

COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

Mr. Anthony Albert S. Buyawe
(Contact Person)

729-6205
(Company Telephone Number)

SEC Form 17Q (Quarter Ending March 31, 2017)

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Month Day
(Calendar Year)

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(Form Type)

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Month Day
(Annual Meeting)

Not Applicable
(Secondary License Type, If Applicable)

SEC
Dept. Requiring this Doc.

Not Applicable
Amended Articles Number/Section

27
Total No. of Stockholders

Total Amount of Borrowings

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 Domestic

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To be accomplished by SEC Personnel concerned

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File Number

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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 March 31, 2017.
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)
- 116 East Main Avenue, Phase V-SEZ Laguna Technopark, Binan Laguna 4024**
7. Address of issuer's principal office 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	419,063,353 / n/a
Preferred Shares	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: 15 May 2017

Principal Financial/Accounting Officer/Controller:

Signature and Title.


Anthony S. Buyawe
Chief Financial Officer

Date: 15 May 2017

CIRTEK HOLDINGS PHILIPPINES CORPORATION

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CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$27,504,985	\$24,511,493
Trade and other receivables	28,471,010	23,172,423
Inventories	21,094,894	15,281,893
Amounts owed by related parties	12,689,215	12,436,575
Held-to-maturity investments	491,723	371,520
Financial asset at fair value through profit or loss	503	503
Other current assets	2,361,603	2,618,370
	92,613,933	78,392,777
Noncurrent assets-held-for-sale	12,040,364	11,408,611
Total Current Assets	104,654,297	89,801,388
Noncurrent Assets		
Property, plant and equipment	29,163,070	28,675,910
Available-for-Sale (AFS) financial asset	1,667,000	1,667,000
Deferred income tax asset	174,578	174,578
Other noncurrent assets	1,989,445	2,170,859
Total Noncurrent Assets	32,994,093	32,688,347
TOTAL ASSETS	\$137,648,390	\$122,489,735
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables	\$23,696,765	\$19,135,593
Short-term loan	31,625,945	31,625,945
Current portion of long-term debt	4,912,454	6,882,126
Amounts owed to related parties	525,960	520,152
Income tax payable	357,748	327,656
Total Current Liabilities	61,118,872	58,491,472
Noncurrent Liabilities		
Long-term debt - net of current portion	36,977,845	36,977,845
Deferred income tax liabilities-tax	3,373	3,373
Retirement benefit obligation	1,777,931	1,807,847
Total Noncurrent Liabilities	38,759,149	38,789,065
Total Liabilities	99,878,021	97,280,537
Equity		
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	40,329	40,329
Retained earnings	25,166,716	24,884,576
	75,057,873	74,775,733
Parent Company shares held by a subsidiary	(37,287,504)	(49,566,535)
Total Equity	37,770,369	25,209,198
TOTAL LIABILITIES AND EQUITY	\$137,648,390	\$122,489,735

See accompanying Notes to Consolidated Financial Statements.

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended March 31

	2017	2016
NET SALES	\$16,941,291	\$14,981,820
COST OF SALES	(13,711,830)	(12,264,553)
GROSS PROFIT	3,229,461	2,717,267
OPERATING EXPENSES	(974,722)	(1,075,087)
FINANCIAL INCOME (EXPENSES)		
Interest income	34,731	110,912
Interest expense	(559,424)	(232,006)
	(524,693)	(121,094)
OTHER INCOME (CHARGES)	7,480	6,439
INCOME BEFORE INCOME TAX	1,737,526	1,527,525
PROVISION FOR (BENEFIT FROM)		
INCOME TAX		
Current	33,624	41,904
Deferred	—	—
	33,624	41,904
NET INCOME	1,703,902	1,485,621
OTHER COMPREHENSIVE INCOME	—	—
TOTAL COMPREHENSIVE INCOME	\$1,703,902	\$1,485,621
Basic/Diluted Earnings Per Share	\$0.004	\$0.004

See accompanying Notes to Consolidated Financial Statements.

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016**

2017

	Common Issued	Preferred Stock	Additional Paid-in Capital	Equity Reserve	Comprehensive Income	Other Retained Earnings	Parent Company Shares Held by Subsidiary	Total
Balances at December 31, 2016	\$9,594,321	\$221,239	\$35,896,893	\$4,138,375	\$40,329	\$24,884,576	(\$49,566,535)	\$25,209,198
Net income for the year	-	-	-	-	-	1,703,902	-	1,703,902
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	1,703,902	-	1,703,902
Cash dividends declared	-	-	-	-	-	(1,421,762)	-	(1,421,762)
Sale of parent company shares held by a subsidiary	-	-	-	-	-	-	12,279,031	12,279,031
Balances at March 31, 2017	\$9,594,321	\$221,239	\$35,896,893	\$4,138,375	\$40,329	\$25,166,716	(\$37,287,504)	\$37,770,369

2016

	Common Stock	Preferred Stock	Additional Paid-in Capital	Equity Reserve	Comprehensive Income (Loss)	Other Retained Earnings	Total
BALANCES AT DECEMBER 31, 2015	\$9,594,321	\$221,239	\$35,896,893	\$4,138,375	\$526,420	\$20,896,548	\$71,273,796
Net income for the year	-	-	-	-	-	1,485,621	1,485,621
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	1,485,621	1,485,621
Cash dividends declared	-	-	-	-	-	(2,100,000)	(2,100,000)
BALANCES AT MARCH 31, 2016	\$9,594,321	\$221,239	\$35,896,893	\$4,138,375	\$526,420	\$20,282,169	\$70,659,417

See accompanying Notes to Consolidated Financial Statements.

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$1,737,526	\$1,527,525
Adjustments for:		
Depreciation and amortization	750,003	715,071
Interest expense	559,424	232,006
Movement in net retirement benefit obligation	(29,916)	15,597
Interest income	(34,731)	(110,912)
Operating income before working capital changes	2,982,306	2,379,287
Decrease (increase) in:		
Inventories	(5,813,001)	(3,142,249)
Trade and other receivables	(5,298,587)	(3,155,453)
Other current assets	(495,189)	(91,007)
Increase (decrease) in trade and other payables	4,585,675	4,540,219
Net cash generated from operations	(4,038,796)	530,797
Interest received	34,731	110,912
Income taxes paid	(3,534)	(1,831)
Net cash flows from operating activities	(4,007,599)	639,878
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceed from (investment in) financial asset at FVPL	-	(1,118,639)
Acquisitions of property, plant and equipment	(1,237,164)	(1,838,307)
Decrease (increase) in other noncurrent assets	181,414	(569,195)
Net cash flows used in investing activities	(1,055,750)	(3,526,141)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from of:		
Short-term loan	10,000,000	-
Sale of parent company shares held by a subsidiary	12,279,032	-
Payments of:		
Cash dividends	(1,421,762)	(2,100,000)
Interest	(553,597)	(251,470)
Long-term loan	(2,000,000)	(500,000)
Short-term loan	(10,000,000)	(1,190,000)
Net movement in amounts owed by and owed to related parties	(246,831)	(361,302)
Net cash flows from (used in) financing activities	8,056,842	(4,402,772)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,993,493	(7,289,035)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FIRST QUARTER	24,511,492	29,776,866
CASH AND CASH EQUIVALENTS AT END OF THIRD QUARTER	\$27,504,985	\$22,487,831

See accompanying Notes to Consolidated Financial Statements.

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

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

Business Acquisition

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

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

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

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

Basis of Preparation

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

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of March 31, 2017 and December 31, 2016 (see Notes 1 and 4):

	Country of Incorporation	Percentage of Ownership			
		March 31, 2017		December 31, 2016	
		Direct	Indirect	Direct	Indirect
CEC	Philippines	100	–	100	–
CEIC	British Virgin Islands (BVI)	100	–	100	–
CATS (formerly known as RBWI)	BVI	–	100	–	100
CATS - Philippine Branch	Philippines	–	100	–	100
Remec Broadband Wireless Real Property(RBWRP)	Philippines	–	100	–	100

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

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a

subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the stand-alone financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

Common control business combinations

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

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2016. These pronouncements are either not applicable to the Group or their adoption did not have a significant impact on the Group's financial position or performance.

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

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

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

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

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

- PFRS 14, *Regulatory Deferral Accounts*

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

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

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

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

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

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

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

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

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

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

- Annual Improvements to PFRSs 2012 - 2014 Cycle

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

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2017

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2018

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

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

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

These amendments are not applicable to the Group.

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

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

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

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

- *PFRS 15, Revenue from Contracts with Customers*

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

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

- **PFRS 9, *Financial Instruments***

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

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

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

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

These amendments are not applicable to the Group.

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

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

These amendments are not applicable to the Group.

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

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

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

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

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

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

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

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

Deferred effectivity

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

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

however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Summary of Significant Accounting Policies

Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments

Financial assets

Initial recognition

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

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

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

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

Subsequent measurement

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

Financial assets at FVPL

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

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

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

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

As of March 31, 2017 and December 31, 2016, the Group designated its investments in Unit Investment Trust Fund (UITF) and Rizal Commercial Banking Corporation (RCBC) Senior Notes as financial assets at FVPL.

Loans and receivables

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

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

HTM investments

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

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

AFS financial assets

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or change in market conditions. After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in profit or loss, or determined to be impaired, at which time the cumulative loss recorded in equity is recognized in profit or loss.

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

Financial liabilities

Initial recognition

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

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

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

Subsequent measurement

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

Financial liabilities at FVPL

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

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

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

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

Other financial liabilities

Other financial liabilities are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

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

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it

qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Classification of Financial Instruments between Debt and Equity

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

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

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

Impairment of Financial Assets

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

Financial assets carried at amortized cost

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit

or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets carried at cost

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

Derecognition of Financial Instruments

Financial assets

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

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

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

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

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

Financial liabilities

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

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

Inventories

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

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

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

Property, Plant and Equipment

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

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

Category	Number of Years
Machinery and equipment	10-15
Buildings and improvements	5-25
Facility and production tools	5-8
Furniture, fixtures and equipment	2-5
Transportation equipment	5-7

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

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

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

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

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

Noncurrent Assets Held for Sale

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

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. Foreign currency exchange differences are included in the determination of borrowing costs to be capitalized, but only to the extent that they are an adjustment to the interest cost on the borrowing.

Research and Development Costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

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

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

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

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

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

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

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. The Group has designated as nonfinancial assets its prepaid expenses, advances to suppliers, property, plant and equipment, and other assets. If any such indication exists, or

when annual impairment testing for a nonfinancial asset is required, the Group makes an estimate of the nonfinancial asset's recoverable amount. A nonfinancial asset's estimated recoverable amount is the higher of a nonfinancial asset's or CGU's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the nonfinancial asset does not generate cash inflows that are largely independent of those from other nonfinancial assets or groups of nonfinancial assets. Where the carrying amount of a nonfinancial asset exceeds its estimated recoverable amount, the nonfinancial asset is considered impaired and is written down to its estimated recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the nonfinancial asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

Capital Stock

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

Retained Earnings

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

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

Equity Reserve

Equity reserve represents the effect of the application of the pooling-of-interests method.

Parent Company Shares Held by a Subsidiary

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

Other Comprehensive Income

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, returns, rebates and other sales taxes or duties. The Group assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

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

Sale of goods

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

Interest income

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

Deferred revenues

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

Costs and Expenses Recognition

Costs and expenses are recognized in the consolidated statement of comprehensive income when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Cost of sales

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

Operating expenses

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

Leases

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

- a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. A renewal option is exercised and extension granted, unless the term of the renewal or extension was initially included in the lease term;

- c. There is a change in the determination of whether fulfillment is dependent on a specified asset;
or
- d. There is a substantial change to the asset.

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

The Group as a lessee

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

Retirement Benefits Costs

The Group is covered by a noncontributory defined benefit retirement plan. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

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

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

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

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information.

When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Foreign Currency-denominated Transactions

The consolidated financial statements are presented in US dollars, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency spot rate ruling at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

All differences are taken to the consolidated statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

Income Taxes

Current tax

Current tax liabilities for the current and prior periods are measured at the amount expected to be paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the financial reporting date.

Deferred tax

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

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

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

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

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

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

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

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

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

Earnings Per Share (EPS)

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

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

Segment Reporting

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the

obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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

Events After the Balance Sheet Date

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

3. Significant Judgments, Accounting Estimates and Assumptions

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

Judgments

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

Determination of functional currency

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

Determination of operating segment

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

Classification of noncurrent assets held for sale

When CEIC acquired CATS and RBWRP, the manufacturing activities of CATS had been transferred to CEC's facility for operational efficiency measures. As a result, the land and building improvements owned by CATS and RBWRP became idle; thus, on December 9, 2014, the BOD approved the plan to sell and dispose the said aforementioned assets to interested buyers.

PFRS 5 requires entities to classify a noncurrent asset as held for sale if its carrying amount will be recovered mainly through sale rather than through continued use. The Group has made a judgment that the noncurrent assets are held for sale since management is committed to selling the assets and are active in looking for interested buyers. Furthermore, the assets are available for immediate sale in their present condition. As of March 31, 2017, the Parent Company's management expects that sale will be completed in 2017.

Classification of financial instruments

The Group classifies a financial instrument, or its component, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheets. The classification of the Company's financial instruments is disclosed in Note 26.

Deferred income tax liability on a subsidiary's undistributed profits

CEIC has undistributed profits as of March 31, 2017 and December 31, 2016 that become taxable when distributed to the Parent Company. PAS 12 requires the recognition of deferred income tax liability on taxable temporary difference associated with investments in subsidiaries and interests in joint ventures, unless the Group has the ability to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group has made a judgment that it is probable that the temporary difference will not reverse in the foreseeable future based on management's plan that the Group will not be declaring dividends from CEIC in the foreseeable future. Accordingly, the Parent Company did not recognize deferred income tax liability on CEIC's undistributed earnings amounting to \$6,786,090 as of March 31, 2017 and December 31, 2016, respectively.

Impairment of nonfinancial assets

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

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

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

Based on management's evaluation, no indication of impairment was noted in the Group's nonfinancial assets as of March 31, 2017 and December 31, 2016 (see Notes 9, 11 and 13).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

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

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

The determination of the fair value less cost to sell of noncurrent assets held for sale is made with reference to the selling price of the asset in the market and other factors such as the local market conditions and the asking price of the potential buyers. As of March 31, 2017 and December 31, 2016, the Group carries its noncurrent assets held for sale at lower of carrying amount and fair value less cost to sell amounting to \$11,408,611 (see Note 11).

Fair values of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, fair values are validated and periodically reviewed by qualified independent personnel. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The fair values of the financial instruments of the Group are disclosed in Note 27 to the consolidated financial statements.

Estimating useful lives of property, plant and equipment

The Group estimates the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation expense and decrease noncurrent assets.

In 2015, the Group's review indicated that the estimated useful lives of machinery and equipment should be extended from 6 to 12 years to 10 to 15 years and facility and production tools from 3 to 5 years to 5 to 8 years from January 1, 2015 based on the Group's reassessment of the expected period over which the Group will benefit from the use of these assets. There were no changes in the useful lives of property, plant and equipment in March 31, 2017.

Estimated impact on future annual depreciation expense is as follows:

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

Depreciation charged in the consolidated statements of comprehensive income amounted to \$750,003 and \$715,071 in March 31, 2017 and March 31, 2016, respectively. As of March 31, 2017 and December 31, 2016, the Group's property, plant and equipment have a net book value of \$29,163,070 and \$28,675,910, respectively (see Note 11).

Estimating allowance for inventory obsolescence

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

The estimated allowance for inventory obsolescence amounted \$96,884 as of March 31, 2017 and December 31, 2016. The carrying amounts of inventories, net of allowance for inventory obsolescence, amounted to \$21,094,894 and \$15,281,893 as of March 31, 2017 and December 31, 2016, respectively (see Note 7).

Estimating impairment of loans and receivables

The Group maintains allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this impairment allowance is evaluated by management on the basis of factors that affect the collectivity 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 March 31, 2017 and December 31, 2016, the Group has not provided any impairment allowance since receivables were assessed to be fully collectible. The carrying amount of loans and receivables, which include cash in banks and cash equivalents, trade and other receivables, amounts owed by related parties, security deposit, loans to employees and deposits amounted to \$70,290,148 \$62,000,208 as of March 31, 2017 and December 31, 2016, respectively (see Notes 5, 6, 9 and 13).

Estimating retirement benefit cost and liability

The determination of the obligation for retirement benefits is dependent on the selection by management of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21 and include among others, discount rate and salary increase rate. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While management believes that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement obligation.

The Group's retirement benefits costs amounted to \$58,410 and \$41,290 in March 31, 2017 and March 31, 2016, respectively. As of March 31, 2017 and December 31, 2016, the Group's

retirement benefit obligation amounted to \$1,777,931 and \$1,807,847, respectively (see Note 21).

Estimating useful life of software costs and capitalized product development costs

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

As of March 31, 2017 and December 31, 2016, software with a total cost of \$39,278 has been fully amortized. The carrying amount of capitalized development costs amounted to \$871,872 and \$922,220 as of March 31, 2017 and December 31, 2016, respectively. The amortization of capitalized development cost amounted to \$50,348 and \$27,852 in March 31, 2017 and March 31, 2016, respectively (see Note 13).

Recoverability of deferred income tax assets

The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The Group has recognized deferred income tax assets amounting to \$174,578 March 31, 2017 and March 31, 2016, 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 in March 31, 2017 and December 31, 2018.

4. Business Combination

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

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

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

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

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

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

Cash consideration transferred	\$7,465,105
Net cash acquired with the subsidiary	(291,179)
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

	March 31, 2017	December 31, 2016
Cash on hand and in banks	\$27,504,985	\$24,511,493
Cash equivalents	—	—
	\$27,504,985	\$24,511,493

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

Interest income earned from cash in banks and cash equivalents amounted to \$34,731 and \$104,131 in March 31, 2017 and March 31, 2016, respectively.

6. Trade and Other Receivables

	March 31, 2017	December 31, 2016
Trade	\$28,381,438	\$22,688,485
Others	89,572	483,938
	\$28,471,010	\$23,172,423

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

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

7. Inventories

	March 31, 2017	December 31, 2016
At cost:		
Raw materials	\$18,981,157	\$13,692,165
Work in process	304,286	408,986
Finished goods	730,685	178,958
Spare parts and others	666,443	643,244
	<u>20,682,571</u>	<u>14,923,353</u>
At NRV:		
Supplies and others	412,323	358,540
Total inventories at lower of cost and NRV	<u>\$21,094,894</u>	<u>\$15,281,893</u>

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

The allowance for inventory obsolescence of supplies and other inventories as of March 31, 2017 and December 31, 2016 amounted to \$96,884.

The cost of inventories recognized as cost of sales amounted to \$8,945,203 and \$8,139,840 in March 31, 2017 and March 31, 2016, respectively (see Note 18).

8. Financial Assets at FVPL

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

	March 31, 2017	December 31, 2016
Beginning balance	503	\$19,447,248
Disposal	—	(19,709,049)
Gain on disposal	—	262,332
Foreign currency translation		(28)
Ending balance	<u>\$503</u>	<u>\$503</u>

UITF

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

Investment in RCBC Senior Note

On January 21, 2015, the Parent Company acquired \$8.5 million of the USD Senior Unsecured Fixed Rate Notes offered by the RCBC via a drawdown off its \$1 billion Medium Term Note

Programme maturing on January 22, 2020. The senior note earns 4.25 % fixed rate per annum, payable semi-annually commencing July 21, 2015. The senior note is listed and actively traded in Singapore Exchange Securities Trading Limited (SGX). The senior note is designated as financial asset at FVPL as of March 31, 2017 and December 31, 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.

9. Other Current Assets

	March 31, 2017	December 31, 2016
Rental deposit	\$1,131,399	\$1,131,399
Advances to suppliers	918,110	953,821
Security deposit	180,507	180,387
Loans to employees	188,811	239,823
Prepaid expenses	181,326	80,488
Others	4,144	32,452
	\$2,604,297	\$2,618,370

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

10. HTM Investments

As of March 31, 2017 and December 31, 2016, the details of HTM investments are as follows (see Note 4):

	March 31, 2017	December 31, 2016
Current portion	\$491,723	\$371,520
Noncurrent portion	—	—
	\$491,723	\$371,520

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

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

The Group's HTM investments pertain to government bonds which were purchased by the Philippine Branch of CATS in compliance with above regulation. The bonds have maturity dates which range from 2015-2017 and bear an average effective interest rate of 1.97% to 4.63% per annum.

In May 2015, one of the HTM bonds with a face value of \$111,632 (₱5.0 million) matured and as a result, CATS received cash amounting to \$115,478.

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

Property, plant and equipment

March 31, 2017

	Machinery and Equipment	Buildings and Improvements	Facility and Production Tools	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in progress	Total
Cost:							
Beginning balances	\$51,161,319	\$8,199,420	\$8,192,044	\$1,242,742	\$171,177	-	\$68,966,702
Additions	901,140	48,313	277,754	9,956			1,237,163
Ending balances	52,062,459	8,247,733	8,469,798	1,252,698	171,177	-	70,203,865
Accumulated depreciation:							
Beginning balances	29,444,959	4,829,509	4,842,275	1,074,525	99,524	-	40,290,792
Depreciation	441,642	120,363	158,165	24,364	5,469		750,003
Ending balances	29,886,601	4,949,872	5,000,440	1,098,889	104,993	-	41,040,795
Net book values	\$22,175,858	\$3,297,861	\$3,469,358	\$153,809	\$66,184	-	\$29,163,070

December 31, 2016

	Machinery and Equipment	Buildings and Improvements	Facility and Production Tools	Furniture, Fixtures and Equipment	Transportation Equipment	Construction in progress	Total
Cost:							
Beginning balances	\$41,492,558	\$8,091,561	\$6,727,316	\$1,107,269	\$171,177	\$3,830,811	\$61,420,692
Additions	3,256,285	107,859	955,606	135,473	-	3,090,787	7,546,010
Disposal and other adjustments	-	-	-	-	-	-	-
Reclassification	6,412,476	-	509,122	-	-	(6,921,598)	-
Ending balances	51,161,319	8,199,420	8,192,044	1,242,742	171,177	-	68,966,702
Accumulated depreciation:							
Beginning balances	27,840,187	4,399,021	4,341,626	923,784	74,542	-	37,579,160
Depreciation (Notes 18 and 19)	1,604,772	430,488	500,649	150,741	24,982	-	2,711,632
Ending balances	29,444,959	4,829,509	4,842,275	1,074,525	99,524	-	40,290,792
Net book values	\$21,716,360	\$3,369,911	\$3,349,769	\$168,217	\$71,653	\$-	\$28,675,910

Construction in progress amounting to \$3,090,787 and \$3,830,811 in 2016 and 2015, respectively, represent construction costs incurred for the new production facility of CATS-Philippine Branch's new product venture. Construction was completed in 2016.

Land and building owned by RBWRP with carrying value of \$8,768,248 as of March 31, 2017 and December 31, 2016 were used as collateral for an interest-bearing loan with a local commercial bank. The Group prepaid the balance of the loan in 2016 (see Note 16).

Noncurrent Assets Held for Sale

On December 9, 2014, the Parent Company's BOD approved the plan to sell and dispose certain assets such as land, building and other improvements, and building plant and machinery of CATS and RBWRP to any interested buyers as these are excess assets from the acquisition and are no longer needed in CATS - Philippine Branch's operations. An independent valuation was obtained to determine the fair values of property, plant and equipment which were based on recent transactions for similar assets within the same industry. Property, plant and equipment with carrying value of \$11,408,611 were classified as noncurrent assets held for sale in the consolidated balance sheets effective December 31, 2014. The Parent Company's management is committed to selling the assets which are available for immediate sale and is active in looking for interested buyers. During the one-year period, circumstances arose that were previously considered unlikely and, as a result, the noncurrent assets held for sale were not sold by the end of the one-year period. Management took necessary actions to respond to the change in circumstances and ensured that the noncurrent assets are being actively marketed at a price that is reasonable, given the change in circumstances.

12. AFS Financial Asset

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

13. Other Noncurrent Assets

	March 31, 2017	December 31, 2016
Advances to suppliers	\$936,128	\$1,066,014
Product development costs	871,872	922,220
Miscellaneous deposits	130,894	135,559
Note receivable	6,703	7,889
Others	43,848	39,177
	\$1,989,445	\$2,170,859

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

Product development costs pertain to the capitalized cost of developing certain packages or products for specific customers. The development costs met the requirements of PAS 38 for capitalization. The product development costs that were capitalized in 2016, 2015 and 2014 amounted to \$463,485, \$105,365, and \$163,907, respectively. Amortization of product development cost charged to the consolidated statements of comprehensive income amounted to \$50,348 and \$27,852 in March 31, 2017 and March 31, 2016, 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 March 31, 2017 and December 31, 2016, CEC has software with a total cost of \$39,278 which are fully amortized but are still used in operations.

14. Trade and Other Payables

	March 31, 2017	December 31, 2016
Trade	\$16,518,458	\$13,192,707
Accruals:		
Utilities	319,487	442,112
Payroll	691,068	404,116
Interest	149,182	172,419
Others	532,525	337,454
Advances from customers	2,861,756	2,833,791
Provision for warranty	1,783,020	1,419,257
Others	841,269	333,737
	\$23,696,765	\$19,135,593

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

Accruals comprise mainly of accruals for electricity, water, communication, security, shuttle services and professional services.

Advances from customers pertain mainly to down payments for sales orders.

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

15. Short-term Loans

The Group has the following loan facilities:

		March 31, 2017	December 31, 2016
Banks:			
Security Bank Corporation (SBC)	(a)	\$10,000,000	\$10,000,000
Bank of the Philippine Island (BPI)	(b)	5,435,088	5,435,088
Rizal Commercial Banking Corporation (RCBC)	(c)	16,190,857	16,190,857
		\$31,625,945	\$31,625,945

- 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 March 31, 2017 and December 31, 2016.
- 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 March 31, 2017 and December 31, 2016.
- 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 March 31, 2017 and December 31, 2016.

Interest expense incurred from these short-term loan facilities amounted to \$155,716, and \$38,390 in March 31, 2017 and December 31, 2016, respectively.

16. Long-term Debt

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

	March 31, 2017	December 31, 2016
Principal	\$42,250,000	\$44,250,000
Less deferred financing costs	359,701	390,029
	<u>41,890,299</u>	<u>43,859,971</u>
Less:		
Current portion - net of deferred financing costs	4,912,454	6,882,126
	<u>4,912,454</u>	<u>6,882,126</u>
	<u>\$36,977,845</u>	<u>\$36,977,845</u>

Movement in deferred financing costs follow:

	March 31, 2017	December 31, 2016
Beginning of year	\$390,029	\$154,780
Transaction costs recognized during the year	—	321,605
Less amortization	30,328	86,356
End of first quarter	<u>\$359,701</u>	<u>\$390,029</u>

CHPC

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

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

The NFA contained an embedded derivative arising from voluntary prepayment option where the Parent Company may redeem in whole but not in part, the relevant outstanding notes beginning on and after the third anniversary of the issue date, by paying the amount that is equivalent to 102% of

the unpaid principal amount together with any and all accrued interest up to the date of prepayment. The Parent Company assessed that the embedded derivative in the NFA is closely related to the host contract, thus was not bifurcated from the host contract based on the provisions of PAS 39.

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

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

Equity is defined in the agreement the aggregate of outstanding capital stock, additional paid-in capital stock, equity reserve and retained earnings at any date and as shown in the latest consolidated balance sheet of the Parent Company.

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

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

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

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

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

Equity is defined in the agreement the aggregate of outstanding capital stock, additional paid-in capital stock, equity reserve and retained earnings at any date and as shown in the latest consolidated balance sheet of the Parent Company.

On September 20, 2016, the Parent Company entered into a \$30.0 million NFA with BPI (Initial Note holder), BPI Asset Management and Trust Group (Facility and Paying Agent) and BPI Capital Corporation (Arranger). The NFA provided for the issuance of 5-year fixed rate corporate

note which bears interest of 4.0% per annum payable quarterly. The net proceeds from the issuance of the Notes shall be used for capital expenditures, including production facilities and to refinance existing debt obligation and for working capital requirement.

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

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

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

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

Equity is defined in the agreement the aggregate of outstanding capital stock, additional paid-in capital stock, equity reserve and retained earnings at any date and as shown in the latest consolidated balance sheet of the Parent Company.

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

Total interest expense (including amortization of deferred financing costs) recognized in the consolidated statements of comprehensive income amounted to \$403,709, and \$143,987 in March 31, 2017 and December 31, 2016, respectively.

CATS

In 2012, CATS obtained a secured interest-bearing loan from a local commercial bank amounting to \$13.0 million. The principal is payable in 28 quarterly payments of \$464,286 until 2018 and bears annual interest rate of 3.0% plus three month London inter-bank offer rate (LIBOR). This bank loan was specifically borrowed to refinance the parcel of land with improvements located along Innovation Drive, Carmelray Industrial Park 1, Brgy. Canlubang, Calamba City, Laguna and registered in the name of RBWRP. The Group assumed the loan upon acquisition of REMEC's manufacturing division in 2014. As of March 31, 2017, the land and building owned by RBWRP were used as collateral for the secured interest-bearing loan (see Note 11).

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

17. Related Party Disclosures

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

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

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

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

- Amounts owed to related parties

		Transactions		Balances as of		Terms	Conditions
		March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016		
<i>Other related parties</i>							
CLC	Rental	\$3,043	\$12,776	\$450,013	\$446,970	Due on demand; non-interest bearing	Unsecured
Cayon	Rental	2,765	11,690	75,947	73,182	Due on demand; non-interest bearing	Unsecured
				\$525,960	\$520,152		

b. Amounts owed by related parties

		Transactions		Balances as of		Terms	Conditions
		March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016		
<i>Other related parties</i>							
Camerton	Reimbursement of expenses	\$-	\$-	\$111,994	\$111,994	Due on demand; non-interest bearing	Unsecured; no impairment
CHI	Advances for working capital	-	\$-	\$1,809,256	\$1,809,256	Due on demand; non-interest bearing	Unsecured; no impairment
Cayon	Reimbursement of expenses	9,948	-	216,232	206,284	Due on demand; non-interest bearing	Unsecured; no impairment
Jerry Liu	Reimbursement of expenses	-	5,483,674	10,309,039	10,309,039	Due on demand; non-interest bearing	Unsecured; no impairment
		\$9,948	\$5,483,674	\$12,446,521	\$12,436,573		

c. Rental deposit

		Transactions		Balances as of		Terms	Conditions
		March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016		
<i>Other related parties</i>							
CLC		\$-	\$-	\$1,131,399	\$1,131,399	Due on demand; non-interest bearing	Unsecured; no impairment

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

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

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

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

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

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

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

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

Transactions with Camerton

Camerton is the majority shareholder of the Parent Company. Amounts owed by Camerton as of March 31, 2017 and December 31, 2016 pertain mainly to working capital advances and advances for incorporation expenses of Camerton.

Transactions with CLC and Cayon

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

On January 1, 2005, CEC terminated the lease agreement with CLC but has continued to occupy the said land for no consideration with CLC's consent. With the termination of the lease agreement, the Group has classified the rental deposit amounting to \$1.1 million as current asset as the deposit has become due and demandable anytime from CLC (see Note 9).

On January 1, 2011, CEC entered into an agreement with CLC to lease the land where CEC's Building 1 is located. The agreement calls for a ₱640,704 rent per annum for a period of 10 years and renewable thereafter by mutual agreement of the parties subject to such new terms and conditions as they may then be mutually agreed-upon. Total rent expense charged to operations amounted to \$3,043 and \$3,219 in March 31, 2017 and March 31, 2016, 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 \$2,765 and \$2,925 in March 31, 2017 and March 31, 2016, respectively.

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

	March 31, 2017	March 31, 2016
Salaries and wages	\$361,365	\$601,573
Employee benefits	84,892	69,843
	\$446,257	\$671,416

18. Cost of Sales

	March 31, 2017	March 31, 2016
Raw materials, spare parts, supplies and other inventories used	\$8,945,203	\$6,719,443
Salaries, wages and employees' benefits	2,646,113	2,151,137
Utilities	946,770	858,433
Change in finished goods and work in process inventories	—	1,420,397
Depreciation and amortization	729,356	693,094
Inward freight and duties and others	444,388	422,049
	\$13,711,830	\$12,264,553

19. Operating Expenses

	March 31, 2017	March 31, 2016
Salaries, wages and employees' benefits	\$561,633	\$701,766
Utilities	88,823	92,602
Transportation and travel	105,594	77,655
Professional fees	43,497	23,763
Entertainment, amusement and recreation	28,821	57,318
Commissions	37,496	15,328
Depreciation	20,648	22,028
Taxes and licenses	66,912	29,959
Office supplies	7,709	4,617
Insurance premiums	1,799	6,623
Others	11,790	43,428
	\$974,722	\$1,075,087

"Others" mainly consist of receivables directly written off and other charges.

20. Salaries and Wages and Employees' Benefits

	March 31, 2017	March 31, 2016
Salaries and wages	\$2,840,671	\$2,525,592
Other employees' benefits	308,666	286,021
Retirement costs	58,410	41,290
	\$3,207,747	\$2,852,903

Other employees' benefits consist of allowances and mandatory contributions.

21. Retirement Benefit Obligation

The Group has a funded, noncontributory defined benefit retirement plan based on the normal retirement benefits equivalent to the minimum retirement benefit as provided by Republic Act

(R.A.) No. 7641, otherwise known as the Retirement Pay Law, covering all of its regular employees. Retirement benefits costs are determined in accordance with an actuarial study and are based on the employees' years of service and monthly basic salary.

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

22. Other Income - Net

	March 31, 2017	March 31, 2016
Sale of scrap	16,074	\$23,587
Foreign exchange losses - net	26,070	4,806
Others - net	(34,664)	(21,954)
	<u>\$7,480</u>	<u>\$6,439</u>

Other non-operating income pertains to the miscellaneous receipts from customers in prior periods.

23. Income Taxes

CEC

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

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

CATS - Philippine Branch

CATS-Philippine Branch was registered with PEZA as an Ecozone Export Enterprise to engage in the manufacture, fabrication and design of millimeterwave components and subsystems in a special economic zone to be known as the Carmelray Industrial Park I - Special Economic Zone (CIP I-SEZ) and Laguna Technopark in accordance with the project study, representations, commitments and proposals set forth in its application forming integral parts, subject to the terms and conditions provided in its registration.

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

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

	For the three months ended December 31	
	2017	2016
Current	\$33,624	\$41,904
Deferred	—	—
	\$33,624	\$41,904

The provision for current income tax in March 31, 2017 and December 31, 2016 pertains to the special rate of 5% on taxable gross income of CEC and CATS - Philippine Branch.

24. Earnings Per Share (EPS)

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

	March 31, 2017	March 31, 2016
Net income	\$1,703,902	\$1,485,621
Weighted average number of common shares outstanding	419,063,353	419,063,353
Basic and diluted EPS	\$0.004	\$0.004

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

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

25. Operating Segments

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

- There is no significant or obvious distinction among the products assembled by the Group. The assembly process is likewise similar;
- The Group's production facility and head office is located in the Philippines;
- Although production of goods is divided into thirteen divisions, the commercial, technical, operating, marketing and selling matters are made at the executive committee level and not at the division levels. The role of the respective division managers is to ensure that production is on track in meeting its volume forecasts, and that quality standards are consistently met.

Sales are reported internally per division, but profit or loss, assets and liabilities are reported on an entity-wide basis. Information is measured using the same accounting policies and estimates as the Group's consolidated financial statements.

Sales from external customers per division as reported internally are as follows (amounts in thousands):

	March 31, 2017	March 31, 2016
Discrete	\$2,828	\$2,458
Multichip	2,244	2,214
Integrated Circuits (IC)	1,601	2,051
New Products	851	1,365
Quad-Flat No-Leads (QFN)	1,023	963
Hermetics	348	281
Outdoor Unit	534	3,369
Bridgewave	312	493
Indoor Radio Frequency Unit	257	672
Cougar	158	69
Antenna System	6,204	613
Remec Manufacturing Services	581	434
	\$16,941	\$14,982

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

	March 31, 2017	March 31, 2016
Major Customer A	\$4,753	\$-
Major Customer B	1,954	2,160
Major Customer C	1,805	-

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):

	March 31, 2017	March 31, 2016
Asia	\$2,356	\$2,197
Europe	4,518	4,223
USA	10,067	8,562
	\$16,941	\$14,982

There are no sales made to entities under common control with the Group.

26. Financial Risk Management Objectives and Policies

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

Risk Management Structure

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

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

Credit risk

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

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

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

	March 31, 2017	December 31, 2016
Cash and cash equivalents*	\$27,504,736	\$24,511,243
Trade and other receivables	28,471,010	23,172,423
Financial assets at FVPL	503	503
Amounts owed by related parties	12,446,521	12,436,575
Other current assets		
Rental deposit	1,131,399	1,131,399
Security deposit	180,507	180,387
Loans to employees	188,811	239,823
HTM investments	491,723	371,520
AFS financial asset	1,667,000	1,667,000
Other noncurrent assets		
Miscellaneous deposits	130,894	135,559
Total credit risk exposure	\$72,213,104	\$63,846,432

*Excluding cash on hand as of March 31, 2017 and December 31, 2016 amounting to \$249 and \$250 respectively.

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

	March 31, 2017						
	Neither Past Due nor Impaired	Past Due but not Impaired				Impaired Financial Assets	Total
		< 30 days	30< 60 days	60-90 days	> 90 days		
Cash and cash equivalents*	\$27,504,736	\$—	\$—	\$—	\$—	\$—	\$27,504,736
Trade and other receivables	20,876,211	2,778,756	738,410	536,336	3,541,297	—	28,471,010
Financial assets at FVPL	503	—	—	—	—	—	503
Amounts owed by related parties	12,446,521	—	—	—	—	—	12,446,521
Other current assets							
Rental deposit	1,131,399	—	—	—	—	—	1,131,399
Security deposit	—	—	—	—	180,507	—	180,507
Loans to employees	188,811	—	—	—	—	—	188,811
AFS financial asset	1,667,000	—	—	—	—	—	1,667,000
HTM investments	491,723	—	—	—	—	—	491,723
Other noncurrent assets							
Miscellaneous deposits	130,894	—	—	—	—	—	130,894
	\$64,437,798	\$2,778,756	\$738,410	\$536,336	\$3,721,804	\$—	\$72,213,104

* Excluding cash on hand amounting to \$249.

	NeitherPast Due norImpai red	December 31, 2016				Impaired Financial Assets	Total
		Past Due but not Impaired					
		< 30 days	30< 60 days	60-90 days	> 90 days		
Cash and cash equivalents*	\$24,511,243	\$—	\$—	\$—	\$—	\$—	\$24,511,243
Trade and other receivables	17,226,175	2,031,535	601,105	3,286,553	27,055	—	23,172,423
Financial assets at FVPL	503	—	—	—	—	—	503
Amounts owed by related parties	12,436,575	—	—	—	—	—	12,436,575
Other current assets		—	—	—	—	—	
Rental deposit	1,131,399	—	—	—	—	—	1,131,399
Security deposit	—	—	—	—	180,387	—	180,387
Loans to employees	239,823	—	—	—	—	—	239,823
AFS financial asset	1,667,000	—	—	—	—	—	1,667,000
HTM investments	371,520	—	—	—	—	—	371,520
Other noncurrent assets							
Loans to employees	7,889	—	—	—	—	—	7,889
Miscellaneous deposits	135,559	—	—	—	—	—	135,559
	\$57,727,686	\$2,031,535	\$601,105	\$3,286,553	\$207,442	\$—	\$63,854,321

* Excluding cash on hand amounting to \$250.

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

March 31, 2017

	Neither Past Due nor Impaired			Total
	High Grade	Medium Grade	Low Grade	
Cash and cash equivalents*	\$27,504,736	\$—	\$—	\$27,504,736
Trade and other receivables	16,798,578	4,077,633	—	20,876,211
Financial assets at FVPL	503	—	—	503
Amounts owed by related parties	12,446,521	—	—	12,446,521
Other current assets				
Rental deposit	1,131,399	—	—	1,131,399
Loans to employees	188,811	—	—	188,811
HTM investments	491,723	—	—	491,723
AFS financial asset	1,667,000	—	—	1,667,000
Other noncurrent assets				
Miscellaneous deposits	130,894	—	—	130,894
	\$60,360,165	\$4,077,633	\$—	\$64,437,798

December 31, 2016

	Neither Past Due nor Impaired			Total
	High Grade	Medium Grade	Low Grade	
Cash and cash equivalents*	\$24,511,243	\$—	\$—	\$24,511,243
Trade and other receivables	17,194,529	31,646	—	17,226,175
Financial assets at FVPL	503	—	—	503
Amounts owed by related parties	12,436,575	—	—	12,436,575
Other current assets				
Rental deposit	1,131,399	—	—	1,131,399
Loans to employees	239,823	—	—	239,823
HTM investments	371,520	—	—	371,250
AFS financial asset	1,667,000	—	—	1,667,000
Other noncurrent assets				
Loans to employees	7,889	—	—	7,889
Miscellaneous deposits	135,559	—	—	135,559
	\$57,696,040	\$31,646	\$—	\$57,727,686

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:

March 31, 2017

	On demand	Less than 1 year	1 to 2 years	> 2 to 5 years	Total
Financial Assets					
Cash and cash equivalents	\$27,504,736	\$-	\$-	\$-	\$27,504,736
Trade and other receivables	-	28,471,010	-	-	28,471,010
Amounts owed by related parties	12,446,521	-	-	-	12,446,521
	<u>\$39,951,257</u>	<u>\$28,471,010</u>	<u>\$0</u>	<u>\$-</u>	<u>\$68,422,267</u>
Financial Liabilities					
Trade and other payables					
Trade payables	\$16,518,458	\$-	\$-	\$-	\$16,518,458
Accrued expenses*	-	1,692,262	-	-	1,692,262
Short-term loans	-	31,625,945	-	-	31,625,945
Amounts owed to related parties	525,960	-	-	-	525,960
Long-term debts	-	7,553,645	16,194,800	23,467,500	47,215,945
	<u>\$17,044,418</u>	<u>\$40,871,852</u>	<u>\$16,194,800</u>	<u>\$23,467,500</u>	<u>\$97,578,570</u>

*Excluding statutory liabilities

**Includes future interest payments

December 31, 2016

	On demand	Less than 1 year	1 to 2 years	> 2 to 5 years	Total
Financial Assets					
Cash and cash equivalents	\$24,511,493	\$-	\$-	\$-	\$24,511,493
Trade and other receivables	17,743,459	5,428,964	-	-	23,172,423
Amounts owed by related parties	12,428,669	-	-	-	12,428,669
	<u>\$54,683,621</u>	<u>\$5,428,964</u>	<u>\$-</u>	<u>\$-</u>	<u>\$60,112,585</u>
Financial Liabilities					
Trade and other payables					
Trade payables	\$13,192,707	\$-	\$-	\$-	\$13,192,707
Accrued expenses*	-	1,328,378	-	-	1,328,378
Short-term loans	-	31,625,945	-	-	31,625,945
Amounts owed to related parties	327,336	-	-	-	327,336
Long-term debts**	-	8,504,914	16,579,760	24,450,000	49,534,674
	<u>\$13,520,043</u>	<u>\$41,459,237</u>	<u>\$16,579,760</u>	<u>\$24,450,000</u>	<u>\$96,009,040</u>

*Excluding statutory liabilities

**Includes future interest payments

Capital Management

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

The Group's manages its capital structure, which pertains to its equity as shown in the balance sheet, and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes in March 31, 2017 and December 31, 2016.

The Company considers the following as capital:

	March 31, 2017	December 31, 2016
Common stock	\$9,594,321	\$9,594,321
Preferred stock	221,239	221,239
Additional paid-in capital	35,896,893	35,896,893
Equity reserve	4,138,375	4,138,375
Other comprehensive income	40,329	40,329
Retained earnings	25,166,716	24,884,576
	\$75,057,873	\$74,775,733

As of March 31, 2017, the Group is subject to externally imposed capital requirements.

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

27. Fair Value Measurement

As of March 31, 2017 and December 31, 2016, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	March 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Financial assets at FVPL	\$503	\$503	\$503	\$503
HTM investments	491,723	491,723	371,520	371,520
	\$492,226	\$492,226	\$372,023	\$372,023
Financial liabilities				
Other financial liabilities				
Long-term debt	\$41,890,299	\$41,890,299	43,859,971	\$43,859,971

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

Cash and cash equivalents, trade and other receivables, loans to employees, trade and other payables, short-term loans, amounts owed by and owed to related parties and deposits
The carrying amounts approximate fair value since these are mostly short-term in nature or a due and demandable.

Financial assets at FVPL-UITF

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

Financial assets at FVPL - RCBC Senior Notes

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

HTM Investments

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

Miscellaneous deposits

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

Long-term debt

The fair value of long-term debt is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discounts rates used range from 3.63% to 3.70% in March 31, 2017.

Fair Value Hierarchy

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

	March 31, 2017			
	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at FVPL	\$503	\$503	\$—	\$—
Financial assets and liabilities measured at amortized cost but for which fair values are disclosed				
HTM investments	491,723	491,723	—	—
Long-term debt	41,890,299	—	—	41,890,299

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at FVPL	\$503	\$503	\$—	\$—
Financial assets and liabilities measured at amortized cost but for which fair values are disclosed				
HTM investments	371,520	371,520	—	—
Long-term debt	43,859,971	—	—	43,859,971

28. Equity

a. Common Shares

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

	March 31, 2017	December 31, 2016
<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	419,063,353
Stock dividend - issued and distributed	—	—
Issuance of stock	—	—
End of year	419,063,353	419,063,353
<i>Amount</i>		
Issued - 419,063,353 shares in March 31, 2017 and December 31, 2016	\$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 2011. As of December 31, 2011, the Parent Company’s has 162,163,000 issued common shares.

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

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

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

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

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

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

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

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

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

On October 24, 2016, the Parent Company's BOD approved by majority vote the amendment of the articles of incorporation to increase the Parent Company's authorized capital stock by ₱1,440,000,000 or from ₱560,000,000 divided into 520,000,000 common shares with a par value of ₱1.00 per share and 400,000,000 preferred shares with a par value of ₱0.10 per share ("Preferred A" shares), to ₱2,000,000,000 divided into 1,400,000,000 common shares with a par value of ₱1.00 per share and 600,000,000 preferred shares classified into ₱140,000,000 "Preferred A" with a par value of ₱1.00 per share, and ₱460,000,000 worth of new preferred shares, the par values, series, classes, preferences, convertibility voting rights and other features of which shall be determined by the Parent Company's BOD.

Parent Company Shares Held by a Subsidiary

On December 23, 2016, CEC acquired a total of 112,018,659 common shares of the Parent Company for ₱2.3 billion (\$49.6 million). The shares purchased were recorded at cost and deducted from equity in the consolidated balance sheet.

As of March 31, 2017 and December 31, 2016, the Parent Company has a total number of 25 and 19 stockholders, respectively.

b. Preferred Shares

	March 31, 2017	December 31, 2016
<i>Number of shares</i>		
Authorized (P0.10 par value)	400,000,000	400,000,000
Subscribed	400,000,000	400,000,000
<i>Amount</i>		
Subscribed - 400,000,000 shares (net of subscriptions receivable amounting to \$663,717)	\$221,239	\$221,239

In 2015, the 400,000,000 preferred shares at par value of P0.10 were subscribed by Camerton, a principal shareholder of the Parent Company. As of March 31, 2017 and December 31, 2016, unpaid subscriptions amounted to \$663,717.

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

c. Retained Earnings

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

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

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

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

29. Commitments

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

Outsourcing Manufacturing Agreement (OMA)

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

Master Service Agreement (MSA)

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

Manufacturing Services Agreement (MSA)

On October 20, 2015, CATS, “the Seller”, entered into a manufacturing service agreement with a customer, whereas the customer desires to purchase the products defined in the agreement specifically for its latest range of mm-Wave converter products. The term of the agreement is 3 years from the effective date subject to automatic renewal for one year every year thereafter.

On November 4, 2015, CATS and Quintel Technology Ltd. entered into a master supply agreement that covers the manufacturing of specific antennas and other Quintel products set forth in individual purchase order agreements. The initial term for this agreement shall be for a period of 3 years. CATS shall also provide support services for the following: New Product Introduction, Production experiments, and Mass volume production. All payments to CATS shall be placed within 90 days following the end of the month after receipt of invoice.

On April 20, 2016, the contract was amended to extend the contract term, from a period of 3 years to a period of 5 years from the commencement date of the original agreement.

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 March 31, 2017 and December 31, 2016 and results of operations for the quarterly ended March 31, 2017 and March 31, 2016.

Management's Discussion and Analysis of Financial Conditions

Results of Operations

For the three-month period ending March 31, 2017 compared to the three-month period ending March 31, 2016

Revenue

The Company recorded consolidated revenues of US\$16.9 million for the three months ending March 31, 2017 an increase of 13% from US\$15 million for the same period in 2016. The increase was mainly accounted for by the growth of the Company's Antenna Systems business which grew 9 times from the same period in 2016.

Sales per division

<i>In US\$ 000</i>	For the three months ended March 31		% Inc /
	2017	2016	(Dec)
<u>CEC</u>			
Discrete	2,828	2,458	15
Multichip	2,244	2,214	1
IC	1,601	2,051	(22)
QFN	1,023	963	6
New Products	851	1,365	(38)
Hermetics	348	281	24
<u>CATS</u>			
Cougar	158	69	129
Outdoor Unit	534	3,369	(84)
Indoor Unit	257	672	(62)
Bridgewave	312	493	(37)
Quintel	6,204	613	912
RMS	581	434	34
Total	14,982	14,982	13%

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 12% to US\$13.7 million for the three months ending March 31, 2017 from US\$12.3 million for the same period in 2016. The increase was mainly due to a rise in raw materials expenses as a result of higher sales, higher salaries and wages, increase in utility costs, increase in depreciation, and increase in inward freight and duties.

- Raw materials, spare parts, supplies and other inventories increased by 33% to US\$8.9 million for the three months ending March 31, 2017 from US\$6.7 million for the same period in 2016.
- Salaries, wages and employees' benefits increased by 23% to US\$2.6 million for the three months ending March 31, 2017, from US\$2.2 million for the same period in 2016.
- Utility costs for the three months ending March 31, 2017 increased by 10% to US\$947 thousand from US\$858 thousand for the same period in 2016.

- Freight and duties increased by 5% to US\$444 thousand for the three months ending March 31, 2017 from US\$422 thousand for the same period in 2016.

The Company's gross margin was 19% for the three months ending March 31, 2017, one percentage point higher than the 18% gross margin recorded for the same period in 2016.

Operating Expenses

The Company's operating expenses for the three months ending March 31, 2017 amounted to US\$975 thousand, 9% lower compared to the US\$1.1 million recorded during the same period in 2016.

Net Income (Loss) Before Income Tax

For the three months ending March 31 2017, the Company recorded a net income before income tax of US\$1.7 million, an increase of 14% compared with US\$1.5 million recorded for the same period in 2016.

Provision for Income Tax

Provision for income tax for the three months ending March 31 2017 amounted to US\$34 thousand compared with US\$42 thousand for the same period in 2016, a decrease of 20% =

Net Income After Tax

The Company's net income for the three months ending March 31 2017 amounted to US\$1.7 million, an increase of 15% compared with US\$1.5 million for the same period in 2016.

Financial Condition

For the three-month period ending March 31, 2017 compared to the period ending December 31, 2016

Assets

The Company's cash and cash equivalent for the three months ending March 31, 2017 amounted to US\$27.5 million, compared with US\$24.5 million for the period ending December 31, 2016, an increase of US\$3 million or 12%. The increase was mainly due to proceeds from short-term loan and sale of parent company shares held by affiliate.

Trade and other receivables for the three months ending March 31, 2017 amounted to US\$28.5 million, compared with US\$23.2 million for the period ending December 31, 2016, a 23% increase.

Inventory levels for the three months ending March 31, 2017 amounted to US\$21.1 million, 38% higher compared with US\$15.3 million for the period ending December 31, 2016. The increase was mainly due to higher raw material inventory due to longer lead times for certain raw materials.

Non-current assets, comprised of Property, plant and equipment (PPE), Available-for-sale (AFS) financial asset, deferred income taxes and other noncurrent assets for the three months ending March 31, 2017 amounted to US\$33 million compared with US\$32.7 million for the period ending December 31, 2016, an increase of 1%

Liabilities

The Company's current liabilities is comprised of trade and other payables, long-term debt – current portion, short-term loan, amounts owed to related parties, and income tax payable. For the three months ending March 31, 2017, current liabilities were at US\$61.1 million compared with US\$58.5 million for the period ending December 31, 2016, a 4% increase. This can be mainly attributed to increase in trade and other payables.

For the three months ending March 31, 2017, the Company's non-current liabilities, comprised of long-term debt – net of current portion, deferred income tax liabilities and retirement benefit obligation, amounted to US\$38.8 million, the same compared to the period ending December 31, 2016.

Equity

The Company's shareholders' equity as of the three months ending March 31, 2017 amounted to US\$37.8 million compared with US\$25.2 million for the period ending December 31, 2016, a 50% decrease. The decrease in equity was due to the sales by the Company of TECH shares to certain institutional investors.

Liquidity and Capital Resources

For the three months ending March 31, 2016, the Company's principal sources of liquidity was cash from sales of its products, IPO proceeds, bank credit facilities, proceeds from its 5-year corporate notes issuance, and proceeds from its follow-on offering. The Company expects to meet its working capital, capital expenditure, dividend payment and investment requirements for the next 12 months primarily from the proceeds of the Company's Initial Public Offering, proceeds of the Company's corporate notes issuance, short-term credit facilities and cash flows from operations. It may also from

time to time seek other sources of funding, which may include debt or equity financings, including dollar and peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

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

The following table sets out the Company's cash flows for the three months ending March 31, 2017 and the same period 2016:

<i>In US\$ Thousands</i>	For the three months ending March 31	
	2017	2016
Net cash flows provided by/ (used for) operating activities	(4,008)	640
Net cash flows provided by/ (used for) investing activities	(1,56)	(3,526)
Net cash flows provided by/ (used for) financing activities	8,057	(4,403)
Net increase (decrease) in cash equivalents	2,994	(7,289)

Net Cash Flows from Operating Activities

Net cash flow provided by operating activities was US\$640 thousand for the three months ending March 31, 2016, compared with US\$1.4 million for the same period in 2015.

For the three months ending March 31, 2017, net income before tax was US\$1.7 million. After adjustments for depreciation, interest income/expense, and excess of the fair value of net assets acquired over the aggregate consideration movement in net retirement benefit obligation before change in working capital was US\$3 million. After adjustments, net cash flows from operating activities was US\$4 Mn. This was mainly due to increase in inventories and receivables.

Investing Activities

Net cash used in investing activities amounted to US\$1.1 million for the three months ending March 31, 2017. Investing activities in 2017 mainly involved acquisition of property, plant and equipment. For the same period in 2016, major investing activities involved investment in financial asset at FVPL and acquisition of property, plant and equipment.

Financing Activities

Net cash inflow from financing activities for the three months ending March 31, 2017 amounted to US\$8 million. Major financing activities involved payment of cash dividends, payment of short-term and long-term loans, interest payments, and net movement in amounts owed by and owed to related parties. For the same period in 2016 net cash outflow from financing activities amounted to US\$4.4 million and mainly involved payment of cash dividends, payment of short-term loan and long-term debt, interest payments, payments and net movement in amounts owed by and owed to related parties.

Material Changes to the Company's Unaudited Income Statement as of March 31, 2017 compared to the Unaudited Income Statement as of March 31, 2016 (increase/decrease of 5% or more)

- 13% increase in net sales
Sales growth from CATS
- 12% increase in cost of sales
Increase in net sales
- 9% decrease in operating expenses
Decrease in salaries and wages, lower utility expenses, and lower marketing-related expenses
- 14% increase in Net Income Before Tax
Increase in net sales
- 210% decrease in Provision for Income Tax
ITH applicable for certain products
- 15% increase in Net Income After Tax
Higher net sales, gross profit and income before tax

Material Changes to the Company's Unaudited Balance Sheet as of March 31, 2017 compared to the Audited Balance Sheet as of December 31, 2016 (increase/decrease of 5% or more)

- 12% increase in Cash and Cash Equivalent
Mainly due to investments proceeds from sale of parent company shares and proceeds from short-term borrowings
- 23% increase in Trade and Other Receivables
Timing of collection fell after March 31 2016
- 38% increase in inventories
Increase in raw materials inventory and longer lead times
- 32% increase in Held to Maturity Investments
Gain in fair value

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>	2015	2016	Jan-Mar 2017
EBITDA	8,767	11,862	3,012
EBITDA Margin	15%	16%	18%
Sales Growth	15%	25%	13%
Current Ratio (x)	3.1 x	1.5x	1.7x
Earnings per share (US\$)	0.013	0.018	0.004

Note:

***Earnings per Share was calculated using CHPC's average outstanding common shares for the years 2015, 2016 and 2017*

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 EBITDAR 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		For the three months ended
	2015	2016	2017
Net income	5,120	7,608	1,794
Add back:			
Interest expense/income-net	941	995	525
Provision for income tax	516	547	34
Depreciation and amortization	2,190	2,712	750
EBITDA	8,767	11,862	3,012

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

	For the years ended December 31		For the three months ended
<i>In US\$ 000</i>	2015	2016	2017
EBITDA	8,767	11,862	3,012
Deduct:			
Interest expense/(income)	(941)	(995)	(525)
Provision for income tax	(516)	(547)	(34)
Depreciation and amortization	(2,190)	(2,712)	(750)
Net Income	5,120	7,608	1,794

- *Sales growth*

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

- *Current ratio*

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

- *Earnings per share*

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

FINANCIAL RISK DISCLOSURE

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

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

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

The Company has allocated up to US\$8 Million for capital expenditure for full year 2016, from the proceeds of the Company's Initial Public Offering, corporate notes issuances, Follow-on 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.

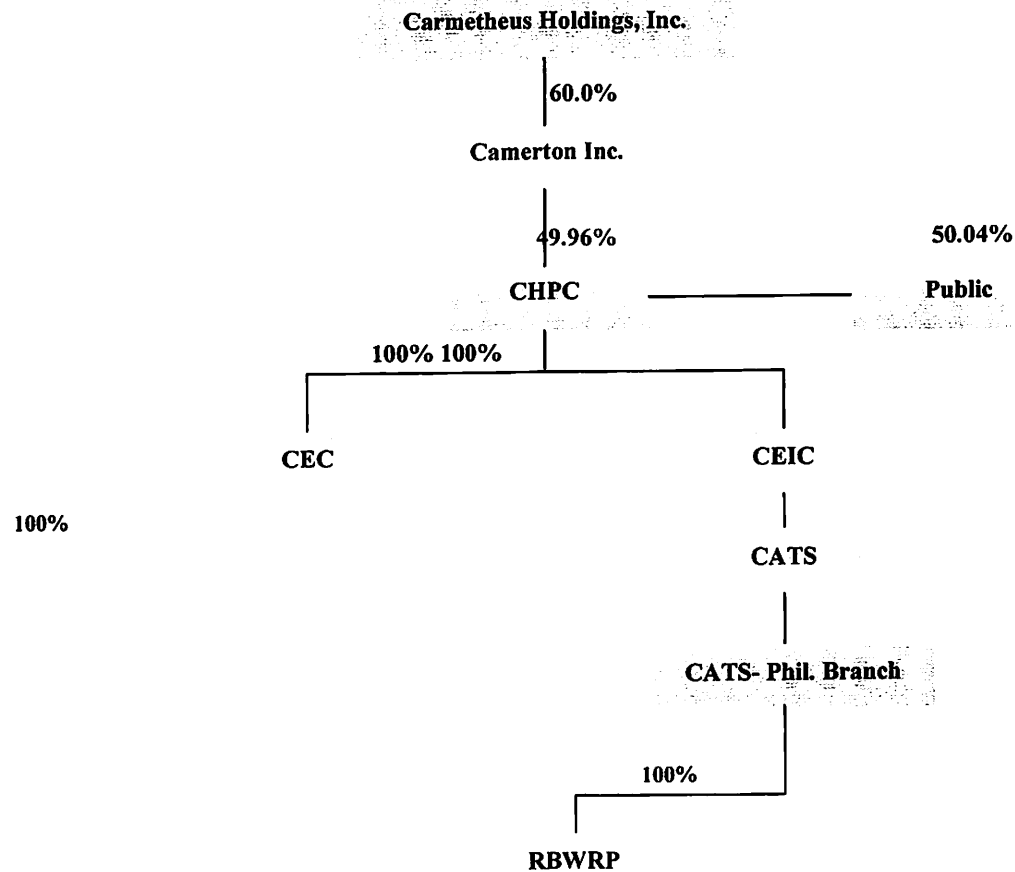
The Company does not have any significant elements of income or loss that did not arise from its continuing operations.

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

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

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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
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CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE
COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-
SUBSIDIARIES
MARCH 31, 2017



CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SCHEDULE OF EFFECTIVE STANDARDS AND INTERPRETATIONS
MARCH 31, 2017

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> , with PFRS 4*		✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Changes in Method of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
	Amendments to PFRS 7: Servicing Contracts			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8 : Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Asset			✓
PFRS 9	Financial Instruments*		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		✓	
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Clarification of the Scope of the Standard*		✓	
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13 : Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers*		✓	
PFRS 16	Leases*		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1, Disclosure Initiative	✓		
PAS 2	Inventories	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative*		✓	
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 : Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses*		✓	
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16 and 38: Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	3		
PAS 18	Revenue	3		
PAS 19 (Revised)	Employee Benefits	3		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	3		
	Regional Market Issue Regarding Discount Rate	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendment: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value*		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Interrelationship between PFRS 3 and PAS 40			✓
	Amendments to PAS 40: Transfers of Investment Property*			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2017		Adopted	Not Adopted	Not Applicable
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at March 31, 2017		Adopted	Not Adopted	Not Applicable
IFRIC 22	Foreign Currency Transactions and Advance Consideration*		✓	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

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

Unappropriated retained earnings, as adjusted, beginning		\$456,036
Add: Net income actually earned/realized during the period		
Net income during the period closed to retained earnings	1,459,590.27	
Add: Non-actual losses	—	
Less: Non-actual/unrealized income net of tax	—	
Net income actually earned during the period		1,459,590
Unappropriated retained earnings, as adjusted, ending		1,915,626
Less: Cash dividends declared		(1,820,000)
Retained earnings available for dividend declaration		\$95,626

CIRTEK HOLDINGS PHILIPPINES CORPORATION
FINANCIAL SOUNDNESS INDICATORS
MARCH 31, 2017

Ratios	Formula	March 31, 2017	December 31, 2016
(i) Current Ratio	Current Assets/Current Liabilities	1.71	1.54
(ii) Debt/Equity Ratio	Bank Debts/ Total Equity	1.95	2.99
(iii) Net Debt/Equity Ratio	Bank Debts-Cash & Equivalents/Total Equity	1.22	2.02
(iii) Asset to Equity Ratio	Total Assets/Total Equity	3.64	4.86
(iv) Interest Cover Ratio	EBITDA/Interest Expense	5.38	8.90
(v) Profitability Ratios			
GP Margin	Gross Profit/Revenues	0.19	0.17
Net Profit Margin	Net Income/Revenues	0.10	0.1
EBITDA Margin	EBITDA/Revenues	0.18	0.16
Return on Assets	Net Income/Total Assets	0.01	0.06
Return on Equity	Net Income/Total Equity	0.05	0.30

SCHEDULE A

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS
AS OF AND FOR THE FIRST QUARTER ENDED MARCH 31, 2017

	Name of Issuing entity and association of each issue	Amount shown in the balance sheet	Valued based on market quotations at end of reporting period	Income received or accrued
Cash and cash equivalents	N/A	\$27,504,985	\$27,504,985	\$-
Trade and other receivables	N/A	28,471,010	28,471,010	-
Financial asset at fair value through profit or loss	N/A	503	503	-
Amounts owed by related parties	N/A	12,446,521	12,446,521	-
Other current assets				
Rental deposit	N/A	1,131,399	1,131,399	-
Loan to employees	N/A	188,811	188,811	-
HTM investments	N/A	491,723	491,723	-
Other noncurrent assets				
Miscellaneous deposits	N/A	130,894	130,894	-
		\$70,365,846	\$70,365,846	\$-

SCHEDULE B

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

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

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Not Current	Balance at the end of the period
Jerry Liu (Chairman)	\$10,309,041	\$-	\$-	\$10,309,041	\$-	\$10,309,041
Employees	116,502	83,742	(11,433)	188,811		188,811
	\$10,425,543	\$83,742	(\$11,433)	\$10,497,852	\$-	\$10,497,852

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.	111,994	-	-	111,994	-	111,994
Cayon Holdings, Inc.	206,284	9,948	-	216,232	-	216,232
	\$2,127,534	\$9,948	\$-	\$2,137,482	\$-	\$2,137,482

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 FIRST QUARTER ENDED MARCH 31, 2017

Receivables from related parties which are eliminated during the consolidation

(under Trade and other receivables)

Name and designation of debtor	Balance at beginning of period	Additions	Amount collected	Amount written off	Current	Non current	Balance at end of period
Cirtek Electronics Corporation	\$41,802,664	\$4,624,546	\$1,916,041	\$-	\$44,511,169	\$-	\$44,511,169
Cirtek Electronics International Corporation	23,015,861	4,035,414	2,063,107	-	24,988,168	-	24,988,168
Cirtek Holdings Philippines Corporation	90,335,790	-	-	-	90,335,790	-	90,335,790
Cirtek Advanced Technologies and Solutions Inc.	192,816	69,665	130,002		132,479	-	132,479
	\$155,347,131	\$8,729,625	\$4,109,150	\$-	\$159,967,606	\$-	\$159,967,606

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	\$102,011,786	\$4,035,414	\$2,063,107	\$-	\$103,984,093	\$-	\$103,984,093
Cirtek Electronics International Corporation	9,192,816	69,665	130,002	-	9,132,479	-	9,132,479
Cirtek Holdings Philippines Corporation	24,204,798	4,624,546	8,358,678		20,470,666	-	20,470,666
Cirtek Advanced Technologies and Solutions Inc.	19,937,731	6,479,508	36,871	-	26,380,368	-	26,380,368
	\$155,347,131	\$15,209,133	\$10,588,658	\$-	\$159,967,606	\$-	\$159,967,606

SCHEDULE D

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

Intangible Assets - Other Assets						
Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
Product development costs	\$922,220	\$-	(\$50,348)	\$-	\$-	\$871,872

SCHEDULE E

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT

AS OF MARCH 31, 2017

Title of issue and type of obligation	Long-term Debt		Amount shown under caption "long-term debt" in related balance sheet
	Amount authorized by indenture	Amount shown under caption "current portion of long-term" in related balance sheet	
Notes payable	\$41,890,299	4,912,454	36,977,845

SCHEDULE F

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

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

SCHEDULE G

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

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

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

Capital Stock						
Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Number of shares held by directors, officers and employees	Others
Common Stock	520,000,000	419,063,353	—	320,907,217	9	—
Preferred Stock	400,000,000	—	—	—	—	—