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(Company's Full Name)

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

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| ATTY. SOLOMON M. HERMOSURA |
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Contact Person

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| 841-5346 |
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Company Telephone Number

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Month

Day

Fiscal Year

SEC FORM 17-Q

FORM TYPE

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Total No. Of Stockholders

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SEC Number: 94419  
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**INTEGRATED MICRO-ELECTRONICS, INC.**

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(Company's Full Name)

33/F Tower One, Ayala Triangle, Ayala Avenue, Makati City

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(Company Address)

(632) 756-6840

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(Telephone Number)

March 31, 2011

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(Quarter Ending)

**SEC Form 17-Q Quarterly Report**

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(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: **March 31, 2011**
2. Commission Identification No.: **94419**
3. BIR Tax Identification No.: **000-409-747-000**
4. Exact name of issuer as specified in its charter: **INTEGRATED MICRO-ELECTRONICS, INC.**
5. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office: **33/F Tower One, Ayala Triangle, Ayala Avenue, Makati City**  
Postal Code: **1226**
8. Issuer's telephone number, including area code: **(632) 756-6840**
9. Former name, former address and former fiscal year: **Not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA:

| Title of Each Class | Number of Shares Issued and Outstanding |
|---------------------|---|
| Common *            | 1,434,078,088                           |

\* Net of 15,892,109 treasury shares

11. Are any or all of the securities listed on a Stock Exchange? Yes ☒ No ☐

A total of 1,349,304,197 common shares are listed with the Philippine Stock Exchange as of May 3, 2011.

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports): Yes ☒ No ☐

(b) has been subject to such filing requirements for the past ninety (90) days: Yes ☒ No ☐

# PART I--FINANCIAL INFORMATION

## Item 1. Financial Statements.

### **INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**

### **UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET**

**AS OF MARCH 31, 2011**

**(With Comparative Audited Figures as of December 31, 2010)**

**(In thousand dollars)**

|  | (Unaudited)<br>March 31, 2011 | (Audited)<br>Dec 31, 2010 |
|--|-------------------------------|---------------------------|
| <b>ASSETS</b>                                  |                               |                           |
| <b>Current Assets</b>                          |                               |                           |
| Cash and cash equivalents (Note 4)             | \$35,875                      | \$38,135                  |
| Derivative assets (Note 17)                    | 1,614                         | 1,693                     |
| Loans and receivables - net (Note 5)           | 112,284                       | 109,936                   |
| Inventories (Note 6)                           | 58,985                        | 54,694                    |
| Other current assets                           | 4,406                         | 2,509                     |
| <b>Total Current Assets</b>                    | <b>213,164</b>                | <b>206,967</b>            |
| <b>Noncurrent Assets</b>                       |                               |                           |
| Noncurrent receivables                         | 183                           | 184                       |
| Property, plant and equipment - net (Note 7)   | 71,025                        | 74,624                    |
| Goodwill                                       | 55,719                        | 55,719                    |
| Intangible assets (Note 8)                     | 908                           | 923                       |
| Pension asset                                  | 2,766                         | 2,766                     |
| Available-for-sale financial assets            | 403                           | 383                       |
| Deferred income tax assets                     | 115                           | 115                       |
| Other noncurrent assets                        | 1,651                         | 1,497                     |
| <b>Total Noncurrent Assets</b>                 | <b>132,770</b>                | <b>136,211</b>            |
|  | <b>\$345,934</b>              | <b>\$343,178</b>          |
| <b>LIABILITIES AND EQUITY</b>                  |                               |                           |
| <b>Current Liabilities</b>                     |                               |                           |
| Accounts payable and accrued expenses (Note 9) | \$112,322                     | \$105,346                 |
| Derivative liabilities                         | 2,999                         | 3,832                     |
| Income tax payable                             | 1,026                         | 2,299                     |
| Loans payable (Note 10)                        | 19,340                        | 17,922                    |
| Current portion of long-term debt (Note 11)    | 38,000                        | 38,000                    |
| <b>Total Current Liabilities</b>               | <b>173,687</b>                | <b>167,399</b>            |
| <b>Noncurrent Liabilities</b>                  |                               |                           |
| Long-term debt (Note 11)                       | 372                           | 372                       |
| Obligation under finance lease                 | 68                            | 118                       |
| Pension liability                              | 1,050                         | 986                       |
| Deferred revenue (Note 12)                     | 2,501                         | 2,565                     |
| Accrued rent – noncurrent                      | 757                           | 894                       |
| <b>Total Noncurrent Liabilities</b>            | <b>4,748</b>                  | <b>4,935</b>              |
| <b>Total Liabilities</b>                       | <b>178,435</b>                | <b>172,334</b>            |

(Forward)

|  | (Unaudited)<br>March 31, 2011 | (Audited)<br>Dec 31, 2010 |
|--|-------------------------------|---------------------------|
| <b>Equity</b>  |                               |                           |
| <b>Equity attributable to equity holders of the</b>            |                               |                           |
| <b>Parent Company</b>  |                               |                           |
| Capital stock - common   | \$24,913                      | \$24,894                  |
| Capital stock - preferred                                      | 26,601                        | 26,601                    |
| Subscribed capital stock                                       | 1,883                         | 1,902                     |
| Additional paid-in capital                                     | 35,026                        | 34,647                    |
| Subscriptions receivable                                       | (11,397)                      | (11,412)                  |
| Retained earnings:   |                               |                           |
| Appropriated for expansion                                     | 40,661                        | 60,661                    |
| Unappropriated   | 49,249                        | 32,727                    |
| Treasury stock   | (1,013)                       | (1,013)                   |
| Reserve for fluctuation on available-for-sale financial assets | 128                           | 112                       |
| Other reserves   | 171                           | 171                       |
|  | <b>166,222</b>                | <b>169,290</b>            |
| <b>Noncontrolling interests in a consolidated subsidiary</b>   | <b>1,277</b>                  | <b>1,554</b>              |
| <b>Total Equity</b>  | <b>167,499</b>                | <b>170,844</b>            |
|  | <b>\$345,934</b>              | <b>\$343,178</b>          |

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES****UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010****(In thousand dollars, except Earnings per Share)**

|   | Unaudited 2011<br>January to March | Unaudited 2010<br>January to March |
|---|------------------------------------|------------------------------------|
| REVENUES FROM SALES AND SERVICES                          | \$122,962                          | \$90,542                           |
| COST OF GOODS SOLD AND SERVICES                           | 113,277                            | 79,729                             |
| GROSS PROFIT  | 9,685                              | 10,813                             |
| OPERATING EXPENSES  | (10,405)                           | (9,668)                            |
| OTHERS - Net  |                                    |                                    |
| Interest and bank charges                                 | (270)                              | (192)                              |
| Interest income   | 87                                 | 127                                |
| Foreign exchange gains                                    | 1,027                              | 2,799                              |
| Miscellaneous   | 717                                | 489                                |
| INCOME BEFORE INCOME TAX                                  | 841                                | 4,368                              |
| PROVISION FOR INCOME TAX                                  | (721)                              | (1,148)                            |
| NET INCOME  | 120                                | 3,220                              |
| OTHER COMPREHENSIVE INCOME                                |                                    |                                    |
| Fair value changes on available-for-sale financial assets | 16                                 | 6                                  |
| TOTAL COMPREHENSIVE INCOME                                | \$136                              | \$3,226                            |
| Net Income (Loss) Attributable to:                        |                                    |                                    |
| Equity holders of the Parent Company                      | \$377                              | \$3,206                            |
| Noncontrolling interests                                  | (257)                              | 14                                 |
|   | \$120                              | \$3,220                            |
| Total Comprehensive Income (Loss) Attributable to:        |                                    |                                    |
| Equity holders of the Parent Company                      | \$393                              | \$3,212                            |
| Noncontrolling interests                                  | (257)                              | 14                                 |
|   | \$136                              | \$3,226                            |
| Earnings (Loss) Per Share:                                |                                    |                                    |
| Basic and Diluted   | (\$0.0002)                         | \$0.0012                           |

# INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

## UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(In thousand dollars)

| Attributable to Equity Holders of the Parent Company |                        |                           |                          |                            |                          |  |                                  |                  |  |                |   |                  |
|--|------------------------|---------------------------|--------------------------|----------------------------|--------------------------|--|----------------------------------|------------------|--|----------------|---|------------------|
|  | Capital Stock - Common | Capital Stock - Preferred | Subscribed Capital Stock | Additional Paid-in Capital | Subscriptions Receivable | Retained Earnings Appropriated for Expansion | Retained Earnings Unappropriated | Treasury Stock   | Reserve for Fluctuation on Available-for-Sale Financial Assets | Other Reserves | Attributable to Noncontrolling Interest | Total            |
| Balances at January 1, 2011                          | \$24,894               | \$26,601                  | \$1,902                  | \$34,647                   | (\$11,412)               | \$60,661                                     | \$32,727                         | (\$1,013)        | \$112  | \$171          | \$1,554                                 | \$170,844        |
| Shares issued during the period                      | 19                     | —                         | (19)                     | —                          | —                        | —  | —                                | —                | —  | —              | —                                       | —                |
| Cost of share-based payments                         | —                      | —                         | —                        | 200                        | —                        | —  | —                                | —                | —  | —              | —                                       | 200              |
| Collection on subscriptions                          | —                      | —                         | —                        | —                          | 194                      | —  | —                                | —                | —  | —              | —                                       | 194              |
| Accretion of subscription receivable                 | —                      | —                         | —                        | 179                        | (179)                    | —  | —                                | —                | —  | —              | —                                       | —                |
| Dividends  | —                      | —                         | —                        | —                          | —                        | —  | (3,854)                          | —                | —  | —              | (20)                                    | (3,874)          |
| Reversal of appropriated retained earnings           | —                      | —                         | —                        | —                          | —                        | (20,000)                                     | 20,000                           | —                | —  | —              | —                                       | —                |
|  | 24,913                 | 26,601                    | 1,883                    | 35,026                     | (11,397)                 | 40,661                                       | 48,873                           | (1,013)          | 112  | 171            | 1,534                                   | 167,364          |
| Net income (loss)                                    | —                      | —                         | —                        | —                          | —                        | —  | 376                              | —                | —  | —              | (257)                                   | 119              |
| Other comprehensive income                           | —                      | —                         | —                        | —                          | —                        | —  | —                                | —                | 16   | —              | —                                       | 16               |
| Total comprehensive income (loss)                    | —                      | —                         | —                        | —                          | —                        | —  | 376                              | —                | 16   | —              | (257)                                   | 135              |
| <b>Balances at March 31, 2011</b>                    | <b>\$24,913</b>        | <b>\$26,601</b>           | <b>\$1,883</b>           | <b>\$35,026</b>            | <b>(\$11,397)</b>        | <b>\$40,661</b>                              | <b>\$49,249</b>                  | <b>(\$1,013)</b> | <b>\$128</b>   | <b>\$171</b>   | <b>\$1,277</b>                          | <b>\$167,499</b> |

| Attributable to Equity Holders of the Parent Company |                        |                           |                          |                            |                          |  |                                  |                  |  |                |   |                  |
|--|------------------------|---------------------------|--------------------------|----------------------------|--------------------------|--|----------------------------------|------------------|--|----------------|---|------------------|
|  | Capital Stock - Common | Capital Stock - Preferred | Subscribed Capital Stock | Additional Paid-in Capital | Subscriptions Receivable | Retained Earnings Appropriated for Expansion | Retained Earnings Unappropriated | Treasury Stock   | Reserve for Fluctuation on Available-for-Sale Financial Assets | Other Reserves | Attributable to Noncontrolling Interest | Total            |
| Balances at January 1, 2010                          | \$20,268               | \$26,601                  | \$2,168                  | \$30,482                   | (\$10,153)               | \$60,661                                     | \$37,458                         | (\$1,013)        | \$57   | \$162          | \$292                                   | \$166,983        |
| Cost of share-based payments                         | —                      | —                         | —                        | 311                        | —                        | —  | —                                | —                | —  | —              | —                                       | 311              |
| Collection on subscriptions                          | —                      | —                         | —                        | —                          | 613                      | —  | —                                | —                | —  | —              | —                                       | 613              |
| Net reversal of accretion of subscription receivable | —                      | —                         | —                        | 303                        | (303)                    | —  | —                                | —                | —  | —              | —                                       | —                |
| Dividends  | —                      | —                         | —                        | —                          | —                        | —  | (2,401)                          | —                | —  | —              | (40)                                    | (2,441)          |
|  | 20,268                 | 26,601                    | 2,168                    | 31,096                     | (9,843)                  | 60,661                                       | 35,057                           | (1,013)          | 57   | 162            | 252                                     | 165,466          |
| Net income   | —                      | —                         | —                        | —                          | —                        | —  | 3,206                            | —                | —  | —              | 14                                      | 3,220            |
| Other comprehensive income                           | —                      | —                         | —                        | —                          | —                        | —  | —                                | —                | 6  | —              | —                                       | 6                |
| Total comprehensive income                           | —                      | —                         | —                        | —                          | —                        | —  | 3,206                            | —                | 6  | —              | 14                                      | 3,226            |
| <b>Balances at March 31, 2010</b>                    | <b>\$20,268</b>        | <b>\$26,601</b>           | <b>\$2,168</b>           | <b>\$31,096</b>            | <b>(\$9,843)</b>         | <b>\$60,661</b>                              | <b>\$38,263</b>                  | <b>(\$1,013)</b> | <b>\$63</b>  | <b>\$162</b>   | <b>\$266</b>                            | <b>\$168,692</b> |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010**  
(In thousand dollars)

|  | Unaudited<br>March 31,<br>2011 | March 31,<br>2010 |
|--|--------------------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>            |                                |                   |
| Income before income tax                               | \$841                          | \$4,368           |
| Adjustments for:                                       |                                |                   |
| Depreciation of property, plant and equipment (Note 7) | 5,336                          | 4,435             |
| Amortization of intangible assets (Note 8)             | 110                            | 703               |
| Gains on derivatives (Note 17)                         | (1,230)                        | (459)             |
| Provision for restructuring                            | —                              | 450               |
| Provision for inventory obsolescence                   | 417                            | 437               |
| Provision for doubtful accounts (Note 5)               | —                              | 318               |
| Cost of share-based payments                           | 200                            | 311               |
| Unrealized foreign exchange gain (loss)                | 73                             | (286)             |
| Interest and bank charges                              | 270                            | 192               |
| Interest income  | (87)                           | (127)             |
| Gain on sale of property, plant and equipment          | (79)                           | (28)              |
| Loss on retirement of property, plant and equipment    | —                              | 10                |
| Operating income before working capital changes        | 5,851                          | 10,324            |
| Changes in operating assets and liabilities:           |                                |                   |
| Decrease (increase) in:                                |                                |                   |
| Loans and receivables                                  | (2,433)                        | 16,603            |
| Inventories  | (4,707)                        | (5,519)           |
| Other current assets                                   | (1,899)                        | (1,058)           |
| Net pension asset                                      | 64                             | —                 |
| Increase (Decrease) in:                                |                                |                   |
| Accounts payable and accrued expenses                  | 5,086                          | (15,877)          |
| Deferred revenue                                       | (64)                           | (304)             |
| Accrued rent - noncurrent                              | (137)                          | —                 |
| Net cash generated from operations                     | 1,761                          | 4,169             |
| Interest received                                      | 87                             | 127               |
| Interest paid  | (253)                          | (192)             |
| Income tax paid  | (1,994)                        | (1,464)           |
| Net cash provided by (used in) operating activities    | (399)                          | 2,640             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>            |                                |                   |
| Proceeds from sale of property, plant and equipment    | 619                            | 999               |
| Acquisition of:  |                                |                   |
| Property, plant and equipment (Note 7)                 | (2,277)                        | (8,519)           |
| Intangible assets (Note 8)                             | (95)                           | (5)               |
| Settlement of derivatives                              | 476                            | —                 |
| Decrease in other noncurrent assets                    | (148)                          | (170)             |
| Net cash used in investing activities                  | (1,425)                        | (7,695)           |

(Forward)



|   | <b>Unaudited</b>          |                   |
|---|---------------------------|-------------------|
|   | <b>March 31,<br/>2011</b> | March 31,<br>2010 |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                             |                           |                   |
| Dividends paid to Parent Company  | <b>(\$2,037)</b>          | (\$600)           |
| Collections of subscriptions receivable                                 | <b>194</b>                | 613               |
| Dividends paid to Minority  | <b>(20)</b>               | (40)              |
| Availment of loans  | <b>1,419</b>              | —                 |
| Payment of loans  | <b>—</b>                  | (638)             |
| Net cash used in financing activities                                   | <b>(444)</b>              | (665)             |
| <b>NET FOREIGN EXCHANGE DIFFERENCE IN CASH<br/>AND CASH EQUIVALENTS</b> | <b>8</b>                  | 10                |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                        | <b>(2,260)</b>            | (5,710)           |
| <b>CASH AND CASH EQUIVALENTS AT JANUARY 1</b>                           | <b>38,135</b>             | 53,932            |
| <b>CASH AND CASH EQUIVALENTS AT<br/>MARCH 31, 2011 (Note 4)</b>         | <b>\$35,875</b>           | \$48,222          |

*See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.*

# **INTEGRATED MICROELECTRONICS, INC. AND SUBSIDIARIES**

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## **NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. Basis of Financial Statement Preparation**

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with the Philippine Accounting Standard (PAS) 34 (Amended), *Interim Financial Reporting*. Accordingly, the unaudited interim condensed consolidated financial statements do not include all of the information and disclosures required in the December 31, 2010 annual audited consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2010.

The preparation of the financial statements in compliance with Philippine Financial Reporting Standards (PFRS) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying unaudited interim condensed consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the unaudited interim condensed consolidated financial statements. Actual results could differ from such estimates.

The unaudited interim condensed consolidated financial statements include the accounts of Integrated Micro-Electronics, Inc. (herein referred to as the "Parent Company") and its subsidiaries collectively referred to as the "Group".

The unaudited interim condensed consolidated financial statements are presented in US dollar (\$), and all values are rounded to the nearest thousands except when otherwise indicated.

The accompanying unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors (BOD) on April 15, 2011.

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### **2. Basis of Consolidation**

The accompanying unaudited interim condensed consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

|           | Percentage of Ownership |         | Country of Incorporation |
|-----------|-------------------------|---------|--------------------------|
|           | 2011                    | 2010    |                          |
| IMI USA   | <b>100.00%</b>          | 100.00% | USA                      |
| IMI Japan | <b>100.00%</b>          | 100.00% | Japan                    |

(Forward)

|   | Percentage of Ownership |         | Country of    |
|---|-------------------------|---------|---------------|
|   | 2010                    | 2010    | Incorporation |
| IMI Singapore   | <b>100.00%</b>          | 100.00% | Singapore     |
| IMI International Regional Operating Headquarter<br>("IMI ROHQ")              | <b>100.00%</b>          | 100.00% | Philippines   |
| Speedy-Tech Electronics Ltd. and<br>Subsidiaries<br>("STEL and Subsidiaries") | <b>100.00%</b>          | 100.00% | Singapore     |
| Speedy-Tech (Philippines), Inc. ("STPHIL")                                    | <b>100.00%</b>          | 100.00% | Philippines   |
| Shenzhen Speedy-Tech Electronics Co., Ltd.<br>("SZSTE")                       | <b>99.443%</b>          | 99.443% | China         |
| Shenzhen Speedy-Tech Technologies<br>Co., Ltd. ("SZSTT")                      | <b>100.00%</b>          | 100.00% | China         |
| Speedy-Tech Electronics, Inc.   | <b>100.00%</b>          | 100.00% | USA           |
| Speedy-Tech Electronics (Jiaxing) Co., Ltd.<br>("STJX")                       | <b>100.00%</b>          | 100.00% | China         |
| Speedy-Tech Electronics (Chong Qing) Co.<br>Ltd. ("STCQ")                     | <b>100.00%</b>          | 100.00% | China         |
| IMI (Chengdu) Ltd.  | <b>100.00%</b>          | 100.00% | China         |
| PSi Technologies Inc. (PSi)   | <b>55.78%</b>           | 55.78%  | Philippines   |
| PSi Laguna  | <b>55.78%</b>           | 55.78%  | Philippines   |
| Pacsem Realty, Inc.   | <b>22.31%</b>           | 22.31%  | Philippines   |
| PSiTech Realty, Inc.  | <b>22.31%</b>           | 22.31%  | Philippines   |

A subsidiary is consolidated from the date on which control is transferred to the Group and ceases to be consolidated from the date on which control is transferred out of the Group. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including intercompany profits and unrealized profits and losses, are eliminated in consolidation.

Noncontrolling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from the equity holders of the Parent Company.

Losses within a subsidiary are attributed to the noncontrolling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any noncontrolling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

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### 3. Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements as of and for the year ended December 31, 2010 except for the adoption of the following new and amended standards and interpretations as of January 1, 2011. Except as otherwise indicated, the adoption of the new and amended Standards and Interpretations did not have a significant impact on the Group's unaudited interim condensed consolidated financial statements.

- **PAS 24 (Amended), *Related Party Disclosures***  
It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.
- **PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues***  
The amendment to PAS 32 amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
- **Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement***  
The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.
- **Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments***  
This Philippine Interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

### *Improvements to PFRSs*

Improvements to PFRSs is an omnibus of amendments to PFRSs effective for annual periods on or after either July 1, 2010 or January 1, 2011. The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

- PFRS 3, Business Combinations (Revised);
- PFRS 7, Financial Instruments: Disclosures;
- PAS 1, Presentation of Financial Statements;
- PAS 27, Consolidated and Separate Financial Statements; and
- Philippine Interpretation IFRIC 13, Customer Loyalty Programmes.

### Future Changes in Accounting Policies

The Group will adopt the following new and amended PFRS and Philippine Interpretations enumerated below when these become effective. Except as otherwise stated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the consolidated financial statements.

#### *Effective in 2012*

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after January 1, 2012)  
This Philippine interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. Agreements in the scope of this interpretation are agreements for the construction of real estate and such may include the delivery of other goods or services.

#### *Effective in 2013*

- PFRS 9, *Financial Instruments: Classification and Measurement* (effective for annual periods beginning on or after January 1, 2013)  
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of goods*

Revenue from sale of goods is recognized when goods are shipped or goods are received by the customer depending on the corresponding agreement with the customers, title and risk of ownership have passed, the price to the buyer is fixed or determinable and recoverability is reasonably assured.

#### *Rendering of services*

Revenue from sale of services is recognized when the related services for completed units have been rendered.

#### *Interest*

Interest income is recognized as it accrues using the effective interest rate method.

#### *Dividends*

Dividend income is recorded when the right of payment has been established.

#### Cash and Cash Equivalents

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 and that are subject to an insignificant risk of change in value.

#### Financial Instruments

Financial instruments within the scope of PAS 39 are classified as: (1) financial assets and liabilities at fair value through profit or loss (FVPL); (2) loans and receivables; (3) held-to-maturity (HTM) investments; (4) AFS financial assets; and (5) other financial liabilities. The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

Financial instruments are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, are done using trade date accounting. The Group follows the trade date accounting where an asset to be received and liability to be paid are recognized on the trade date and the derecognition of an asset that is sold and the recognition of a receivable from the buyer are likewise recognized on the trade date.

The subsequent measurement bases for financial instruments depend on its classification.

The financial instruments of the Group as of March 31, 2011 and December 31, 2010 consists of loans and receivables, financial asset at FVPL, AFS financial assets, financial liability at FVPL and other financial liabilities.

#### *Determination of fair value*

The fair value for a financial instrument traded in an active market at the reporting date is based on its quoted market price or dealer price quotation (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present

value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

#### *Day 1 profit*

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statement of comprehensive income unless it qualifies for recognition as some other type of asset or liability.

In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

#### *Financial assets or financial liabilities at FVPL*

Financial assets or financial liabilities at FVPL include derivatives, financial instruments held for trading and financial instruments designated upon initial recognition as at FVPL.

Financial instruments are classified as held for trading if they are entered into for the purpose of short-term profit-taking.

Derivatives, including separated embedded derivatives, are accounted for as financial assets or liability at FVPL unless they are designated as effective hedging instruments or a financial guarantee contract. Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as financial asset or liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial instruments may be designated at initial recognition as financial asset or liability at FVPL if any of the following criteria are met: (1) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the instrument or recognizing gains or losses on a different basis; or (2) the instrument is part of a group of financial instruments which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (3) the financial instrument contains an embedded derivative that would need to be separately recorded.

Financial instruments at FVPL are subsequently carried at fair value. Changes in fair value of such assets or liabilities are accounted for in the consolidated statement of comprehensive income.

The Group uses derivative financial instruments such as structured currency options and currency forwards to hedge its risks associated with foreign currency fluctuations. Such are accounted for as nonhedge derivatives.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host

contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at FVPL. The Group assesses whether an embedded derivative is required to be separated from the host contract when the Group first becomes party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

#### *Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on the acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets when the Group expects to realize or collect the asset within twelve months from balance sheet date. Otherwise, these are classified as noncurrent assets.

This accounting policy relates primarily to the Group's cash and cash equivalents, loans and receivables, noncurrent receivables and miscellaneous deposits.

#### *AFS financial assets*

AFS financial assets are those which are designated as such or do not qualify to be classified or designated as at FVPL, loans and receivables or HTM investments. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. Dividends earned on holding AFS financial assets are recognized in the consolidated statement of comprehensive income as dividend income when the right to receive payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported under other comprehensive income. The losses arising from impairment of such investments are recognized as impairment losses in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized under other comprehensive income is recognized as realized gains or losses in profit or loss.

When the fair value of AFS equity instruments cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment losses.

This accounting policy relates primarily to the Group's investments in club shares.

#### *Other financial liabilities*

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured at amortized cost using the effective interest rate method. Gains



and losses are recognized in the consolidated statement of comprehensive income when liabilities are derecognized as well as through the amortization process.

This accounting policy relates primarily to the Group's accounts payable and accrued expenses (excluding customers' deposits, statutory payables and taxes payable), loans payable, lease liability and long-term debt.

#### Offsetting

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

#### Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

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

#### *Loans and receivables*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 for impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is charged to profit or loss. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the

impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as payment history and past-due status. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

#### *AFS financial assets*

For the Group's equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its 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 previously charged to income - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial asset*

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

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

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

##### *Financial liability*

A financial liability is derecognized when the obligation under the liability expires, or is discharged or cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are

substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

#### Inventories

Inventories are valued at the lower of cost or net realizable value (NRV). Cost is determined using the moving average method for raw materials and supplies. For finished goods and work-in-process, cost includes direct materials, direct labor and a proportion of manufacturing overhead costs based on normal operating capacity determined using the moving average method. NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. In the event that NRV is lower than cost, the decline shall be recognized as an expense in the consolidated statement of comprehensive income.

#### Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of comprehensive income any excess remaining after reassessment.

#### Property, Plant and Equipment

Property, plant and equipment are carried at cost, net of accumulated depreciation and amortization and any impairment loss.

The cost of projects in progress include costs of construction of plant and equipment and machinery items installed and any other cost directly attributable to bringing the asset to its intended use. Projects in progress are not depreciated and amortized until such time as the relevant assets are completed and put into operational use.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged against income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. Upon retirement or sale, the cost of the asset disposed and the related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is included in the consolidated statement of comprehensive income.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives (EUL) of the respective assets as follows:

The EUL of property, plant and equipment are as follow:

|  | Years   |
|--|---------|
| Buildings                                | 25 - 30 |
| Building improvements                    | 5       |
| Machinery and facilities equipment       | 7 - 10  |
| Furniture, fixtures and office equipment | 3 - 5   |
| Transportation equipment                 | 3 - 5   |
| Tools and instruments                    | 2 - 5   |

Leasehold improvements are amortized over the shorter of the related lease terms or their EUL of 30 years.

The EUL of property, plant and equipment are reviewed annually based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior to ensure that the period of depreciation and amortization is consistent with the expected pattern of economic benefits from items of property, plant and equipment. Adjustments to the EUL are accounted for prospectively.

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The EUL of intangible assets with finite life are assessed at the individual asset level. Intangible assets with finite life are amortized over their EUL using the straight line method. The amortization periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

The EUL of intangible assets are as follows:

|                        | Years |
|------------------------|-------|
| Customer relationships | 5     |
| Unpatented technology  | 5     |
| Computer software      | 3     |

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite

life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the consolidated statement of comprehensive income when the asset is derecognized.

#### Impairment of Nonfinancial Assets

An assessment is made at the reporting date to determine whether there is any indication that an asset may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior periods may no longer exist or may have decreased. If any such indication exists or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use. Where the carrying value of an asset exceeds its estimated recoverable amount, the asset or CGU to which the asset belongs is written down to its recoverable amount. An impairment loss is charged against operations in the period in which it arises.

#### *Property, plant and equipment and intangible assets*

A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization for property, plant and equipment and intangible assets) had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss is credited to current operations. After such reversal, the depreciation and amortization 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.

#### *Goodwill*

Impairment losses relating to goodwill cannot be reversed in the future.

#### Income Tax

##### *Current 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 the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at end of the reporting period.

##### *Deferred tax*

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary differences 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 or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 tax assets and liabilities are measured at the tax rate that is expected to apply 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 as of the reporting date.

Income tax relating to items recognized in other comprehensive income is recognized in the consolidated statement of comprehensive income under other comprehensive income.

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

For periods where the ITH is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the Group neither results in a deductible temporary difference or temporary taxable difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

### Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at premium, the difference between the proceeds at 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 charged to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. 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.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares.

Retained earnings represent accumulated earnings of the Group less dividends declared. Appropriated retained earnings are set aside for future expansion.

Treasury stock is recorded at cost and is presented as a deduction from equity. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

### Foreign Currency Transactions

The functional and presentation currency of the Parent Company and its subsidiaries is the U.S. Dollar. Transactions denominated in foreign currencies are recorded in U.S. Dollar at the transaction date based on a booking rate set each month, which is the closing rate at the end of the previous month. Foreign currency-denominated monetary assets and liabilities are translated to U.S. Dollar at the closing exchange rate prevailing at the end of the reporting period. Foreign exchange differentials between the rate at transaction date and the rate at settlement date or rate at the end of the reporting period of foreign currency-denominated monetary assets or liabilities are credited to or charged against current operations. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

### Pensions and Other Employee Benefits

#### *Defined contribution plans*

The Parent Company's subsidiaries in Singapore, PRC and Hong Kong participate in their respective national pension schemes which are considered as defined contribution plans. A defined contribution plan is a pension plan under which the subsidiary pays fixed contributions. The subsidiary has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all the employees the benefits relating to employee service in the current and prior periods. The required contributions to the national pension schemes are recognized as pension cost as accrued.

#### Singapore

The subsidiaries incorporated and operating in Singapore make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognized as an expense in the period in which the related service is performed.

#### PRC

The subsidiaries incorporated and operating in PRC are required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees.

#### Hong Kong

The subsidiary in Hong Kong participates in the defined Provident Fund. The subsidiary and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions of the subsidiary and the employees are subject to a cap of HK\$1,000 per month and thereafter, contributions are voluntary.

#### *Defined benefit plans*

The Parent Company and PSi maintain separate defined benefit plan covering substantially all of their employees. The plans are funded, noncontributory pension plans administered by their respective Boards of Trustees. Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when



significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses, past service cost and the effect of any curtailment or settlement.

A portion of the actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service costs, if any, are recognized immediately in the consolidated statement of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

The net pension asset recognized in respect of the defined benefit pension plan is the lower of: (a) the fair value of the plan assets less the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods; or (b) the total of any cumulative unrecognized net actuarial loss and past service cost and the present value of any economic benefit available in the form of refunds from the plan or reductions in future contributions to the plan. If there is no minimum funding requirement, an entity shall determine the economic benefit available as a reduction in future contributions as the lower of: (a) the surplus in the plan; and (b) the present value of the future service cost to the entity, excluding any part of the future cost that will be borne by employees, for each year over the shorter of the expected life of the plan and the expected life of the entity.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related pension liability or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

#### *Employee leave entitlement*

Employee entitlements to annual leave are recognized as a liability when they accrue to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to the reporting date.

#### Share-based Payment Transactions

Certain employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

The Group has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Parent Company's shares at a discounted price. The Group recognizes the difference between the market price at the time of subscription and the subscription price as employee benefit expense over the holding period.

### Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding and adjusted to give retroactive effect to any stock dividends declared during the period. Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. The calculation of diluted earnings per share does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on earnings per share.

### Leases

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. A reassessment is made after inception of the lease only if one of the following applies:

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

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

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in the "Property, plant and equipment" account with the corresponding liability to the lessor included in the "Accounts payable and accrued expenses" account for the current portion and "Obligation under finance lease - noncurrent" account for the noncurrent portion in the consolidated balance sheet. 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 as "Interest expense" in the consolidated statement of comprehensive income.

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

### Expenses

Expenses of the Group include cost of goods sold, cost of services, and operating expenses. Cost of goods sold and services pertain to the direct expenses incurred by the Group related to the products and services offered. Operating expenses pertain to the general and administrative expenses. Cost of goods sold and services are recognized when the related goods are sold and when services are rendered. Operating expenses are recognized when incurred except for rent expense which is computed on a straight line basis over the lease term.

### Provisions

Provisions are recognized only when the following conditions are met: (a) there exists a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Where the Group expects some or all of a provision to be reimbursed, for example an insurance claim, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

### Events after the Reporting Period

Post report events that provide additional information about the Group's position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post report events that are non-adjusting events are disclosed in the consolidated financial statements when material.

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## 4. Cash and Cash Equivalents

|                           | <b>March 31,<br/>2011<br/>(Unaudited)</b> | <b>December 31,<br/>2010<br/>(Audited)</b> |
|---------------------------|---|--|
|                           | (In thousands)                            |  |
| Cash on hand and in banks | <b>\$23,958</b>                           | \$24,894                                   |
| Short-term deposits       | <b>11,917</b>                             | 13,241                                     |
|                           | <b>\$35,875</b>                           | <b>\$38,135</b>                            |

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three months and earn interest at the respective short-term deposit rates.

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## 5. Loans and Receivables

|                                      | March 31,<br>2011<br>(Unaudited) | December 31,<br>2010<br>(Audited) |
|--------------------------------------|----------------------------------|-----------------------------------|
|                                      | (In thousands)                   |                                   |
| Trade                                | \$101,251                        | \$95,629                          |
| Nontrade                             | 10,118                           | 9,462                             |
| Receivable from insurance            | 1,486                            | 1,860                             |
| Receivables from employees           | 646                              | 707                               |
| Receivable from Meralco              | —                                | 550                               |
| Short-term investments               | —                                | 2,000                             |
| Others                               | 128                              | 1,095                             |
|                                      | <b>\$113,629</b>                 | 111,303                           |
| Less allowance for doubtful accounts | 1,345                            | 1,367                             |
|                                      | <b>\$112,284</b>                 | <b>\$109,936</b>                  |

### *Trade*

Trade receivables arise from manufacturing and other related services for electronic products and components and have credit terms ranging from 30 to 60 days from invoice date.

### *Nontrade*

Nontrade receivables represent billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These receivables have credit terms ranging from 30 to 60 days from invoice date.

### *Receivable from insurance*

Insurance claims for damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu, Philippines in May 2009 amounted to \$1.49 million and \$1.86 million as of March 31, 2011 and December 31, 2010, respectively.

### *Short-term investments*

Short-term investments are 2-year time deposits due in May 2011 subject to fixed interest rate of 2.00% per annum. As of March 31, 2011, this was reclassified to "Short-term deposits" under "Cash and cash equivalents" (see Note 4).

### *Receivable from Meralco*

As a customer of Manila Electric Company (Meralco), the Parent Company is entitled to a refund for some of its previous billings under Phase IV of Meralco's refund scheme. This was fully collected as of March 31, 2010.

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## 6. Inventories

During the three months ended March 31, 2011 and year ended December 31, 2010, the Group written off inventories amounting to \$0.44 million and \$0.42 million, respectively.

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## 7. Property, Plant and Equipment

### 2011

| In thousands   | Buildings<br>and<br>Improvements | Machinery<br>and<br>Facilities<br>Equipment | Furniture,<br>Fixtures and<br>Office<br>Equipment | Transportation | Tools and<br>Instruments | Construction | Total           |
|--|----------------------------------|---|---|----------------|--------------------------|--------------|-----------------|
| <b>Cost</b>  |                                  |   |   |                |                          |              |                 |
| At January 1, 2011                                       | \$51,325                         | \$119,640                                   | \$13,911  | \$972          | \$2,725                  | \$96         | \$188,669       |
| Additions  | 129                              | 1,532                                       | 341   | 98             | 39                       | 138          | 2,277           |
| Disposals  | –                                | (1,913)                                     | (28)  | (28)           | –                        | –            | (1,969)         |
| At March 31, 2011  | 51,454                           | 119,259                                     | 14,224  | 1,042          | 2,764                    | 234          | 188,977         |
| <b>Accumulated<br/>depreciation and<br/>amortization</b> |                                  |   |   |                |                          |              |                 |
| At January 1, 2011                                       | \$31,519                         | \$69,966                                    | \$9,111   | \$237          | \$1,710                  | \$–          | \$112,543       |
| Depreciation and<br>amortization                         | 671                              | 3,883                                       | 593   | 84             | 105                      | –            | 5,336           |
| Disposals  | –                                | (1,386)                                     | (23)  | (20)           | –                        | –            | (1,429)         |
| At March 31, 2011  | 32,190                           | 72,463                                      | 9,681   | 301            | 1,815                    | –            | 116,450         |
| <b>Accumulated<br/>impairment loss</b>                   | 737                              | 753   | 12  | –              | –                        | –            | 1,502           |
| <b>Net book value as of<br/>March 31, 2011</b>           | <b>\$18,527</b>                  | <b>\$46,043</b>                             | <b>\$4,531</b>                                    | <b>\$741</b>   | <b>\$949</b>             | <b>\$234</b> | <b>\$71,025</b> |

## 2010

| In thousands   | Buildings<br>and<br>Improvements | Machinery<br>and<br>Facilities<br>Equipment | Furniture,<br>Fixtures and<br>Office<br>Equipment | Transportation | Tools and<br>Instruments | Construction | Total           |
|--|----------------------------------|---|---|----------------|--------------------------|--------------|-----------------|
| <b>Cost</b>  |                                  |   |   |                |                          |              |                 |
| At January 1, 2010                                       | \$50,322                         | \$97,732                                    | \$12,241  | \$1,230        | \$1,501                  | \$1,627      | \$164,653       |
| Additions  | 922                              | 17,786                                      | 3,519   | 499            | 1,245                    | 96           | 24,067          |
| Additions through<br>business<br>combination<br>(Note 2) | 219                              | 8,813                                       | 149   | 29             | —                        | —            | 9,210           |
| Disposals  | (292)                            | (6,164)                                     | (1,998)   | (786)          | (21)                     | —            | (9,261)         |
| Reclassifications  | 154                              | 1,473                                       | —   | —              | —                        | (1,627)      | —               |
| At December 31, 2010                                     | 51,325                           | 119,640                                     | 13,911  | 972            | 2,725                    | 96           | 188,669         |
| <b>Accumulated<br/>depreciation and<br/>amortization</b> |                                  |   |   |                |                          |              |                 |
| At January 1, 2010                                       | \$28,712                         | \$61,615                                    | \$8,207   | \$148          | \$1,340                  | \$—          | \$100,022       |
| Depreciation and<br>amortization                         | 3,089                            | 13,529                                      | 2,063   | 301            | 391                      | —            | 19,373          |
| Disposals  | (282)                            | (5,178)                                     | (1,159)   | (212)          | (21)                     | —            | (6,852)         |
| At December 31, 2010                                     | 31,519                           | 69,966                                      | 9,111   | 237            | 1,710                    | —            | 112,543         |
| Accumulated<br>impairment loss                           | 737                              | 753   | 12  | —              | —                        | —            | 1,502           |
| <b>Net book value as of<br/>December 31, 2010</b>        | <b>\$19,069</b>                  | <b>\$48,921</b>                             | <b>\$4,788</b>                                    | <b>\$735</b>   | <b>\$1,015</b>           | <b>\$96</b>  | <b>\$74,624</b> |

Depreciation and amortization expense included in cost of goods sold and services for the three months ended March 31, 2011 and 2010 amounted to \$4.65 million and \$3.70 million, respectively. Depreciation and amortization expense included in operating expenses for the three months ended March 31, 2011 and 2010 amounted to \$0.69 million and \$0.73 million, respectively.

## 8. Intangible Assets

During the three months ended March 31, 2011 and 2010, the Parent Company acquired additional computer software amounting to \$0.10 million and \$0.005 million respectively.

Amortization of intangible assets for the three months ended March 31, 2011 and 2010 amounted to \$0.11 million and \$0.70 million, respectively.

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## 9. Accounts Payable and Accrued Expenses

|  | <b>March 31,<br/>2011<br/>(Unaudited)</b> | <b>December 31,<br/>2010<br/>(Audited)</b> |
|--|---|--|
|  |   | (In thousands)                             |
| Trade payables                           | <b>\$71,784</b>                           | \$71,090                                   |
| Accrued expenses                         | <b>22,121</b>                             | 21,777                                     |
| Nontrade payables                        | <b>5,309</b>                              | 1,054                                      |
| Accrued payroll                          | <b>5,169</b>                              | 3,564                                      |
| Dividends payable                        | <b>1,854</b>                              | —  |
| Obligation under finance lease - current | <b>1,212</b>                              | 1,210                                      |
| Customers' deposits                      | <b>788</b>                                | 681  |
| Employee-related payables                | <b>670</b>                                | 688  |
| Taxes payable                            | <b>628</b>                                | 640  |
| Accrued interest payable                 | <b>79</b>                                 | 61   |
| Others                                   | <b>2,708</b>                              | 4,581                                      |
|  | <b>\$112,322</b>                          | \$105,346                                  |

Accounts payable and accrued expenses are non interest-bearing and are normally settled on 15 to 60-day terms.

Accrued expenses consist mainly of accruals for light and water, taxes, repairs and maintenance, professional fees, transportation and travel, subcontractual costs, security, insurance and representation. This also includes pension liability amounting to \$0.27 million payable in 2011 to a retired officer of PSi.

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## 10. Loans Payable

|                | <b>March 31,<br/>2011<br/>(Unaudited)</b> | <b>December 31,<br/>2010<br/>(Audited)</b> |
|----------------|---|--|
|                |   | (In thousands)                             |
| Parent Company | <b>\$10,000</b>                           | \$10,000                                   |
| PSi            | <b>7,997</b>                              | 6,625                                      |
| STEL           | <b>1,343</b>                              | 1,297                                      |
|                | <b>\$19,340</b>                           | \$17,922                                   |

The Parent Company has two (2) 90-day term loans amounting to \$5.00 million each, and subject to fixed interest rate of 1.10%.

PSi has short-term loans from the following banks:

|                                      | <b>March 31,<br/>2011<br/>(Unaudited)</b> | <b>December 31,<br/>2010<br/>(Audited)</b> |
|--------------------------------------|---|--|
|                                      | (In thousands)                            |  |
| Metropolitan Bank & Trust Co. (MBTC) | <b>\$6,000</b>                            | \$5,000                                    |
| PVB                                  | <b>1,997</b>                              | 1,625                                      |
|                                      | <b>\$7,997</b>                            | <b>\$6,625</b>                             |

#### MBTC

PSi has an unsecured Omnibus Line Credit Facility of \$10.00 million granted on November 24, 2010, which includes 30 to 360 days Promissory Notes, may be denominated in USD or Philippine peso (PHP), Letter of Credit/Trust Receipt (LC/TR) Line, Export Packing Credit Line, FX Forward Cover, Foreign Bills Line and Domestic Bill Purchase Line. The credit facility will expire on October 30, 2011. On February 10, 2011, PSi availed an additional short term loan amounting to \$1.00 million. The interest rate in 2011 and 2010 is 2.56%.

#### PVB

The existing short-term credit facility with PVB, which will expire in April 2011, is secured by trade receivables from certain customers and MTI on machinery and equipment. On March 31, 2011, PSi availed an additional short term loan amounting to \$0.37 million. The interest rates are 3.48% in 2011 and ranges from 3.16% to 3.72% in 2010, respectively.

Under the terms of the Credit Facility Agreement with PVB, PSi shall ensure that the collection of eligible receivables under the Borrowing Base (equivalent to 95% of the value of the outstanding eligible receivables) will be deposited with its PVB bank account. Furthermore, PSi shall maintain a Borrowing Base to cover the outstanding principal drawn under the Credit Facility Agreement at all times.

The loan of STEL amounting to \$1.30 million as of March 31, 2011 and December 31, 2010, are clean and unsecured loans obtained from various Singapore banks from existing revolving credit facilities. The loans payable bear interest rates ranging from 3.30% to 3.39% in 2011 and 3.52% to 3.79% in 2010 and have maturities of 30 to 240 days from the date of issue with renewal options.

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## 11. Long-Term Debt

|                | <b>March 31,<br/>2011<br/>(Unaudited)</b> | <b>December 31,<br/>2010<br/>(Audited)</b> |
|----------------|---|--|
|                | (In thousands)                            |  |
| Parent Company | <b>\$30,000</b>                           | \$30,000                                   |
| STEL           | <b>8,000</b>                              | 8,000                                      |
| PSi            | <b>372</b>                                | 372  |
|                | <b>\$38,372</b>                           | <b>\$38,372</b>                            |



As of March 31, 2011 and December 31, 2010, current portion of long-term debt amounts to \$38.00 million.

The Parent Company loan is a five-year term clean loan from a Philippine bank obtained in 2006 for the original amount of \$40.00 million and payable in a single balloon payment at the end of the loan term. The Parent Company may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty. Interest on the loan is payable quarterly and re-priced quarterly at the rate of 3-month LIBOR plus margin of 0.80%. The Parent Company prepaid \$10.00 million of the loan principal in 2007.

The IMI Singapore loan is a five-year term clean loan from a Singapore bank obtained in 2006 for the original amount of \$40.00 million. The loan is payable in ten (10) equal installments starting in May 2007 until November 2011. Interest on the loan is payable semi-annually and is re-priced semi-annually at LIBOR quoted by the bank plus 0.75%.

The long term debt of PSi pertains to employee vacation leave benefits that are to be settled at retirement date. The accrual was discounted using the assumptions and method used in discounting the retirement benefits obligation.

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## 12. Deferred Revenue

On June 28, 2010, PSi and a local customer entered into a Subcontracting Services Agreement (SSA) for PSi to provide subcontracted services. In consideration, the local customer shall pay PSi service fees as provided for in the SSA.

The SSA shall take effect upon the execution thereof and effective until August 14, 2020, unless mutually terminated by both parties. However, the subcontracted services shall be effective starting from July 15, 2010 and ending February 29, 2020, renewable upon mutual agreement by both parties.

In September 2009, PSi received noninterest-bearing cash advances amounting to \$3.00 million from a foreign customer, an affiliate of the local customer.

On July 15, 2010, the foreign customer assigned all of its rights with respect to the cash advances, including payments thereof, to the local customer. The local customer and PSi agree that the full cash advances amounting to \$3.00 million will be applied to pre-pay and that will be rendered by PSi to the local customer. Moreover, PSi shall return to the local customer, upon termination of the SSA, for any reason, the cash advances less any amount applied to pay the fees as detailed in the SSA.

The current and noncurrent portion of the advances from Microsemi is as follows:

|   | <b>March 31,<br/>2011<br/>(Unaudited)</b> | <b>December 31,<br/>2010<br/>(Audited)</b> |
|---|---|--|
|   | (In thousands)                            |  |
| Total outstanding advances from Microsemi | <b>\$2,752</b>                            | \$2,829                                    |
| Less current portion                      | <b>251</b>                                | 264  |
| Noncurrent portion                        | <b>\$2,501</b>                            | \$2,565                                    |

The current portion is included under "Accounts payable and accrued expenses - others" (see Note 9).

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### 13. Equity

On February 23, 2011, the BOD of the Parent Company approved the reclassification of appropriated retained earnings amounting to \$20.00 million to unappropriated retained earnings as of December 31, 2010.

#### *Dividends declaration*

On February 14, 2011, the Finance Committee of the Parent Company approved the declaration and payment of the first quarter cash dividends of 8.25% per annum to all shareholders of the Parent Company's preferred shares as of record date of February 8, 2011. Payment date is February 21, 2011. This was ratified by the BOD of the Parent Company on February 23, 2011.

Likewise, on February 23, 2011, the BOD of the Parent Company approved the declaration of the quarterly cash dividends of 8.25% per annum for the second to fourth quarters of 2011 on its outstanding preferred shares. The record and payment dates for the cash dividends are as follows:

|              | <b>2<sup>nd</sup> Quarter</b> | <b>3<sup>rd</sup> Quarter</b> | <b>4<sup>th</sup> Quarter</b> |
|--------------|-------------------------------|-------------------------------|-------------------------------|
| Record date  | May 9, 2011                   | August 17, 2011               | November 9, 2011              |
| Payment date | May 20, 2011                  | August 23, 2011               | November 22, 2011             |

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#### 14. Earnings (Loss) per Share

The following table presents information necessary to calculate earnings (loss) per share on net income attributable to equity holders of the Parent Company.

|   | <b>March 31,<br/>2011<br/>(Unaudited)</b> | December 31,<br>2010<br>(Audited) |
|---|---|-----------------------------------|
|   |   | (In thousands)                    |
| Net income                                  | <b>\$377</b>                              | \$4,739                           |
| Less dividends on preferred stock           | <b>611</b>                                | 2,360                             |
|   | <b>(\$234)</b>                            | \$2,379                           |
| Weighted average number of common<br>shares |   |                                   |
| Outstanding                                 | <b>1,427,569</b>                          | 1,337,038                         |
| Basic and Diluted                           | <b>(\$0.0002)</b>                         | \$0.002                           |

As of March 31, 2011 and December 31, 2010, the Parent Company has no dilutive potential common shares.

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#### 15. Segment Information

Management monitors operating results per geographical area for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue, gross profit, operating income, net income before and after tax.

No operating segments have been aggregated to form a reportable segment.

Intersegment revenue is generally recorded at values that approximate third-party selling prices.

The following tables present revenue and profit information regarding the Group's geographical segments for the three months ended March 31, 2011 and 2010 (in thousands):

**2011**

|   | Philippines    |          | Singapore | USA   | Japan | Eliminations | Total     |
|---|----------------|----------|-----------|-------|-------|--------------|-----------|
|   | Parent Company | PSi      |           |       |       |              |           |
| Revenue                                 |                |          |           |       |       |              |           |
| Third party                             | \$36,837       | \$20,615 | \$65,170  | \$101 | \$239 | \$-          | \$122,962 |
| Inter-segment                           | -              | -        | 909       | 594   | 207   | (1,710)      | -         |
| Total revenue                           | \$36,837       | \$20,615 | \$66,079  | \$695 | \$446 | (\$1,710)    | \$122,962 |
| Segment gross profit                    | \$3,293        | \$1,776  | \$5,519   | \$571 | \$236 | (\$1,710)    | \$9,685   |
| Segment operating income (loss)         | (\$1,409)      | (\$353)  | \$956     | \$64  | \$22  | \$-          | (\$720)   |
| Segment interest income                 | \$63           | \$1      | \$23      | \$-   | \$-   | \$-          | \$87      |
| Segment profit (loss) before income tax | (\$75)         | (\$528)  | \$1,344   | \$64  | \$36  | \$-          | \$841     |
| Segment provision for income tax        | (81)           | (57)     | (583)     | -     | -     | -            | (721)     |
| Segment profit (loss) after income tax  | (\$156)        | (\$585)  | \$761     | \$64  | \$36  | \$-          | \$120     |

**2010**

|                                  | Philippines    |     | Singapore | USA   | Japan | Eliminations | Total    |
|----------------------------------|----------------|-----|-----------|-------|-------|--------------|----------|
|                                  | Parent Company | PSi |           |       |       |              |          |
| Revenue                          |                |     |           |       |       |              |          |
| Third party                      | \$37,610       | \$- | \$52,815  | \$74  | \$43  | \$-          | \$90,542 |
| Inter-segment                    | -              | -   | 760       | 586   | 253   | (1,599)      | -        |
| Total revenue                    | \$37,610       | \$- | \$53,575  | \$660 | \$296 | (\$1,599)    | \$90,542 |
| Segment gross profit             | \$4,095        | \$- | \$7,339   | \$634 | \$197 | (\$1,452)    | \$10,813 |
| Segment operating income (loss)  | (\$1,198)      | \$- | \$2,304   | \$20  | \$19  | \$-          | \$1,145  |
| Segment interest income          | \$109          | \$- | \$18      | \$-   | \$-   | \$-          | \$127    |
| Segment profit before income tax | \$1,840        | \$- | \$2,491   | \$20  | \$17  | \$-          | \$4,368  |
| Segment provision for income tax | (99)           | -   | (1,049)   | -     | -     | -            | (1,148)  |
| Segment profit after income tax  | \$1,741        | \$- | \$1,442   | \$20  | \$17  | \$-          | \$3,220  |

The following table presents segment assets of the Group's geographical segments as of March 31, 2011 and December 31, 2010 (in thousands):

|                             | Philippines    |          | Singapore | USA     | Japan   | Eliminations | Total     |
|-----------------------------|----------------|----------|-----------|---------|---------|--------------|-----------|
|                             | Parent Company | PSi      |           |         |         |              |           |
| Segment assets              |                |          |           |         |         |              |           |
| March 31, 2011 (Unaudited)  | \$213,939      | \$34,720 | \$203,497 | \$2,864 | \$2,145 | (\$111,181)  | \$345,934 |
| Segment assets              |                |          |           |         |         |              |           |
| December 31, 2010 (Audited) | \$217,587      | \$36,518 | \$203,886 | \$2,804 | \$1,779 | (\$119,396)  | \$343,178 |

Segment assets as of March 31, 2011 do not include investments in subsidiaries amounting to \$96.36 million and inter-segment loans and receivables amounting to \$24.31 million which are eliminated on consolidation.

Segment assets as of December 31, 2010 do not include investments in subsidiaries amounting to \$96.21 million and inter-segment loans and receivables amounting to \$32.68 million which are eliminated on consolidation.

As of March 31, 2011 and December 31, 2010, goodwill arising from the acquisition of PSi amounting to \$9.49 million is recognized at consolidated level.

The following table presents revenues from external customers and noncurrent assets (in thousands):

|             | <b>Revenues from<br/>External Customers</b> |   | <b>Noncurrent Assets</b>              |  |
|-------------|---|---|---------------------------------------|--|
|             | <b>March 31,<br/>2011<br/>(Unaudited)</b>   | <b>March 31,<br/>2010<br/>(Unaudited)</b> | <b>March 31, 2011<br/>(Unaudited)</b> | <b>December 31,<br/>2010<br/>(Audited)</b> |
| Philippines | \$16,867                                    | \$18,799                                  | \$50,909                              | \$53,596                                   |
| Europe      | 58,453                                      | 31,767                                    | —                                     | —  |
| USA         | 28,917                                      | 19,160                                    | 1,250                                 | 1,246                                      |
| Asia        | 16,446                                      | 16,322                                    | 75,469                                | 76,399                                     |
| Japan       | 2,279                                       | 4,494                                     | 24                                    | 25   |
|             | <b>\$122,962</b>                            | <b>\$90,542</b>                           | <b>\$127,652</b>                      | <b>\$131,266</b>                           |

Revenues are attributed to countries on the basis of the customer's location. Revenues from one customer from the Philippine segment represent \$6.33 million or 5.15% of the Group's total revenues for the three months ended March 31, 2011.

Noncurrent assets, which include property, plant and equipment, goodwill, and intangible assets, are disclosed according to their physical location.

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## 16. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

In the ordinary course of business, the Group transacts with its related parties. The transactions and balances of accounts with related parties follow (in thousands):

| Related Party                        | Relationship | Nature of Transaction     | Balance Sheets |         | Statements of Comprehensive Income |      |
|--------------------------------------|--------------|---------------------------|----------------|---------|------------------------------------|------|
|                                      |              |                           | 2011           | 2010    | 2011                               | 2010 |
| Bank of the Philippine Islands (BPI) | Affiliate    | Cash and cash equivalents | \$1,162        | \$2,030 | \$—                                | \$—  |
|                                      |              | Nontrade receivable       | 221            | 70      | —                                  | —    |
|                                      |              | Nontrade payable          | 45             | 2       | —                                  | —    |
|                                      |              | Derivative asset          | 56             | 481     | —                                  | —    |
|                                      |              | Gains on derivatives      | —              | —       | 87                                 | 32   |
|                                      |              | Interest income           | —              | —       | 4                                  | —    |
| AG Counselors Corporation (AGCC)     | Affiliate    | Nontrade payable          | —              | 1       | —                                  | —    |
| Technopark Land, Inc. (TLI)          | Affiliate    | Nontrade receivable       | 8              | 8       | —                                  | —    |
| Innovate Communications, Inc. (ICI)  | Affiliate    | Nontrade payable          | 67             | 67      | —                                  | —    |
|                                      |              | Postal and communication  | —              | —       | 6                                  | 35   |
|                                      |              | Building rental           | —              | —       | 9                                  | 4    |
| Globe Telecom, Inc. (GTI)            | Affiliate    | Nontrade payable          | 23             | 4       | —                                  | —    |
|                                      |              | Postal and communication  | —              | —       | 21                                 | 30   |

- a. As of March 31, 2011, the Parent Company has savings and current accounts and short-term deposits with BPI amounting to \$528,738 and \$633,205, respectively. As of December 31, 2010, the Parent Company has savings and current accounts and short-term deposits with BPI amounting to \$546,993 and \$1,482,664, respectively. Total interest income earned from investments with BPI amounted to \$4,171 in 2011, \$101 in 2010.
- b. As of March 31, 2011 and December 31, 2010, nontrade receivables from BPI pertain to retirement and separation pay advanced by the Parent Company but is reimbursable from the trust fund with BPI.
- c. The Parent Company has outstanding housing and automobile financing loans from BPI amounting to \$45,284 and \$1,698 as of March 31, 2011 and December 31, 2010, respectively, included in "Employee-related payables" under "Accounts payable and accrued expenses". The outstanding housing and automobile financing loans arise from the differences in the timing of remittances by the Parent Company to BPI and the period of withholding from employee salaries and wages.
- d. In 2011 and 2010, the Parent Company has entered into various short-term currency forwards with BPI with aggregate nominal amount of \$4.00 million and \$2.00 million. As of March 31, 2011 and December 31, 2010, the outstanding forward contracts have a net positive fair value of \$56,278 and \$15,283.
- e. The Parent Company engages AGCC, an affiliate, for corporate secretarial services subject to a monthly fee of ₱40,000. As of March 31, 2011 and December 31, 2010, payable to AGCC amounted to nil and \$718, respectively.
- f. The Parent Company has nontrade receivable from TLI, an affiliate, amounting to \$7,989 and \$7,682 as of March 31, 2011 and December 31, 2010, which pertains to advances by

the Parent Company for various expenses incurred by TLI, primarily on real property taxes and corporate secretarial services.

- g. The Parent Company has nontrade payables to Innove Communications, Inc., an affiliate, amounting to \$67,233 and \$67,102 as of March 31, 2011 and December 31, 2010, respectively, which pertains to billing on leased lines, internet connections and ATM connections and building rentals. Related expense for 2011 and 2010, amounted to \$15,177 and \$39,108, respectively.
- h. As of March 31, 2011 and December 31, 2010, the Parent Company's accounts payable to GTI, an affiliate, amounted to \$23,355 and \$3,828 for the purchase of Blackberry software and billings for cellphone charges and WiFi connections. Related expense for 2011 and 2010, amounted to \$20,957 and \$30,004, respectively.

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## 17. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, composed of loans payable and long-term were issued primarily to raise financing for the Group's operations. The Group has various other financial instruments such as cash and cash equivalents, accounts receivable, accounts payable and accrued expenses which arise directly from its operations.

The main purpose of the Group's financial instruments is to fund its operational and capital expenditures. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk.

The Group's risk management policies are summarized below:

### *Interest rate risk*

The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations with floating interest rates. The Group obtains additional financing through bank borrowings. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

### *Credit risk*

Credit risk is the risk that the Group's counterparty to its financial assets will fail to discharge their contractual obligations. The Group's major credit risk exposure relates primarily to its holdings of cash in bank, short-term investments and receivables from customers and other third parties. Credit risk management involves dealing with institutions for which credit limits have been established. The treasury policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties. The Group has a well-defined credit policy and established credit procedures. The Group extends credit to its customers consistent with sound credit practices and industry standards. The Group deals only with reputable, competent and reliable customers who pass the Group's credit standards. The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Cash terms, advance payments and letters of credit are required for customers of lower credit standing.

With respect to credit risk arising from other financial assets of the Group, which comprises cash and cash equivalents and AFS financial assets, the Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of the instruments.

#### *Liquidity risk*

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group's exposure to liquidity risk relates primarily to its short and long term obligations. The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and operations. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations. As part of its liquidity risk management, the Group regularly evaluates its projects and actual cash flows. To cover financing requirements, the Group intends to use internally-generated funds and loan facilities with local and foreign banks.

Surplus funds are placed with reputable banks.

#### *Foreign currency risk*

The Group's foreign exchange risk results primarily from movements of U.S. Dollar against other currencies. As a result of significant operating expenses in Philippine Peso, the Group's income can be affected significantly by movements in the Philippine Peso/U.S. Dollar exchange rate.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases other than the Group's functional currency.

The Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider to hedge any material exposure where appropriate.



Information on the Group's foreign currency-denominated monetary assets and liabilities and their U.S. Dollar equivalent follows (in thousands):

Philippine Peso (P)

|  | March 31, 2011<br>(Unaudited) |                          | December 31, 2010<br>(Audited) |                       |
|--|-------------------------------|--------------------------|--------------------------------|-----------------------|
|  | In U.S. Dollar                | In<br>Philippine<br>Peso | In U.S.<br>Dollar              | In Philippine<br>Peso |
| Cash and cash equivalents                    | \$3,553                       | P155,921                 | \$6,230                        | P273,386              |
| Loans and receivables                        | 1,423                         | 62,447                   | 1,716                          | 75,299                |
| Miscellaneous deposits                       | 1,106                         | 48,550                   | 1,351                          | 59,287                |
| Accounts payable and accrued expenses        | (17,619)                      | (773,198)                | (19,519)                       | (856,573)             |
| Other current liabilities                    | (6,200)                       | (272,099)                | (5,407)                        | (237,299)             |
| Net foreign currency-denominated liabilities | (\$17,737)                    | (P778,379)               | (\$15,629)                     | (P685,900)            |

Singapore Dollar (SGD)

|  | March 31, 2011<br>(Unaudited) |                           | December 31, 2010<br>(Audited) |                        |
|--|-------------------------------|---------------------------|--------------------------------|------------------------|
|  | In U.S. Dollar                | In<br>Singapore<br>Dollar | In U.S.<br>Dollar              | In Singapore<br>Dollar |
| Cash and cash equivalents                    | \$140                         | SGD181                    | \$–                            | SGD–                   |
| Loans and receivables                        | 176                           | 228                       | 155                            | 200                    |
| Accounts payable and accrued expenses        | (1,013)                       | (1,310)                   | (826)                          | (1,068)                |
| Other current liabilities                    | (694)                         | (897)                     | (981)                          | (1,268)                |
| Loans payable                                | (1,321)                       | (1,708)                   | (1,301)                        | (1,682)                |
| Net foreign currency-denominated liabilities | (\$2,712)                     | (SGD3,506)                | (\$2,953)                      | (SGD3,818)             |

Euro (€)

|   | March 31, 2011<br>(Unaudited) |         | December 31, 2010<br>(Audited) |         |
|---|-------------------------------|---------|--------------------------------|---------|
|   | In U.S. Dollar                | In Euro | In U.S.<br>Dollar              | In Euro |
| Cash and cash equivalents               | \$728                         | €51     | \$663                          | €501    |
| Loans and receivables                   | 474                           | 358     | 326                            | 247     |
| Accounts payable and accrued expenses   | (850)                         | (643)   | (440)                          | (333)   |
| Other current liabilities               | (1)                           | (1)     | –                              | –       |
| Net foreign currency-denominated assets | \$351                         | €265    | \$549                          | €415    |

Japanese Yen (¥)

|  | March 31, 2011<br>(Unaudited) |                 | December 31, 2010<br>(Audited) |                 |
|--|-------------------------------|-----------------|--------------------------------|-----------------|
|  | In U.S. Dollar                | In Japanese Yen | In U.S. Dollar                 | In Japanese Yen |
| Cash and cash equivalents                    | \$1,585                       | ¥129,461        | \$819                          | ¥66,906         |
| Loans and receivables                        | 3,820                         | 311,904         | 2,688                          | 219,487         |
| Miscellaneous deposits                       | 29                            | 2,391           | 28                             | 2,325           |
| Accounts payable and accrued expenses        | (6,320)                       | (516,060)       | (6,434)                        | (525,402)       |
| Other current liabilities                    | (2,097)                       | (171,247)       | (16)                           | (1,341)         |
| Net foreign currency-denominated liabilities | (\$2,983)                     | (¥243,551)      | (\$2,915)                      | (¥238,025)      |

Renminbi (RMB)

|   | March 31, 2011<br>(Unaudited) |             | December 31, 2010<br>(Audited) |             |
|---|-------------------------------|-------------|--------------------------------|-------------|
|   | In U.S. Dollar                | In Renminbi | In U.S. Dollar                 | In Renminbi |
| Cash and cash equivalents               | \$4,131                       | RMB27,355   | \$4,714                        | RMB31,210   |
| Loans and receivables                   | 34,018                        | 225,239     | 38,571                         | 255,384     |
| Accounts payable and accrued expenses   | (27,736)                      | (183,646)   | (23,235)                       | (153,840)   |
| Other current liabilities               | (1,186)                       | (7,850)     | —                              | —           |
| Net foreign currency-denominated assets | \$9,227                       | RMB61,098   | \$20,050                       | RMB132,754  |

Hong Kong Dollar (HKD)

|  | March 31, 2011<br>(Unaudited) |                     | December 31, 2010<br>(Audited) |                     |
|--|-------------------------------|---------------------|--------------------------------|---------------------|
|  | In U.S. Dollar                | In Hong Kong Dollar | In U.S. Dollar                 | In Hong Kong Dollar |
| Cash and cash equivalents                    | \$60                          | 465                 | \$71                           | 554                 |
| Loans and receivables                        | 339                           | 2,636               | 202                            | 1,569               |
| Accounts payable and accrued expenses        | (677)                         | (5,269)             | (790)                          | (6,147)             |
| Net foreign currency-denominated liabilities | (\$278)                       | (HKD2,168)          | (\$517)                        | (HKD4,024)          |

Australia Dollar (AUD)

|                                       | March 31, 2011<br>(Unaudited) |                     | December 31, 2010<br>(Audited) |                     |
|---------------------------------------|-------------------------------|---------------------|--------------------------------|---------------------|
|                                       | In U.S. Dollar                | In Australia Dollar | In U.S. Dollar                 | In Australia Dollar |
| Accounts payable and accrued expenses | (\$206)                       | (AUD202)            | (\$179)                        | (AUD177)            |

Thailand Baht (THB)

|                                       | <b>March 31, 2011<br/>(Unaudited)</b> |                             | <b>December 31, 2010<br/>(Audited)</b> |                             |
|---------------------------------------|---------------------------------------|-----------------------------|--|-----------------------------|
|                                       | <b>In U.S.<br/>Dollar</b>             | <b>In Thailand<br/>Bath</b> | <b>In U.S.<br/>Dollar</b>              | <b>In Thailand<br/>Bath</b> |
| Accounts payable and accrued expenses | <b>(\$5)</b>                          | <b>(THB151)</b>             | <b>\$—</b>                             | <b>THB—</b>                 |

*Sensitivity analysis*

The following table demonstrates sensitivity to a reasonably possible change in the U.S. Dollar exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of March 31, 2011 and December 31, 2010. The reasonably possible change was computed based on one year average historical movement of exchange rates between U.S Dollar and other currencies.

There is no other impact on the Group's equity other than those already affecting income. The increase in U.S. Dollar rate as against other currencies demonstrates weaker functional currency while the decrease represents stronger U.S. Dollar value.

**March 31, 2011 (Unaudited)**

| <b>Currency</b> | <b>Increase/decrease<br/>in U.S. Dollar rate</b> | <b>Effect on<br/>profit before tax<br/>(in thousands)</b> |
|-----------------|--|---|
| <b>PHP</b>      | <b>1%</b>  | <b>(\$157)</b>  |
|                 | <b>-1%</b>                                       | <b>157</b>  |
| <b>SGD</b>      | <b>1%</b>  | <b>(15)</b>   |
|                 | <b>-1%</b>                                       | <b>15</b>   |
| <b>EUR</b>      | <b>1%</b>  | <b>5</b>  |
|                 | <b>-1%</b>                                       | <b>(5)</b>  |
| <b>JPY</b>      | <b>1%</b>  | <b>(14)</b>   |
|                 | <b>-1%</b>                                       | <b>14</b>   |
| <b>RMB</b>      | <b>2%</b>  | <b>148</b>  |
|                 | <b>-2%</b>                                       | <b>(148)</b>  |
| <b>HKD</b>      | <b>1%</b>  | <b>(3)</b>  |
|                 | <b>-1%</b>                                       | <b>3</b>  |
| <b>AUD</b>      | <b>1%</b>  | <b>—</b>  |
|                 | <b>-1%</b>                                       | <b>—</b>  |
| <b>THB</b>      | <b>2%</b>  | <b>—</b>  |
|                 | <b>-2%</b>                                       | <b>—</b>  |

December 31, 2010 (Audited)

|     | Increase/decrease<br>in U.S. Dollar rate | Effect on<br>profit before tax<br>(in thousands) |
|-----|--|--|
| PHP | +2%                                      | (\$258)  |
|     | -2%                                      | 258  |
| SGD | +2%                                      | (44)   |
|     | -2%                                      | 44   |
| EUR | +3%                                      | 15   |
|     | -3%                                      | (15)   |
| JPY | +3%                                      | (74)   |
|     | -3%                                      | 74   |
| RMB | +1%                                      | 253  |
|     | -1%                                      | (253)  |
| HKD | +1%                                      | (6)  |
|     | -1%                                      | 6  |
| AUD | +4%                                      | (7)  |
|     | -4%                                      | 7  |

*Derivatives*

In 2011 and 2010, the Parent Company entered into various short-term currency forwards with aggregate nominal amount of \$7.00 million and \$59.00 million, respectively.

As of March 31, 2011 and December 31, 2010, the outstanding forward contracts have a net positive fair value of \$0.19 million and \$0.48 million, respectively.

Net mark-to-market gain recognized for the three months ended March 31, 2011 and 2010 amounted to \$0.75 million and \$0.46 million, respectively.

The acquisition of PSi on October 6, 2010 gave rise to a long equity call option and written equity put option for the Parent Company. As of March 31, 2011 and December 31, 2010, the call option has a positive value of \$0.94 million and \$1.21 million, respectively, while the put option has a negative value of \$3.00 million and \$3.83 million, respectively. Net fair value gain on the options amounted to \$0.56 million for the three months period ended March 31, 2011.

Fair Value Changes on Derivatives

The net movements in fair value changes of the Group's derivative instruments as of March 31, 2011 and December 31, 2010 follow:

|                                   | March 31,<br>2011<br>(Unaudited) | December 31,<br>2010<br>(Audited) |
|-----------------------------------|----------------------------------|-----------------------------------|
|                                   |                                  | (In thousands)                    |
| <b>Derivative assets</b>          |                                  |                                   |
| Balance at beginning of year      | \$1,693                          | \$—                               |
| Initial value of long call option | —                                | 1,404                             |
| Net changes in fair value         | 397                              | 1,890                             |
| Fair value of settled instruments | (476)                            | (1,601)                           |
|                                   | <b>\$1,614</b>                   | <b>\$1,693</b>                    |

|                                     | March 31,<br>2011<br>(Unaudited) | December 31,<br>2010<br>(Audited) |
|-------------------------------------|----------------------------------|-----------------------------------|
| <b>Derivative liabilities</b>       |                                  |                                   |
| Balance at beginning of year        | \$3,832                          | \$–                               |
| Initial value of written put option | –                                | 3,816                             |
| Net changes in fair value           | (833)                            | 16                                |
|                                     | <b>\$2,999</b>                   | <b>\$3,832</b>                    |

#### Fair Value Hierarchy

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

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and,
- Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the Group's financial instruments carried at fair value as of March 31, 2011 and December 31, 2010, based on fair value hierarchy:

|                        | Level 1        | Level 2      | Level 3        |
|------------------------|----------------|--------------|----------------|
|                        | (In thousands) |              |                |
| <b>2011</b>            |                |              |                |
| AFS financial assets   | <b>\$403</b>   | <b>\$–</b>   | <b>\$–</b>     |
| Derivative assets      |                |              |                |
| Currency forwards      | –              | <b>673</b>   |                |
| Call option            | –              | –            | <b>941</b>     |
| Derivative liabilities |                |              |                |
| Put option             | –              | –            | <b>2,999</b>   |
|                        | <b>\$403</b>   | <b>\$673</b> | <b>\$3,940</b> |
| <b>2010</b>            |                |              |                |
| AFS financial assets   | \$383          | \$–          | \$–            |
| Derivative assets      |                |              |                |
| Currency forwards      | –              | 481          | –              |
| Call option            | –              | –            | 1,212          |
| Derivative liabilities |                |              |                |
| Put option             | –              | –            | 3,832          |
|                        | <b>\$383</b>   | <b>\$481</b> | <b>\$5,044</b> |

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

#### *Sensitivity analysis*

The fair value of the call and put options are highly sensitive to the estimated 12-month trailing EBITDA of PSi during the option period and PSi's cost of equity as of valuation date.

The following are the estimated changes in the fair values of the call and put options assuming the estimated EBITDA used in the fair value calculation would vary by 5%.

|                               | Increase<br>(Decrease)<br>in Net Income |
|-------------------------------|---|
| Estimated EBITDA is 5% higher |   |
| Call option                   | (\$151)                                 |
| Put option                    | (513)                                   |
| Estimated EBITDA is 5% lower  |   |
| Call option                   | 225                                     |
| Put option                    | 499                                     |

The following are the estimated changes in the fair values of the call and put options assuming the cost of equity will change by 5%.

|                             | Increase<br>(Decrease)<br>in Net Income |
|-----------------------------|---|
| Cost of equity is 5% higher |   |
| Call option                 | (\$291)                                 |
| Put option                  | (554)                                   |
| Cost of equity is 5% lower  |   |
| Call option                 | 472                                     |
| Put option                  | 558                                     |

#### *Capital management*

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

The Group is not subject to externally imposed capital requirements.

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## **18. Other Matters**

On May 4, 2011, the Parent Company announced that it has entered into an agreement with EPIQ NV ("EPIQ"), for the acquisition of the EPIQ subsidiaries in Bulgaria, Mexico and the Czech Republic. The purchase consideration of approximately €43.00 million will be a combination of cash and 200 million newly-issued shares of the Parent Company representing approximately 12% ownership in common shares on a fully diluted basis. As part of the Parent Company's strategic initiatives, the acquisition will enable to establish a global geographic footprint in manufacturing as well as in technology development and engineering.

The acquisition is expected to be completed no later than the fourth quarter of 2011. ING Bank N.V. is acting as financial advisor to the Parent Company in this transaction.

EPIQ is an EMS provider that designs, produces, and sells electronic and electro-mechanical systems and sub-systems. These are drive- and/or control elements especially for supply in the automotive and industrial equipment markets, household appliances, and other

applications with plastic parts and/or electronic components. EPIQ provides a wide range of integrated services from product development to mass production. Production comprises the design of printed circuits and/or spray casting of plastics up to and including the supply of assembled and tested systems and sub-systems. EPIQ also provides all the required engineering, R&D, and logistics management. EPIQ is headquartered in Europe with manufacturing and engineering facilities in Bulgaria, the Czech Republic, and Mexico. The EPIQ subsidiaries subject of the transaction generated a combined turnover of €90.00 million and net income of approximately €4.00 million for the financial year ended December 31, 2010.

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

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Results of Operations

##### Financial Highlights

|   | For the quarters ended<br>31 March                 |        |
|---|--|--------|
|   | 2011   | 2010   |
|   | <i>(in USUS\$ thousands,<br/>except Basic EPS)</i> |        |
| Revenues from Sales and Services          | 122,962  | 90,542 |
| Cost of Goods Sold and Services           | 113,277  | 79,729 |
| Gross Profit                              | 9,685  | 10,813 |
| Net Income Attributable to Equity holders | 377  | 3,206  |
| EBITDA                                    | 4,927  | 7,044  |
| Basic Earnings per Share (EPS)            | (0.0002)   | 0.0012 |

#### Revenues from Sales and Services

The Company generated a 36% growth in revenues for the first quarter which reached US\$123.0 million. The Singapore/China site delivered US\$65.2 million in revenues, up 23% year-on-year, and now accounting for 53% of group-wide sales from last year of 58%. The emergent contribution of the Singapore/China business and the newly acquired company (PSi Technologies, Inc.) compensated for the slide in the top line results of the Philippine (Laguna) operation that resulted from the loss of the major turnkey customer. Laguna sales this year slightly slipped 2% to US\$36.8 million.

On the overall, the communication and consumer segments continue to dominate the company's market, accounting for 21% and 20% of sales, respectively, while industrial, multiple markets, automotive, computing and medical comprise the rest. Europe remains to be the biggest recipient of the company's products, getting 48% of total, followed by North America, Asia and Japan.

#### Cost of Goods Sold and Services

Cost of Goods Sold and Services, at 92% of sales, went up by 4% from last year's 88%. The increase resulted to higher direct material cost of the turnkey business and contribution of PSi Technologies, Inc. Under a turnkey arrangement; the Company provides all inputs to production as different to the consignment arrangement where only facility and labor are provided as the customer supplies the materials. The unutilized capacity of the group also contributes to the increase in manufacturing overhead.



## **Gross Profit and Gross Profit Margin**

The Company's operations produced Gross Profit of US\$9.7 million which, in absolute terms, lower rate by 8% versus the 36% increase in sales as a result of the higher DMC costs from the increased turnkey business. As a percentage to sales, gross profit dropped 4% as a result to the rise in Cost of Goods Sold and Services ratio.

## **Operating Expenses**

The Company was able to manage its operating expenses which went up by only 7% to US\$10.4 million from the previous year's US\$9.7 million. Despite the additional expense of PSi of US\$2.1million. Without the PSi operating expense, variance should have been lower by 14%.

## **Net Income**

The first quarter ended with net income of US\$377 thousand, 88% lower for the same period last year of US\$3.2 million. This was partly due to the increase in its working capital used for building up inventory to address the issue of stretched materials lead times. Further, the company was also affected by the increasing costs of doing business due to the relative strength of Asian currencies against the US dollar and the oil price hikes.

## **EBITDA**

EBITDA (operating income, depreciation, amortization and esown expenses) decreased by 30%, US\$2.1 million against last year of US\$7.0 million brought about by higher manufacturing cost which resulted to a negative operating income.

## **Liquidity and Capital Resources**

The Company continues to show robust financial health with cash balance of US\$35.9 million, 6% lower than the US\$38.1 million as of December 31, 2010 and net debt of US\$21.5 million. The decrease in cash was brought about by the increased in working capital and capital expenditure to support increased operational requirements. Current and debt-to-equity ratios maintained at 1.23:1 and 0.34:1, respectively, from the 1.24:1 and 0.33:1 reported at the end of 2010.

The Company's solid financial position ensures financial flexibility to pursue ongoing strategic initiatives as well as to continue to meet both operating requirements and debt payment obligations. The Company expects to continue to generate sufficient operating cash flows to cover its liquidity requirements. It also has adequate credit facilities to assist with working capital requirements as well as to finance its growth agenda.

## Key performance indicators of the Company

The table below sets forth the comparative performance indicators of the Company:

|  | As of end   |             |
|--|-------------|-------------|
|  | 31 Mar 2011 | 31 Dec 2010 |
| <b>Performance indicators</b>          |             |             |
| Liquidity:                             |             |             |
| Current ratio                          | 1.23x       | 1.24x       |
| Solvency:                              |             |             |
| Debt-to-equity ratio                   | 0.34x       | 0.33x       |
| <b>For the quarters ended 31 March</b> |             |             |
|  | 2011        | 2010        |
| Operating efficiency:                  |             |             |
| Revenue growth                         | 36%         | 11%         |
| Profitability:                         |             |             |
| EBITDA margin <sup>i</sup>             | 4%          | 8%          |

### In the above:

- (i) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.
- (ii) There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- (iii) Likewise, there were no 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.
- (iv) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

<sup>i</sup> EBITDA Margin = EBITDA divided by revenues from sales and services where EBITDA represents net operating income after adding depreciation and amortization, cost of share-based payments. EBITDA and EBITDA Margin are not measures of performance under PFRS and investors should not consider EBITDA, EBITDA Margin or EBIT in isolation or as alternatives to net income as an indicator of our operating performance or to cash flows, or any other measure of performance under PFRS. Because there are various EBITDA calculation methods, our presentation of these measures may not be comparable to similarly titled measures used by other companies.

**Causes for any material changes**

(Increase or decrease of 5% or more in the financial statements)

**Income Statement items**

(Quarter ended 31 March 2011 versus 31 March 2010)

*36% growth in Revenues from Sales and Services (\$90.5m to \$123.0M)*

This resulted mainly from the additional revenues generated by a newly acquired company and higher revenue in turnkey business.

*42% increase in Cost of Goods Sold and Services (\$79.7m to \$113.3m)*

The increase in Cost of Goods Sold and Services followed the rate of increase in revenues coupled by the increased costs arising from a growing turnkey business and contribution of the newly acquired company

*8% increase in Operating Expenses (\$9.7m to \$10.4m)*

The cost saving initiatives performed by the group was partially offset the operating expense incurred by PSi Technologies, Inc.

*52% decrease in net finance and other income (\$3.2m to \$1.6m)*

Attributable to last year reversal of a significant one-time fx gain from prior year provisions.

*37% decrease in provision for income tax (\$1.1m to \$0.7m)*

Largely due to decrease in net profit before tax of China operation and the transfer pricing scheme.

*88% decrease in net income attributable to equity holders of the Parent Company (\$3.2m to \$0.377m)*

On account of higher direct material cost from the growth in revenues of turnkey business and net loss contribution of newly acquired company.

*167% increase in other comprehensive income (\$6k to \$16k)*

Brought about by the increase in the fair value of club shares classified as available-for-sales financial assets.

*1936% decrease in Net Income Attributable to Minority Interests (\$14k to -\$257k)*

Due to share in net loss of 1<sup>st</sup> quarter result of PSi Technologies, Inc.

**Balance Sheet items**

(31 March 2011 versus 31 March 2010)

*6% decrease in Cash and cash equivalents (\$38.1m to \$35.9m)*

Largely due to payment of cash dividend, inventory purchases, liabilities and additional fixed assets.

*5% decrease in Derivative assets (\$1,693k to \$1,614k)*

Represents decrease in the market value of call option from the acquisition of PSi and maturity and decrease in the value of currency forward contracts.

*8% increase in Inventories (\$54.7m to \$59.0m)*

Due to increased volume and lead time requirement of Singapore/China turnkey businesses.

*76% increase in other current assets (\$2.5m to \$4.4m)*

Mainly due to input taxes of China site.

*5% decrease in Property, plant and equipment (\$74.6m to \$71.0m)*

The decrease is mainly due to the normal depreciation expense for the first quarter, slightly offset by the newly acquired PPEs in 2011.

*5% increase in Available –for-sale financial assets (\$384k to \$404k)*

Represents increase in the fair value of club shares classified as available-for-sales financial assets.

*8% increase in other noncurrent assets (\$1.5M to \$1.6m)*

Pertains to expenditures incurred prior to mass production of new projects, to be amortized or expensed out within the same calendar year.

*7% increase in Accounts payable and accrued expenses (\$105.3m to \$112.3m)*

Attributable to inventory purchases due to increasing turnkey business in Singapore/China and payables from new company.

*22% decrease in Derivative Liabilities (\$3.8m to \$3.0m)*

Mainly due to decrease in the mark value of put option from the acquisition of PSi.

*55% decrease in Income tax payable (\$2.3m to \$1.0m)*

Partial payment of taxes and lower taxable income by China during the first quarter.

*8% increase in Loans payable (\$17.9m to \$19.3m)*

Availment of additional short-term loan of \$1.4m by PSi.

*42% decrease in Obligation under finance lease (\$118k to \$68k)*

Regular payments made every month of rentals due.

*6% increase in Pension Liability (\$986k to \$1,050k)*

Mainly due to accrual on retirement fund pension liability

*15% decrease in Accrued rent (\$894k to \$757k)*

Due to escalation of lease payment

*33% decrease in Retained earnings: Appropriated (\$60.7m to \$40.7m)*

Reclassification of Appropriated Retaining Earnings of \$20M to Unappropriated Retained Earnings

*50% increase in Retained earnings: Unappropriated (\$37.5m to \$52.7m)*

Declaration of cash dividends (preferred & common) and reclassification of Appropriated to Unappropriated Retained Earnings

*14% increase in Reserve for fluctuation of available-for-sale financial assets*

Represents changes in the fair values of the Company's investments in club shares.

*18% decrease in Minority interests in a consolidated subsidiary (\$1.6m to \$1.3m)*  
Due to share in net loss of PSi Technologies, Inc. of which IMI owns 56%

## PART II--OTHER INFORMATION

1. Integrated Micro-Electronics, Inc. reported a US\$412.3 million in consolidated revenues in 2010, or a 4 percent year-on-year growth.
2. At the Regular Annual Stockholders' meeting held on April 15, 2011 the stockholders considered and approved the following:

- Election of the following Board of Directors for the ensuing year:

Jaime Augusto Zobel de Ayala  
Fernando Zobel de Ayala  
Delfin C. Gonzalez, Jr.  
Delfin L. Lazaro  
Arthur R. Tan  
Diosdado P. Banatao (Independent Director)  
Jose Ignacio A. Carlos  
Alelie T. Funcell (Independent Director)  
Hiroshi Nishimura (Independent Director)  
John Eric T. Francia  
Rafael Ma. C. Romualdez

- Appointment of Sycip, Gorres, Velayo & Co. as the external auditors of the Company for the ensuing year.
3. In the Organizational meeting held immediately after the Regular Annual Stockholders' meeting, the Board of Directors elected the following:

- Board Committees and Memberships:

Executive Committee

Delfin L. Lazaro – Chairman  
Rafael Ma. C. Romualdez – Vice Chairman  
Arthur R. Tan – Member

Audit Committee

Hiroshi Nishimura – Chairman  
Rafael Ma. C. Romualdez – Member  
Jaime P. Villegas – Member

Nomination Committee

Jaime Augusto Zobel de Ayala – Chairman  
Jose Ignacio A. Carlos – Member  
Alelie T. Funcell – Member

Compensation Committee

Fernando Zobel de Ayala – Chairman  
Delfin L. Lazaro – Member  
Rafael Ma. C. Romualdez – Member

Finance Committee

Delfin C. Gonzalez – Chairman

John Eric T. Francia – Member

Rafael Ma. C. Romualdez – Member

• Officers:

|   |   |
|---|---|
| Jaime Augusto Zobel de Ayala            | - Chairman of the Board   |
| Arthur R. Tan                           | - President & Chief Executive Officer   |
| Jerome S. Tan                           | - Chief Financial Officer   |
| Solomon M. Hermosura                    | - Corporate Secretary   |
| Ma. Carlota Christina G. Laino-Santiago | - Assistant Corporate Secretary   |
| Linardo Z. Lopez                        | - Senior Managing Director, Global Materials & Supply Chain   |
| Timothy P. Patterson                    | - Country Managing Director – USA and Global Managing Director – Advanced Manufacturing Engineering     |
| Andrew C. Carreon                       | - Managing Director, Seconded as COO of PSi Technologies, Inc. and Concurrent Chief Information Officer |
| Olaf Gresens                            | - Global Sales Head   |
| Michael R. Hansson                      | - Managing Director, Chief Technology Architect for Test and Systems Development                        |
| Melita R. Tomelden                      | - Managing Director, Corporate Quality & Reliability  |
| Shong Cheng Yeh                         | - Managing Director – China   |
| Jeremy Cowx                             | - Managing Director, IMI Japan  |
| Monina S. Lasala                        | - VP, Human Resources Head  |
| Rafael Nestor V. Mantaring              | - VP, Design and Development (Philippines)  |
| Lucrecio B. Mendoza                     | - Managing Director, Test & Systems Development Group and Global Head for Value Engineering             |
| Mary Ann S. Natividad                   | - Country Managing Director – Singapore and Head of Global Business Strategies and Development          |
| Reynaldo N. Torda                       | - Head of Operations, PSi Technologies, Inc.  |
| Jaime G. Sanchez                        | - VP, Deputy CFO and Group Controller   |
| Anthony Raymond P. Rodriguez            | - AVP, Head – Treasury and Credit   |
| Fernandel I. Evangelista                | - AVP, Fremont Site GM  |
| Geronimo B. Magsombol                   | - AVP, Plant Engineering  |
| Dominador P. Leonida III                | - AVP, Global Test & Systems Development  |
| Jawaharlal K. Milanes                   | - AVP, SSCG & LVHM  |

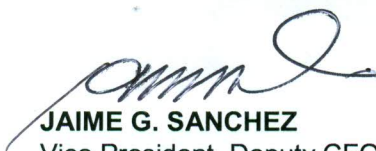
## SIGNATURES

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

Registrant

**INTEGRATED MICRO-ELECTRONICS, INC.**

By:



**JAIME G. SANCHEZ**

Vice President, Deputy CFO and Group Controller

Date: May 16, 2011



**JEROME S. TAN**

Chief Financial Officer

Date: May 16, 2011



**Aging of trade receivables (in thousands):**

|                                     | Total            | Neither<br>past due<br>nor<br>impaired | Past due but not impaired |                |              |              |                | Specifically<br>impaired |
|-------------------------------------|------------------|--|---------------------------|----------------|--------------|--------------|----------------|--------------------------|
|                                     |                  |  | <30 days                  | 30-60 days     | 60-90 days   | 90-120 days  | >120 days      |                          |
| <b>Mar 31,<br/>2011 (Unaudited)</b> | <b>\$101,251</b> | <b>\$83,421</b>                        | <b>\$10,348</b>           | <b>\$3,391</b> | <b>\$598</b> | <b>\$319</b> | <b>\$3,058</b> | <b>116</b>               |
| December 31,<br>2010 (Audited)      | 95,629           | 79,551                                 | 6,020                     | 111            | 287          | 47           | 9,497          | 116                      |