (the Group) as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 in accordance with Philippine Standards on Auditing, and have issued our report thereon dated April 12, 2017. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules I to IV 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. 08-001998-109-2015,  
March 4, 2015, valid until March 3, 2018  
PTR No. 5908679, January 3, 2017, Makati City

April 12, 2017



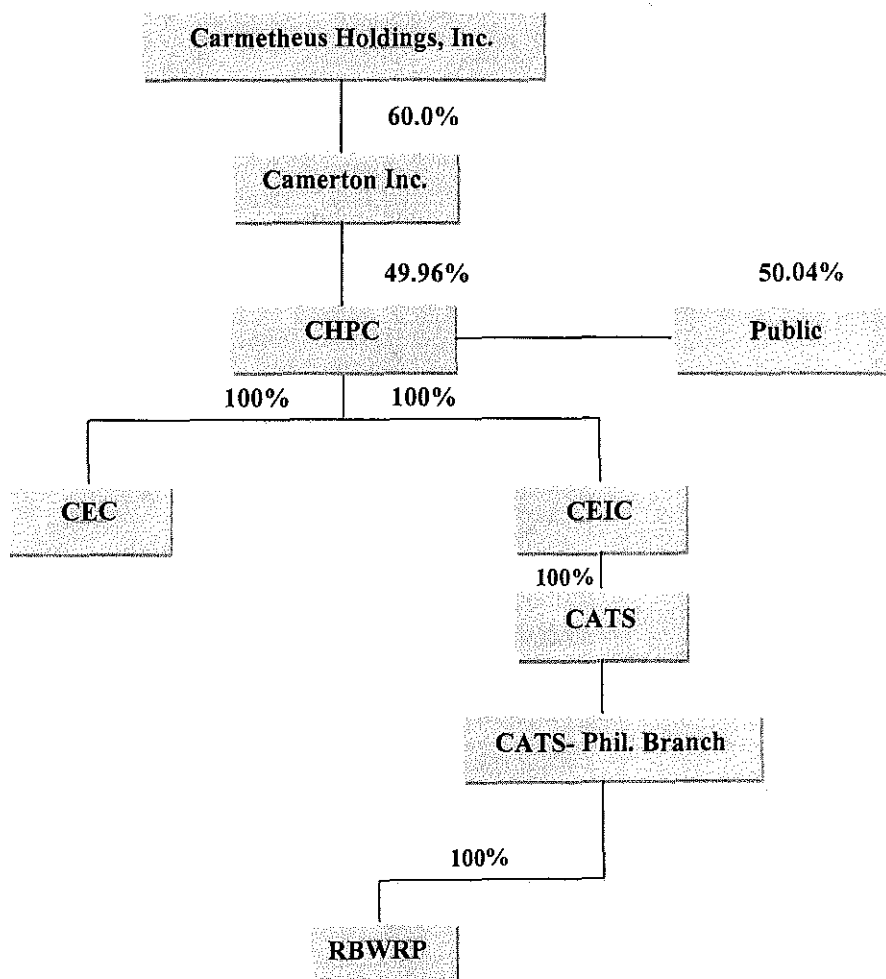
**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Schedule</b>	<b>Contents</b>
<i>Index to the Consolidated Financial Statements</i>	
I	Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-subsidiaries
II	Schedule of All Effective Standards and Interpretations Under Philippine Financial Reporting Standards
III	Reconciliation of Retained Earnings Available for Dividend Declaration
IV	Financial Soundness Indicators
<i>Supplementary Schedules</i>	
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties)
C	Amounts Receivable from Related Parties and Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets - Other Assets
E	Long-Term Debt
F	Indebtedness to Related Parties
G	Guarantees of Securities of Other Issuers
H	Capital Stock





**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, 2016**



**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SCHEDULE OF EFFECTIVE STANDARDS AND INTERPRETATIONS**  
**DECEMBER 31, 2016**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRS Practice Statement Management Commentary</b>				✓
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	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			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*		✓	
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Amendments to PFRS 3 : Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3 : Scope Exceptions for Joint Arrangements			✓

*\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.*



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4*		✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Changes in Method 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	✓		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
	Amendments to PFRS 7: Servicing Contracts			✓
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 Asset			✓
PFRS 9	Financial Instruments*		✓	

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		✓	
<b>PFRS 11</b>	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Clarification of the Scope of the Standard*		✓	
<b>PFRS 13</b>	Fair Value Measurement	✓		
	Amendments to PFRS 13 : Portfolio Exception			✓
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers*		✓	
<b>PFRS 16</b>	Leases*		✓	
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	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	✓		

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
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	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16 and 38: Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
	Regional Market Issue Regarding Discount Rate	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendment: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*		✓	
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	✓		
	Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	✓		

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and 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			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Interrelationship between PFRS 3 and PAS 40			✓
	Amendments to PAS 40: Transfers of Investment Property*			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
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 8	Scope of PFRS 2			✓
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 11	PFRS 2- Group and Treasury Share Transactions			✓
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	✓		

\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.





PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>IFRIC 22</b>	Foreign Currency Transactions and Advance Consideration*		✓	
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

*\*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Parent Company did not early adopt these standards, interpretations and amendments.*



**CIRTEK HOLDINGS PHILIPPINES CORPORATION****RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR****DIVIDEND DECLARATION****DECEMBER 31, 2016**

Unappropriated retained earnings, as adjusted, beginning		\$405,556
<b>Add: Net income actually earned/realized during the period</b>		
Net income during the period closed to retained earnings	\$3,670,480	
Add: Non-actual losses	—	
Less: Non-actual/unrealized income net of tax	—	
<b>Net income actually earned during the period</b>		<b>3,670,480</b>
Unappropriated retained earnings, as adjusted, ending		4,076,036
Less: Cash dividends declared		(3,620,000)
<b>Retained earnings available for dividend declaration</b>		<b>\$456,036</b>



**CIRTEK HOLDINGS PHILIPPINES CORPORATION**  
**FINANCIAL SOUNDNESS INDICATORS**  
**DECEMBER 31, 2016**

<b>Ratios</b>	<b>Formula</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
(i) Current Ratio	Current Assets/Current Liabilities	<b>1.54</b>	3.11
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	<b>2.99</b>	0.48
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	<b>2.02</b>	0.06
(iii) Asset to Equity Ratio	Total Assets/Total Equity	<b>4.86</b>	1.69
(iv) Interest Cover Ratio	EBITDA/Interest Expense	<b>8.90</b>	6.90
(v) Profitability Ratios			
GP Margin	Gross Profit/Revenues	<b>0.17</b>	0.16
Net Profit Margin	Net Income/Revenues	<b>0.10</b>	0.09
EBITDA Margin	EBITDA/Revenues	<b>0.16</b>	0.15
Return on Assets	Net Income/Total Assets	<b>0.06</b>	0.04
Return on Equity	Net Income/Total Equity	<b>0.30</b>	0.07



**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016**

	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	\$24,511,493	\$24,511,493	\$172,196
Trade and other receivables	N/A	23,172,423	23,172,423	—
Financial asset at FVPL	N/A	503	503	199,537
Amounts owed by related parties	N/A	12,436,575	12,436,575	—
Other current assets:				
Rental deposit	N/A	1,131,399	1,131,399	—
Security deposit	N/A	180,387	180,387	—
Loan to employees	N/A	239,823	239,823	—
HTM investments	N/A	371,520	371,520	8,362
AFS financial asset	N/A	1,667,000	1,667,000	—
Other noncurrent assets:				
Loans to employees	N/A	7,889	7,889	—
Miscellaneous deposits	N/A	135,559	135,559	—
		\$63,854,571	\$63,854,571	\$380,095



**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, 2016**

**Amounts Receivable from Officers, Employees and 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
Jerry Liu (Chairman)	\$8,558,051	\$1,750,990	\$-	\$10,309,041	\$-	\$10,309,041
Employees	122,062	30,306	35,866	116,502	-	116,502
	\$8,680,113	\$1,781,296	\$35,866	\$10,425,543	\$-	\$10,425,543

**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, Inc.	\$1,809,256	\$-	\$-	\$1,809,256	\$-	\$1,809,256
Camerton, Inc.	33,161	78,833	-	111,994	-	111,994
Cayon Holdings, Inc.	206,284	-	-	206,284	-	206,284
	\$2,048,701	\$78,833	\$-	\$2,127,534	\$-	\$2,127,534



**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 PERIOD ENDED DECEMBER 31, 2016**

**Receivables from 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	Noncurrent	Balance at end of period
Cirtek Electronics Corporation	\$13,121,898	\$61,154,767	32,474,001	\$-	\$41,802,664	\$-	\$41,802,664
Cirtek Electronics International Corporation	21,851,682	20,170,548	19,006,369	-	23,015,861	-	23,015,861
Cirtek Holdings Philippines Corporation	40,769,256	49,566,534	-	-	90,335,790	-	90,335,790
Cirtek Advanced Technologies and Solutions, Inc.	4,354,635	12,641	-	-	4,367,276	-	4,367,276
RBW Realty and Property, Inc.	297,394	-	274,775	-	22,619	-	22,619
	\$80,394,865	\$130,904,490	\$51,755,145	\$-	\$159,544,210	\$-	\$159,544,210

**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 Electronics Corporation	\$50,897,189	\$69,737,287	\$18,622,689	\$-	\$102,011,787	\$-	\$102,011,787
Cirtek Electronics International Corporation	9,000,000	1,131,522	938,706	-	9,192,816	-	9,192,816
Cirtek Advanced Technologies and Solutions, Inc.	5,877,751	19,183,720	834,053	-	24,227,418	-	24,227,418
Cirtek Holdings Philippines Corporation	10,265,290	41,696,069	32,023,638	-	19,937,721	-	19,937,721
RBW Realty and Property, Inc.	4,354,635	-	180,167	-	4,174,468	-	4,174,468
	\$80,394,865	\$131,748,598	\$52,599,253	\$-	\$159,544,210	\$-	\$159,544,210



**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER**  
**ASSETS**

AS OF DECEMBER 31, 2016

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	\$569,942	\$547,166	\$194,888	\$-	\$-	\$922,220



## SCHEDULE E

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT**  
**AS OF DECEMBER 31, 2016**

Title of issue and type of obligation	Long-term Debt		Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
	Amount authorized by indenture			
Notes payable	\$44,250,000		\$6,882,126	\$36,977,845





**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED**  
**PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**  
**AS OF DECEMBER 31, 2016**

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, 2016**

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				



**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK**  
**AS OF DECEMBER 31, 2016**

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 Stock	400,000,000	—	—	—	—	—

