

# COVER SHEET

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(Company's Full Name)

N	O	R	T	H		S	C	I	E	N	C	E		A	V	E	.	,		L	A	G	U	N	A		
T	E	C	H	N	O	P	A	R	K	,		B	I	N	A	N	,			L	A	G	U	N	A		

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

<b>ATTY. SOLOMON M. HERMOSURA</b>
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Contact Person

<b>908-3346</b>
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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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Month

Day

Annual Meeting

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Secondary License Type, if Applicable

C	F	D
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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. Of Stockholders

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Domestic

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Foreign

Total Amount of Borrowings

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To be accomplished by SEC Personnel concerned

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File Number

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Remarks = pls. Use black ink for scanning purposes

**SEC Number:** 94419  
**File Number:** \_\_\_\_\_

**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)

June 30, 2014

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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: **June 30, 2014**
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 *	1,634,078,073

\* Net of 15,892,124 treasury shares;

11. Are any or all of the securities listed on a Stock Exchange? Yes  No   
  
1,350,636,697 common shares are listed with the Philippine Stock Exchange, including 15,892,124 treasury shares as of June 30, 2014.
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 JUNE 30, 2014**

**(With Comparative Audited Figures as of December 31, 2013)**

**(In thousand dollars)**

	(Unaudited) Jun 30, 2014	(Audited) Dec 31, 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	\$50,302	\$49,042
Loans and receivables - net (Note 5)	208,756	178,465
Inventories (Note 6)	106,886	94,136
Other current assets (Note 7)	16,073	16,620
Total Current Assets	382,017	338,263
<b>Noncurrent Assets</b>		
Property, plant and equipment - net (Note 8)	85,220	85,654
Goodwill	54,355	54,355
Intangible assets (Note 9)	4,380	4,862
Available-for-sale financial assets	1,859	1,867
Deferred tax assets	537	645
Other noncurrent assets	2,634	2,583
Total Noncurrent Assets	148,985	149,966
	<b>\$531,002</b>	<b>\$488,229</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 10)	203,341	\$171,054
Trust receipts and loans payable (Note 11)	46,087	45,654
Current portion of long-term debt (Note 12)	3,149	2,903
Income tax payable	2,396	1,650
Derivative liabilities	-	41
Total Current Liabilities	254,973	221,302
<b>Noncurrent Liabilities</b>		
Long-term debt (Note 12)	62,368	61,700
Deferred tax liabilities	2,990	3,092
Pension liabilities	7,701	6,743
Obligation under finance lease	3,014	2,978
Deferred revenue	1,594	1,742
Accrued rent	503	443
Other long-term employee benefits	65	183
Total Noncurrent Liabilities	78,235	76,881
Total Liabilities	333,208	298,183

(Forward)

	(Unaudited) Jun 30, 2014	(Audited) Dec 31, 2013
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the Parent Company</b>		
Capital stock - common	\$30,026	\$30,017
Capital stock - preferred	26,601	26,601
Subscribed capital stock	1,180	1,230
Additional paid-in capital	51,271	51,264
Subscriptions receivable	(9,569)	(9,591)
Retained earnings:		
Appropriated for expansion	20,661	20,661
Unappropriated	92,497	83,503
Treasury stock	(1,013)	(1,013)
Reserve for fluctuation on available-for-sale financial assets	173	190
Cumulative translation adjustments	(2,531)	(1,425)
Other comprehensive loss	(8,958)	(8,958)
Other reserves	171	171
	<b>200,509</b>	<b>192,650</b>
<b>Equity attributable to non-controlling interests in consolidated subsidiaries</b>	<b>(2,715)</b>	<b>(2,604)</b>
<b>Total Equity</b>	<b>197,794</b>	<b>190,046</b>
	<b>\$531,002</b>	<b>\$488,229</b>

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013**  
(In thousand dollars, except Earnings per Share)

	Unaudited 2014		Unaudited 2013	
	Apr to Jun	Jan to Jun	Apr to Jun	Jan to Jun
<b>REVENUES FROM SALES AND SERVICES</b>	<b>\$225,228</b>	<b>\$430,971</b>	\$185,651	\$350,469
<b>COST OF GOODS SOLD AND SERVICES</b>	<b>199,390</b>	<b>383,912</b>	169,476	323,271
<b>GROSS PROFIT</b>	<b>25,838</b>	<b>47,059</b>	16,175	27,198
<b>OPERATING EXPENSES</b>	<b>(16,722)</b>	<b>(32,019)</b>	(13,777)	(25,714)
<b>OTHERS - Net</b>				
Interest expense and bank charges	(732)	(1,435)	(749)	(1,511)
Interest income	39	129	53	116
Foreign exchange gains (losses)	(938)	(1,129)	479	1,063
Miscellaneous (Notes 5, 6 and 8)	1,408	2,785	745	1,337
<b>INCOME BEFORE INCOME TAX</b>	<b>8,893</b>	<b>15,390</b>	2,926	2,489
<b>PROVISION FOR INCOME TAX</b>	<b>(2,653)</b>	<b>(4,219)</b>	(1,298)	(1,431)
<b>NET INCOME</b>	<b>\$6,240</b>	<b>\$11,171</b>	\$1,628	\$1,058
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company	\$6,268	\$11,282	\$1,834	\$2,087
Non-controlling interests	(28)	(111)	(206)	(1,029)
	<b>\$6,240</b>	<b>\$11,171</b>	\$1,628	\$1,058
<b>Earnings Per Share:</b>				
Basic and Diluted (Note 14)		<b>\$0.007</b>		\$0.001

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 SIX MONTHS ENDED JUNE 30, 2014 AND 2013**  
(In thousand dollars)

	Unaudited 2014		Unaudited 2013	
	Apr to Jun	Jan to Jun	Apr to Jun	Jan to Jun
<b>NET INCOME FOR THE PERIOD</b>	<b>\$6,240</b>	<b>\$11,171</b>	<b>\$1,628</b>	<b>\$1,058</b>
<b>OTHER COMPREHENSIVE LOSS:</b>				
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:				
Exchange differences arising from translation of foreign operations	(704)	(1,106)	(322)	(697)
Fair value changes on available-for-sale financial assets	(25)	(17)	(77)	(40)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$5,511</b>	<b>\$10,048</b>	<b>\$1,229</b>	<b>\$321</b>
<b>Total Comprehensive Income (Loss)</b>				
<b>Attributable to:</b>				
Equity holders of the Parent Company	\$5,539	\$10,159	\$1,435	\$1,350
Non-controlling interests	(28)	(111)	(206)	(1,029)
	<b>\$5,511</b>	<b>\$10,048</b>	<b>\$1,229</b>	<b>\$321</b>

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

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (in thousand dollars)**

Attributable to Equity Holders of the Parent Company														Total
	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	Cumulative Translation Adjustments	Other Comprehensive Loss	Other Reserves	Attributable to Non- controlling Interest	
Balances at January 1, 2014	\$30,017	\$26,601	\$1,230	\$51,264	(\$9,591)	\$20,661	\$83,503	(\$1,013)	\$190	(\$1,425)	(\$8,958)	\$171	(\$2,604)	\$190,046
Shares issued during the year	9	-	(9)	-	-	-	-	-	-	-	-	-	-	-
Refund of subscriptions	-	-	-	-	(12)	-	-	-	-	-	-	-	-	(12)
Accretion of subscriptions	-	-	-	7	(7)	-	-	-	-	-	-	-	-	-
Forfeitures of subscriptions	-	-	(41)	-	41	-	-	-	-	-	-	-	-	-
Cash dividends (Note 13)	-	-	-	-	-	-	(2,288)	-	-	-	-	-	-	(2,288)
	30,026	26,601	1,180	51,271	(9,569)	20,661	81,215	(1,013)	190	(1,425)	(8,958)	171	(2,604)	187,746
Net income (loss)	-	-	-	-	-	-	11,282	-	-	-	-	-	(111)	11,171
Other comprehensive loss	-	-	-	-	-	-	-	-	(17)	(1,106)	-	-	-	(1,123)
Total comprehensive income (loss)	-	-	-	-	-	-	11,282	-	(17)	(1,106)	-	-	(111)	10,048
Balances at June 30, 2014	\$30,026	\$26,601	\$1,180	\$51,271	(\$9,569)	\$20,661	\$92,497	(\$1,013)	\$173	(\$2,531)	(\$8,958)	\$171	(\$2,715)	\$197,794

Attributable to Equity Holders of the Parent Company														Total
	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	Cumulative Translation Adjustments	Other Comprehensive Loss	Other Reserves	Attributable to Non- controlling Interest	
Balances at January 1, 2013	\$30,011	\$26,601	\$1,301	\$58,558	(\$9,651)	\$20,661	\$72,448	(\$1,013)	\$198	(\$2,304)	\$-	\$171	(\$5,868)	\$191,113
Effect of revised PAS 19 (Note 3)	-	-	-	-	-	-	1,454	-	-	-	(4,618)	-	-	(3,164)
Balances at January 1, 2013, as restated	30,011	26,601	1,301	58,558	(9,651)	20,661	73,902	(1,013)	198	(2,304)	(4,618)	171	(5,868)	187,949
Shares issued during the year	4	-	(4)	-	-	-	-	-	-	-	-	-	-	-
Cost of share-based payments	-	-	-	67	-	-	-	-	-	-	-	-	-	67
Collections on subscriptions	-	-	-	-	230	-	-	-	-	-	-	-	-	230
Accretion of subscriptions	-	-	-	55	(55)	-	-	-	-	-	-	-	-	-
Acquisition of non-controlling interests (Note 2)	-	-	-	(7,522)	-	-	-	-	-	-	-	-	4,540	(2,982)
	30,015	26,601	1,297	51,158	(9,476)	20,661	73,902	(1,013)	198	(2,304)	-	171	(1,328)	185,264
Net income (loss)	-	-	-	-	-	-	2,087	-	-	-	-	-	(1,029)	1,058
Other comprehensive loss	-	-	-	-	-	-	-	-	(40)	(697)	-	-	-	(737)
Total comprehensive income (loss)	-	-	-	-	-	-	2,087	-	(40)	(697)	-	-	(1,029)	321
Balances at June 30, 2013	\$30,015	\$26,601	\$1,297	\$51,158	(\$9,476)	\$20,661	\$75,989	(\$1,013)	\$158	(\$3,001)	(\$4,618)	\$171	(\$2,357)	\$185,585

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013**  
(In thousand dollars)

	<b>Unaudited</b>	
	<b>Jun 30, 2014</b>	<b>Jun 30, 2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>\$15,390</b>	\$2,489
Adjustments for:		
Depreciation of property, plant and equipment (Note 8)	<b>10,308</b>	10,948
Interest expense	<b>1,435</b>	1,511
Provision for inventory obsolescence (Note 6)	<b>1,394</b>	219
Unrealized foreign exchange losses (gains)	<b>1,117</b>	(254)
Amortization of intangible assets (Note 9)	<b>907</b>	899
Gain on insurance claims (Notes 5 and 6)	<b>(306)</b>	–
Provision for doubtful accounts (Note 5)	<b>150</b>	52
Amortization of deferred revenue	<b>(148)</b>	(141)
Interest income	<b>(129)</b>	(116)
Gains on derivatives	<b>(49)</b>	(38)
Gains on sale of property, plant and equipment (Note 8)	<b>(10)</b>	(170)
Cost of share-based payments	<b>–</b>	67
Operating income before working capital changes	<b>30,059</b>	15,466
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Loans and receivables	<b>(31,776)</b>	(10,664)
Inventories	<b>(14,531)</b>	(7,467)
Other current assets	<b>556</b>	(5,937)
Increase (decrease) in:		
Accounts payable and accrued expenses	<b>31,981</b>	16,432
Pension liabilities and other long-term benefits	<b>839</b>	(440)
Accrued rent	<b>60</b>	
Net cash generated from operations	<b>17,188</b>	7,390
Interest received	<b>221</b>	116
Interest paid	<b>(1,168)</b>	(1,179)
Income tax paid	<b>(3,478)</b>	(2,920)
Net cash provided by operating activities	<b>12,763</b>	3,407
(Forward)		

**Unaudited**  
**Jun 30, 2014**      Jun 30, 2013

**CASH FLOWS FROM INVESTING ACTIVITIES**

Acquisition of:		
Property, plant and equipment (Note 8)	<b>(\$10,452)</b>	(\$8,564)
Intangible assets (Note 9)	<b>(426)</b>	(243)
Proceeds from sale of property, plant and equipment	<b>418</b>	854
Increase in other noncurrent assets	<b>(51)</b>	(565)
Cash paid upon exercise of call option (Note 2)	<b>–</b>	(125)
<b>Net cash used in investing activities</b>	<b>(10,511)</b>	<b>(8,643)</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Availment of loans	<b>8,752</b>	2,250
Payment of loans	<b>(6,865)</b>	(2,679)
Dividends paid to equity holders of the Parent Company	<b>(2,536)</b>	(1,373)
Increase in obligation under finance lease	<b>36</b>	484
Collections (refund) of subscriptions receivable	<b>(12)</b>	230
<b>Net cash used in financing activities</b>	<b>(625)</b>	<b>(1,088)</b>

**NET FOREIGN EXCHANGE DIFFERENCE IN CASH  
AND CASH EQUIVALENTS**

**(367)**      (65)

**NET INCREASE (DECREASE) IN CASH AND CASH  
EQUIVALENTS**

**1,260**      (6,389)

**CASH AND CASH EQUIVALENTS AT JANUARY 1**

**49,042**      56,196

**CASH AND CASH EQUIVALENTS AT JUNE 30**

**\$50,302**      \$49,807

*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

### 1. Basis of Financial Statement Preparation

The accompanying unaudited interim condensed consolidated financial statements for the six months ended June 30, 2014 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, 2013 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, 2013.

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 approved and authorized for release by the Audit Committee on July 30, 2014.

### 2. Basis of Consolidation

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

Subsidiary	Percentage of Ownership		Country of Incorporation	Functional Currency
	2014	2013		
IMI Singapore	100.00%	100.00%	Singapore	United States Dollar (USD)
IMI ROHQ	100.00%	100.00%	Philippines	USD
STEL	100.00%	100.00%	Singapore	USD
IMI (Chengdu) Ltd. (IMICD)	100.00%	100.00%	China	USD
Shenzhen Speedy-Tech Electronics Co., Ltd. (SZSTE)	99.48%	99.48%	China	USD
Speedy-Tech Electronics (HK) Limited (STHK)	100.00%	100.00%	Hong Kong	USD
Speedy-Tech Electronics (Chong Qing) Co. Ltd. (STCQ)	100.00%	100.00%	China	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. (STJX)	100.00%	100.00%	China	USD
STPH <sup>a</sup>	100.00%	100.00%	Philippines	USD
Vista Manufacturing Pte Ltd (VISTA) <sup>b</sup>	—	—	Singapore	USD

Subsidiary	2014	2013	Country of Incorporation	Functional Currency
(Forward)				
Speedy-Tech Technologies Pte. Ltd. (STTS) <sup>b</sup>	–	–	Singapore	USD
Speedy-Tech Electronics, Inc.	100.00%	100.00%	USA	USD
Monarch	100.00%	100.00%	Hong Kong	USD
Cooperatief IMI BG	100.00%	100.00%	Netherlands	Euro (EUR)
Microenergia EOOD	70.00%	70.00%	Bulgaria	Bulgarian Lev (BGN)
			Czech	
IMI CZ	100.00%	100.00%	Republic	Czech Koruna (CZK)
IMI MX	100.00%	100.00%	Mexico	Mexican Peso (MXN)
Integrated Micro-Electronics Manufactura S.A.P.I de C.V.	100.00%	100.00%	Mexico	MXN
IMI France SAS (IMI France)	100.00%	100.00%	France	EUR
IMI USA	100.00%	100.00%	USA	USD
IMI Japan	100.00%	100.00%	Japan	USD
PSi	83.25%	55.78%	Philippines	USD
PSi Laguna <sup>c</sup>	–	–	Philippines	USD
PSiTech Realty <sup>d</sup>	33.30%	22.31%	Philippines	USD
Pacsem Realty <sup>d</sup>	53.28%	35.70%	Philippines	USD

<sup>a</sup> STPH's business operations was integrated as part of the Parent Company in 2013). STPH is a dormant company.

<sup>b</sup> On August 8, 2012 and July 3, 2012, VISTA and STTS were liquidated, respectively.

<sup>c</sup> On June 21, 2012, PSi Laguna was legally merged with PSi.

<sup>d</sup> The percentage pertains to the indirect ownership of the Parent Company. On June 21, 2012, the BOD of PSi, PSiTech Realty and Pacsem Realty authorized the dissolution of PSiTech Realty and Pacsem Realty, subject to the Philippine SEC approval.

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

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

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

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same balance sheet date as the Parent Company, using consistent accounting policies. All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

*Acquisition of Additional Interest in PSi*

On September 26, 2012, amendments relating to the Agreement were made to allow the parties to respectively exercise their option rights without the need for further determination of valuation or engagement of third parties. Accordingly, a fixed price was established amounting to \$150,000.

On January 9, 2013, pursuant to the second amendment to the Agreement, the exercise notice, which is one of the conditions for the completion of the sale and purchase of the Option Shares, was received by the parties. The sale and purchase transaction involving the Option Shares shall be deemed completed upon compliance of the rest of conditions set forth in the Agreement.

On March 12, 2013, the Deeds of Assignment have been executed and the stock certificates have been delivered. The exercise of the option rights increased the Parent Company's ownership interest in PSi from 55.78% to 83.25%.

Details of the transactions are as follows:

Consideration paid to non-controlling shareholders (share of the Parent Company in the exercise price)	\$125
Value of the option exercised	2,857
Additional interest acquired	2,982
Adjustment to non-controlling interests	4,540
Total amount recognized in "Additional paid-in capital" account within equity	\$7,522

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### 3. Changes in Accounting Policies and Disclosures

On January 1, 2013, the Group adopted PAS 19 (As Revised in 2011), *Employee Benefits*. The changes in accounting policies have been applied retrospectively. The effects of the adoption on the consolidated financial statements are as follows:

Increase (decrease) in:	December 31, 2013	December 31, 2012
Pension asset	(\$1,607)	(\$1,942)
Pension liabilities	5,550	1,223
Other comprehensive income	(8,958)	(4,618)
Retained earnings	1,801	1,454

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, 2013 except for the adoption of the following new and amended standards and interpretations as of January 1, 2014. 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 32 (Amendments), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)  
 These amendments clarify the meaning of “currently has a legally enforceable right to set-off” and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.
- PAS 36 (Amendments), *Impairment of Assets – Recoverable Amount Disclosures for Nonfinancial Assets* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)  
 These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36, *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash generating units (CGUs) for which an impairment loss has been recognized or reversed during the period.
- PAS 39 (Amendments), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)  
 These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.
- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements (Amendments) – Investment Entities* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)  
 These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10, *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss (FVPL).
- Philippine Interpretation of IFRIC 21, *Levies* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)  
 Philippine Interpretation of IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

*Annual improvements to PFRSs (2009-2011 cycle)*

The *Annual Improvements to PFRSs (2009-2011 Cycle)* contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year. The nature and the impact of each amendment are described below:

- PAS 1, *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*  
 These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements. The Group must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of consolidated financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements) are not required.

- PAS 16, *Property, Plant and Equipment – Classification of Servicing Equipment*  
 The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory, if otherwise. The amendment did not have any significant impact on the consolidated financial statements of the Group.
- PAS 32, *Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments*  
 The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment did not have any significant impact on the Group's financial position or financial performance.

#### Standards Issued but not yet Effective

The Group will adopt the following new and amended standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on the unaudited interim consolidated financial statements.

#### *Effective in 2015*

- PAS 19 (Amendments), *Employee Benefits – Defined Benefit Plans: Employee Contributions* (effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively)  
 The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net pension asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

#### *Annual improvements to PFRSs (2010-2012 cycle)*

The *Annual Improvements to PFRSs (2010-2012 Cycle)* contain non-urgent but necessary amendments to the following standards.

- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*  
 The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  - The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  - The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

- PAS 24, *Related Party Disclosures – Key Management Personnel*  
 The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel

services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

- *PAS 38, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of these amendments and in the immediately preceding annual period.

- *PFRS 2, Share-based Payment – Definition of Vesting Condition*

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014.

- *PFRS 3, Business Combinations – Accounting for Contingent Consideration in a Business Combination*

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014.

- *PFRS 8, Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that has been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

- *PFRS 13, Fair Value Measurement – Short-term Receivables and Payables*

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

*Annual improvements to PFRSs (2011-2013 cycle)*

The *Annual Improvements to PFRSs (2011-2013 Cycle)* contain non-urgent but necessary amendments to the following standards.

- *PAS 40, Investment Property*  
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.
- *PFRS 3, Business Combinations – Scope Exceptions for Joint Arrangements*  
The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.
- *PFRS 13, Fair Value Measurement – Portfolio Exception*  
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

*Standard with no mandatory effective date*

- *PFRS 9, Financial Instruments*  
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relates to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at FVPL. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For liabilities designated as at FVPL using the FVO, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for nonfinancial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

#### *Interpretation whose effective date was deferred*

- **Philippine Interpretation of IFRIC 15, *Agreement for Construction of Real Estate***  
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The significant accounting policies that have been used in the preparation of the unaudited interim consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated balance sheet based on current or noncurrent classification.

An asset is current when it is expected to be realized or intended to be sold or consumed in the normal operating cycle or within twelve (12) months after the balance sheet date, when it is held primarily for the purpose of trading, or cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the balance sheet date. All other assets are classified as noncurrent.

A liability is current when it is expected to be settled in the normal operating cycle or due to be settled within twelve (12) months after the balance sheet date, when it is held primarily for trading, or when there is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the balance sheet date. All other liabilities are classified as noncurrent.

#### 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 - Initial Recognition and Subsequent Measurement

##### *Classification of financial instruments*

Financial instruments within the scope of PAS 39 are classified as: (1) financial assets and financial liabilities at 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. The Group determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every balance sheet date.

The financial instruments of the Group as of June 30, 2014 and December 31, 2013 consist of loans and receivables, AFS financial assets, financial liability at FVPL and other financial liabilities.

##### *Date of recognition of financial instruments*

Financial instruments are recognized in the consolidated balance sheets 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.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference amount.

*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 financial liabilities 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 assets or financial liabilities 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 financial instrument is part of a group of financial instruments which is managed and its 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 assets and financial liabilities at FVPL are subsequently measured at fair value. Changes in fair value of such assets or liabilities are accounted for in profit or loss.

The Group uses 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: (1) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract; (2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (3) 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.

Loans and receivables are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of loans and receivables.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for doubtful accounts. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

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

AFS financial assets are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of AFS financial assets.

After initial measurement, AFS financial assets are subsequently measured at fair value. Dividends earned on holding AFS financial assets are recognized in profit or loss 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 recognized in OCI under "Fair value changes on available-for-sale financial assets" account. 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 gains or losses previously recognized in OCI are 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 pertains to the Group's investments in club shares and preferred equity shares and convertible notes.

#### *Other financial liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations and borrowings.

Other financial liabilities are initially recognized at the fair value of the consideration received, less directly attributable transaction costs.

After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss when other financial liabilities are derecognized, as well as through the EIR amortization process.

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

#### Fair Value Measurement

The Group measures derivatives at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 17.

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

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

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

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

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

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at balance sheet date.

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

#### Offsetting of Financial Instruments

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

#### Derecognition of Financial Instruments

##### *Financial asset*

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized (that is, removed from the consolidated balance sheets) when:

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

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

##### *Financial liability*

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

#### Impairment of Financial Assets

The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more

events that has occurred since the initial recognition of the asset (an incurred “loss event”), 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 observable data indicating 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*

For loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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.

The amount of any impairment loss identified is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated provision for doubtful accounts increases or decreases because of an event occurring after the provision for doubtful accounts was recognized, the previously recognized provision for doubtful accounts is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit or loss.

#### *AFS financial assets*

For AFS financial investments, the Group assesses, at each balance sheet date, whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. “Significant” is evaluated against the original cost of the investments and “prolonged” against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment losses on that investments previously recognized in profit or loss - is removed from OCI 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 OCI.

#### Inventories

Inventories are valued at the lower of cost and 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 profit or loss.

#### Tax Credits

Tax credits, included under “Other current assets” account in the consolidated balance sheets, include amounts withheld from income tax payments and value added tax refund claims.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. 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 property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss 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 are removed from the accounts and any resulting gain or loss is included in profit or loss.

Construction in progress is stated at cost, less impairment loss, if any. This includes costs of construction and installation of plant and equipment and machinery items and any other costs directly attributable to bringing the asset to its intended use. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Depreciation of property, plant and equipment commences once the property, plant and equipment are available for use and is calculated on a straight-line basis over the estimated useful lives (EUL) of the assets as follows:

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

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

Fully depreciated property, plant and equipment are retained in the accounts until these are no longer use and no further depreciation is charged to profit or loss.

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 is consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The EUL and methods of depreciation of property, plant and equipment are reviewed annually and adjusted prospectively, if appropriate.

### Borrowing Costs

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

### Business Combination and Goodwill or Gain on Bargain Purchase

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree at the

proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the consolidated statements of income under "Operating expenses" account.

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, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss. The Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost, less accumulated impairment losses. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGU, or group 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.

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

PFRS 3, *Business Combinations*, provides that if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve (12) months of the acquisition date; and from the acquisition date (1) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (2) goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (3) comparative information presented for the periods before the initial accounting for the combination

is complete shall be presented as if the initial accounting had been completed from the acquisition date.

#### 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.

After initial recognition, intangible assets are carried at cost, less accumulated amortization and any accumulated impairment losses.

The EUL of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortized over their EUL and assessed for impairment whenever there is an indication that the intangible asset is impaired. The amortization period and method for intangible assets with finite useful lives are reviewed at least at the end of each balance sheet date. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in profit or loss.

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

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

#### Impairment of Nonfinancial Assets

The Group assesses, at each balance sheet date, whether there is an indication that an asset is impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value-in-use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations generally covered a period of five (5) years.

For assets excluding goodwill, an assessment is made at each balance sheet date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining EUL.

Goodwill is tested for impairment annually every September 30 and when circumstances indicate that the carrying amount is impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

### Provisions

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

When the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

Restructuring provisions are recognized when the recognition criteria for provisions are fulfilled. The Group has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

### Equity

#### *Capital stock*

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 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" account. 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.

#### *Additional paid-in-capital*

Additional paid-in capital pertains to the difference of the par value and selling price of issued and outstanding shares of stock.

#### *Subscriptions receivable*

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

#### *Retained earnings and dividend on capital stock of the Parent Company*

Retained earnings represent net accumulated earnings of the Group, less dividends declared. Appropriated retained earnings are set aside for future expansion. Dividends on capital stock are

recognized as a liability and deducted from equity when they are approved by the shareholders of the Parent Company and its subsidiaries.

#### *Treasury stock*

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" account to the extent of the specific or average additional paid-in capital when the shares were issued and to "Retained earnings" account for the remaining balance.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. 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 to complete the required units have been rendered.

#### *Interest*

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

#### *Dividends*

Dividend income is recognized when the right to receive the payment is established.

#### *Miscellaneous income*

Miscellaneous income is recognized as the Group earns the right over it.

#### Expenses

Expenses of the Group include cost of sales and operating expenses.

#### *Cost of sales*

This account includes cost of goods sold and cost of services. These expenses pertain to the direct expenses incurred by the Group related to the products and services offered. Cost of sales is recognized when the related goods are sold and when services are rendered.

#### *Operating expenses*

This account pertains to the general and administrative expenses. Operating expenses are recognized when incurred, except for rent expense, which is computed on a straight line-basis over the lease term.

#### Income Taxes

##### *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 authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date in the countries where the Group operates and generates taxable profit.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

### *Deferred tax*

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

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

- When 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 profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient future taxable profits will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 balance sheet date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

For periods where an 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 taxable temporary difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

### Foreign Currency Transactions

Management has determined that the functional and presentation currency of the Parent Company, IMI USA, IMI Japan and IMI Singapore is the USD, being the currency of the primary environment in which these entities operate. The functional currencies of its operations in Bulgaria, Czech Republic and Mexico are determined as the currency in the country where the subsidiary operates. For consolidation purposes, the foreign subsidiaries' balances are translated to USD.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. 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 initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currencies of IMI BG, IMI CZ, and IMI MX, are the BGN, CZK and MXN, respectively. The functional currency of IMI France and Cooperatief is the EUR. As at the balance sheet date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity.

Exchange differences arising from elimination of intragroup balances and intragroup transactions are recognized in profit or loss. As an exception, if the exchange differences arise from intragroup balances that, in substance, forms part of an entity's net investment in a foreign operation, the exchange differences are not to be recognized in profit or loss, but are recognized in OCI and accumulated in a separate component of equity until the disposal of the foreign operation.

On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

#### Pensions and Other Employee Benefits

##### *Defined benefit plans*

The Parent Company, PSi and IMI BG maintain separate defined benefit plans covering substantially all of their employees. The plans of the Parent Company and PSi are funded and noncontributory pension plans administered by their respective Boards of Trustees, while that of IMI BG is unfunded and noncontributory.

The cost of providing benefits under the defined benefit plans 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.

Net pension expense comprises the following:

- Service cost;
- Net interest on pension liabilities; and
- Remeasurements of pension liabilities.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the pension liabilities is the change during the period in the net pension liabilities that arises from the passage of time which is determined by applying the discount rate based on government bonds to the pension liabilities. Net interest on pension liabilities is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on pension liabilities) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Pension liabilities are the aggregate of the present value of the defined benefit obligation at the end of the balance sheet date reduced by the fair value of plan assets, adjusted for any effect of limiting a net pension asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

#### *Defined contribution plans*

The Parent Company's subsidiaries in Singapore, PRC and Hong Kong, IMI CZ, and IMI MX participate in their respective national pension schemes which are considered as defined contribution plans. A defined contribution plan is a plan under which the subsidiary pays fixed contributions. Each subsidiary has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all 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 expense 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\$1,500 per month and thereafter, contributions are voluntary.

#### IMI CZ

IMI CZ, under its Collective Agreement, is committed to pay contributions to life and pension insurance of its loyal employees. This is done on a monthly basis as part of payroll expenses and only over the employment period. IMI CZ is not obliged to any other payments if employment terminates.

#### IMI MX

In accordance with the Mexican Labor Law, IMI MX provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to twelve (12) days of wage for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with fifteen (15) or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit. IMI MX estimates that the differences that might be determined if this liability had been estimated by an independent actuary are immaterial.

IMI MX also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three (3) months wages plus twenty (20) days wages for each year of service payable upon involuntary termination without just cause. These are recognized when such an event occurs.

#### *Employee leave entitlement*

##### Parent Company

Employee entitlements to annual leave are recognized as a liability when they accrue to the employees. The undiscounted liability for leave expected to be settled wholly before twelve (12)

months after the end of the balance sheet date is recognized for services rendered by employees up to the end of the balance sheet date.

#### PSi

PSi compensates employees for vacation and sick absences (compensated absences). Entitlement to compensated absences is accumulating.

Unused sick leave and vacation leave benefits can be accumulated. Leave days entitlement for a certain year can be availed of during and/or the following year, except those unused vacation leaves for prior years through December 31, 2009. Upon separation of an employee who has rendered at least one (1) year of service, accumulated sick leave and vacation leave balances will be converted to cash based on the employee's final daily rate, except for Executives' (directors and higher positions), sick leave and vacation credits which are non-commutable to cash.

Unused vacation leaves for prior years through December 31, 2009 can only be converted to cash upon separation of the employees from PSi and are actuarially determined using the projected unit credit method.

#### 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.

#### EPS Attributable to Equity Holders of the Parent Company

Basic 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 EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on EPS.

#### Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement. 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).

#### *Operating lease commitments - Group as lessor*

A lease in which the Group does not transfer substantially all the risks and benefits of ownership of an asset is classified as an operating lease. Lease income is recognized in the consolidated

statements of income under “Miscellaneous income - net” account on a straight-line basis over the lease term.

*Operating and finance lease commitments - Group as lessee*

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, 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 “Noncurrent portion of obligation under finance lease” account for the noncurrent portion in the consolidated balance sheets. 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 recognized under “Interest expense” account in the consolidated statements of income.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets and the respective lease terms.

Leases in which the Group 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 profit or loss on a straight-line basis over the respective lease terms.

Contingencies

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

Segment Information

The Group is organized and managed separately according to geographical locations of businesses. The geographical segments are segregated as follows: Philippines, Singapore/China, Europe/Mexico and Japan. These geographical businesses are the basis upon which the Group reports its primary segment information presented in Note 15.

Events after the Balance Sheet Date

Post year-end events that provide additional information about the Group’s financial position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements when material.

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**4. Cash and Cash Equivalents**

	<b>Jun 30, 2014</b>	Dec 31, 2013
	<b>(Unaudited)</b>	(Audited)
	(In thousands)	
Cash on hand	<b>\$156</b>	\$98
Cash in banks	<b>50,139</b>	44,887
Short-term deposits	<b>7</b>	4,057
	<b>\$50,302</b>	\$49,042

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three (3) months and earn interest at the respective short-term deposit rates.

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## 5. Loans and Receivables

	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)
	(In thousands)	
Trade	\$202,695	\$174,136
Nontrade	1,843	2,838
Receivable from insurance	1,594	1,179
Receivables from employees	1,562	543
Due from related parties (Note 16)	186	219
Others	2,506	3,041
	<b>210,386</b>	181,956
Less allowance for doubtful accounts	1,630	3,491
	<b>\$208,756</b>	\$178,465

### *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 for damages to inventories caused by typhoon in August 2013 was claimed by the Parent Company in May 2014 amounting to \$0.41 million. Gain on insurance claims recognized under "Miscellaneous income - net" account in the unaudited interim consolidated statements of income amounted to \$0.31 million.

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 \$1.18 million as of June 30, 2014 and December 31, 2013, respectively.

### *Allowance for Doubtful Accounts*

Trade receivables, nontrade receivables, and receivable from insurance with aggregate nominal value of \$1.63 million and \$3.49 million were individually assessed to be impaired and fully provided with allowance for doubtful accounts as of June 30, 2014 and December 31, 2013, respectively.

On March 20, 2014, trade and nontrade receivable from a customer with aggregate nominal amount of \$1.75 million was converted to Class A common stock of the customer in full satisfaction of the latter's obligation. The converted amount together with the corresponding allowance fully recognized in prior years is included under "Other noncurrent assets".

Provision for doubtful accounts recognized for the six-month period ended June 30, 2014 and 2013 amounted to \$0.02 million and \$0.01 million, respectively. Provisions during the year form part of "Operating Expenses" account.

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## 6. Inventories

Provision for inventory obsolescence recognized for the six-month period ended June 30, 2014 and 2013 amounted to \$1.39 million and \$0.22 million, respectively.

The Parent Company claimed insurance for damaged inventories caused by typhoon in August 2013. Total cost of affected stocks amounted to \$0.37 million while gain on insurance claims recognized under "Miscellaneous income - net" account in the unaudited interim consolidated statements of income amounted to \$0.31 million.

## 7. Other Current Assets

This account consists of:

	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)
	(In thousands)	
Tax credits	\$11,624	\$12,403
Advances to suppliers	2,178	1,668
Prepayments	1,660	1,076
Input taxes	518	1,412
Current portion of deferred licensing fee	5	10
Others	88	51
	<b>\$16,073</b>	<b>\$16,620</b>

Tax credits are mainly attributable to IMI MX, Parent Company and PSi.

Prepayments include prepayments for life and fire insurance, rent and product liability and recall insurance which cover product recall expenses and liability to third parties seeking damage in the event the Group recalls any of its products.

## 8. Property, Plant and Equipment

### June 30, 2014 (Unaudited)

In thousands	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation	Tools and Instruments	Construction in Progress	Total
<b>Cost</b>							
At January 1, 2014	\$70,115	\$114,865	\$15,957	\$1,023	\$3,915	\$1,172	\$207,047
Additions	1,807	5,559	900	384	134	1,668	10,452
Disposals	-	(3,188)	(103)	(178)	(75)	-	(3,544)
Reclassifications	31	721	72	-	-	(824)	-
Foreign currency exchange difference	(127)	(432)	(25)	(8)	-	(10)	(602)
At June 30, 2014	<b>71,826</b>	<b>117,525</b>	<b>16,801</b>	<b>1,221</b>	<b>3,974</b>	<b>2,006</b>	<b>213,353</b>
<b>Accumulated depreciation</b>							
At January 1, 2014	35,008	69,125	12,182	325	3,021	-	119,661
Depreciation	1,719	7,580	555	167	287	-	10,308
Disposals	-	(2,314)	(2)	(156)	-	-	(2,472)
Retirement	-	(528)	(87)	(21)	(22)	-	(658)
Foreign currency exchange difference	(28)	(386)	(18)	(6)	-	-	(438)
At June 30, 2014	<b>36,699</b>	<b>73,477</b>	<b>12,630</b>	<b>309</b>	<b>3,286</b>	<b>-</b>	<b>126,401</b>
<b>Accumulated impairment loss</b>	<b>737</b>	<b>983</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,732</b>
<b>Net book value as of June 30, 2014</b>	<b>\$34,390</b>	<b>\$43,065</b>	<b>\$4,159</b>	<b>\$912</b>	<b>\$688</b>	<b>\$2,006</b>	<b>\$85,220</b>

December 31, 2013 (Audited)

In thousands	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation	Tools and Instruments	Construction in Progress	Total
<b>Cost</b>							
At January 1, 2013	\$72,229	\$128,050	\$16,109	\$1,217	\$3,751	\$1,214	\$222,570
Additions	2,087	10,178	1,937	246	429	5,973	20,850
Disposals	(1,719)	(16,837)	(428)	(464)	(265)	–	(19,713)
Retirement	(3,436)	(12,434)	(1,900)	(54)	–	–	(17,824)
Transfers	1,245	4,642	161	52	–	(6,100)	–
Foreign currency exchange difference	(291)	1,266	78	26	–	85	1,164
At December 31, 2013	70,115	114,865	15,957	1,023	3,915	1,172	207,047
<b>Accumulated depreciation</b>							
At January 1, 2013	36,498	80,145	13,081	425	2,622	–	132,771
Depreciation	3,508	15,361	1,323	305	573	–	21,070
Disposals	(1,595)	(14,740)	(384)	(371)	(174)	–	(17,264)
Retirement	(3,436)	(12,139)	(1,900)	(54)	–	–	(17,529)
Foreign currency exchange difference	33	498	62	20	–	–	613
At December 31, 2013	35,008	69,125	12,182	325	3,021	–	119,661
<b>Accumulated impairment loss</b>							
At January 1, 2013	737	978	12	–	–	–	1,727
Impairment loss	–	5	–	–	–	–	5
At December 31, 2013	737	983	12	–	–	–	1,732
<b>Net book value as of December 31, 2013</b>	<b>\$34,370</b>	<b>\$44,757</b>	<b>\$3,763</b>	<b>\$698</b>	<b>\$894</b>	<b>\$1,172</b>	<b>\$85,654</b>

Depreciation expense included in “Cost of goods sold and services” and “Operating expenses” accounts follows:

	Jun 30, 2014 (Unaudited)	Jun 30, 2013 (Unaudited)
	(In thousands)	
Cost of goods sold and services	<b>\$9,126</b>	9,515
Operating expenses	<b>1,182</b>	1,433
	<b>\$10,308</b>	<b>\$10,948</b>

The Group recognized gains from disposal of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments for the six-month period ended June 30, 2014 and 2013 amounting to \$0.01 million and \$0.17 million, respectively. Gains from disposal of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments are included under “Miscellaneous income - net” account in the unaudited interim consolidated statements of income.

## 9. Intangible Assets

During the six months ended June 30, 2014 and 2013, the Group incurred \$0.43 million and \$0.24 million, respectively, for the cost of additional computer software.

Amortization of intangible assets for the six months ended June 30, 2014 and 2013 amounted to \$0.91 million and \$0.90 million, respectively.

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## 10. Accounts Payable and Accrued Expenses

	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)
	(In thousands)	
Trade payables	\$139,490	\$120,670
Accrued expenses	31,683	26,091
Accrued payroll	17,833	14,040
Nontrade payables	6,919	3,368
Customers' deposits	1,429	1,721
Obligation under finance lease - current	954	908
Accrued interest payable	740	472
Dividends payable	611	858
Employee-related payables	592	628
Taxes payable	437	720
Deferred revenue - current	295	287
Due to related parties (Note 16)	6	42
Others	2,352	1,249
	<b>\$203,341</b>	<b>\$171,054</b>

Accounts payable and accrued expenses are noninterest-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, representation and rent.

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## 11. Trust Receipts and Loans Payable

	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)
	(In thousands)	
Parent Company	\$29,000	\$24,000
PSi	9,554	9,423
STEL	5,499	3,501
IMI MX	2,034	2,183
IMI BG	—	6,547
	<b>\$46,087</b>	<b>\$45,654</b>

### Parent Company

As of June 30, 2014 and December 31, 2013, the Parent Company has short-term loans aggregating to \$29.00 million and \$24.00 million, respectively. The loans have maturities ranging from 30-180 days and fixed interest rates ranging from 2.20% to 2.40% in 2014 and 1.90% to 2.40% in 2013.

### PSi

PSi has short-term loan to Metropolitan Bank & Trust Co. (MBTC) amounting to \$9.20 million and trust receipts payable amounting to \$0.22 million and \$0.35 million as of June 30, 2014 and December 31, 2013, respectively.

These loans fall under an unsecured Omnibus Line Credit Facility of \$10.00 million granted on November 24, 2010. The credit facility includes 30 to 360 days Promissory Notes (maybe denominated in USD or Philippine Peso (PHP), Letter of Credit (LC)/Trust Receipt Line, Export Packing Credit Line, FX Forward Cover, and Foreign Bills Line and Domestic Bill Purchase Line, subject to interest rates ranging from 2.39% to 2.49% in 2014 and 2.16% to 2.57% in 2013.

### STEL

The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates ranging from 2.30% to 2.55% in 2014 and 2.30% to 2.39% in 2013, and have maturities of 30 to 240 days from the date of issue, with renewal options.

### IMI MX

IMI MX has a revolving credit line with Banamex amounting to \$2.03 million and \$2.18 million as of June 30, 2014 and December 31, 2013, with term not exceeding twelve (12) months and bears interest based on LIBOR plus 2%.

### IMI BG

IMI BG's loan with Unicredit Bulbank in 2013 amounting to \$5.17 million was fully settled in the first quarter of 2014. The loan with BNP Paribas amounting to \$1.40 million in 2013 was presented under "Long-Term Debt" account in the unaudited interim consolidated balance sheets in 2014 (see Note 12).

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## 12. Long-Term Debt

	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)
	(In thousands)	
Parent Company	\$46,826	\$46,899
Cooperatief	16,729	16,892
IMI BG	1,229	–
IMI CZ	733	812
	<b>65,517</b>	<b>64,603</b>
Less current portion:		
Cooperatief	2,732	2,758
IMI BG	273	–
IMI CZ	144	145
	<b>3,149</b>	<b>2,903</b>
Noncurrent portion	<b>\$62,368</b>	<b>\$61,700</b>

### Parent Company

In October 2011, the Parent Company obtained a 5-year term clean loan from a local bank amounting to \$40.00 million 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%.

On February 29, 2012, the Parent Company obtained a €5.00 million (\$6.88 million), 5-year term clean loan from a local bank 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, if made on an interest payment date, subject to certain conditions. Interest is payable semi-annually at the rate of 6-month LIBOR plus 1.50% spread per annum.

### Cooperatief

Cooperatief's long-term debt aggregating to €14.25 million (\$20.40 million) as at July 29, 2011 relates primarily to the acquisition of EPIQ shares and receivables of EPIQ NV from IMI EU/MX Subsidiaries. Based on the payment schedule in the SPA, this long-term debt will be settled from 2013 to 2018, subject to interest rate of 1.60% plus 1.50%.

As of June 30, 2014, Cooperatief already paid €2.00 million (\$2.76 million).

Below is the amortization schedule:

Due Dates	In EUR	In USD
	(In thousands)	
2014	€2,000	\$2,788
2015	2,000	2,788
2016	2,000	2,788
2017	2,000	2,788
2018	4,249	5,577
	€12,249	\$16,729

#### IMI BG

IMI BG has an investment loan with BNP Paribas from existing revolving credit facilities which bears interest based on 3-month EURIBOR plus 2.50%.

The credit facility with BNP Paribas is subject to the following collaterals:

- First rank pledge on receivables from selected customers of IMI BG, subject to pre-financing in the amount of 125% of the utilized portion of the facility but not more than €3,750,000; and
- First rank pledge on goods of IMI BG in the amount of 125% of the utilized portion of the facility but not more than €3,750,000.

#### IMI CZ

IMI CZ has a long-term debt from Citibank amounting to €0.54 million (\$0.73 million) that relates to a term loan facility for the purchase of its new Surface Mount Technology machine. The debt bears interest of 1-month EURIBOR plus 2.70% and matures on July 31, 2019.

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### 13. Dividends

On February 17, 2014, the Board of Directors of the Parent Company approved the declaration of cash dividend of \$0.00140 or ₱0.06319 per share to all outstanding common shares as of record date March 3, 2014 payable on March 19, 2014.

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### 14. Earnings 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>Jun 30, 2014</b> <b>(Unaudited)</b>	Jun 30, 2013 (Unaudited)
	(In thousands)	
Net income	<b>\$11,282</b>	\$2,087
Less dividends on preferred stock	<b>(431)</b>	(431)
	<b>\$10,851</b>	\$1,656
Weighted average number of common shares outstanding	<b>1,612,168</b>	1,616,403
	<b>\$0.007</b>	\$0.001

As of June 30, 2014 and 2013, the Parent Company has no dilutive potential common shares.

## 15. Segment Information

Management monitors operating results per geographical area (with the Philippine operations further subdivided into the Parent Company and PSi) for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue and operating income. Operating income takes into account global functions cost allocations made by the Parent Company to the operating sites.

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 per legal entity's location for the six-month period ended June 30, 2014 and 2013:

June 30, 2014 (Unaudited)	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue								
Third party	\$110,089	\$22,112	\$161,001	\$137,633	\$126	\$10	\$-	\$430,971
Inter-segment	137	-	2,017	213	1,400	484	(4,251)	-
Total revenue	\$110,226	\$22,112	\$163,018	\$137,846	\$1,526	\$494	(\$4,251)	\$430,971
Segment operating income (loss)	\$3,290	(\$651)	\$3,464	\$13,623	(\$1,563)	(\$459)	(\$2,664)	\$15,040

June 30, 2013 (Unaudited)	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue								
Third party	\$88,138	\$23,019	\$122,165	\$116,750	\$199	\$198	\$-	\$350,469
Inter-segment	257	-	2,225	301	1,162	427	(4,372)	-
Total revenue	\$88,396	\$23,019	\$124,390	\$117,051	\$1,361	\$625	(4,372)	\$350,469
Segment operating income (loss)	\$2,075	(\$3,654)	(\$2,841)	\$7,688	(\$1,379)	(\$405)	\$-	\$1,484

Intersegment revenues, cost of sales, and operating expenses are eliminated on consolidation.

For the six-month period ended June 30, 2014, the operating income for each operating segment includes net profit from intersegment revenues aggregating to \$4.25 million and intersegment cost of sales and operating expenses amounting to \$0.35 million and \$3.90 million, respectively. Provisions for probable losses amounting to \$4.05 million are recognized on the consolidated level.

For the six-month period ended June 30, 2013, the operating income for each operating segment includes net profit from intersegment revenues aggregating to \$4.37 million and intersegment cost of sales and operating expenses amounting to \$0.56 million and \$3.81 million, respectively.

The following table presents segment assets of the Group's geographical segments as of June 30, 2014 and December 31, 2013:

Segment assets	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
June 30, 2014 (Unaudited)	\$274,340	\$20,808	\$249,865	\$170,615	\$1,381	\$943	(\$186,950)	\$531,002
December 31, 2013 (Audited)	\$267,860	\$19,874	\$231,553	\$154,807	\$1,611	\$907	(\$188,383)	\$488,229

Segment assets as of June 30, 2014 and December 31, 2013 do not include investments in subsidiaries amounting to \$132.55 million and intersegment loans and receivables amounting to \$60.67 million and \$63.17 million, respectively, which are eliminated on consolidation. Furthermore, goodwill arising from the acquisition of STEL, PSi, IMI USA and IMI CZ amounting to \$45.13 million, \$7.48 million, \$0.66 million and \$0.65 million, respectively, are recognized at consolidated level. The following table presents revenues from external customers:

	<b>Jun 30, 2014</b>	Jun 30, 2013
	<b>(Unaudited)</b>	(Unaudited)
	(In thousands)	
Europe	<b>\$209,584</b>	\$181,504
America	<b>105,534</b>	108,602
Japan	<b>43,614</b>	29,371
Asia/Others	<b>72,239</b>	30,992
	<b>\$430,971</b>	\$350,469

Revenues are attributed to countries on the basis of the customer's location. Certain customers independent of each other but within the same group account for 13% and 15% of the Group's total revenue for the six-month period ended June 30, 2014 and 2013, respectively.

The following table presents revenues per product type:

	<b>Jun 30, 2014</b>	Jun 30, 2013
	<b>(Unaudited)</b>	(Unaudited)
	(In thousands)	
Automotive	<b>\$162,455</b>	\$135,653
Telecom	<b>85,865</b>	57,950
Industrial	<b>61,041</b>	52,201
Consumer	<b>52,719</b>	48,760
Multiple market	<b>32,107</b>	28,028
Computer peripherals	<b>25,520</b>	15,434
Medical	<b>11,264</b>	12,443
	<b>\$430,971</b>	\$350,469

## 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 which include affiliates. Related parties may be individuals or corporate entities.

### Terms and Conditions of Transactions with Related Parties

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the six-month period ended June 30, 2014 and 2013, the Group has not recorded any impairment on loans and receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

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

a. Transaction with BPI, an affiliate

As of June 30, 2014 and December 31, 2013, the Group maintains current and savings accounts with BPI amounting \$0.91 million and \$0.77 million, respectively.

b. Outstanding balances of the Group's related party transactions with its affiliates follow:

	Receivables		Payables	
	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)
Narra VC	\$110	\$92	\$-	\$-
Technopark Land, Inc. (TLI)	76	17	-	-
BPI	-	110	-	18
Innove Communication Inc. (ICI)	-	-	4	18
Globe Telecom, Inc. (GTI)	-	-	2	1
Ayala Group Legal (AG Legal)	-	-	-	5
	<b>\$186</b>	<b>\$219</b>	<b>\$6</b>	<b>\$42</b>

- i. Receivables from BPI are nontrade in nature and pertain to retirement and separation pay advanced by the Parent Company but reimbursable from the trust fund with BPI. These are noninterest-bearing and are due quarterly.
- ii. PSi's outstanding receivables from Narra VC are nontrade in nature and represent payments made by PSi to settle the Pre-Completion Liabilities and which will be later reimbursed from the New Investors.
- iii. Receivables from TLI are nontrade in nature and pertain to advances by the Parent Company for various expenses incurred by TLI, primarily on real property taxes and corporate secretarial services. These are reimbursable with a 30-day term.
- iv. Payables to BPI are nontrade in nature and pertain to outstanding housing and automobile financing loans. The outstanding housing and automobile financing loans arise from timing differences of the remittances by the Parent Company to BPI and the period of withholding from employee salaries and wages. The loan reductions are remitted on a monthly basis.
- v. Payables to ICI are nontrade in nature and pertain to leased lines, internet connections and automated teller machines connections. These are noninterest-bearing and are due every month.
- vi. Payables to GTI pertain to billings for software and WiFi connections. These are due and demandable.
- vii. Payables to AG Legal are nontrade in nature and pertain to legal services provided to the Parent Company and PSi. These are noninterest-bearing and are due within 30 days.

- c. Outstanding balances of related party transactions within the Group follow:

	Receivables		Payables	
	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)
STEL	\$20,675	\$24,204	\$7,696	\$8,390
IMI EU/MX Subsidiaries	15,292	14,706	–	–
PSi	12,159	11,320	415	415
IMI Singapore	1,010	1,010	–	–
IMI Japan	980	980	613	713
IMI USA	250	250	173	289
IMI ROHQ	129	253	1,230	1,212
	<b>\$50,495</b>	<b>\$52,723</b>	<b>\$10,127</b>	<b>\$11,019</b>

- i. Receivables from STEL, IMI EU/MX Subsidiaries, PSi, IMI Singapore, IMI Japan and IMI USA are nontrade in nature and pertain to operating cash advances made by the Parent Company.

Claims from subsidiaries that have been billed are presented as “Nontrade receivables,” while those still for billing are recognized as “Advances to related parties” in the financial statements of the Parent Company.

Advances to STEL, IMI Singapore, IMI Japan and IMI USA are noninterest-bearing and are due on demand.

Advances to PSi, IMI MX and IMI CZ have a 90-day term subject to interest rates ranging from 2.54% to 3.08% in 2014 and 2.24% to 3.24% in 2013.

Receivables from IMI ROHQ are nontrade in nature and represent the pension expense for IMI ROHQ’s employees to be funded by the Parent Company upon availment. These receivables are due on demand.

- ii. Payables to STEL pertain to various expenses of the Parent Company advanced by IMI Singapore and its subsidiaries such as travel expenses of the Parent Company’s personnel when going to STEL for business purposes. These advances are noninterest-bearing and are payable on demand.
- iii. Payables to PSi represent payments to settle certain liabilities that had arisen prior to the entry of the New Investors and which have been identified as the Pre-Completion Liabilities. Pursuant to the Agreement, the Old Investors and the New Investors shall reimburse PSi for these payments to the extent of two-thirds (2/3) and one-third (1/3) of the amounts, respectively, for the first \$3.00 million of the Pre-Completion Liabilities, with the Old Investors absorbing any amount in excess, but only to the extent of the value of the shares that will be eventually sold to the New Investors under the put and call options provision.
- iv. Payables to IMI Japan and IMI USA are trade in nature and pertain to the services rendered by IMI Japan and IMI USA. These receivables are with a 30-day term.
- v. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ to the Parent Company and PSi which serves as a supervisory, communications and coordinating center for its affiliates.

d. Revenue/income and expenses from the Group's affiliates follow:

	Revenue/Income		Expenses	
	Jun 30, 2014 (Unaudited)	Jun 30, 2013 (Unaudited)	Jun 30, 2014 (Unaudited)	Jun 30, 2013 (Unaudited)
MWAP	\$5	\$-	\$-	\$-
BPI	1	2	-	-
TLI	4	4	554	13
AG Legal	-	-	-	53
ICI	-	-	15	48
GTI	-	-	29	27
	<b>\$10</b>	<b>\$6</b>	<b>\$598</b>	<b>\$141</b>

Revenue/income from its affiliates pertain to the following transactions:

- i. Rent income earned by STEL from lease of its office premises.
- ii. In 2013, the Parent Company and TLI entered into a service agreement for the Parent Company to provide TLI administrative services such as professional, clerical, financial and accounting services. The administrative services shall be for a period of three (3) years, commencing on January 2, 2013 up to December 31, 2015, renewable upon mutual agreement by both parties. The fixed monthly service fee is ₱30,000, inclusive of all taxes.
- iii. Interest income earned from investments and gain on foreign currency forwards with BPI.

Expenses incurred from related party transactions include:

- i. Rent expense from the lease contract with TLI.
- ii. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.
- iii. Building rental, leased lines, internet connections and ATM connections with ICI.
- iv. Billings for cellphone charges and WiFi connections with GTI.

e. Revenue and expenses eliminated at the Group level follow:

	Revenue/Income		Expenses	
	Jun 30, 2014 (Unaudited)	Jun 30, 2013 (Unaudited)	Jun 30, 2014 (Unaudited)	Jun 30, 2013 (Unaudited)
IMI ROHQ	\$2,017	\$2,225	\$-	\$-
IMI USA	1,400	1,162	-	-
IMI Japan	484	427	-	-
STEL	-	-	-	-
IMI EU/MX Subsidiaries	-	-	213	141
PSi	-	-	143	91
	<b>\$3,901</b>	<b>\$3,814</b>	<b>\$356</b>	<b>\$232</b>

Intercompany revenues mainly pertain to billings of IMI USA and IMI Japan to the Parent Company for recovery costs and billings for management salaries of key management personnel under IMI ROHQ.

Expenses incurred from related party transactions include interest expense of PSi, IMI MX and IMI CZ from loans granted by the Parent Company.

## 17. Fair Values of Financial Instruments

Below are the fair values of financial assets and financial liabilities that are either carried at fair value or where the carrying amounts do not approximate fair values as of June 30, 2014 and December 31, 2013:

	Carrying Amounts		Fair Values	
	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)
<b>Financial assets:</b>				
AFS financial assets	\$1,859	\$1,867	\$1,859	\$1,867
<b>Financial liabilities:</b>				
Derivative liabilities	\$-	\$41	\$-	\$41
Noncurrent portion of:				
Long-term debt	62,368	61,700	65,025	64,228
Obligation under finance lease	3,014	2,978	3,013	2,974
	<b>\$65,382</b>	<b>\$64,719</b>	<b>\$68,038</b>	<b>\$67,243</b>

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

AFS financial assets - These pertain to investments in club shares and preferred equity shares and convertible notes. Fair value is based on quoted prices.

Noncurrent portion of long-term debt - The fair value of long-term debt that is re-priced on a semi-annual basis is estimated by using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used in 2014 and 2013 ranged from 0.25% to 2.87%.

Noncurrent portion of obligation under finance lease - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used in 2014 and 2013 range from 2.29% to 12.30%.

### Fair Values of Financial Assets and Financial Liabilities where the Carrying Amounts Approximate Fair Values

Below are the financial assets and financial liabilities where the carrying amounts approximate fair values as of June 30, 2014 and December 31, 2013 due to the short-term nature of the instruments:

	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)
<b>Financial assets:</b>		
Cash and cash equivalents	\$50,302	\$49,042
Loans and receivables:		
Trade	202,172	171,964
Nontrade	755	2,716
Receivable from employees	1,543	525
Due from related parties	186	219
Others	2,506	3,041
Miscellaneous deposits	1,777	2,526
	<b>\$259,241</b>	<b>\$230,033</b>

(Forward)

	Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)
<b>Financial liabilities:</b>		
Accounts payable and accrued expenses:		
Trade payables	\$139,490	\$120,670
Accrued expenses *	23,332	20,732
Accrued payroll	17,833	14,040
Nontrade payables	6,919	3,368
Current portion of long-term debt	3,149	2,903
Current portion of obligation under finance lease	954	908
Accrued interest payable	740	472
Dividends payable	611	858
Employee-related payables *	164	175
Due to related parties	6	42
Others	2,352	1,249
Trust receipts and loans payable	46,087	45,654
	<b>\$241,637</b>	<b>\$208,884</b>

\* Excluding statutory payables

#### Fair Value Hierarchy

The following tables provide the fair value hierarchy of the Group's assets and liabilities:

	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>June 30, 2014 (Unaudited)</b>				
<b>Assets measured at fair value:</b>				
AFS financial assets	\$509	\$1,350	\$-	\$1,859
<b>Liabilities for which fair values are disclosed:</b>				
Noncurrent portion of:				
Long-term debt	\$-	\$-	\$65,025	\$65,025
Obligation under finance lease	-	-	3,013	3,013
	<b>\$-</b>	<b>\$-</b>	<b>\$68,038</b>	<b>\$68,038</b>

	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>December 31, 2013 (Audited)</b>				
<b>Assets measured at fair value:</b>				
AFS financial assets	\$517	\$1,350	\$-	\$1,867
<b>Liabilities measured at fair value:</b>				
Derivative liabilities	\$-	\$41	\$-	\$41
<b>Liabilities for which fair values are disclosed:</b>				
Noncurrent portion of:				
Long-term debt	\$-	\$-	64,228	\$64,228
Obligation under finance lease	-	-	2,974	2,974
	<b>\$-</b>	<b>\$-</b>	<b>\$67,202</b>	<b>\$67,202</b>

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

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.

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## 18. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, composed of trust receipts and loans payable, long-term debt and other financial liabilities, were issued primarily to raise financing for the Group's operations. The Group has various financial instruments such as cash and cash equivalents, loans and receivables and 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 also enters into currency forwards to manage the currency risk arising from its operations and financial instruments.

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's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings) as of June 30, 2014 and December 31, 2013. There is no other impact on the Group's equity other than those already affecting income.

Increase/Decrease in Basis Points	<b>Effect on Net Income before Tax</b>	
	<b>Jun 30, 2014 (Unaudited)</b>	<b>Dec 31, 2013 (Audited)</b>
+100	<b>(\$508)</b>	(\$564)
-100	<b>508</b>	564

The following table shows the information about the Group's debt as of June 30, 2014 and December 31, 2013 that are exposed to interest rate risk presented by maturity profile:

	<b>Jun 30, 2014 (Unaudited)</b>	<b>Dec 31, 2013 (Audited)</b>
Within one year	<b>\$2,451</b>	\$8,875
One to five years	<b>48,371</b>	47,566
	<b>\$50,822</b>	\$56,441

### *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 projected 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.

### *Credit risk*

Credit risk is the risk that the Group's counterparties 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 and cash equivalents and 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.

The Group's maximum exposure to credit risk for the components of the consolidated balance sheets as at June 30, 2014 and December 31, 2013 are the carrying amounts except for cash and cash equivalents. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

The Group has 39% and 35% of trade receivables relating to three (3) major customers as of June 30, 2014 and December 31, 2013, respectively.

As of June 30, 2014 and December 31, 2013, the aging analysis of trade receivables follows:

	Total	Neither past due nor impaired	Past due but not impaired					Specifically Impaired
			<30 days	30-60 days	60-90 days	90-120 days	>120 days	
<b>June 30, 2014</b>								
(Unaudited)	\$202,695	\$183,007	\$14,466	\$2,163	\$500	\$1,230	\$806	\$523
December 31, 2013								
(Audited)	\$174,136	\$141,880	\$19,157	\$1,884	\$1,988	\$1,805	\$5,251	\$2,171

### *Foreign currency risk*

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

The Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in 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 USD equivalent follows:

*Philippine Peso (P)*

	Jun 30, 2014 (Unaudited)		Dec 31, 2013 (Audited)	
	In USD	In PHP	In USD	In PHP
	(in thousands)			
Cash and cash equivalents	\$917	P40,010	\$1,301	P57,768
Loans and receivables	2,295	100,185	1,261	55,971
Miscellaneous deposits	1,574	68,710	1,309	58,089
Accounts payable and accrued expenses	(12,239)	(534,228)	(35,909)	(1,593,814)
Pension liabilities	(7,331)	(320,011)	(6,359)	(282,301)
Other current liabilities	(764)	(33,345)	(2,177)	(96,648)
Other noncurrent liabilities	(1,799)	(78,519)	(35)	(1,542)
Net foreign currency-denominated liabilities	(P17,347)	(P757,198)	(\$40,608)	(P1,802,476)

*Singapore Dollar (SGD)*

	Jun 30, 2014 (Unaudited)		Dec 31, 2013 (Audited)	
	In USD	In SGD	In USD	In SGD
	(in thousands)			
Cash and cash equivalents	\$397	SGD 496	\$1,202	SGD1,522
Loans and receivables	38	47	42	54
Accounts payable and accrued expenses	(1,666)	(2,079)	(2,063)	(2,611)
Net foreign currency-denominated liabilities	(\$1,231)	(SGD1,536)	(\$818)	(SGD1,035)

*Euro (€)*

	Jun 30, 2014 (Unaudited)		Dec 31, 2013 (Audited)	
	In USD	In EUR	In USD	In EUR
	(in thousands)			
Cash and cash equivalents	\$6,837	€ 5,008	\$3,373	€2,444
Loans and receivables	48,481	35,512	33,657	24,394
Accounts payable and accrued expenses	(21,506)	(15,753)	(15,267)	(11,066)
Loans payable	(417)	(306)	(6,547)	(4,745)
Long-term debt	(8,371)	(6,131)	(7,711)	(5,589)
Net foreign currency-denominated assets	\$ 25,024	€18,330	\$7,505	€5,438

*Japanese Yen (JPY or ¥)*

	Jun 30, 2014 (Unaudited)		Dec 31, 2013 (Audited)	
	In USD	In JPY	In USD	In JPY
	(in thousands)			
Cash and cash equivalents	\$ 358	¥36,356	\$111	¥11,600
Loans and receivables	1,577	159,942	2,142	224,306
Miscellaneous deposits	24	2,440	23	2,449
Accounts payable and accrued expenses	(2,938)	(297,952)	(6,780)	(709,951)
Net foreign currency-denominated liabilities	(\$979)	(¥99,214)	(\$4,504)	(¥471,595)

*Renminbi (RMB)*

	Jun 30, 2014 (Unaudited)		Dec 31, 2013 (Audited)	
	In USD	In RMB	In USD	In RMB
	(in thousands)			
Cash and cash equivalents	\$11,107	RMB 68,339	\$8,791	RMB53,670
Loans and receivables	72,259	444,591	65,967	402,731
Accounts payable and accrued expenses	(46,970)	(288,993)	(45,116)	(275,434)
Net foreign currency-denominated assets	\$36,396	RMB 223,937	\$29,642	RMB127,967

*Hong Kong Dollar (HKD or HK\$)*

	Jun 30, 2014 (Unaudited)		Dec 31, 2013 (Audited)	
	In USD	In HKD	In USD	In HKD
	(in thousands)			
Cash and cash equivalents	\$70	HK\$550	\$210	HK\$1,628
Loans and receivables	1,170	9,064	1,158	8,978
Accounts payable and accrued expenses	(565)	(4,383)	(359)	(2,784)
Net foreign currency-denominated assets	\$675	HK\$5,231	\$1,009	HK\$7,823

*British Pound (GBP or £)*

	Jun 30, 2014 (Unaudited)		Dec 31, 2013 (Audited)	
	In USD	In GBP	In USD	In GBP
	(in thousands)			
Loans and receivables	\$1	£0	\$1	£1
Accounts payable and accrued expenses	(24)	(14)	(5)	(3)
Net foreign currency-denominated liabilities	(\$23)	(£14)	(\$4)	(£2)

*Australian Dollar (AUD)*

	Jun 30, 2014 (Unaudited)		Dec 31, 2013 (Audited)	
	In USD	In AUD	In USD	In AUD
	(in thousands)			
Accounts payable and accrued expenses	(\$117)	(AUD125)	(\$55)	(AUD61)

*Thai Baht (THB)*

	Jun 30, 2014 (Unaudited)		Dec 31, 2013 (Audited)	
	In USD	In THB	In USD	In THB
	(in thousands)			
Loans and receivables	\$1	THB32	\$1	THB34

*Swiss Franc (CHF)*

	Jun 30, 2014 (Unaudited)		Dec 31, 2013 (Audited)	
	In USD	In CHF	In USD	In CHF
	(in thousands)			
Cash and cash equivalents	\$1	CHF 1	\$1	CHF1
Accounts payable and accrued expenses	(5)	(5)	(58)	(52)
Net foreign currency-denominated liabilities	(\$4)	(CHF4)	(\$57)	(CHF50)

*Danish Krone (DKK)*

	Jun 30, 2014 (Unaudited)		Dec 31, 2013 (Audited)	
	In USD	In DKK	In USD	In DKK
	(in thousands)			
Accounts payable and accrued expenses	(\$14)	(DKK76)	(\$3)	(DKK15)

### Sensitivity Analysis

The following tables demonstrate sensitivity to a reasonably possible change in the USD 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 June 30, 2014 and December 31, 2013. The reasonably possible change was computed based on one year average historical movement of exchange rates between the USD and other currencies.

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

Currency	Increase/Decrease in USD Rate	Effect on Net Income before Tax	
		Jun 30, 2014 (Unaudited)	Dec 31, 2013 (Audited)
PHP	+1%	\$179	\$258
	-1%	(179)	(258)
SGD	+1%	14	6
	-1%	(14)	(6)
EUR	+1%	(299)	(101)
	-1%	299	101
JPY	+1%	9	27
	-1%	(9)	(27)
RMB	+1%	(331)	(244)
	-1%	331	244
HKD	+1%	(6)	(10)
	-1%	6	10
GBP	+1%	84	0
	-1%	(84)	(0)
AUD	+1%	1	1
	-1%	(1)	(1)
THB	+1%	0	(0)
	-1%	(0)	0
CHF	+1%	0	1
	-1%	(0)	(1)
DKK	+1%	0	0
	-1%	(0)	(0)

### *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.

No changes were made in the objectives, policies and processes during the period ended June 30, 2014 and December 31, 2013.

The Group is not subject to externally imposed capital requirements.

The Group monitors capital using a gearing ratio of debt to equity and net debt to equity. The Group considers bank borrowings in the determination of debt, which consist of trust receipts and loans payable and long-term debt. Net debt is equivalent to the total bank borrowings less cash and cash equivalents.

	<b>June 30, 2014</b> <b>(Unaudited)</b>	December 31, 2013 (Audited)
Trust receipts and loans payable	<b>\$46,087</b>	\$45,654
Long-term debt	<b>48,788</b>	47,711
Total debt	<b>94,875</b>	93,365
Less cash and cash equivalents	<b>50,302</b>	49,042
Net debt	<b>\$44,573</b>	\$44,323
Equity attributable to equity holders of the Parent Company	<b>\$200,509</b>	\$192,650
Debt to equity ratio	<b>47%</b>	48%
Net debt to equity ratio	<b>22%</b>	23%

## 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

	For the six months ended 30 June	
	2014	2013
	<i>(in US\$ thousands, except Basic EPS)</i>	
Revenues from Sales and Services	<b>\$430,971</b>	\$350,469
Cost of Goods Sold and Services	<b>383,912</b>	323,271
Gross Profit	<b>47,059</b>	27,198
Net Income Attributable to Equity Holders of the Parent Company	<b>11,282</b>	2,087
EBITDA <sup>i</sup>	<b>25,126</b>	14,461
Basic Earnings per Share (EPS)	<b>\$0.007</b>	\$0.001

#### Revenues from Sales and Services

The Company posted consolidated revenues of US\$431.0 million for the six-month period ended June 30, 2014, a 23% increase from last year's US\$350.5 million driven by increased demand from customers in the telecommunications infrastructure, automotive electronics and storage market devices.

IMI China's first-half revenues of US\$161.0 million represent a 32 percent increase from last year's, boosted by volume expansion for main customers in the telecommunications segment. The China EMS operations contributed 37 percent to IMI's total first-half 2014 revenues.

The sustained expansion of the automotive business in IMI's factories in Eastern Europe has resulted in the company's Europe and Mexico operations generating combined revenues of US\$137.6 million, an 18 percent increase year-over-year.

IMI's EMS operations in the Philippines posted US\$110.1 million in revenues, a 25 percent year-on-year growth due mainly to a robust storage device assembly business and an upsurge in automotive electronics business.

Meanwhile, IMI's power semiconductor company PSi Technologies Inc. recorded US\$22.1 million in revenues, slightly lower than last year's by 4 percent.

The company's revenues for the second-quarter 2014 of US\$225.2 million sequentially increased by 9 percent from US\$205.7 million of the preceding quarter. The net income of US\$6.3 million represents a 25 percent sequential increase, and it is more than three times that for the same period in 2013.

The company's automotive electronics business accounts for 38% of IMI's total revenues. Business is doing well in all locations, accounting for the sector's 20% revenue year-on-year growth.

Besides the automotive sector, IMI's computing, telecommunications and industrial businesses also posted a double-digit growth. Computing segment, due to its increased business in the storage market

<sup>i</sup> EBITDA = EBITDA represents net operating income after adding depreciation and amortization, cost of share-based payments and foreign exchange gains/losses. 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.

device posted 65% growth for the first half of 2014 from the same period last year. The improving performance of IMI China due primarily to increased demand from customers in the telecommunications infrastructure market resulted to a 48% year-on-year growth in telecom segment and now contributes 20% to the consolidated revenues from last year's 17%. The industrial segment also contributed an 18% year-on-year growth to the total group.

Europe remains to be the biggest market of the company's products, comprising 49% of global sales, followed by America at 24%.

#### **Cost of Goods Sold and Services**

Cost of sales is higher by 19% relative to the 23% increase in revenues. Lower cost ratios from better direct materials and fixed overhead ratios particularly for European subsidiaries. Higher direct labor ratio due to upsurge in labor-intensive businesses in the Philippines.

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

The Company's operations generated gross profit of US\$47.1 million, higher year-on-year by 73% which is revenue driven. GP margin higher by 316 bps from better margins across all sites driven by improved direct cost ratios and better utilization. Increase in consignment businesses generating higher margins for Philippines also contributed to the increase.

#### **Operating Expenses**

The Company's operating expenses went up by US\$6.3 million or 25% mainly due to provisions for probable losses, reversals of accruals made in 2013, higher taxes and licenses relative to increase in revenues and increase in people-related costs.

#### **Net Income**

The company generated US\$11.3 million net income, more than 5x of last year's US\$2.1 million. Operating income up by US\$13.6 million or more than 10x driven by improved profitability across all sites. Other business income such as rental and gain on sale of assets/materials also contributed additional US\$1.5 million to the net income

#### **EBITDA**

EBITDA higher by US\$10.7 million or 74% due to higher operating income +US\$13.6 million, however, offset by forex impact by US\$2.2 million and lower depreciation by US\$0.6 million.

#### **Financial Condition**

The Company maintains financial stability with a cash balance of US\$50.3 million as of June 30, 2014. Current ratio and debt-to-equity ratio remains healthy at 1:50:1 and 0.47:1, respectively.

For the first quarter of 2014, the Company's capital expenditures amounted to US\$10.9 million which comprised mainly of warehouse, building improvements, machineries and facilities equipment to sustain continuous plant expansions. For the full year of 2014, the Company expects to spend \$27M for capital expenditures. These capital expenditures are to be partially funded by proceeds of the Company's cash from operations and debt. The main components of these expenditures are building extensions and improvements, purchase of equipment for new projects, various machineries restorations and innovation and strategic investments. These will ensure uninterrupted services and meeting demands of the Company's customers.

#### *Prospects for the future*

The Company maintains its profitable growth trajectory, driven by increased demand from customers in the telecommunications infrastructure, automotive electronics, and storage device markets. The Company also has a healthy sales pipeline, especially for the automotive segment. IMI's strategic focus over the last decade has begun to bear fruit, as it continues to develop new business models as well as high value-add services that fit the dynamic markets it serves.

## Key performance Indicators of the Company

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

Performance indicators	As of end	
	Jun 30, 2014	Dec 31, 2013
Liquidity:		
Current ratio	1.50x	1.53x
Solvency:		
Debt-to-equity ratio	0.47x	0.48x
	For the six months ended	
	30 June	
	2014	2013
Operating efficiency:		
Revenue growth	23%	8%
Profitability:		
Return on equity	5.7%	1.1%
Return on assets	2.1%	0.4%
<sup>ii</sup> EBITDA margin	5.8%	4.1%

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 known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Company's revenues from continuing operations.
- (v) There were no significant elements of income or loss that did not arise from continuing operations.
- (vi) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

<sup>ii</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 and foreign exchange gains (losses). 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

(Six months ended 30 Jun 2014 versus 30 Jun 2013)

#### 23% growth in Revenues from Sales and Services (\$350.5M to \$431.0M)

Increase was mainly due to the demand in the telecommunications infrastructure market in China (↑US\$38.8 million), robust business in the storage device market in the Philippines (↑US\$21.8 million) and increased automotive business in Europe (↑US\$20.8 million).

#### 19% increase in Cost of Goods Sold and Services (\$323.3M to \$383.9M)

The increase in Cost of Goods Sold and Services was relative to the upsurge in revenues of turnkey businesses resulting to higher direct material costs, increase in labor cost ratio due to expansion of labor-intensive projects and increase in labor rate and increase in fixed overhead costs to cope with the business expansions.

#### 25% increase in Operating Expenses (\$25.7M to \$32.0M)

The increase can be attributable to provisions for probable losses, reversal of excess accruals in 2013, higher taxes and licenses in China relative to increase in revenues and increase in people-related costs.

#### 65% decrease in Other Operating Income (\$1.0M to \$350K)

Decrease is attributable to foreign exchange losses for the current year (\$1.1M) mainly attributable to appreciation of PHP against USD with regard to the Philippine entities net liability FX position. This is contrary to last year's currency fluctuation wherein PHP was depreciating against USD and therefore FX gains were recognized. Losses from FX fluctuation was, however, offset by gains from other income such as gain on sale of assets/materials and rental income of Singapore/China entities.

#### 195% increase in provision for income tax (\$1.4M to \$4.2M)

Increase in current tax due to higher income tax base resulting from higher revenues and better margins. There was also a \$0.8M reversal of deferred tax liability in 2013 as a result of exercise of call option.

### Balance Sheet items

(30 Jun 2014 versus 30 Dec 2013)

#### 17% increase in Loans and receivables (\$178.5M to \$208.8M)

Increase is relevant to increase in revenues across major operating sites.

#### 14% increase in Inventories (\$94.1M to \$106.9M)

Increase attributable to growth of turnkey businesses mainly from China and Philippines.

#### 10% decrease in Intangible assets (\$4.9M to \$4.4M)

Due to amortization of customer relationship recognized upon acquisition of Europe and Mexico subsidiaries (5-year amortization)

#### 19% increase in Accounts payable and accrued expenses (\$171.1M to \$203.3M)

Increase in trade payables (↑\$19M) from China and Philippines due to longer AP days. Increase in accruals for subcontracting costs, compensation and benefits, taxes and utilities.

#### 45% increase in Income tax payable (\$1.7M to \$2.4M)

Relevant to increase in tax liability driven by increased revenues and profitability.

#### 10% increase in Pension liabilities (\$6.7M to \$7.7M)

Accruals of pension expense.

78% decrease in Cumulative translation adjustments (-\$1.4M to -\$2.5M)

Arising from translation of accounts in Europe and Mexico denominated in their respective local currencies to the Parent Company's functional currency. Movement is attributable to appreciation of USD against subsidiaries' local currencies with regard to its net assets.

## EXHIBIT 1

### FINANCIAL RATIOS

For the six months period ended June 30, 2014 and 2013

Ratios	Formula	June 30, 2014	December 31, 2013	June 30, 2013
(i) Current ratio	Current assets / Current Liabilities	1.50	1.53	
(ii) Debt/Equity ratio	Bank debts / Equity attributable to parent	0.47	0.48	
(iii) Asset to Equity ratio	Total Assets / Equity attributable to parent	2.65	2.53	
(iv) Interest rate coverage ratio	Earnings before interest and taxes / Interest Expense	11.63		2.57
(v) Profitability ratios				
GP margin	Gross Profit / Revenues	10.9%		7.8%
Net profit margin	Net Income after Tax / Revenues	2.6%		0.6%
EBITDA margin	EBITDA / Revenues	5.8%		4.1%
Return on assets	Net Income after Tax / Total Asset	2.1%		0.4%
Return on equity	Net Income after Tax / Average equity attributable to parent	5.7%		1.1%

(in US\$'000)

	June 30, 2014	December 31, 2013	June 30, 2013
Current Assets	382,017	338,263	
Current Liabilities	254,973	221,302	
Bank Debts	94,875	93,365	
Equity attributable to parent	200,509	192,650	187,942
Total Assets	531,002	488,229	464,940
Earnings before interest and taxes	16,696		3,884
Interest expense	1,435		1,511
Gross Profit	47,059		27,198
Revenues	430,971		350,469
Net Income after Tax	11,282		2,087
EBITDA	25,126		14,461
Average equity attributable to parent	196,580		190,880

## PART II--OTHER INFORMATION

1. At the Regular Annual Stockholders' meeting held on April 12, 2013 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 L. Lazaro  
Arthur R. Tan  
Delfin C. Gonzalez, Jr.  
John Eric T. Francia  
Rafael Ma. C. Romualdez  
Jose Ignacio A. Carlos  
Alelie T. Funcell (Independent Director)  
Hiroshi Nishimura (Independent Director)  
Edgar O. Chua (Independent Director)

- Appointment of Sycip, Gorres, Velayo & Co. as the external auditors of the Company for the ensuing year.

2. 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

Edgar O. Chua – Chairman  
Rafael Ma. C. Romualdez – Member  
Delfin C. Gonzalez, Jr. – Member

Nomination Committee

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

Compensation Committee

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

Finance Committee

Delfin C. Gonzalez, Jr. – Chairman  
John Eric T. Francia – Member  
Rafael Ma. C. Romualdez – Member  
Hiroshi Nishimura - Member

- Officers:

Jaime Augusto Zobel de Ayala

Arthur R. Tan

Jerome S. Tan

Linardo Z. Lopez

Gilles Bernard

Anthony Raymond P. Rodriguez

Solomon M. Hermosura

Nimfa Ambrosia L. Perez-Paras

- Chairman of the Board

- President & Chief Executive Officer

- Global Chief Finance Officer

- Senior Managing Director, Global Head of Materials & Supply Chain

- Senior Managing Director – COO Asia & Europe

- AVP, Head of Treasury and Credit

- Corporate Secretary

- Assistant Corporate Secretary

## 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.

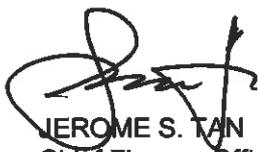
Registrant **INTEGRATED MICRO-ELECTRONICS, INC.**

By:



**JAIME G. SANCHEZ**  
Vice President, Deputy CFO and Group Controller

Date: August 11, 2014



**JEROME S. TAN**  
Chief Finance Officer

Date: August 11, 2014