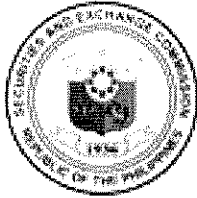




111142016001703

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

**Barcode Page**

The following document has been received:

**Receiving Officer/Encoder** : Ma. Theresa D. Mabuyo

**Receiving Branch** : SEC Head Office

**Receipt Date and Time** : November 14, 2016 04:00:33 PM

**Received From** : Head Office

Company Representative

Doc Source

Company Information

SEC Registration No. CS201102137  
Company Name CIRTEK HOLDINGS PHILIPPINES CORPORATION  
Industry Classification Financial Holding Company Activities  
Company Type Stock Corporation

**Document Information**

Document ID 111142016001703  
Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)  
Document Code 17-Q  
Period Covered September 30, 2016  
No. of Days Late 0  
Department CFD  
Remarks

# COVER SHEET

C	S	2	0	1	1	0	2	1	3	7	
---	---	---	---	---	---	---	---	---	---	---	--

SEC Registration Number

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																											

(Company's Full Name)

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																															

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

**Mr. Anthony Albert S. Buyawe**

(Contact Person)

**729-6205**

(Company Telephone Number)

SEC Form 17Q (Quarter Ending September 30, 2016)

1	2
---	---

Month

(Calendar Year)

3	1
---	---

Day

--	--	--	--	--

(Form Type)

--	--

Month

--	--

Day

(Annual Meeting)

**Not Applicable**

(Secondary License Type, If Applicable)

**SEC**

Dept. Requiring this Doc.

**Not Applicable**

Amended Articles Number/Section

**25**

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

--	--	--	--	--	--	--	--	--	--

File Number

LCU

--	--	--	--	--	--	--	--	--	--

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended Sept 30, 2016.
2. Commission 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 issuer's principal office 116 East Main Avenue, Phase V-SEZ Laguna Technopark, Binan Laguna 4024 Postal Code
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 Code, or Sections 4 and 8 of the RSA

Title of each Class

Number of shares of common  
stock outstanding and amount  
of debt outstanding

Common Shares  
Preferred Shares

419,063,353 / n/a  
400,000,000 / n/a

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

Yes [ ☒ ] No [ ☐ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

**Philippine Stock Exchange – Common Shares**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 the registrant was required to file such reports)

Yes [☒] No [☐]

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

Yes [☒] No [☐]

#### PART I--FINANCIAL INFORMATION

##### Item 1. Financial Statements.

Please see attached

##### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

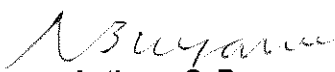
Please see attached

#### SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer.:

Signature and Title

  
**Anthony S. Buyawe**  
Compliance officer/Corporate Information Officer

Date: 14 November 2016

Principal Financial/Accounting Officer/Controller:

Signature and Title

  
**Anthony S. Buyawe**  
Chief Financial Officer

Date: 14 November 2016

# **CIRTEK HOLDINGS PHILIPPINES CORPORATION**

## **TABLE OF CONTENTS**

Page No.

### **PART 1 – FINANCIAL STATEMENTS**

1	Consolidates Balance Sheet	Schedule 1
2	Consolidated Statement of Comprehensive Income	Schedule 2
3	Consolidated Statement of Changes in Equity	Schedule 3
4	Consolidated Statement of Cash Flow	Schedule 4
5	Notes to Financial Statements	1

### **PART II – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS**

6	Management’s Discussion and Analysis of Financial Conditions	54
---	--	----

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$38,111,769	\$29,776,866
Trade and other receivables	18,463,078	13,749,783
Inventories	11,210,357	5,737,068
Financial asset at fair value through profit or loss	47,762,736	19,447,248
Amounts owed by related parties	12,470,049	10,606,752
Held-to-maturity investments	371,520	521,215
Other current assets	2,634,206	2,534,181
	<b>131,023,715</b>	<b>82,373,113</b>
Noncurrent assets-held-for-sale	11,408,611	11,408,611
<b>Total Current Assets</b>	<b>142,432,326</b>	<b>93,781,724</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment	27,381,594	23,841,532
Held-to-maturity investments	—	368,574
Available for Sale Investment	1,667,000	1,667,000
Deferred income tax asset	135,316	135,555
Other noncurrent assets	1,807,135	893,853
<b>Total Noncurrent Assets</b>	<b>30,991,045</b>	<b>26,906,514</b>
<b>TOTAL ASSETS</b>	<b>\$173,423,371</b>	<b>\$120,688,238</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables	\$19,665,596	\$13,221,915
Short-term loan	\$31,725,945	10,835,088
Long-term debt - current portion and net of deferred financing costs	\$1,992,604	5,303,642
Amounts owed to related parties	\$514,240	495,686
Deferred revenues	\$186,732	163,727
Provision for warranty	\$325,536	—
Income tax payable	\$109,536	123,794
<b>Total Current Liabilities</b>	<b>54,520,189</b>	<b>30,143,852</b>
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion and deferred financing costs	44,198,493	17,912,779
Deferred Tax Liability	1,820	—
Retirement benefit obligation	1,400,736	1,357,811
<b>Total Noncurrent Liabilities</b>	<b>45,601,048</b>	<b>19,270,590</b>
<b>Total Liabilities</b>	<b>100,121,237</b>	<b>49,414,442</b>
<b>Equity</b>		
Capital 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	526,420	526,420
Retained earnings	22,924,886	20,896,548
<b>Total Equity</b>	<b>73,302,134</b>	<b>71,273,796</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$173,423,371</b>	<b>\$120,688,238</b>

*See accompanying Notes to Consolidated Financial Statements.*

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

	For the Nine Months Ended September 30		For the Three Months Ended September 30	
	2016	2015	2016	2015
<b>NET SALES</b>	<b>\$54,068,518</b>	\$45,539,456	<b>\$21,587,531</b>	\$17,227,619
<b>COST OF SALES</b>	<b>(45,067,874)</b>	(37,417,017)	<b>(18,587,955)</b>	(14,386,431)
<b>GROSS PROFIT</b>	<b>9,000,644</b>	8,122,439	<b>2,999,576</b>	2,841,188
<b>OPERATING EXPENSES</b>	<b>(3,065,361)</b>	(2,785,568)	<b>(944,295)</b>	(959,459)
<b>FINANCIAL INCOME</b>				
<b>(EXPENSES)</b>				
Interest income	279,690	314,748	53,179	98,872
Interest expense	(807,270)	(844,203)	(287,161)	(267,383)
	<b>(527,580)</b>	(529,455)	<b>(233,982)</b>	(168,511)
<b>OTHER INCOME</b>				
<b>(CHARGES)</b>	<b>420,265</b>	530,358	<b>352,662</b>	94,512
<b>INCOME BEFORE INCOME TAX</b>	<b>5,827,968</b>	5,337,774	<b>2,173,961</b>	1,807,730
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>				
Current	179,630	337,940	54,177	159,449
Deferred	—	95,305	—	—
	<b>179,630</b>	433,245	<b>54,177</b>	159,449
<b>NET INCOME</b>	<b>5,648,338</b>	4,904,529	<b>2,119,784</b>	1,648,281
<b>OTHER COMPREHENSIVE INCOME</b>	—	59,837	—	—
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$5,648,338</b>	\$4,964,366	<b>\$2,119,784</b>	\$1,648,281
<b>Basic/Diluted Earnings Per Share</b>	<b>\$0.013</b>	\$0.014	<b>\$0.005</b>	\$0.005

*See accompanying Notes to Consolidated Financial Statements.*

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**

**2016**

	Common Issued	Preferred Stock	Additional Paid-in Capital	Equity Reserve	Other Comprehensive Income	Retained Earnings	Total
Balances at January 1, 2016	\$9,594,321	\$221,239	\$35,896,893	\$4,138,375	\$526,420	\$20,896,548	\$71,273,796
Net income for the year	—	—	—	—	—	5,648,338	5,648,338
Other comprehensive income	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	5,648,338	5,648,338
Cash dividends declared	—	—	—	—	—	(3,620,000)	(3,620,000)
Balances at September 30, 2016	\$9,594,321	\$221,239	\$35,896,893	\$4,138,375	\$526,420	\$22,924,886	\$73,302,134

**2015**

	Capital Stock							
	Issued	Undistributed Stock Dividends	Preferred Stocks	Additional Paid-in Capital	Equity Reserve	Other Comprehensive Income	Retained Earnings	Total
Balances at January 1, 2015	\$7,203,869	\$689,265	\$—	\$4,733,511	\$4,138,375	\$317,579	\$17,875,668	\$34,958,267
Net income for the year	—	—	—	—	—	—	8,201,529	8,201,529
Other comprehensive income	—	—	—	—	—	59,837	—	59,837
Total comprehensive income	—	—	—	—	—	59,837	8,201,529	8,261,366
Issuance of undistributed stock dividends	689,265	(689,265)	—	—	—	—	—	—
Subscription of preferred stock	—	—	221,239	—	—	—	—	221,239
Cash dividends declared	—	—	—	—	—	—	(2,100,000)	(2,100,000)
Balances at September 30, 2015	\$7,893,134	\$—	\$221,239	\$4,733,511	\$4,138,375	\$377,416	\$23,977,197	\$41,340,872

*See accompanying Notes to Consolidated Financial Statements.*



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

	<b>For the Nine Months Ended September 30</b>	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$5,827,968	\$5,337,774
Adjustments for:		
Depreciation and amortization	1,904,929	2,578,202
Interest expense	807,270	844,203
Change in fair value of financial asset at FVPL	(78,349)	(344,710)
Net unrealized foreign exchange losses (gains)	—	(13,479)
Retirement benefit obligation	42,925	125,738
Interest income	(279,690)	(314,748)
Operating income before working capital changes	8,225,053	8,212,980
Decrease (increase) in:		
Inventories	(5,473,289)	1,042,879
Trade and other receivables	(4,713,295)	(2,861,934)
Other current assets	(100,025)	(436,406)
Increase (decrease) in trade and other payables	6,845,183	1,216,802
Net cash generated from operations	4,783,627	7,174,321
Interest received	279,690	254,830
Income taxes paid	(193,885)	(176,965)
Net cash flows from operating activities	4,869,432	7,252,186
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in financial asset at FVPL	(28,315,488)	(8,838,943)
Acquisitions of property, plant and equipment	(5,444,991)	(5,944,559)
Proceeds from maturity to held-to-maturity investments	518,269	115,478
Decrease (increase) in:		
Held-to-maturity investments		30,486
Other noncurrent assets	(913,043)	(2,661)
Net cash flows used in investing activities	(34,155,253)	(14,640,199)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from availment of:		
Short-term loan	22,080,857	12,492,670
Long-term loan	30,000,000	—
Subscription of preferred stock	—	221,239
Payments of:		
Cash dividends	(3,620,000)	(2,100,000)
Interest	(733,962)	(814,237)
Long-term loan	(7,071,428)	(3,189,561)
Short-term loan	(1,190,000)	(6,214,035)
Net movement in amounts owed by and owed to related parties	(1,844,743)	(3,261,425)
Net cash flows from (used in) financing activities	37,620,724	(2,865,349)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	8,334,903	(10,253,362)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	—	(1,360)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FIRST QUARTER</b>	29,776,866	12,602,322
<b>CASH AND CASH EQUIVALENTS AT END OF THIRD QUARTER</b>	\$38,111,769	\$2,347,600

*See accompanying Notes to Consolidated Financial Statements.*

# **CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

---

### **1. Corporate Information**

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

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

Prior to the listing, the Parent Company had undergone a corporate re-organization on March 1, 2011 which includes an acquisition from Cirtek Holdings, Inc. (CHI) 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 the Group.

CHPC and its subsidiaries (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, Philippines.

#### *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 Technology 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").

## 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 fair value through profit or loss (FVPL) and derivative liability 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).

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of September 30, 2016 and December 31, 2015 (see Notes 1 and 4):

	Country of Incorporation	Percentage of Ownership			
		September 30, 2016		December 31, 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 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 Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015.

The nature and impact of each new standard and amendment is described below:

#### *New and Amended Standards and Interpretations and Improved PFRS Adopted in Calendar Year 2015*

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements of the previous financial year, except for the adoption of the following new and amended standards and Philippine Interpretations from IFRIC and improved PFRS which the Group has adopted starting January 1, 2015. Unless otherwise indicated, the adoption did not have any significant impact on the consolidated financial statements of the Group.

- Philippine Accounting Standard (PAS) 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)  
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.
- Improvements to PFRSs  
The Group has applied these Improvements to PFRSs for the first time in these consolidated financial statements. They include:

#### 2010-2012 Cycle

- PFRS 2, *Share-based Payment Definition of Vesting Condition*  
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*  
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.
- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*  
The amendments are applied retrospectively and clarify that:
  - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.

- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*  
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- *PAS 24, Related Party Disclosures - Key Management Personnel*  
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

2011-2013 cycle

- *PFRS 3 - Scope Exceptions for Joint Arrangements*  
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- *PFRS 13, Fair Value Measurement - Portfolio Exception*  
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.
- *PAS 40, Investment Property*  
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

*New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2015*

*Effective January 1, 2016*

- *PFRS 9, Financial Instruments - Classification and Measurement (2010 version)*  
PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial

assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the FRSC. Such adoption, however, is still for approval by the Board of Accountancy (BOA).

- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*  
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements of the Group.
- *PAS 16 and PAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*  
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. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its noncurrent assets.
- *PAS 16 and PAS 41, Agriculture - Bearer Plants (Amendments)*  
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.
- *PAS 27, Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)*

The amendments will 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. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

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

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must 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, 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 and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

- 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 profit or loss 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. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:



- *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.

- *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 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.

- *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.

- *PAS 19 - Regional Market Issue Regarding Discount Rate*

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.

- *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).

*Effective January 1, 2018*

- *PFRS 9, Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*

PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an

option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine FRSC. Such adoption, however, is still for approval by the BOA.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 is not expected to have any significant impact on the Group's consolidated financial statements.

- *PFRS 9, Financial Instruments* (2014 or final version)  
In July 2014, the final version of PFRS 9 was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39 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 comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 is not expected to have any significant impact on the Group's consolidated financial statements.

The following new standards and amendments by the IASB has not yet been adopted by the Philippine FRSC and SEC:

- *IFRS 15, Revenue from Contracts with Customers*  
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.
- *IFRS 16, Leases*  
IFRS 16 was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

- Amendments to International Accounting Standards (IAS) 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses*

In January 2016, the IASB issued the amendments to IAS 12 which clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments also address the diversity in practice regarding the recognition of deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted.

## **Summary of Significant Accounting Policies**

### 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.

### 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; 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 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.

### 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, or AFS financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition.

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.

##### *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.

This category includes held for trading, designated at FVPL and derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by PAS 39. 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 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 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.

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 September 30, 2016 and December 31, 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 method. 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.

As of September 30, 2016 and December 31, 2015, the Group has designated as loans and receivables its cash and cash equivalents, trade and other receivables, amounts owed by related parties, security deposit, loans to employees and refundable 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 effective interest rate method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. 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 September 30, 2016 and December 31, 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. 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 September 30, 2016 and December 31, 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 plus, in the case of investments not at FVPL, directly attributable transaction costs.

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

Financial liabilities are classified in this category if these are not held for trading or not designated at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

*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.

As of December 31, 2015, the Group's derivative liability is classified as a financial liability at FVPL. The Group does not have a financial liability at FVPL as of September 30, 2016.

*Other financial liabilities*

Other financial liabilities are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest 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 September 30, 2016 and December 31, 2015, the Group's other financial liabilities includes trade and other payables, short-term loans, amount owed to related parties and long term debts.

*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 set off 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.

*Amortized cost of financial instruments*

Amortized cost is computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

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. 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.

*Financial assets carried at amortized cost*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually 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 effective interest rate (i.e., the effective interest rate 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.

#### *AFS financial assets*

For AFS financial assets, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss is removed from equity and recognized in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income; increases in their fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'interest income' in the consolidated statement of comprehensive income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

#### 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.



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 costs based on the normal operating capacity.

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 costs.

#### Property, Plant and Equipment

Property, plant and equipment, except land, is 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 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 Asset 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 respective 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, useful economic life, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income.

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

#### 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 either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate 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 as "excess of the fair value of net assets over the aggregate consideration transferred".

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.

#### 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
- 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 seven (7) years. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

#### Impairment of Non-financial Assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. The Group has designated as non-financial assets its prepaid expenses and other current assets, property and equipment and other noncurrent assets. If any such indication exists, or when annual impairment testing for a non-financial asset is required, the Group makes an estimate of the non-financial asset's recoverable amount. A non-financial asset's estimated recoverable amount is the higher of a non-financial 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 non-financial asset does not generate cash inflows that are largely independent of those from other non-financial assets or groups of non-financial assets. Where the carrying amount of a non-financial asset exceeds its estimated recoverable amount, the non-financial 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 non-financial 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 non-financial 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 non-financial asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the non-financial 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.

#### 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 effective interest rate method. (i.e., the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

#### 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.

#### Cost of Sales

Cost of sales is recognized when goods are delivered to and accepted by the customers.

#### 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 and Liability

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.

#### Foreign Currency Denominated Transactions

The consolidated financial statements are presented in US dollars, which is the functional and presentation currency of the Group. 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 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 tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred 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 tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) 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 of unused tax credits from MCIT and unused NOLCO can be utilized, except:

- where the deferred 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 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 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 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 deferred income tax 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.

#### 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.

---

### **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:

##### *Classifying noncurrent assets held for sale*

When CEIC acquired CATS and RBWRP, the manufacturing activities of CATS had been transferred to CEC 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, *Non-current Assets Held for Sale and Discontinued Operations*, requires entities to classify a noncurrent asset held for sale if its carrying amount will be recovered mainly through selling rather than through usage. The Group has made a judgment that the noncurrent assets are held for sale since the 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, 2015 the Parent Company's management expects that sale will be completed in 2016.

##### *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 statement of financial position. The classification of the Company's financial instruments is disclosed in Note 26.

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

CEIC has an undistributed profit as of September 30, 2016 and December 31, 2015 that becomes taxable when distributed to the Parent Company. PAS 12, *Income Taxes*, requires the recognition of

deferred 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. The Parent Company did not recognize deferred tax liability on CEIC's undistributed earnings amounting to \$1,105,568 and nil as of September 30, 2016 and December 31, 2015, respectively.

*Operating lease commitments - Group as lessee*

The Group has entered into leases of its office and commercial spaces. The Group has determined that it does not acquire all the significant risks and rewards of ownership of these properties which are leased as operating leases (see Note 9).

*Determining 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.

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 September 30, 2016 and December 31, 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.

Estimated impact on future annual depreciation expense is as follows:

<u>Years Ended December 31</u>	<u>Increase (Decrease)</u>
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 \$1,904,929 and \$2,578,202 in September 30, 2016 and September, 2015, respectively. As of September 30, 2016 and December 31, 2015, the Group's property, plant and equipment have a net book value of \$27,381,594 and \$23,841,532, respectively

*Assessing impairment of non-financial 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 value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	September 30, 2016	December 31, 2015
Advances to suppliers, prepaid expense and others under other current assets	\$1,199,303	\$1,056,897
Property, plant and equipment	27,381,594	23,841,532
Product development costs and advances to suppliers included under other noncurrent assets	1,536,716	625,586

No impairment loss was recognized in September 30, 2016 and December 31, 2015.

*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 \$757,140 and \$96,884 as of September 30, 2016 and December 31, 2015. The carrying amounts of inventories, net of allowance for inventory obsolescence, amounted to \$11,210,357 and \$5,737,068 as of September 30, 2016 and December 31, 2015, respectively.

*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 September 30, 2016 and December 31, 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 and cash equivalents, trade and other receivables, amounts owed by related parties, security deposit, loans to employees and rental deposits amounted to \$58,009,750 and \$55,610,685 as of September 30, 2016 and December 31, 2015, respectively.

*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 \$124,698 and \$183,664 in September 30, 2016 and September 30, 2015, respectively. As of September 30, 2016 and December 31, 2015, the Group's retirement benefit obligation amounted to \$1,400,736 and \$1,357,811, respectively.

*Estimating useful life of software costs and capitalized product development cost*

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 September 30, 2016 and December 31, 2015, software with a total cost of \$39,278 has been fully amortized. The carrying amount of capitalized development cost amounted to \$978,631 and \$569,942 as of September 30, 2016 and December 31, 2015, respectively. The amortization of capitalized development cost amounted to \$83,358 and \$72,262 in September 30, 2016 and September 30, 2015, respectively.

*Recoverability of deferred tax assets*

The Group reviews the carrying amounts of deferred tax assets at each balance sheet date and reduces deferred 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 tax assets to be utilized. The Group has recognized deferred tax assets amounting to \$135,316 and \$135,555 as of September 30, 2016 and December 31, 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.

*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 as of September 30, 2016 and December 31, 2015.

#### 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. The 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.

The fair values of the identifiable assets and liabilities of CATS as of the date of acquisition were:

<i>Balance Sheet</i>	Provisional fair value	Final fair value recognized on acquisition date
<b>Assets</b>		
<i>Current Assets</i>		
Cash and cash equivalent	\$291,179	\$291,179
Trade and other receivables	4,883,504	4,883,504
Inventories - net	6,648,952	6,648,952
HTM investment	114,341	119,751
Prepayments and other current assets	177,390	177,390
<i>Noncurrent Assets</i>		
Property, plant and equipment	\$13,695,428	\$13,695,428
HTM investment	1,073,789	1,036,971
Deferred tax assets	—	113,593
Other noncurrent assets	311,951	311,951
<b>Total Assets</b>	<b>27,196,534</b>	<b>27,278,719</b>
<b>Liabilities</b>		
<i>Current Liabilities</i>		
Trade and other payables	5,251,815	5,251,815
Current portion of long-term debt	4,512,142	4,512,142
Income tax payable	110,930	110,930
Deferred revenues	404,741	404,741
<i>Noncurrent Liabilities</i>		
Long-term debt - net of current portion	6,500,000	6,421,072
Retirement benefit obligation (asset)	(2,036)	691,855
Provision for warranty	380,000	380,000
<b>Total Liabilities</b>	<b>17,157,592</b>	<b>17,772,555</b>
<b>Fair value of identifiable net assets</b>	<b>10,038,942</b>	<b>9,506,164</b>
Cash consideration transferred	7,465,105	7,465,105
<b>Excess of the fair value of net assets acquired over the aggregate consideration transferred</b>	<b>\$2,573,837</b>	<b>\$2,041,059</b>

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 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.

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.

***Analysis of cash flows on acquisition:***

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

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

## 5. Cash and Cash Equivalents

	September 30, 2016	December 31, 2015
Cash on hand and in banks	\$38,108,465	\$14,792,686
Cash equivalents	3,304	14,984,180
	<b>\$38,111,769</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 \$279,690 and \$314,748 in September 30, 2016 and September 30, 2015, respectively.

## 6. Trade and Other Receivables

	September 30, 2016	December 31, 2015
Trade	\$18,429,233	\$13,615,734
Others	33,845	134,049
	<b>\$18,463,078</b>	<b>\$13,749,783</b>

Trade receivables are non-interest bearing and are generally on 30-90 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

	September 30, 2016	December 31, 2015
At cost:		
Raw materials	\$9,059,374	\$4,197,113
Work in process	483,102	519,595
Finished goods	363,786	105,852
Spare parts and others	806,421	556,485
	<u>10,712,683</u>	<u>5,379,045</u>
At NRV:		
Supplies and others	497,674	358,023
	<u>497,674</u>	<u>358,023</u>
Total inventories at lower of cost and NRV	<u>\$11,210,357</u>	<u>\$5,737,068</u>

Certain inventories have been provided with allowance to reflect valuation for non-movement and obsolescence.

The movements in the allowance for inventory obsolescence are as follows:

	September 30, 2016	December 31, 2015
Balances at beginning of year	\$96,884	\$96,884
Addition	660,256	—
Ending Balance	<u>\$757,140</u>	<u>\$96,884</u>

The cost of inventories recognized as cost of sales amounted to \$31,626,530 and \$24,268,646 in September 30, 2016 and September 30, 2015, respectively.

## 8. Financial Asset at Fair Value through Profit or Loss

The reconciliation of the carrying amounts of financial assets at FVPL as of September 30, 2016 and December 31, 2015 as follows:

	September 30, 2016	December 31, 2015
Beginning balance	\$19,447,248	\$701,747
Acquisition	47,762,205	18,494,471
Fair value gains (Note 22)	—	293,349
Foreign currency translation	—	(42,319)
Deduction	(19,446,717)	—
Ending balance	<u>\$47,762,736</u>	<u>\$19,447,248</u>

### *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. The senior note is designated as financial asset at FVPL as of September 30, 2016.

As of September 30, 2016, the Group recognized fair value gains amounting to \$- in the consolidated statement of comprehensive income. The balance of the investment in RCBC Senior Notes amounts to \$47,762,736 as of September 30, 2016.

The fair values for the investment in RCBC Senior Notes have been determined directly by reference to published prices quoted in an active market. The RCBC Senior Notes are traded in the Singapore Exchange (SGX).

#### 9. Other Current Assets

	September 30, 2016	December 31, 2015
Rental deposit	\$1,132,066	\$1,131,399
Advances to suppliers	1,012,585	773,277
Security deposit	180,387	180,387
Loans to employees	122,450	165,498
Prepaid expenses	132,773	102,079
Others	53,945	181,541
	<b>\$2,634,206</b>	<b>\$2,534,181</b>

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

#### 10. HTM Investments

As of September 30, 2016 and December 31, 2015, the details of HTM investments are as follows :

	September, 2016	December 31, 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 which requires foreign corporations doing business in the Philippines to deposit with the Philippine SEC, securities worth of at least \$2,300 (₱0.1 million) and additional securities with market values equivalent to a certain percentage of the amount by which the CATS' gross income exceeds \$0.1 million (₱5.0 million).

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.

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.

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.

## 11. Property, Plant and Equipment

As of September 30, 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	2,814,548	91,891	491,028	119,221		1,928,303	5,444,991
Ending balances	44,307,106	8,183,452	7,218,344	1,226,490	171,177	5,759,114	66,865,683
<b>Accumulated depreciation:</b>							
Beginning balances	27,840,187	4,399,021	4,341,626	923,784	74,542	-	37,579,160
Depreciation	1,181,494	230,617	346,308	126,995	19,515	-	1,904,929
Ending balances	29,021,681	4,629,638	4,687,934	1,050,779	94,057	-	39,484,089
<b>Net book values</b>	<b>\$15,285,425</b>	<b>\$3,553,814</b>	<b>\$2,530,410</b>	<b>\$175,711</b>	<b>\$77,120</b>	<b>\$5,759,114</b>	<b>\$27,381,594</b>

As of 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)
Ending balances	41,492,558	8,091,561	6,727,316	1,107,269	171,177	3,830,811	61,420,692
<b>Accumulated depreciation:</b>							
Beginning balances	26,587,628	4,154,904	3,958,418	818,862	78,803	-	35,598,615
Depreciation	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)
Ending balances	27,840,187	4,399,021	4,341,626	923,784	74,542	-	37,579,160
<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>

The land and building owned by RBWRP with a net book value of \$9.7 million as of December 31, 2012 was used as the collateral for the secured interest-bearing loan (see Note 16). As of September 30, 2016 and December 31, 2015, the net book value of the land and building owned by RBWRP amounted to \$8,918,097. As of September 30, 2016 and December 31, 2015, there had been no changes in the loan agreement between CATS and the creditor bank from its inception.

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 the Group's operations. The related property and equipment were measured at fair value at the date of acquisition (see Note 4). An independent valuation was obtained to determine the fair values of property and equipment which were based on recent transactions for similar assets within the same industry. Property and equipment with book value of \$11,408,611 was classified as

noncurrent assets held for sale in the consolidated balance sheets. As of September 30, 2016, the Parent Company's management expects that sale will be completed in 2016.

As of September 30, 2016, Constructions in Progress amounted to \$5,759,114 representing construction costs incurred for the new production facility relating to a new product venture for CATS. The construction is expected to be completed in 2016.

## 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

	September 30, 2016	December 31, 2015
Product development costs	\$978,631	\$569,942
Miscellaneous deposits	138,319	136,168
Note receivable	87,988	87,987
Advances to suppliers	558,085	55,644
Others	44,112	44,112
	<b>\$1,807,135</b>	<b>\$893,853</b>

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, *Intangible Assets*, for capitalization. The product development costs that were capitalized in 2016 and 2015 amounted to \$0 and \$105,365, respectively. Amortization of product development cost charged to the consolidated statements of comprehensive income amounted to \$83,358 and \$72,262 in September 30, 2016 and September 30, 2015, 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 September 30, 2016 and December 31, 2015, CEC has software with a total cost of \$39,278 which are fully amortized but are still in active use.

## 14. Trade and Other Payables

	September 30, 2016	December 31, 2015
Trade	\$14,139,364	\$8,569,122
Accruals:		
Utilities	408,218	453,145
Payroll	1,228,494	259,583
Interest	116,820	155,235
Others	49,779	285,966
Advances from customers	2,856,733	2,884,311
Provision for warranty	—	130,300
Others	866,188	484,253
	<b>\$19,665,596</b>	<b>\$13,221,915</b>

Trade payables are non-interest 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 down payments for sales orders.

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

## 15. Short-term Loans

The Group has the following loan facilities:

		September 30, 2016	December 31, 2015
Banks:			
Security Bank Corporation (SBC)	(a)	\$10,000,000	\$900,000
Bank of the Philippine Island (BPI)	(b)	5,435,088	5,435,088
Rizal Commercial Banking Corporation (RCBC)	(c)	16,290,857	4,500,000
		<b>\$31,725,945</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 \$120,784 and \$43,205 in September 30, 2016 and September 30, 2015, respectively.

## 16. Long-term Debts

As of September 30, 2016 and December 31, 2015, the details of long-term debts are as follow:

	September 30, 2016	December 31, 2015
Principal	\$46,299,769	\$23,371,201
Less deferred financing costs	108,672	154,780
	<b>46,191,097</b>	<b>23,216,421</b>
Less:		
Current portion - net of deferred financing costs and subsequent adjustments in PPA amounting to \$71,699 and \$35,024 in 2015 and 2014, respectively	1,992,604	5,290,995
Subsequent adjustments in PPA	—	12,647
	<b>1,992,604</b>	<b>5,303,642</b>
	<b>\$44,198,493</b>	<b>\$17,912,779</b>

Movement in deferred financing costs follow:

	September 30, 2016	December 31, 2015
Beginning of year	\$154,780	\$130,122
Transaction costs recognized during the year	--	146,127
Less amortization	46,108	121,469
End of year	\$108,672	\$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.

Prior to the maturity date, 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.

In accordance with the NFA, the following ratios based on consolidated financial statements of the Group are required to be maintained:

- debt to equity ratio shall not at any time exceed 2:1
- debt service coverage ratio shall not exceed 1:5
- 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.

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 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.

Prior to the maturity date, the Parent Company may redeem in whole but not in part, the relevant outstanding notes beginning on 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.

Under this agreement, the Group has to maintain the following financial ratios:

- debt to equity ratio shall not at any time exceed 2:1
- debt service coverage ratio shall not exceed 1.5
- 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 Parent Company is in compliance with the debt covenants as of September 30, 2016 and December 31, 2015.

Total interest expense charged to the consolidated statements of comprehensive income amounted to \$686,486 and \$800,998 in September 30, 2016 and September 30, 2015, respectively.

On September 20, 2016, the Parent Company entered into a \$30.0 million Notes Facility Agreement (NFA) with Bank of the Philippine Islands (Initial Noteholder), Bank of the Philippine Islands - Asset Management and Trust Group (Facility and Paying Agent) and Bank of the Philippine Islands Capital 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 September 21 (Issue Date), the Parent Company drew \$30.0 million from the facility. The net proceeds from the issuance of the Notes shall be used to finance the Group's expansion capital expenditure, 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.

#### *CATS*

Prior to acquisition, the CATS obtained a secured interest bearing loan from 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 the Innovation Drive, Carmelray Industrial Park 1, Brgy. Canlubang, Calamba City, Laguna and registered in the name of RBWRP. The land and building owned by RBWRP were used as collateral for the secured interest-bearing loan obtained in 2012. After the acquisition, the BOD approved the plan to sell the said assets to interested buyers on December 9, 2014, resulting to the reclassification of the land and building to noncurrent assets held for sale (see Note 11). As of September 30, 2016 and December 31, 2015, the outstanding balance of interest-bearing loan amounted to \$4.7 million and \$5.6, respectively. There had been no changes in the loan agreement

between CATS and the creditor bank from its inception.

## 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 Cirtek Holdings, Inc. (CHI), former parent of CEC and CEIC.
- Rental of land and lease deposit with Cirtek 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.
- 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
		September 30, 2016	September 30, 2015	December 31, 2016	December 31, 2015		
<i>Other related parties</i>							
CLC	Rental	\$9,679	\$10,268	\$443,873	\$434,194	Due on demand; non-interest bearing	Unsecured
Cayon	Rental	8,875	9,074	70,367	61,492	Due on demand; non-interest bearing	Unsecured
		<b>\$18,554</b>	<b>\$19,342</b>	<b>\$514,240</b>	<b>\$495,686</b>		

- Amounts owed by related parties

		Transactions		Balances as of		Terms	Conditions
		September 30, 2016	September 30, 2015	December 31, 2016	December 31, 2015		
<i>Other related parties</i>							
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	Unsecured; no impairment

						bearing	
Camerton	Reimbursement of expenses	-	-	33,161	33,161	Due on demand; non-interest bearing	Unsecured; no impairment
Jerry Liu	Reimbursement of expenses	1,863,297	3,280,767	10,421,348	8,558,051	Due on demand; non-interest bearing	Unsecured; no impairment
		<b>\$1,863,297</b>	<b>\$3,280,767</b>	<b>\$12,470,049</b>	<b>\$10,606,752</b>		

c. Rental deposit

	Transactions		Balances as of		Terms	Conditions
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 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 are under common ultimate ownership with the Group. In 2011, the Group entered into the following assignments and set-off agreements with the related parties as part of its corporate restructuring:

*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 September 30, 2016 and December 31, 2015 pertains to the remaining balance of receivable as a result of 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 September 30, 2016 and December 31, 2015 pertain mainly to advances for incorporation expenses of Camerton.

*Transactions with CLC and Cayon*

CLC is an entity under common ownership with the ultimate parent. 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 \$10,233 and \$10,668 in September 30, 2016 and September 30, 2015, respectively.

CEC also entered into an agreement with Cayon starting January 1, 2011 to lease the land where CEC's Building 2 is located. The agreement calls for an annual rental of ₱582,144 for a period of 10 years and renewable thereafter. Total rent expense charged to operations amounted to \$9,298 and \$9,693 in September 30, 2016 and September 30, 2015, respectively.

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

	September 30, 2016	September 30, 2015
Salaries and wages	\$1,282,539	\$989,731
Employee benefits	265,472	223,072
	<b>\$1,548,011</b>	<b>\$1,212,803</b>

**18. Cost of Sales**

	September 30, 2016	September 30, 2015
Raw materials, spare parts, supplies and other inventories used	\$31,626,530	\$23,733,435
Salaries, wages and employees' benefits	7,487,720	6,601,246
Utilities	2,649,070	2,799,253
Depreciation and amortization	1,851,023	2,522,122
Inward freight and duties	766,533	745,290
Change in finished goods and work in process inventories	—	535,211
Others	686,998	480,460
	<b>\$45,067,874</b>	<b>\$37,417,017</b>

## 19. Operating Expenses

	September 30, 2016	September 30, 2015
Salaries, wages and employees' benefits	\$1,828,483	\$1,648,318
Utilities	267,393	320,293
Transportation and travel	244,339	273,099
Professional fees	73,081	78,026
Entertainment, amusement and recreation	124,974	146,286
Commissions	79,470	41,490
Depreciation	56,016	56,080
Taxes and licenses	216,435	106,000
Office supplies	42,576	17,995
Insurance premiums	16,681	12,446
Others	115,913	85,535
	<b>\$3,065,361</b>	<b>\$2,785,568</b>

## 20. Salaries and Wages and Employees' Benefits

	September 30, 2016	September 30, 2015
Salaries and wages	\$8,224,730	\$7,184,249
Other employees' benefits	966,775	881,651
Retirement costs	124,698	183,664
	<b>\$9,316,203</b>	<b>\$8,249,564</b>

## 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.

## 22. Other Income (Charges) - Net

	September 30, 2016	September 30, 2015
Mark-to-market gain	\$315,749	\$344,710
Sale of scrap	88,187	179,958
Foreign exchange losses - net	93,306	81,318
Others - net	(76,977)	(75,628)
	<b>\$420,265</b>	<b>\$530,358</b>

## 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 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 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:

	For the nine months ended September 30	
	2016	2015
Current	\$179,630	\$337,940
Deferred	—	95,305
	<b>\$179,630</b>	<b>\$433,245</b>

The provision for current income tax in September 30, 2016 and September 30, 2015 pertains to the special rate of 5% on taxable gross income of CEC, CATS - Philippine Branch and RBWRP.

## 24. Earnings Per Share (EPS)

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

	September 30, 2016	September 30, 2015
Net income	\$5,648,338	\$4,904,529
Weighted average number of common shares outstanding	419,063,353	339,063,353
Basic and diluted EPS	\$0.013	\$0.014

As of September 30, 2016 and September 30, 2015, the Parent Company has no potential dilutive common shares.

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

## 25. 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 by PFRS 8. More specifically:

- There is no significant or obvious distinction among the products assembled by the Group. All products are semiconductor packages that go into electronic products and applications. 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 twelve 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. These information are 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):

	September 30, 2016	September 30, 2015
Discrete	\$10,030	\$9,328
Multichip	7,739	7,870
Integrated Circuits (IC)	7,882	5,751
New Products	4,274	4,737
Quad-Flat No-Leads (QFN)	3,797	4,105
Hermetics	1,166	1,861
Outdoor Unit	4,889	5,824

Bridgewave	991	1,791
Indoor Radio Frequency Unit	1,072	2,998
Cougar	183	255
Antenna Systems	10,178	–
Remec Manufacturing Services	1,233	157
	<b>\$53,434</b>	<b>\$44,677</b>

CATS service income amounted to \$0.635 million and \$0.862 million for the nine months ended September 30, 2016 and September 30, 2015, respectively, is primarily related to gross margin support, whereby, RBWHI, a major customer of CATSI agreed to subsidize any shortfall of revenue forecast.

Below are customers contributing to at least 10% of the Group's total sales of each year. Sales to these customers are as follows (amounts in thousands):

	September 30, 2016	September 30, 2015
Major Customer A	<b>\$10,178</b>	\$10,152
Major Customer B	<b>7,555</b>	–
Major Customer C	<b>7,235</b>	–

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):

	September 30, 2016	September 30, 2015
Asia	<b>\$7,444</b>	\$12,425
Europe	<b>13,547</b>	13,145
USA	<b>33,078</b>	19,970
	<b>\$54,069</b>	<b>\$45,540</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 operation. 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:

	September 30, 2016	December 31, 2015
Cash and cash equivalents*	\$38,111,329	\$29,776,426
Trade and other receivables	18,463,078	13,749,783
Financial assets at FVPL	47,762,736	19,447,248
Amounts owed by related parties	12,470,049	10,606,082
Other current assets		
Rental deposit	1,132,066	1,132,066
Security deposit	180,387	180,387
Loans to employees	122,450	165,499
HTM investments	371,520	889,789
AFS financial asset	1,667,000	1,667,000
Other noncurrent assets		
Miscellaneous deposits	138,319	136,168
Total credit risk exposure	\$120,418,934	\$77,750,448

\*Excluding cash on hand

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

	September 30, 2016	December 31, 2015
Cash and cash equivalents*	\$38,111,329	\$29,776,426
Trade and other receivables	18,463,078	13,749,783
Financial assets at FVPL	47,762,736	19,447,248
Amounts owed by related parties	12,470,049	10,606,082
Other current assets		
Rental deposit	1,132,066	1,132,066
Security deposit	180,387	180,387
Loans to employees	122,450	165,499
HTM investments	371,520	889,789
AFS financial asset	1,667,000	1,667,000
Other noncurrent assets		
Miscellaneous deposits	138,319	136,168
Total credit risk exposure	\$120,418,934	\$77,750,448

\*Excluding cash on hand

	September 30, 2016						Total
	Neither					Impaired	
	Past Due	Past Due but not Impaired				Financial	
	nor					Assets	
	Impaired	< 30 days	30< 60 days	60-90 days	> 90 days		
Cash and cash equivalents*	\$38,111,329	\$-	\$-	\$-	\$-	\$-	\$38,111,329
Trade and other receivables	13,061,086	1,401,688	181,021	1,290,729	2,528,554	-	18,463,078
Financial assets at FVPL	47,762,736	-	-	-	-	-	47,762,736
Amounts owed by related parties	12,470,049	-	-	-	-	-	12,470,049
Other current assets							
Rental deposit	1,132,066	-	-	-	-	-	1,132,066
Security deposit	-	-	-	-	180,387	-	180,387
Loans to employees	122,450	-	-	-	-	-	122,450
AFS financial asset	1,667,000	-	-	-	-	-	1,667,000
HTM investments	371,520	-	-	-	-	-	371,520
Other noncurrent assets							
Miscellaneous deposits	138,319	-	-	-	-	-	138,319
	\$114,836,555	\$1,401,688	\$181,021	\$1,290,729	\$2,708,941	\$-	\$120,418,934

	December 31, 2015						Total
	Neither					Impaired	
	Past Due	Past Due but not Impaired				Financial	
	nor					Assets	
	Impaired	< 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							
Miscellaneous deposits	136,168	-	-	-	-	-	136,168
	\$73,138,473	\$1,838,198	\$190,185	\$98,815	\$2,525,122	\$-	\$77,790,793

\*Excluding cash on hand

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

September 30, 2016

	Neither Past Due nor Impaired			Total
	High Grade	Medium Grade	Low Grade	
Cash and cash equivalents*	\$38,111,329	\$—	\$—	\$38,111,329
Trade and other receivables	9,241,803	3,819,283	—	13,061,086
Financial assets at FVPL	47,762,736	—	—	47,762,736
Amounts owed by related parties	12,470,049	—	—	12,470,049
Other current assets				
Rental deposit	1,132,066	—	—	1,132,066
Loans to employees	122,450	—	—	122,450
HTM investments	371,520	—	—	371,520
AFS financial asset	1,667,000	—	—	1,667,000
Other noncurrent assets				
Miscellaneous deposits	138,319	—	—	138,319
	<b>\$111,017,272</b>	<b>\$3,819,283</b>	<b>\$—</b>	<b>\$114,836,555</b>

\* Excluding cash on hand.

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				
Miscellaneous deposits	136,168	—	—	136,168
	<b>\$73,014,602</b>	<b>\$123,871</b>	<b>\$—</b>	<b>\$73,138,473</b>

\* 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:

September 30, 2016					
	On demand	Less than 1 year	1 to 2 years	> 2 to 5 years	Total
<b>Financial Assets</b>					
Cash and cash equivalents	\$38,111,329	\$-	\$-	\$-	\$38,111,329
Trade and other receivables	-	18,463,078	-	-	18,463,078
Amounts owed by related parties	12,470,049	-	-	-	12,470,049
	<u>\$50,581,378</u>	<u>\$18,463,078</u>	<u>\$0</u>	<u>\$-</u>	<u>\$69,044,456</u>
<b>Financial Liabilities</b>					
Trade and other payables					
Trade payables	\$14,139,364	\$-	\$-	\$-	\$14,139,364
Accrued expenses*	-	1,803,311	-	-	1,803,311
Short-term loans	-	31,725,945	-	-	31,725,945
Amounts owed to related parties	514,240	-	-	-	514,240
Long-term debts	-	11,000,000	4,000,000	31,250,000	46,250,000
	<u>\$14,653,604</u>	<u>\$44,529,256</u>	<u>\$4,000,000</u>	<u>\$31,250,000</u>	<u>\$94,432,860</u>

\*Excluding statutory liabilities

	December 31, 2015				Total
	On demand	Less than 1 year	1 to 2 years	> 2 to 5 years	
<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
	<u>\$44,832,869</u>	<u>\$4,881,011</u>	<u>\$6,930</u>	<u>\$-</u>	<u>\$49,720,810</u>
<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	-	5,140,853	11,398,857	8,111,233	24,650,943
	<u>\$9,064,808</u>	<u>\$17,129,870</u>	<u>\$11,398,857</u>	<u>\$8,111,233</u>	<u>\$45,704,768</u>

\*Excluding statutory liabilities

## 27. Fair Value Measurement

As of September 30, 2016 and December 31, 2015, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
HTM investments	<b>\$371,520</b>	<b>\$371,520</b>	\$889,789	\$965,286
<b>Financial liabilities</b>				
Other financial liabilities				
Long-term debt	<b>\$46,191,097</b>	<b>\$46,250,000</b>	\$23,216,42	\$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 rental deposits*  
The carrying amounts approximate fair value since these are mostly short-term in nature or a due and demandable.

### *Financial assets at FVPL - Unit Investment Trust Fund*

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 debts*

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 2012.

#### Fair Value Hierarchy

The Group uses the following hierarchy in determining and disclosing the fair value of financial instruments by valuation technique:

- 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.

## 28. Equity

### a. Common Shares

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

	September 31, 2016	December 31, 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	—	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 in 2015 and 308,239,419	\$9,594,321	\$9,594,321
	\$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 the 2011 consolidated balance sheet.

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. As of December 31, 2015, unpaid stock issue costs amounted to \$17,728 recorded under "Accrued expenses" account.

As of September 30, 2016 and December 31, 2015, the Parent Company has a total number of 19 and 18 stockholders, respectively.

b. Preferred Shares

	September 30, 2016	December 31, 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, 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 January 29, 2014, the Parent Company's BOD declared cash dividends of \$1,200,000 or \$0.00428 per share to stockholders of record as of February 13, 2014. Also, on May 30, 2014, the Parent Company's BOD declared cash dividends amounting to \$600,000 or \$0.00214 per share to stockholders of record as of June 16, 2014.

In addition to the cash dividends, the BOD also declared a 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 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.

---

## 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, "the Supplier", entered into a master supply agreement with a customer and its affiliate, whereas CATS will manufacture products based on the purchase order issued by the customer. The liability of the customer and its affiliate is several and not joint. The agreement is effective for 3 years subject to the termination clause and shall be renewable every year thereafter.

---

**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.

---

**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 September 30, 2016 and December 31, 2015 and results of operations for the years ended September 30, 2016 and December 31, 2015.

*Seasonality of operations*

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

## Management's Discussion and Analysis of Financial Conditions

### Results of Operations

*For the nine-month period ending September 30, 2016 compared to the nine-month period ending September 30, 2015*

#### Revenue

The Company recorded consolidated revenues of US\$54 million for the nine months ending September 30, 2016 compared with US\$45.5 million for the same period in 2015, an increase of 19%. The growth was mainly accounted for by the sales contribution of the Antenna Systems and Services of Cirtek ATS, and sales growth of CEC's Discrete and IC Divisions. The other business lines and divisions registered either flat growth or lower sales.

#### Sales per division

<i>In US\$ 000</i>	<b>For the Nine Months ended September 30</b>		
	<b>2016</b>	<b>2015</b>	<b>% Inc / (Dec)</b>
<u>CEC</u>			
Discrete	10,030	9,328	8
Multichip	7,739	7,870	(2)
IC	7,882	5,751	37
QFN	3,797	4,105	(8)
New Products	4,274	4,737	(10)
Hermetics	1,166	1,861	(37)
<u>CATS</u>			
Cougar	183	255	(28)
Outdoor Unit	4,889	5,824	(16)
Indoor Unit	1,072	2,998	(64)
Bridgewave	991	1,791	(45)
Antenna Systems	10,178	-	-
RMS	1,233	157	685
Other Income	635	862	(26)
<b>Total</b>	<b>54,069</b>	<b>45,539</b>	<b>19%</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 20% to US\$45.1 million in the nine months ending September 30, 2016 from US\$37.4 million for the same period in 2015. The increase was mainly due to rise in raw materials expenses, salaries and wages, and inward freight and duties.

- Raw materials, spare parts, supplies and other inventories grew by 33% to US\$31.6 million for the nine months ending September 30, 2016, from US\$23.7 million for the same period in 2015.
- Salaries, wages and employees' benefits increased by 13% to US\$7.5 million for the nine months ending September 30, 2016, from US\$6.6 million for the same period in 2015.
- Depreciation and amortization decreased by 27% to US\$1.9 million for the nine months ending September 30, 2016, from US\$2.5 million for the same period in 2015.
- Utility expenses amounted to US\$2.6 million for the nine months ending September 30, 2016, from US\$2.8 million for the same period in 2015, a 5% decrease.
- Freight and duties increased by 3% to US\$767 thousand for the nine months ending September 30, 2016 from US\$745 thousand for the same period in 2015.
- Other cost of sales increased by 43% to US\$687 thousand for the nine months ending September 30, 2016, from US\$480 thousand for the same period in 2015.

The Company's gross margin was 17% for the nine months ending September 30, 2016, one percentage point lower than the gross margin recorded for the same period in 2015.

#### *Operating Expenses*

The Company's operating expenses for the nine months ending September 30, 2016 amounted to US\$3.1 million, 10% higher compared to the US\$2.8 million recorded during the same period in 2015.

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

For the nine months ending September 30, 2016, the Company recorded a net income before income tax of US\$5.8 million, an increase of 9% compared with the US\$5.3 million recorded for the same period in 2015. The increase can be attributed to higher sales in 2016.

#### *Provision for Income Tax*

Provision for income tax for the nine months ending September 30, 2016 amounted to US\$180 thousand compared with US\$433 thousand for the same period in 2015, a decrease of 47%.

#### *Net Income After Tax*

The Company's net income after tax for the nine months ending September 30, 2016 amounted to US\$5.6 million, an increase of 15% compared with US\$4.9 million for the same period in 2015.



## **Financial Condition**

***For the nine-month period ending September 30, 2016 compared to the period ending December 31, 2015***

### *Assets*

The Company's cash and cash equivalent for the nine months ending September 30, 2016 amounted to US\$38.1 million, compared with US\$29.8 million for the period ending December 31, 2015, an increase of 28%

Trade and other receivables for the nine months ending September 30, 2016 amounted to US\$18.5 million, compared with US\$13.8 million for the period ending December 31, 2015, a 34% decrease.

Inventory levels for the nine months ending September 30, 2016 amounted to US\$11.2 million, 95% higher compared with US\$5.7 million for the period ending December 31, 2015.

Financial assets at fair value through profit and loss refer to short-term investments of the Company. For the nine months ending September 30 2016, short term investments amounted to US\$47.8 million compared with US\$19.5 million for the period ending December 31, 2015, a 146% increase.

For the nine months ending September 30, 2016, amounts owed by related parties amounted to US\$12.5 million, compared to US\$10.6 million for the period ending December 31, 2015.

Other current assets for the nine months ending September 30, 2016 totaled US\$2.6 million, compared with US\$2.5 million for the period ending December 31, 2015, an increase of 4%. The change was mainly due to the increase in product development costs and advances to suppliers.

Non-current assets, comprised of Property, plant and equipment (PPE), available for sale investment, deferred income taxes and other noncurrent assets for the nine months ending September 30, 2016 amounted to US\$31 million compared with US\$26.9 million for the period ending December 31, 2015.

### *Liabilities*

The Company's current liabilities is comprised of trade and other payables, short-term loan, long-term debt – current portion and net of deferred financing costs, amounts owed to related parties deferred revenue, dividends payable, and income tax payable. For the nine months ending September 30, 2016, current liabilities were at US\$54.5 million compared with US\$30.1 million for the period ending December 31, 2015, an 81%% increase. This can be mainly attributed to increase in trade and other payables, increase in short-term loan, and provision for warranty.

For the nine months ending September 30, 2016, the Company's non-current liabilities, comprised of long-term debt – net of current portion and deferred financing costs, deferred tax liability, and retirement benefit obligation, amounted to US\$45.6 million, a 137% increase compared to US\$19.3 million for the period ending December 31, 2015.

## Equity

The Company's shareholders' equity as of the nine months ending September 30, 2016 amounted to US\$73.2 million, a 3% increase compared with the US\$71.3 million for the period ending December 31, 2015.

## Liquidity and Capital Resources

For the nine months ending September 30, 2016, the Company's principal sources of liquidity were cash from sales of its products, 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 corporate notes issuance, proceeds from its follow-on offering, 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 expand the business by increasing volume deliveries to existing customers, entering into new production agreements, expanding its customer base by intensifying its sales and marketing activities and manufacturing new products, strengthening its R&D capabilities to develop its own brand and products, and making strategic acquisitions to move up the value chain.

The following table sets out the Company's cash flows for the six months ending September 30, 2016 and the same period in 2015:

<i>In US\$ Thousands</i>	<b>For the nine months ending September 30</b>	
	<b>2016</b>	<b>2015</b>
Net cash flows provided by/ (used for) operating activities	4,869	7,252
Net cash flows provided by/ (used for) investing activities	(34,155)	(14,640)
Net cash flows provided by/ (used for) financing activities	37,621	(2,865)
Net increase (decrease) in cash equivalents	8,335	(10,253)

### *Net Cash Flows from Operating Activities*

Net cash flow provided by operating activities was US\$8.2 million for the nine months ending September 30, 2016, compared with US\$8.2 million for the same period in 2015.

For the nine months ending September 30, 2016, net income before tax was US\$5.8 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\$8.2 million. Working capital increased by US\$2.4 million.

### *Investing Activities*

Net cash used in investing activities amounted to US\$34.2 million for the nine months ending September 30, 2016. Investing activities mainly involved purchase of production-related machinery and equipment

and investments in financial assets at FVPL. For the same period in 2015, cash used in investing activities totaled US\$14.6 million, the bulk of which was in investment in financial assets at FVPL and on production-related machinery and equipment and facility and production tools.

#### *Financing Activities*

Net cash flow from financing activities for the nine months ending September 30, 2016 amounted to US\$37.6 million. Major financing activities involved proceeds from short-term loan and 5--yer corporate notes, payment of cash dividends, payment of short-term and long-term loans, interest and net movement in related party accounts. For the same period in 2015 financing activities amounted to US\$2.7 million and mainly involved payment of cash dividends, interest payments, payments of long-term and short-term loans, net movement in related party accounts, and proceeds from short-term bank facilities.

#### **Material Changes to the Company's Unaudited Income Statement as of September 30,2016 compared to the Unaudited Income Statement as of September 30, 2015 (increase/decrease of 5% or more)**

- 19% increase in net sales  
Increase in sales of Cirtek ATS and CEC
- 20% increase in cost of sales  
Increase in net sales
- 10% increase in operating expenses  
Increase in manpower to support sales growth; increase in taxes and licenses
- 59% decrease in Provision for Income Tax  
Greater sales contribution from CEIC; new products of Cirtek and Cirtek ATS granted ITH
- 15% increase in Net Income After Tax  
Increase in sales, lower income tax

**Material Changes to the Company's Unaudited Balance Sheet as of September 30, 2016 compared to the Audited Balance Sheet as of December 31, 2015 (increase/decrease of 5% or more)**

- 28% increase in cash and cash equivalents  
Proceeds from corporate notes issuance
- 34% increase in trade and other receivables  
Increase in sales
- 95% increase in inventories  
Longer lead time for certain BOM of some major products
- 146% increase in Financial Asset at Fair Value through Profit or Loss  
Investments in financial assets
- 100% decrease in non-current Held to Maturity Investments  
Full redemption of investments
- 102% increase in Other Non-current Assets  
Additions to product development cost and increase in advances to suppliers
- 13% increase in Property, Plant and Equipment  
Building and facilities improvement; acquisition of new production equipment
- 49% increase in Trade Payables  
Increase in production volume
- 193% increase in Short-term Loan  
Increase in working capital requirements
- 62% decrease in Long-term Debt -- current portion  
Reduction in maturing long-term debt
- 12% reduction in income tax payable  
Increase in new products sold entitled to ITH
- 147% increase in Long-term Debt -- net of current portion  
Issuance by the Company of US\$30 Mn in corporate notes
- 10% increase in retained earnings  
Profit for the nine months ending September 30, 2016

## 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>2013</b>	<b>2014</b>	<b>2015</b>	<b>Nine months ended June 30 2016</b>
EBITDA	7,492	9,558	8,767	8,260
EBITDA Margin	17%	18%	15%	15%
Sales Growth	8%	18%	15%	19%*
Current Ratio (x)	5 x	3.5 x	3.1 x	2.6x
Earnings per share** (US\$)	0.014	0.017	0.014	0.013

*Note:*

*\*Compared with same period in 2015*

*\*\*Earnings per Share was calculated using CHPC's average outstanding common shares from January 1 to September 30 2016 for 2016 and full year for the years 2013, 2014, and 2015*

### ▪ 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.

<i>In US\$ 000</i>	For the years ended December 31		Nine months ended September 30	
	2013	2014	2015	2016
Net income	4,637	5,844	3,256	5,648
Add back:				
Interest expense/income-net	285	519	361	528
Provision for income tax	260	79	273	180
Depreciation and amortization	2,310	2,901	1,676	1,905
<b>EBITDA</b>	<b>7,492</b>	<b>8,385</b>	<b>5,566</b>	<b>8,261</b>

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

<i>In US\$ 000</i>	For the years ended December 31		Nine months Ended September 30	
	2013	2014	2015	2016
EBITDA	7,492	8,385	5,566	8,261
Deduct:				
Interest expense/(income)	(285)	(519)	(361)	(528)
Provision for income tax	(260)	(79)	(273)	(180)
Depreciation and amortization	(2,310)	(2,901)	(1,676)	(1,905)
<b>Net Income</b>	<b>4,637</b>	<b>5,844</b>	<b>3,256</b>	<b>5,648</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\$10 Million for capital expenditure for full year 2016, from the proceeds of the Company's Initial Public Offering 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.

## FINANCIAL RATIOS

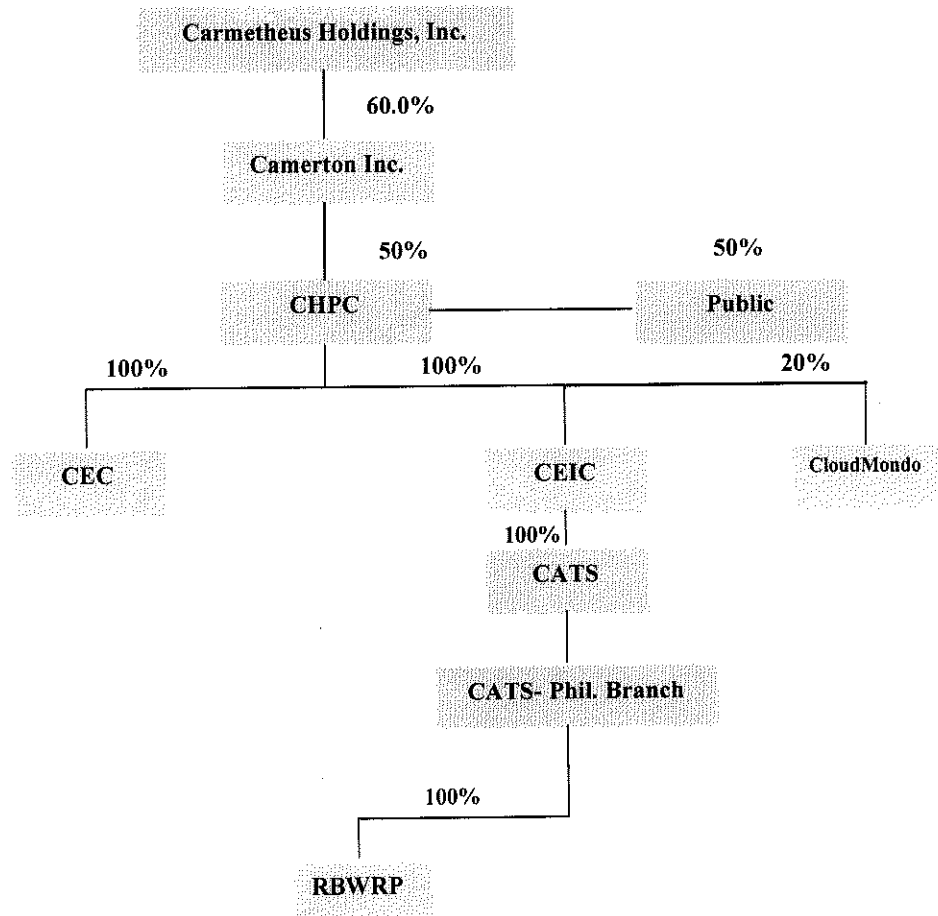
Ratios	Formula	September 30,	December 31,
		2016	2015
(i) Current Ratio	Current Assets/Current Liabilities	<b>2.61</b>	3.11
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	<b>1.06</b>	0.48
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	<b>0.54</b>	0.06
(iii) Asset to Equity Ratio	Total Assets/Total Equity	<b>2.37</b>	1.69
(iv) Interest Cover Ratio	EBITDA/Interest Expense	<b>10.14</b>	6.61
(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>0.15</b>	0.15
Return on Assets	Net Income/Total Assets	<b>0.03</b>	0.05
Return on Equity	Net Income/Total Equity	<b>0.08</b>	0.10



**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**  
**AS OF AND FOR THE QUARTERLY ENDED SEPTEMBER 30, 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
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**  
**SEPTEMBER 30, 2016**



**CIRTEK HOLDINGS PHILIPPINES CORP. AND SUBSIDIARIES**  
**SCHEDULE OF EFFECTIVE STANDARDS AND INTERPRETATIONS**  
**SEPTEMBER 30, 2016**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2015		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs 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			✓
	Amendments to PFRS 1: Meaning of "Effective PFRSs"	✓		
<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			✓
<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			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Amendments to PFRS 5: Changes in Methods of Disposal	See footnote. *		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	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: Disclosures - Servicing Contracts	See footnote. *		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	See footnote. *		
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments	See footnote. *		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	See footnote. *		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendment to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	See footnote. *		
PFRS 11	Joint Arrangements			✓
	Amendment to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	See footnote. *		
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivable and payables			✓
	Amendments to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts	See footnote. *		
PFRS 15	Revenue from Contracts with Customers	See footnote. *		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Balance Sheet Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	See footnote. *		
	Amendments to PAS 16: Bearer Plants	See footnote. *		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	See footnote. *		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate	See footnote. *		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
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			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendment to PAS 27: Equity Method in Separate Financial Statements	See footnote. *		
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendment to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	See footnote. *		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
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			✓
	Amendment to PAS 32: Presentation - Tax effect of distribution to holders of equity instrument	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities	See footnote. *		
	Amendments to PAS 34: Disclosure of Information 'elsewhere in the interim financial report'	See footnote. *		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets			✓
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	See footnote. *		
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			✓
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants	See footnote. *		
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> <b>Effective as of December 31, 2015</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<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	See footnote. *		
<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	✓		
<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-21</b>	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
<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, 2015. The Group did not early adopt these standards, interpretations and amendments.



**CIRTEK HOLDINGS PHILIPPINES CORPORATION**  
**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR**  
**DIVIDEND DECLARATION**  
**SEPTEMBER 30, 2016**

Unappropriated Retained Earnings, beginning		\$405,556
Adjustments in previous year's reconciliation:		
Less: Non-actual/unrealized income net of tax		—
Unappropriated Retained Earnings, as adjusted, beginning		405,556
Net Income based on the face of AFS	3,280,972	
Add: Non-actual losses	—	
Less: Non-actual/unrealized income net of tax	—	
Net Income Actual/Realized		3,280,972
Transfer from Appropriated to Unappropriated Retained Earnings		—
Unappropriated Retained Earnings, as adjusted, ending		3,686,528
Less: Dividends declared in 2016		
Cash dividends declared	(3,620,000)	(3,620,000)
<b>Retained earnings available for dividend declaration</b>		<b>\$66,528</b>

**CIRTEK HOLDINGS PHILIPPINES CORPORATION****FINANCIAL SOUNDNESS INDICATORS****SEPTEMBER 30, 2016**

<b>Ratios</b>	<b>Formula</b>	<b>September 30, 2016</b>	<b>December 31, 2015</b>
(i) Current Ratio	Current Assets/Current Liabilities	<b>2.61</b>	3.11
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	<b>1.06</b>	0.48
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	<b>0.54</b>	0.06
(iii) Asset to Equity Ratio	Total Assets/Total Equity	<b>2.37</b>	1.69
(iv) Interest Cover Ratio	EBITDA/Interest Expense	<b>10.14</b>	6.61
(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>0.15</b>	0.15
Return on Assets	Net Income/Total Assets	<b>0.03</b>	0.05
Return on Equity	Net Income/Total Equity	<b>0.08</b>	0.10

## SCHEDULE A

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS**  
**AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2016**

		Amount	Valued based on market quotations at end of reporting period	Income received or accrued
	Name of Issuing entity and association of each issue	shown in the balance sheet		
Cash and cash equivalents	N/A	\$38,111,769	\$38,111,769	\$-
Trade and other receivables	N/A	18,463,078	18,463,078	-
Financial asset at fair value through profit or loss	N/A	47,762,736	47,762,736	-
Amounts owed by related parties	N/A	12,470,049	12,470,049	-
Other current assets				
Rental deposit	N/A	1,132,066	1,132,066	-
Loan to employees	N/A	122,450	122,450	-
HTM investments	N/A	371,520	371,520	-
Other noncurrent assets				
Miscellaneous deposits	N/A	138,319	138,319	-
		\$118,571,987	\$118,571,987	\$-

**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 PERIOD ENDED SEPTEMBER 30, 2015**

**Amounts Receivable from Officers, Employees and Related Parties under Trade and other receivables**

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Not Current	Balance at the end of the period
Advances to officers and employees	\$122,062	\$30,306	(\$29,918)	\$122,450	\$—	\$122,450

**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 Holding, Inc.	\$1,809,256	\$—	\$—	\$1,809,256	\$—	\$1,809,256
Carmerton, Inc.	33,161	—	—	33,161	—	33,161
Cayon Holdings, Inc.	206,284	—	—	206,284	—	206,284
Jerry Liu	8,558,051	1,863,297	—	10,421,348	—	10,421,348
	\$10,606,752	\$1,863,297	\$—	\$12,470,049	\$—	\$12,470,049

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 SEPTEMBER 30, 2016**

**Receivables from related parties which are eliminated during the consolidation**

(under Trade and other receivables)

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Non current	Balance at end of period
Cirtek Electronics Corporation	\$13,122,101	\$32,305,213		\$-	\$45,427,314	\$-	\$45,427,314
Cirtek Electronics International Corporation	21,851,682	-	(3,285,920)	-	18,565,762	-	18,565,762
Cirtek Advanced Technologies and Solutions Inc.		245,916			245,916		245,916
Cirtek Holdings Philippines Corporation	40,769,255			-	40,769,255	-	40,769,255
	\$75,743,038	\$32,551,129	(3,285,920)	\$-	\$105,008,247	\$-	\$105,008,247

**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	Non current	Balance at end of period
Cirtek Electronics Corporation	\$50,897,392	\$383,680	(3,285,920)	\$-	\$47,995,152	\$-	\$47,995,152
Cirtek Electronics International Corporation	9,000,000	245,916		-	9,245,916	-	9,245,916
Cirtek Advanced Technologies and Solutions Inc.	5,580,356	13,800,427		-	19,380,783	-	19,380,783
Cirtek Holdings Philippines Corporation	10,265,290	18,121,106		-	28,386,396	-	28,386,396
	\$75,743,038	\$32,551,129	(3,285,920)	\$-	\$105,008,247	\$-	\$105,008,247

SCHEDULE D

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER**  
**ASSETS**

**AS OF SEPTEMBER 30, 2016**

<b>Intangible Assets - Other Assets</b>						
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	\$492,047	(\$83,358)	\$—	\$—	\$978,631

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT****AS OF SEPTEMBER 30, 2016**

Title of issue and type of obligation	Amount authorized by indenture	<b>Long-term Debt</b>	
		Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
Notes payable	\$16,191,097	\$1,992,604	\$14,198,493
Corporate Notes	30,000,000	—	30,000,000
	<b>\$46,191,097</b>	<b>\$1,992,604</b>	<b>\$44,198,493</b>

SCHEDULE F

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED**  
**PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**  
AS OF SEPTEMBER 30, 2016

<b>Indebtedness to related parties (Long-term loans from related companies)</b>		
<b>Name of related party</b>	<b>Balance at beginning of period</b>	<b>Balance at end of period</b>
<b>Not Applicable</b>		



**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF**  
**OTHER ISSUERS**  
**AS OF SEPTEMBER 30, 2016**

<b>Guarantees of Securities of Other Issuers</b>				
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
<b>Not Applicable</b>				

## SCHEDULE H

**CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES****SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK**

AS OF SEPTEMBER 30, 2016

<b>Capital Stock</b>						
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	-	208,888,558	7	-
Preferred Stock	400,000,000	-	-	-	-	-