2019 ANNUAL REPORT

NOTICE OF REGULAR MEETING • INFORMATION STATEMENT

IONICS EMS, INC.

NOTICE OF ANNUAL SHAREHOLDERS' MEETING

To All Shareholders:

Notice is hereby given that the Annual Shareholders' Meeting of Ionics, Inc. will be conducted through remote communication on Thursday, 20 August 2020 at 10:00 a.m.

The Agenda for the said meeting shall be as follows:

1. Call to Order
2. Proof of Notice of Meeting
3. Certification of Quorum
4. Reading and Approval of the Minutes of the Previous Meeting
5. Management Report for the Fiscal Year 2019
6. Ratification of All Acts, Proceedings and Resolutions of the Board of Directors and Officers of the Corporation from the date of the last Annual Shareholders' Meeting to the present
7. Election of Directors
8. Appointment of External Auditors
9. Other Matters
10. Adjournment

Only shareholders of record at the close of business hours on 27 July 2020 are entitled to receive notice of, and to vote at, the meeting or any adjournment thereof.

In light of the mass gathering restrictions currently imposed by the Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF) in areas under General Community Quarantine (GCQ), the Company will conduct its Annual Shareholders' Meeting via remote communication. Shareholders who wish to attend the meeting or vote through remote communication should register using the Company's registration portal provided at www.ionics-ems.com/agm2020 on or before on Thursday, 13 August 2020. The requirements and procedure for registration, participation and voting through remote communication are set out in the Company's Definitive Information Statement and shall be made available at www.ionics-ems.com/agm2020. There will be an audio and video recording of the meeting.

In case you cannot attend the meeting, please designate your authorized representative by submitting a signed proxy form via email to agm2020@ionics-ems.com no later than the close of business hours on Monday, 17 August 2020, All proxies received will be validated on Tuesday, 18 August 2020, 1:00 p.m. A sample proxy form may be downloaded at www.ionics-ems.com/agm2020.

Shareholders of record may send their queries and comments to agm2020@ionics-ems.com on or before 17 August 2020, 1:00 p.m.

Copies of this Notice of Meeting, Definitive Information Statement, Management Report, Annual Report (SEC Form 17A), and Quarterly Reports (SEC Form 17Q) for the first and second quarter of 2020 shall be made available at the Company's website at www.ionics-ems.com/agm2020.

Makati City, 24 July 2020.

MANUEL R. ROXAS
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20 OF THE SECURITIES REGULATION CODE

GENERAL INSTRUCTIONS

1. Check the appropriate box:

   [ ] Preliminary Information Statement
   [x] Definitive Information Statement

2. Name of Registrant as specified in its charter **IONICS EMS, INC.**

3. Province, country or other jurisdiction of incorporation or organization **PHILIPPINES**

4. SEC Identification Number **A199913827**

5. BIR Tax Identification Code **203-683-907-000**

6. Business Address : **Circuit St., Light Industry and Science Park of the Philippines (LISPP) I, Bo. Diezmo, Cabuyao, Laguna 4025**

7. Registrant's telephone number, including area code **(049) 508-1111**
   (02) 519-4416

8. Date of meeting : **20 August 2020**
   Time of meeting : **10:00 a.m.**
   Place of meeting : **The meeting will be conducted through remote communication. The livestreaming link will be provided to registered shareholders.**

9. Approximate date on which the Information Statement is first to be published **30 July 2020**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding*
Common	**1, 560,000,000**
Preferred	**927,824,176**

11. Are any or all of registrant's securities listed on a Stock Exchange?

    Yes No ✓
    If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

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* *As of 30 June 2020*

A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of shareholders

(a)

Date	:	20 August 2020
Time	:	10:00 a.m.
Place	:	The meeting will be conducted through remote communication. The livestreaming link will be provided to registered shareholders.
Mailing address and Principal Office of the Company	:	Ionics EMS, Inc. Circuit St., Light Industry and Science Park of the Philippines, Cabuyao, Laguna, Philippines

(b) This Information Statement, copies of the Company's Management Report, Annual Report (SEC Form 17A) and Quarterly Report (SEC Form 17Q) for the first quarter of 2020 shall be made available at the Company's website on or before 30 July 2020.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

Item 2. Dissenter's Right of Appraisal

Title X, Section 80 and Title IV, Section 41 of the Revised Corporation Code of the Philippines allows a shareholder to exercise his right to dissent and demand payment of the fair value of his shares in certain instances, to wit: (1) in case an amendment to the articles of incorporation will change or restrict the rights of such shareholder or otherwise extend or shorten the term of the company; (2) in case of the sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the company's properties; (3) in cases of merger or consolidation; or (4) in case the company decides to invest its funds in another corporation or business.

The matters to be discussed in the meeting as specified in the attached Notice of Annual Meeting of the Shareholders are not such as will give any dissenting shareholder any appraisal or similar right as provided in Title X and Title IV of the Revised Corporation Code of the Philippines.

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

(a) Each of the persons who have been a director or officer of the Company from the beginning of the fiscal year 2019, as well as each of the nominees for the election as director or associate for the year 2020, together with any associate of any of the foregoing, have not expressed any interest in any matter to be acted upon.

(b) The Company has not received any information from any director that he/she intends to oppose any matter to be acted upon in the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

(a) Total Number of Shares Issued and Outstanding as of 30 June 2020:

1,560,000,000 common shares and 927,824,176 preferred shares.

(b) Number of Votes Per Share

Each share is entitled to one (1) vote per share.

With respect to the election of directors, however, the shareholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected, or he may distribute them on the same principle among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

(c) Record Date

All shareholder of record as of the close of business on 27 July 2020 are entitled to notice of, and to vote at, the Annual Shareholders' Meeting.

(d) Security Ownership of Certain Record and Beneficial Shareholder of More Than 5% of the Company's Voting Securities as of 30 June 2020:

Title of Class	Names and Address of Record Owner and Relationship with Issuer	Citizenship	No. of Shares Held	Percentage Held
Common Preferred	**Ionics, Inc.** *Circuit Street, Light Industry & Science Park I, Cabuyao, Laguna* *Shareholder*	Filipino	1,508,801,439 (R) Common 927,824,176 (R) Preferred	96.72% 100%

The right to vote the Company's shares in the name of Ionics, Inc. is lodged in its proxy, Mr. Lawrence C. Qua.

(e) *Security Ownership of Management as of 30 June 2020*

Title of Class	***Name of Beneficial Owner***	***Amount and Nature of Beneficial Ownership***	***Citizenship***	***Percent of Class***
Common	1. Lawrence C. Qua *Chairman/President/ CEO*	70,002 Direct	Filipino	nil
Common	2. Meliton C. Qua *Director*	2 Direct	Filipino	nil
Common	3. Guillermo D. Luchangco *Director*	70,002 Direct	Filipino	nil
Common	4. Alfredo R. de Borja *Director*	1 Direct	Filipino	nil
Common	5. Virginia Judy Q. Dy *Director*	1 Direct	Filipino	nil
Common	6. Raymond C. Qua *Director / SVP-Treasurer / Compliance Officer*	2 Direct	Filipino	nil
Common	7. Monica Siguion Reyna Villonco *Director*	2 Direct	Filipino	nil
Common	8. Amelia B. Cabal *Director*	1,000 Direct	Filipino	nil
Common	9. Lilia de Lima *Director*	1 Direct	Filipino	nil
Common	10. Judy C. Qua *VP- Human Resources*	-0-	Filipino	-0-
Common	11. Ariel B. La Madrid *VP – Inside Sales*	-0-	Filipino	-0-

Title of Class	*Name of Beneficial Owner*	*Amount and Nature of Beneficial Ownership*	*Citizenship*	*Percent of Class*
Common	12. Ronan R. Andrade *VP – Finance/Chief Finance Officer*	-0-	Filipino	-0-
Common	13. Earl Lawrence Qua *VP- Business Development*	-0-	Filipino	-0-
Common	14. Manuel R. Roxas *Corporate Secretary*	-0-	Filipino	-0-
Common	15. Bernalynne A. Repoyo *Assistant Corporate Secretary*	-0-	Filipino	-0-
Common	16. Cesar G. Caubalejo *AVP- Chief Audit Executive/ Assistant Compliance Officer*	-0-	Filipino	-0-
Common	17. Jay Chavez *SVP – Operations & Chief Operating Officer*	-0-	Filipino	-0-
Common	18. Emma Y. Gerodias *VP - Manufacturing*	-0-	Filipino	-0-
Common	19. Valerio A. Carandang, Jr. *VP-Field Sales/Customer Service*	-0-	Filipino	-0-
Common	20. Rosalina Vicente *Senior Manager for Accounting & Budget*	-0-	Filipino	-0-
	TOTAL	141,013 (all held directly)		nil

(f) *Voting Trust Holders of 5% or more*

There are no voting trust holders of 5% or more.

(g) *Change in control*

The Company has not entered into any arrangement which may result in a change in control of the Company.

Item 5. Directors and Executive Officers

(a) *Directors*

Name/Position	Age	Citizenship
1. Lawrence C. Qua *Chairman*	73	Filipino
2. Alfredo R. de Borja *Member (Independent)*	75	Filipino
3. Virginia Judy Q. Dy *Member*	79	Filipino
4. Guillermo D. Luchangco *Member*	80	Filipino
5. Meliton C. Qua *Member*	78	Filipino
6. Raymond C. Qua *Member*	69	Filipino
7. Monica Siguion Reyna Villonco *Member*	66	Filipino
8. Amelia B. Cabal *Member (Independent)*	72	Filipino
9. Lilia de Lima *Member (Independent)*	79	Filipino

All of the above-named are nominated to the Board of Directors of the Company for the ensuing year, and have been approved for re-election by the Nominations Committee at its meeting last 11 March 2020. The members of the Nominations Committee are:

Alfredo R. de Borja	-	Chairman
Virginia Judy Q. Dy	-	Member
Raymond C. Qua	-	Member

Mr. Alfredo R. de Borja, Ms. Amelia B. Cabal and Ms. Lilia de Lima are nominated as independent directors. Mr. De Borja, Ms. Cabal and Ms. De Lima are both nominated by the Board of Directors of Ionics, Inc.

Directors serve for a term of one (1) year and until the election and qualification of his successor.

(b) *Executive Officers*

Name	Rank/Title	Age	Citizenship
1. Lawrence C. Qua	Chairman / President / CEO	73	Filipino
2. Raymond C. Qua	SVP – Treasurer / Compliance Officer	69	Filipino
3. Judy C. Qua	VP – Human Resource	69	Filipino
4. Manuel R. Roxas	Corporate Secretary	70	Filipino
5. Bernalynne A. Repoyo	Assistant Corporate Secretary	30	Filipino
6. Ronan R. Andrade	VP – Finance/Chief Finance Officer	49	Filipino
7. Earl Lawrence Qua	VP – Business Development	41	Filipino
8. Ariel La Madrid	VP - Inside Sales	61	Filipino
9. Cesar G. Caubalejo	AVP – Chief Audit Executive/ Assistant Compliance Officer	53	Filipino
10. Jay A. Chavez	SVP – Operations & Chief Operating Officer	47	Filipino
11. Emma Y. Gerodias	VP - Manufacturing	50	Filipino
12. Valerio A. Carandang, Jr.	VP – Field Sales/Customer Service	50	Filipino

(c) Profile of Directors and Officers

DIRECTORS

Lawrence C. Qua, 73, Filipino, is the founding Chairman and Chief Executive Officer (CEO) of The Ionics Group of Companies consisting of Ionics EMS, Inc., Ionics Properties Inc., Iomni Precision Inc., and Ionics Inc. (formerly Ionics Circuits Inc). He is also the Chairman and Director of Aqua Holdings, Inc. He is further, a director and member of the investment committee of ICCP Venture Partners, Inc. and a director of various companies engaged in retailing and property development. He has been a trustee of the Semiconductor & Electronics Industry of the Philippines Inc. since its organization. He served as a board trustee of the Graduate Business School of De la Salle University for three years. Mr. Qua graduated from De La Salle University with a Bachelor of Science degree in Mechanical Engineering.

Alfredo De Borja, 75, Filipino, has been an independent director of Ionics EMS, Inc. since 2007 and an independent director of Ionics, Inc. since 2004. He is the President of Makiling Ventures, Inc., a real estate company, and President of E. Murio, Inc., a furniture manufacturer and exporter. He is also An independent director of Investment Capital Corp. of the Phil. (ICCP), ICCP Venture Partners, ICCP Holdings, Pueblo de Oro Development Corp., Regatta Properties, Science Park of the Phil (SPPI), Cebu Light Industrial Park, Clark Pipeline and Depot Company, RFM-SPPI Inc., Philippine Coastal Storage & Pipeline Corporation; and Araneta Properties, Inc., which is a company listed with the Philippine Stock Exchange. He has also served as board Director of a number of companies including First Metro Investment Corp., SPI, Alsons, Inc., Alsons Power, Alsons Cement, Iligan Cement, Lima Land, Manila Memorial Park, Philcom, Shopwise, and Republic Glass Corp. e was the President of Gervel, Inc. from 1973 to 1986; Director and Chairman of the Executive Committee of First Metro Investment Co. from 1978 to 1983; Director and Vice President of Iligan Cement Corp. from 1973 to 1977; Professional Lecturer of the University of the Philippines Graduate School of Business Administration from 1971 to 1974; Executive Assistant to the Vice President of PLDT from 1970 to 1973; and Executive Assistant to the Vice President of Investment Managers, Inc. from 1966 to 1968. He holds a Master of Business Administration degree from Harvard University and a Bachelor of Science in Economics from the Ateneo de Manila University.

Virginia Judy Q. Dy, 79, Filipino, has been a member of the Board of Directors of Ionics, Inc. since 1991. She has been connected with Aqua Holdings, Inc. as director for the last seven years. She is also the Finance Director of DVPRO Solutions, Inc. from 2001 to the present. Previous corporate affiliations include Philippine Commercial and International Bank as Branch Manager, Insular Bank of Asia & America as Branch Manager, Ladtek Corporation/Interphase Development System as Accounting Manager and the International Corporate Bank as Branch Manager. Ms. Dy received her Bachelor of Science in Commerce degree from the Assumption Convent and is a Certified Public Accountant, having passed the government board exams in 1963.

Guillermo D. Luchangco, 80, Filipino, has been a member of the Board of Directors of Ionics, Inc. since 1991. He is the Chairman and Chief Executive Officer of the ICCP Group, whose members include among others: Science Park of the Philippines, Inc., a developer of industrial parks; Pueblo de Oro Development Corporation, a developer of residential and township projects; and Manila Exposition Complex, Inc., the owner of the World Trade Center Metro Manila, Chairman of Investment & Capital Corporation of the Philippines and ICCP Ventures, which is in venture capital. Before founding ICCP in 1988, he served as Vice Chairman and President of Republic Glass Corporation, a publicly-listed company. Between 1969 and 1980, Mr. Luchangco worked with the SGV Group, the Philippines' leading auditing and consulting firm. He rose to the position of Managing Director and Regional Coordinator for management services. Mr. Luchangco serves on a number of Boards, including the following publicly-listed companies in the Philippine Stock Exchange: Phinma Corporation, Trans-Asia Oil & Energy Development Corp., Ionics, Inc., and Roxas & Co., Inc. He holds a Master of Business Administration degree from the Harvard Business School and a Bachelor of Science degree in Chemical Engineering (magna cum laude) from De La Salle University, Philippines.

Meliton C. Qua, 78, Filipino, held key positions in several companies which included the Philippine Bank of Communications as Senior Vice President; Citibank N.A., as Vice President; Bancnet as Director and Aqua Holdings, Inc. as Director. Mr. Qua has been a director of Ionics, Inc. since 1985. He received his Bachelor of Science degree in Business Administration from De La Salle University, Philippines.

Raymond Ma. C. Qua, 69, Filipino, has been has been a member of the Board of Directors of Ionics, Inc. since 1985 and holds the position of Treasurer and Senior Vice President and Compliance Officer. Previously he was the Senior Vice President and General Manager of Synertronix, Inc. and the Vice President for Administration of Ionics, Inc. Mr. Qua is presently affiliated with various organizations and 14 associations serving as head, ranking officer or member. Mr. Qua received his Bachelor of Science degree in Commerce from De La Salle University, Philippines.

Monica Siguion-Reyna Villonco, 66, Filipino, is the Chairman of Lowe Philippines, where she has been a director since 2002. She also served as the editor-in-chief of Town & Country Philippines from 2007-2010. Ms. Villonco is the incumbent President of Whitespace, Inc. and Datascope Communications (Phils.), Inc., Ms. Villonco is a member of the Board of Governors of the Philippine National Red Cross, and the Board of Trustees of Teach For The Philippines. She is also a member of the board of directors of Provident Plans International Corp. and Sa Aklat Sisikat Foundation; She was a member of the Film Rating Board from 1998 to 2002; and a board member of CCP Tanghalang Pilipino from 1988-1990.

Amelia B. Cabal, 72, Filipino, is an independent director of Ionics, Inc. and Ionics EMS, Inc. She is likewise an independent director of Deutsche Regis Partners, Inc. She is also a member of the board of directors of Metropolitan Bank and Trust

Company and serves as the Bank Supervisor for Metrobank China (Ltd). Ms. Cabal completed her three-year stint at the International Monetary Fund, serving as a member and chairman of its External Audit Committee from 2009 to 2011 and in 2012, respectively. She was a senior partner of SGV & Co. where she served as its Vice Chairman and Head of Financial Markets Practice at the time of her retirement in 2006. She was taken in by SGV & Co. as a Senior Adviser on Regulatory Matters and Financial Markets from 2006 to 2009. Presently, Ms. Cabal is also a member of the board of directors of Philippine Savings Bank.

Lilia de Lima, 79, Filipino, is an independent director of Ionics EMS, Inc. and Ionics, Inc. She is currently an independent director of PHINMA Corporation and a director of AC Industrial Technology Holdings, Inc., FWD Life Philippines and Dusit Thani Philippines. She is also a trustee of TOWNS Foundation, Inc. In 2017, she served as an independent advisory board member of the Rizal Commercial Banking Corporation and was also a member of the board of directors of Science Park of the Philippines and RFM Science Park of the Philippines. From 1981 to 2016, Ms. de Lima has worked in government, holding high positions in various government instrumentalities such as the Department of Trade and Industry, National Amnesty Commission, Cagayan Economic Zone Authority, Zamboanga Economic Zone Authority, PHIVIDEC Industrial Authority, and the Philippine Economic Zone Authority. Because of her stint as Director General of the Philippine Economic Zone Authority and having served the same for 21 years, she was awarded the Ramon Magsaysay Laureat in 2017. She was also a recipient of other various awards such as the Presidential Medal of Merit, awarded to her by former Presidents Benigno Aquino III and Gloria Macapagal Arroyo, The Order of the Rising Sun, Gold and Silver Star, which is the highest award given to a non-head of state by the Government of Japan for bringing hundreds of Japanese investors to the Philippines, People of the Year Award given by Peoples Asia Magazine, and Excellence in Public Service Award, which was awarded to Ms. de Lima five times by BIZNEWS ASIA. She attained her Bachelor of Laws from the Manuel L. Quezon University in 1965, and her Doctor of Laws LLD (Honoris Causa) from the same university in 2014. She passed the Philippine Bar Exams in 1966.

OFFICERS

Judy C. Qua, 69, Filipino, is Ionics Inc.'s Vice President for Corporate Affairs and Ionics EMS, Inc.'s Vice President for Human Resources, Administration and Training. Concurrently she is the President and Chief Operating Officer of Iomni Precision Inc. She also serves as the Executive Assistant to the Chairman and CEO on special assignments. Previously, she headed Business Development of Ionics EMS, Inc. and was the Executive Director for Finance of IONOTE Ltd., the joint venture facility of Ionics EMS, Inc. and NOTE AB of Sweden in China. Prior to joining Ionics, her career covered a spectrum of teaching, training development, advertising and marketing practice, and data management. Ms. Qua is a transformational psychologist, a professional lecturer, a certified faculty for the American Management Association and the Swedish-based CELEMI management simulation learning systems, and an author of four (4) books on changing perspectives and positive thinking. She is the lecturer-facilitator of The Second Wind Mind Works neurodynamics course. She holds a Master of Arts degree in Social and Industrial Psychology from Ateneo de Manila University and a Master of Business Administration degree from Kellogg-HKUST Business School of Northwestern University.

Ariel La Madrid, 61, is the Company's Vice President for Inside Sales. Prior to joining Ionics EMS, Inc., he was engaged by the International Procurement Office of IBM from 1986 to 1996 as its Supplier Engineer. He joined Ionics EMS, Inc. in 1996 as Assistant Vice President for Quality and currently holds one of the key positions in the Company. He graduated with an Electronics Communication Engineering degree from St. Louis University, Baguio.

Earl Lawrence S. Qua, 41 Filipino, serves as Vice President of Business Development and has over 16 years in the Electronics Industry. Prior to Ionics, he worked at Marvell Semiconductors Inc, in Santa Clara, CA as Program Manager for 10 years. He holds a Masters Degree in Business Administration from Babson College in Wellesley, MA and a Bachelor of Arts Degree in Economics from Occidental College in Los Angeles, CA. He took courses in Electrical Engineering at Stanford University in Palo, Alto, CA and completed the Harvard Business School's Owners and Presidents Management Program(OPM) in Cambridge, MA.

Ronan Andrade, 49, Filipino, is the Vice President for Finance / Chief Finance Officer. He graduated from San Beda College in 1991 and passed the Certified Public Accountant Board Examination in the same year. He worked with Sycip Gorres & Velayo Auditing Firm-Audit Division from 1992 to 1998, starting as an audit staff member until he became audit supervisor. He joined Ionics in 1999 as Senior Manager for Finance and became Assistant Vice President and Acting Finance Head of the Company, prior to his transfer to Internal Audit as Vice President. In 2007, Mr. Andrade was appointed as Vice President of Finance of the Company.

Manuel R. Roxas, 70, Filipino, has been the Company's Corporate Secretary for the past twenty four (24) years. His professional experience covers general corporate law practice as counsel to various companies engaged in banking, investments, pharmaceuticals, shipping, and manufacturing. Atty. Roxas received his Bachelor of Science degree in Economics from the University of Pennsylvania in 1970 and Bachelor of Laws degree from the University of the Philippines in 1975. His other professional affiliations include: Roxas de los Reyes Laurel Rosario & Leagogo as Partner, Tax Management Association of the Philippines as past President, President Manuel A. Roxas Foundation, Inc. as Chairperson, Mother Rosa Memorial Foundation, Inc. as Secretary, and the Integrated Bar of the Philippines as member.

Bernalynne A. Repoyo, 30, Filipino, is the Company's Assistant Corporate Secretary. She received her Bachelor of Science in Accountancy from Saint Louis University and graduated *Cum Laude* in 2011 and her Juris Doctor degree from the University of the Philippines - College of Law in 2018. Atty. Repoyo is an associate lawyer at Roxas de los Reyes Laurel Rosario & Gonzales Law Offices. Prior thereto, she worked as an Executive Assistant for the former Associate Justice Francis H. Jardeleza of the Supreme Court from 2015 to 2018. Atty. Repoyo is also a Certified Public Accountant and has more than two years of combined experience in external audit, financial accounting and managerial accounting.

Cesar G. Caubalejo, 53, Filipino, is the Assistant Vice President, Chief Audit Executive and Assistant Compliance Officer. He graduated from the University of the Philippines at Tacloban City, Leyte in 1988 with a degree in Bachelor in Business Administration major in Accounting. He is a Certified Public Accountant and an Internal Audit Specialist and Certified Fraud Examiner. He worked and started his career with SyCip, Gorres, Velayo& Co. (SGV) in 1988 until his resignation from the firm as a Senior Director under the Business Risk Services in December 2008. During his stint with SGV, he was assigned to work in other countries such as US, France, Vietnam, Malaysia and Kingdom of Saudi Arabia. In his short stint, in 2004 with KPMG Audit and Accounting Practice, he became its Country Manager in Lao PDR. He also worked for a year (1997) as a group controller in one of the diversified companies in the Philippines. He is a member of the Institute of Internal Auditors Philippines. He joined Ionics EMS, Inc. on January 5, 2009.

Jay A. Chavez, 47, Filipino, is the Senior Vice President for Operations & Chief Operating Officer of Ionics EMS, Inc. He holds an Electrical Engineering degree from Mapua Institute of Technology. He joined Ionics EMS, Inc. in 1995 as a Quality Control and Quality Assurance (QC/QA) engineer. Since then, he went up the organizational ladder and became QC/QA Manager, Manufacturing Senior Manager/Deputy Plant Manager, Assistant Vice President for Manufacturing/Deputy for Operations, Assistant Vice President for Materials Management and finally, Assistant Vice President for Supply Chain Management.

Emma Y. Gerodias, 50, Filipino, is the Vice President for Manufacturing of Ionics EMS, Inc. She holds an Electronics and Communications Engineering degree from Mapua Institute of Technology. She joined Ionics in 1992 as a Production Supervisor. Since then, she went up the organizational ladder and became Production Manager, Operations Manager, Business Unit Head, Direct for Innovations, until finally Vice President for Manufacturing.

Valerio A. Carandang, Jr., 50, Filipino, is the Vice President for Field Sales and Customer Service. He is a licensed Electrical Engineer, a graduate from the Technological Institute of the Philippines. He started his career in Ionics in 1992 as Quality Control Engineer until 1994. He worked with PECCO (now Nidec Copal Philippines Corp.) until his resignation from the company as Quality Control Supervisor. In 1995, he rejoined Ionics as its Quality Control and Quality Assurance Head. He later became Engineering Manager, Manufacturing Manager, Assistant Vice President for Quality and Engineering, Assistant Vice President for Design and Development Group.

Additional Information on the members of the Board of Directors

1. Messrs. Lawrence C. Qua, Meliton C. Qua, Raymond C. Qua and Ms. Virginia Judy Q. Dy are all related within the second degree of consanguinity.

2. No director has transacted with the Company in his/her personal capacity.

3. None of the directors were involved, during the past five years and up to the date hereof, in any bankruptcy petition filed by or against any business of which a director was a general partner or executive officer either at the time of the bankruptcy or within two years to that time; nor was any director convicted by final judgment in a criminal proceeding, domestic or foreign, or was subject to a criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses; or was subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking services; or was found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, to have violated a securities or commodities law.

4. None of the directors has informed the Company that he/she intends to oppose any action to be taken by the Company at the meeting.

(d) Significant Employees

While all of the employees are valued, none are expected to contribute more significantly than the others to the business of the Company.

(e) Certain Relationships and Related Transactions

The Company has no significant related party transactions with its shareholder, directors, officers, and affiliated companies except as follows:

1. Lease Arrangements

   The Company leases two factories, Plants V and VI, from its Parent Company, Ionics, Inc.

   The Company also entered into a lease agreement with Iomni Precision, Inc., for the lease of an office space with an area of 1,310 square meters from 16 January 2020 to 15 January 2021.

   The Company also leased another factory, Plant 2, from Ionics Property Inc. with an area of 6,634 square meters from 01 October 2019 to 30 September 2020. Starting 01 January 2020 to 31 March 2020 the area will be lowered to 3,104 square meters with rental rate of $5.75 per square meters.

2. Legal Services

   The Company retains for legal services the law firms *Siguion Reyna Montecillo & Ongsiako Law Offices*, where Monica Siguion Reyna Villonco's husband is a partner and *Roxas de los Reyes Laurel Rosario & Gonzales Law Offices* where the Corporate Secretary, Manuel R. Roxas and the Assistant Corporate Secretary, Bernalynne A. Repoyo, is a partner and associate lawyer, respectively.

3. Financial Advisors

   Investment and Capital Corporation of the Philippines ("ICCP") is retained by the Company as its Financial Advisor. Guillermo D. Luchangco, who has been a director of the Company since 1991, is Chairman and Chief Executive Officer of ICCP.

(f) Family Relations

Messrs. Lawrence C. Qua, Meliton C. Qua, Raymond C. Qua and Ms. Virginia Judy Q. Dy, all of whom are directors of the Company, are all related within the second degree of consanguinity.

Mrs. Judy C. Qua, the Company's Vice President for Human Resources, Administration and Training is the spouse of the President/Chairman/Chief Executive Officer, Mr. Lawrence C. Qua. Mr. Lawrence Qua and Mrs. Judy C. Qua are the parents of the Company's Vice President- Business Development, Mr. Earl Lawrence Qua.

(g) *Involvement in Legal Proceedings*

The Company and its subsidiaries are not involved in any material pending legal proceedings.

Item 6. Compensation of Directors and Executive Officers

(a) *Summary Compensation Table*

The following table summarizes the compensation of the five highest paid executive officers of Ionics, Inc. and the aggregate compensation of all officers and directors as a group for the last two completed calendar years, and the estimated aggregate compensation of the said officers and directors for the present calendar year.

	Year	Salary	Others *
Executive Officer and Four (4) most highly compensated executive officers	2020 (estimate)	$579,098	$75,000
	2019	526,453	75,000
	2018	478,594	75,000
All officers and directors as a group unnamed	2020 (estimate)	893,614	337,500
	2019	812,376	337,500
	2018	738,524	337,500

*Others – includes per diem of directors

The following are the five (5) most highly compensated executive officers of Ionics EMS, Inc. (i.e. on a consolidated basis):

1. Mr. Lawrence C. Qua. is the Chairman of the Board of Directors, the Chief Executive Officer and the President of the Company.

2. Mr. Raymond Ma. C. Qua is the Senior Vice President and Treasurer.

3. Mr. Earl Lawrence C. Qua is the Vice President for Business Development.

4. Mr. Jay Chavez is the Senior Vice President for Operations and Chief Operating Officers.

5. Mr. Ronan Andrade is the Vice President for Finance/Chief Finance Officer.

(b) *Standard Arrangements*

Directors who are not officers of the Corporation are entitled to a per diem of Nine Thousand Three Hundred Seventy Five Dollars (US$9,375.00) per meeting attended.

The Chairman of the Board who is also the Chief Executive Officer of both Ionics, Inc. and its subsidiary, Ionics EMS, receives compensation on a monthly basis. All other executive officers receive monthly compensation.

(c) *Employment contract or compensatory plan or arrangement*

As of 30 June 2020, no executive officer of the Company is under employment contract.

Item 7. Independent Public Accountants

The auditing firm of Sycip Gorres Velayo & Co. ("SGV") is the external auditor of the Company. Representatives of SGV are expected to be present at the meeting and will have the opportunity to respond to appropriate questions and to make a statement if they desire. The auditing partner in charge of the accounts of the Company for the financial year ended 31 December 2019, Ms. Dhonabee B. Seneres, was appointed in 2016. Accordingly, the Company is in compliance with SRC Rule 68, paragraph 3(b)(ix), which requires that the external auditor or the signing partner be rotated every after five (5) years of engagement.

There are no changes in, and no disagreements with, the registrant's accountants on any accounting and financial disclosure during the two most recent fiscal years or any subsequent interim period.

Information on Independent Accountant and other Related Matters

External Audit Fees and Services

a.) *Audit and Audit-Related Fees*

1. Audit fees for 2019 amounted to $93,196. The fees are generally based on the complexity of the issues involved, the work to be performed, the special skills required to complete the work, the experience level of the team members and most importantly the ability to provide the auditors' report expressing an opinion on the financial statements of the Company.

2. There are no assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the financial statements of the Company.

b.) *Tax Fees* - None

c.) *All Other Fees*

Any additional services that Ionics, Inc. may request will be the subject of a separate written arrangement.

d.) *The Audit Committee's approval policies and procedures for the above services*

The reports of the External Auditor and financial reports prepared by Management are presented to the Audit Committee for consideration. Financial statements duly recommended by the Audit Committee for approval are still subject to the confirmation of the Board of Directors prior to submission to the respective government regulatory agencies.

The members of the Audit Committee are:

Amelia B. Cabal	-	Chairman
Meliton C. Qua	-	Member
Alfredo R. de Borja	-	Member

Item 8. Action with Respect to Reports

(a) Approval of the Minutes of the Previous Shareholders' Meeting

The minutes of the last Annual Shareholders' Meeting held on 21 June 2019 will be submitted for approval of the shareholders. Copies thereof will be made available at www.ionics-ems.com/agm2020 before 20 August 2020 to any shareholder desiring to review the same.

The following were significant matters discussed at the 21 June 2019 Shareholders' Meeting:

(i) Management Report for Fiscal Year 2018;

(ii) Ratification of Acts, Proceedings and Resolutions of the Board of Directors and Officers of the Corporation for the Fiscal Year 2018;

(iii) Election of Directors; and

(iv) Appointment of External Auditor.

(b) Management Report and Financial Statements

Management shall report on the significant business transactions undertaken and the financial targets and achievements for the fiscal year 2019. The Management Report and the audited financial statements for the period ending 31 December 2019 of the Company are reflected in the Company's Annual Report to Shareholders.

Item 9. Actions Proposed

(a) Ratification of Acts, Resolutions and Investments of the Board of Directors, Executive Committee and Officers of the Company from the date of the last Annual Shareholders' Meeting as reflected in the minutes

Copies of the minutes of the meetings of the Board of Directors held from the date of the last Annual Shareholders' Meeting on 21 June 2019 until the present meeting will be made available for inspection to any shareholder desiring to review the same. Please direct all such requests to the Corporate Secretary, Atty. Manuel R. Roxas, at the 19/F BDO Plaza, 8737 Paseo de Roxas, Makati City, Metro Manila.

(b) *Election of Directors*

A board of nine (9) directors will be elected at the meeting. The term of office of each director is one (1) year and will continue until the next Annual Meeting of Shareholders or until his or her successor has been elected and qualified.

(c) *Appointment of External Auditor*

The incumbent external auditor of the Company is SGV & Co. Representatives of SGV & Co. are expected to be present at the Annual Shareholders' Meeting and will have the opportunity to make a statement if they desire to do so and to be available to respond to appropriate questions. SGV & Co. is being recommended for reappointment.

Item 10. Voting Procedures

(a) An affirmative vote by the shareholder representing at least a majority of shareholders present at the meeting shall be sufficient for the approval of the following: (1) Approval of the minutes of the previous Shareholders' Meeting; (2) Management Report and Financial Statements; (3) Ratification of all Acts, Resolutions and Investments of the Board of Directors, Executive Committee and Officers of the Company from the date of the last Annual Shareholders' Meeting; and (4) Appointment of External Auditor.

The nine (9) nominees to the Board of Directors who garner the highest number of votes shall be deemed elected.

(b) The manner of voting and counting of votes will be as follows:

i. Every shareholder entitled to vote shall have the right to vote the number of shares registered in his name on record as of the close of business hours on 27 July 2020. Any shareholder who cannot attend the meeting may designate his/her authorized representative by submitting a signed proxy form via email to www.ionics-ems.com/agm2020 no later than the close of business hours on Monday, 17 August 2020. Only votes submitted on or before 18 August 2020, 1:00 p.m. shall be honoured for purposes of voting.

The requirements and procedure for voting through remote communication are provided below.

ii. The manner of election and counting of the votes shall be under the supervision of the Corporate Secretary.

REQUIREMENTS AND PROCEDURE FOR PARTICIPATION AND VOTING THROUGH REMOTE COMMUNICATION

A. Registration for the 2020 Annual Shareholders' Meeting

1. Shareholders of record as of 27 July 2020 who wish to attend the meeting and vote in absentia should register through the Company's registration portal at www.ionics-ems.com/agm2020 on or before Thursday, 13 August 2020 ("Registration Period").

2. Shareholders of record are required to provide the following for validation and verification:
    a. Individual Shareholders
        - Scanned copy of the front and back portions of the shareholder's valid government-issued photo ID. Valid government-issued photo IDs include the following: Driver's License, Passport, Unified Multi- Purpose ID, Professional Regulation Commission ID, SSS ID, Pag-Ibig ID, and Senior Citizen ID;
        - Valid and active corporate or personal e-mail address; and
        - Valid and active contact number (landline or mobile number).

    b. Corporate Shareholders
        - Scanned copy of a Secretary's Certificate attesting to the authority of the representative to attend the meeting and vote for and on behalf of the Corporation;
        - Scanned copy of the front and back portions of the valid government-issued photo ID of the corporate shareholder's representative. Valid government-issued photo IDs include the following: Driver's License, Passport, Unified Multi-Purpose ID, Professional Regulation Commission ID, SSS ID, Pag-Ibig ID, and Senior Citizen ID;
        - Valid and active corporate or personal e-mail address of the corporate shareholder's representative; and
        - Valid and active contact number (landline or mobile number) of the corporate shareholder's representative.

    c. For Shareholders with Joint Accounts
        - In addition to the above requirements for individual shareholders, a scanned copy of an authorization letter signed by all joint shareholders on who among them is authorized to cast the vote for the account.

    d. For Shareholders represented by Proxy
        - Scanned copy of the front and back portions of the shareholder's valid government-issued photo ID. Valid government-issued photo IDs include the following: Driver's License, Passport, Unified Multi- Purpose ID, Professional Regulation Commission ID, SSS ID, Pag-Ibig ID, and Senior Citizen ID;
        - Scanned copy of the Proxy Form or an authorization letter signed by the shareholder, authorizing the Proxy to attend the meeting and cast the vote for the account.
        - Valid and active corporate or personal e-mail address of the Proxy; and
        - Valid and active contact number (landline or mobile number) of the Proxy.

e. For Shareholders under Broker Accounts
    - In addition to the above requirements for individual and corporate shareholders, shareholders under broker accounts shall submit a scanned copy of the broker's certification signed by the authorized signatory/ies on the beneficial shareholder's name, account number and number of shares.
    - In case of a corporate shareholder, submit also a scanned copy of the Secretary's Certificate attesting to the authority of the representative to vote for and on behalf of the corporate beneficial shareholder.

3. Upon completion of the validation and verification procedure, each registered shareholder will receive an email confirmation which includes the link and password which the shareholder may use to access the virtual meeting room for the 2020 Annual Shareholders' Meeting of Ionics EMS, Inc. together with the link to the Company's voting portal.

4. The voting portal shall contain the agenda items reflected on the Notice of the Annual Shareholders' Meeting. Shareholders may vote as follows:
    a. For items other than the election of directors, registered shareholders have the option to vote "For", "Against", or "Abstain";
    b. For election of Directors, the system of cumulative voting shall be followed. Each registered shareholder has a number of votes equal to the number of shares he/she owns, times the number of directors to be elected. Under this voting system, the registered shareholder has the option to (i) cast all his/her votes in favor of one (1) nominee, or (ii) distribute those votes among as many nominees as he/she may deem fit;
    c. Once the registered shareholder has completed voting, he/she can submit his/her votes by clicking the "Submit" button. Upon submission, the registered shareholder may no longer changes his/her votes.

5. The Office of the Corporate Secretary shall tabulate all valid votes cast in absentia and votes cast through proxies. An independent party will validate the voting results, which will be reported by the Corporate Secretary at the meeting. All votes should be submitted no later than Tuesday, 18 August 2020, 1:00 p.m.

B. Other Information

1. Only those shareholders who have completed the registration and verification procedure within the Registration period shall be considered in determining the existence of a quorum. All documents (i.e. government-issued ID, authorization letter, Proxy Form, Secretary's Certificate) to be submitted must be in a digital, JPEG format with a file size no larger than 3 megabytes;

2. The conduct of the 2020 Annual Shareholders' Meeting will be streamed live. In order to be admitted by the host to the virtual meeting room, please join using your full name, turn-on your camera and mute your mic. Votes and queries cannot be submitted during the livestream. Registered shareholders may send their queries or comments to agm2020@ionics-ems.com on or before 17 August 2020, 1:00 p.m.

3. The proceedings will be recorded in video and audio format. The Minutes of the ASM will be uploaded to the Company website within five days upon the adjournment of the Annual Shareholders' Meeting.

The Company undertakes to provide without charge to each shareholder, upon written request by the shareholder, a copy of the Company's Annual Report (SEC Form 17-A), Audited Financial Statements and Quarterly Reports (SEC Form 17-Q) for the first and second quarters of 2020, which may also be viewed at the Company's official website. Please direct all such requests to the Corporate Secretary, Atty. Manuel R. Roxas, at the 19/F BDO Plaza, 8737 Paseo de Roxas, Makati City, Metro Manila.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on 24 July 2020.

IONICS EMS, INC.

By:

MANUEL R. ROXAS
Corporate Secretary

IONICS EMS, INC.
MANAGEMENT REPORT

ITEM 1. BUSINESS

Ionics EMS, Inc. (the "Company")

Ionics EMS, Inc. was incorporated in the Philippines on September 21, 1999 to engage in the electronic manufacturing services ("EMS") business. It is a subsidiary of Ionics, Inc., the Parent Company, a company incorporated in the Philippines and listed in the Philippine Stock Exchange.

On February 25, 2000, the Company offered its shares of stock to the public and became publicly listed in the Singapore Exchange Securities Trading Limited ("Singapore Exchange"). Low daily turnover and low daily market capitalization prompted the Company to reconsider its continued listing in the Singapore Exchange. Consequently, on March 2, 2010, the Company and its Parent Company jointly announced the proposed voluntary delisting of the Company from the Singapore Exchange. In compliance with the delisting proposal, the Parent Company made a tender offer to purchase common shares issued to the minority stockholders. Subsequently, the Parent Company acquired an additional 104,801,455 shares or 6.72% ownership of the Company. After the required tender offer, the Company had more than two hundred (200) shareholders each holding at least one hundred (100) shares. Thus, the Company is considered a public company as defined under the Securities Regulation Code of the Philippines ("SRC").

The Parent Company is financially committed to support the Company's operations.

Ionics-EMS (USA), Inc. ("EMS-USA")

EMS-USA, a subsidiary of the Company, was incorporated in the United States of America, to engage primarily in design and new product introduction. EMS-USA was organized upon approval of the Board of Directors ("BOD") on 12 August 2010. The Parent Company invested US$0.01 million for the initial subscription to the equity shares of EMS-USA.

The Company anticipates that concentration of business in major customers will continue in the foreseeable future.

Line of Business

The Company is a total one-stop shop Electronics Manufacturing Services ("EMS") provider. Together with its predecessor, Ionics, Inc., the Company has been the EMS solutions provider to some of the world's biggest Original Equipment Manufacturers ("OEM") for over 31 years.

There are two general categories of electronics manufacturers or assemblers in the region: the Original Equipment Manufacturer ("OEM") and the Contract Electronics Manufacturer ("CEM"). OEMs are companies who are leaders in PC, Computer Peripherals, Telecommunications, Consumer Electronics and Automotive Equipment. On the other hand, CEMs are firms involved in the production of electronic items similar to those produced by OEMs. These firms are independent third party manufacturers or assemblers, which do not have any corporate affiliations with their respective customers. CEMs therefore undertake subcontracting work only, and generally provide labor and manufacturing overhead as their basic inputs in the assembly of electronic products.

The Company is classified as a CEM. Most of its end products, therefore, are components and sub-assembly, which are eventually used as input for the finished products of its customers. The Company accommodates most types of electronic manufacturing and assembly projects. Customers provide the specifications and blue print or prototype of a component or product that they want to be manufactured or assembled and Ionics, Inc. delivers the finished item.

The Company provides "On Consignment" or "Turnkey" manufacturing arrangements to its clients. Under an "On Consignment" arrangement, Ionics, Inc. furnishes labor and manufacturing overhead input, while the product design and raw or input materials are provided by the customer. Under the "Turnkey" arrangement, Ionics, Inc. provides all production input for its clients. The product design, however, is still provided and owned by the client.

In 2002, one of the subsidiaries of Ionics, Inc. successfully offered design services to its customer and added an Original Design Manufacturer ("ODM") component to its business line.

ITEM 2. DIRECTORS AND OFFICERS

Please refer to pages 7 to 15 of the Information Statement.

ITEM 3. MARKET FOR THE COMPANY'S SHARES

MARKET INFORMATION

The Company's shares are not publicly traded. The Company has voluntarily delisted from the Singapore Stock Exchange on 23 June 2010.

HOLDERS

The Company has approximately 7,207 stockholders as of 30 June 2020, and the total outstanding stocks as of the same date is 1,560,000,000. The top twenty (20) stockholders as of 30 June 2020 are as follows:

Name of Stockholder	Number of Shares	Percentage to Total
1. Ionics, Inc.	1,508,801,439	96.71804096%
2. Uob Kay Hian Pte. Ltd.	996,040	0.063848718%
3. HSBC (Singapore) Noms Pte. Ltd.	660,000	0.042307692%
4. Joshua Foo Soo Teck	650,000	0.041666667%
5. Furong Zhu	625,000	0.040064103%
6. Loh Kok Weng	500,000	0.032051282%
7. Wong Cheong Shek	460,000	0.029487179%
8. Kor Yeong Chin	410,000	0.026282051%
9. Clarence Pong Khai Yun	387,000	0.024807692%
10. Guy Josef Eduard Sterkens	367,000	0.023525641%
11. Tan Kok Keong	365,000	0.023397436%
12. Tan Siew Sim	361,000	0.023141026%
13. Chong Ah Kau	299,000	0.019166667%
14. Tan Heng Weng	296,000	0.018974359%
15. Tjong Lie Ha	290,000	0.018589744%

16. Neo Chwee Goh	280,000	0.017948718%
17. Tan Sil Lin	268,000	0.017179487%
18. Loh Hean Ho	261,000	0.016730769%
19. OCBC Securities Pte. Ltd.	256,000	0.016410256%
20. Goh Seow Kng	253,000	0.016217949%
TOTAL	**1,516,785,479**	**97.2298384%**

The Company has not entered into any acquisition, business combination or other reorganization that would affect the amount and percentage of the present holding of the Company's equity owned beneficially by: (i) more than five percent (5%) beneficial owner of Company's common equity; (ii) each director and nominee; and (iii) all directors and officers as a group, and the Company's present commitments to such persons with respect to the issuance of shares.

DIVIDENDS

Dividend payment depends upon the earnings, cash flow and financial condition of the Company. All dividends are subject to the approval of the Company's Board of Directors and in the case of stock dividend, by the Stockholders. In addition, stock or property dividends are subject to the approval of the Securities and Exchange Commission.

The Company has not distributed dividends for the past two (2) years.

RECENT SALES OF UNREGISTERED OR EXEMPT SECURITIES

For the past three (3) years, the Company has not sold any unregistered or exempt securities, nor were there any recent issuances of securities constituting an exempt transaction.

ITEM 4. MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT PLAN FOR THE YEAR 2020

Ionics EMS, Inc. (the "Company")

IEMS continues with its growth for 2020.

Additional equipment and factory space acquired in 2019 are already set up and are being qualified to the various customers and products. The company focuses on exceeding customer expectations in order to increase confidence and consequently, allocation and others.

Sales and marketing channels have been added in order to increase the sales funnel but at the same time improving the qualification criteria significantly improving match with potential customers.

Technology remains part of the management plan of the company. Improvements in operation and information technology go hand in hands as the company's two-prolonged approach to technology. IEMS continues to build on its industrial internet of things know how and has added artificial intelligence and machine learning to its tool kit.
On the Human Resources front, the company has brought it key staff with extensive relevant experience to help sustain the growth strategy.

The company has not been insulated from the effects of COVID-19, Q1 and Q2 are affected but we see the rest of the year to be bullish and will put all plans back on track.

While the Company has adequate capital for expansion, its Parent Company will provide support with additional requirements when called for.

Below are the Consolidated Key Financial Ratios for the years ended December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Revenue Growth	**8.03%**	4.81%
Gross Profit Margin	**10.91%**	11.10%
Net Income Margin	**4.74%**	4.57%
Return on Equity	**14.73:1**	14.99:1
Current Ratio	**1.08:1**	1.13:1
Leverage Ratio	**0.61:1**	0.58:1
Acid Test Ratio	**0.58:1**	0.61:1
Debt to Equity Ratio	**2.28:1**	2.06:1
Asset to Equity Ratio	**3.28:1**	3.06:1
Interest Coverage Ratio	**7.62%**	10.15%

1. **Revenue Growth**

   The Revenue Growth is computed from current revenue less revenue of the prior year divided by revenue of the prior year. The result is expressed in percentage.

2. **Gross Profit Margin**

   The Gross Profit Margin reflects the management's policies related to pricing and production efficiency. This is computed by dividing gross profit by net sales. The result is expressed in percentage.

3. **Net Income Margin**

   The Net Income Margin is the ratio of the Company's net income for a given period. This is computed by dividing net income by net sales. The result is expressed in percentage.

4. **Return on Equity**

   Return on Equity ratio is the ratio of the Company's net income to equity. This measures the management's ability to generate returns on their investments. This is computed by dividing net income by total equity

5. **Current Ratio**

   The Current Ratio is the ratio of the Company's current assets to its current obligations. This is computed by dividing current assets by current liabilities.

6. **Leverage Ratio**

   The Leverage Ratio shows the balance that the Company's management has struck between forces of risk versus cost. This is computed by dividing net debt by the sum of total equity and net debt.

7. **Acid Test Ratio**

Acid Test Ratio is the ratio of the Company's current assets to its current obligations. This is computed by dividing sum of cash, marketable securities and receivable by current liabilities.

8. **Debt to Equity Ratio**

The Debt to Equity Ratio indicates the relative proportion of equity and debt used to finance the Company's assets. This is computed by dividing total liabilities by total equity.

9. **Asset to Equity Ratio**

The Asset to Equity Ratio shows the relationship of the total assets of the Company to the portion owned by shareholders. This indicates the company's leverage (debt) used to finance the Company. This is computed by dividing total assets by total equity.

10. **Interest Coverage Ratio**

Interest Coverage Ratio is the ratio of the Company's ability to meet its interest payment. This is computed by dividing the sum of income before income taxes and finance costs by finance costs.

As of the filing date, the management of the Company is not aware of:

a.) any significant expenditures for products research and development;
b.) any expected significant change in number of employees;
c.) any known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity;
d.) any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation;
e.) all material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period;
f.) any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures;
g.) any known 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;
h.) any significant elements of income or loss that did not arise from the issuer's continuing operations; and
i.) any seasonal aspects that had a material effect on the financial condition or results of operations.

The causes for any material change from period to period which shall include vertical and horizontal analysis of any material item were disclosed in pages 6 to 9 of this report.

FINANCIAL PERFORMANCE

Quarter 1 2020

CONSOLIDATED FINANCIAL POSITION

As of March 31, 2020, the assets of the Group amounted to US$54.691 million which is US$4.619 million lower than the US$59.310 million as of December 31, 2019. The decrease in the Group's total assets was mainly due to the decrease in cash and cash equivalent and receivables net of increase in prepayments and other assets and right-of-use assets.

Current ratio decreased from 1.08:1 as of December 31, 2019 to 1.02:1 as of March 31, 2020. The Group's leverage ratio increased from 0.61:1 as of December 31, 2019 to 0.62:1 as of March 31, 2020.

Below is the summary of Statements of Financial Position accounts with 5% or more increase (decrease):

	Percentage increase (decrease)	
	March 31, 2020 vs December 31, 2019	December 31, 2019 vs December 31, 2018
	%	%
ASSETS		
Cash and cash equivalent	**(44)**	15
Receivables	**(29)**	N/A
Contract assets	**12**	197
Inventories	**N/A**	(11)
Prepayments and other current assets	**57**	14
Financial asset at fair value through other comprehensive income (FVOCI)	**N/A**	9
Property and equipment	**N/A**	10
Right-of-use assets	**21**	100
Refundable deposits	**N/A**	43
Deferred tax assets - net	**(25)**	100
LIABILITIES		
Accounts payable and accrued expenses	**(25)**	26
Contract liabilities	**N/A**	36
Lease liabilities	**19**	100
Bank loans and long-term debt	**(34)**	8
Income tax payable	**38**	N/A
Net pension liability	**N/A**	27

Reasons of Increase (Decrease)

As of March 31, 2020 (03.31.20 vs 12.31.19)

Cash and cash equivalent decreased mainly due to acquisition of property and equipment and payment of bank loans and current portion of long-term debt. Receivables decreased mainly due to lower sales resulting from COVID-19 Enhanced Community Quarantine which took effect mid-March 2020. Contract assets increased as a result of the over-time recognition under Philippine Financial Reporting Standards (PFRS) 15 primarily coming from the relatively higher volume of either in progress or completed units but not yet delivered and billed as of the reporting period. The increase in prepayments and other current assets was due to the increase in advance payments to suppliers for material ordering. Right-of-use assets decreased mainly due to amortization for the period. The decrease in accounts payable and accrued expenses was attributable to lower purchases of raw materials as a result of COVID-19 pandemic. Lease liabilities increased due to the acquisition of machineries under finance lease as scoped under PFRS 16. Bank loans and long-term debt decreased due to payment of the amortizations for the period. Income tax payable increased as a result of the provision for income tax set up for the quarter. Deferred taxes - net decreased mainly due to the amortization of deferred taxes related to right-of-use assets and lease liabilities in accordance with PFRS 16.

Consolidated Results of Operations

The summarized sales, rental income and net income (loss) of the Group for the three months period ended March 31, 2020 and 2019 are presented as follows:

	March 31, 2020 (3 months)			March 31, 2019 (3 months)		
COMPANY	**SALES**	**RENTAL INCOME**	**NET LOSS**	SALES	RENTAL INCOME	NET INCOME (LOSS)
EMS Parent	**US$10,233,928**	**US$−**	**(US$751,167)**	US$13,307,536	US$10,466	US$554,524
EMS-USA	**8,085**	**−**	**(17,271)**	139,104	−	(5,667)
Eliminating	**−**	**−**	**−**	−	−	12,105
Consolidated	**US$10,242,013**	**US$−**	**(US$768,438)**	US$13,446,640	US$10,466	US$560,962

The Group’s revenue decreased by US$3.215 million or 24% from US$13.457 million for the three months ended March 31, 2019 to US$10.242 million in the same period of 2020 due to COVID-19 ECQ effective mid-March 2020. With the reduced sales, gross profit decreased by 100% or US$1.402 million from US$1.406 million for the three months ended March 31, 2019 to US$0.004 million in the same period of 2020 due to under utilization of the existing and new plant capacity.

Operating expenses were lower at US$0.057 million from US$0.683 million for the three months period ended March 31, 2019 to US$0.626 million in the same period of 2020. Interest expense increased mainly due to recognition of interest expense on the lease liabilities in 2020 amounting to US$0.013 million due to the lease agreements scoped under PFRS 16 entered in the latter part of 2019 and interest of loans related to machine acquisition.

With the foregoing, the Group reported a 237% decrease in net income from US$0.561 million to net loss of US$0.768 million for the three months period ended March 31, 2019 and 2020, respectively.

Quarter 2 2020

The Consolidated Results of Operations and Consolidated Financial Position of the Ionics EMS, Inc. are not yet available due to limited manpower brought about by safety regulations in relation to the COVID-19 pandemic. As of the date of submission of this report, the Company is still in the process of closing its books. The Company undertakes to provide the Second Quarter Report for the period ended June 30, 2020 during the Annual Stockholders' Meeting.

2019

The summarized sales and net income (loss) of the Group for the year ended December 31, 2019 are presented as follows:

COMPANY	REVENUE	NET INCOME(LOSS)
EMS	55,620,856	2,682,367
EMS-USA	527,055	(32,051)
Eliminating	–	12,105
Consolidated	**56,147,911**	**2,662,420**

The Group's posted an 8.03% revenue growth in 2019 at US$56.148 million relative to US$51.973 million in 2018. As a result, the gross profit increased to US$6.127 million from US$5.768 million in 2018.

Operating expenses were lower at US$2.602 million from US$2.938 million of the previous year due to nil impairment of receivable in 2019. However, finance cost and net foreign exchange losses has increased to US$0.550 million from US0.159 million due to increase in barrowings for machine acquisition and impact of peso appreciation on peso denominated pension liability.

Summing up the foregoing, the net income after tax increased by 12.13% to US$2.663 million in 2019 from the US$2.375 million of 2018.

CONSOLIDATED FINANCIAL POSITION

As of December 31, 2019, the assets of the Group amounted to US$59.310 million which is US$10.894 million higher than the US$48.416 million as of December 31, 2018. The increase in the Group's total assets was due to the increase in cash and cash equivalents, contract asset, prepayments and other current assets, investment, available-for sale, right of use assets, plant, property and equipment, deferred tax assets and refundable deposits.

Current ratio decreased to 108% for the year ended December 31, 2019 from 113% for the period ended December 31, 2018. The Group's liability-to-equity (leverage) ratio increased to 0.61:1 for the year ended December 31, 2019 from 0.58:1 for the period ended December 31, 2018.

Below is the summary of Statements of Financial Position accounts with 5% or more increase (decrease):

	December 31, 2019 %	December 31, 2018 %
ASSETS		
Cash and cash equivalents	**15**	132
Receivables	**N/A**	(28)
Contract assets	**197**	100
Inventories	**(11)**	15
Prepayment and other current assets	**14**	(17)
Deferred tax asset	**100**	N/A
Property and equipment	**10**	(19)
Right-of-use assets	**100**	N/A
Refundable deposits	**42**	N/A
Investment, available-for-sale	**12**	(5)
LIABILITIES		
Accounts payable and accrued expenses	**26**	(5)
Contract liabilities	**36**	(7)
Bank loans and finance lease liability	**91**	(23)
Income tax payable	**N/A**	(50)
Net pension liability	**27**	(19)
Deferred tax liability	**3873**	100

2018

CONSOLIDATED RESULTS OF OPERATIONS

The Company registered an increase in revenue to US$51.973 million in 2018 from US$49.589 million in 2017. Gross profit slightly increased by US$0.03 million from US$5.74 million in 2017 to US$5.77 million in 2018. Operating expense and other expenses slightly decreased by US$0.02 million from US$2.96 million in 2017 to US$2.94 million in 2018.

With the foregoing, the Company reported a 7% increase in net income from US$2.22 million in 2017 to US$2.38 million in 2018.

The summarized revenues and net income of the Group for the year ended December 31, 2018 are presented as follows:

(In US Dollars)

COMPANY	**REVENUE**	**NET INCOME(LOSS)**
EMS	51,370,872	2,377,728
EMS-USA	601,806	(22,360)
Eliminating	–	18,687
Consolidated	**51,972,678**	**2,374,055**

CONSOLIDATED FINANCIAL POSITION

As of December 31, 2018, the assets of the Company amounted to US$48.42 million which was US$0.57 million lower than the US$48.99 million as of December 31, 2017. The decrease in Ionics, Inc.'s total assets was due to the decrease in receivables, prepayments and other current assets and plant, property and equipment.

The Current Ratio decreased to 113% for the year ended December 31, 2018 from 115% for the period ended December 31, 2017. The Company's Leverage Ratio decreased to 0.58:1 for the year ended December 31, 2018 from 0.69:1 for the period ended December 31, 2017.

Below is the summary of Statement of Financial Position accounts with more than 5% increase (decrease):

	December 31, 2018 %	December 31, 2017 %
ASSETS		
Cash and cash equivalents	**132**	(62)
Receivables	**(28)**	45
Contract assets	**100**	N/A
Inventories	**15**	50
Prepayment and other current assets	**(17)**	92
Property and equipment	**(19)**	46
Refundable deposits	**N/A**	(7)
Investment, available-for-sale	**(5)**	5
LIABILITIES		
Accounts payable and accrued expenses	**(5)**	46
Bank loans and finance lease liability	**(23)**	264
Advances from Customers	**(7)**	(55)
Net pension liability	**(19)**	N/A
Income tax payable	**(50)**	142

2017

CONSOLIDATED RESULTS OF OPERATIONS

The Company registered an increase in revenue to US$49.589 million in 2017 from US$45.720 million in 2016. With the continuing increase in consignment business, gross profit increased to US$5.74 million in 2017 from US$4.39 million in 2016. This has translated into a 53% increase in net income of US$2.22 million in 2017 from US$1.45 million in 2016. Operating expense and other expenses increased by US$0.29 million to US$3.02 million in 2017 from US$2.73 million in 2016 due to the impairment of a receivable from a customer.

The summarized revenues and net income of the Group for the year ended December 31, 2017 are presented as follows:

(In US Dollars)

COMPANY	REVENUE	NET INCOME
EMS	49,546,930	2,318,305

EMS-USA	41,617	(101,819)
Consolidated	**49,588,547**	**2,216,486**

CONSOLIDATED FINANCIAL POSITION

As of December 31, 2017, the assets of the Company amounted to US$48.99 million which is US$9.31 million higher than the US$39.67 million as of December 31, 2016. The increase in Ionics, Inc.'s total assets was due to the increase in receivables, inventories, plant, property and equipment to support its increasing business and other current assets. Other current assets increased due to advanced payment made to suppliers.

The Current Ratio decreased to 115% for the year ended December 31, 2017 from 131% for the year ended December 31, 2016. The Company's Leverage Ratio increased to 0.69:1 for the year ended December 31, 2017 from 0.58:1 for the year ended December 31, 2016.

Below is the summary of Statement of Financial Position accounts with more than 5% increase (decrease):

	December 31, 2017 %	December 31, 2016 %
ASSETS		
Cash and cash equivalents	**(62)**	21
Receivables	**45**	(21)
Inventories	**50**	(29)
Prepayment and other current assets	**92**	(23)
Property and equipment	**46**	23
Refundable deposits	**(7)**	N/A
Investment, available-for-sale	**5**	−
LIABILITIES		
Accounts payable and accrued expenses	**46**	(38)
Bank loans and finance lease liability	**264**	43
Advances from Customers	**(55)**	(20)
Income tax payable	**142**	(9)

2019

Cash increased due to cash flows generated from operations net of acquisition of machinery and payment of finance lease and bank loans. Contract assets under PFRS 15 increased as a result of the over-time recognition primarily coming from the relatively higher volume of either in progress or completed units but not yet delivered and billed as of the reporting period. Inventory decreased due to buyback of materials and raw materials converted into finished goods. The increase in prepayments and other current assets was due to the increase in advance payments to suppliers for material ordering and renewal of IT maintenance agreement amortized over the contracted period. Deferred tax asset increased due to adoption of PFRS 16, *Leases*. Property and equipment increased due to acquisitions made during the year. Right-of-use assets (ROU) increased mainly due to the adoption of PFRS 16, recognized from lease contracts in 2019. Refundable deposits increased mainly due to additional security deposits and advance rental paid to new Plant. Financial asset at FVOCI increased due to recognized gain on fair value changes in the club share. The increase in accounts payable and accrued expenses was attributable to the purchase of raw materials. Banks notes and lease liabilities increased due to adoption PFRS 16 in 2019. The increase in contract liabilities was due to additional advance payments made by customers. Net pension liability increased due to additional accrual for the year. Deferred tax liability increased due to adoption of PFRS 16, *Leases*.

2018

Cash increased due to cash flows generated from operations. Receivables decreased due to significant collections from customer. Inventories increased as a result of increasing customer order. The decrease in prepayments and other current assets was attributable to the decrease in advance payment to suppliers for material ordering. Property and equipment decreased due to depreciation for the period. Investment, available-for-sale decreased due to recognized unrealized loss on fair value changes in the golf shares. The decrease in accounts payable and accrued expenses is due to payment made to suppliers. Bank loans and finance lease liabilities decreased due to payments made during the year. The decrease in advances from customer was due to application of advance payments against receivable. Net pension liability decreased due to number of eligible members who reached the normal retirement age. The decrease in income tax payable was due to payments of income tax during the year.

2017

Cash decreased due to payments of purchased raw materials and purchase of property and equipment. Receivables increased due to sales to an existing customer. Inventories also increased as a result of increasing customer orders. Prepayments and other current assets increased due to advance payments made to suppliers. The value of property and equipment increased due to acquisitions of new and automated machineries to increase plant capacity. Refundable deposits decreased due to foreign currency exchange revaluation while available-for-sale investment increased due to recognized unrealized gain on fair value changes in golf shares. The increase in accounts payable and accrued expenses was attributable to the purchase of raw materials. Bank loans and finance lease liabilities increased due to acquisition of machines under financial leases and availment of bank loans for working capital requirements. The decrease in advances from customers was due to the application of advance payments against receivables. The increase in income tax payable was due to the increase in the provision for income tax for the period.

ITEM 5. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Please refer to page 15 to 16 of the Information Statement. There have been no unresolved disagreements with the independent accountant.

ITEM 6. CORPORATE GOVERNANCE

(a) Evaluation System

The Compliance Officer is currently in charge of evaluating the level of compliance of the Board of Directors and top-level management of the Corporation. Leading practices on good corporate governance serve as guidelines which allow the Company to properly evaluate its compliance with the Code of Corporate Governance.

(b) Compliance Report

Measures, such as periodic review and evaluation of internal guidelines and practices, are undertaken by the Company to fully comply with the adopted leading practices on good corporate governance.

(c) *Deviations*

There are no material deviations from the Company's Manual of Corporate Governance.

(d) *Plan to improve*

The Company continues to improve its Corporate Governance when appropriate and warranted, in its best judgment.

Item 7. UNDERTAKING TO PROVIDE ANNUAL REPORT

Ionics EMS, Inc. undertakes to provide without charge to each stockholder, upon written request by the shareholder, a copy of the Company's Annual Report (SEC Form 17-A), Audited Financial Statements and Quarterly Reports (SEC Form 17-Q) for the first and second quarters of 2020, which may also be viewed at the Company's official website. Please direct all such requests to the Corporate Secretary, Atty. Manuel R. Roxas, 19th Floor BDO Plaza, 8737 Paseo de Roxas, Makati City.

IONICS EMS, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Ionics EMS, Inc. and Subsidiary (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors (Trustees) is responsible for overseeing the Group's financial reporting process.

The Board of Directors (Trustees) reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip Gorres Velayo & Co., the independent auditor, appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

LAWRENCE C. QUA
Chairman of the Board & Chief Executive Officer

RAYMOND C. QUA
Treasurer/Senior Vice President

RONAN R. ANDRADE
Chief Finance Officer

Signed this 28th day of April, 2020

SUBSCRIBED AND SWORN to before me this _____ day of ________ affiants exhibiting to me their Passport as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Ronan R. Andrade	P6019614A	February 13, 2018	Lucena
Lawrence C. Qua	P5212632A	December 02, 2017	NCR South
Raymond C. Qua	P5737906A	January 24, 2018	NCR South

Doc. No. 213
Page No. 44
Book No. I
Series of: 2020

BERNALYNNE A. REPOYO
Notary Public until 31 December 2021
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 8117151, Makati City, 02 January 2020
IBP No. 089368, Makati, 02 January 2020
Roll No. 73451, Commission No. M-119

#14 Mountain Drive, Light & Industry Park II,
Brgy. La Mesa Calamba City, Laguna
Philippines
Tel. No.: (+6349) 508-1111
Fax. No.: (+6349) 508-0073

ANNEX A

CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the **Certified Public Accountant (CPA)** who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for **Ionics EMS, Inc. and Subsidiary** for the period ending December 31, 2019.

In discharging this responsibility, I hereby declare that:

I, am the Sr. Manager of Accounting and Budget of **Ionics EMS, Inc. and Subsidiary**

Furthermore, in my compilation services for the preparation of the Financial Statements and Notes to the Financial Statements, I was not assisted by or did not avail of the services of Sycip Gorres Velayo & Co. which is the external auditor who rendered the audit opinion for the said Financial Statements and Notes to the Financial Statements.

I hereby declare, under penalties of perjury and violation of Republic Act No.9298, that my statements are true and correct.

ROSALINA G. VICENTE
PROFESSIONAL IDENTIFICATION CARD NO. 0038115
VALID UNTIL: September 28, 2020
BOA ACCREDITATION NUMBER:001975
VALID UNTIL: December 31, 2019
TIN NO.:136-370-735
PTR NO.:7429937, January 22, 2020

Ionics EMS, Inc. and Subsidiary

Consolidated Financial Statements
December 31, 2019 and 2018
and Years Ended December 31, 2019, 2018
and 2017

and

Independent Auditor's Report

SGV
Building a better
working world

A member firm of Ernst & Young Global Limited

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Ionics EMS, Inc. and Subsidiary

Opinion

We have audited the consolidated financial statements of Ionics EMS, Inc. and its subsidiary (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

The engagement partner on the audit resulting in this independent auditor's report is Dhonabee B. Señeres.

SYCIP GORRES VELAYO & CO.

Dhonabee B. Señeres

Dhonabee B. Señeres
Partner
CPA Certificate No. 97133
SEC Accreditation No. 1196-AR-2 (Group A),
October 18, 2018, valid until October 17, 2021
Tax Identification No. 201-959-816
BIR Accreditation No. 08-001998-98-2018,
February 2, 2018, valid until February 1, 2021
PTR No. 8125303, January 7, 2020, Makati City

April 28, 2020

IONICS EMS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalent (Notes 5, 6, 7 and 8)	**US$8,705**	US$7,555
Receivables (Notes 4, 5, 6 and 9)	**10,883**	10,512
Contract assets (Notes 4, 5 and 10)	**3,639**	1,226
Inventories (Notes 4 and 11)	**12,024**	13,454
Prepayments and other current assets (Note 4)	**961**	841
Total Current Assets	**36,212**	33,588
Noncurrent Assets		
Financial asset at fair value through other comprehensive income (FVOCI) (Notes 5 and 6)	**12**	11
Property and equipment (Notes 3, 4 and 12)	**15,895**	14,489
Right-of-use assets (Notes 3, 4, 21 and 22)	**6,715**	–
Refundable deposits (Notes 5, 6 and 21)	**468**	328
Deferred tax assets - net (Notes 3 and 23)	**8**	–
Total Noncurrent Assets	**23,098**	14,828
	US$59,310	US$48,416
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 5, 6, 7, 13 and 21)	**US$10,344**	US$8,190
Contract liabilities (Note 10)	**1,660**	1,219
Advances from related parties (Notes 5, 6, 7 and 21)	**14,964**	14,964
Current portion of bank loans and long-term debt (Notes 3, 5, 6, 7 and 14)	**4,813**	5,260
Current portion of lease liabilities (Notes 3, 5, 6, 7, 21 and 22)	**1,625**	–
Income tax payable	**78**	82
Total Current Liabilities	**33,484**	29,715
Noncurrent Liabilities		
Bank loans and long-term debt - net of current portion (Notes 3, 5, 6, 7 and 14)	**1,723**	781
Lease liabilities - net of current portion (Notes 3, 5, 6, 7, 21 and 22)	**3,387**	–
Net pension liability (Notes 4 and 24)	**2,641**	2,076
Deferred tax liability (Note 23)	**–**	4
Total Noncurrent Liabilities	**7,751**	2,861
Total Liabilities	**US$41,235**	US$32,576

(Forward)

	December 31	
	2019	2018
Equity (Note 7)		
Capital stock (Note 15)		
Common stock	**US$7,695**	US$7,695
Preferred stock	**4,845**	4,845
Additional paid-in capital	**2,114**	2,114
Other reserves (Note 24)	**(989)**	(624)
Unrealized loss on financial asset at FVOCI	**(1)**	(2)
Retained earnings (Notes 3 and 15)	**4,411**	1,812
Total Equity	**18,075**	15,840
	US$59,310	US$48,416

See accompanying Notes to Consolidated Financial Statements.

IONICS EMS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands, Except Income per Share)

	Years Ended December 31		
	2019	2018	2017
REVENUE			
Revenue from contracts with customers (Note 25)	**US$56,134**	US$51,932	US$49,569
Rental income (Notes 22 and 25)	**14**	41	20
	56,148	51,973	49,589
COSTS OF SALES AND RENTAL SERVICES			
Cost of sales (Notes 3, 16 and 22)	**50,013**	46,180	43,835
Cost of rental services (Notes 17 and 22)	**8**	25	13
	50,021	46,205	43,848
GROSS PROFIT	**6,127**	5,768	5,741
OPERATING EXPENSES (Notes 3, 18 and 22)	**2,602**	2,938	2,960
INCOME BEFORE OTHER INCOME (EXPENSES)	**3,525**	2,830	2,781
OTHER INCOME (EXPENSES)			
Finance costs (Notes 3, 14 and 19)	**(449)**	(292)	(143)
Others - net (Note 20)	**(101)**	133	(57)
	(550)	(159)	(200)
INCOME BEFORE INCOME TAX	**2,975**	2,671	2,581
PROVISION FOR INCOME TAX (Note 23)	**312**	296	364
NET INCOME	**2,663**	2,375	2,217
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that may be reclassified to profit or loss			
Unrealized gain on available-for-sale financial asset	–	–	1
Items that may not be reclassified to profit or loss:			
Remeasurement gain (loss) on retirement plan (Note 24)	**(365)**	371	39
Unrealized gain (loss) on financial asset at FVOCI	**1**	(1)	–
	(364)	370	40
TOTAL COMPREHENSIVE INCOME	**US$2,299**	US$2,745	US$2,257
BASIC/DILUTED INCOME PER SHARE (Note 26)	**US$0.0016**	US$0.0014	US$0.0013

See accompanying Notes to Consolidated Financial Statements.

IONICS EMS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	For the year ended December 31, 2019						
	Common Stock (Note 15)	**Preferred Stock** (Note 15)	**Additional Paid-in Capital**	**Other Reserves** (Note 24)	**Unrealized Gain (Loss) on Financial Asset at FVOCI**	**Retained Earnings** (Notes 3 and 15)	**Total**
Balances at beginning of year, as previously presented	**US$7,695**	**US$4,845**	**US$2,114**	**(US$624)**	**(US$2)**	**US$1,812**	**US$15,840**
Impact of adoption of PFRS 16 (Note 3)	–	–	–	–	–	**(64)**	**(64)**
Balances at beginning of year, as restated	**7,695**	**4,845**	**2,114**	**(624)**	**(2)**	**1,748**	**15,776**
Net income	–	–	–	–	–	**2,663**	**2,663**
Unrealized gain on financial asset at FVOCI	–	–	–	–	**1**	–	**1**
Remeasurement loss on retirement plan (Note 24)	–	–	–	**(365)**	–	–	**(365)**
Total comprehensive income (loss)	–	–	–	**(365)**	**1**	**2,663**	**2,299**
Balances at end of year	**US$7,695**	**US$4,845**	**US$2,114**	**(US$989)**	**(US$1)**	**US$4,411**	**US$18,075**

	For the year ended December 31, 2018						
	Common Stock (Note 15)	Preferred Stock (Note 15)	Additional Paid-in Capital	Other Reserves (Note 24)	Unrealized Loss on Financial Asset at FVOCI	Retained Earnings (Deficit, Note 15)	Total
Balances at beginning of year, as previously presented	US$7,695	US$4,845	US$2,114	(US$995)	(US$1)	(US$687)	US$12,971
Impact of adoption of PFRS 15	–	–	–	–	–	124	124
Balances at beginning of year, as restated	7,695	4,845	2,114	(995)	(1)	(563)	13,095
Net income	–	–	–	–	–	2,375	2,375
Unrealized loss on financial asset at FVOCI	–	–	–	–	(1)	–	(1)
Remeasurement gain on retirement plan (Note 24)	–	–	–	371	–	–	371
Total comprehensive income (loss)	–	–	–	371	(1)	2,375	2,745
Balances at end of year	US$7,695	US$4,845	US$2,114	(US$624)	(US$2)	US$1,812	US$15,840

	For the year ended December 31, 2017						
	Common Stock (Note 15)	Preferred Stock (Note 15)	Additional Paid-in Capital	Other Reserves (Note 24)	Unrealized Gain (Loss) on Available-For Sale Financial Asset	Deficit	Total
Balances at beginning of year	US$7,695	US$4,845	US$2,114	(US$1,034)	(US$2)	(US$2,904)	US$10,714
Net income	–	–	–	–	–	2,217	2,217
Unrealized gain on available-for-sale financial asset	–	–	–	–	1	–	1
Remeasurement gain on retirement plan (Note 24)	–	–	–	39	–	–	39
Total comprehensive income	–	–	–	39	1	2,217	2,257
Balances at end of year	US$7,695	US$4,845	US$2,114	(US$995)	(US$1)	(US$687)	US$12,971

See accompanying Notes to Consolidated Financial Statements.

IONICS EMS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**US$2,975**	US$2,671	US$2,581
Adjustments for:			
Depreciation and amortization (Notes 3, 12, 16, 17, 18 and 22)	**4,551**	4,099	3,482
Finance costs (Notes 14, 19 and 22)	**449**	292	143
Movement in net pension liability (Note 24)	**200**	(128)	102
Interest income (Notes 8 and 20)	**(25)**	(9)	(8)
Loss (gain) on sale of property and equipment (Note 20)	**–**	(2)	3
Operating income before changes in working capital	**8,150**	6,923	6,303
Changes in working capital			
Decrease (increase) in:			
Receivables	**(359)**	4,184	(4,593)
Contract assets	**(2,413)**	541	–
Inventories	**1,430**	(3,395)	(3,904)
Prepayments and other current assets	**(120)**	173	(481)
Increase (decrease) in:			
Accounts payable and accrued expenses	**2,131**	(491)	2,719
Contract liabilities	**441**	(92)	–
Advances from customers	**–**	–	(1,578)
Net cash generated from (used in) operations	**9,260**	7,843	(1,534)
Income taxes paid (Note 23)	**(324)**	(378)	(262)
Interest received (Notes 8, 9 and 20)	**13**	9	8
Net cash provided by (used in) operating activities	**8,949**	7,474	(1,788)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment (Notes 12 and 14)	**(5,029)**	(536)	(5,252)
Proceeds from sale of property and equipment (Note 20)	**–**	2	49
Decrease (increase) in refundable deposits	**(140)**	9	27
Net cash used in investing activities	**(5,169)**	(525)	(5,176)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of (Note 5):			
Commercial loans	**8,000**	9,954	4,000
Bank loans	**80**	84	–
Payments of (Note 5):			
Commercial loans	**(8,000)**	(9,954)	–
Long-term debt	**(433)**	(1,855)	(2,075)
Principal portion of lease liabilities	**(1,797)**	–	–
Bank loans	**(54)**	(67)	(122)
Interest on bank loans, long-term debt and lease liabilities	**(426)**	(307)	(122)
Advances from related parties	**–**	(500)	–
Net cash provided by (used in) financing activities	**(2,630)**	(2,645)	1,681
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	**1,150**	4,304	(5,283)
CASH AT BEGINNING OF YEAR	**7,555**	3,251	8,534
CASH AND CASH EQUIVALENT AT END OF YEAR (Note 8)	**US$8,705**	US$7,555	US$3,251

See accompanying Notes to Consolidated Financial Statements.

(Amounts in Thousands, Except Par Value per Share and Earnings per Share)

1. Corporate Information and Status of Operations

Ionics EMS, Inc. (the Parent Company) was incorporated on September 21, 1999 in the Philippines to engage in the electronic manufacturing services (EMS) business. It is a subsidiary of Ionics, Inc. (the Ultimate Parent Company), a domestic corporation incorporated in the Philippines and listed in the Philippine Stock Exchange.

The Parent Company is engaged in the manufacture of printed circuit board (PCB) assembly, box build assembly (finished product assembly), disk drive magnetic head assembly, systems and subsystems assembly, as well as design and testing services.

In 2010, Ionics EMS (USA), a wholly-owned subsidiary, was incorporated in the United States of America, primarily to engage in designing and introducing new product.

The Parent Company's principal place of business and registered address is at Circuit Street, Light Industry & Science Park of the Philippines-I, Bo. Diezmo, Cabuyao City, Laguna.

The consolidated financial statements of the Group were authorized for issue by the Board of Directors (BOD) on April 28, 2020.

2. Registrations with the Philippine Economic Zone Authority (PEZA)

The Group's registrations with PEZA are as follows:

	Product Line	Date of Registration	Type of Registration	Income Tax Holiday (ITH)/ Gross Income Tax Incentive
1.	ReGrow Helmet Low Level Light Therapy Device	February 22, 2019	Inclusion	Gross income tax incentive starting Feb. 22, 2019
2.	Buddee Smart Plug fabrication	March 21, 2018	Inclusion	Gross income tax incentive starting March 21, 2018
3.	Manufacture of PCBA for Panasonic cooling fan for automotive headlamp	August 22, 2018	Inclusion	Gross income tax incentive starting August 22, 2018
4.	Manufacture of PCBA for fan motor for servers (Inlet Portion)	July 24, 2017	Inclusion	Gross income tax incentive starting July 24, 2017
5.	Manufacture of LCD and touch panel for mobile phone	February 14, 2017	New Project	Four-year ITH starting February 2017
6.	Server repair and Upgrade	January 30, 2017	New Project	Gross income tax incentive starting January 2017
7.	Manufacture of T-Mark 340 AC	December 29, 2016	New Project	Gross income tax incentive starting September 2016
8.	Manufacture of Afimilk Tag	July 28, 2016	New Project	Gross Income tax incentive starting July 2016
9.	Manufacture of Nano Nozzle Reader	July 28, 2016	New Project	Gross Income tax incentive starting July 2016
10.	Manufacture of PCBA for Printer	February 15, 2016	New Project	Gross income tax incentive starting February 2016
11.	Manufacture of Quantum	February 15, 2016	New Project	Gross income tax incentive starting February 2016
12.	WI butler	March 21, 2016	New project	Four-year ITH starting March 2016

(Forward)

	Product Line	Date of Registration	Type of Registration	Income Tax Holiday (ITH)/ Gross Income Tax Incentive
13.	Electronic Door Lock System	March 21, 2016	New project	Four-year ITH starting March 2016
14.	LCD Projector w/ Power Supply	July 06, 2015	New project	Four-year ITH starting July 2015
15.	Manufacture of tracking device	October 07, 2014	New Project	Gross Income tax incentive starting Oct 2014
16.	Manufacturing of light cure device	May 08, 2014	New Project	Gross Income tax incentive starting March 2014
17.	Portable/mobile two-way radio communication equipment	July 23, 2013	New project	Gross Income tax incentive starting July 2013
18.	XR3 Universal VSAT Transceiver*	September 27, 2012	New project	Four-year ITH starting June 2012
19.	Mobile Display Device*	June 22, 2012	New project	Four-year ITH starting Dec 2009
20.	Dual Port Gigabit Ethernet Bypass Adapter*	May 31, 2011	New project	Three-year ITH starting June 2011
21.	Pole Cabinets*	March 31, 2011	New project	Four-year ITH starting June 2011
22.	Video Conference System*	March 1, 2011	New project	Three-year ITH starting March 2011
23.	Optical Network Terminal*	February 15, 2010	New project	Four-year ITH starting March 2010
24.	Manufacturing of Plug Computer*	October 28, 2009	New project	Four-year ITH starting December 2009
25.	Electronic Communicator and Controller Module (ECCM)*	May 13, 2009	New project	Four-year ITH starting March 2009
26.	Digipass Security Software for Microsoft pocket PC*	April 27, 2009	New project	Four-year ITH starting March 2009
27.	Re-manufacture of Mobile Phones*	November 28, 2008	New project	Four-year ITH starting December 2008
28.	PV-Max Master*	March 13, 2008	New project	Four-year ITH starting May 2008
29.	T2 Wi-Fi Tag*	March 16, 2009	New project	Four-year ITH starting October 2008
30.	Optics Telecommunication*	November 28, 2005	New project	Four-year ITH starting January 2006
31.	ROHS Flex Cable Assembly*	October 13, 2005	New project	Four-year ITH starting October 2005
32.	RF Tuners and Amplifiers*	May 23, 2005	New project	Four-year ITH starting June 2005
33.	Power Controller of Beard Trimmer with Saft NiCD and Sanyo NiMH Re-chargeable Battery*	December 09, 2004	New project	Four-year ITH starting December 2004
34.	Wireless Broadband Access Unit*	May 11, 2004	New project	Four-year ITH starting May 2004
35.	Power Over LAN Assembly*	September 30, 2003	New project	Three-year ITH starting October 2003
36.	Electronic Car Dashboard Assembly*	June 12, 2003	New project	Four-year ITH starting June 2003
37.	Design and Development*	July 28, 2003	New project	Four-year ITH starting July 2003
38.	Hi-Focus Asymmetrical Digital Subscriber Line (ADSL) Broadband Access System*	September 21, 2000	New project	Four-year ITH starting October 2000

**ITH incentives for these product lines have already expired as of December 31, 2019. Gross income from product lines with expired registration are subjected to the 5% gross income tax from the date ITH incentive has expired.*

The above registrations also entitle the Group to other incentives which include, among others, the duty-free importation of raw materials and capital equipment.

3. **Significant Accounting Policies**

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for financial asset at FVOCI which have been measured at fair value. The Parent Company's functional currency and the Group's presentation currency is the United States (US) Dollar ($). All amounts are rounded to the nearest thousand US$ (US$000), unless otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards (PAS) and Interpretations issued by the Philippine Interpretations Committee (PIC).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2019 and 2018, and each of the three years in the period ended December 31, 2019.

A subsidiary is an entity which the Group, directly or indirectly controls. Control is achieved when the Group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investees. Specifically, the Group controls the 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 through:

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

All intra-group balances, transactions, income and expenses including unrealized profits are eliminated in full upon 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 subsidiary, it derecognized the related assets (including goodwill), liabilities, noncontrolling interest and other components of equity while any resultant gain or loss is recognized in the consolidated statement of comprehensive income. Any investment retained is recognized at fair value.

The financial statements of the subsidiary are prepared in the same reporting year as the Parent Company, using consistent accounting policies.

<u>Changes in Accounting Policies and Disclosures</u>
The accounting policies adopted in the preparation of the Group's consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the following new and amended accounting pronouncements which became effective January 1, 2019.

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

- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the consolidated statement of financial position.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have a significant impact for leases where the Group is the lessor.

  The Group adopted PFRS 16 using the modified retrospective method with effect reflected in retained earnings, with the date of initial application of January 1, 2019. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at January 1, 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Thus, the Group elected to apply this method only to those lease contracts that were not completed at the date of initial application (January 1, 2019). The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term lease).

  The effects of adopting PFRS 16 as at January 1, 2019 follows:

	Increase (Decrease)
Assets	
Right-of-use assets	US$7,997
Property and equipment	(4,195)
Deferred tax asset - net	4
Liabilities	
Bank loans and long-term debt	(1,877)
Lease liabilities	5,747
Net impact on equity	(US$64)

The Group has lease contracts for various items of land, office buildings, and machineries and equipment. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases. Refer to section on accounting policies on leases prior to and upon adoption of PFRS 16.

Based on the above, as at January 1, 2019:

- Right-of-use assets amounting to US$8.00 million were recognized and presented separately in the consolidated statement of financial position. These represent the right to use the underlying assets set-up upon transition date.
- Property and equipment amounting to US$4.20 million, pertaining to lease contracts previously accounted for as finance lease under PAS 17, was included in the right-of-use assets recognized.
- Deferred tax assets - net increased by US$0.004 million because of the deferred tax impact of the changes in assets and liabilities.
- Bank loans and long-term debt relating to those previously accounted for as finance lease under PAS 17, decreased by US$1.88 million due to reclassification to lease liabilities.
- Lease liabilities amounting to US$5.75 million were recognized and presented separately in the consolidated statement of financial position. This is based on the present value of the remaining lease payments, discounted using incremental borrowing rate at the date of initial application.
- The net effect of these adjustments had been adjusted to retained earnings amounting to US$0.06 million.

Leases previously accounted for as operating leases
The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use assets for all leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Leases previously accounted for as finance leases
The Group recognized right-of-use assets and lease liabilities for those leases previously classified as finance leases, except for short-term leases. The right-of-use assets and the lease liabilities were recognized at the carrying amount immediately before that date measured applying PAS 17. For those leases, a lessee shall account for the right-of-use asset and the lease liability applying this standard from the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The lease liabilities as at January 1, 2019 as can be reconciled to the operating lease commitments as of December 31, 2018 follows:

Operating lease commitments as at December 31, 2018 (see Note 22)	**US$1,398**
Weighted average incremental borrowing rate at January 1, 2019	6.17%
Discounted operating lease commitments at January 1, 2019	**1,245**
Less commitments relating to short-term leases	(111)
Add: Commitments relating to leases previously classified as finance leases	1,877
Payments in optional extension periods not recognized at December 31, 2018	2,736
Lease liabilities recognized at January 1, 2019 (see Note 22)	**US$5,747**

Set out below are the amounts by which each financial statement line item is affected as at and for the year ended December 31, 2019 as a result of the adoption of PFRS 16.

	Amounts prepared under		Increase
	PFRS 16	PAS 17	(Decrease)
Assets			
Property and equipment	US$15,895	US$19,500	(US$3,605)
Right-of-use assets	6,715	–	6,715
Deferred tax assets (liabilities) - net	8	(2)	10
Liabilities			
Bank loans and long-term debt	6,536	8,188	(1,652)
Lease liabilities	5,012	–	5,012
Costs and expenses			
Cost of sales and rental services			
Depreciation	4,468	3,098	1,370
Occupancy cost and utilities	2,516	3,886	(1,370)
Operating expenses			
Depreciation	83	79	4
Occupancy cost and utilities	263	267	(4)
Finance costs	449	232	216
Provision for income tax	312	318	(6)

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *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 associates 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. Retrospective application is required.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

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

  IFRIC 23, the Interpretation, addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Tax*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

  The Group determines whether to consider each uncertain tax treatments separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

  The Group applies significant judgment in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions. The Group determined that it is probable that its income tax treatments (including those for the subsidiary) will be accepted by the taxation authorities. The Interpretation did not have a significant impact on the consolidated financial statements of the Group.

- Annual Improvements to PFRSs 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments had no impact on the consolidated financial statement of the Group as there is no transaction where joint control is obtained.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments had no impact on the consolidated financial statements of the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted.

  The amendments have no impact on the Group's consolidated financial statements.

Future Changes in Accounting Policies
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 will have a significant impact on its consolidated financial statements. The Group will consider the effects on the consolidated financial statements as these become effective and applicable.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Deferred effectivity

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

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

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

  The Group is currently assessing the impact of these amendments.

Significant Accounting Policies

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current and noncurrent classification.

An asset is current when:
- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after reporting date; or
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least 12 months after reporting date.

All other assets are classified as noncurrent.

A liability is current when:
- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after reporting date; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after reporting date.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

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

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data 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 reassessing 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.

Recognition and Measurement of Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date is the date that the Group commits to purchase or sell an asset.

Financial assets

a. Initial recognition
Financial assets are classified, at initial recognition, as either subsequently measured at amortized cost, at FVOCI, or financial assets at fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15. Refer to the accounting policies on Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or at FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. This assessment is referred to as the 'SPPI test' and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

As of December 31, 2019 and 2018, the Group's financial assets comprise of financial assets at amortized cost and financial asset designated at FVOCI with no recycling of cumulative gains or losses upon derecognition (equity instruments).

b. Subsequent measurement - Financial assets at amortized cost
Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model, the objective of which is to hold assets in order to collect contractual cash flows; and,
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in the consolidated statement of comprehensive income when the asset is derecognized, modified or impaired.

As of December 31, 2019 and 2018, the Group classified cash and cash equivalent, receivables (excluding advances to managers and employees), and refundable deposits as financial assets at amortized cost.

c. Subsequent measurement - Financial asset designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instrument).

Upon initial recognition, the Group can elect to classify irrevocably its proprietary club share as equity instrument designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on this financial asset are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of comprehensive income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income (OCI). Equity instrument designated at fair value through OCI is not subject to impairment assessment.

As of December 31, 2019 and 2018, the Group elected to classify irrevocably its proprietary club share under this category.

Financial liabilities

a. Initial recognition
Financial liabilities are classified, at initial recognition, either as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

As of December 31, 2019 and 2018, the Group's financial liabilities comprise of financial liabilities at amortized cost and other financial liabilities.

b. Subsequent measurement - loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR method. The EIR amortization is included as "Finance costs" in the consolidated statement of comprehensive income.

This accounting policy applies to the Group's bank loans and long-term debt.

c. Subsequent measurement - Other financial liabilities
After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized under the "Others - net" account in the consolidated statement of comprehensive income when the liabilities are derecognized or impaired, and through the "Finance costs" account when the gains and losses are amortized.

This accounting policy applies to the Group's accounts payable and accrued expenses, advances from related parties, bank loans and long-term debt, and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as net pension liability, income tax payable, and other statutory liabilities).

Impairment of Financial Assets and Contract Assets
The Group recognizes an allowance for estimated credit losses (ECLs) for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables, other receivables from customers and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group uses a provision matrix which is based on historical observed default rate or losses and adjusted by forward-looking estimate. Primary drivers like macroeconomic indicators of qualitative factors such as forward-looking data on inflation and changes in Gross Domestic Product (GDP) rates were added to the expected losses calculation to reach a forecast supported by both quantitative and qualitative data points.

The key inputs in the model include the Group’s definition of default, historical data of three (3) years for the origination, and default date. The Group considers trade receivables in default when contractual payments are 150 days past due. However, in certain cases, the Group may also consider a receivable to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements made by the Group.

The probability of default is applied to the estimate of the loss arising in default which is based on the difference between the contractual cash flows due and those that the Group would expect to receive. For purposes of calculating loss given default, accounts are segmented based on geographical location of customers.

Definition of default and credit-impaired financial assets
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria
The customer receives a follow up communication from management and does not continue the payments and management performs account analysis to determine action steps to recover from defaulted customer (i.e., charging of interest, implementing buyback provision, etc.).

Qualitative criteria
The customer meets unlikeliness to pay criteria, which indicates the customer is in significant financial difficulty.

These are instances where:

a. The customer is experiencing financial difficulty or is insolvent
b. The customer is in breach of financial covenant/s
c. An active market for that financial assets has disappeared because of financial difficulties
d. Concessions have been granted by the Group, for economic or contractual reasons relating to the customer’s financial difficulty
e. It is becoming probable that the customer will enter bankruptcy or other financial reorganization

The criteria above have been applied to the financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently throughout the Group's expected credit loss calculation.

For the Group's cash and cash equivalent and refundable deposits measured at amortized cost, the general approach for measuring expected credit losses was applied.

For refundable deposits, ECLs are recognized in two (2) stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for expected credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over remaining life of the exposure, irrespective of the timing of default (a lifetime ECL).

For cash and cash equivalent, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. To estimate the ECL, the Group uses the ratings published by a reputable rating agency.

Financial Instruments (Effective before January 1, 2018)
Available-for-sale (AFS) financial assets
AFS financial assets are those that are designated as such or do not qualify to be classified as designated as FVTPL, held-to-maturity (HTM) or loans and receivables. These are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, AFS financial assets are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Unrealized gain (loss) on AFS" under OCI.

When an AFS financial asset is disposed of, the cumulative gain or loss previously recognized under OCI is recognized in current operations. The losses arising from impairment of such investments are recognized as "Provision for impairment losses" in the consolidated statement of comprehensive income.

The Group has proprietary club share classified as AFS financial asset.

Impairment of Financial Assets (Effective before January 1, 2018)
The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of similar 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 similar financial assets that can be reliably estimated.

Evidence of impairment may include indications that the customer or a group of customers 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 when observable data indicate that there is measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For 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 the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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 has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of comprehensive income.

Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to 'Provision for impairment losses' in the consolidated statement of comprehensive income.

AFS financial assets
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of similar financial assets is impaired.

In case of quoted equity investments classified as AFS financial asset, this would include a significant or prolonged decline in the fair value of the investments below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through the current operations. Increases in fair value after impairment are recognized directly as other comprehensive income.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured shall be measured at cost subject to impairment. Evidence of impairment may include indications that the probability that the other party will enter bankruptcy or other financial reorganization and when observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults.

If there is an objective evidence that an impairment loss has occurred on an unquoted equity instruments that is not carried at fair value because the fair value cannot be measured reliably, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the 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 financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; and,
- 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.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the 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.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs of purchased raw materials, spare parts and supplies are stated at invoice value determined using the first-in, first-out (FIFO) method. NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and marketing costs.

In determining the NRV, the Group considers factors such as the aging and future demand of the inventory, contractual arrangements with customers and the Group's ability to redistribute inventory to other products or return inventory to suppliers. In the event that NRV is lower than cost, the decline shall be recognized as part of cost of sales in the consolidated statement of comprehensive income.

Inventories (Effective before January 1, 2018)
Inventories are valued at the lower of cost and NRV. Cost of finished goods and work-in-process inventories include direct materials, labor costs and a proportion of manufacturing overhead costs based on normal capacity, and is determined using the FIFO method. Costs of purchased raw materials, spare parts and supplies are stated at invoice value determined using the FIFO method. NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and marketing costs.

In determining the NRV, the Group considers factors such as the aging and future demand of the inventory, contractual arrangements with customers and the Group's ability to redistribute inventory to other products or return inventory to suppliers. In the event that NRV is lower than cost, the decline shall be recognized as part of cost of sales in the consolidated statement of comprehensive income.

Prepayments and Other Assets
Prepaid expenses are amounts paid in advance for goods and services that are yet to be delivered and from which future economic benefits are expected to flow to the Group within its normal operating cycle or within 12 months from end of reporting period. These are measured at amortized cost less any impairment loss.

Other assets pertain to resources controlled by the Group as a result of past events and from which future economic benefits are expected to flow to the Group. If assets are expected to be realized within 12 months from end of reporting period, these are classified as current. Otherwise, these are classified as noncurrent.

Property and Equipment
Property and equipment, except construction-in-progress, are carried at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price, including import duties, nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent replacement costs of parts of the property and equipment are capitalized when the recognition criteria are met.

Significant refurbishments and improvements are capitalized when it can be clearly demonstrated that the expenditures have resulted in an increase in future economic benefits expected to be obtained from the use of an item of property and equipment beyond the originally assessed standard of performance. Costs of repairs and maintenance are charged as expense when incurred.

Depreciation is computed using the straight-line method over the estimated useful life (EUL) of the asset as follows:

	Years
Machinery and equipment	5-7
Tools and other equipment	5
Airconditioning equipment	5
Furniture, fixtures and equipment	5
Transportation equipment	5
Building improvements	5

The cost of the leasehold improvements is amortized over the shorter of the lease term or the EUL of the improvements of seven (7) years, whichever is lower.

The EUL and the depreciation and amortization methods are reviewed at each financial year-end to ensure that the period and the methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of property and equipment is reviewed for impairment when events or changes in circumstances indicate that carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash generating units (CGUs) are written down to their recoverable amounts (see Accounting Policy on Impairment of Nonfinancial Asset).

Construction-in-progress is stated at cost and shall be depreciated using the straight-line method when the development is completed, or the assets are ready for their intended use.

An item of property 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 the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognized and the cost and the related accumulated depreciation, and any impairment in value, are removed from the accounts.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that the nonfinancial assets (e.g., property and equipment, right-of-use assets and prepayments and other current assets) may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the Group's consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

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 recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

<u>Foreign Exchange Transactions and Translation</u>
Transactions in foreign currencies are recorded using the exchange rate at the date of transactions. Foreign exchange gains or losses arising from foreign currency transactions and revaluation adjustments of foreign currency assets and liabilities are credited to or charged against current operations. Monetary assets and liabilities denominated in foreign currencies are translated using the foreign exchange rate prevailing at reporting date. All differences are taken to profit or loss. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

<u>Equity</u>
Capital stock is measured at par value for all shares issued and outstanding. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. When the shares are sold at premium, the difference between the proceeds and the par value is credited to 'Additional paid-in capital' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Additional paid-in capital' account. If additional paid-in capital is not sufficient, the excess is charged to retained earnings (deficit).

<u>Other Comprehensive Income</u>
OCI are items of income and expense that are not recognized in the profit or loss for the year in accordance with PFRSs.

<u>Retained Earnings (Deficit)</u>
Retained earnings (deficit) represents the accumulated earnings (losses) of the Group and any adjustment arising from application of new accounting standards, policies or correction of errors applied retrospectively, less any dividend. The accumulated earnings of the subsidiary included in the consolidated retained earnings are available for dividend declaration when these are likewise declared as dividends by the subsidiary as approved by their respective BOD.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income applicable to common stock (consolidated net income/loss less dividends on preferred stock) by the weighted average number of common shares issued and outstanding during the year, after giving retrospective adjustment to any stock dividend declared or stock split made during the year.

Diluted EPS is calculated by dividing the consolidated net income attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive potential common shares.

Revenue and Cost Recognition

a) Revenue from contracts with customers

The Group is in the business of providing electronic manufacturing and other related services to various customers. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

Manufacturing of goods

The Group provides manufacturing services in accordance with the customer's specifications. The Group promises to provide a combined performance obligation comprised of non-distinct goods or services, which include issuance of materials to production, assembly, testing and packaging.

Contracts with customers are generally classified as turnkey or consignment. In a turnkey contract, the Group procures the materials and provides the assembly services to the customer. In a consignment contract, the Group only provides assembly services to the customer.

For turnkey contracts, revenue is recognized over time since the products created have no alternative use to the Group and the Group has right to payment for performance completed to date, including the related profit margin, in case of termination for reasons other than the Group's failure to perform as promised.

For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as the Group performs.

The Group determined that the input method is the appropriate method in measuring progress for revenue recognized as over time because there is a direct relationship between the Group's effort (i.e., actual cost incurred) and the transfer of service or goods to the customer. For both turnkey and consignment contracts, payment of the transaction price is due 30 to 90 days upon billing.

Cost of sales is recognized consistent with the revenue recognition method applied. This includes all expenses associated with the manufacturing of goods and indirect costs related to the contract performance such as materials and supplies used, direct labor and overhead costs related to production.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., customer options that provide material rights to customers, warranties). In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to customer, if any.

Variable consideration
If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Significant financing component
The Group's contracts with its customers are short-term in nature. Using the practical expedient under PFRS 15, the Group does not adjust the promised amount of consideration of the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one (1) year or less.

b) Contract balances
Contract assets
Contract asset represents the entity's right to payment for services already transferred to a customer if that right to payment is conditional on something other than the passage of time. Contract assets are reclassified as a receivable when the entity's right to payment is unconditional.

Contract liabilities
A contract liability is the amount of consideration paid by the customers or if the entity has a right to consideration that is unconditional, before the good or service is transferred to the customer. This represents the obligation to transfer goods or services to a customer for which consideration has been received.

Costs to obtain a contract
The Group pays sales commission to its marketing agents for each contract that they obtain. The Group has elected to apply the allowed practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions (included under operating expenses) because the amortization period of the asset that the Group otherwise would have used is one (1) year or less.

Other Income Recognition
Rental income
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms of ongoing leases.

Interest income
Interest income is recognized as interest accrues taking into account the effective yield on the asset. Interest income is included in the "Others - net" account in the consolidated statement of comprehensive income.

Revenue and Cost Recognition (Effective Before January 1, 2018)
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 fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue recognition arrangements 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 its arrangements.

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

Sales and Cost of Sales
Revenue from sale of goods is recognized upon shipment of packaged electronic products or when the packaged electronic products are accepted by the customer depending on the specific agreement with each customer, title and risk of ownership have been transferred to the customer, the price to be paid by the customer is fixed or determinable and the recoverability is reasonably assured.

Generally, there are no formal customer acceptance requirements or future obligations related to manufacturing services. If such requirements exist, revenue is recognized at the time such provisions or requirements are completed and obligations are already fulfilled.

Cost of sales includes all expenses associated with the sale of goods. This includes all materials and supplies used, direct labor and overhead costs related to production. Such costs are recognized when the related sales have been recognized.

Bill and hold sales
The term 'bill and hold' sale is used to describe a transaction in which delivery is delayed at the buyer's request, but the buyer takes title and accepts billing.

Revenue is recognized when the buyer takes title, provided:

- it is probable that delivery will be made;
- the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognized;
- the buyer specifically acknowledges the deferred delivery instructions; and
- the usual payment terms apply.

Revenue is not recognized when there is simply an intention to acquire or manufacture the goods in time for delivery.

Other Costs and Expenses
Costs and expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Group. Costs and expenses are generally recognized when incurred and measured at the fair value of the consideration paid or payable.

The following specific recognition criteria must also be met before costs and expenses are recognized:

Cost of rental services
Cost of rental services includes all direct expenses associated with operating leases. This includes depreciation, occupancy costs and utilities and other expenses related to these services.

Operating expenses
Operating expenses constitute costs which are directly related to selling, advertising and delivery of goods to customers, and costs of administering the business.

Advances from Customers (Effective before January 1, 2018)
This account pertains to advances received from the customers to be used by the Group to purchase raw materials and cover aging inventories. Advances from customers are recognized when cash is received and is measured at cost.

Leases (Effective Beginning January 1, 2019)
The Group assesses at the contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identical asset for a period of time in exchange for consideration.

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rent is recognized as revenue in the period it is earned.

Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term lease. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a) Right-of-use assets
The Group recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the underlying assets (if depreciable).

Depreciation is computed using the straight-line method over the EUL of the asset as follows:

	Years
Machinery and equipment	5-7
Building	5

Right-of-use asset on land is depreciated using the lease term of 5 years.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are subject to impairment. Refer to the accounting policies on impairment of nonfinancial assets.

b) Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

c) Short-term leases
The Group applies the short-term lease recognition exemption to its leases that have lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

<u>Leases (Prior to Adoption of PFRS 16)</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Operating lease - 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 an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Operating lease - Group as a lessor
Leases where the Group does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Collections of operating lease payments are recognized as an income in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Finance lease - Group as a lessee
Leases where the lessor transfers substantially all the risks and benefits of ownership of the leased item, are capitalized at the inception of the lease at fair value of the leased property or, if lower, at the present value of the minimum leased payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the leased term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Employee Benefits
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 costs
- 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.

These amounts are calculated periodically by independent qualified actuary.

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 government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in OCI account "Remeasurement gain (loss) on retirement plan" are not reclassified to another equity account in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. 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 of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when, and only when, reimbursement is virtually certain.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly within 12 months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Borrowing Costs

Borrowing costs are capitalized if these are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities for the asset's intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. These include interest charges and other related financing charges incurred in connection with the borrowing of funds. Other borrowing costs are expensed as incurred.

Income Taxes

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

Deferred income tax
Deferred income tax is determined using the liability method on all temporary differences at the 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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused MCIT and unused NOLCO can be utilized.

Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

Deferred income tax relating to items recognized in OCI or directly in equity is recognized in the consolidated statement of comprehensive income and consolidated statement of changes in equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

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.

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

Segment Reporting
A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment) and is subject to risks and rewards that are different from other segments. The BOD is the chief operating decision maker. Segment assets and liabilities reported are those assets and liabilities included in measures that are used by the BOD.

Events After the Reporting Period
Any post year-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Group's position at the reporting date (adjusting events) is reflected in the consolidated financial statements. Any post year-end event that is not adjusting event is disclosed in the notes to consolidated financial statements when material.

4. Significant Accounting Judgments Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRSs requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities, at the reporting date. The judgments, estimates and assumptions used in the consolidated financial statements are based on management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Revenue from contracts with customers

- Identifying contracts with customers
  Generally, a valid and approved Manufacturing Service Agreement (MSA), tooling and sourcing agreements, customer forecast, and/or customer purchase order will be in place before the Group provides services or manufacture goods for the customers. The Group is not obligated to transfer any goods or provide services until the customer submits a Purchase Order under the MSA, respectively. The Purchase Order creates the enforceable rights and obligations and is therefore evaluated together with the MSA for revenue recognition in accordance with PFRS 15.

- Determining the timing of revenue recognition
  The Group assessed that revenue from manufacturing of goods shall be recognized over time. For turnkey contracts wherein the products created have no alternative use to the Group and the Group has right to payment for performance completed to date, including the related profit margin, in case of termination for reasons other than the Group's failure to perform as promised, revenue is recognized over time. For consignment contracts, revenue is recognized over time as services are rendered since the customer simultaneously receives and consumes the benefits as the Group performs.

- Determining the measure of progress for revenue recognized over time
  The Group measures progress towards complete satisfaction of the performance obligation using an input method (i.e., costs incurred). Management believes that this method provides a faithful depiction of the transfer of goods or services to the customer because the Group provides integration service to produce a combined output and each item in the combined output may not transfer an equal amount of value to the customer.

Determination of functional currency
The Group has revenue and costs and expenses denominated in various currencies, mainly in US Dollar and Philippine Peso. The entities within the Group determines the functional currency based on economic substance of underlying circumstances relevant to each entity within the Group. The Parent Company and USA determined that the functional currency is the US dollar since its revenues and expenses are substantially denominated in US Dollar.

Operating lease classification - Group as a lessor
The Group has entered into commercial property leases on its property. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

The following indicators, individually or in combination, would normally lead to a lease being classified as a finance lease:

- the lease does transfer ownership of the asset to the lessees by the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and,
- the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

For all lease agreements, the Group determined that no indicators exist to consider the lease commitments as a finance lease. The Group retains all the significant risks and rewards of ownership of these properties and therefore, all leases are accounted for as operating leases (see Note 22).

Determination of lease term of contracts with renewal and termination options - Group as a lessee (Effective beginning January 1, 2019)
The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

For the lease of buildings, the Group included the renewal period as part of the lease term as these are reasonably certain to be exercised as assessed by the management. The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised. However, for the other lease contracts identified to be scoped under PFRS 16, the Group did not include the renewal and termination period of several lease contracts since the renewal and termination options is based on mutual agreement, thus not enforceable.

Refer to Note 22 for information on potential future lease payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Operating lease classification - Group as a lessee (Effective before January 1, 2019)
The Group has entered into commercial property leases. The Group has determined, based on the terms and conditions of the lease agreements and finance lease indicators previously set forth, that it has not acquired all the significant risks and rewards of ownership of the leased properties and so accounts for the contracts as operating leases (see Note 22).

Finance lease classification - Group as a lessee (Effective before January 1, 2019)
The Group has entered into commercial property leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

The Group leases certain machinery and equipment and has determined, based on an evaluation of the terms and conditions of the agreements and finance lease indicators previously set forth, that the lessor transfers substantially all the risks and benefits incidental to ownership of the leased properties to the Group, thus, the Group recognizes these leases as finance leases (see Note 22).

Impairment of nonfinancial assets
The Group assesses impairment of nonfinancial assets (e.g., property and equipment, right-of-use assets and prepayments and other current 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 and which could trigger an impairment review include the following:

- significant underperformance relative to 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 or change in technology.

When indicators exist, an impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Assets that are subject to impairment testing when impairment indicators are present and their respective carrying amount as of December 31 are as follows:

	2019	2018
Prepayments and other current assets	**US$961**	US$841
Property and equipment (Note 12)	**15,895**	14,489
Right-of-use assets (Note 22)	**6,715**	−

As of December 31, 2019 and 2018, management believes that no impairment indicator exists for the Group's nonfinancial assets.

Assessing uncertain tax position
Upon adoption of IFRIC 23, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgment in identifying uncertainties over its income tax treatments. The Group determined, based on its assessment, in consultation with its tax counsel, that it is probable that its uncertain income tax treatments (including those for the subsidiary) will be accepted by the taxation authorities. Accordingly, the Interpretation did not have a significant impact on the consolidated financial statements of the Group.

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

Provision for impairment losses for receivables and contract assets
Upon adoption of PFRS 9, the Group uses a provision matrix to calculate ECLs for receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information such as inflation and changes in GDP rates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions, and ECL is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

In addition to provision matrix as collective impairment assessment, the Group also performs specific assessment regularly against individually significant receivables which can be specifically identified as requiring a specific assessment, have a greater risk of default than when originally granted through review of receivable's age and status. Judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Before adoption of PFRS 9, the Group reviews its receivable portfolio to assess impairment annually based on the factors that affect the collectability of the account. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowance on a continuous basis. Judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

An increase in the allowance account for impairment would increase recorded operating expenses and decrease current assets and otherwise for reversals.

As of December 31, 2019, and 2018, allowance for impairment losses on receivables amounted to US$0.88 million and US$0.90 million, respectively, and nil for contract assets (see Notes 9 and 10).

Provision for inventory obsolescence
The Group reviews its inventory levels to assess impairment at least on a quarterly basis. The semiconductor industry is characterized by rapid technological change, short-term customer commitments and rapid changes in demand. Impairment losses are provided on excess and obsolete inventory based on regular reviews of inventories on hand, and the latest forecasts of product demand and product requirements from customers. If actual market conditions or customer's product demands are less favorable than those forecasted, additional impairment loss is recognized. An increase in allowance for inventory obsolescence would increase recorded cost of sales and decrease current assets.

No provision for inventory obsolescence was recognized in 2019, 2018 and 2017. The Group's allowance for inventory obsolescence amounted to US$0.19 million as of December 31, 2019 and 2018. The carrying values of the inventories of the Group amounted to US$12.02 million and US$13.45 million as of December 31, 2019 and 2018, respectively (see Note 11).

Estimation of net pension liability
The cost of defined benefit pension plans as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in discount rate and future salary increase.

All assumptions are reviewed at each reporting date. While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

The net pension liability as at December 31, 2019 and 2018 amounted to US$2.64 million and US$2.08 million, respectively (see Note 24).

Leases - estimating the incremental borrowing rate (Effective beginning January 1, 2019)
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

The Group's lease liabilities amounted to US$5.01 million as of December 31, 2019 (nil as of December 31, 2018, see Note 22).

Recognition of deferred tax assets
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces the deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Group did not recognize certain deferred tax assets on temporary differences since management believes that it may not be reasonably probable that sufficient taxable profit tax will be available against which the deductible temporary differences can be utilized.

As of December 31, 2019, and 2018, the temporary differences of the unrecognized deferred tax assets amounted to US$2.89 million and US$3.17 million, respectively (see Note 23).

5. **Financial Risk Management Objectives and Policies**

Risk management structure
All policy directions, business strategies and management initiatives emanate from the BOD which strives to provide the most effective leadership for the Group. For this purpose, the BOD convenes in quarterly meetings and in addition, is available to meet in the interim should the need arises.

The Group has adopted internal guidelines setting forth matters that require BOD approval. Under the guidelines, all new investments, any increase in investment in business and subsidiary and any divestments require BOD approval.

The normal course of the Group's business exposes it to a variety of financial risks such as credit risk, liquidity risk and market risks which include foreign currency risk exposures.

The Group has various financial assets such as cash and cash equivalent, receivables (excluding advances to managers and employees), contract assets, financial asset at FVOCI and refundable deposits. The Group's principal financial liabilities consist of accounts payable and accrued expenses, advances from related parties, bank loans and long-term debt and lease liabilities. The main purpose of these financial liabilities is to raise funds for the Group's operations.

Credit Risk
Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to perform its obligations during the life of the transaction. This includes the risk of non-payment by banks and customers, failed settlement of transactions and default on contracts.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The Group's credit risk management involves entering into arrangements only with counterparties with acceptable credit standing and that are duly approved by the BOD.

Trade receivables, other receivables from customers and contract assets
The Group's trade receivables, other receivables from customers and contract assets are monitored on a regular basis. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due of the customer with loss pattern. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Generally, trade receivables, other receivables from customers and contract assets are written-off when deemed unrecoverable and are not subject to enforcement activity. The maximum credit exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

Other financial assets
Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty limits are reviewed and approved by the BOD and are updated when necessary.

Cash and cash equivalent are placed in various banks. Material amounts are held by banks which belong to top five (5) banks in the country. The rest are held by local banks that have good reputation and low probability of insolvency. These are considered to be low credit risk investments.

The Group does not hold any collateral from its counterparties thus, the carrying amounts of cash and cash equivalent, receivables, contract assets and refundable deposits approximate the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

Concentration of credit risk
The Group has concentration of credit risk due to sales to significant customers. Largest customer accounted for approximately 22.48%, 21.84% and 22.38% of total revenue from contracts with customers in 2019, 2018 and 2017, respectively. The Group's top five (5) customers accounted for approximately 68.68%, 62.15% and 65.69% of its total revenue from contracts with customers in 2019, 2018 and 2017, respectively. The Group's financial instruments are broadly diversified along industry, product and geographic lines, and transactions are entered into with a range of counterparties, thereby, mitigating any significant concentration of credit risk.

In 2019, the financial assets and contract assets of the Group are more concentrated to the bank and financial intermediaries, consumer electronics and telecom which accounted for 83.63% of the total credit risk exposure while in 2018, it is more concentrated to the bank and financial intermediaries, telecom and computer peripherals which accounted for 83.70% of the total credit risk exposure.

An industry sector analysis of the Group's maximum exposure to credit risk is as follows:

	2019	2018
Banks and financial intermediaries*	**US$8,698**	US$7,549
Consumer electronics	**6,076**	2,634
Telecommunications (telecom)	**4,975**	5,789
Computer peripherals	**2,986**	3,007
Others**	**881**	549
Total	**US$23,616**	US$19,528

**Excludes cash on hand amounting to US$0.01 million as of December 31, 2019 and 2018.*
***Excludes nonfinancial assets amounting to US$0.07 million and US$0.09 million as of December 31, 2019 and 2018, respectively.*

The following tables summarize the credit quality of the Group's financial assets and contract assets (gross of allowance of impairment losses) as at December 31:

	2019					
	Neither past due nor impaired					
	Minimal Risk	**Average Risk**	**High Risk**	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalent*	**US$8,698**	**US$–**	**US$–**	**US$–**	**US$–**	**US$8,698**
Receivables						
Trade receivables	**5,995**	–	–	**3,225**	**631**	**9,851**
Other receivables from customers	**1,117**	–	–	**251**	**244**	**1,612**
Advances to managers and employees**	**36**	–	–	–	–	**36**
SSS claims receivables	**35**	–	–	–	–	**35**
Others	**37**	–	–	**115**	**3**	**155**
Contract assets	**3,639**	–	–	–	–	**3,639**
Refundable deposits	**468**	–	–	–	–	**468**
	US$20,025	**US$–**	**US$–**	**US$3,591**	**US$878**	**US$24,494**

**Excludes cash on hand amounting to US$0.01 million*
***Excludes nonfinancial assets US$0.07 million*

	2018					
	Neither past due nor impaired					
	Minimal Risk	Average Risk	High Risk	Past Due but not Impaired	Impaired	Total
Cash in banks	US$7,549	US$–	US$–	US$–	US$–	US$7,549
Receivables						
Trade receivables	6,329	–	–	2,951	655	9,935
Other receivables from customers	845	–	–	138	244	1,227
Advances to managers and employees*	25	–	–	–	–	25
SSS claims receivables	33	–	–	–	–	33
Others	–	–	–	104	3	107
Contract assets	1,226	–	–	–	–	1,226
Refundable deposits	328	–	–	–	–	328
	US$16,335	US$–	US$–	US$3,193	US$902	US$20,430

**Excludes nonfinancial assets US$0.09 million*

The Group's bases in grading its financial assets and contract assets are as follows:

Minimal risk - accounts with a high degree of certainty in collection, where counterparties have consistently displayed prompt settlement practices, and have little to no instances of defaults or discrepancies in payment; also includes transactions with related parties.

Average risk - active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues, but where the likelihood of collection is still moderate to high as the counterparties are generally responsive to credit actions initiated by the Group.

High risk - accounts with a low probability of collection and can be considered impaired based on historical experience, where counterparties exhibit a recurring tendency to default despite constant reminder and communication, or even extended payment terms.

The Group maintains cash in banks and cash equivalent with various financial institutions that management believes to be of high credit quality. The Group's investment policy is to extend credit exposures with financial institutions from which it has outstanding loans and loan facilities.

Refundable deposits mainly represent meter deposits with a third party which is collectible upon the termination of the contract in the unforeseeable future.

The tables below show the analysis of receivables that are past due but not impaired as at December 31:

	2019						
	<30 days	**30-60 days**	**61-90 days**	**91-120 days**	**121-150 Days**	**>150 days**	**Total**
Trade receivables	**US$1,626**	**US$784**	**US$803**	**US$5**	**US$7**	**US$–**	**US$3,225**
Other receivables from customers	**81**	**132**	**36**	**–**	**2**	**–**	**251**
Others	**–**	**–**	**–**	**–**	**–**	**115**	**115**
	US$1,707	**US$916**	**US$839**	**US$5**	**US$9**	**US$115**	**US$3,591**

	2018						
	<30 days	30-60 days	61-90 days	91-120 days	121-150 days	>150 days	Total
Trade receivables	US$1,526	US$1,035	US$293	US$1	US$6	US$90	US$2,951
Other receivables from customers	72	26	32	5	–	3	138
Others	–	–	–	–	103	1	104
	US$1,598	US$1,061	US$325	US$6	US$109	US$94	US$3,193

Applying the expected credit risk model did not result in the recognition of an impairment loss for all financial assets at amortized cost and contract assets in 2019 and 2018.

Liquidity Risk

Liquidity risk is the risk of not being able to meet funding obligations such as the repayment of liabilities or payment of asset purchases. Short-term funding is obtained to finance cash requirements for capital expenditures and operations. Amount of credit lines are obtained from designated banks duly approved by the BOD. Surplus funds are placed with reputable banks to which the Group has outstanding loans, loan facilities and/or banking transactions. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and highly liquid marketable securities and adequate committed lines of funding from major financial institutions to meet the liquidity requirements in the short and longer term.

The tables below show the maturity profile of the Group's financial assets and liabilities, based on its internal methodology that the Group uses to manage liquidity based on contractual undiscounted cash flows:

	December 31, 2019						
	On demand	**Less than 1 month**	**1 to 2 Months**	**2 to 6 months**	**6 to 12 months**	**1 to 5 Years**	**Total**
Financial assets							
Cash and cash equivalent[1]	US$6,698	US$2,000	US$–	US$–	US$–	US$–	US$8,698
Receivables							
Trade receivables	3,225	5,995	–	–	–	–	9,220
Other receivables from customers	251	1,117	–	–	–	–	1,368
Advances to managers and employees[2]	–	36	–	–	–	–	36
SSS claims receivables	–	35	–	–	–	–	35
Others	115	37	–	–	–	–	152
Refundable deposits	–	–	–	–	–	468	468
	10,289	9,220	–	–	–	468	19,977
Financial liabilities							
Accounts payable and accrued expenses[3]	3,615	6,549	–	–	–	–	10,164
Advances from related parties	14,964	–	–	–		–	14,964
Bank loans and long-term debt[4]	–	2,294	83	2,443	743	2,507	8,070
Lease liabilities[5]	–	72	489	621	748	3,674	5,604
	18,579	8,915	572	3,064	1,491	6,181	38,802
Liquidity gap	(US$8,290)	US$305	(US$572)	(US$3,064)	(US$1,491)	(US$5,713)	(US$18,825)

[1]*Excludes cash on hand amounting to US$0.01 million*
[2]*Excludes nonfinancial assets amounting to US$0.07 million*
[3]*Excludes nonfinancial liabilities amounting to US$0.18 million*
[4]*Includes future interests amounting to US$1.53 million*
[5]*Includes future interests amounting to US$0.59 million*

	December 31, 2018						
	On demand	Less than 1 month	1 to 2 Months	2 to 6 months	6 to 12 months	1 to 5 Years	Total
Financial assets							
Cash in banks	US$7,549	US$–	US$–	US$–	US$–	US$–	US$7,549
Receivables							
Trade receivables	2,951	6,329	–	–	–	–	9,280
Other receivables from Customers	138	845	–	–	–	–	983
Advances to managers and employees[1]	–	25	–	–	–	–	25
SSS claims receivables	–	33	–	–	–	–	33
Others	104	–	–	–	–	–	104
Refundable deposits	–	–	–	–	–	328	328
	10,742	7,232	–	–	–	328	18,302
Financial liabilities							
Accounts payable and accrued expenses[2]	1,814	6,206	–	–	–	–	8,020
Advances from related parties	14,964	–	–	–		–	14,964
Bank loans and long-term debt[3]	–	2,013	401	2,404	583	714	6,115
	16,778	8,219	401	2,404	583	714	29,099
Liquidity gap	(US$6,036)	(US$987)	(US$401)	(US$2,404)	(US$583)	(US$386)	(US$10,797)

[1]*Excludes nonfinancial assets amounting to US$0.09 million*
[2]*Excludes nonfinancial liabilities amounting to US$0.17 million*
[3]*Includes future interests amounting to US$0.07 million*

In order to manage the liquidity gap, the Group has various sources of financing, either through support of related parties or availment of bank credit lines. The Group finances its cash requirements by obtaining advances from the Ultimate Parent Company and its affiliates.

The Group will apply for additional credit lines as the need arises.

Changes in liabilities arising from financing activities for the years ended:

	December 31, 2019						
	Advances from related parties (Note 21)	**Long-term Debt** (Note 14)	**Lease Liabilities** (Note 22)	**Bank Loans** (Note 14)	**Commercial Loans** (Note 14)	**Accrued Interest** (Note 13)	**Total**
Balances at beginning of year, as previously stated	**US$14,964**	**US$1,877**	**US$–**	**US$164**	**US$4,000**	**US$15**	**US$21,020**
Effect of adoption of PFRS 16 (Note 3)	**–**	**(1,877)**	**5,747**	**–**	**–**	**–**	**3,870**
Balances at beginning of year, as restated	**14,964**	**–**	**5,747**	**164**	**4,000**	**15**	**24,890**
Availments	**–**	**2,779**	**1,062**	**80**	**8,000**	**–**	**11,921**
Accretion of interest	**–**	**–**	**301**	**–**	**–**	**148**	**449**
Payments of principal	**–**	**(433)**	**(1,797)**	**(54)**	**(8,000)**	**–**	**(10,284)**
Payment of interest	**–**	**–**	**(301)**	**–**	**–**	**(125)**	**(426)**
Balances at end of year	**US$14,964**	**US$2,346**	**US$5,012**	**US$190**	**US$4,000**	**US$38**	**US$26,550**

	December 31, 2018					
	Advances from related parties (Note 21)	Long-term Debt (Note 14)	Bank Loans (Note 14)	Commercial Loans (Note 14)	Accrued interest (Note 13)	Total
Balances at beginning of year	US$15,464	US$3,732	US$147	US$4,000	US$30	US$23,373
Availments	–	–	84	9,954	–	10,038
Accretion of interest	–	–	–	–	292	292
Payment of principal	(500)	(1,855)	(67)	(9,954)	–	(12,376)
Payment of interest	–	–	–	–	(307)	(307)
Balances at end of year	US$14,964	US$1,877	US$164	US$4,000	US$15	US$21,020

Market Risk

Market risk is the risk of loss to future earnings, to fair value of future cash flows of a financial instrument as a result of changes in its price, caused by changes in interest rates, foreign currency exchange rates and other market factors.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Group is exposed to currency risk primarily through purchases that are denominated in a currency other than the functional currency of the Group. The currency giving rise to this risk is the Philippine Peso (₱). It is the Group's policy not to trade in or enter into derivative contracts.

In addition, the Group believes that its profile of foreign currency exposure on its monetary assets and liabilities is within conservative limits in the type of business in which the Group is engaged.

The table below details the Group's exposure to currency risk arising from forecasted transactions or recognized monetary assets or liabilities denominated in a currency other than the functional currency of the Group at the reporting date.

	2019		2018	
	In US Dollar	**In Philippine Peso**	In US Dollar	In Philippine Peso
Cash and cash equivalent	**US$1,182**	**₱59,850**	US$999	₱52,533
Receivables	**427**	**21,597**	535	28,105
Refundable deposits	**278**	**14,099**	217	11,402
	1,887	**95,546**	1,751	92,040
Less: Accounts payable and accrued expenses	**4,964**	**251,330**	1,718	90,330
Net pension liability	**2,641**	**133,731**	2,076	109,132
	7,605	**385,061**	3,794	199,462
Net exposure arising from recognized monetary assets and liabilities	**(US$5,718)**	**(₱289,515)**	(US$2,043)	(₱107,422)

The exchange rates used to restate the Group's foreign currency-denominated monetary assets and liabilities follow:

	Source	**2019**	2018
Philippine Peso	Bankers Association of the Philippines closing rate	**US$0.019749**	US$0.019019

Sensitivity analysis

The following table indicates the approximate change in the Group's income before tax in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the reporting date:

	2019		2018	
Changes in foreign currency exchange rates				
Philippine Peso	**3.84%**	**(3.84%)**	5.04%	(5.04%)
Effect on income before tax				
Philippine Peso	**US$220**	**(US$220)**	US$103	(US$103)

The Group based the percentage of increase and decrease in foreign exchange rate on the percentage change of the foreign exchange rate as of the reporting date and year-end forecasted closing rate.

Other than the impact on income before income tax, there is no other significant effect on equity.

The sensitivity analysis has been determined assuming that the change in foreign currency exchange rates has occurred at the reporting date and has been applied to the Group's exposure to currency risk for financial instruments in existence at that date, and that all other variables, interest rates in particular, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. Results of the analysis as presented in the table represent the effects on the Group's income before tax measured in US dollars at the exchange rate ruling at the reporting date.

6. Fair Value Measurement

The Group's financial instruments consist of cash and cash equivalent, receivables (excluding advances to managers and employees), refundable deposits, financial asset at FVOCI, accounts payable and accrued expenses, bank loans and long-term debt, lease liabilities and advances from related parties.

The following table sets forth the fair value hierarchy of the Group's assets and liabilities:

December 31, 2019

		Fair value measurement using		
	Carrying value	**Total**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Asset measured at fair value				
Financial asset at FVOCI	**US$12**	**US$12**	**US$12**	**US$–**
Asset for which fair value is disclosed				
Refundable deposits	**468**	**468**	**–**	**468**
	US$480	**US$480**	**US$12**	**US$468**
Liabilities for which fair values are disclosed:				
Lease liabilities (Note 22)	**US$5,012**	**US$5,230**	**US$–**	**US$5,230**
Long-term debt (Note 14)	**2,346**	**2,465**	**–**	**2,465**
Bank loans (Note 14)	**190**	**190**	**–**	**190**
	US$7,548	**US$7,885**	**US$–**	**US$7,885**

December 31, 2018

		Fair value measurement using		
	Carrying value	Total	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Asset measured at fair value				
Financial asset at FVOCI	US$11	US$11	US$11	US$–
Asset for which fair value is disclosed				
Refundable deposits	328	328	–	328
	US$339	US$339	US$11	US$328
Liabilities for which fair values are disclosed:				
Long-term debt (Note 14)	US$1,877	US$1,848	US$–	US$1,848
Bank loans (Note 14)	164	164	–	164
	US$2,041	US$2,012	US$–	US$2,012

The fair values of the financial instruments such as cash and cash equivalent, receivables (excluding advances to managers and employees), accounts payable and accrued expenses, advances from related parties and commercial loans (included under "bank loans and long-term debt ") approximate their respective carrying values due to their short-term nature.

The fair value of financial asset at FVOCI is determined by using the market price of the proprietary club share and is included in Level 2 of the hierarchy.

The estimated fair values of long-term debt and lease liabilities represent the present value of the amount of estimated future cash flows expected to be paid derived using the applicable rates ranging from 1.31% to 4.08% in 2019 and 2.44% to 2.62% in 2018. This is included within Level 3 of the hierarchy.

The fair value of refundable deposits approximates its carrying value since it has no definite payment term.

The fair value of bank loans approximates its carrying value because these bank loans are subject to annual interest re-pricing based on market rate.

In 2019 and 2018, there were no transfers between Level 1 and Level 2 of the fair value hierarchy, and no transfers into and out of the Level 3 category.

7. Capital Management

The Group's primary objective in managing capital is to provide returns for shareholders and benefits for other stakeholders by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group monitors capital using a leverage ratio, which is net debt divided by the sum of total capital and net debt. Net debt includes bank loans and long-term debt, lease liabilities, advances from related parties and accounts payable and accrued expenses less cash and cash equivalent. The Group's policy is for its leverage ratio not to exceed 75%. The management continues to monitor and improve on areas of customers' terms to adhere with the policy of leverage ratio.

The leverage ratio as at December 31 follows:

	2019	2018
Current liabilities		
Accounts payable and accrued expenses*	**US$10,164**	US$8,020
Advances from related parties	**14,964**	14,964
Current portion of bank loans and long-term debt	**4,813**	5,260
Current portion of lease liabilities	**1,625**	–
	31,566	28,244
Noncurrent liabilities		
Bank loans and long-term debt - net of current portion	**1,723**	781
Lease liabilities - net of current portion	**3,387**	–
	5,110	781
Total debt	**36,676**	29,025
Less cash and cash equivalent	**8,705**	7,555
Net debt	**27,971**	21,470
Equity	**18,075**	15,840
Total equity and net debt	**US$46,046**	US$37,310
Leverage ratio	**60.75%**	57.54%

**Excludes nonfinancial liabilities amounting to US$0.18 million and US$0.17 million as of December 31, 2019 and 2018, respectively.*

The Group has no externally-imposed capital requirements as of December 31, 2019 and 2018.

8. Cash and Cash equivalent

This account consists of:

	2019	2018
Cash in banks	**US$6,698**	US$7,549
Cash equivalent	**2,000**	–
Cash on hand	**7**	6
	US$8,705	US$7,555

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from the date of acquisition and that are subject to an insignificant risk of changes in value.

Cash in banks and cash equivalent earn interest at the respective bank deposit rates ranging from 0.12% to 2.50% in 2019, 2018 and 2017. Interest income earned from cash and cash equivalent amounted to US$0.03 million in 2019 and US$0.01 million in 2018 and 2017 (see Note 20).

9. Receivables

This account consists of:

	2019	2018
Trade receivables	**US$9,851**	US$9,935
Other receivables from customers	**1,612**	1,227
Advances to managers and employees	**108**	112
SSS claims receivables	**35**	33
Others (Note 21)	**155**	107
	11,761	11,414
Less allowance for impairment losses	**878**	902
	US$10,883	US$10,512

Trade receivables, other receivables from customers and others are noninterest-bearing and normally collected within 30-90 days credit term.

Below is the movement of the allowance for impairment losses as of December 31 based on individual impairment (nil for collective impairment):

	Lifetime-ECL credit impaired			
	2019			
	Trade receivables	**Other receivables from customers**	**Others**	**Total**
Balances at beginning of year	**US$655**	**US$244**	**US$3**	**US$902**
Reversal of impairment losses (Note 18)	**(24)**	–	–	**(24)**
Balances at end of year	**US$631**	**US$244**	**US$3**	**US$878**

	Lifetime-ECL credit impaired			
	2018			
	Trade receivables	Other receivables from customers	Others	Total
Balances at beginning of year	US$404	US$66	US$3	US$473
New financial assets originated (Note 18)	261	178	–	439
Reversal of impairment losses (Note 18)	(10)	–	–	(10)
Balances at end of year	US$655	US$244	US$3	US$902

10. Contract Balances

This account consists of:

	2019	2018
Contract assets	**US$3,639**	US$1,226
Contract liabilities	**1,660**	1,219

Contract assets are initially recognized for revenue earned from manufacturing of goods as receipt of consideration is conditional on successful completion of the services. When goods are shipped or goods are received by the customer, depending on the corresponding agreement with the customers, the amounts recognized as contract assets are reclassified to trade receivables. Payments are received from customers depending on the credit terms.

In 2019 and 2018, the Group assessed that there are no expected credit losses on contract assets.

Contract liabilities include advance payments received for material ordering for future manufacturing services or advances for aging inventories.

The Group applied the practical expedient under PFRS 15 on the disclosure of information about the transaction price allocated to remaining performance obligations given that the customer contracts have original expected duration of one (1) year or less.

11. Inventories

This account consists of:

	2019	2018
At NRV:		
Raw materials	**US$11,047**	US$12,722
Spare parts and supplies	**977**	732
	US$12,024	US$13,454

Raw materials written off amounted to US$0.003 million during 2017 (nil in 2018 and 2019). The related costs of inventories at NRV amounted to US$12.21 million and US$13.64 million as of December 31, 2019 and 2018, respectively.

As of December 31, 2019, and 2018, allowance for inventory obsolescence on raw materials amounted to US$0.19 million.

Raw materials and supplies used in the operations amounted to US$31.88 million, US$28.36 million, and US$29.41 million in 2019, 2018 and 2017, respectively (see Note 16).

12. Property and Equipment

The rollforward analysis of this account follows:

2019	Machinery and Equipment	Tools and Other Equipment	Leasehold Improvements	Airconditioning Equipment	Furniture, Fixtures and Equipment	Trans-portation Equipment	Building Improvements	Total
Cost								
Balances at beginning of year, as previously stated	**US$31,394**	**US$7,209**	**US$2,286**	**US$1,356**	**US$114**	**US$63**	**US$1,641**	**US$44,063**
Impact of adoption of PFRS 16 (Note 3)	**(5,515)**	**(65)**	**–**	**–**	**–**	**–**	**–**	**(5,580)**
Balances at beginning of year, as restated	**25,879**	**7,144**	**2,286**	**1,356**	**114**	**63**	**1,641**	**38,483**
Additions	**6,892**	**681**	**45**	**190**	**–**	**–**	**–**	**7,808**
Reclassifications (Note 22)	**1,663**	**–**	**–**	**–**	**–**	**–**	**–**	**1,663**
Disposals	**–**	**(10)**	**–**	**–**	**(1)**	**–**	**–**	**(11)**
Balances at end of year	**34,434**	**7,815**	**2,331**	**1,546**	**113**	**63**	**1,641**	**47,943**
Accumulated depreciation and amortization								
Balances at beginning of year, as previously stated	**19,394**	**5,168**	**2,001**	**1,229**	**105**	**36**	**1,641**	**29,574**
Impact of adoption of PFRS 16 (Note 3)	**(1,367)**	**(18)**	**–**	**–**	**–**	**–**	**–**	**(1,385)**
Balances at beginning of year, as restated	**18,027**	**5,150**	**2,001**	**1,229**	**105**	**36**	**1,641**	**28,189**
Depreciation and amortization (Notes 16, 17 and 18)	**2,190**	**733**	**144**	**95**	**3**	**12**	**–**	**3,177**
Reclassifications (Note 22)	**693**	**–**	**–**	**–**	**–**	**–**	**–**	**693**
Disposals	**–**	**(10)**	**–**	**–**	**(1)**	**–**	**–**	**(11)**
Balances at end of year	**20,910**	**5,873**	**2,145**	**1,324**	**107**	**48**	**1,641**	**32,048**
Net book values	**US$13,524**	**US$1,942**	**US$186**	**US$222**	**US$6**	**US$15**	**US$–**	**US$15,895**

2018	Machinery and Equipment	Tools and Other Equipment	Leasehold Improvements	Airconditioning Equipment	Furniture, Fixtures and Equipment	Trans-portation Equipment	Building Improvements	Total
Cost								
Balances at beginning of year	US$31,313	US$7,039	US$2,267	US$1,330	US$112	US$66	US$1,641	US$43,768
Additions	314	246	19	26	3	–	–	608
Disposals	(233)	(76)	–	–	(1)	(3)	–	(313)
Balances at end of year	31,394	7,209	2,286	1,356	114	63	1,641	44,063
Accumulated depreciation and amortization								
Balances at beginning of year	16,627	4,423	1,840	1,125	105	27	1,641	25,788
Depreciation and amortization (Notes 16, 17 and 18)	3,000	821	161	104	1	12	–	4,099
Disposals	(233)	(76)	–	–	(1)	(3)	–	(313)
Balances at end of year	19,394	5,168	2,001	1,229	105	36	1,641	29,574
Net book values	US$12,000	US$2,041	US$285	US$127	US$9	US$27	US$–	US$14,489

On January 1, 2019, the Group reclassified various machinery and equipment and tools and other equipment totaling to US$4.20 million to right-of-use assets as a result of adoption of PFRS 16. These pertain to leases previously accounted for as finance lease under PAS 17. The contracts for these leases provide transfer of ownership to lessee upon full payment of the lease liabilities (see Notes 3 and 22).

On June 30, 2019, the Group reclassified back to machinery and equipment the remaining carrying amount of right-of-use assets amounting to US$0.97 million recognized as of January 1, 2019 as a result of full payment of lease liabilities (see Note 22).

In November and December 2019, the Group entered into another financing agreements to acquire machinery and equipment secured by a chattel mortgage over the machinery and equipment of the Parent Company located at its premises amounting to US$2.88 million and US$0.80 million, respectively (nil in 2018).

The Group made payments in relation to these financing agreements amounting to US$0.43 million in 2019 (nil in 2018). Carrying amounts of these leased assets recorded under "machinery and equipment" and "tools and other equipment" accounts amounted to US$2.78 million and US$4.20 million as of December 31, 2019 and 2018, respectively (see Notes 14 and 22).

The unpaid acquisition of property and equipment amounted to US$2.35 million and US$0.07 million as of December 31, 2019 and 2018, respectively (see Note 14).

The Group's cost of fully depreciated property and equipment still in use amounted to US$20.93 million and US$17.78 million as of December 31, 2019 and 2018, respectively.

Depreciation charges of the Group's property and equipment are broken down as follow:

	2019	2018	2017
Cost of sales (Note 16)	**US$3,097**	US$4,013	US$3,351
Cost of rental (Note 17)	**1**	4	1
Operating expenses (Note 18)	**79**	82	130
	US$3,177	US$4,099	US$3,482

13. **Accounts Payable and Accrued Expenses**

This account consists of:

	2019	2018
Trade payables		
Third parties	**US$7,550**	US$6,087
Related parties (Note 21)	**84**	17
Accrued expenses	**1,986**	1,548
Others	**724**	538
	US$10,344	US$8,190

Trade payables are amounts primarily due to suppliers which are non-interest bearing and are normally settled on 15 to 90-day term.

Others mainly include withholding taxes which are normally settled within a year.

The foregoing accrued expenses and other financial liabilities are non-interest bearing and are normally settled within one (1) year. Details of the accrued expenses are as follows:

	2019	2018
Accrued salaries, wages and other benefits	**US$496**	US$507
Accrued utilities	**472**	303
Accrued sales commission	**401**	319
Accrued handling	**295**	118
Accrued professional fees	**112**	112
Accrued contracted labor	**84**	56
Accrued interest	**38**	15
Accrued rent	**2**	43
Other accrued expenses	**86**	75
	US$1,986	US$1,548

Other accrued expenses mainly include other contracted labor and accrued interest.

14. **Bank Loans and Long-term Debt**

This account consists of:

	2019	2018
Long-term debt (Note 22)		
Current	**US$755**	US$1,209
Noncurrent	**1,591**	668
Commercial loans		
Current	**4,000**	4,000
Bank loans		
Current	**58**	51
Noncurrent	**132**	113
	US$6,536	US$6,041
Current	**US$4,813**	US$5,260
Noncurrent	**1,723**	781
	US$6,536	US$6,041

The Group entered into short-term and long-term loan arrangements with domestic financial institutions for its various working capital and capital expenditure requirements.

Long-term debt:

- On June 15, 2016, the Parent Company entered into a three (3)-year financing agreement with a supplier amounting to US$1.64 million. This is subject to 0.70% quarterly interest and matured on June 30, 2019.

- On March 29, 2017, the Parent Company entered into another three (3)-year financing agreement with the same supplier amounting to US$1.66 million. This is subject to 1.10% quarterly interest and will mature on May 31, 2020.

- On August 29, 2017, the Parent Company entered into another three (3)-year financing agreement with a supplier amounting to US$2.16 million. This is subject to 1.13% quarterly interest and will mature on August 31, 2020.

- On January 1, 2019, as a result of adoption of PFRS 16, the carrying amounts of the above-mentioned leases previously accounted for as finance lease under PAS 17 amounting to US$1.88 million were reclassified to lease liabilities account on the consolidated statement of financial position. The carrying amount of lease liabilities for these agreements amounted to US$0.67 million as of December 31, 2019 (nil as of December 31, 2018, see Notes 3 and 22).

- In November and December 2019, the Parent Company entered into another three (3)-year financing agreements with a supplier with contract prices amounting to US$2.88 million and US$0.08 million, respectively, accounted as property and equipment, which are subject to 1.14% quarterly interest and will mature on October and November 2022, respectively. The financing agreements are secured by a chattel mortgage over machineries and equipment of the Parent Company located at its premises (see Note 12). The Group made payments in relation to these financing agreements amounting to US$0.43 million in 2019 (nil in 2018). As of December 31, 2019, the carrying value of the outstanding long-term debt relating to this agreement amounted to US$2.35 million (nil as of December 31, 2018).

The future minimum lease payments pertaining to these leases are as follow:

	2019	2018	2017
Within one year	**US$837**	US$1,267	US$1,968
After one year but not more than five years	**1,674**	681	1,949
	US$2,511	US$1,948	US$3,917

Bank loans:
- In 2019 and 2018, the Parent Company entered into credit loan agreements with local banks for the bank loan fleet financing of certain employees with payment terms ranging from three (3) to five (5) years amounting to US$0.08 million. These loans are subject to monthly interest rates based on market rates of 0.63% to 0.83% in 2019, 2018 and 2017. The Parent Company made payments in relation to these loan agreements amounting to US$0.05 million and US$0.07 million in 2019 and 2018, respectively. As of December 31, 2019 and 2018, the outstanding balance of these bank loans amounted to US$0.19 million and US$0.16 million, respectively.

Commercial loans:
- In 2018, the Parent Company applied for credit facilities with a third-party bank for a four (4)-month short-term loan up to US$4.00 million, with a monthly interest of 0.29%, three (3)-month short-term loan up to ₱150.00 million with a monthly interest of 0.33%, domestic bills purchase line up to ₱10.00 million and importers loan line up to US$5.00 million. Collections from a certain project amounting to US$10.00 million shall be deposited to the bank.

  The loans are covered by unregistered real estate mortgage over an affiliate's properties in Laguna for ₱255.00 million (US$5.04 million as of December 31, 2019).

  In April 2019, the Parent Company paid its outstanding loan as of December 31, 2018 amounting to US$4.00 million. In the same year, the Parent Company made another drawdown totaling to US$8.00 million for a four (4)-month short-term loan, US$4.00 million of which was paid in the same year.

The remaining outstanding balance amounting to US$4.00 million as of December 31, 2019 will mature in April 2020.

There are no debt covenants related to these loans.

Interests and other financing costs arising from the above bank loans and long-term debt as included under "Finance costs" in the consolidated statements of comprehensive income amounted to US$0.15 million, US$0.29 million and US$0.14 million in 2019, 2018 and 2017, respectively (see Note 19).

15. **Capital Stock**

The Parent Company has registered 1,000,000,000 common shares with original issue price amounting to ₱1 per share with the SEC on September 21, 1999. The total issued and outstanding shares at that time were 265,000,000 shares.

On March 2, 2010, the Ultimate Parent Company and the Parent Company jointly announced the proposed voluntary delisting of the latter from the Singapore Exchange. The Ultimate Parent Company offered to purchase common shares issued to the minority stockholders in compliance with the delisting proposal. Subsequently, the Ultimate Parent Company acquired additional 104,801,455 shares or 6.72% ownership on the Group.

The details of the Group's capital stock as of December 31, 2019 and 2018 are as follows (amounts in thousands, except for par value figures):

	Shares	Amount
Common stock - ₱0.25 par value		
Authorized - 2,072,176 shares		
Issued and outstanding:		
Balance at beginning and end of year	1,560,000	US$7,695
Preferred stock - ₱0.25 par value		
Authorized - 927,824 shares		
Issued and outstanding:		
Balance at beginning and end of year	927,824	4,845

The Parent Company has authorized 2,072,176 common capital stock and 927,824 preferred stock at ₱0.25 par value, out of which 1,560,000 shares and 927,824 shares were issued and outstanding as of December 31, 2019 and 2018. As at December 31, 2019 and 2018, the number of holders of common shares of stock and preferred shares of stock were 7,206 and 1, respectively.

The preferred shares of the Parent Company are non-voting, with cumulative dividends at the rate of 3% per annum, and redeemable at the option of the Parent Company.

Dividend in arrears pertaining to preferred shares amounted to US$1.49 million and US$1.34 million as of December 31, 2019 and 2018, respectively.

Retained earnings
The Group's retained earnings amounted to US$4.41 million and US$1.81 million as of December 31, 2019 and 2018, respectively.

The Group's retained earnings are further restricted for the payment of dividends to the extent of the deferred tax assets recognized in profit or loss as of December 31, 2019 (nil as of December 31, 2018). The Group's retained earnings available for dividend declaration as of December 31, 2019 and 2018 amounted to US$4.43 million and US$1.82 million, respectively.

The unappropriated retained earnings include retained earnings attributable to its subsidiary amounting to US$1.15 million and US$1.17 million in 2019 and 2018, respectively.

16. Cost of Sales

This account consists of:

	2019	2018	2017
Materials and supplies used	**US$31,875**	US$28,360	US$29,413
Direct labor, salaries and benefits	**10,072**	9,496	8,209
Depreciation and amortization (Notes 3, 12, 21 and 22)	**4,467**	4,013	3,351
Occupancy cost and utilities (Notes 3, 21 and 22)	**2,509**	3,030	3,197
Other expenses	**1,090**	1,281	1,001
Total manufacturing cost	**50,013**	46,180	45,171
Work-in-process			
At January 1	**–**	–	213
At December 31	**–**	–	(1,424)
Cost of goods manufactured	**50,013**	46,180	43,960
Finished goods			
At January 1	**–**	–	86
At December 31	**–**	–	(211)
	US$50,013	US$46,180	US$43,835

Direct labor, salaries and benefits account include pension expense amounting to US$0.29 million, US$0.27 million and US$0.30 million in 2019, 2018 and 2017, respectively (see Note 24).

In 2019 and 2018, work-in-process and finished goods amounted to nil due to adoption of PFRS 15.

17. Cost of Rental Services

This account consists of:

	2019	2018	2017
Occupancy cost and utilities	**US$7**	US$21	US$10
Depreciation (Note 12)	**1**	4	1
Others	**–**	–	2
	US$8	US$25	US$13

18. **Operating Expenses**

This account consists of:

	2019	2018	2017
General and administrative expenses	**US$1,467**	US$1,885	US$1,751
Selling expenses	**1,135**	1,053	1,209
	US$2,602	US$2,938	US$2,960

General and administrative expenses consist of the following:

	2019	2018	2017
Salaries and benefits	**US$950**	US$919	US$960
Professional fees	**205**	185	185
Occupancy cost and utilities (Note 22)	**189**	226	191
Depreciation and amortization (Notes 3, 12, 21 and 22)	**60**	58	111
Impairment and write-off of receivables (Note 9)	–	439	270
Other expenses - net (Note 9)	**63**	58	34
	US$1,467	US$1,885	US$1,751

Selling expenses consist of the following:

	2019	2018	2017
Sales commission and agent's fee	**US$667**	US$612	US$781
Salaries and benefits	**341**	309	311
Occupancy cost and utilities (Note 22)	**74**	88	79
Depreciation and amortization (Notes 3, 12, 21 and 22)	**23**	24	19
Other expenses	**30**	20	19
	US$1,135	US$1,053	US$1,209

Selling expenses include sales commissions paid to foreign agents, which is based on 10% of conversion cost and 1-3% of material cost.

Salaries and benefits include pension expense amounting to US$0.01 million in 2019, 2018 and 2017 (see Note 24).

Other expenses include supplies, taxes and licenses, membership dues and insurance expense and among others.

19. **Finance Costs**

This account consists of:

	2019	2018	2017
Interests on:			
Lease liabilities (Notes 3 and 22)	**US$301**	US$−	US$−
Long-term debt (Note 14)	**86**	242	126
Bank loans (Note 14)	**62**	50	17
	US$449	US$292	US$143

20. **Others - Net**

This account consists of:

	2019	2018	2017
Interest income (Note 8)	**US$25**	US$9	US$8
Gain (loss) on sale of property and equipment	−	2	(3)
Foreign currency exchange gain (loss) - net	**(90)**	162	(15)
Bank charges	**(36)**	(40)	(47)
	(US$101)	US$133	(US$57)

21. **Related Party Transactions**

In the normal course of business, the Group has transactions with related parties which include advances, purchases, rent and fees charged for information technology services. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control of Ultimate Parent (referred to as entity under common control). Related parties may be individuals or corporate entities. The Group's approval process and limits when entering into material related party transactions are being managed in accordance with the Ultimate Parent Company's policy.

Disclosed below are the transactions and the related balances among related parties:

	2019			
Category	**Amount/ Volume**	**Due from (Due to)**	**Terms**	**Conditions**
Ultimate Parent				
a. Lease liabilities	**US$2,766**	**(US$2,766)**	30-day; Non-interest bearing	Unsecured
Right-of-use assets	**2,595**	**2,595**	30-day; Non-interest bearing	Unsecured
b. Advances from related parties	**−**	**(10,564)**	On demand; Non-interest bearing	Unsecured
c. Other receivables	**7**	**3**	Non-interest bearing	Unsecured; No impairment
Entities Under Common Control				
a. Rent expense	**111**	**−**	30-day; Non-interest bearing	Unsecured
Refundable deposits	**78**	**132**	Non-interest bearing; Application to unpaid rental and last 3 months rentals	Unsecured; No impairment

(Forward)

Category	2019 Amount/ Volume	Due from (Due to)	Terms	Conditions
Advance rental	**76**	**76**	Non-interest bearing; Application to unpaid rental and last 2 months rentals	
b. Advances from related parties	**–**	**(4,400)**	Non-interest bearing	Unsecured
c. Other receivables	**178**	**–**	Non-interest bearing	Unsecured; No impairment
d. Trade payable (Purchases)	**289**	**(84)**	30 day; end of month; Non-interest bearing	Unsecured

Category	2018 Amount/ Volume	Due from (Due to)	Terms	Conditions
Ultimate Parent				
a. Rent expense	US$507	US$–	30-day; Non-interest bearing	Unsecured
b. Advances from related parties	–	(10,564)	On demand; Noninterest-bearing	Unsecured
c. Other receivables	4	7	Non-interest bearing	Unsecured; No impairment
Entities Under Common Control				
a. Rent expense	106	–	30-day; Non-interest bearing	Unsecured
Refundable deposits	–	54	Non-interest bearing; Application to unpaid rental and last 3 months rentals	Unsecured; No impairment
b. Advances from related parties	–	(4,400)	Non-interest bearing	Unsecured
c. Other receivables	44	–	Non-interest bearing	Unsecured; No impairment
d. Trade payable (Purchases)	193	(17)	30 day; end of month; Non-interest bearing	Unsecured

Significant transactions with related parties based on terms agreed upon follow:

a. Lease liabilities and right-of-use assets (in 2019) and Rent expense (in 2018)

<u>Ultimate Parent Company</u>
The Group entered into lease agreements with the Ultimate Parent Company for the lease of factory buildings (Plants 5 and 6). The lease agreement began on January 1, 2019 and July 1, 2018 for Plant 5 and 6 and shall continue up until December 31 and June 30, 2019, respectively. As of July 2019, the renewal of lease agreement for Plant 6 has been executed for one (1) year until June 30, 2020.

On January 1, 2019, upon adoption of PFRS 16, the abovementioned leases accounted for as operating lease under PAS 17 were scoped in with a corresponding recognition of lease liabilities and right-of-use assets amounting to US$3.13 million and US$3.10 million, respectively. In 2019, the Group paid US$0.36 million of the related outstanding lease liabilities and recognized depreciation expense amounting to US$0.50 million in relation to the right-of-use assets recognized (nil in 2018 and 2017).

The Group recognized rent expense pertaining to this lease in "Occupancy cost and utilities" account under cost of sales and operating expenses in the consolidated statements of comprehensive income amounting to US$0.51 million and US$0.49 million in 2018 and 2017, respectively, and (nil in 2019, see Notes 16, 18 and 22).

Entities Under Common Control

Iomni Precision, Inc. (Iomni)

On July 31, 2013, the Group entered into a sub-lease agreement with Iomni, entity under common control of the Ultimate Parent Company, for the lease of office space. The lease agreement began on September 1, 2013 and shall continue up until January 15, 2020, subject to one (1) year extension. The lease agreement was scoped under PFRS 16 but the Group has availed the practical expedient of applying the recognition exemption and continue to account this as an operating lease.

The lease agreement provides for the payment of advance rental and security deposit equivalent to three (3) months rental each. The advance rental shall be applied against the rentals due for the last three (3) months of the lease. The Group recognized rent expense pertaining to this lease under cost of sales and operating expenses amounting to US$0.11 million, US$0.11 million and US$0.10 million in 2019, 2018 and 2017, respectively (see Notes 16, 18 and 22).

The future minimum lease payments pertaining to this lease agreement amounts to US$0.01 million as at December 31, 2019 and 2018.

Ionics Properties, Inc. (IPI)

On September 27, 2019, the Group entered into a lease agreement with IPI, entity under common control of the Ultimate Parent Company, for the lease of a factory building (Plant 2). The lease agreement will commence on January 1, 2020 and shall continue up to December 31, 2020 subject to one (1) year extension based on the option of the lessee.

The lease agreement provides for the payment of advance rental and security deposit equivalent to two (2) months rental each amounting to US$0.08 million. The advance rental shall be applied against the rentals due for the last two (2) months of the lease.

b. Advances from related parties

The Ultimate Parent Company and Ionics Circuits, Ltd. (ICL), an entity under common control of the Ultimate Parent Company, are financially committed to support operations of the Group through cash advances. In 2018, the Parent Company partially paid the advances amounting to US$0.50 million (nil in 2019). The outstanding advances from related parties as of December 31, 2019 and 2018 amounted to US$14.96 million.

c. Other receivables

The Group initially paid payroll and other miscellaneous expenditures of its Ultimate Parent and other related parties. These expenses will be billed subsequently to related parties incurring the actual expenses.

The Group also charges expenses to Iomni pertaining to Information Technology (IT) maintenance which is fixed at US$0.02 million annually (see Note 9).

d. Trade payable (Purchases)
On June 28, 2005, the Group entered into a purchase agreement with Iomni, wherein in the latter agrees to sell products to the Group on the terms and conditions set out in the agreement. The prices quoted to or paid by the Group shall not exceed current prices charged by Iomni to its other customers for the same or similar products; otherwise the excess prices shall be refunded to the Group. In case of end-of-life (EOL) of the product, the Group shall inform Iomni two (2) months before the actual EOL date in order for Iomni to immediately adjust ordering of raw materials. The outstanding trade payables as of December 31, 2019 and 2018 amounted to US$0.08 million and US$0.02 million, respectively (see Note 13).

The key management personnel of the Group include executives and directors. The summary of compensation of the key management personnel included in "salaries, wages, and benefits" account under cost of sales and operating expenses in the consolidated statements of comprehensive income follows (see Notes 16 and 18):

	2019	2018	2017
Short-term employee benefits	**US$972**	US$944	US$900
Executive officers' compensation	**437**	479	447
Directors' remuneration	**349**	339	329
Post-employment benefits	**64**	62	80
	US$1,822	US$1,824	US$1,756

22. **Leases**

Group as Lessee

- The Group entered and leases its plant facilities from related parties including with the Ultimate Parent Company as discussed in Note 21. At the end of the terms of the respective leases, all additions or improvements made and constructed by the Group, which when removed would deface the immovable portion to which they may be attached, shall become the property of the lessors and be surrendered with the premises as a part thereof.

- In September and November 2019, the Group entered into another three (3)-year financing agreements with a supplier covering machineries and equipment with a contract price of US$1.07 million and US$0.07 million, subject to 1.13% quarterly interest and will mature on August and October 2022, respectively. The Group accounted these transactions under PFRS 16 by recognizing right-of-use assets with corresponding lease liabilities totaling US$1.06 million. As of December 31, 2019, the carrying amounts of the related right-of-use assets and lease liabilities amounted to US$1.06 million and US$0.98 million, respectively.

Set out below are the carrying amounts of right-of-use assets recognized and the movements in 2019:

	Land	Building	Machinery, Tools and Equipment	Total
Cost				
Balances at beginning of year, as previously stated	US$–	US$–	US$–	US$–
Effect of adoption of PFRS 16 (Note 3)	705	3,097	5,580	9,382
Balances at beginning of year, as restated	705	3,097	5,580	9,382
Additions	–	–	1,062	1,062
Reclassifications (Note 12)	–	–	(1,663)	(1,663)
Balances at end of year	705	3,097	4,979	8,781
Accumulated Depreciation				
Balances at beginning of year, as previously stated	–	–	–	–
Effect of adoption of PFRS 16 (Note 3)	–	–	1,385	1,385
Balances at beginning of year, as restated	–	–	1,385	1,385
Depreciation (Notes 16, 18 and 21)	190	502	682	1,374
Reclassifications (Note 12)	–	–	(693)	(693)
Balances at end of year	190	502	1,374	2,066
Net Book Values	US$515	US$2,595	US$3,605	US$6,715

In 2019, the depreciation charges of the Group related to right-of-use assets included under cost of sales and operating expenses in the consolidated statement of comprehensive income amounted to US$1.37 million and US$0.01 million, respectively (see Notes 16 and 18).

The rollforward analysis of lease liabilities as of December 31, 2019 is as follows (nil as of December 31, 2018):

Balance at beginning of year, as previously stated	US$–
Effect of adoption of PFRS 16 (Note 3)	5,747
Balance at beginning of year, as restated	5,747
Additions	1,062
Accretion of interests (Note 19)	301
Payment of principal (Note 5)	(1,797)
Payment of interests (Note 19)	(301)
Balance at end of year	US5,012

The Group had a total cash outflows for leases of US$1.81 million in 2019 (US$1.63 million and US$1.84 million in 2018 and 2017, respectively).

The current and noncurrent portion of lease liabilities presented in the consolidated statements of financial position as of December 31, 2019 follows (nil as of December 31, 2018):

Current	US$1,625
Noncurrent	3,387
	US$5,012

The following are the amounts recognized in 2019 in the consolidated statement of comprehensive income (nil in 2018 and 2017):

	2019
Depreciation of right-of-use assets (Notes 3, 16, 17, 18 and 21)	**US$1,374**
Accretion of interest (Notes 3 and 19)	**301**
Rent expense relating to short-term lease (Notes 16, 18 and 21)	**11**
Benefit from income tax (Notes 3 and 23)	**(6)**

The future minimum lease payments pertaining to these leases are as follow:

	2019	2018
Within one year	**US$1,930**	US$737
After one year but not more than five years	**3,674**	661
	US$5,604	US$1,398

Group as Lessor
The Group leased out portion of its warehouse facility to a third party. In 2019, this lease agreement was terminated. The Group recognized rent income pertaining to this lease amounting to US$0.01 million, US$0.04 million and US$0.02 million in 2019, 2018 and 2017, respectively (see Note 25). Cost of rental services recognized on this lease amounted to US$0.01 million, US$0.03 million and US$0.01 million in 2019, 2018 and 2017, respectively (see Note 17).

23. **Income Taxes**

Provision for income tax consists of:

	2019	2018	2017
Current	**US$320**	US$292	US$364
Deferred	**(8)**	4	–
	US$312	US$296	US$364

Provision for current income tax pertains to GIT and RCIT of the Parent Company in 2019, 2018 and 2017.

The reconciliation of the statutory income tax to the provision for income tax follows:

	2019	2018	2017
Statutory income tax	**US$893**	US$801	US$774
Additions to (deductions from) income tax resulting from:			
Income from operations subject to lower preferential rate without NOLCO	**(714)**	(695)	(837)
Nondeductible expenses	**143**	134	138
Foreign exchange rate changes	**39**	(10)	77
Income from operations under ITH	**(37)**	39	202
Movement in unrecognized deferred tax assets	**(9)**	27	10
Advance rental application	**(2)**	–	–
Nontaxable item	**(1)**	–	–
Provision for income tax	**US$312**	US$296	US$364

The components of the Group's net deferred tax assets (liability) as of December 31 follows:

	2019	2018
Deferred tax assets on:		
Lease liabilities	**US$167**	US$−
Past service costs	**7**	−
	174	−
Deferred tax liabilities on:		
Right-of-use assets	**157**	−
Contract assets	**9**	4
	166	4
	US$8	(US$4)

The Group did not recognize certain deferred tax assets since management believes that it may not be probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilized.

The components of the temporary differences where deferred tax assets were not recognized by the Group follow:

	2019	2018	2017
Net pension liability	**US$2,641**	US$2,076	US$2,575
Allowance for inventory obsolescence - net of write-off (Note 11)	**189**	189	189
Unrealized foreign exchange loss	**56**	235	232
Unamortized excess of contribution over the normal cost	−	327	368
Straight-line recognition of rent expense	−	340	340
	US$2,886	US$3,167	US$3,704

Under Republic Act (R.A.) No. 7916 on Special Zones and PEZA, a PEZA-registered enterprise is exempt from national and local taxes. In lieu of the said national and local taxes, 5% of the gross income earned by all businesses and enterprises within the ecozone shall be remitted to the local and national government.

24. Net Pension Liability

The Group has a funded, noncontributory defined benefit pension plan covering all regular qualified employees. Benefits are based on the employee's years of service and final plan salary. The trust fund, to cover the pension obligation, is administered by a trustee bank under the supervision of the Board of Trustees (BOT) of the plan. The BOT is responsible for investment strategy of the plan.

Under the existing regulatory framework, R.A. 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 Group's retirement plan meets the minimum retirement benefit specified under R.A. 7641. The law does not require minimum funding of the plan.

The components of retirement costs included in "Salaries, wages and benefits" account recognized as part of the cost of sales and operating expenses in the consolidated statements of comprehensive income (see Notes 16 and 18). Details are as follows:

	2019	2018	2017
Current service cost	**US$168**	US$183	US$190
Net interest cost	**135**	94	118
	US$303	US$277	US$308

The amount of remeasurement losses (gains) on retirement plan recognized in the consolidated statements of comprehensive income are as follows:

	2019	2018	2017
Defined benefit obligation	**US$390**	(US$408)	(US$36)
Plan assets	**(25)**	37	(3)
	US$365	(US$371)	(US$39)

The amount included in the consolidated statements of financial position arising from the Group's obligation in respect of its defined benefit plan is as follows:

	2019	2018
Present value of defined benefit obligation	**US$3,125**	US$2,462
Fair value of plan assets	**(484)**	(386)
	US$2,641	US$2,076

Changes in the present value of the defined benefit obligation are as follows:

	2019	2018
Balance at beginning of year	**US$2,462**	US$2,969
Current service	**168**	183
Interest cost	**150**	131
Benefits paid	**(152)**	(263)
Effect of changes in foreign exchange rates	**107**	(150)
Remeasurement (gains) losses arising from:		
Experience adjustments	**(64)**	(106)
Changes in financial assumptions	**464**	(302)
Changes in demographic assumptions	**(10)**	–
Balance at end of year	**US$3,125**	US$2,462

Changes in the fair value of plan assets are as follow:

	2019	2018
Balance at beginning of year	**US$386**	US$394
Interest income	**15**	37
Return on assets excluding amount included in net interest cost	**25**	(37)
Contributions	**193**	275
Benefits paid	**(152)**	(263)
Effect of changes in foreign exchange rates	**17**	(20)
Balance at end of year	**US$484**	US$386

The rollforward of the net pension liability is as follows:

	2019	2018
Balance at beginning of year	**US$2,076**	US$2,575
Retirement expense	**303**	277
Contributions	**(193)**	(275)
Remeasurement losses (gains)	**365**	(371)
Effects of changes in foreign exchange rates	**90**	(130)
Balance at end of year	**US$2,641**	US$2,076

The Group's plan assets are comprised of cash in banks, investment in equity instruments, debt instrument - government and other bonds and other assets. The Retirement Trust Fund assets are valued by the fund manager at fair value using the mark-to-market valuation.

The fair values of plan assets by each class are as follow:

	2019	2018
Cash in banks	**US$205**	US$140
Investment in equity securities	**10**	8
Investment in Government Securities		
Fixed rate treasury notes	**170**	154
Retail treasury bonds	**95**	80
	265	234
Other receivable		
Interest receivable	**4**	4
	US$484	US$386

The composition of the fair value of the trust fund follows:

- Cash in banks - includes savings and time deposits with Bangko Sentral ng Pilipinas (BSP);
- Investments in stocks - includes investment in common shares traded in the Philippine Stock Exchange (PSE);
- Investment in government securities - includes investment in Philippine Retail Treasury Bonds (RTBs) and Fixed Rate Treasury Notes (FXTNs); and,
- Others - includes accrued interest on fixed income securities.

As at December 31, 2019 and 2018, the trust fund has no investments in the securities (debt or equity) of any related party.

The plan assets do not include any property occupied by or owned by any related party. The costs of defined benefit pension plan as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions.

The principal assumptions used in determining pension obligation for the defined benefit plan are as follows:

	2019	2018	2017
Retirement age	**60 - 65**	60 - 65	60 – 65
Average remaining working life	**11 - 18**	11 - 18	11 – 18
Discount rate			
Beginning of year	**7%**	5%	5 %
End of year	**4.90%**	7%	5 %
Salary increase rate			
Beginning of year	**3.5% - 5%**	3.5% - 5%	3.5% - 5%
End of year	**3.5% - 5%**	3.5% - 5%	3.5% - 5%

The following sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring as of the end of the reporting period, assuming that all other assumptions were held constant.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which change other than those assumed may be deemed to be more reasonable.

	2019		2018	
Assumptions	**Changes**	**Increase (decrease) in present value of defined benefit obligation**	Changes	Increase (decrease) in present value of defined benefit obligation
Discount rate	**+1.0%**	**(US$213)**	+1.0%	(US$153)
	-1.0%	**249**	-1.0%	179
Future salary increase rate	**+1.0%**	**US$262**	+1.0%	US$199
	-1.0%	**(228)**	-1.0%	(173)

The BOT of the Plan ensures that its plan assets are readily available to service the pension obligation due. This is done by ensuring that its assets are easily disposable and can easily be converted to cash. Furthermore, the Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Plan are at the Parent Company's discretion. However, in the event a benefit claim arises and the Plan is insufficient to pay the claim, the shortfall will then be due and payable from the Parent Company to the Plan.

The table below shows the maturity profile of the undiscounted pension payments as of December 31:

	2019					
	Less than 1 year	**1 to 5 years**	**5 to 10 years**	**10 to 15 years**	**15 to 20 years**	**More than 20 years**
Normal retirement	**US$808**	**US$145**	**US$12**	**US$476**	**US$1,268**	**US$2,570**
Other than normal retirement	**206**	**746**	**915**	**1,012**	**775**	**843**
	US$1,014	**US$891**	**US$927**	**US$1,488**	**US$2,043**	**US$3,413**

	2018					
	Less than 1 year	1 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	More than 20 years
Normal retirement	US$759	US$19	US$187	US$309	US$1,856	US$4,528
Other than normal retirement	146	599	780	804	645	834
	US$905	US$618	US$967	US$1,113	US$2,501	US$5,362

The Group expects to contribute to the pension plan amounting to US$0.66 million in 2020.

25. Segment Information

The primary segment reporting format of the Group is by business segments as the Group's risks and rates of return are affected predominantly by differences in the goods produced. Secondary information is reported geographically. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The computer peripherals segment provides design, build, ship, and logistics services to computer equipment companies. This includes service offerings to customers in the desktop personal computer (PC), peripheral, server, notebook PC, and storage device industries.

The telecom segment specializes in the manufacture and delivery of carrier-and-enterprise-class communications equipment, as well as wireless, optical networking, wire line transmission, and enterprise networking equipment.

The automotive segment includes service offerings on Product Part Approval Processes (PPAPs), Process Failure Mode & Effects Analysis (PFMEA) and Design Failure Mode & Effects Analysis (DFMEA). The Group is ISO/TS 16949 certified.

The consumer electronics segment also provides design, build, ship and logistics services for its customers in the digital media devices, digital television capture and audio products industries. The consumer electronics segment builds the capability to serve these customers with every element that is required to deliver real products to the marketplace.

The Group's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in the geographical segments are based on the geographical location of its customers.

The revenues from major customer under the computer electronics industry amounted to US$5.40 million in 2019, under computer peripherals industry amounted to US$11.34 million in 2018 and under telecom industry amounted to US$11.10 million in 2017. Total revenues from these customers are exceeding approximately at 10% of the Group's total revenue from contracts with customers.

The Group's segment information as of and for the years ended December 31, 2019, 2018 and 2017, which presents revenue and certain assets and liabilities attributed to each business segment are summarized in the following tables:

	December 31, 2019			
	Computer Peripherals	**Telecom**	**Consumer Electronics**	**Total**
Revenue from contracts with customers	**US$18,297**	**US$17,556**	**US$20,281**	**US$56,134**
Rental income	**–**	**14**	**–**	**14**
Income from operations	**1,721**	**1,361**	**443**	**3,525**
Foreign exchange loss - net	**(70)**	**(5)**	**(15)**	**(90)**
Interest expense - net	**(156)**	**(114)**	**(154)**	**(424)**
Provision for income tax	**(114)**	**(133)**	**(65)**	**(312)**
Miscellaneous expenses	**(16)**	**(6)**	**(14)**	**(36)**
Net income	**US$1,365**	**US$1,103**	**US$195**	**US$2,663**
Total assets*	**US$14,429**	**US$13,258**	**US$14,817**	**US$42,504**
Total liabilities**	**US$44**	**US$1,510**	**US$1,993**	**US$3,547**
Capital expenditures	**US$5,629**	**US$968**	**US$1,211**	**US$7,808**
Depreciation and amortization	**US$3,186**	**US$546**	**US$819**	**US$4,551**
Allowance for impairment losses on receivables	**US$18**	**US$860**	**US$–**	**US$878**

**Excluding unallocated assets amounting to US$16.81 million*
***Excluding unallocated liabilities amounting to US$37.69 million*

	December 31, 2018			
	Computer Peripherals	Telecom	Consumer Electronics	Total
Revenue from contracts with customers	US$18,271	US$17,011	US$16,650	US$51,932
Rental income	–	41	–	41
Income from operations	1,728	837	265	2,830
Gain on sale of property and equipment	–	–	2	2
Foreign exchange gain – net	102	37	23	162
Interest expense – net	(105)	(95)	(83)	(283)
Provision for income tax	(117)	(116)	(63)	(296)
Miscellaneous expenses	(11)	(16)	(13)	(40)
Net income	US$1,597	US$647	US$131	US$2,375
Total assets*	US$12,328	US$15,475	US$12,081	US$39,884
Total liabilities**	US$104	US$1,512	US$523	US$2,139
Capital expenditures	US$340	US$186	US$82	US$608
Depreciation and amortization	US$2,805	US$845	US$449	US$4,099
Allowance for impairment losses on receivables	US$18	US$884	US$–	US$902

**Excluding unallocated assets amounting to US$8.53 million*
***Excluding unallocated liabilities amounting to US$30.44 million*

	December 31, 2017				
	Computer Peripherals	Telecom	Automotive	Consumer Electronics	Total
Revenue from contracts with customers	US$15,828	US$19,650	US$1,372	US$12,719	US$49,569
Rental income	–	20	–	–	20
Income from operations	1,674	885	70	152	2,781
Loss on disposal of property & equipment	(1)	(1)	(1)	–	(3)
Foreign exchange gain (loss) - net	12	(25)	–	(2)	(15)
Interest expense - net	(48)	(69)	–	(18)	(135)
Provision for income tax	(150)	(149)	(6)	(59)	(364)
Miscellaneous expenses	(8)	(23)	(2)	(14)	(47)
Net income	US$1,479	US$618	US$61	US$59	US$2,217
Total assets*	US$14,361	US$19,745	US$984	US$9,699	US$44,789
Total liabilities**	US$37	US$1,968	US$67	US$351	US$2,423
Capital expenditures	US$5,284	US$1,052	US$60	US$2,772	US$9,168
Depreciation and amortization	US$2,625	US$567	US$41	US$249	US$3,482
Allowance for impairment losses on receivables	US$20	US$453	US$–	US$–	US$473

**Excluding unallocated assets amounting to US$4.20 million*
***Excluding unallocated liabilities amounting to US$33.59 million*

Sales represent revenues from external customers. During 2019, 2018 and 2017, there are no inter-segment sales.

The BOD analyzes cash flows at a consolidated level.

The Group's geographical segments refer only to the initial destination of the products. Most of the Group's products are intermediate products which are shipped to the customers' plants for incorporation or further assembly into the final finished products. All assets of the Group, except for assets attributed to the subsidiary, Ionics-EMS (USA), are located in the Philippines.

The following tables represent the Group's total revenue and assets as per Group's geographical segment:

Segment Revenue

	2019	2018	2017
Asia	**US$31,709**	US$31,046	US$29,011
North America	**17,245**	7,165	6,462
Europe	**7,194**	13,762	14,116
	US$56,148	US$51,973	US$49,589

Segment Assets

	2019	2018	2017
Asia	**US$59,279**	US$48,364	US$48,941
North America	**31**	52	44
	US$59,310	US$48,416	US$48,985

The segment revenue and segment assets of the subsidiary are located in North America.

Revenue from Contracts with Customers

Revenues from contracts with customers are further disaggregated by type, product type and timing of revenue recognition, as management believes it best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Group's revenue from manufacturing goods recognized over time amounted to US$56.13 million, US$51.93 million and US$49.57 million in 2019, 2018 and 2017, respectively.

The Group disaggregates its revenue from contracts with customers in the same manner as it reports its segment information as presented above.

26. **Earnings per Share**

Earnings per share amounts were computed as follows (amounts in thousands, except earnings per share):

	2019	2018	2017
Net income	**US$2,663**	US$2,375	US$2,217
Dividend attributable to preference shares	**(145)**	(145)	(145)
Total income attributable to common shares	**US$2,518**	US$2,230	US$2,072
Weighted average number of outstanding common shares	**1,560,000**	1,560,000	1,560,000
Basic/diluted income per share	**US$0.0016**	US$0.0014	US$0.0013

In 2019, 2018 and 2017, there were no convertible preferred stocks that have dilutive effect on the basic earnings per share of the Group.

There have been no other transactions involving ordinary shares between the reporting date and the date of issuance of these consolidated financial statements.

27. **Subsequent Event**

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region (NCR) effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended.

On April 7, 2020, the President has approved the extension of the implementation of the ECQ of mainland Luzon until April 30, 2020. However, as per Inter-Agency Task Force (IATF) Resolution No. 29 dated April 27, 2020, it has been approved that the ECQ previously imposed on administrative regions, provinces or areas, will be reduced to General Community Quarantine (GCQ) starting May 1, 2020, except for certain high-risk administrative regions, provinces or areas (including the area where the Group operates) where the said ECQ is extended until May 15, 2020.

Since the first reported case of COVID-19 in the Philippines in late January 2020, the disease has rapidly spread across the country. This virus outbreak may cause disruptions to businesses and economic activities, and the extent of its impact continues to evolve. The Group considers this outbreak as a non-adjusting subsequent event, which does not impact the consolidated financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on the 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Group cannot determine at this time the impact to its consolidated financial position, performance and cash flows. The Group will continue to monitor and assess the situation.

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