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SEC Number: 94419
File Number: ____

INTEGRATED MICRO-ELECTRONICS, INC.

(Company's Full Name)

(Company Address)	
(632) 756-6840	
 (Telephone Number)	
December 31, 2010	
 (Fiscal Year Ending) (Month & Day)	
SEC Form 17-A	

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1.	For the fiscal year ended: December 31, 2010
2.	SEC Identification Number: 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 principal office: 33 rd Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City Postal Code: 1226
8.	Registrant's telephone number: (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 SRC, or Sec. 4 and 8 of the RSA
	Title of Each Class Number of Shares Issued and Outstanding 1,434,078,088
	* Net of 15,892,109 treasury shares
11.	Are any or all of these securities listed on a Stock Exchange? Yes [x] No []
	1,349,304,197 common shares are listed with the Philippine Stock Exchange as of March 31, 2011.
12.	Check whether the registrant:
	(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 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 that the registrant was required to file such reports): Yes [x] No []
	(b) has been subject to such filing requirements for the past ninety (90) days: Yes [x] No []

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be

made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B"). The aggregate market value of the voting stock held by non-affiliates of the Company is about P3.15 billion (based on closing stock price of IMI common shares as of April 8, 2011 and issue value of IMI preferred shares.

Please see discussion below and in succeeding pages on the following:

PART I – BUSINESS AND GENERAL INFORMATION
PART II – OPERATIONAL AND FINANCIAL INFORMATION
PART III – CONTROL AND COMPENSATION INFORMATION
PART IV – CORPORATE GOVERNANCE
PART V – EXHIBITS AND SCHEDULES

Unless otherwise expressly indicated, the information provided herein is as of December 31, 2010.

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Integrated Micro-Electronics, Inc., a stock corporation organized under the laws of the Republic of the Philippines on August 8, 1980, has three wholly-owned subsidiaries, namely: IMI International (Singapore) Pte. Ltd. ("IMI Singapore"), IMI USA, Inc. ("IMI USA") and IMI Japan, Inc. ("IMI Japan"); collectively referred to as the "Group". IMI also owns 56 percent of PSi Technologies Inc., an independent power semiconductor assembly and test services (SATS) provider.

The Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of Printed Circuit Board Assemblies (PCBAs), flip chip assemblies, box build products, sub-assemblies, and provider of electronics product design and product development outsourcing. The Company is also engaged in the business of providing test development and systems integration services and distributing related products and equipment. These PEZA registrations entitle IMI to a four-year income tax holiday (ITH) and an option to apply for ITH extension for a maximum of three (3) years subject to various PEZA requirements wherein projects and activities are qualified.

IMI Singapore was incorporated and domiciled in Singapore. Its wholly-owned subsidiary, Speedy-Tech Electronics Ltd. (STEL), was incorporated and is domiciled also in Singapore. STEL on its own has subsidiaries located in Hong Kong, China, Singapore and the Philippines. IMI Singapore is engaged in the procurement of raw materials, supplies and provision of customer services. STEL and its subsidiaries are principally engaged in the provision of electronic manufacturing services (EMS) and power electronics solutions to original equipment manufacturing customers in the consumer electronics, computer peripherals/IT, industrial equipment, telecommunications and medical device sectors.

IMI USA is at the forefront of technology with regard to precision assembly capabilities including surface mount technology (SMT), chip on flex (COF), chip on board (COB) and flip chip on flex. It specializes in prototyping low to medium PCBA and sub-assembly. It is also engaged in engineering, design for manufacturing (DFM) technology, advanced manufacturing process development, new product innovations (NPI), direct chip attach and small precision assemblies. A division of IMI USA is IMI Energy Solutions, which was established in 2010 as part of IMI's foray into the solar energy and other renewable energy fields.

IMI Japan was registered and is domiciled in Japan. IMI Japan's primary purposes is to transact business with Japanese customers in the following areas: (a) turnkey EMS; (b) engineering and design services; and (c) original design manufacturing (ODM) solutions. IMI Japan also functions as central program

management for new business in coordination with the Company (wireless), STEL and Subsidiaries (power management) and IMI USA (film chip). IMI Japan will secure programs/projects from Japanese customers and then endorse these to the Company or IMI Singapore.

The acquisition of the majority shares of PSi gives IMI a foothold in the growing convergence of power semiconductor assembly and test services and EMS.

Based on SEC's parameters, the only significant subsidiary of IMI as of December 31, 2010 is IMI International (Singapore) Pte., Ltd. For further details on the Company's financial condition and operations, please refer to the 2010 Audited Consolidated Financial Statements which is incorporated herein as Exhibit 1. Except as stated in the succeeding paragraphs, there has been no other business development such as bankruptcy, receivership or similar proceeding not in the ordinary course of business that affected the registrant for the past three (3) years.

As to the material reclassification, merger, consolidation or purchase or sale of a significant amount of assets – In 2010, IMI acquired 56 percent of PSi Technologies Inc., an independent power semiconductor assembly and test services (SATS) provider.

Operations

Design and Engineering Services

Partnering with IMI allows a complete and successful product development. This is made possible by the Company's capability to design and develop complete products and subsystems, analyze product design and materials for costs reduction through value and profit engineering, and develop solutions for cost-effective production and fast time-to-market while safeguarding intellectual property. IMI's flexible solutions in product development and engineering service offerings include:

Design and Engineering Solutions

Contract Design and Joint Development Solutions in

- Power Electronics
- Short-Range Wireless
- Embedded Systems
- Sensors and Imaging
- Power Semiconductors

Design Services

- Hardware & Software Development
- Mechanical Design
- Printed Circuit Board Layout
- Design for Manufacturability, Reliability, and Testability
- Simultaneous Engineering
- Value Engineering
- Prototyping and Pre-Certification Testing

Advanced Manufacturing Engineering

Advanced Manufacturing Technology

- Direct Chip Attach (COB, Flip Chip, and Chip on Silicon)
- Multi-Chip Module (MCM) and Microsystem
- Thermally Enhanced Direct Chip Attach
- Advanced Surface Metallurgies
- Pre-flow Underfill Process
- Traceless Flip Chip Technology
- Substrate and Interconnect Technology
- Small Precision Assembly

Test and System Development

Customized Test Equipment

- Function testers
- Handlers
- Automated optical inspection machines

Value-Add Services

- Consulting
 - Development of test specifications
 - Design for testability
- Development of turnkey solutions
 - Hardware design & assembly
 - Software development
 - Integration, test, validation, documentation, and training

New Product Introduction

- Product Development
- Process and Test Development
- Design for Manufacturability
- Design for Testability
- Design for Reliability
- Prototyping
- Offshore Line Integration

Reliability, Failure Analysis and Calibration Services

Reliability Engineering

- Accelerated testing to determine product:
 - Life Expectancy
 - Warranty
 - Reliability

Failure Analysis

Data analysis and identification of failure cause as well as preventive measures

Calibration

• For accuracy and precision

Manufacturing Solutions

IMI's comprehensive manufacturing experience allows a prospective client to leverage its strength in RoHS-compliant and cleanroom manufacturing process, complex manufacturing using consigned equipment and materials, complete turnkey manufacturing with multiple materials sourcing sites, ERP-based planning, purchasing, and manufacturing process, and strategic partnerships with leading materials distributors and manufacturers. IMI has the essential infrastructure equipment, manpower and quality systems to assure quick start of operations and turnaround time. These include: materials management, PCBA and FCPA Assembly, Automated Through-Hole Assembly, Complete Box build Solutions, Sub Assembly services, Component Assembly and Manufacture of Enclosure Systems.

Business Models

IMI recognizes the uniqueness of each customer's requirements. To satisfy specific requests, IMI offers flexible business models that allow it to build the perfect assembly for its client's manufacturing requirements.

The "Standard" and "Semi-custom" business models pertain to IMI's Printed Circuit Board Assembly (PCBA) processes. IMI invests in Surface Mount Technology (SMT) lines which support multiple customer requirements. Back-end and box build processes are also set-up depending on customer requirements.

The "Custom" Business Model gives the client a free hand in designing the systems by offering a dedicated facility manned by an independent and exclusive organization that will build the system from ground up. With quality structures and operational procedures compatible with the client's systems, IMI's line serves as the client's extension plant, assuring that all the parts and processes are customized to the client's particular needs.

Capabilities and Solutions

Thirty years of strategic synergy, cutting-edge innovation, and dynamic evolution have engineered IMI into what it is today: a leading provider of electronics manufacturing services (EMS) and power semiconductor assembly and test services (SATS). IMI thrives in the competitive global EMS market, backed by a strong multicultural workforce, and a brand trusted by market leaders in the electronics industry.

IMI's comprehensive capabilities, broad geographic reach, and strong Asian manufacturing presence allow it to take on specific outsourcing needs, giving customers cost-effective, quality, and customized solutions that encompass design, manufacturing, and order fulfillment. Its acquisition of a majority stake in PSi Technologies Inc. in 2010 has enhanced its capabilities, particularly in multichip modules and power semiconductors.

It develops platforms to customize solutions in response to its customers' unique requirements. Its platforms in areas like short-range wireless systems, embedded systems, and sensors and imaging technology represent capabilities to manufacture products.

New manufacturing capabilities are developed by IMI's Advanced Manufacturing Engineering (AME) group. Its expertise includes immersion silver process, pre-flow underfill process, thermally enhanced flip chip technology, traceless flip chip technology, and flip chip on flex assembly, among others.

IMI has a complete range of manufacturing solutions – from printed circuit board assembly to complete box build.

Through its flexible, efficient, and cost–effective end-to-end EMS solutions, IMI gives OEMs the luxury of focusing on their core competencies of technology R&D and brand marketing.

Global Materials and Supply Chain Management

IMI's mission is to offer strategic and competitive Supply Chain Management for complete order fulfillment of its Customers. IMI's turnkey capabilities involve major commodities for direct/indirect materials: passive/active/mechanical/electro-mechanical components, existing vendor base for over 36,000 line items, and Global sourcing in Asia, US and Europe of over 270 supply base with over 2,000 suppliers on record. IMI is not or is not expected to be dependent upon one supplier for raw materials or other items.

IMI's warehousing capabilities include housing all direct and indirect materials, outsourcing to a third party logistics provider, satellite warehouses in other IMI plants and under the mySAPTM ERP System.

IMI also has Vendor Partnership Programs to leverage for the most competitive cost and engaged the supply base on vendor qualification, certification and development. With regard to inbound and outbound logistics, IMI's partners are the following entities: Yusen, Nippon, KWE, FedEx, Airlift Asia, Expeditors, Logistics Cargo and Panalpina for IMI's freight forwarding. The major lines inbound are Singapore, Japan, Hong Kong, Taiwan, Malaysia, Thailand, Germany and the US. Major lines outbound are US, Germany, Malaysia, Hong Kong, Israel, Switzerland, Vietnam, UK, Japan, Singapore and France.

Product Capabilities

IMI has experience in working with some of the world's leading companies in the following products:

Automotive Electronics

- Automotive Camera
- PCBA for Electronic Stability Program (ESP)
- Tire Pressure Sensor PCBA
- Car Windshield Temperature and Humidity Sensor
- Electronic Power Steering (EPS) Rotor Position Sensor (RPS)
- PCBA for Headlight
- Switch Controller for Main Light
- Communication Power PCBA
- Body Control Module (BCM)
- Antenna Receiver / DAB Tuner

Industrial Electronics

- Automatic Meter Reader (AMR)
- Security Device
- Electronic Door Access System
- Smart Card
- Point of Sales System
- Printer Control Board
- Power Amplifier
- DC-DC Power Converter
- Engine Controllers
- Welding Machine Inverter
- Motor Drivers for Conveyor
- Fan Motor Control Board
- Computer Numerical Control (CNC) Control Board
- Main power supplies for LED street lighting
- Modules for renewable energy generation, transmission and conversion

Medical Electronics

- Imaging Equipment Flat Panel FPCA
- PCBA for Auto Body Contouring Imaging Equipment
- Dental Imaging System
- Defibrillator Component
- Concealed Hearing Aid
- Biomedical and Laboratory Equipment
- Centrifuge Control Board
- Fitness Equipment Control Board

Telecommunications

- Back Panel for Telecommunication Board
- Fiber to the "X" (FFTx) systems
- Booster Amplifier
- GPON (Gigabit Passive Optical Network) Systems
- Wireless Security System
- Base Station Power Supply
- Digital Station Control Board
- Power Transistors for amplifiers in cellular base stations
- Power Conversion ICs in adapters and chargers for cell Phones and cordless phones
- DC Port and USB Port protection for cell phones and satellite radio peripherals

+Computing and Storage Devices

- CD/Combo Drive
- DVD Drive
- Blu-Ray Disc Drive
- Hard Disk Drive
- Solid State Drives
- Printer Sensor
- Printer Control Board
- Multi-Function Copier Machine
- DVD Recorder Power Supply
- Power Supplies for Servers, PCs, Notebooks, and Netbooks
- Over-voltage protection for HDD and DC port protection for keyboard mouse

Consumer Electronics

- Ultrasonic Toothbrush
- Hybrid IC
- Gas Ignitor and Re-Ignitor
- Air-Conditioning (HVAC) Controller
- Power Management and Home Appliance for Lighting Control
- Refrigerator and Cooker Hood Control Board
- Projector Lamp Drivers
- Household Metering Device
- Bluetooth Headset
- Electric Drive Control for home appliances
- Main Power Supply for Flat-panel TV
- Power Supply for game consoles and entertainment electronics
- High Voltage Power Conversion ICs in adapters and chargers for personal electronics

Power Semiconductor

- Low-Medium Power Packages:
 - TO 220 Fpak 2/3L;
 - PowerFlex 2/3/5/7L, TO252 / TO251, TO 263 2/3/5L;
 - 3 x 3 mm QFN, 3.3 x 3.3mm QFN; 5x6mm QFN
- Medium-High Power Packages:
 - SOT 93 3L, TO 247 3L, TO 264 3/5L, SOT 227
 - SP3, DRF, ARF
- Small Signal Packages SOT 223 3L
- Low-Medium Power Packages SOT 82
- Low-Medium Power Packages TO 220 2/3/5/7L

Renewable Energy

Solar Panel (development and prototyping)

With regard to emerging product capabilities, IMI is pursuing OEMs in the Photovoltaic (PV) or Solar Energy and Sensor and Imaging fields.

Human Resources

The Company has a total workforce of 12,737 employees as of December 31, 2010, shown in the following table:

Job Groups	Total	Philippines	China/ Singapor e	USA	Japan	Europ e
Managers	288	118	157	5	3	5
Supervisors	1,044	390	645	6	1	2
Rank-and- File	1,227	620	605	2	-	-
Technicians	926	199	727	-	-	-
Operators	9,252	4,631	4,621	-	-	-
TOTAL	12,73 7	5,958	6,755	13	4	7

The relationship between management and employees has always been of solidarity and collaboration from the beginning of its operations up to the present. The rank and file employees and the supervisory employees of the Company are not unionized. Hence, there is no existing Collective Bargaining Agreement (CBA) between the Company and its employees.

At present, the Company does not intend or anticipate hiring any number of employees within the ensuing twelve (12) months because the current workforce can still cope up with the volume of expected customer orders within that period.

IMI has existing supplemental benefits for its employees such as transportation and meal subsidy, Group Hospitalization insurance coverage and non-contributory retirement plan.

The Company has or will have no supplemental benefits or incentive arrangements with its employees other than those mentioned above.

Strategic Partnerships

Building a competitive advantage in the global economy requires that certain strategic business alliances that enhance one's competencies be forged. IMI has established strategic alliances or partnerships with other world-class companies (suppliers, design, and EMS companies) that complement its competencies in order to enhance its competitiveness.

An active strategic partnership is that with Renewable Energy Test Center, a California-based engineering services, test and certification provider for photovoltaic (PV) and renewable energy products. This partnership was forged in 2009. With IMI Energy Solutions, the partnership aims to offer PV services including PV panel development, panel prototyping, certification, and mass production. IMI Energy Solutions focuses on solar panel development and prototyping, while RETC handles product testing and certification. RETC shares a building with IMI Energy Solutions in Fremont, California to ensure fast turnaround time from prototyping to product certification.

Competition

Industry in which the registrant is selling or expects to sell its products or services, and where applicable, any recognized trends within the industry

IMI is an electronics manufacturing services (EMS) provider to original equipment manufacturers (OEMs) in the computing, communications, consumer, automotive, industrial, and medical electronics segments. The global economy experienced a recovery in 2010 led by developing countries with China at the forefront. Advanced countries managed to grow modestly despite continuing to struggle with domestic and regional fiscal issues and unemployment. The electronics end-markets rebounded in 2010 led by consumer electronics, computers, and mobile devices. Growth in OEM outsourcing returned to double

digits with global EMS revenues up by 17 percent in 2010 from the previous year. EMS revenues are expected to increase by 10.6 percent in 2011. Long term outlook remains positive for electronics as it continues to drive the economy of the future. OEMs still do more than 60 percent of electronics assembly operations in-house. Consolidation and vertical integration will come back and continue in 2011 within the EMS industry as more and more players seek to lower production costs and acquire capabilities. Part of the industry and the geographic area in which the business competes or will compete

IMI competes worldwide, with focus on Asia (including Japan and China), North America, and Europe.

Principal methods of competition (price, service, warranty or product performance)

There are two methods of competition: a) price competitiveness, b) robustness of total solution (service, price, quality, special capabilities or technology).

Principal competitors that the registrant has or expects to have in its area of competition

IMI competes with EMS companies and original design manufacturers (ODMs) all over the world. Some of its fierce EMS provider competitors include Hon Hai, Flextronics, Kimball, and Hana.

Relative size and financial and market strengths of the registrant's competitors

Hon Hai is a Taiwanese company with annual revenues of US\$95 billion; its cost structure is very competitive because it is vertically integrated.

Flextronics is a Singapore-headquartered company with annual revenues of US\$28 billion; its cost structure is very competitive as it is vertically integrated.

Kimball is a US company with annual revenues of US\$741 million; it is a leading EMS player in the automotive field.

Hana is a Thai company with annual revenues of US\$290 million; it has a semiconductor manufacturing arm

IMI is the world's 28th largest EMS provider based on 2010 revenues according to *Manufacturing Market Insider*, an EMS trade publication.

Reason why the registrant believes that it can effectively compete with the other companies in its area of competition

IMI is focused on delivering customized solutions of highest quality at reasonable prices. It collaborates with the customers in finding the right solutions to their problems. IMI even challenges its own systems and processes if needed. It has a distinct advantage in serving customers who value quality over price and require complex non-standard solutions. Living up to the flexible expertise brand, IMI is adaptable to the needs and conditions of its customers. This expertise has propelled IMI onto the current list of the top 50 EMS providers in the world and earned for IMI several accolades from its customers.

Risk Factors

The Company's business, financial condition and results of operation could be materially and adversely affected by risks relating to the Company and the Philippines.

IMI's operating results may significantly fluctuate from period to period

There is a risk that IMI's operating results may fluctuate significantly. Some of the principal factors affecting its operating results include:

- (1) changes in demand for its products and services;
- (2) customers' sales outlook, purchasing patterns, and inventory adjustments;
- (3) the mix of the types of services provided to its customers such as: volume of products, complexity of services, and product maturity:
- (4) the extent to which it can provide vertically integrated services for a product;
- (5) its effectiveness in managing its manufacturing processes, controlling costs, and integrating any potential future acquisitions;
- (6) its ability to make optimal use of its available manufacturing capacity;
- (7) changes in the cost and availability of labor, raw materials and components, which affect its margins and its ability to meet delivery schedules;
- (8) its ability to manage the timing of its component purchases so that components are available when needed for production while avoiding the risks of accumulating inventory in excess of immediate production needs;
- (9) timing of new technology development and the qualification of its technology by its customers; and
- (10) local conditions and events that may affect its production volumes, such as labor conditions, political instability, and local holidays.

Due to the factors enumerated above and other risks discussed in this Section, many of which are beyond the Company's control, its operating results may vary from time to time.

Furthermore, IMI may not be able to effectively sustain its growth due to restraining factors concerning corporate competencies, competition, global economies, and market and customer requirements. To meet the needs of its customers, IMI has expanded its operations in recent years and, in conjunction with the execution of its strategic plans, the Company expects to continue expanding in terms of geographical reach, customers served, products, and services. To manage its growth, IMI must continue to enhance its managerial, technical, operational, and other resources.

IMI's ongoing operations and future growth may also require funding either through internal or external sources. There can also be no assurance that any future expansion plans will not adversely affect IMI's existing operations since execution of said plans often involves challenges. For instance, IMI may be required to manage relationships with new or a greater number of suppliers, customers, equipment vendors, and other third parties. IMI may further be confronted with such issues as shortages of production equipment and raw materials or components, capacity constraints, construction delays, difficulties in ramping up production at new facilities or upgrading or expanding existing facilities, and training an increasing number of personnel to manage and operate those facilities. Compounding these issues are other restraining factors such as competitors' more aggressive efforts in expanding business and volatility in global economies and market and customer requirements. All these challenges could make it difficult for IMI to implement any expansion plans successfully and in a timely manner.

In response to a very dynamic operating environment and intense industry competition, IMI focuses on high-growth/high-margin specialized product niches, diversifies its markets and products, engages in higher value add services, improves its cost structure, and pursues strategies to grow existing accounts.

Moreover, IMI has established a structure that promotes a transparent corporate governance system. It has an Audit Committee that reviews quarterly and audited annual results of operations. It also has a Finance Committee that reviews and approves significant financial policies and performs oversight function over the risk management process of the organization. The Company's financial statements are certified by a reputable accounting firm.

IMI is highly dependent on an industry that is characterized by rapid technological changes

The demand for the Company's solutions is derived from the demand of end customers for electronic products. IMI's solutions have end-use applications in the computing, communications, consumer automotive, industrial and medical electronics industries.

These industries have historically been characterized by rapid technological change, evolving industry standards, and changing customer needs. There can be no assurance that IMI will be successful in responding to these industry demands. New services or technologies may render IMI's existing services or technologies less competitive. If IMI does not promptly make measures to respond to technological developments and industry standard changes, the eventual integration of new technology or industry standards or the eventual upgrading of its facilities and production capabilities may require substantial time, effort, and capital investment.

IMI is keeping abreast of current trends and technology in the electronics industry and is continuously conducting studies to enhance its capabilities and value proposition to its customers. It defines and executes technology road maps that are aligned with market and customer requirements.

IMI may not be able to mitigate the effects of price declines over the life cycles of its products or as a result of changes in its mix of new and mature products, mix of turnkey and consignment business arrangements, and lower competitors' prices

The price of IMI's products tends to decline over the product life cycle, reflecting obsolescence, decreased costs of input components, decreased demand, and increased competition as more manufacturers are able to produce similar products in large numbers as such products become standardized. Furthermore, the gross margin for manufacturing services is highest when a product is first developed. As products mature, market pressures push average selling prices down and cause gross margin erosion. IMI may be forced to reduce the price of its service for more mature products in order to remain competitive against other manufacturing services providers. IMI's gross margin may further decline if competitors lower their prices as a result of decreased costs or to absorb excess capacity, liquidate excess inventories, or restructure or attempt to gain market share.

IMI is also moving to a higher proportion of its products on turnkey production (with IMI providing labor, materials and overhead support), as compared to those under the consignment model. The margins on these turnkey businesses are generally lower than those done on consignment basis.

To mitigate the effects of price declines in IMI's existing products and to sustain margins, IMI continues to improve its production efficiency by reducing its input component costs, reducing inventory costs, and lowering operating costs. IMI must continually drive its costs down. More importantly, IMI is intensifying its effort in capturing customers with products in high-margin product niches most of which involve emerging technologies or complex manufacturing processes.

IMI is highly dependent on a relatively small group of key OEM customers for its revenues

IMI depends on a small group of OEM customers for a substantial portion of its net revenues. There is no guarantee that IMI will retain the business of its existing key customers or the desired level of business with them. The loss of any key customer's business would seriously affect its revenues, and it may have difficulty securing comparable levels of business from other customers to offset any loss of revenue from the loss of any of its key customers. In addition, IMI may not be able to easily re-allocate its considerable customer-specific resources and assets in a timely manner.

Further, if one or more of IMI's customers were to become insolvent or otherwise unable to pay for the products supplied by IMI, this could have a material adverse effect on its business because it would not only lose profits, but it might not be able to recoup the production costs expended in providing manufacturing services. To offset this, IMI performs periodic credit studies and analysis to assess the financial standing of its existing and new customers.

Maintaining close relationships with its key customers is essential to its strategy and to the ongoing growth of its business. Because of this, several customers have been with IMI for several years, the longest has been doing business with IMI for over 20 years. In addition, IMI may expand its customer base by leveraging its existing customer relations. Most of IMI's OEM customers have affiliates in IMI's target markets. IMI's ability to capture outsourcing opportunities from these affiliates depends primarily on its technical and selling skills.

IMI generally does not obtain firm volume purchase commitments from its customers

IMI generally does not obtain firm volume purchase commitments from its customers. Customers may place lower-than-expected orders, cancel existing or future orders or change production quantities. Although IMI's customers may be contractually obligated to purchase products, IMI may be unable to or, for other business reasons, choose not to enforce its contractual rights. Cancellations, reductions, or instructions to delay production by a significant customer could also harm IMI's operating results.

In addition, IMI makes significant decisions, including determining the levels of business that it will seek and accept, production schedules, component procurement commitments, personnel needs, and other resource requirements. These key decisions are ultimately based on estimates of customer requirements. The rapid changes in demand for its products reduce its ability to estimate accurately future customer requirements. Thus in facing these rapid changes in demand, production scheduling difficulty and the limited ability to maximize manufacturing capacity utilization are encountered.

To the extent possible, IMI negotiates for guaranteed volume and/or volume break pricing, and materials buy-back to taper the impact of sudden cancellations, reductions, delays in customer requirements.

IMI's success depends on attracting, engaging and retaining key talents, including skilled research and development engineers

IMI believes that its people are its most valuable asset and an engaged workforce is an essential element to the continued success of its organization. IMI is committed to build a workforce with purpose, excitement, and mutual alignment in order to retain its highly-skilled workers, support and technical staff and management team. It is an organization that keeps abreast of latest trends and developments to fulfill customer needs to remain in business.

IMI believes that in order to meet customer requirements it has to have highly-skilled workforce possessing the critical skills, competence and attributes to satisfactory perform and exceed the requirements of the job. To remain one of the top electronics manufacturing solutions providers, IMI must have dedicated and passionate workforce with global skills and ethical standards committed to its vision, mission and values. IMI continuously identifies top-caliber candidates and keep the pipeline full always ready to assume new roles and fuel growth.

The unending war for talent has always been a challenge in the industry. IMI believes that employee attrition has an unfavorable impact to the organization. It can interrupt operation processes that could affect the quality of its products and services that may put the business at risk.

The Company recognizes that its competitiveness is dependent on its key talent pipeline, including leadership, talent and skill pool, and succession plan. Thus, it has implemented proactive measures to retain employees through sound retention programs, encouraging work-life balance among its employees, and providing structured career development paths to promote career growth within the organization and loyalty to the Company. The Company also believes that in order to sustain IMI's growth, it will have to continuously attract, develop, engage and retain skilled workforce highly capable to achieve business goals.

IMI may encounter difficulties with acquisitions it may make in the future

IMI's globalization strategy has transformed IMI from a Philippines-centric company into a global network with manufacturing and engineering facilities in the Philippines, China, Singapore and the United States; and sales offices in Asia, Europe and North America.

IMI's further growth may depend in part on future acquisitions, which may expose IMI to potential difficulties that include:

- (1) Diversion of management's attention from the normal operations of IMI's business;
- (2) Potential loss of key employees and customers of the acquired companies;
- (3) Difficulties in managing and integrating operations in geographically dispersed locations:
- (4) Lack of experience operating in the geographic market of the acquired business;
- (5) Reduction in cash balance and increases in expenses and working capital requirements, which may reduce return on invested capital;
- (6) Potential increases in debt, which may increase operating costs as a result of higher interest payments;
- (7) Difficulties in integrating acquired businesses into existing operations, which may prevent it from achieving, or may reduce the anticipated synergy.

Mergers and acquisitions (M&As) may have an immediate financial impact to IMI due to:

- (1) Dilution of the percentage of ownership of current stockholders;
- (2) Periodic impairment of goodwill and other intangible assets; and,
- (3) Liabilities, litigations, and/or unanticipated contingent liabilities assumed from the acquired companies.

If IMI is not able to successfully manage these potential difficulties, any such acquisitions may not result in any material revenues or other anticipated benefits.

To limit its exposure to these potential difficulties, IMI performs a thorough assessment of the upside and downside of any M&As. IMI creates a team from Business Development, Business Units, Finance, Legal, Engineering, and Advisers who examines the vision, long-term strategy, compatibility with IMI's culture, customer relationship, technology, and financial stability of the Company to be acquired. All M&As have to be reviewed by the Executive Committee, Finance Committee, and approved by the Board.

IMI's production capacity may not correspond precisely to its production demand

IMI's customers may require it to have a certain percentage of excess capacity that would allow it to meet unexpected increases in purchase orders. On occasion, however, customers may require rapid increases in production beyond IMI's production capacity, and IMI may not have sufficient capacity at any given time to meet sharp increases in these requirements. To soften the impact of this, IMI closely coordinates with customers which provides them regular capacity reports and action plan/s for common reference and future capacity utilizations.

IMI may be subject to reputation and financial risks due to product quality and liability issues, respectively; and may be involved in intellectual property disputes

The contracts the Company entered into with its customers, especially customers from the automotive and medical industry, typically include warranties that its products will be free from defects and will perform in accordance with agreed specifications. To the extent that products delivered by IMI to its customers do not, or are not deemed to, satisfy such warranties, IMI could be responsible for repairing or replacing any defective products, or, in certain circumstances, for the cost of effecting a recall of all products which might contain a similar defect, as well as for consequential damages.

There can be no assurance that IMI will be able to recover any losses incurred as a result of product liability in the future from any third party, or that defects in the products sold by IMI, regardless of whether or not it is responsible for such defects, would not adversely affect its customer relations, standing and reputation in the marketplace, result in monetary losses, and have a material adverse effect on its business, financial condition, and results of operations.

Furthermore, IMI's business depends in part on its ability to provide customers with technologically sophisticated products. IMI's failure to protect its intellectual property or the intellectual property of its customers could hurt customer relationships and affect its ability to obtain future business. There is also a risk that IMI may infringe on the intellectual property rights of others. IMI could incur costs in either defending or settling any intellectual property disputes alleging infringement. In addition, customers typically require that IMI indemnify them against claims of intellectual property infringement. If any claims are brought against IMI's customers for such infringement, whether these have merit or not, IMI could be required to expend significant resources in defending such claims. In the event IMI is subjected to any infringement claims, IMI may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. IMI may not be successful in developing such alternatives or in obtaining such licenses on reasonable terms or at all, which could disrupt manufacturing processes, damage IMI's reputation, and affect its profitability.

IMI is not positioned as an original design manufacturer (ODM) so the risk of infringing upon product-related intellectual property is significantly reduced. IMI's designs and intellectual properties are used to attract customers but ultimately, the designs that IMI produces will be owned by the customer. When IMI helps its customers design their products, IMI exercises proper caution in ensuring that no intellectual property infringements are committed. It is highly unlikely IMI will enter into any such disputes.

IMI provides appropriate controls to ensure that quality is maintained and continuously improved; and would not result to losses for the customers and the Company. In addition, IMI and some of its customers maintain projects that are covered by product recall insurance.

Among others, IMI is certified on ISO 9001:2000 quality management systems and TS 16949:2002, a quality management system for automotive products. It also received several recognitions from its customers for its commitment to quality.

Possible failure to comply with environmental regulations could harm IMI's business

IMI is subject to various national and local environmental laws and regulations in the areas where it operates, including those governing the use, storage, discharge, and disposal of hazardous substances in the ordinary course of its manufacturing processes. If more stringent compliance or cleanup standards under environmental laws or regulations are imposed, or the results of future testing and analyses at IMI's manufacturing plants indicate that it is responsible for the release of hazardous substances, IMI may be exposed to liability. Further, additional environmental matters may arise in the future at sites where no problem is currently known or at sites that IMI may acquire in the future.

IMI closely coordinates with various government agencies and customers to comply with existing regulations and continuously looks for ways to improve its environmental and safety standards.

IMI operates in a highly competitive industry

Some of IMI's competitors in the industry may have greater design, engineering, manufacturing, financial, or other resources than IMI. Customers evaluate EMS and ODMs based on, among other things, global manufacturing capabilities, speed, quality, engineering services, flexibility, and costs. In outsourcing, OEMs seek, among other things, to reduce cost. In addition, major OEMs typically outsource the same type of products to at least two or three outsourcing partners in order to diversify their supply risks. The competitive nature of the industry has resulted in substantial price competition. IMI faces increasing challenges from competitors who are able to put in place a competitive cost structure by consolidating with or acquiring other competitors, relocating to lower cost areas, strengthening supply chain partnerships, or enhancing solutions through vertical integration, among others. IMI may lose its customers to its competitors if it fails to keep its total costs at competitive levels for comparable products.

IMI may also lose customers if it fails to develop and provide the technology and skills required by its customers at a rate comparable to its competitors. There can be no assurance that IMI will be able to competitively develop the higher value add solutions necessary to retain business or attract new customers. There can also be no assurance that IMI will be able to establish a compelling advantage over its competitors.

The industry could become even more competitive if OEMs fail to significantly increase their overall levels of outsourcing. Increased competition could result in significant price competition, reduced revenues, lower profit margins, or loss of market share, any of which would have a material adverse effect on IMI's business, financial condition, and results of operations.

IMI regularly assesses the appropriate pricing model (strategic/value based, demand based, etc.) to be applied on its quotation to existing or prospective customers. The Company is also strengthening its risk management capabilities to be able to turn some of the risks (e.g., credit risks) into opportunities to gain or maintain new or existing customers, respectively.

IMI's industry is dependent on the continuous growth of outsourcing by the original equipment manufacturers

IMI belongs to an industry that is dependent on the strong and continuous growth of outsourcing in the computing, communications, consumer automotive, industrial, and medical electronics industries. IMI's industry exists because customers choose to outsource certain functions in the production process of certain machines and equipments in these industries. A customer's decision to outsource is affected by its ability and capacity for internal manufacturing and the competitive advantages of outsourcing.

IMI's industry depends on the continuing trend of increased outsourcing by its customers. Future growth in IMI's revenue depends on new outsourcing opportunities in which IMI assumes additional manufacturing and supply chain management responsibilities from its customers. To the extent that these opportunities do not materialize, either because the customers decide to perform these functions internally or because they use other providers of these services, IMI's future growth could be limited.

IMI believes that its manufacturing operations in Singapore, Philippines, and several parts of China and its enhanced supply chain systems and capabilities will continue to provide strategic advantages for customers to outsource certain functions of their manufacturing processes to IMI.

Demand for services in the EMS industry depends on the performance and business of the industry's customers as well as the demand from end consumers of electronic products

The profitability of companies in the same industry as IMI depends on the performance and business of the industry's customers, driven by the demand for electronic products by end consumers. If the end-user demand is low for the industry's customers' products, companies in IMI's industry may see significant changes in orders from customers and may experience greater pricing pressures. Therefore, risks that could seriously harm the customers of IMI's industry could, as a result, adversely affect IMI as well. These risks include:

- (1) Their inability to manage their operations efficiently and effectively;
- (2) Reduced consumer spending in key customers' markets;
- (3) Seasonal demand for their products; and,
- (4) Failure of their products to gain widespread commercial acceptance.

The impact of this risk has been very evident with the ongoing global financial crisis resulting in global reduction of demand for electronics products by end customers. IMI mitigates the impact of industry downturns on demand by rationalizing excess labor and capacity to geographical areas most optimal, and by initiating cost containment programs. There have been recent indications that the crisis has bottomed out and the Company was able to re-hire some of its employees. However, IMI remains cautious and is continuously monitoring improvements resulting from its cost containment programs.

IMI's industry may experience shortages in, or rises in the prices of components, which may adversely affect business

There is a risk that IMI will be unable to acquire necessary components for its business as a result of strong demand in the industry for those components or if suppliers experience any problems with production or delivery.

IMI is often required by its customers to source certain key components from suppliers on approved vendor lists who have been qualified by its customers, and IMI may not be able to obtain alternative sources of supply should such qualified suppliers be unable to meet the supply in the future. Shortages of components could limit IMI's production capabilities or cause delays in production, which could prevent it from making scheduled shipments to customers.

If IMI is unable to make scheduled shipments, it may experience a reduction in its sales, an increase in costs, and adverse effects on its business. Component shortages may also increase costs of goods sold because IMI may be required to pay higher prices for components in short supply and redesign or reconfigure products to accommodate substitute components.

To the extent possible, IMI works closely with customers to ensure that there is at least one back up supplier or manufacturer for customer-supplied components or components supplied by customer-nominated suppliers. In addition, IMI has established supplier certification and development programs designed to assess and improve suppliers' capability in ensuring uninterrupted supply of components to IMI.

IMI may be exposed to risk of inventory obsolescence and working capital tied up in inventories

Like other EMS and ODMs, IMI may be exposed to a risk of inventory obsolescence because of rapidly changing technology and customer requirements. Inventory obsolescence may require IMI to make adjustments to write down inventory to the lower of cost or net realizable value, and its operating results could be adversely affected. IMI realizes these risks and as a result, IMI exercises due diligence in materials planning and provides provision in its inventory systems and planning. IMI is working with key suppliers to establish supplier-managed inventory arrangements that will make the supplier responsible for carrying inventory.

IMI's international operations expose it to various business, economic, political, regulatory, and legal risks

IMI has operations in Singapore, Hong Kong, China, and United States of America. These international operations expose IMI to numerous risks and challenges, including:

- (1) managing operations that require coordination of communications, directions for the manufacture and delivery of products, coordination regarding procurement and delivery of components and raw materials, and other activities and decisions of different management teams;
- (2) coordinating the activities of senior management who are spread out internationally;
- (3) reversal of currently favorable policies encouraging foreign investment or foreign trade by host countries could lead to the imposition of government controls, changes in tariffs or trade restrictions on component or assembled products;
- (4) the burden of complying with a variety of foreign laws, including delays or difficulties in obtaining import and export licenses, and regulations and unexpected changes in legal and regulatory environments, including changes to import and export regulations and duties;
- (5) lower levels of protection for intellectual property rights in some countries;
- (6) potentially adverse tax consequences, including tax consequences which may arise in connection with inter-company pricing for transactions between separate legal entities within a group operating in different tax jurisdictions, and overall increases in duties and taxation:
- (7) potential foreign exchange and repatriation controls on foreign earnings, exchange rate fluctuations, and currency conversion restrictions;
- (8) lack of developed local infrastructure, transportation and water supply, and difficult and costly local staffing and sourcing of raw materials or components in some countries;
- (9) actions which may be taken by foreign governments pursuant to any trade restrictions; and
- (10) possible labor unrest and political economic instability.

A substantial portion of IMI's manufacturing operations is located in China, which has regulated financial and foreign exchange regime. The Company continuously evaluates the options available to the organization to ensure maximum usage of excess liquidity. Among others, excess liquidity may be repatriated out of China through dividend payments, payment of management service or royalty fees, use of leading and lagging payment, and transfer pricing.

IMI applies conservative financial and operational controls in the management of its business risks. Organizationally, it is the lead director/company president/chief risk officer who has ultimate accountability and responsibility to ensure risk management initiatives at subsidiaries operating in various countries all over the world are aligned with IMI and are responsible for submission of risk reports to ensure key risks are well understood, assessed/measured and reported. Providing support is the internal audit unit who regularly process audits and process improvements.

The Audit Committee of the Board meets regularly and performs its oversight role in managing the risks involved in the operations of IMI. The Board appointed a Chief Risk Officer who oversees the entire risk management function and is responsible for overall continuity. Moreover, SGV has been engaged as a risk management consultant which is overseen by the Finance Committee of the Board.

In terms of internal control risks, control mechanisms, systems and policies had been put in place in order to address any control lapses. The Audit Committee sees to it that these internal control risks are properly addressed through strict compliance with these system controls, policies and procedures. Moreover, IMI has a culture and systems for transparency, corporate governance, disclosure and checks-and-balances between various decision-making personnel that minimize the risks described above.

IMI has adopted various Risk Management Policies like hedging policy that will protect company's position on different currencies against movements of the US dollars. Limits on business transactions have been set with different sites following the Company guidelines on limit of authorities granted to Company officers and executives. The Company has also introduced and adopted Enterprise Wide Risk Management program that will identify all risks related to the business and also identify risk mitigating factors to manage the risk.

While the Company tries to keep its local expertise, it also established global functions to ensure that there is adequate coordination of activities. In addition, the availability and use of cell phones, e-mails, and internet based communication tools by the Company resulted in more efficient and timely coordination of activities and decision making by Management from different sites and countries. Moreover, on a need be basis, the Company seeks the help of consultants and subject matter experts for changes in laws and regulations that may have a significant impact in the Company's business operations. It also maintains good relationship with local government, customs, and tax authorities through business transparency and compliance and/or payment of all government related dues on time.

IMI's subsidiary in China has created a full-time tax management function to ensure compliance with tax rules and regulations. It also aggressively pursued hiring of experienced logistics managers and staff from global electronics companies operating in China. This enables the Company to ensure that it has sufficient manpower complement possessed with the required skills and experience to find vendors in and out of China for its global materials requirements.

The Company signs unilateral and bilateral agreements with customers, vendors, and partners to restrict or limit the use of the recipient of confidential information.

With respect to legal proceedings involving the Company, Ayala Corporation's General Counsel and Corporate Governance & Legal Affairs group analyze its transactions and activities to ensure compliance with law, regulation, and contractual obligations. In the event that material litigation against it does arise, IMI assesses the merits of the case and its impact on company operations. IMI refers the case to Ayala Corporation's General Counsel and Corporate Governance & Legal Affairs and if needed, the Company retains external counsel to help in the analysis or handle the actual litigation of the case.

IMI has a Business Continuity Plan composed of, among other components, the ICT Systems Continuity Plan and the Disaster Recovery Plan. The Company backs-up data in its servers on a daily basis. Data is backed-up on tape drives for critical and non-critical applications. For SAP-R3 Financials, data is replicated to a back-up site every hour. Critical systems are recoverable within four to eight hours; regular systems can be recovered within 24 hours. IMI continually invests in business continuity technology in order to reduce the recovery time of servers at the back-up site, maximize the reliability, efficiency and manageability of the back-up system. All these are designed for the recovery of IMI's critical production systems in its principal office in the event said office becomes unavailable due to disaster.

IMI's HR ensures that the Company is able to inspire all its employees from different sites through a common vision, that employees find greater meaning in the work they do, and more importantly, employees are convinced that rewards and recognition are linked to contribution and performance. As part of the Company's succession planning initiatives, it has instituted various employee development programs, including cross-posting, foreign immersions, educational assistance, mentoring and leadership development training. These programs equip the middle-managers with the right tools needed not only for their present responsibilities, but also those required for them to assume higher positions in the

organization. These programs minimize the risks associated with the turn-over of experienced management, as IMI would be able to find competent people to take their place.

The Company has been able to overcome major crises brought about by economic and political factors affecting the country where it operates. The strong corporate governance structure of the Company and its prudent management team are the foundations for its continued success. IMI also constantly monitors its macroeconomic risk exposure, identifies unwanted risk concentration, and modifies its business policies and activities to navigate such risks. Severe macroeconomic contractions may conceivably lead IMI to tweak or modify its investment decisions to meet the downturn. As a holding company, IMI will affirm the principles of fiscal prudence and efficiency in operations to its subsidiaries operating in various countries.

IMI faces risks related to foreign currency exchange rates

Because IMI does business in various countries, IMI is exposed to foreign currency fluctuations, which IMI may not be able to control by matching currencies for its assets and liabilities, and forward foreign currency exchange rate arrangements. IMI also faces the risk that foreign exchange policies in countries where it operates may change in ways that could adversely affect its business. IMI regularly performs cash flow analysis from each site to determine amount of foreign currency exposure to be hedged. IMI's Finance Committee of the Board regularly reviews IMI's foreign currency strategies for guidance and proper execution.

IMI may suffer business interruptions resulting from "Acts of God" and global events

"Acts of God" and global events like health pandemics may disrupt production activities, transportation, and distribution. In addition, external factors such as potential terrorist attacks, acts of war, or geopolitical and social turmoil in parts of the world where IMI operates or that serve as markets for its products could significantly and adversely affect its business and operating results in ways that cannot presently be predicted. These uncertainties could limit the capabilities of IMI to accurately plan future business activities.

IMI continues to look for opportunities to expand its operations to other location or countries that will provide competitive advantages through its location, products, labor skills, and costs. While these expansions may bring in new risks, it also reduces the risk that the Company may be adversely affected by political and regulatory risks specific to each location or country.

In addition, IMI has well established business contingency plans to reduce the impact of these events to our operations. IMI is also adequately covered with insurance against possible losses resulting from these disasters.

Risks relating to the Philippines or other country where IMI operates

The financial performance of the Company and its subsidiaries, as well as their business prospects, may be influenced by the general political and peace and order situation in the Philippines or the country in which it operates and the state of the country's economy, all of which are beyond the Company's control. Any actual or perceived political and economic instability may adversely affect, directly or indirectly, the Company's business and ultimately, its financial performance. Any potential investor in, and buyer of, the Subject Shares should pay particular attention to the fact that the Company and its subsidiaries are governed in the Philippines or in the country in which they respectively operate by a legal and regulatory system which, in some respects, may differ from that obtaining in other countries.

The contribution of each segment of the business to the consolidated revenues of the Company is as follows:

The following tables present revenue and profit information regarding the Group's geographical segments for the years ended December 31, 2010, 2009 and 2008.

									Consolidation and	
December 31, 2010	Phili	ppines	s	ingapore		USA	J	apan	Eliminations	
	Parent									
Revenue	Company	PSi	-							
Third party	\$143,388,346	\$19,345,006	\$248	3,839,859	\$	280,521	\$47	2,873	\$-	\$412,326,605
Inter-segment	-	-		3,997,122		463,391		3,087	(7,323,600	, ,,
Total revenue	\$143,388,346	\$19,345,006	\$252	2,836,981	\$2,	743,912	\$1,33	5,960	(\$7,323,600) \$412,326,605
Segment gross profit	\$13,857,388	\$963,522	\$32	2,701,351	\$2,	588,665	\$93	5,889	(\$6,572,223) \$44,474,592
Segment operating income (loss)	(\$8,573,328)	(\$707,780)	\$13	3,407,801		\$28,858	\$9	5,025	\$-	\$4,250,576
Segment interest income	\$272,574	\$3,181		\$76,786		\$-		\$37	\$-	\$352,578
Segment profit (loss) before income tax	(\$4,425,209)	(\$769,800)	\$12	2,871,708		\$27,297	\$118	3,173	\$-	\$7,822,169
Segment provision for income tax	(282,199)	(46,240)	(3	3,078,292)		_		(793)	_	(3,407,524)
Segment profit (loss) after income		(0040.040)		700 440		***	644		•	04.44.045
tax	(\$4,707,408)	(\$816,040)	\$5	9,793,416		\$27,297	\$11.	7,380	\$-	\$4,414,645
December 31, 2009	Philippines	Singa	oore		USA		Japan		Eliminations	Total
Revenue Third party	\$196,295,400	\$198,837	576	\$6	3,332	9	\$305,973		\$-	\$395,502,281
Inter-segment	Ψ100,200,100 -	1,392,			3,085	`	566,118		(4,041,437)	-
Total revenue	\$196,295,400	\$200,229,	,810	\$2,14	6,417	(\$872,091		(\$4,041,437)	\$395,502,281
Segment gross profit	\$17,395,603	\$28,443,	,194	\$1,96	3,998	(\$414,707		(\$3,626,871)	\$44,590,631
Segment operating income (loss)	(\$585,141)) \$10,377,	,426	\$	4,135	(5	\$377,108)		\$-	\$9,419,312
Segment interest income	\$655,397	\$67,	,730		\$-		\$134		\$-	\$723,261
Segment profit (loss) before										
income tax	\$4,739,424	. , ,	,	\$	3,599	(5	\$372,342)		\$-	\$15,161,369
Segment provision for income tax Segment profit (loss) after income	(206,118) (4,824,	,263)				(807)			(5,031,188)
tax	\$4,533,306	\$5,966,	,425	\$	3,599	(9	373,149)		\$-	\$10,130,181
December 31, 2008	Philippines	Singa	oore		USA		Japan		Eliminations	Total
Revenue	₽040 F04 047	#004.000	000	CO4	4 005	,	*070 007		œ.	£444 444 COO
Third party Inter-segment	\$219,524,947 _	\$221,032, 7	,633 ,415		4,265 9,294	;	\$272,837 476,789		\$– (2,833,498)	\$441,144,682 —
Total revenue	\$219,524,947	\$221,040.			3,559		\$749,626		(\$2,833,498)	\$441,144,682
Segment gross profit	\$42,945,284	\$27,551	,363	\$2,38	4,692	(285,681		(\$2,390,408)	\$70,776,612
Segment operating income (loss)	\$13,095,569				2,101		\$270,104)		\$-	\$16,677,337
Segment interest income	\$1,042,942			•	\$-		\$207		\$-	\$1,141,601
Segment profit (loss) before tax	(\$17,208,190) \$2,878,	,859	\$21	1,949	()	\$232,964)		\$-	(\$14,350,346)
Segment provision for income tax	(424,139	(2,007	,835)				(28)			(\$2,432,002)
Segment profit (loss) after income		\	004	CO4	1 0 1 0	,,	taaa aaa'		¢	(\$46. 7 00.040\
tax	(\$17,632,329) \$871,	,024	\$21	1,949	(;	\$232,992)		\$-	(\$16,782,348)

Inter-segment revenues, cost of sales and operating expenses are eliminated on consolidation.

Please refer also to Note 29 ("Segment Information") of the Notes to Consolidated Financial Statements of the 2010 Audited Consolidated Financial Statements which is incorporated herein as Exhibit 1.

Item 2. Properties

IMI has proved that a Filipino-owned company can go global. It has transformed its local operations into a global network that includes a subsidiary (Speedy-Tech Electronics Ltd.) with manufacturing plants and design centers in China and Singapore, a prototyping and NPI center in the United States and a design team based in Japan.

IMI has production facilities in the Philippines (Laguna and Cavite), China (Shenzhen, Jiaxing, Chongqing and Chengdu), and Singapore. It also has a prototyping and NPI facility located in Tustin, California. Engineering and design centers, on the other hand, are located in the Philippines, Singapore, China, United States, and Japan. IMI's logistics bases are located in Asia, including China, Singapore, Hong

Kong, and Philippines. Also, IMI's global network of sales agents and representatives are managed by its sales offices in Germany, United States, Japan, Philippines, Singapore and China.

IMI does not own land. As a result, it leases the land on which its manufacturing plants, office buildings and sales offices are located.

Under the terms of the land lease, the Company or its respective subsidiaries owns the manufacturing or office buildings themselves, including leasehold improvements, machinery and equipment, furniture and fixtures, which appear as assets in the balance sheet of the Company or its subsidiaries. In the case of the Company subsidiaries, however, permanent improvements shall become the property of the lessors upon expiration of the lease with the exception of permanent improvements which may be removed without damage to the premises, including machinery and equipment.

The Company's global facilities and capabilities of each location as of December 31, 2010 are shown below:

Location	Floor Area (in	Capabilities
	square meters)	
Philippines-Laguna	96,183	DFM, NPI, Test & System Dev't, SMT (inc. Inline SP-AOI, Post-Reflow AOI, X-ray), ICT, FCT, PCBA & Box-Build Assembly, COB (inc. DA of Imager Die), Al Wirebonding, Class10k Facility w/ Class 100 Laminar Flow Hood, LVHM and HVLM
Philippines-Alabang*	769	Design and Development
Philippines-Cavite	2,400	SMT & PTH Lines, BGA, X-ray, ICT, Functional Testing, PCBA Assembly & Full System Box Build, NPI Center, LVHM
Singapore	8,800	SMT & PTH Lines, BGA, AOI, X-ray, ICT, Functional Testing, Test Development, H/W & S/W, PCBA Assembly & Full System Box Build, Central Warehouse, Logistics Services, HMLV
China-Liantang	18,600	Turnkey & Consignment, HMLV & LMHV, SMT & PTH Lines, BGA & COB, X-ray, AOI, ICT, Functional Testing, Test Development, H/W & S/W, PCBA Assembly & Full System Box Build, New Product Introduction (NPI) Center, Central Warehouse, Logistics Services, D&D Center
China-Fuyong	12,000	Turnkey & Consignment, HMLV & LMHV, SMT
China-Kiuchong	18,800	& PTH Lines, BGA & COB, X-ray, AOI, ICT,
China-Jiaxing	13,300	Functional Testing, Test Development, H/W &
China-Chengdu	7,500	S/W, PCBA Assembly & Full System Box Build, New Product Introduction (NPI) Center, Central Warehouse, Logistics Services
China-Chongqing	2,200	Consignment, HMLV, SMT & PTH Lines, BGA & COB, X-ray, AOI, PCBA Assembly & Full System Box Build, New Product Introduction (NPI) Center, Central Warehouse, Logistics Services
Hong Kong*	300	Procurement, marketing and supply chain facility
Philippines-PSi Taguig	8,607	Customer Specific Quality Requirements, e.g., Critical Part Monitoring (CPM), Reject Profile Analysis (RPA), Parts Average Test (PAT), and Statistical Bin Analysis; Medium to High Power

		Discrete Packages and Process including Large Diameter Wirebonding; Miniaturized Power Packaging – Power QFN, PowermiteTM and Process – Cu Clip and Au Wire/Al Wire Bond; High Reliability Hermetic Packages – Metal Cans and Ceramic Packages
Philippines-PSi Laguna	6,968	Power Management (IC) Discrete Packaging, e.g., 5 – 7L TO-220, Diversified Packaging – from Low to High Power and Small to Large Outline
Japan*	68	Facility for design and ODM
USA-Tustin, CA*	1,584	Engineering Development and Prototype Manufacturing Center, Full Range of Assembly Capabilities with focus on Precision Assembly; SMT; COB FCOF; Process Development
USA-Fremont, CA*	1,142	PV Module or Panel Design/co-Development (Material Qualification, Process Development), Solar Panel Testing and Certification, Solar Panel Prototyping Development, Low-Volume Manufacturing, Inverter Platform, EMS and Test Services for Control Electronics of Solar Systems
Total	199,221	

^{*} Lease of procurement, marketing, design or R&D office space or building only; the building is owned by the lessor.

The Company and its subsidiaries own a total of 123 SMT lines composed of SMT manufacturing machinery and equipment, 41 SMT lines are for Philippine operations and the remaining 82 SMT lines are for its china operations. SMT line refers to a production line constructing electronics circuits where components are mounted directly onto the surface of printed circuit boards (PCBs).

IMI does not intend to acquire any material real estate property in the next 12 months.

Intellectual Property

The table below summarizes the intellectual properties registered with the United States Patent and Trademark Office out of the Company's California and Singapore facilities, competency centers for Advanced Manufacturing Technology:

Name	Filing Date	Expiration
Anisotropic Bonding System and Method Using Dynamic Feedback	27 November 2000	26 November 2020
Traceless Flip Chip assembly and method	26 February 2001	25 February 2021
Manufacturing Method for Attaching Components to a Substrate	05 March 2001	04 March 2021
Passive circuitry for harmonic current regulation in a power supply by energy efficient input current	16 September 2001	17 September 2020
shaping	10 September 2001	17 September 2020

Item 3. Legal Proceedings

There are no material pending legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years and the preceding years until February 28, 2011 to which the Company or any of its subsidiaries or its directors or executive officers is a party or of which any of its material properties are subject in any court or administrative government agency.

Item 4. Submission of Matters to a Vote of Security Holders

Except for matters taken up during the annual meeting of stockholders, there was no other matter submitted to a vote of security holders during the period covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

The Company's common shares are listed in the Philippine Stock Exchange only on January 21, 2010. The market capitalization of the Company's common shares as of March 31, 2011, based on the closing price of P6.18/share, was approximately P8.86 billion. The price information of IMI's common shares as of the close of the latest practicable trading date, April 8, 2011, is P6.10.

Holders

There are approximately 111 registered holders of common shares as of January 21, 2011. The following are the top 20 registered holders of the common shares of the Company:

	Stockholder Name	No. of Common Shares	Percentage of Common Shares
1.	AYC Holdings, Ltd.	957,537,373	66.7702%
2.	Resins, Inc.	239,412,304	16.6945%
3.	POMS Investment Pte Ltd	57,339,671	3.9984%
4.	2007 ESOWN Subscriptions	50,978,908	3.5548%
5.	PCD Nominee Corporation (Filipino)	35,074,523	2.4458%
6.	2009 ESOWN Subscriptions	35,042,466	2.4436%
7.	2004 ESOWN Subscription	25,882,559	1.8048%
8.	Mitsubishi Corporation	12,079,323	0.8423%
9.	SIIX Corporation	6,581,622	0.4589%
10.	PCD Nominee Corporation (Non-Filipino)	5,003,916	0.3489%
11.	Chow Phui Kheong	3,164,906	0.2207%
12.	Kwok Kai Ming	1,698,768	0.1184%
13.	Rafael Nestor Velez Mantaring	1,035,370	0.0722%
14.	Kot Yiu Kuen	460,164	0.0321%
15.	Masaharu Nishii	414,148	0.0289%
16.	Linardo Z. Lopez	400,000	0.0279%
17.	Transtechnology Pte. Ltd.	304,836	0.0212%
18.	Francis Stephen A. Vida	129,421	0.0090%
18.	Alfredo Gramata, Jr.	129,421	0.0090%
19.	Lucita A. Aler	57,520	0.0040%
20.	Fernando V. Dizon	50,000	0.0035%
20.	Robert Raymundo G. Castillo	50,000	0.0035%

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20.	Eden Dormido Villanueva	50,000	0.0035%

Dividends

Stock Dividend							
PERCENT	RECORD DATE	PAYMENT DATE					
15%	Aug. 31, 2010	Sept. 24, 2010					

Cash Dividends			
CLASS	PAYMENT DATE	RATE	TERM / RECORD DATE
Common shares	June 2008 and November 2008	30%	April 30 ,2008
Common shares	June 6, 2009	n/a*	March 26, 2009
Common shares	May 27, 2010	USD0.0024/Php0.11	April 30, 2010

^{*} The Board declared a special cash dividend in 2009 amounting to \$2.0M apportioned to all the common shareholders.

Dividend policy

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors.

Item 6. Management's Discussion and Analysis or Plan of Operation.

Results of Operations

Revenues, gross profit, net income, and the related computed EBITDA and basic earnings per share, for years ended 2010, 2009 and 2008 are shown on the following table:

For the years ended

	31 December		
	2010	2009	2008
	(in US\$ thousands, except Basic EPS)		
Revenues from sales and services	412,327	395,502	441,145
Cost of sales	367,852	350,912	370,368
Gross Profit	44,475	44,591	70,777
Net Income in Equity holders of the Parent Company EBITDA Basic Earnings per Share (EPS)	4,739 28,424 0.002	10,066 29,844 0.006	(16,830) 46,977 (0.014)

2010 vs. 2009

Revenues from Sales and Services

The Company posted consolidated revenues from sales and services of US\$412.3 million in 2010, 4 percent higher than previous year's revenues of US\$395.5 million. The increase was brought about by the steadfast performance of the Singapore/China operation whose sales increased by 25% from \$198.8 million the previous year to \$248.8 million this year and which now accounted for 60% of consolidated revenues from the 50% share in 2009. The growing business in Singapore/China more than offset the decline in the top line result of the Philippine operation. Philippine revenues this year slipped 27% to \$143.4 million because of loss of major turnkey customer.

Overall, sales from telecommunication and consumer segments made up the bulk of consolidated sales at 27% and 24%, respectively, followed by automotive, industrial, computer peripherals and medical markets. The Company is currently building on the automotive business as a major growth driver and is now continuously strengthening its capability in this area. The automotive business has posted the highest increase this year at 52% among the Company's business segments.

Since the start of the year, Europe remains to be the biggest market of the Company's product, getting 37% of the total revenue, while US and Asia are showing steady growth.

Cost of Goods Sold and Services

Cost of Goods Sold and Services grew 5% in absolute amount because of higher revenue. The continued shift towards turnkey business arrangement has pulled cost upward, particularly direct materials and direct labor cost of Singapore/China. Under turnkey arrangement, the Company owns the materials in addition to the labor and facility whereas under a consignment arrangement, the materials are provided by the customer. The unutilized capacity of Philippines also contributes to the increase in manufacturing overhead.

Gross Profit and Gross Profit Margin

The Company's operations produced Gross Profit of US\$44.5 million which, in absolute terms, slightly lower than last year. The continuous conversion of turnkey businesses results a slim decline in gross profit rate of 10.2 percent from the 11.2 percent margin reported last year.

Operating Expenses

Company's Operating Expense amounted to US\$40.2 million, 14% higher than last year. Excluding the one time expenses, (3rd tranche esown expense, provision for unsettled insurance claim and accruals for expenses related to due diligence) operating expense should only be 1%, slightly higher compared to last year.

Net Income

Net Income closed at US\$4.7 million, 53% lower than the US\$10.1 million reported for the same period last year. Without the last year's one-time gains from insurance recovery of US\$4.5 million (net of expenses) and this year's reversal on the fx gain from prior year provisions of \$2.3 million and one-time expenses of US\$4.6 million, this year income would be US\$7.0 million, 23% better than last year. The improvement was largely attributable to the sustained strong contribution of the Singapore/China operation.

EBITDA

EBITDA (Operating income, depreciation, amortization and esown expenses) decreased by 5%, US\$28.4 million against last year of US\$29.8 million brought about by higher operating expenses.

Financial Condition

The Company ended the year with cash balance of US\$38.1 million, 29% lower than the US\$53.9 million as of December 31, 2010, and net debt of US\$17.8 million, a reverse of the zero net debt position of last year. This decrease in cash was attributable to the increased spending on operating and capital expenditures requirements necessitated by the pick-up in business activity levels following the improvement in the general economic environment. Current and debt-to-equity ratios have remained healthy at 1.24:1 and 0.33:1 respectively, from the 1.89:1 and 0.29:1 as of December 31, 2009.

Prospects for the future

The Company ensures it has sufficient resources to cover operating requirements and debt obligation as well as fund ongoing growth initiatives. It maintains adequate loan facilities to complement cash flows from operations. In addition, it has laid out financial strategies and controls to ensure continued liquidity and stable financial position.

Key performance indicators of the Company

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

	31 Dec 2010	As of end 31 Dec 2009	31 Dec 2008
Performance indicators	31 Dec 2010	31 DCC 2003	31 DCC 2000
Liquidity:			
Current ratio	1.24x	1.89x	1.70x
Solvency:			
Debt-to-equity ratio	0.33x	0.29x	0.44x

	For the years ended 31 December		
	2010	2009	2008
Operating efficiency:			
Revenue growth	4%	(10%)	5%
Profitability:			
Return on equity	3%	6%	(11%)
Return on assets	1%	3%	(5%)
¹ EBITDA margin	7%	8%	11%

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¹ EBITDA Margin = EBITDA divided by revenues from sales and services where EBITDA represents net operating income after adding depreciation and amortization, cost of share-based payments. EBITDA and EBITDA Margin are not measures of performance under PFRS and investors should not consider EBITDA, EBITDA Margin or EBIT in isolation or as alternatives to net income as an indicator of our operating performance or to cash flows, or any other measure of performance under PFRS. Because there are various EBITDA calculation methods, our presentation of these measures may not be comparable to similarly titled measures used by other companies.

In the above:

- (i) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.
- (ii) There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- (iii) Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- (iv) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

Causes for any material changes

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

Income Statement items - YTD December 31, 2010 versus YTD December 31, 2009

5% increase in cost of goods sold and services (\$350.9m to \$367.9m)

Primarily due to increase in turnkey business that resulted to higher direct material cost, increase salary wage of direct labor of Singapore/China and higher manufacturing overhead due to unutilized capacity of both facility and machinery in Philippine plant.

14% increase in operating expenses (\$35.2m to \$40.2m)

Brought about by the one-time expenses of the 3rd ESOWN tranche, provision for unsettled insurance claim and accruals for expenses related to due diligence.

38% decrease in net finance and other Income (\$5.7m to \$3.6m)

Attributable to the significant one-time gain from insurance recovery recognized in 2009.

32% Decrease in provision for income tax (\$5.0m to \$3.4m)

Attributable to the transfer pricing scheme made between China, Singapore and Hong Kong related transactions.

67% increase in other comprehensive income (\$32.9m to \$55.1m)

Came from increase in the fair value of club shares classified as available-for-sale financial assets.

601% decrease in Minority Interest (\$64.7k to \$-324.3k)

Due to last quarter net loss of PSi Technologies Inc. a newly acquired company

Balance Sheet items - December 31, 2010 versus December 31, 2009)

29% decrease in Cash and cash equivalents (\$53.9m to \$38.1m)

Represents spending for working capital requirements, capital expenditure (set up of new production lines for new projects and replacement of equipment damaged in Cebu fire), release of dividends to stockholders, and payment of loans.

15% increase in Loans and receivables-net (\$95.8m to \$109.9m)

Due to higher sales from Singapore/China operation and from newly acquired company

72% increase in Inventories-net (\$31.9m to \$54.7m)

Due to the increase in volume and materials lead time requirement of China turnkey businesses.

100% increase in Derivative assets (\$0 to \$1.7m)

Mainly due to market to market of derivative instruments on call/put option of acquired company and simple forward contracts.

53% increase in other current assets (\$1.6m to \$2.5m)

Represents prepayments made by Philippine site and tax credits of China sites.

18% increase in Property, plant and equipment (\$63.1m to \$74.6m)

Substantially represents acquisition of machinery and facilities equipment related to the set up of new production lines for new projects, replacement of equipment destroyed in Cebu fire in 2009 and additional machinery and equipment from newly acquired company.

21% increase in Goodwill (\$46.2m to \$55.7m)

Additional goodwill derived from newly acquired company.

67% decrease in Intangible assets (\$2.9m to \$0.9m)

Amortization during the period of intangible asset accounts.

24% increase in Available-for-sale financial assets (\$309k to \$383k)

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

67% decrease in Noncurrent receivables (\$559k to \$184k)

Largely due to payment of monthly accounts receivable billable items and the balance reclassed to current portion of receivable maturing within one year.

6% increase in Deferred income tax assets (\$109k to \$115k)

Refers to unutilized business losses and capital allowances of Singapore/China subsidiaries that can be deductible in the future for tax purposes.

47% decrease in Other noncurrent assets (\$2.8m to \$1.5m)

Due to reclassification to cash and cash equivalents of two-year time deposits maturing within the next twelve months.

27% increase in Accounts payable and accrued expenses (\$83.2m to \$76,512)

Mainly due to the additional accounts payables from new acquisition.

100% increase in Current portion of long-term debt (\$8.0m to \$38.0m)

Represents reclassification of long-term debt maturing within one year

678% increase in Loans payable (\$3.3m to \$17.9)

Mainly due to availment of additional \$15 million loans of Philippine site

100% increase in Derivative liabilities (\$0 to \$3.8m)

Mainly due to market to market of derivative instruments on call/put option of acquired company.

30% decrease in Income tax payable (\$3.3m to \$2.3m)

Largely due to payment of taxes by China sites.

100% decrease in Provisions (\$44k to \$0)

Reversal of provisions made for warranty and restructuring.

100% increase in Deferred Revenue (\$0 to \$2.6m)

Represents advance payment on the subcontracting services to be rendered by our newly acquired company to one of its major customer

100% increase in Pension liability (\$0 to \$986k)

Due to retirement fund pension liability of newly acquired company

4,375% increase in Accrued rent (\$2,302 to \$6,262)

Operating lease on acquired company with escalating rental payments

99% decrease in Long-term debt (\$38.0m to \$0.4m)

Reclassification of long-term debt to current portion of long-term debt maturing within one year.

62% decrease in Obligation under finance lease (\$315k to \$118k)

Payment of regular monthly rentals of lease agreement classified as finance lease.

23% increase in Capital stock - common (\$20.3m to \$24.8m)

From declaration of stock dividends.

12% decrease in Subscribed capital stock (\$2.2m to \$1.9m)

Largely due to payment made on subscriptions

14% increase in Additional paid-in capital (\$30.5m to \$34.6m)

Primarily due to issuance of ESOWN third tranche and accretion of subscriptions receivable.

12% increase in Subscriptions Receivable (\$10.153 to \$11.767)

Due mainly from issuance of ESOWN third tranche and accretion of subscriptions receivable.

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

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

41% increase in Retained earnings: Unappropriated (\$37.5m to \$52.7m)

Declaration of cash and stock dividends and reversal of Appropriated to Unappropriated Retained **Earnings**

97% increase in Reserve for fluctuation on available-for-sale financial assets (\$57k to \$112k) Represents changes in the fair values of the Company's investments in club shares.

432% increase in Non-controlling interest in a consolidated subsidiary (\$292k to \$1,554k)

Due to net loss in fourth quarter of the newly acquired company with ownership of 55.78%

2009 vs. 2008

Revenues from Sales and Services

IMI generated revenues from sales and services of US\$395.5 million in 2009, a decline of 10 percent from previous year's revenues of US\$441.1 million. The Philippines, Singapore and China operations had not been spared from the effects of the global economic downturn, which began in the second half of 2008 and ensued in 2009. The electronics manufacturing services (EMS) industry experienced a contraction following the reduced volume requirements of the original equipment manufacturers (OEMs) and a severe supply shortage of electronics components, as suppliers were cautious of excess inventory brought about by the market's uncertain outlook and the tight credit situation. However, the second half of the year saw a gradual but definite improvement in the industry environment which enabled the Company to partly recover lost revenues and helped counter the unfavorable results of the early part of 2009.

Cost of Goods Sold and Services

Cost of goods sold and services had not decreased in the same rate as sales because of the effect on cost of the continued business model conversion from consignment to turnkey, whereby IMI provides the materials in addition to labor and overhead support. The higher direct materials costs, which accounted for 63 percent of sales in 2009 versus 46 percent in 2008, pushed overall manufacturing cost ratio to rise to 89 percent compared to last year's 84 percent, despite the significant savings in direct labor and other direct costs that resulted from the cost control and operational streamlining measures implemented by the Company.

Gross Profit and Gross Profit Margin

The reduction in business and the contracting margins from the continued shift to turnkey businesses resulted in the 37 percent decline from last year's gross profit of US\$70.8 million to US\$44.6 million this year. The turnkey conversion mainly caused the dip in the gross profit rate of 11 percent from the 16 percent margin reported last year.

Operating Expenses

The cost management programs that were instituted resulted also to realization of significant savings in general and administrative expenses. Operating expenses went down by 35 percent compared to the previous year.

Net Income

The improved revenue performance in the second semester and effective cost management enabled the Company to post a US\$10.1 million net income after tax, a reversal from the previous year's loss of US\$16.8 million. Additional one-time income from recovery of insurance losses supplemented the positive results from operations.

In 2008, the Company incurred non-recurring losses of US\$33.4 million from the unwinding of its major foreign currency hedging transactions and US\$6.0 million from provisions related to a restructuring program carried out in response to decline in business activities in the latter part of 2008.

Financial Condition

The Company continued to maintain a solid balance sheet, securing comfortable liquidity and debt levels. Its cash balance stood at US\$53.9 million, a very slight decrease from last year's ending cash balance of US\$57.6 million, despite making US\$22.8 million in bank debt repayments. The Company is still at a zero net debt position with the ending cash balance sufficient to cover bank debt balance of US\$48.3 million. Current ratio stood better at 1.89:1 from 1.70:1 as at end of 2008. Debt-to-equity ratio likewise improved, to 0.29:1 from 0.45:1 of the previous year.

Prospects for the future

The Company ended 2008 with a cash balance of US\$57.6 million, significantly higher from 2007 balance of US\$28.3 million, principally due to the US\$26.6 million proceeds from the offering of preferred shares to shareholders, raised to mitigate the cash flow impact of the hedging losses incurred. It was able to maintain the same current ratio of 1.70:1 and debt-to-equity ratio of 0.45:1 as in 2006.

Key performance indicators of the Company

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

		As of end	
-	31 Dec 2009	31 Dec 2008	31 Dec 2007
Performance indicators			
Liquidity:			
Current ratio	1.89x	1.70x	1.70x
Solvency:			
Debt-to-equity ratio	0.29x	0.45x	0.45x
	For the years ended 31 December		
	2009	2008	2007
Operating efficiency:			
Revenue growth	(10%)	5%	7%
Profitability:			
Return on equity	6%	(11%)	25%
Return on assets	3%	(5%)	12%
EBITDA margin ²	8%	11%	15%

In the above:

- (i) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.
- (ii) There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- (iii) Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- (iv) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

Causes for any material changes (Increase or decrease of 5% or more in the financial statements)

Income Statement items - Year ended 31 December 2009 versus 31 December 2008

² EBITDA Margin = EBITDA divided by revenues from sales and services where EBITDA represents net operating income after adding depreciation and amortization, cost of share-based payments. EBITDA and EBITDA Margin are not measures of performance under PFRS and investors should not consider EBITDA, EBITDA Margin or EBIT in isolation or as alternatives to net income as an indicator of our operating performance or to cash flows, or any other measure of performance under PFRS. Because there are various EBITDA calculation methods, our presentation of these measures may not be comparable to similarly titled measures used by other companies.

10% decline in revenues from sales and services

This resulted mainly from the significant decline in volume as an effect of the global economic downturn on the electronics market.

5% decline in cost of goods sold and services

Cost of goods sold and services were lower than last year due to lower sales volume and implementation of operational streamlining and cost control measures resulting in reduced direct labor and variable overhead. Increase in direct material costs as a result of continued shift to turnkey model partly offset the decrease in other direct costs.

35% reduction in operating expenses

The reduction in business owing to the industry slump and implementation of cost management programs drove operating expenses down.

119% increase in net finance and other income

Impact of last year's US\$33.4 million unwinding cost of four significant hedging contracts was partly reversed by the recognition of other income from recovery of insurance losses of US\$5.6 million and recognition of lower interest expenses due to repayment of bank loans.

107% increase in provision for income tax

Higher tax rates imposed on certain China subsidiaries in 2009, coupled with increase in net taxable income in Shenzhen and Jiaxing factory sites.

35% increase in Net Income Attributable to Minority Interests

Attributable to the increase in net income of Shenzhen Speedy-Tech Electronics Co., Ltd.

160% increase in net income

Improved revenue performance in the second semester and effective cost management, supplemented by income from recovery of insurance losses, reversed the previous year's loss of US\$16.8 million. The 2008 net loss resulted mainly from the unwinding cost related to the Company's foreign currency hedging contracts.

Balance Sheet items - 31 December 2009 versus 31 December 2008

6% decrease in Cash and cash equivalent

A portion of Company's outstanding loans were prepaid.

28% increase in loans and receivables

Substantially represents receivables from a major customer which was converted to semi-turnkey business model in 2009.

10% decrease in inventories

Mainly caused by lower volume requirement of turnkey customers and better management of inventory level.

54% decrease in other current assets

Caused mainly by the application of prepaid taxes of previous periods for both Philippines and China operations and decrease in advances to suppliers.

87% decrease in noncurrent receivables

Pertains mainly to the continuous collection of long-term Non-trade receivables.

17% decrease in property, plant and equipment

Represents depreciation for the year of US\$18.1 million and US\$3 million net book value of various disposals, net of US\$8.3 value of additions.

45% decrease in intangible assets

Pertains mainly to the amortization for the period of Customer Relationship and other intangible assets.

17% increase in net pension asset

Due to the expected return of plan assets exceeded the current service cost and the interest cost. The current service cost in 2009 decrease significantly as compared to 2008 because of the restructuring.

17% increase in available-for-sale financial assets

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

295% increase in deferred income tax assets

Refers to unutilized business losses and capital allowances of China/Singapore subsidiaries that can be deductible in the future for tax purposes.

18% increase in other noncurrent assets

The increase in noncurrent assets was due to placement of long time deposits amounting to \$2M, this was partially offset by expensing the deferred cost in 2009 related strategic project in 2008 that did not materialize.

22% increase in accounts payable and accrued expenses

Substantially represents increase in trade payables due to longer payment terms.

122% increase in Income Tax Payable

Mainly due to higher tax rates and increase in net taxable income in Shenzhen and Jiaxing factory sites in China.

99% reduction in provisions

Principally due to the completion in 2009 of a restructuring program carried out in response to decline in business activities in the latter part of 2008; the reduction pertained mainly to the payment of benefits to separated Philippine-based employees.

87% decrease in loans payable

Due to settlement of Parent Company loan of US\$8 million and STEL loans of US\$6.8 million.

17% decrease in long-term debt

Due to the payment of two US\$4 million semi-annual amortizations or a total of US\$8 million of IMI Singapore Long Term loan.

20% increase in unappropriated retained earnings

Represents net income for the year of US\$10.1 million reduced by year-to-date dividends declared of US\$3.7 million.

137% increase in reserve for fluctuation of available-for-sale financial assets

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

30% decrease in Minority Interests in a Consolidated Subsidiary

Due to dividend declaration the minority interest decrease, however, it was partially offset by the increase in net income of Shenzhen Speedy-Tech Electronics Co., Ltd.

Item 7. Financial Statements and Supplementary Schedules

Please see attached Exhibit 1.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the adoption of the following new and amended standards and interpretations as of January 1, 2010:

 Revised PFRS 3, Business Combination, and amended PAS 27, Consolidated and Separate Financial Statements

The revised PFRS 3 introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of noncontrolling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes in PFRS 3 and PAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The revised PFRS 3 will be applied prospectively while the amended PAS 27 will be applied retrospectively with a few exceptions.

The following new standards, amendments to standards and interpretations are mandatory for the financial year beginning January 1, 2010, but the adoption of these changes did not have any effect on the Group's consolidated financial statements.

Philippine Interpretation IFRIC 17, Distributions of Noncash Assets to Owners

This interpretation provides guidance on how to account for noncash distributions to owners. It clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

 Amendment to PAS 39, Financial Instruments: Recognition and Measurement Eligible Hedged Items

This amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

Amendments to PFRS 2, Share-based Payment: Group Cash-settled Transactions

These amendments clarify the scope and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. It supersedes Philippine Interpretation IFRIC 8, Scope of PFRS 2 and Philippine Interpretation IFRIC 11, IFRIC 2 - Group and Treasury Share Transactions.

Information on Independent Public Accountant

- a. The principal accountants and external auditors of the Company is the accounting firm of SyCip, Gorres, Velayo & Company (SGV & Co.). The same accounting firm is being recommended for re-election at the scheduled annual stockholders' meeting.
- b. Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor of the Company, and Ms. Josephine Adrienne A. Abarca has been the Partner In-Charge effective audit year 2009.
- c. Changes in and disagreements with accountants on accounting and financial disclosure.

The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There are no disagreements with SGV & Co. on accounting and financial disclosure.

External Audit Fees and Services

The Company paid or accrued the following fees, including VAT, to its external auditors in the past two years:

	Audit & Audit-related Fees	<u>Tax Fees</u>	Other Fees
2010	₽ 3.7M	-	₽ 6.2M
2009	₽ 3.7M	₽ 0.4M	₽ 1.1M

SGV & Co. was engaged by the Company to audit its annual financial statements.

Tax fees

In 2009, the Company secured certain confirmatory ruling from the Bureau of Internal Revenue (BIR).

All other fees

In 2010, SGV & Co. billed the Company for an aggregate fee of ₽6.2M for the following services:

- i.) Financial and Tax due diligence review services for the acquisition of PSi Technologies, Inc.
- ii) Assist in the development and implementation of an Enterprise Risk Management Program.
- iii) Preparation of Long Form Report and review of financial statements translated to peso related to the Company's increase in authorized capital stock and application of stock dividend.

In 2009, SGV & Co. billed the Company for an aggregate fee of ₽1.1M for the following services:

- i.) Review of the Company's interim condensed consolidated financial statements for the period June 30, 2009 in connection with the Company's listing by way of introduction.
- ii) Preparation of Long Form Audit and 3-year Financial Statements related to the Company's application for listing by way of introduction.

The Company's Audit Committee (composed of Hiroshi Nishimura, Chairman, Rafael Ma. C. Romualdez and Jaime P. Villegas) recommended to the Board of Directors the appointment of SGV & Co. as its external auditor and the fixing of the audit fees. Likewise, the other services rendered by SGV & Co. were

approved by the Board of Directors upon the recommendation of the Audit Committee. The stockholders further ratified the resolution of the Board of Directors.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

The write-ups below include positions held by the directors and executive officers currently and during the past five years and their personal circumstances as of December 31, 2010.

Board of Directors

Jaime Augusto Zobel de Ayala Chairman of the Board of Directors

Fernando Zobel de Ayala Director

Arthur R. Tan Director, President & Chief Executive

Officer

Diosdado P. Banatao Independent Director

Jose Ignacio A. Carlos Director
John Eric T. Francia Director

Alelie T. Funcell Independent Director

Delfin C. Gonzalez, Jr. Director Delfin L. Lazaro Director

Hiroshi Nishimura Independent Director

Rafael Ma. C. Romualdez Director

Jaime Augusto Zobel de Ayala. Filipino, 51, has served as Chairman of the Board since 1995. He serves as Chairman of the Board of Directors and Chief Executive Officer of Ayala Corporation; Chairman of the Board of Directors of Bank of the Philippine Islands; Vice Chairman of Ayala Land, Inc. and Manila Water Co., Inc.; Co-Vice Chairman of Mermac, Inc. and the Ayala Foundation, Inc. Director of BPI PHILAM Life Assurance Corp., Alabang Commercial Corporation, Ayala International Pte Ltd. and Ayala Hotels, Inc.; Member of the Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, and Toshiba International Advisory Group. Chairman of Harvard Business School Asia-Pacific Advisory Board, Member of Harvard University Asia Center Advisory Committee, Member of the Board of Trustees of the Eisenhower Fellowships, the Singapore Management University and Asian Institute of Management; Member of the Asia Business Council, The Asia Society, the International Business Council of the World Economic Forum; Chairman of the World Wildlife Fund Philippine Advisory Council, Vice Chairman of Asia Society Philippines Foundation, Inc., Co-Vice Chair of the Makati Business Club, Asia Society Philippines Foundation, Inc., and Member of the Board of Trustees of the Children's Hour Philippines, Inc. He was also a TOYM (Ten Outstanding Young Men) Awardee in 1999 and was named Management Man of the Year in 2006 by the Management Association of the Philippines. He was also recognized as the Emerging Markets CEO of the Year (1998); Harvard Business School Alumni Achievement Awardee (2007); Presidential Medal of Merit (2009); and Outstanding Manilan (2009).

Fernando Zobel de Ayala, Filipino, 50, has been a director of IMI since 01 January 1995 up to the present. He holds the following positions: Vice Chairman, President and COO of Ayala Corporation; Chairman of Ayala Land, Inc., Manila Water Company, Inc., Ayala DBS Holdings, Inc. and Alabang Commercial Corporation; Vice Chairman of Azalea Technology Investments, Inc.; Co-Vice Chairman of Ayala Foundation, Inc. and Mermac, Inc.; Director of Bank of the Philippine Islands, Globe Telecom, Inc., Asiacom Philippines, Inc., Ayala Hotels, Inc., AC International Finance Limited, Ayala International Pte, Ltd., Member of the Asia Society, World Economic Forum, INSEAD East Asia Council, and the World

Presidents' Organization; Director of the Board of Habitat for Humanity International and Chairman of the Habitat for Humanity's Asia-Pacific Steering Committee; Trustee, International Council of Shopping Centers; Member of the Board of Directors of Caritas Manila, Kapit Bisig para sa Ilog Pasig Advisory Board, Pilipinas Shell Corporation and Pilipinas Shell Foundation.

Arthur R. Tan, Filipino, 51, is a member of the Board of Directors of IMI since 2001 up to the present. He has been the President and Chief Executive Officer of IMI since 23 April 2002. Concurrently, he is the President and Chief Executive Officer of PSi Technologies Inc., the President of Speedy-Tech Electronics Ltd., and Chairman of the Board of Speedy-Tech Philippines, Inc. Prior to joining IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems, Inc. (Massachusetts) from 1994 to 1998, then he became the Managing Director – Asia Pacific Region/Japan of the same company from 1998 to 2001.

Diosdado P. Banatao, American, 64, has been an independent director of IMI since 31 January 1994 up to the present. He has been a Managing Partner of Tallwood Venture Capital, a venture capital firm, since July 2000. From April 2008 to June 2009, he served as the Interim Chief Executive Officer at SiRF Technology Holdings, Inc., which was acquired by CSR plc in June 2009. Prior to forming Tallwood, he was a venture partner at Mayfield Fund from January 1998 to May 2000. He co-founded three technology start-ups: S3 Incorporated (SBLU), Chips and Technologies (INTC) and Mostron. He also held positions in engineering and general management at National Semiconductor Corporation, Seeq Technologies and Intersil Corporation. He currently serves on the board of directors at Ikanos Communications. He previously served as Chairman and led investments in SiRF Technology, acquired by CSR (CSR); Marvell Technology Group (MRVL), Acclaim Communications, acquired by Level One (INTC); Newport Communications, acquired by Broadcom (BRCM), Cyras Systems, acquired by Ciena (CIEN), and Stream Machine, acquired by Cirrus Logic (CRUS). He has also served on the board of directors of various privately held companies in the semiconductor industry.

Jose Ignacio A. Carlos, Filipino, 41, has been a Director of IMI since 2007 up to the present. Concurrently, he is the President of Polymer Products Philippines, Inc. and AVC Chemical Corporation. He is also a member of the Board of Directors of Resins, Inc., Riverbanks Development Corporation and Mindanao Energy Systems, Inc.

John Eric T. Francia, Filipino, 39, is a Director of the Company since July 2010. He also holds the following positions: Managing Director and a member of the Management Committee of Ayala Corporation since January 2009; Director of Manila Water Company, Livelt Investments, Integreon, Michigan Power, and Chairman of PhilNewEnergy. Prior to joining the Ayala Group, he led Global Business Planning and Operations at the Monitor Group, a strategy consulting firm based in Cambridge, MA. He spent 12 years in the management consulting sector both as a senior consultant and management. Prior to consulting, he spent a few years in the field of academe and media.

Alelie T. Funcell, Filipino, 55, has been an independent director of IMI since April 2010 up to the present. She is the Founder, CEO, and President of Renewable Energy Test Center. She served as Chief Operating Officer and Senior Vice President of Quality at Solaria, Inc., a manufacturer of Concentrator Photovoltaic products and Vice President of Supplier Management and Manufacturing Operations of Xilinx, Inc., a billion dollar semiconductor company. Prior to Xilinx, she also worked in several semiconductor companies, including Intel, IDT and Silicon Systems. She is credited with numerous patents in the Semiconductor Packaging and Solar Industry. She is twice a recipient of the prestigious S.C. Valley YWCA "Tribute to Woman in the Industry" (TWIN) Award in 1994 while at IDT and in 2000 while at Xilinx. She was President of the Filipino-American Association of Milpitas, California in 1994 to 1996, a very active Bay area Filipino organization. Recently, she received an award from the FWN, as one of the 100 Most Influential Filipina Women in the United States in 2009.

Delfin C. Gonzalez, Jr., Filipino, 61, joined the IMI board in July 2010 and became a member of the IMI's Finance Committee. He is the Chief Financial Officer of Ayala Corporation and is also a member of its Management Committee and Finance Committee. He joined Ayala Corporation in late 2000, assigned as

Chief Finance Officer for its subsidiary, Globe Telecom Inc. until early 2010. Prior to Ayala Corporation, he was with San Miguel Corporation for 24 years in the Strategic Planning and Finance groups, ending his stint there as Executive Vice President, Chief Finance Officer and Treasurer.

Delfin L. Lazaro, Filipino, 64, has been a director of IMI since 02 May 2000 up to the present. He holds the following positions: Chairman of Philwater Holdings Company, Inc., Atlas Fertilizer & Chemicals Inc., Chairman and President of Michigan Power, Inc., Purefoods International, Ltd. and A.C.S.T. Business Holdings, Inc.; President of Azalea Technology Investments, Inc.; Director of Ayala Corporation, Globe Telecom, Inc., Ayala Land, Inc., Manila Water Co., Inc., Ayala DBS Holdings, Inc., AYC Holdings, Ltd., Ayala International Holdings, Ltd., Bestfull Holdings Limited, AG Holdings, Al North America, Inc., Probe Productions, Inc. and Empire Insurance Company; and Trustee of Insular Life Assurance Co., Ltd.

Hiroshi Nishimura, Japanese, 58, has been an independent director of IMI since April 2010 up to the present. He is the Chairman and President of Linkwest International Consultancy Services, Inc. He also serves as a Consultant to the Jesus V. Del Rosario Foundation, Inc. and a Senior Adviser of Device Dynamics Asia Philippines, Inc. He served as President of Panasonic Communications Philippines Corporation (PCP), formerly known as Kyushu Matsushita Electronics Philippines (PKME) from 2000-2007.

Rafael Ma. C. Romualdez, Filipino, 47, has been a Director of IMI since 1997 up to the present. He is presently a Director of Resins, Incorporated, RI Chemical Corporation and Claveria Tree Nursery, Inc.; and Chairman of the Philippine Iron Construction and Marine Works, Inc., Pigmentex Incorporated, Pacific Resins, Inc., and MC Shipping Corp.

Nominees to the Board of Directors for election at the stockholders' meeting:

All the above incumbent directors.

Management Committee Members / Key Executive Officers

* Jaime Augusto Zobel de Ayala Chairman of the Board

* Arthur R. Tan President & Chief Executive Officer

** Jerome S. Tan Chief Financial Officer Solomon M. Hermosura Corporate Secretary

**** Renan R. Osero Assistant Corporate Secretary

**** Emmanuel V. Barcelon Senior Managing Director, Human Resources Head (OIC)

** Linardo Z. Lopez Senior Managing Director, Global Materials and Supply Chain

Senior Managing Director & Chief Administrative Officer

** Andrew C. Carreon Managing Director, Chief Information Officer

Jeremy G. Cowx Managing Director, IMI-Japan

** Michael R. Hansson Managing Director, Global Test & Systems Development

** Melita R. Tomelden Managing Director, Corporate Quality & Reliability

Mary Ann S. Natividad Country Managing Director - Singapore

** Timothy Patterson Country Managing Director – USA and Global Managing Director –

Advanced Manufacturing Engineering
Country Managing Director - Philippines

Reynaldo N. Torda
 Shong Cheng Yeh
 Anabelle C. Duques
 Country Managing Director - Philippi
 Country Managing Director - China
 Vice President, Human Resources

Rafael Nestor V. Mantaring Vice President, Design and Development (Philippines)

Lucrecio B. Mendoza Vice President, Value Engineering

Jaime G. Sanchez
Vice President, Deputy CFO and Group Controller
Fernandel I. Evangelista
Anthony Raymond P.
Vice President, Manufacturing Unit Head
Assistant Vice President, Head – Treasury & Credit

Rodriguez

Geronimo B. Magsombol Assistant Vice President, Facilities

Dominador P. Leonida III Assistant Vice President, Global Test and Systems Development

Olaf Gresens

Global Sales Head

- * Members of the Board of Directors
- ** Management Committee members
- *** Resigned from IMI effective September 17, 2010
- **** Retired effective December 31, 2010
- ***** Reassigned to Parent company effective August 2, 2010

Jerome S. Tan, Singaporean, 49, is the Chief Financial Officer of IMI. He oversees Finance, Treasury, Credit, Controllership and ICT functions of the IMI global operation. He brings more than 20 years of broad-based experience and various achievements in finance, strategic planning, business development and acquisition/integration. He has assumed regional leadership roles in multinational Banking and Finance companies, and Food and Beverage industry located in different regions in the Asia Pacific. Prior to joining IMI, he was connected with NBC Universal, the media unit of General Electric Corporation by serving as the CFO of the TV Group and was responsible for the overall Finance function in Asia Pacific for CNBC and Universal Network. He was also a key member of the management team of San Miguel Brewing International Ltd., managing Treasury and Financial Planning, and Regional Business Planning and Development. Before his exposure in the food and beverage industry, he was an Assistant Director in First Pacific Bank Asia, Ltd., in Hong Kong. He started his career as an Associate in Robert Fleming, Inc., in New York City, USA.

Solomon M. Hermosura, Filipino, 48, has served as Corporate Secretary of IMI since April 2009. He is a Managing Director of Ayala Corporation since January 1999 and a member of the Management Committee of Ayala Corporation (Holding Company) since January 2009. He is also the General Counsel, Compliance Officer, and Assistant Corporate Secretary of Ayala Corporation. He serves as Corporate Secretary of Ayala Foundation, Inc. and of the following Companies in the Ayala group: Globe Telecom, Inc., Manila Water Company, Inc., Philwater Holdings Company, Inc., AC International Finance Ltd., AYC Finance Ltd., Affinity Express Holdings, Inc., and Integreon, Inc. He also serves as a member of the Board of Directors of a number of companies in the Ayala group.

Renan R. Osero, Filipino, 57, has served as Assistant Corporate Secretary of IMI for more than 5 years. He was an Associate Director of Ayala Corporation until his retirement in December 2010. He was also the Corporate Secretary of Children's Hour Philippines, Inc., Ayala Multi-Purpose Cooperative, Speedy-Tech (Phils.), Inc., Technopark Land, Inc., and Darong Agricultural Development Corporation. He was likewise the Assistant Corporate Secretary of Cebu Holdings, Inc., Cebu Property Ventures & Development Corp., Cebu Insular Hotel Co., Inc., Ayala Hotels, Inc., Ayala Foundation, Inc., Ayala Systems Technology, Inc., Ayala Aviation Corporation, Laguna Technopark, Inc., Manila Water Total Solutions Corp., Roxas Land Corporation, Sonoma Services, Inc. and Mermac, Inc.

Emmanuel V. Barcelon, Filipino, 54, is currently the Senior Managing Director – Human Resources Head (OIC) since July 2010 up to the present. Previous to this, he was the Senior Managing Director Global Manufacturing Operations and Chief Operating Officer of IMI.

Linardo Z. Lopez, Filipino, 53, joined IMI as Senior Managing Director for Materials and Supply Chain Management in March 2008 and has served as such up to the present. He spent a significant part of his career in OEM and contract manufacturing industries, notably with industry leaders such as Solectron and Flextronics in China. He started with Solectron USA in 1989, and was later moved to other international Solectron locations: to Japan in 1994, to Romania in 2002, and more recently to Dongguan, China in 2004 where he stayed up to the time of his departure for IMI in early 2008.

Sherisa P. Nuesa, Filipino, 55, was the Senior Managing Director, Chief Administration Officer and concurrent CFO of IMI since January 1, 2009 up to August 2, 2010 and has served in various capacities in Ayala Corporation and its subsidiaries, Ayala Land, Inc. (ALI) the country's premier real estate company, and Manila Water Co. (MWC). She was a member of the Ayala Land Management Committee

from 1988 to 1999 and served in the Boards of ALI subsidiaries. She served as Ayala Land Vice President and Group Comptroller from 1988 to 1996, and then moved on as Group Head for Commercial Centers, from 1996 to 1999. She was then the National Director for the Philippines in the International Council for Shopping Centers from 1997 to March 1999. In 2008, she was honored in a country-wide search as the 2008 Outstanding CFO of the Year by the joint partnership of the Financial Executives Institute of the Philippines (FINEX) and ING Bank N.V.

Andrew C. Carreon, Filipino, 47, has been the Chief Information Officer of the IMI Group since 2003 up to the present and brings extensive experience in business process improvement and re-engineering as well as design and implementation of corporate management information systems. Concurrently, he is the Chief Operating Officer of PSi Technologies Inc. Prior to joining IMI in 2003, he was a Director of ICT at American Microsystems Philippines with global responsibility for back-end manufacturing systems. He also worked as a Systems Integration Consultant for Digital Equipment Corporation. He has been the Chairman of the Association of SEIPI IT Executives and Professionals (ASITEP) for two consecutive terms.

Jeremy G. Cowx, Canadian, 39, is responsible for overseeing the IMI-Japan office and all sales activities for IMI in Japan. He is a certified Six Sigma Champion. His professional background is in Business Development, Sales and Marketing and Account Management for plastics, semiconductor and technology companies. After working for Vitalo Packaging in the Philippines, he started their Japanese operations in 2004. In 2006, he successfully established the first corporate presence for Simtek Corporation in Nagoya, Japan.

Michael R. Hansson, Swedish, 42, has been the Managing Director for Global Test & Systems Development of IMI since August 2006. He successfully built a technical consulting business providing customized function testers, handlers and automated optical inspection machines to the electronics and semiconductor industry in the Philippines. He has gained over 20 years of experience in developing hardware and software products, including 5 years with Timex where he co-designed products like the Timex/Microsoft Datalink watch.

Melita R. Tomelden, Filipino, 54, is currently the Managing Director for Corporate Quality & Reliability of IMI. She is responsible for developing and institutionalizing quality and reliability standards and processes for IMI's contract manufacturing and turnkey manufacturing operations. She brings over 25 years in manufacturing operations, 22 years of which were spent in quality management in leading semiconductor and electronics companies like Philips Semiconductors, Telefunken-Temic, Fastech, Stanford Microsystems and Deltron-Sprague Electronics. She is a certified assessor of the European Foundation for Quality Management and a corporate member of the American Society for Quality Control.

Mary Ann S. Natividad, Filipino, 44, is currently IMI's Country Managing Director in Singapore. Previous to this, she was the Country Business Unit Director in charge of Singapore Philippine's turnkey business operations. She has over 21 years' experience in the electronics industry. She was Business Unit Head for Turnkey Operations since 2004. She moved to IMI with the absorption of Electronics Assemblies, Inc. (EAI) and joined IMI's Program Management Group in 2002. She has handled different functions including Materials Management and Production Planning and Control. Her work stint includes being a Production Manager at Pricon Microelectronics Inc.

Timothy Patterson, American, 58, is the Country Managing Director in USA and the Global Managing Director for Advanced Manufacturing Engineering. He brings more than 20 years experience in semiconductor assembly including hybrid and integrated circuit packaging, chip on board, flip chip on flex and stacked chips. He was responsible for the first SMT production line in the United States while working for Western Digital, and the first production flip chip on organic substrates line in the world while working for Smartflex Systems. He holds 12 patents and has published over a dozen articles in trade magazines, conferences and seminars.

Reynaldo N. Torda, Filipino, 55, is currently the Country Managing Director in the Philippines. He has 30 years of professional experience from leading companies in the semiconductor and EMS industries such as Amkor Anam, American Microsystems Inc, AME and 3-5 Systems. He rose from the ranks and held progressively responsible positions in Manufacturing and Engineering, including Technical Director, Vice President for Operations and General Manager. Prior to IMI, he was the Philippine General Manager of 3-5 Systems Pacific, Inc., a publicly listed company in Displays and Electronics Manufacturing Services. He was responsible for securing the company's ISO 9002, EMS 14000, QS9000, TS16949 and ISO 9000-2000 certifications.

Shong Cheng Yeh, Malaysian, 41, is currently IMI's Country Managing Director in China. Previous to this, he was the Managing Director for the China operations of IMI. He brings with him over 14 years of experience in electronics manufacturing. Prior to IMI, he was the General Manager for Asian Operations in the Infrastructure Global Manufacturing business of Flextronics overseeing China, Malaysia and India. He joined Flextronics, Malaysia in 1999 and has been fast-tracked through its manufacturing management ranks in the last 9 years. He was assigned by Flextronics to different positions and different locations in its China and Malaysia plants. He started as SMT Engineer in Jurong Hi-Tech in Petaling Jaya and then moved to Western Digital Malaysia as Process Engineer.

Annabelle C. Duques, Filipino, 50, is the Vice President for Human Resources. She brings with her 30 years of extensive experience in Human Resource Management in various settings. She joined IMI from Fisher-Rosemount Systems Inc., an Emerson Process Management company that she helped set up in the Philippines, where she held the position of Human Resources Director. She was also a Senior Human Resource Manager of Astec Power's Design and Engineering organization while her earlier professional experiences started with Chevron Geothermal in the area of Corporate Communications before moving to human resources.

Rafael Nestor V. Mantaring, Filipino, 54, is the Vice President for Design and Development in the Philippines. He heads the Research and Development Group in the Design and Engineering Services group of IMI. He has over 27 years of combined experience in the academe and in the industry. Prior to joining IMI, he was the President and General Manager of Rohm LSI Design Philippines, a Japanese-owned technology company involved in design and development of integrated circuits. He started up and grew Rohm from 8 engineers in 1992 to more than 200 engineers by the time he left in 1998.

Lucrecio B. Mendoza, Filipino, 54, is the Vice President for Value Engineering of IMI. He has set up Eazix, Inc. for IMI in 1998 and has led its product design services until he moved to IMI with the acquisition of Electronic Assemblies, Inc. He was then the Head of Engineering for 8 years covering Process Engineering, Equipment Engineering and Test Engineering. He held the positions of Head of Quality and ICT in concurrent capacity. Prior to joining IMI, he worked with Intel Philippines for 11 years holding technical positions such as Assembly Equipment Engineer and Test & Equipment Engineering Head for Front-of-Line Test Operations. He was the Vice Chairman and Chairman of the Association of Semiconductor and Electronic Manufacturing Engineers of the Philippines (ASEMEP) from 1996-2000.

Jaime G. Sanchez, Filipino, 55, is currently the Deputy CFO and Group Controller of IMI. He has worked with different Ayala companies for more than thirty (30) years including twelve (12) years at IMI. He was also assigned as OIC – Chief Financial Officer of IMI starting August 2010 up to early part of 2011. He brings with him solid professional experience from his stints in FGU, BPI-MS and Universal Reinsurance.

Fernandel I. Evangelista, Filipino, 47, joined IMI in 1991 as a Production Supervisor and has since handled and been appointed to various positions in Manufacturing such as Manufacturing Supervisor, Production Manager, Division Manager, Manufacturing Engineering Head and BU Group Head. He is currently assigned as the Site General Manager of our Fremont operations in the US. Prior to joining IMI, Knoll worked with Printed Circuit International Philippines. He also worked with Mabuhay Electronics.

Anthony Raymond P. Rodriguez, Filipino, 43, is the Assistant Vice President and Head of Treasury and Credit of IMI since 2009. Prior to IMI, he has gained nineteen (19) years of extensive professional

experience from Banco de Oro – EPCI Bank as Senior Dealer –FX and Derivatives Desk and from Far East Bank & Trust Co. as International Desk Head for Treasury Marketing.

Geronimo B. Magsombol, Filipino, 52, is currently the Head of the whole Facilities group of IMI. He started at IMI in 1997 and has been with the Company for more than thirteen (13) years. Prior to IMI, he worked for Amerton Inc. as Facilities Manager from 1992 to 1995. He was also Facilities Director of Cypress Semi-Conductor before joining IMI in 1997.

Dominador P. Leonida III, Filipino, 48, is currently the Assistant Vice President for Global Test and Systems Development. He handles business process improvements, organizational development, expansion plans and various innovation initiatives. He has a solid track record in technology transfer, the incubation of new products, and delivery of high value-add engineering services. With over ten years' experience in managing research and development and engineering organizations, he has assumed various positions in operations and engineering including test engineering, test hardware development, test process engineering and equipment engineering for the Flash semiconductor memory group at Intel. Before joining IMI, he was with Intel Corporation (and its subsidiary Numonyx B.V.) as Senior Design Engineering Manager handling the operations of the Cavite Design Center. He was also responsible for the start-up and expansion of the VLSI design engineering operations in the Philippines.

Olaf Gresens, German, 42, has been the Global Sales Head of IMI since July 2009. He is responsible for overseeing the Sales function in all locations where IMI has presence including the office in Japan which is now officially designated as IMI's Satellite Sales Office. He brings with him over 15 years of experience in the areas of design engineering, field applications engineering and sales. Prior to joining IMI, he spent six years at AMI Semiconductor as Field Applications Engineering Manager.

Significant Employees

The business is not highly dependent on the services of the significant employees as enumerated above and there are no arrangements to ensure that these persons will remain with the registrant and not compete upon termination.

The Company considers as significant its entire work force. Everyone is expected to work together as a team to achieve the Company's goals and objectives.

Family Relationships

IMI's Chairman of the Board, Jaime Augusto Zobel De Ayala (Chairman of the Board) and Fernando Zobel de Ayala (Director) are brothers.

Members of the Board, Rafael Ma. C. Romualdez and Jose Ignacio A. Carlos are first cousins.

Involvement in Legal Proceedings

Except as disclosed herein, in the last five (5) years up to the date of this report, none of the Company's Directors or Executive Officers is or has been involved in any legal proceedings that are material to an evaluation of their ability or integrity to act as such.

Item 10. Executive Compensation

Name and Principa	l Position	Year	Salary	Other Income*
Arthur R. Tan President & Chief Officer	Executive			

	•	•	i
Sherisa P. Nuesa**			
Senior Managing Director & Chief			
Administrative Officer			
Emmanuel V. Barcelon			
Senior Managing Director & Chief			
Operating Officer			
Linardo Z. Lopez			
Senior Managing Director, Global			
Materials and Supply Chain			
Andrew C. Carreon			
Managing Director, Chief			
Information Officer			
Olaf Gresens			
Global Sales Head			
Michael R. Hansson			
Managing Director, Global Test &			
Systems Development			
Melita R. Tomelden			
Managing Director, Corporate			
Quality & Reliability			
Shong Cheng Yeh			
Managing Director, China			
Operations			
Annabelle C. Duques***			
Vice President, Human			
Resources			
Rafael Nestor V. Mantaring			
Vice President, Design and			
Development (Philippines)			
Lucrecio B. Mendoza			
Value Engineering Head			
Mary Ann S. Natividad			
Country Business Unit Director,			
Singapore and Philippines			
Reynaldo N. Torda			
Manufacturing Operations Head			
CEO & 13 Most Highly	Actual 2009	P 82.09 M	P 18.30 M
Compensated Executive Officers	Actual 2010	P 95.90 M	P 47.37 M
	Projected 2011	P 92.95 M	P 41.83 M
All officers as a group unnamed	Actual 2009	P 113.55 M	P 23.60 M
	Actual 2010	P 187.25 M	P 65.72 M
	Projected 2011	P 188.87 M	P 60.18 M
* Composed of guaranteed and perform	Projected 2011	P 188.87 M	

^{*} Composed of guaranteed and performance bonus provision

The Company has no other arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein stated.

Compensation of Directors

Article IV Section 9 of the Company's Amended By-Laws provides:

^{**} Moved back to Ayala Land, Inc., a subsidiary of Ayala Corporation.

^{***} Resigned effective August 30, 2010

"Section 9 - The Chairman of the Board shall receive such remuneration as may be fixed by the Board of Directors each year, in addition to the per diem that each Director may be entitled to receive."

i. Standard arrangement

During the 2008 Annual Stockholders' Meeting, the stockholders ratified the resolution fixing the remuneration of Non-Executive Directors which the Board approved at its meeting on April 30, 2008, as follows:

- a. For each Director \$\mathbb{P}\$100,000.00 per diem per Board meeting actually attended;
- b. For each Board Committee member ₽20,000.00 per diem per Committee meeting actually attended.

The executives who are members of the Board of Directors of the Company do not receive per diem. Their compensation, as executives of the Company, is included in the compensation table indicated above.

ii. Other arrangement

None of the directors, in their personal capacity, has been contracted and compensated by the Company for services other than those provided as a director.

The Company has no other arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein stated.

Item 11. Security Ownership of Certain Beneficial Owners and Management

1) Security ownership of certain record and beneficial owners (of more than 5%) as of February 24, 2011.

Title of Class	Name, address of Record Owner and	Citizenshi p	No. of Shares	Percent of outstanding		
	Relationship with	Relationship with	Held	Shares		
	Issuer	Record Owner				
Common	AYC Holdings, Ltd.3	AYC Holdings, Ltd.4	British	957,537,373	35.02%	
	33/F Tower One Bldg.	_				
	Ayala Ave., Makati City					
Preferred	Ayala Corporation ⁵	yala Corporation ⁵ Ayala Corporation ⁶ Filipino				
	34/F Tower One Bldg.					
	Ayala Ave., Makati City					
Preferred	Asiacom Philippines,	Asiacom Philippines,	Filipino	460,000,000	16.82%	
	Inc. ⁷	Inc. ⁸				
	34/F Tower One Bldg.					
	Ayala Ave., Makati City					

³ AYC Holdings, Ltd. (AYC) is the parent of the Company.

⁴ The Board of Directors of AYC has the power to decide how AYC's shares in IMI are to be voted.

⁵ The Chairman of Ayala Corporation (AC), Jaime Augusto Zobel de Ayala, is the Chairman of the Company.

⁶ The Board of Directors of AC has the power to decide how AC's shares in IMI are to be voted.

⁷ The Chairman of Asiacom Philippines, Inc. (Asiacom), Jaime Augusto Zobel de Ayala, is the Chairman of the Company.

The Board of Directors of Asiacom has the power to decide how Asiacom shares in IMI are to be voted.

Common	PCD Nominee	Resins, Inc. 10	Filipino	239,412,304	8.76%
	Corporation (Filipino) ⁹				
	37/F Tower One, The				
	Enterprise Center, 6766				
	Ayala Avenue cor.				
	Paseo de Roxas, Makati				
	City				
Preferred	Resins, Inc. ¹¹	Resins, Inc. 12	Filipino	219,979,398	8.05%
	E. Rodriguez Ave.,				
	Pasig City				

2) Security ownership of directors and management as of February 24, 2011.

Title of Class	Name of Beneficial Owner		and Nature of al Ownership		Citizenship	Percent of All Class
Directors					I	
Common	Jaime Augusto Zobel de	100	(direct)		Filipino	
	Ayala		, ,			0.00000%
Common	Fernando Zobel de Ayala	100	(direct)		Filipino	0.00000%
Common	Delfin L. Lazaro	100	(direct)		Filipino	0.00000%
Common	Arthur R. Tan	15,016,65	(direct	&	Filipino	
		2	indirect)			0.54924%
Common	Rafael Ma. C. Romualdez	115	(direct)		Filipino	0.00000%
Common	Jose Ignacio A. Carlos	115	(direct)		Filipino	0.00000%
Common	Diosdado P. Banatao	115	(direct)		American	0.00000%
Common	Delfin C. Gonzalez, Jr.	100	(direct	&	Filipino	
			indirect)			0.00000%
Common	Hiroshi Nishimura	115	(direct	&	Japanese	
			indirect)			0.00000%
Common	Alelie T. Funcell	115	(direct)		Filipino	0.00000%
Common	John Eric T. Francia	100	(direct)		Filipino	0.00000%
CEO and mo	st highly compensated officers					
Common	Arthur R. Tan	15,016,65	(direct	&	Filipino	
		2	indirect)			0.54924%
Common	Sherisa P. Nuesa	1,500,000	(indirect)		Filipino	0.05486%
Common	Emmanuel V. Barcelon	3,640,300	(indirect)		Filipino	0.13315%
Common	Linardo Z. Lopez	2,817,583	(indirect)		Filipino	0.10305%
Common	Andrew C. Carreon	2,404,060	(indirect)		Filipino	0.08793%
Preferred	7 Traiew 6. Carreon	1,043,400	(direct)		-	0.03816%
Common	Olaf Gresens	1,150,411	(indirect)		German	0.04208%
Common	Michael R. Hansson	2,016,872	(indirect)		Swedish	0.07377%
Common	Melita R. Tomelden	305,695	(indirect)		Filipino	0.01118%
Common	Shong Cheng Yeh	1,725,617	(indirect)		Malaysian	0.06312%
Common	Anabelle C. Duques	300,000	(indirect)		Filipino	0.01097%
Common	Rafael Nestor V. Mantaring	1,207,931	(indirect)		Filipino	0.03997%
Common	Lucrecio B. Mendoza	1,092,722	(indirect)		Filipino	0.05876%
Common	Mary Ann S. Natividad	1,606,592	(indirect)		Filipino	0.00732%
Preferred	Wary Ailli O. Natividad	200,000	(direct)		i ilipiilo	0.02525%

⁹ The PCD is not related to the Company.

¹⁰ Resins, Inc. (Resins) is a customer of a participant of PCD. The Board of Directors of Resins has the power to decide how Resins shares in IMI are to be voted.

¹¹ Resins is not related to the Company.

¹² The Board of Directors of Resins has the power to decide how Resins shares in IMI are to be voted.

Common	Reynaldo N. Torda	690,247	(indirect)	Filipino	0.00366%			
Preferred	Neyriaido N. Torda	100,000	(direct)	1 IIIPIIIO	0.54700%			
Other executive	ve officers (Management Comm	ittee members	/ Key Executive O	fficers)				
Common	Jerome S. Tan	0		Singaporea				
				n o .				
Common	Solomon M. Hermosura	115	(indirect)	Filipino	0.00000%			
Common	Renan R. Osero	0		Filipino	0.00000%			
Common	Jeremy G. Cowx	287,602	(indirect)	Canadian	0.01052%			
Common	Timothy Patterson	1,955,698	(indirect)	American	0.07153%			
Common	Jaime G. Sanchez	430,206	(indirect)	Filipino	0.01573%			
Common	Fernandel I. Evangelista	790,340	(indirect)	Filipino	0.02891%			
Common	Anthony Raymond P.	172,561	(indirect)	Filipino	0.00631%			
	Rodriguez			-				
Common	Geronimo B. Magsombol	725,287	(indirect)	Filipino	0.02653%			
Common	Dominador P. Leonida III	0		Filipino	0.00000%			
All Directors	and Officers as a group	41,180,966			1.50621%			

None of the members of the Company's directors and management owns 2.0% or more of the outstanding capital stock of the Company.

The Company knows of no person holding more than 5% of common shares under a voting trust or similar agreement.

No change of control in the Company has occurred since the beginning of its last fiscal year.

Item 12. Certain Relationships and Related Transactions

As used herein and in other sections of this report, unless the context otherwise requires, IMI Group or the Group refers to the Company and its subsidiaries where the Company has a control pursuant to SRC Rule 68, Par. 6 (Consolidated Financial Statements).

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

Related Party	Relation	ship Nature of Transaction	Ralan	ce Sheets	Statements of Comprehensive Income					
related I arty	Relations	silip itature or mansaction			2040		2000			
			2010	2009	2010	2009	2008			
Bank of the Philippine							_			
Islands (BPI)	Affiliate	Cash and cash equivalents	\$2,029,657	\$976,019	\$ -	\$-	\$-			
		Nontrade receivable	70,504	132,323	_	_	_			
		Nontrade payable	1,698	12,857	_	_	_			
		Derivative asset	480,695	_	_	_	_			
		Gains on derivatives	· _	_	95,540	_	_			
		Interest income	_	_	11,938	91,569	324,192			
AG Counselors		microst moonio			,000	01,000	02 1,102			
Corporation (AGCC)	Affiliate	Nontrade payable	718	103,721	_	_	_			
Corporation (71000)	7 tilliate	Professional and service		100,721						
		fees	_	_	209,743	2,969	7,161			
Technopark Land, Inc.		1000			200,140	2,000	7,101			
(TLI)	Affiliate	Nontrade receivable	7,682	11,420	_	_	_			
Innove	Aimate	Nontrade receivable	7,002	11,420						
Communications,										
Inc. (ICI)	Affiliate	Nontrade payable	67,102	17,006						
ilic. (ICI)	Ailliale	. ,	07,102	•	202 4 42	200 544	202 444			
Olaha Talasasa Isa		Postal and communication	_	_	202,143	286,541	393,414			
Globe Telecom, Inc.										
(GTI)	Affiliate	Nontrade payable	3,828	3,617		_	_			
		Postal and communication	-	_	94,926	95,029	219,198			

- a. As of December 31, 2010, the Parent Company has savings and current accounts and short-term deposits with BPI amounting to \$546,993 and \$1,482,664, respectively. As of December 31, 2009, the Parent Company has savings and current accounts and short-term deposits with BPI amounting to \$560,358 and \$415,661, respectively. Total interest income earned from investments with BPI amounted to \$11,938 in 2010, \$91,569 in 2009 and \$324,192 in 2008.
- As of December 31, 2010 and 2009, nontrade receivables from BPI pertain to retirement and separation pay advanced by the Parent Company but is reimbursable from the trust fund with BPI.
- c. The Parent Company has outstanding housing and automobile financing loans from BPI amounting to \$1,698 and \$12,857 as of December 31, 2010 and 2009, respectively, included in "Employee-related payables" under "Accounts payable and accrued expenses". The outstanding housing and automobile financing loans arise from the differences in the timing of remittances by the Parent Company to BPI and the period of withholding from employee salaries and wages.
- d. As of December 31, 2010 and 2009, certain plan assets of the Parent Company under its retirement fund with BPI are invested with its related parties (see Note 27).
- e. The Parent Company engages AGCC, an affiliate, for corporate secretarial services subject to a monthly fee of P40,000. As of December 31, 2010 and 2009, payable to AGCC amounted to \$718 and \$103,721, respectively.
- f. The Parent Company has nontrade receivable from TLI, an affiliate, amounting to \$7,682 and \$11,420 as of December 31, 2010 and 2009, which pertains to advances by the Parent Company for various expenses incurred by TLI, primarily on real property taxes and corporate secretarial services.
- g. The Parent Company has nontrade payables to Innove Communications, Inc., an affiliate, amounting to \$67,102 and \$17,006 as of December 31, 2010 and 2009, respectively, which pertains to billing on leased lines, internet connections and ATM connections. Related expense for 2010, 2009 and 2008, amounted to \$202,143, \$286,541 and \$393,414, respectively.
- h. As of December 31, 2010 and 2009, the Parent Company's accounts payable to GTI, an affiliate, amounted to \$3,828 and \$3,617 for the purchase of Blackberry software and billings for cellphone charges and WiFi connections. Related expense for 2010, 2009 and 2008, amounted to \$94,926, \$95,029 and \$219,198, respectively.

No other transaction was undertaken by the Company in which any Director or Executive Officer was involved or had a direct or indirect material interest.

To date, there are no complaints received by the Company regarding related-party transactions.

PART IV - CORPORATE GOVERNANCE

Item 13. Corporate Governance

Good Governance at IMI. IMI is committed to the highest level of good governance throughout the organization, as well as to fostering a corporate culture of integrity and empowering leadership.

This governance is anchored on the belief in a strong link between quality governance and the creation of shareholder value and long-term growth.

In compliance with Securities and Exchange Commission (SEC) Memorandum Circular No.6, Series of 2009 (Revised Code of Corporate Governance), IMI submitted its revised Corporate Governance Manual to the SEC in April.

Board Structure and Process. IMI's eleven-person Board of Directors primarily represents the shareholders to whom it is accountable for creating and delivering value. Stockholders elect the directors annually.

IMI has three independent directors. For this purpose, the company defines an independent director as one having no interest or relationship with the company that may hinder his or her independence from the company or management, which would interfere with the exercise of impartial judgment in carrying out the director's responsibilities.

The Board represents a mix of competencies, with each director capable of adding value and exercising independent judgment. Meetings are held at least quarterly, or as often as necessary for the Board to fulfill its role.

The Board has established committees to assist in exercising its authority, including monitoring the performance of the business. Five committees support the Board in the performance of specific functions and to aid in good governance: Executive, Compensation, Audit, Finance, and Nomination.

The Executive Committee (ExCom), in accordance with the authority granted by the Board, acts on such specific matters within the competence of the Board of Directors as may occasionally be delegated to the Executive Committee in accordance with the Corporation's By-Laws, except with respect to any action for which shareholders' approval is also required, filling of vacancies on the Board or in the ExCom, amendment or repeal of By-Laws or the adoption of new By-Laws, amendment or repeal of any resolution of the Board of Directors, which by its express terms is not so amendable or repealable, distribution of cash dividends, and the exercise of powers delegated by the Board exclusively to other committees, if any.

The Compensation Committee establishes a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors. It exercises oversight of the remuneration of senior management and other key personnel, ensuring that compensation is consistent with the company's culture, strategy, and control environment.

The Audit Committee oversees IMI's internal control and financial reporting on behalf of the Board of Directors.

The Finance Committee supervises the implementation of an enterprise-wide risk management program and oversees major financial policies.

The Nomination Committee ensures that all nominees for directors for election at the annual stockholders' meeting have all the qualifications and none of the disqualifications of directors as stated in the By-Laws and pertinent rules of the SEC. The committee also reviews the qualifications of all persons nominated to positions requiring appointment by the Board.

Directors' Compensation. Non-executive directors, defined as members of the Board of Directors who are neither officers nor consultants of the Company, receive per diem of Php 100,000 for each Board meeting attended, and Php 20,000 per Committee meeting attended. This remuneration scheme for non-executive directors was ratified at the 2008 annual stockholders meeting.

Management. Management is primarily accountable to the Board of Directors for the operations of IMI. It concretizes IMI's targets and formulates the strategies to achieve these.

IMI has adopted the Balanced Scorecard (BSC) system as a means to set and achieve its strategic objectives. This system has the following benefits: it translates an organization's strategy into measurable parameters, communicates the strategy to all members of the company, aligns individual goals to the company's strategic objectives, feedbacks implementation results to the strategic planning process, and enables managers to monitor and adjust strategy implementation and make fundamental changes to the strategy itself. The BSC system looks at four major perspectives of business: Learning and Growth, Internal Business Processes, Customers, and Financial.

To further enhance its corporate governance infrastructure, IMI launched a group-wide enterprise risk management program to ensure that risk management activities are consistently applied, integrated, aligned and well coordinated across the organization.

Accountability and Audit. The Audit Committee exercises oversight of the performance of external and internal auditors. Its role and responsibilities are clearly defined in the Audit Committee Charter approved by the Board of Directors. An Independent Director chairs the Committee.

IMI's external auditor is Sycip, Gorres, Velayo & Company (SGV). The Audit Committee approves all non-audit services conducted by SGV.

A separate Internal Audit Charter approved by the Audit Committee governs the internal audit function.

The Board designated a Compliance Officer who is responsible for ensuring adherence to the provisions and requirements of IMI's Corporate Governance Manual. He is also responsible for identifying, monitoring, and controlling compliance risks.

Financial Reporting. IMI's financial statements are prepared and presented in accordance with Philippine Accounting Standards and Philippine Financial Reporting Standards, which comply with International Accounting Standards. Speedy-Tech Electronics Ltd. and its subsidiaries' financial statements are audited by Ernst & Young Singapore.

Information on the Company's financial instruments is accompanied by a presentation of the Company's risk management objectives and policies to allow for a better assessment of financial performance and cash flows. Significant accounting judgments and estimates are also disclosed.

Disclosures. IMI updates the investing public with strategic, operating, and financial information through adequate and timely disclosures filed with the SEC and the Philippine Stock Exchange (PSE). These disclosures are readily available in the company's website.

IMI complies with the periodic reportorial requirements of SEC and PSE and discloses major and market-sensitive information such as dividend declarations, acquisitions, the sale and disposition of

significant assets, as well as other material information that may affect the decision of the investing public.

Trading Blackouts. Key officers and covered persons are strictly prohibited from trading during the following periods:

- (a) Structured Disclosures: Ten (10) calendar trading days before and three (3) calendar trading days after the disclosure of quarterly and annual financial results;
- (b) Non-structured Disclosures: Three (3) calendar trading days before and three (3) calendar trading days after the disclosure of any material information other than Item (a) above.

The Compliance Officer or his designate issues office bulletins for special blackout periods, pertaining to the above.

The company strictly enforces compliance with these trading blackout periods, reporting only one violation in 2010.

Code of Conduct. IMI and its employees commit to live by the following values: Integrity, Customer Focus, Concern for Others, and Excellence. IMI has adopted a Code of Conduct in line with the Electronics Industry's Code of Conduct. All IMI employees are expected to comply with this policy, which outlines the standards to ensure that working conditions in the Company are safe, workers are treated with respect and dignity, and the manufacturing processes are environmentally responsible. The Code comprises five sections: Labor, Health and Safety, Environment, Management System, and Ethics. Annually, all supervisors, engineers and managers are required to sign a declaration of compliance to the Code of Conduct.

IMI operates in full compliance with the laws, rules and regulations of the countries in which it operates, and recognizes international standards in order to advance social and environmental responsibility.

PART V - EXHIBITS AND SCHEDULES

Item 14. List of Exhibits/Schedules

2010 Audited Consolidated Financial Statements, Integrated Micro-Electronics, Inc. and Subsidiaries – Exhibit 1

Statement of Management's Responsibility for the Financial Statements

Report of Independent Auditors

Consolidated Balance Sheets as of December 31, 2010 and 2009

Consolidated Statements of Income for the Years ended December 31, 2010, 2009 and 2008

Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2010, 2009 and 2008

 $Consolidated \ Statements \ of \ Cash \ Flows \ for \ the \ Years \ Ended \ December \ 31, \ 2010, \ 2009 \ and$

Notes to Consolidated Financial Statements

Supplementary Schedules – Exhibit 2

2008

Report of Independent Public Accountant on Supplementary Schedules

- A. Marketable Securities (Current Marketable Equity Securities and Other Short-Term Investments)
- B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
- C. Non-current Marketable Equity Securities, Other Long-Term Investment in Stocks, and Other Investments
- D. Indebtedness of Unconsolidated Subsidiaries and Related Parties
- E. Intangible Assets and Other Assets (Deferred Charges)
- F. Long-Term Debt
- G. Indebtedness to Related Parties
- H. Guarantees of Securities of Other Issuers
- I. Capital Stock
- J. Retained Earnings Available for Dividend Distribution

Reports on SEC Form 17-C

Reports on SEC Form 17-C were filed during the last six month period covered by this report and are listed below:

Date	Particulars
June 25, 2010	Integrated Micro-Electronics, Inc. (IMI) and Narra Venture Capital (NarraVC) signed an agreement with PSi Technologies Inc. (PSi) for their acquisition of 67% of PSi. On completion, IMI will own 56% and NarraVC 11% of PSi. The aggregate transaction value is approximately USD30 million.
June 29, 2010	The resignation of Mr. Cesar V. Purisima from the Board of Directors of IMI who was appointed Secretary of Finance.
July 9, 2010	Results of regular Board of Directors' meeting.
August 10, 2010	IMI gets preferred supplier status from Robert Bosch GmbH, a leading global supplier of technology and services in the areas of automotive, industrial, and consumer electronics.
August 12, 2010	Appointment of Mr. Jaime G. Sanchez as Acting Compliance Officer effective August 2, 2010 and his promotion to Vice President retroactive to June 1, 2010.
October 7, 2010	IMI completed the acquisition of a majority stake (56%) in PSi Technologies Inc.
October 21, 2010	Set the holding of the Regular Annual Stockholders' Meeting on 15 April 2011

2010 Audited Annual Financial Statements, IMI International (Singapore) Pte Ltd and its subsidiary – Exhibit 3

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 11, 2011.

By:

Jaime Augusto Zobel de Ayala Chairman of the Board

Jerome S. Tan

Chief Finance Officer

Jaime G. Sanchez

Deputy CFO and Group Controller

President and Chief Executive Officer

Solomon M. Hermosura Corporate Secretary

SUBSCRIBED AND SWORN to before me this exhibiting to me their respective passports as follows:

APR 1 4 2011 day of April 2011, affiants

Jaime Augusto Zobel de Ayala Arthur R. Tan Jerome S. Tan Solomon M. Hermosura Jaime G. Sanchez

Passport No. XX2623993 EA0025242 E2068508C ZZ225231 XX4442815

Date Of Issue Dec. 8, 2008 Jan. 29, 2010 Sep. 21, 2010 May 24, 2007 Aug. 25, 2009

Place of Issue Manila City Manila City Singapore Manila City Manila City

Doc. No. Page No. 20 Book No. 57 Series of 2011

RAMONCITO B. BAYLOSIS NOTARY PUBLIC Until DEC. 31. 2011

IBP NO. 802910/ 12-15-09/ BATANGAS PTR NO. 208927MB '01-05-2010/ MAKATI CITY MCLE NO. 11-8009111, May 15, 2008

ROLL NO 51381



EXHIBIT 1

2010 Audited Consolidated Financial Statements, Integrated Micro-Electronics, Inc. and Subsidiaries



Integrated Microelectronics, Inc.

North Science Avenue Special Export Processing Zone, Laguna Technopark Biñan Laguna 4024 Philippines

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Tel (63 49) 541 1015 to 20 Fax (63 49) 541 0020 www.global-imi.com

The management of Integrated Micro-Electronics, Inc. and its subsidiaries (the Group) is responsible for all information and representations contained in the consolidated financial statements for the year ended December 31, 2010 and 2009. The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Parent Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Parent Company.

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

> JAME AUGUSTO ZOBEL DE AYALA Chairman, Board of Directors

President & Chief Executive Officer

Chief Finance Officer

SUBSCRIBED AND SWORN to before me this FFB 2 4 2011 at MAKATI CITY , affiants exhibiting to me their respective Passports, to wit:

> Name Jaime Augusto Zobel de Ayala

XX2623993 EA 0025242 E2068508C

Passport No.

Jerome S. Tan

Arthur R. Tan

08 December 2008 - Manila 29 January 2010 - Manua 21 September 2010-Singapore

Date & Place of Issue

Doc. No. Page No. Book No. III Series of 2011

Notarial DST pursuant to Sec. 188 of the Tax Code affixed on Notary Public's copy.

JUNE VEE D. MON Notary Public - Makati Chy Appt. No. M-338 until 12-31-2011 Attorney's Roll No. 43089 PTR No. 2669860MB; 01-07-2011; Maladi City IBP Lifetime Roll No. 07208 33rd Floor, Tower One & Exchange Plaza

Ayala Triangle, Ayala Avenue Makati City, Philippines

COVER SHEET

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	Mr. Jerome S. Tan 756 - 6840																															
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SyCip Gorres Velayo & Co. 6760 Ayala Avenue 1226 Makati City Philippines

Phone: (632) 891 0307 Fax: (632) 819 0872 www.sgv.com.ph

BOA/PRC Reg. No. 0001 SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors Integrated Micro-Electronics, Inc. North Science Avenue Laguna Technopark Biñan, Laguna

We have audited the accompanying consolidated financial statements of Integrated Micro-Electronics, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2010 and 2009, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Integrated Micro-Electronics, Inc. and Subsidiaries as of December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-A
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641501, January 3, 2011, Makati City

February 23, 2011



INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	December 31		
	2010	2009	
ASSETS			
Current Assets			
Cash and cash equivalents (Note 5)	\$38,134,743	\$53,931,767	
Loans and receivables - net (Note 6)	109,936,439	95,806,849	
Inventories - net (Note 7)	54,694,413	31,875,012	
Derivative assets (Note 33)	1,693,121		
Other current assets (Note 8)	2,508,014	1,642,147	
Total Current Assets	206,966,730	183,255,775	
Noncurrent Assets			
Property, plant and equipment - net (Notes 9 and 30)	74,624,267	63,128,439	
Goodwill (Notes 2 and 10)	55,719,185	46,225,800	
Pension asset (Note 27)	2,765,675	2,866,220	
Intangible assets - net (Note 11)	923,002	2,802,630	
Available-for-sale financial assets (Note 4)	382,527	309,448	
Noncurrent receivables (Note 12)	184,179	558,707	
Deferred income tax assets (Note 25)	115,168	108,517	
Other noncurrent assets (Note 12)	1,497,268	2,826,514	
Total Noncurrent Assets	136,211,271	118,826,275	
	\$343,178,001	\$302,082,050	
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses (Note 13)	\$105,345,620	\$83,157,458	
Current portion of long-term debt (Note 16)	38,000,000	8,000,000	
Loans payable (Note 15)	17,921,638	2,302,233	
Derivative liabilities (Note 33)	3,832,474	, ,	
Income tax payable (Note 25)	2,298,792	3,261,753	
Provisions (Note 14)	, , ,	43,764	
Total Current Liabilities	167,398,524	96,765,208	
Noncurrent Liabilities			
Deferred revenue (Note 17)	2,564,594		
Pension liability (Notes 13 and 27)	986,473		
Accrued rent (Note 30)	894,088	19,978	
Long-term debt (Note 16)	372,084	38,000,000	
Obligation under finance lease (Note 30)	118,313	314,545	
Total Noncurrent Liabilities	4,935,552	38,334,523	
Total Liabilities	172,334,076	135,099,731	

(Forward)



December 31 2010 2009 Equity (Note 18) Equity attributable to equity holders of the Parent Company Capital stock - common \$24,893,713 \$20,267,538 Capital stock - preferred 26,601,155 26,601,155 Subscribed capital stock 1,901,963 2,167,895 Additional paid-in capital 34,646,889 30,482,156 Subscriptions receivable (11,411,994)(10,153,255)Retained earnings: Appropriated for expansion 60,660,981 60,660,981 Unappropriated 32,727,457 37,457,693 Treasury stock (1,012,585)(1,012,592)Reserve for fluctuation on available-for-sale financial assets 111,959 56,879 Other reserves 170,714 161,551 169,290,252 166,690,001 Noncontrolling interests in a consolidated subsidiary 1,553,673 292,318 **Total Equity** 166,982,319 170,843,925 \$343,178,001 \$302,082,050

See accompanying Notes to Consolidated Financial Statements.



INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Yea	irs Ended Decei	mber 31
	2010	2009	2008
REVENUES FROM SALES AND			
SERVICES (Notes 19 and 29)	\$412,326,605	\$395,502,281	\$441,144,682
COST OF GOODS SOLD AND SERVICES			
(Note 20)	367,852,013	350,911,650	370,368,070
GROSS PROFIT	44,474,592	44,590,631	70,776,612
OPERATING EXPENSES (Note 21)	(40,224,016)	(35,171,319)	(54,099,275
OTHERS - Net			
Foreign exchange gains (losses) (Note 33)	1,792,949	279,084	(30,458,199
Interest expense and bank charges (Note 23)	(1,036,929)	(1,787,466)	(3,593,609
Interest income (Note 24)	352,578	723,261	1,141,601
Miscellaneous income (Notes 6, 7, 9 and 33)	2,462,995	6,527,178	1,882,524
INCOME (LOSS) BEFORE INCOME TAX	7,822,169	15,161,369	(14,350,346
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25) Current	3,414,175	5,112,200	2,406,332
Deferred	(6,651)	(81,012)	25,670
	3,407,524	5,031,188	2,432,002
NET INCOME (LOSS)	4,414,645	10,130,181	(16,782,348
OTHER COMPREHENSIVE INCOME (LOSS)			
Fair value changes on available-for-sale financial assets	55,080	32,900	(92,168
TOTAL COMPREHENSIVE INCOME (LOSS)	\$4,469,725	\$10,163,081	(\$16,874,516
Net Income (Loss) Attributable to: Equity holders of the Parent Company	\$4,738,929	\$10,065,517	(\$16,830,089
Noncontrolling interests	(324,284)	64,664	47,741
Tonomic merosa	\$4,414,645	\$10,130,181	(\$16,782,348
	· · ·		
Total Comprehensive Income (Loss) Attributable to: Equity holders of the Parent Company	\$4,794,009	\$10,098,417	(\$16,922,25)
Noncontrolling interests	(324,284)	64,664	47,74
	\$4,469,725	\$10,163,081	(\$16,874,510
Enmings (Loss) Pou Chans (Net 20)		··	
Earnings (Loss) Per Share (Note 26) Basic and Diluted	\$0.002	\$0.006	(\$0.014
	Ψ0.00 2	40.000	(401017

See accompanying Notes to Consolidated Financial Statements.



INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

				Attributab	le to Equity Holds	Attributable to Equity Holders of the Parent Company	отрапу					
,	Capital Stock - Capital Stock - Common Preferred (Note 18) (Note 18)	Capital Stock - Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital	Subscriptions Receivable (Note 18)	Retained Earnings Retained Appropriated for Expansion Unappropriated (Note 18)	Retained Earnings Juappropriated (Note 18)	F Treasury Stock (Note 18) Fir	Reserve for Fluctuation on freasury Available- Stock for-Sale (Note 18) Financial Assets	Other Reserves	Attributable to Noncontrolling Interests	Totai
Balances at January 1, 2010	\$20,267,538	\$26,601,155	\$2,167,895	\$30,482,156	(\$10,153,255)	560,660,981	537,457,693	(\$1,012,592)	856,879	\$161,551	\$292,318	\$166,982,319
increase in non-controlling interest due to the acquisition of a											1 646.276	1.646.276
subsidiary during the year	1	1	1	ı	ı	1	ı	1 ;	1	ı	2 460 261	1 1
Issued shares during the year (Note 18)	508,916	ı	(508,916)	I	ł	1	1	17	í	1	1	/1
Subscriptions during the year	i	1	905'899	2,722,308	(3,390,814)	1	ı	ı	I	I	1	ı
Cost of share-based payments												1 022 195
(Note 28)	ı	1	1	1,933,185	1	1	1	1	ı	ı	ŧ	1,733,103
Accretion of subscription receivable	ŧ	ŧ	ı	1,913,073	(1,913,073)	1	1	1	1	1	1	1 000 370
Collections on subscriptions	E	1	1	I	1,215,793	I	ŀ	E	ì	1	1	667,617,1
Forfeitures during the year	1		(425,522)	(2,403,833)	2,829,355	ı	ı	1	1	1 (1 6	1
Dilution of noncontrolling interest	1	1	1	ı	1	1	ı	1	ı	9,163	(8,103)	1 6
Reaconired shares	I	ı	ı	1	1	1	ì	(01)	1	1	1	(ax)
Cash dividends (Note 18)	1	1	I	ŧ	1	1	(5,351,906)	ı	1	ŀ	(51,474)	(5,403,380)
Stock dividends (Note 18)	4.117.259	1	1	1	I	1	(4.117,259)	_		1	1	1
	24,893,713	26,601,155	1,901,963	34,646,889	(11,411,994)	60,660,981	27,988,528	(1,012,585)	56,879	170,714	1,877,957	166,374,200
Fair value changes on available-for-									65 050	i	ı	55.080
sale financial assets	I	1	1	ſ	1	ŀ	1 000	ſ	20065	1	(124 284)	4.414.645
Net income (loss)	1	1		ŀ	ì		4,738,929	ŧ.	1 000		(100,100)	2 4 4 CO 27 E
Total comprehensive income (loss)		1	ı	ı	1	1	4,738,929	1	55,080		(374,784)	4,469,723
Balances at December 31, 2010	\$24,893,713	\$26,601,155	\$1,901,963	\$34,646,889	(\$11,411,994)	\$60,660,981	S32,727,457	(\$1,012,585)	\$111,959	\$170,714	\$1,553,673	\$170.843,925



						Retained			Reserve for			
	Capital Stock - Common (Note 18)	Capital Stock - Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital	Subscriptions Receivable (Note 18)	Earnings Appropriated for Expansion (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock (Note 18)	Fluctuation on Available- for-Sale Financial Assets	Other Reserves	Attributable to Noncontrolling Interests	Total
Bajances at January 1, 2009	\$20,253,054	\$26,601,155	\$2,182,379	\$30,213,723	(\$10,439,358)	\$60,090,0981	\$31,091,806	(\$1,012,592)	\$23,979	\$55,803	\$416,273	\$160,047,203
Shares issued during the year	14,484	1	(14,484)	ı	1	1	I	l	ı	1	1	1
Cost of share-based payments (Note 28)	1	1	i	514,153	ŀ	I	1	ŧ	ı	ŀ	I	514,153
Collections on subscriptions	1	1	1	1	40,383	1	1	1	1	1	i	40,383
Net reversal of accretion of												
subscríptions receivable (Note 28)	1	1	ŀ	(245,720)	245,720	1	1	1	1	1 0	1 672 5057	1
Dilution of noncontrolling interest	1	1	i	1	ŀ	1	ı	I	ŀ	105,748	(105,748)	1 60 00
Cash dividends (Note 18)	1	1	1	ŀ	1	ı	(3,699,630)	1		+	(82,871)	(3,782,501)
	20,267,538	26,601,155	2,167,895	30,482,156	(10,153,255)	60,660,981	27,392,176	(1,012,592)	23,979	161,551	227,654	156,819,238
Fair value changes on available-for-									000		!	32 000
sale financial assets	1	1	1	ŀ	1	!	į	ţ	32,900	1	1 3	005,25
Net income	ŀ	1	1	1	1	1	10,065,517	1	1	ı	64,664	10,150,181
Total communication income	1		1	F	1	I	10,065,517	1	32,900	1	64,664	10,163,081
Releaces of December 31 2009	820 267 538	\$26 601 155	\$2,167,895	\$30,482,156	(\$10,153,255)	\$60,660,981	\$37,457,693	(\$1,012,592)	826,879	\$161,551	\$292,318	\$166,982,319



				Attributa	Attributable to Equity Holders of the Parent Company	rs of the Parent Co.	mpany					
	Capital Stock • Common	Capital Stock - Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital	Subscriptions Receivable (Note 18)	Retained Earnings Appropriated for Expansion (Note 18)	Retained Earnings Unappropriated	Treasury Stock (Note 18)	Reserve for easury Fluctuation on Stock Available-for-Sale ote 18) Financial Assets	Other Reserves	Attributable to Noncontrolling Interests	Total
Baiances at January 1, 2008	\$20,223,972	\$	\$2,178,004	\$27,788,669	(\$11,101,002)	\$60,660,981	\$59,219,281	(\$970,291)	\$116,147	\$36,441	\$400,394	\$158,552,596
Shares issued during the year Subscriptions during the year	29,082	26,601,155	(26,630,237) 26,634,612	272,680	(306,137)	1 1	l I	ſ I	1 1	1 1	1 1	26,601,155
Cost of share-based payments (Note 28)	1	I	1	1,484,498	1	t	1	ı	1	ì	t	1,484,498
Collections on subscriptions	1	ı	1	ı	1,635,657	1	1	1	I	F	ŀ	1,65,65,1
Accretion of subscriptions receivable (Note 28)	ı	1	ŀ	667,876	(967,876)	ı	ı	ı	ı	1	1	1
Acquisition of treasury stock	I	1	1	ı		ı	ſ	(42,301)	ſ	ł i	1 6	(42,301)
Dilution of noncontrolling interest	J	I	1	1	I	ı	1	1	í	19,362	(19,362)	1 288 000 115
Cash dividends (Note 18)	ı	1	1	į	1	-	(11,297,386)	1	1		(17,500)	(11,309,886)
	20,253,054	26,601,155	2,182,379	30,213,723	(10,439,358)	60,660,981	47,921,895	(1,012,592)	116,147	55,803	368,532	176,921,719
Fair value changes on available-for-	i	. 1	ì	1	i	1	ı	1	(92,168)	,	I	(92,168)
Net income (loss)	ı	ı	ı	1	ŀ	ŀ	(16,830,089)	1			47,741	(16,782,348)
Total comprehensive income (loss)	1		-	-	1	1	(16,830,089)		(92,168)	1	47,741	(16,874,516)
Balances at December 31, 2008	\$20,253,054	\$26,601,155	\$2,182,379	\$30,213,723	(\$10,439,358)	\$60,660,981	\$31,091,806	(\$1,012,592)	\$23,979	\$55,803	5416,273	5160,047,203

See accompanying Notes to Consolidated Financial Statements.



INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

	Ye	ears Ended Dece	mber 31
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	\$7,822,169	\$15,161,369	(\$14,350,346)
Adjustments for:			,
Depreciation and amortization of property, plant and			
equipment and investment properties (Note 9)	19,373,226	18,055,328	18,624,973
Amortization of intangible assets (Note 11)	2,645,461	2,744,304	2,688,552
Cost of share-based payments (Note 28)	1,933,185	514,153	1,484,498
Provision for doubtful accounts (Note 6)	1,531,927	118,629	166,726
Losses (gains) on derivative (Note 33)	(1,874,546)	(160,198)	33,999,544
Interest expense and bank charges (Note 23)	1,036,929	1,787,466	3,593,609
Unrealized foreign exchange loss - net	566,968	184,237	2,388,140
Net pension expense (income) (Note 27)	448,563	(412,790)	867,474
Provision for restructuring (Note 14)	246,382	929,000	6,000,000
Dividend income	(61)	(466)	(493)
Reversal of provision for warranty (Note 14)	(18,481)	(6,661)	(2,189,015)
Loss (gain) on sale of property, plant and equipment	(186,476)	97,969	(251,291)
Interest income (Note 24)	(352,578)	(723, 261)	(1,141,601)
Net provision (reversal of provision) for inventory	, , ,	, , ,	, , , ,
obsolescence (Note 7)	(1,734,481)	1,322,908	5,514,988
Gain on fire insurance claim (Note 6)		5,625,371	rom.
Loss on fire (Notes 7 and 9)		637,159	<u></u>
Provision for warranty (Note 14)	****	11,904	510,139
Reversal of provision for restructuring (Note 14)	*****	(1,818,304)	
Reversal of provision for doubtful accounts (Note 6)	****	(60,401)	
Impairment loss (Note 9)	••••	· · ·	1,501,700
Operating income before working capital changes	31,438,187	44,007,716	59,407,597
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Loans and receivables	1,889,943	(26,767,336)	6,287,140
Inventories	(14,503,933)	1,731,187	2,666,450
Other current assets	(103,392)	1,770,559	(1,270,506)
Noncurrent receivables	374,527	2,363,308	2,408,106
Net pension asset	(1,148,215)	now.	****
Increase (decrease) in:	, , ,		
Provisions	(43,764)	(5,092,074)	****
Accounts payable and accrued expenses	(15,028,486)	15,677,641	(4,500,550)
Deferred revenue	(358,359)	*****	****
Accrued rent	(27,918)	19,978	cen
Net cash generated from operations	2,488,590	33,710,979	64,998,237
Interest paid	(1,017,434)	(2,303,422)	(3,662,052)
Income tax paid	(4,377,137)	(3,325,362)	(2,394,505)
Interest received	333,798	676,847	1,042,355
Dividends received	61	466	493
Net cash provided by (used in) operating activities	(2,572,122)	28,759,508	59,984,528

(Forward)



Years Ended December 31 2010 2009 2008 CASH FLOWS FROM INVESTING ACTIVITIES Acquisition of: Property, plant and equipment (Note 9) (\$7,740,314) (\$14,559,324)(\$22,039,260)Intangible assets (Note 11) (765,833)(414,243)(73,390)Proceeds from sale of property, plant and equipment 2,594,526 2,863,245 2,370,921 Acquisition through business combination - net of cash acquired (Note 2) 2,202,930 160,198 Settlement of derivatives (Note 33) 1,601,406 (31,957,525)Decrease (increase) in other noncurrent assets 1,900,973 (234,011)(1,491,260)Net cash used in investing activities (5,365,125)(45,710,578)(14,505,258)CASH FLOWS FROM FINANCING ACTIVITIES Availments of loans 15,619,405 28,248,662 Payments of: Loans payable (14,807,874)(20,068,074)(2,347,609)(8,000,000)(8,000,000)Long-term debt (8,000,000)Dividends paid to equity holders of the Parent Company (5,351,906)(4,260,357)(10,736,659)Collections of subscriptions receivable (Note 18) 1,215,793 40,383 1,635,657 Dividends paid to noncontrolling interest (82,871)(12,500)(51,474)(42,301)Acquisition of treasury stock (Note 18) Collections on preferred stock subscriptions (Note 18) 26,601,155 17,625,940 Net cash provided by (used in) financing activities 1,084,209 (27,110,719)EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS 196,147 43,568 (2,584,185)NET INCREASE (DECREASE) IN CASH AND CASH **EQUIVALENTS** (15,797,024)(3,672,768)29,315,705 CASH AND CASH EQUIVALENTS AT BEGINNING 57,604,535 28,288,830 OF YEAR 53,931,767 CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5) \$38,134,743 \$53,931,767 \$57,604,535

See accompanying Notes to Consolidated Financial Statements.



INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Integrated Micro-Electronics, Inc. ("the Parent Company"), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four subsidiaries, namely: IMI International (Singapore) Pte. Ltd. ("IMI Singapore"), IMI USA, Inc. ("IMI USA"), IMI Japan, Inc. ("IMI Japan") and PSi Technologies Inc. (PSi) (collectively referred to as the "Group"). IMI Singapore, IMI USA and IMI Japan are wholly owned subsidiaries while PSi is 55.78% owned by the Parent Company. The Group's parent company is AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands. AYC is a subsidiary of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE). AC is 52.11% owned by Mermac, Inc., 10.82% owned by Mitsubishi Corporation and the rest by the public. The registered office address of the Parent Company is North Science Avenue, Laguna Technopark, Biñan, Laguna.

On January 21, 2010, the Parent Company was listed by way of introduction in the PSE.

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assembly (PCBA), flip chip assembly, box build sub-assembly, enclosure system, and provider of electronics product design, research and development, product development outsourcing and other electronic parts. The Parent Company is also engaged in the business of providing test development and systems integration services and distributing related products and equipment. These PEZA registrations entitle the Parent Company to a four-year income tax holiday (ITH) and an option to apply for ITH extension for a maximum of three (3) years subject to various PEZA requirements wherein projects and activities are qualified. The Parent Company's entitlements to ITH under the current PEZA registrations have expirations beginning January 2010, for which extension has been applied for, up to July 2013 for the different registered activities. The Parent Company's application for extension of its ITH is still pending PEZA approval. Under its PEZA registrations, the Parent Company's projects and activities are subject to certain requirements and are entitled to certain incentives, which include, but are not limited to, ITH and tax and duty free importation of inventories and capital equipment. Upon the expiration of the ITH on these projects and activities, the Parent Company will be subject to a five percent (5%) final tax on gross income earned after certain allowable deductions provided under Republic Act (R.A.) No. 7916 (otherwise known as the "Special Economic Zone Act of 1995") in lieu of payment of national and local taxes.

IMI Singapore was incorporated and is domiciled in Singapore. It is engaged in the procurement of raw materials, supplies and provision of customer services. Its wholly-owned subsidiary, Speedy-Tech Electronics Ltd. (STEL), was incorporated and is domiciled also in Singapore. STEL on its own has subsidiaries located in Hong Kong, People's Republic of China (PRC), Singapore and the Philippines. STEL and its subsidiaries are principally engaged in the provision of Electronic Manufacturing Services (EMS) and Power Electronics solutions to original equipment manufacturing customers in the consumer electronics, computer peripherals/information technology, industrial equipment, telecommunications and medical device sectors.



On April 9, 2010, STEL officially opened a new manufacturing facility in Chengdu, China. This offers a wide variety of electronics manufacturing solutions from printed circuit board assembly to full product assembly for Original Equipment Manufacturers (OEMs) in various markets such as those in the industrial, automotive, medical and telecommunications infrastructure industries.

On April 16, 2009, IMI Singapore established its Philippine Regional Operating Headquarters also known as IMI International ROHQ (IMI ROHQ). It serves as a supervisory, communications and coordinating center for the affiliates and subsidiaries of IMI Singapore.

IMI USA was incorporated and is domiciled in California, USA. It is at the forefront of technology with regard to precision assembly capabilities including surface mount technology (SMT), chip on flex (COF), chip on board (COB) and flip chip on flex. It specializes in prototyping low to medium PCBA and sub-assembly. It is also engaged in engineering, design for manufacturing (DFM) technology, advanced manufacturing process development, new product innovations (NPI), direct chip attach and small precision assemblies.

IMI Japan was registered and is domiciled in Japan. IMI Japan's primary purpose is to transact business with Japanese customers in the following areas: (a) turnkey EMS; (b) engineering and design services; and (c) original design manufacturing (ODM) solutions. IMI Japan also functions as program management center for new business in coordination with the Parent Company (wireless), STEL and Subsidiaries (power management) and IMI USA (film chip). IMI Japan will secure programs/projects from Japanese customers and then endorse these to the Parent Company or IMI Singapore. There is no manufacturing operation in IMI Japan.

As discussed in Note 2, on October 6, 2010, the Parent Company completed its acquisition of 55.78% of PSi Technology, Inc. (PSi). PSi is a power semiconductor assembly and test services (SATS) company serving niche markets in the global power semiconductor market. It provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices. PSi wholly owns PSi Technologies Laguna, Inc. (PSi Laguna), which also provides SATS. In addition, PSi owns 40% of PSiTech Realty, Inc., the holding company of Pacsem Realty, which is also 40% owned by PSi and is a real estate company that acquires, holds, develops and disposes any real estate or interest acquired.

The accompanying consolidated financial statements were authorized for issue by the Parent Company's Board of Directors (BOD) on February 23, 2011.

2. Business Combination

Acquisition of PSi

On June 25, 2010, the Parent Company and Narra Venture Capital II, LP (Narra VC) (collectively referred to as the "New Investors") entered into an Investors' Agreement (the Agreement) with PSi Technology Holdings, Inc. (PSiH) and Merrill Lynch Global Emerging Markets Partners, LLC (MLGEMP) (collectively referred to as the "Old Investors"), to take on 55.78% and 11.22% equity share in PSi, respectively.

Under the Agreement, the Parent Company subscribed to 13,249,702,469 common shares or 55.78% of PSi's outstanding common shares in exchange for a cash consideration of \$8,325,000.



The Agreement also provided for the following:

1) The grant of Put and Call Options as follows:

Put Option Option to require the New Investors to purchase all

but not some of the shares held by the Old Investors (Option Shares) at the time of exercise, at anytime

during the Put Option Period.

Put Option Period The period from acquisition date up to 24 months

from completion date, with 7-day exercise notice.

Put Option Strike Price The higher of (a) \$1.00 and (b) value of the shares

calculated based on 5.5x trailing 12-month Earnings before interest, taxes, depreciation and amortization (EBITDA) of PSi as of receipt of the exercise notice

less net debt.

Call Option Option to require the Old Investors to sell all but not

some only of the shares held by the Old Investors at the time of exercise, at anytime during the Call Option

Period.

Call Option Period The period commencing 6 days prior to the lapse of the

Put Option Period and ending 30 days after the lapse of

the Put Option Period.

Call Option Strike Price The higher of (a) \$1.00 and (b) value of the shares

calculated based on 6.0x trailing 12-month EBITDA of PSi as of the date of receipt of the exercise notice less

net debt.

2) The assumption of the Old Investors of certain pre-completion liabilities of PSi. However, payment of such liabilities would come from and is limited to any proceeds from the exercise of either the Put Option or the Call Option.

3) The New Investors agreed to proportionately assume one-third (1/3) of the initial \$3.00 million of the pre-completion liabilities assumed by the Old Investors.

The equity subscription of the New Investors was finalized on October 6, 2010. On that date, the Parent Company paid the \$8,325,000 subscription price and four (4) of its officers were appointed as members of PSi's BOD. As of this date, the Parent Company effectively obtained control of PSi.



The fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follow:

Assets \$10,527,930 \$10,527,930 Accounts receivable - net 12,683,494 18,419,853 Inventories - net 6,580,987 6,580,987 Property, plant and equipment - net 9,210,386 9,210,386 Other assets 1,311,932 1,311,932 Total 40,314,729 46,051,088 Liabilities 30,047,133 35,783,492 Loans payable and accrued expenses 30,047,133 35,783,492 Loans payable Deferred revenue 2,922,953 2,922,953 Accrued rental non-current 902,028 902,028 Other long-term benefits 372,084 372,084 Total 36,591,807 42,328,166 Net assets \$3,722,922 \$3,722,922 Cost of acquisition \$11,570,031 Less: Parent Company's share in the fair value of net assets acquired (55.78%) 2,076,646 Goodwill \$9,493,385 The cost of acquisition is determined as follows: \$3,816,485 Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors (1,403,991) Parent Company's s		Carrying Value	Fair Value
Accounts receivable - net	Assets		
Inventories - net 6,580,987 6,580,987 Property, plant and equipment - net 9,210,386 9,210,386 Other assets 1,311,932 1,311,932 Total 40,314,729 46,051,088 Liabilities 8 30,047,133 35,783,492 Loans payable and accrued expenses 30,047,133 35,783,492 Loans payable peferred revenue 2,947,609 2,347,609 Deferred revenue 2,922,953 2,922,953 Accrued rental non-current 902,028 902,028 Other long-term benefits 372,084 372,084 Total 36,591,807 42,328,166 Net assets \$3,722,922 \$3,722,922 Cost of acquisition \$11,570,031 Less: Parent Company's share in the fair value of net assets acquired (55.78%) 2,076,646 Goodwill \$9,493,385 The cost of acquisition is determined as follows: 3,816,485 Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors 3,816,485 Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	Cash	\$10,527,930	\$10,527,930
Property, plant and equipment - net Other assets 9,210,386 Other assets 9,210,386 I,311,932 I,311,932 Total 40,314,729 46,051,088 Liabilities Accounts payable and accrued expenses 30,047,133 35,783,492 Loans payable 2,347,609 2,347,609 Deferred revenue 2,922,953 2,922,953 Accrued rental non-current 902,028 902,028 902,028 902,028 902,028 902,028 70tal Other long-term benefits 372,084 372,084 372,084 372,084 372,084 372,084 372,084 372,084 70tal Total 36,591,807 42,328,166 70 42,328,166 7	Accounts receivable - net	12,683,494	
Other assets 1,311,932 1,311,932 1,311,932 Total 40,314,729 46,051,088 Liabilities 30,047,133 35,783,492 Loans payable 2,347,609 2,347,609 Deferred revenue 2,922,953 2,922,953 Accrued rental non-current 902,028 902,028 Other long-term benefits 372,084 372,084 Total 36,591,807 42,328,166 Net assets \$3,722,922 \$3,722,922 Cost of acquisition \$11,570,031 Less: Parent Company's share in the fair value of net assets acquired (55.78%) 2,076,646 Goodwill \$9,493,385 The cost of acquisition is determined as follows: \$8,325,000 Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors 3,816,485 Parent Company's share in acquisition date - fair value of Call Option granted to New Investors (1,403,991) Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	Inventories - net	6,580,987	6,580,987
Total 40,314,729 46,051,088 Liabilities Accounts payable and accrued expenses 30,047,133 35,783,492 Loans payable 2,347,609 2,347,609 Deferred revenue 2,922,953 2,922,953 Accrued rental non-current 902,028 902,028 Other long-term benefits 372,084 372,084 Total 36,591,807 42,328,166 Net assets \$3,722,922 \$3,722,922 Cost of acquisition \$11,570,031 Less: Parent Company's share in the fair value of assets acquired (55.78%) 2,076,646 Goodwill \$9,493,385 The cost of acquisition is determined as follows: \$8,325,000 Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors 3,816,485 Parent Company's share in acquisition date - fair value of Call Option granted to New Investors (1,403,991) Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	Property, plant and equipment - net	9,210,386	9,210,386
Liabilities Accounts payable and accrued expenses 30,047,133 35,783,492 Loans payable 2,347,609 2,347,609 Deferred revenue 2,922,953 2,922,953 Accrued rental non-current 902,028 902,028 Other long-term benefits 372,084 372,084 Total 36,591,807 42,328,166 Net assets \$3,722,922 \$3,722,922 Cost of acquisition \$11,570,031 Less: Parent Company's share in the fair value of assets acquired (55.78%) 2,076,646 Goodwill \$9,493,385 The cost of acquisition is determined as follows: \$8,325,000 Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors 3,816,485 Parent Company's share in acquisition date - fair value of Call Option granted to New Investors (1,403,991) Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	Other assets	1,311,932	1,311,932
Accounts payable and accrued expenses 30,047,133 35,783,492 Loans payable 2,347,609 2,347,609 Deferred revenue 2,922,953 2,922,953 Accrued rental non-current 902,028 902,028 Other long-term benefits 372,084 372,084 Total 36,591,807 42,328,166 Net assets \$3,722,922 \$3,722,922 Cost of acquisition \$11,570,031 Less: Parent Company's share in the fair value of assets acquired (55.78%) 2,076,646 Goodwill \$9,493,385 The cost of acquisition is determined as follows: Cash paid \$8,325,000 Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors 3,816,485 Parent Company's share in acquisition date - fair value of Call Option granted to New Investors (1,403,991) Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	Total	40,314,729	46,051,088
Loans payable 2,347,609 2,347,609 Deferred revenue 2,922,953 2,922,953 Accrued rental non-current 902,028 902,028 Other long-term benefits 372,084 372,084 Total 36,591,807 42,328,166 Net assets \$3,722,922 \$3,722,922 Cost of acquisition \$11,570,031 Less: Parent Company's share in the fair value of assets acquired (55,78%) 2,076,646 Goodwill \$9,493,385 The cost of acquisition is determined as follows: \$8,325,000 Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors 3,816,485 Parent Company's share in acquisition date - fair value of Call Option granted to New Investors (1,403,991) Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	Liabilities		
Deferred revenue 2,922,953 2,922,953 Accrued rental non-current 902,028 902,028 Other long-term benefits 372,084 372,084 372,084 Total 36,591,807 42,328,166 Net assets \$3,722,922 \$3	Accounts payable and accrued expenses	30,047,133	35,783,492
Accrued rental non-current Other long-term benefits 372,084 372,084 Total Total 36,591,807 42,328,166 Net assets \$3,722,922 Cost of acquisition Less: Parent Company's share in the fair value of net assets acquired (55.78%) Goodwill The cost of acquisition is determined as follows: Cash paid Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors Parent Company's share in acquisition date - fair value of Call Option granted to New Investors Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	Loans payable	2,347,609	2,347,609
Other long-term benefits372,084372,084Total36,591,80742,328,166Net assets\$3,722,922\$3,722,922Cost of acquisition\$11,570,031Less: Parent Company's share in the fair value of net assets acquired (55.78%)2,076,646Goodwill\$9,493,385The cost of acquisition is determined as follows:Cash paid\$8,325,000Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors3,816,485Parent Company's share in acquisition date - fair value of Call Option granted to New Investors(1,403,991)Parent Company's share in pre-completion liabilities assumed from the Old Investors832,537	Deferred revenue	2,922,953	2,922,953
Total 36,591,807 42,328,166 Net assets \$3,722,922 \$3,722,922 Cost of acquisition \$11,570,031 Less: Parent Company's share in the fair value of net assets acquired (55.78%) 2,076,646 Goodwill \$9,493,385 The cost of acquisition is determined as follows: Cash paid \$8,325,000 Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors 3,816,485 Parent Company's share in acquisition date - fair value of Call Option granted to New Investors (1,403,991) Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	Accrued rental non-current	902,028	902,028
Net assets \$3,722,922 \$3,722,922 Cost of acquisition \$11,570,031 Less: Parent Company's share in the fair value of net assets acquired (55.78%) \$2,076,646 Goodwill \$9,493,385 The cost of acquisition is determined as follows: Cash paid \$8,325,000 Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors \$3,816,485 Parent Company's share in acquisition date - fair value of Call Option granted to New Investors \$(1,403,991) Parent Company's share in pre-completion liabilities assumed from the Old Investors \$832,537	Other long-term benefits	372,084	372,084
Cost of acquisition \$11,570,031 Less: Parent Company's share in the fair value of net assets acquired (55.78%) 2,076,646 Goodwill \$9,493,385 The cost of acquisition is determined as follows: Cash paid \$8,325,000 Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors 3,816,485 Parent Company's share in acquisition date - fair value of Call Option granted to New Investors (1,403,991) Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	Total	36,591,807	42,328,166
Less: Parent Company's share in the fair value of net assets acquired (55.78%) Goodwill The cost of acquisition is determined as follows: Cash paid Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors Parent Company's share in acquisition date - fair value of Call Option granted to New Investors Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	Net assets	\$3,722,922	\$3,722,922
Less: Parent Company's share in the fair value of net assets acquired (55.78%) Goodwill The cost of acquisition is determined as follows: Cash paid Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors Parent Company's share in acquisition date - fair value of Call Option granted to New Investors Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537			A11 500 001
assets acquired (55.78%) Goodwill The cost of acquisition is determined as follows: Cash paid Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors Parent Company's share in acquisition date - fair value of Call Option granted to New Investors Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	•		\$11,570,031
Goodwill \$9,493,385 The cost of acquisition is determined as follows: Cash paid \$8,325,000 Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors 3,816,485 Parent Company's share in acquisition date - fair value of Call Option granted to New Investors (1,403,991) Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	* *		0.074.44
The cost of acquisition is determined as follows: Cash paid Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors Parent Company's share in acquisition date - fair value of Call Option granted to New Investors Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537			
Cash paid Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors Parent Company's share in acquisition date - fair value of Call Option granted to New Investors Parent Company's share in pre-completion liabilities assumed from the Old Investors \$8,325,000 3,816,485 (1,403,991) Parent Company's share in pre-completion liabilities assumed from the Old Investors \$832,537	Goodwill		\$9,493,385
Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors Parent Company's share in acquisition date - fair value of Call Option granted to New Investors Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	The cost of acquisition is determined as follows:		
Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors Parent Company's share in acquisition date - fair value of Call Option granted to New Investors Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	Cash paid		\$8,325,000
Put Option granted to Old Investors Parent Company's share in acquisition date - fair value of Call Option granted to New Investors Parent Company's share in pre-completion liabilities assumed from the Old Investors 3,816,485 (1,403,991) 832,537		ie of	
Parent Company's share in acquisition date - fair value of Call Option granted to New Investors Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537			3,816,485
Call Option granted to New Investors (1,403,991) Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537		ue of	
Parent Company's share in pre-completion liabilities assumed from the Old Investors 832,537	Call Option granted to New Investors		(1,403,991)
assumed from the Old Investors 832,537	Parent Company's share in pre-completion liabilities		
			832,537
			\$11,570,031

Accounting for the Business Combination

The purchase price allocation has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are accounts receivable, property, plant and equipment, accounts payable and accrued expenses, and goodwill. The goodwill recognized can be attributed to the acquisition of PSi's technology on SATS and increase in customer base due to additional network from PSi.

Philippine Financial Reporting Standard (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 months of the acquisition date; and from the acquisition date (i) 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; (ii) 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 (iii) 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.

Cash on acquisition follows:

Cash acquired from PSi	\$10,527,930
Cash paid	8,325,000
Net cash flow	\$2,202,930

Acquisition related costs which consist of professional fees, representation and travel expenses amounting to \$.17 million were recognized as expense in 2010.

From the date of acquisition, the Parent Company's share in PSi's revenue and net loss amounted to \$10.79 million and \$0.46 million, respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have increased by \$27.23 million, while the Group's net income before tax would have decreased by \$1.04 million.

3. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared under the historical cost method, except for available-for-sale (AFS) financial assets and derivative financial instruments that have been measured at fair value.

The consolidated financial statements are presented in United States (U.S.) Dollar, which is the Parent Company's and its subsidiaries' functional and presentation currency, and rounded off to the nearest dollar unless otherwise indicated.

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with PFRS.



Basis of Consolidation

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

	Percentage of	Ownership	Country of
	2010	2009	Incorporation
IMI USA	100.00%	100.00%	USA
IMI Japan	100.00%	100.00%	Japan
IMI Singapore	100.00%	100.00%	Singapore
IMI International Regional Operating Headquarter			
("IMI ROHQ")	100.00%	100.00%	Philippines
Speedy-Tech Electronics Ltd. and Subsidiaries			
("STEL and Subsidiaries")	100.00%	100.00%	Singapore
Speedy-Tech Technologies Pte. Ltd. ("STTS")	100.00%	100.00%	Singapore
Speedy-Tech Electronics (HK) Limited ("STHK")	100.00%	100.00%	Hong Kong
Speedy-Tech (Philippines), Inc. ("STPHIL")	100.00%	100.00%	Philippines
Shenzhen Speedy-Tech Electronics Co., Ltd.			
("SZSTE")	99.47%	99.45%	China
Shenzhen Speedy-Tech Technologies Co., Ltd.			
("SZSTT")	100.00%	100.00%	China
Speedy-Tech Electronics, Inc.	100.00%	100.00%	USA
Speedy-Tech Electronics (Jiaxing) Co., Ltd. ("STJX")	100.00%	100.00%	China
Speedy-Tech Electronics (Chong Qing) Co. Ltd.			
("STCQ")	100.00%	100.00%	China
IMI (Chengdu) Ltd.	100.00%		China
PSi	55.78%	****	Philippines
PSi Laguna	55.78%		Philippines
Pacsem Realty, Inc.	22.31%		Philippines
PSiTech Realty, Inc.	22.31%	*****	Philippines

Basis of consolidation from January 1, 2010

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

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any noncontrolling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received



- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to January 1, 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to January 1, 2010, were accounted for using
 the parent entity extension method, whereby, the difference between the consideration and the
 book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between noncontrolling and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at January 1, 2010 have not been restated.

Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the adoption of the following new and amended standards and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC) interpretations as of January 1, 2010. Except as otherwise indicated, the adoption of the new and amended standards as well as the Philippine Interpretations did not have significant impact on the consolidated financial statements.

• Revised PFRS 3, Business Combination, and amended PAS 27, Consolidated and Separate Financial Statements

The revised PFRS 3 introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of noncontrolling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

The amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The revised PFRS 3 was applied in accounting for the acquisition of PSi (see Note 2).



- Amendments to PFRS 2, Share-based Payment: Group Cash-settled Transactions
 These amendments clarify the scope and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. It supersedes Philippine Interpretation IFRIC 8, Scope of PFRS 2 and Philippine Interpretation IFRIC 11, IFRIC 2 Group and Treasury Share Transactions.
- Amendment to PAS 39, Financial Instruments: Recognition and Measurement Eligible Hedged Items

 This amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.
- Philippine Interpretation IFRIC 17, Distributions of Noncash Assets to Owners
 This interpretation provides guidance on how to account for noncash distributions to owners.
 It clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

Improvements to PFRSs

Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Improvements to PFRSs 2008

• PFRS 5, Non-current Assets Held for Sale and Discontinued Operations, clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a noncontrolling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or the financial performance of the Group, unless otherwise stated.

Improvements to PFRSs 2009

- PFRS 8, Operating Segments, clarifies that segment assets and liabilities need only be
 reported when those assets and liabilities are included in measures that are used by the chief
 operating decision maker. As the Group's chief operating decision maker does review
 segment assets and liabilities, the Group has continued to disclose this information in Note 29.
- PAS 7, Statement of Cash Flows, states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities. This amendment impacted, among others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.
- PAS 36, *Impairment of Assets*, amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.



Other amendments resulting from the 2009 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group.

- PFRS 2, Share-based Payment
- PFRS 5, Non-current Assets Held for Sale and Discontinued Operations
- PAS 1, Presentation of Financial Statements
- PAS 17, Leases
- PAS 38, Intangible Assets
- PAS 39, Financial Instruments: Recognition and Measurement
- Philippine Interpretation IFRIC-9, Reassessment of Embedded Derivatives
- Philippine Interpretation IFRIC-16, Hedge of a Net Investment in a Foreign Operation

Future Changes in Accounting Policies

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

Effective in 2011

- PAS 24 (Amended), Related Party Disclosures (effective for annual periods beginning on or after January 1, 2011)
 It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.
- PAS 32, Financial Instruments: Presentation (Amendment) Classification of Rights Issues (effective for annual periods beginning on or after February 1, 2010)

 The amendment to PAS 32 amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
- Philippine Interpretation IFRIC 14 (Amendment) *Prepayments of a Minimum Funding Requirement* (effective for annual periods beginning on or after January 1, 2011, with retrospective application)

 The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.
- Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 1, 2010) This Philippine Interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.



Improvements to PFRSs 2010

Improvements to PFRSs is an omnibus of amendments to PFRSs. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

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

Effective in 2012

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

Effective in 2013

• PFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after January 1, 2013)

PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Revenue Recognition

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

Sale of goods

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

Rendering of services

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

Interest

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

Dividends

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

Cash and Cash Equivalents

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

Financial Instruments

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

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

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

The financial instruments of the Group as of December 31, 2010 consist of loans and receivables, financial asset at FVPL, AFS financial assets, financial liability at FVPL and other financial liabilities. The financial instruments of the Group as of December 31, 2009 consist of loans and receivables, AFS financial assets, and other financial liabilities.

Determination of fair value

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Day 1 profit

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

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

Financial assets or financial liabilities at FVPL

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

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

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

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

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

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

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

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on the acquisition and includes fees that are an integral part of the effective interest rate and transaction



costs. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets when the Group expects to realize or collect the asset within twelve months from balance sheet date. Otherwise, these are classified as noncurrent assets.

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

AFS financial assets

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

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

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

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

Other financial liabilities

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of comprehensive income when liabilities are derecognized as well as through the amortization process.

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

Offsetting

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

Impairment of Financial Assets

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

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

Loans and receivables

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

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

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



AFS financial assets

For the Group's equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously charged to income - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

Derecognition of Financial Assets and Financial Liabilities

Financial asset

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

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

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

Financial liability

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

Inventories

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



Business Combination and Goodwill

Business combinations from January 1, 2010

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

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

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

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

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

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

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

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is



measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of comprehensive income any excess remaining after reassessment.

Business combinations prior to January 1, 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The noncontrolling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill. Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition.

Property, Plant and Equipment

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

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

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



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

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

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

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

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

Borrowing Costs

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

Intangible Assets

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

The EUL of intangible assets are as follows:

	Years
Customer relationships	5
Unpatented technology	5
Computer software	3

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.



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

Impairment of Nonfinancial Assets

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

Property, plant and equipment and intangible assets

A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization for property, plant and equipment and intangible assets) had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss is credited to current operations. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill

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

Income Tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at end of the reporting period.

Deferred tax

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

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

Where the deferred tax asset relating to the deductible temporary differences arises from the
initial recognition of an asset or liability in a transaction that is not a business combination
and, at the time of the transaction, affects neither the accounting income nor taxable income or
loss; and



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

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

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

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

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

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

Equity

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

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

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

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



Foreign Currency Transactions

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

Pensions and Other Employee Benefits

Defined contribution plans

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

Singapore

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

<u>P</u>RC

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

Hong Kong

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

Defined benefit plans

The Parent Company and PSi maintain separate defined benefit plan covering substantially all of their employees. The plans are funded, noncontributory pension plans administered by their respective Boards of Trustees. Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses, past service cost and the effect of any curtailment or settlement.



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

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

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

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

Employee leave entitlement

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

Share-based Payment Transactions

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

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



Earnings Per Share

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

Leases

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

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

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

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

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

Expenses

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



Provisions

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

Contingencies

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

Events after the Reporting Period

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

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results could differ from such estimates.

Judgments

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

Functional currency

The Parent Company and its subsidiaries determined their functional currency to be the U.S. Dollar, being the currency in which the sales prices for its goods and services are denominated and settled.

Operating lease - Group as lessor

The Parent Company subleased the property it occupies and determined based on the evaluation of the terms and conditions of the arrangement (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of the property which is leased out as operating lease.

Operating and finance lease commitments - Group as lessee

The Group has entered into various lease agreements for office equipment, office spaces and land as lessee. The Group has determined that it has not acquired the significant risks and rewards of ownership of the leased properties and so account for the contracts as operating leases.

The Parent Company has entered into a finance lease agreement covering certain office equipment. The Parent Company has determined, based on the evaluation of the terms and conditions of the arrangement, that it bears substantially all the risks and rewards incidental to ownership of the said equipment and so accounts for the contract as a finance lease (see Note 30).

Impairment of AFS equity investments

The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below cost of these investments or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities. In addition, the Group evaluates other factors, such as normal volatility in share price for quoted equities.

Contingent liabilities

The Group is currently involved in various legal proceedings and tax assessments. The estimate of the probable costs of the resolutions and assessments of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings and tax assessments will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 34).

Receivable from insurance

On May 24, 2009, a fire incident occurred in the Parent Company's plant in Cebu, Philippines. The plant was covered by insurance and the Parent Company believes that the collection of the insurance proceeds is virtually certain. As of December 31, 2009, the Parent Company recognized receivable and gain from the insurance claim amounting to \$5.62 million for damages to equipment and inventories caused by the fire incident (see Note 6).

Estimates and Assumptions

The key assumptions concerning the future and other sources of estimation uncertainty at the end of the reporting period that have significant risks of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of loans and receivables

The Group reduces the carrying amount of its loans and receivables through the use of an allowance account if there is objective evidence that an impairment loss on the loans and receivables have been incurred, based on the result of the individual and collective assessments. Factors considered are payment history and past due status. The carrying amounts of the loans and receivables, net of the allowance for doubtful accounts, amounted to \$109.94 million and \$95.81 million as of December 31, 2010 and 2009, respectively. Allowance for doubtful accounts amounted to \$1.37 million and \$0.31 million as of December 31, 2010 and 2009, respectively. Further details are given in Note 6.



Estimating NRV of Inventories

Inventories are valued at the lower of cost or NRV. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, costs of completion and costs necessary to make a sale to determine the NRV. In the event that NRV is lower than cost, the decline is recognized as an expense. Inventories carried at cost amounted to \$19.72 million and \$11.02 million as of December 31, 2010 and 2009, respectively. Inventories carried at NRV amounted to \$34.98 million and \$20.86 million as of December 31, 2010 and 2009, respectively. Allowance for inventory obsolescence amounted to \$3.73 million and \$6.26 million as of December 31, 2010 and 2009, respectively. Further details are given in Note 7.

Depreciation and amortization

The Group computes depreciation and amortization of property, plant and equipment and investment properties on a straight-line basis over the assets' EUL. The EUL and depreciation and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of the economic benefits from the assets. This requires the Group to make an estimate of the expected asset utilization from business plans and strategies, future technical developments and market behavior to determine the expected pattern of economic benefits from the assets. Property, plant and equipment, net of accumulated depreciation, amortization and impairment loss, amounted to \$74.62 million and \$63.13 million as of December 31, 2010 and 2009, respectively. Depreciation and amortization expense on property, plant and equipment amounted to \$19.37 million, \$18.06 million and \$18.62 million for the years ended December 31, 2010, 2009 and 2008 respectively. Further details are given in Notes 9, 20 and 21.

The Group computes amortization of intangible assets on a straight-line basis over the assets' EUL. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of comprehensive income in the expense category consistent with the function of the intangible asset. Intangible assets, net of accumulated amortization, amounted to \$0.92 million and \$2.80 million as of December 31, 2010 and 2009, respectively. Amortization expense amounted to \$2.65 million, \$2.74 million and \$2.69 million for the years ended December 31, 2010, 2009 and 2008, respectively. Further details are given in Note 11.

Impairment of property, plant and equipment and intangible assets

The Group determines at the end of each reporting period whether there is any indication that an item of property, plant and equipment and intangible assets with finite useful lives may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior periods may no longer exist or may have decreased. If any such indication exists and when the carrying amount of an asset exceeds its estimated recoverable amount, the asset or the CGU to which the asset belongs is written down to its recoverable amount. In 2008, the Group determined that there were indications that some of its production facilities were impaired.



Property, plant and equipment, net of accumulated depreciation, amortization and impairment loss, amounted to \$74.62 million and \$63.13 million as of December 31, 2010 and 2009, respectively. Impairment loss recognized in the consolidated statements of comprehensive income for the year ended December 31, 2008 amounted to \$1.50 million. No impairment loss was determined in 2010 and 2009. Intangible assets, net of accumulated amortization, amounted to \$0.92 million and \$2.80 million as of December 31, 2010 and 2009, respectively. No impairment was recognized for the intangible assets in 2010, 2009 and 2008. Further details are given in Notes 9, 11, 20 and 21.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount which is the net selling price or value in use of the CGUs to which the goodwill is allocated. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. As of December 31, 2010 and 2009, the Group has determined that there are no indications that its goodwill may be impaired. Goodwill amounted to \$55.72 million and \$46.23 million as of December 31, 2010 and 2009. Further details are given in Note 10.

Impairment of AFS financial assets

The Group classifies certain assets as AFS and recognizes movements in their fair value in other comprehensive income. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss. As of December 31, 2010 and 2009, no impairment losses have been recognized for AFS financial assets. The carrying amount of AFS financial assets of the Group amounted to \$0.38 million and \$0.31 million as of December 31, 2010 and 2009, respectively.

Deferred tax assets

The Group reviews the carrying amounts of its deferred tax assets at the end of each reporting period and reduces the deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilized.

As of December 31, 2010 and 2009, the Group has deferred tax assets of \$0.12 million and \$0.11 million, respectively. Further details are given in Note 25.

Pension and other employee benefits

The determination of the obligation and cost of pension under the Parent Company and PSi's defined benefit plan and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets, salary increase rates and the basis used to determine the amount of the economic benefits available. In accordance with PAS 19, actual results that differ from the Group's assumptions, subject to the 10% corridor test, are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. As of December 31, 2010, 2009 and 2008, the Group has unrecognized actuarial gains (losses) of (\$2.71) million, \$2.84 million and \$6.24 million, respectively. Further details are given in Note 27.



The Group also estimates other employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the period. Accrued leaves as of December 31, 2010 and 2009 amounted to \$2.47 million and \$0.94 million, respectively, recognized under "Accounts payable and accrued expenses" in the consolidated balance sheets. Cost of leaves in 2010, 2009 and 2008 amounted to \$1.94 million, \$1.62 million and \$3.12 million, respectively, recognized under "Direct labor, salaries, wages and employee benefits" under "Cost of goods sold and services" and "Operating expenses" in the consolidated statements of comprehensive income.

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

Share-based payment transactions

For share-based payment granted prior to 2010, the Group determined the cost of equity-settled shares based on the multiples of net book value, earnings before income tax, depreciation and amortization and net income of 10 comparable Asian EMS companies as at the close of the calendar year prior to the grant.

For the grant made in 2010, the cost of equity-settled shares was based on the market value of the Parent Company's stocks as quoted at the PSE at the date of grant.

For the years ended December 31, 2010, 2009 and 2008, the Group recognized cost of equity-settled share options amounting to \$1.93 million, \$0.51 million and \$1.48 million, respectively. Further details are given in Note 28.

Provision for warranty

A provision for warranty is recognized for all products under warranty at the reporting date based on experience with the level of repairs or returns.

For the years ended December 31, 2010, 2009 and 2008, the Group recognized (reversed) provision for warranty amounting to (\$0.02) million, \$0.01 million and (\$1.68) million, respectively. Further details are given in Note 14.

Recognition and measurement of taxes

The Group has exposure to taxes in numerous jurisdictions. Significant judgment is involved in determining the group-wide provision for taxes including value-added tax, consumption tax and customs duty. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected tax issues based on estimates of whether additional taxes are due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the profit and loss in the period in which such determination is made.

The carrying amount of the Group's income taxes payable as of December 31, 2010 and 2009 amounted to \$2.30 million and \$3.26 million, respectively.



5. Cash and Cash Equivalents

This account consists of:

	2010	2009
Cash on hand and in banks	\$24,894,016	\$28,773,426
Short-term deposits	13,240,727	25,158,341
	\$38,134,743	\$53,931,767

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.

6. Loans and Receivables

This account consists of:

	2010	2009
Trade	\$95,629,246	\$84,013,831
Nontrade	9,461,930	4,822,828
Short-term investments	2,000,000	
Receivable from insurance	1,859,984	5,625,707
Receivable from employees	707,172	426,884
Receivable from Meralco	549,923	793,768
Others	1,094,720	436,278
	111,302,975	96,119,296
Less allowance for doubtful accounts	1,366,536	312,447
	\$109,936,439	\$95,806,849

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.

Trade receivables of PS1 from certain customers totaling \$5.40 million as of December 31, 2010, were assigned as collateral to Philippine Veterans Bank (PVB). The collection of these receivables will be remitted directly to PSi's bank account with PVB (see Note 15).

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.

Short-term investments

Short-term investments are 2-year time deposits due in May 2011 subject to fixed interest rate of 2.00% per annum. These investments were included under "Other noncurrent assets" in 2009 (see Note 12).

Receivable from insurance

Insurance claims for damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu, Philippines in May 2009 amount to \$1.86 million and \$5.62 million as of December 31, 2010 and 2009, respectively. The gain from the insurance claims is included under "Miscellaneous income" in the 2009 consolidated statement of comprehensive income.

Receivable from Meralco

As a customer of Manila Electric Company (Meralco), the Parent Company is entitled to a refund for some of its previous billings under Phase IV of Meralco's refund scheme. In 2009, additional receivable from Meralco amounting to \$0.37 million was booked by the Parent Company (included under "Miscellaneous income").

The rollforward of the day 1 discount on the Meralco refund as of December 31, 2010 and 2009 follows:

	2010	2009
At beginning of year	\$34,451	\$80,865
Accretion	(18,780)	(46,414)
At end of year	\$15,671	\$34,451

The accretion of the day 1 discount is included under "Interest income" in the consolidated statements of comprehensive income (see Note 24).

Trade and nontrade receivables with nominal value of \$1.37 million and \$0.31 million were individually assessed to be impaired and fully provided with allowance for doubtful accounts as of December 31, 2010 and 2009, respectively.

Movements in the allowance for doubtful accounts follow:

<u>2010</u>

	Trade	Nontrade	Total
At January 1, 2010	\$223,355	\$89,092	\$312,447
Provision during the year	281,323	1,250,604	1,531,927
Accounts written off	(388,591)	(89,247)	(477,838)
At December 31, 2010	\$116,087	\$1,250,449	\$1,366,536

2009

	Trade	Nontrade	Total
At January 1, 2009	\$254,601	\$439,056	\$693,657
Provision during the year	120,890	46,645	167,535
Accounts written off	(152,136)	(396,609)	(548,745)
At December 31, 2009	\$223,355	\$89,092	\$312,447

Provisions during the year form part of "Operating expenses" and are included under "Facilities costs and others - Others" (see Note 22).



7. Inventories

This account consists of:

	2010	2009
At cost:		
Raw materials and supplies	\$6,813,778	\$2,998,336
Work-in-process	5,292,449	4,209,464
Finished goods	7,609,282	3,808,746
	19,715,509	11,016,546
At NRV:		
Raw materials and supplies	33,378,808	19,293,518
Work-in-process	1,342,050	622,282
Finished goods	258,046	942,666
	34,978,904	20,858,466
	\$54,694,413	\$31,875,012

The cost of the inventories carried at NRV amounted to \$38.71 million and \$27.12 million as of December 31, 2010 and 2009, respectively. The amount of inventories recognized as an expense amounted to \$265.48 million, \$263.56 million and \$222.77 in 2010, 2009 and 2008, respectively (see Note 20). Losses on decline in value of inventory, net of reversal, recognized in 2010, 2009 and 2008 amounted to (\$1.73) million, \$1.32 million and \$5.51 million, respectively, (see Note 22).

In May 2009, the Parent Company lost inventories amounting to \$0.56 million due to a fire incident in its plant in Cebu, Philippines (see Note 6). The loss from the fire and gain from the insurance claim amounting to \$4.98 million are included net under "Miscellaneous income" in the consolidated statements of comprehensive income.

For the years ended December 31, 2010, 2009 and 2008, gain from sale of scrapped packaging supplies amounting to \$0.23 million, \$0.11 million and \$0.34 million, respectively, are included under "Miscellaneous income" in the consolidated statements of comprehensive income.

8. Other Current Assets

This account consists of:

	2010	2009
Input tax	\$1,118,577	\$1,008,824
Advances to suppliers	941,878	160,613
Prepayments	380,369	412,764
Current portion of deferred licensing fee (Note 12)	10,000	·
Others	57,190	59,946
	\$2,508,014	\$1,642,147

Prepayments include prepayments for group hospitalization, life and fire insurance and rent.



9. Property, Plant and Equipment

2010

		N. C.	Furniture,				
	Buildings and Improvements	Machinery and Facilities Equipment	Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At January 1, 2010	\$50,321,661	\$97,732,248	\$12,241,416	\$1,229,558	\$1,500,626	\$1,626,621	\$164,652,130
Additions	921,877	17,786,055	3,518,838	498,877	1,244,636	96,435	24,066,718
Additions through business							
combination (Note 2)	219,482	8,812,625	149,303	28,976			9,210,386
Disposals	(291,838)	(6,162,716)	(1,998,448)	(785,970)	(21,183)		(9,260,155)
Reclassifications	154,493	1,472,128		-	_	(1,626,621)	
At December 31, 2010	51,325,675	119,640,340	13,911,109	971,441	2,724,079	96,435	188,669,079
Accumulated depreciation and amortization							
At January 1, 2010	28,711,998	61,614,950	8,207,147	147,696	1,340,200		100,021,991
Depreciation and amortization	3,089,224	13,528,910	2,062,520	301,151	391,421		19,373,226
Disposals	(282,117)	(5,177,914)	(1,159,486)	(211,405)	(21,183)		(6,852,105)
At December 31, 2010	31,519,105	69,965,946	9,110,181	237,442	1,710,438		112,543,112
Accumulated impairment loss	736,565	752,909	12,226		-		1,501,700
Net book value as of		·	·	·			
December 31, 2010	\$19,070,005	\$48,921,485	\$4,788,702	\$733,999	\$1,013,641	\$96,435	\$74,624,267

2009

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Projects in Progress	Total
Cost							
At January 1, 2009	\$50,157,786	\$99,111,126	\$11,209,918	\$1,541,074	\$1,687,149	\$392,609	\$164,099,662
Additions	244,020	4,774,607	1,271,791	201,087	200,899	1,626,620	8,319,024
Disposals	(82,250)	(5,384,913)	(240,293)	(512,603)	(376,338)	***	(6,596,397)
Retirement	891	(1,156,217)	***	799	(13,942)	***	(1,170,159)
Reclassifications	2,105	387,645			2,858	(392,608)	***
At December 31, 2009	50,321,661	97,732,248	12,241,416	1,229,558	1,500,626	1,626,621	164,652,130
Accumulated depreciation							
and amortization							
At January 1, 2009	24,906,924	54,125,687	6,266,171	186,652	1,205,298		86,690,732
Depreciation and amortization	3,887,322	11,301,636	2,044,840	296,490	525,040		18,055,328
Disposals	(82,248)	(2,737,429)	(103,864)	(335,446)	(376,196)		(3,635,183)
Retirement	_	(1,074,944)	_	_	(13,942)		(1,088,886)
At December 31, 2009	28,711,998	61,614,950	8,207,147	147,696	1,340,200		100,021,991
Accumulated impairment loss	736,565	752,909	12,226	1//1	<i>**</i>	_	1,501,700
Net book value as of							
December 31, 2009	\$20,873,098	\$35,364,389	\$4,022,043	\$1,081,862	\$160,426	\$1,626,621	\$63,128,439

PSi has a Mortgage Trust Indenture (MTI) with the Trust and Investment Division of a local bank, as Trustee. The mortgaged properties securing the Mortgage Obligations under the MTI are composed of machinery and equipment. The holders of the Mortgage Participation Certificates (MPC) under the MTI are: (a) Philippine Veterans Bank (PVB), a creditor bank (see Note 15) and (b) a major supplier of PSi (see Note 13), with a participation of \$3.00 million each. As of December 31, 2010, mortgaged machinery and equipment has a net carrying amount of \$2.68 million.

As of December 31, 2010 and 2009, fully depreciated property, plant and equipment amounting to \$33.91 million, are still being used by the Group.

The carrying values of office equipment classified under finance lease amounted to \$1.87 million and \$0.48 million, as of December 31, 2010 and 2009, respectively.



Starting January 2009, the Parent Company extended the estimated useful life of SMT and other production equipment from five (5) to seven (7) years due to factors which demonstrate that the equipment can be used for more than five (5) years. The change in estimated useful life reduced depreciation expense for 2010 and 2009 by \$0.74 million and \$2.07 million, respectively.

Property, plant and equipment retired by the Parent Company in 2009 pertains to facilities damaged by fire with book value amounting to \$0.08 million (see Note 6). The loss from the damaged facilities and gain from the insurance claim amounting to \$4.98 million, are included net under "Miscellaneous income" in the consolidated statements of comprehensive income.

Depreciation and amortization expense included in cost of goods sold and services for the years ended December 31, 2010, 2009 and 2008 amounted to \$16.23 million, \$15.68 million and \$15.18 million, respectively (see Note 20). Depreciation and amortization expense included in operating expenses for the years ended December 31, 2010, 2009 and 2008 amounted to \$3.14 million, \$2.38 million and \$3.45 million, respectively (see Note 21).

In 2008, the Parent Company recognized an impairment loss of \$1.50 million, included under cost of goods sold and services, representing the carrying amount of the production assets dedicated to EPSON Imaging Devices (Phils.), Inc., Panasonic Communication of the Philippines and PANAC Co. Ltd., net of the reimbursements received, following the pre-termination of the existing manufacturing agreements with the said customers (see Note 20).

10. Goodwill

Goodwill acquired through business combinations have been allocated to four individual CGUs as follows:

	2010	2009
STEL Group	\$45,128,024	\$45,128,024
PSi	9,493,385	
IMI USA and Trixell	656,610	656,610
IMI Philippines	441,166	441,166
	\$55,719,185	\$46,225,800

STEL Group and IMI USA and Trixell

The recoverable amounts of these CGUs have been based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections for STEL Group and IMI USA are 12.35% and 11.02%, respectively, in 2010 and 12% in 2009. Cash flows beyond the five-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate for the global EMS industry.

Key assumptions used in value in use calculations

The calculations of value in use for the CGUs are most sensitive to the following assumptions:

- Budgeted gross margins Gross margins are based on the mix of business model arrangements with the customers whether consigned or turnkey.
- Growth rate The forecasted growth rate is based on a very conservative steady growth rate that does not exceed the compounded annual growth rate for the global EMS industry.

• Pre-tax discount rates - Discount rates reflect management's estimate of the risks specific to each CGU. This is the benchmark used by management to assess operating performance.

With regard to the assessment of value in use of these two CGUs, management believes that a 72.05% and 45.28% increase in the discount rate during the 5-year period, for STEL Group and IMI USA, respectively, with all other key assumptions held constant, would give a value in use equal to the carrying amount of the CGU.

IMI Philippines

The value in use methodology was used in determining the recoverable amount of IMI Philippines in 2009. In 2010, the recoverable amount was based on the market price of its shares at valuation date less estimated costs to sell. The comparison of the recoverable amount and the carrying amount resulted in no impairment.

PSi

As discussed in Note 2, provisional accounting has been adopted for the acquisition of PSi. As a result, the goodwill recognized is still subject to finalization.

11. Intangible Assets

This account consists of:

2010

	Customer	Unpatented	Computer	
	Relationships	Technology	Software	Total
Cost				
At January 1, 2010	\$12,900,000	\$100,000	\$697,449	\$13,697,449
Additions		***	765,833	765,833
At December 31, 2010	12,900,000	100,000	1,463,282	14,463,282
Accumulated amortization				
At January 1, 2010	10,535,000	81,667	278,152	10,894,819
Amortization	2,365,000	18,333	262,128	2,645,461
At December 31, 2010	12,900,000	100,000	540,280	13,540,280
Net book value as of				
December 31, 2010	\$	\$-	\$923,002	\$923,002

Customer	Unpatented	Computer	· ·
Relationships	Technology	Software	Total
\$12,900,000	\$100,000	\$283,206	\$13,283,206
	<u>-</u>	414,243	414,243
12,900,000	100,000	697,449	13,697,449
7,955,000	61,667	133,848	8,150,515
2,580,000	20,000	144,304	2,744,304
10,535,000	81,667	278,152	10,894,819
\$2,365,000	\$18,333	\$419,297	\$2,802,630
	Relationships \$12,900,000 12,900,000 7,955,000 2,580,000 10,535,000	Relationships Technology \$12,900,000 \$100,000 12,900,000 100,000 7,955,000 61,667 2,580,000 20,000 10,535,000 81,667	Relationships Technology Software \$12,900,000 \$100,000 \$283,206



Customer relationships

Customer relationships pertain to STEL Group's noncontractual master agreements with certain customers which lay out the principal terms upon which the parties agree to undertake business.

Unpatented technology

Unpatented technology pertains to products which are technologically feasible. The STEL Group's patents were applied for the following technologies, both of which are unique, difficult to design around and which meet the separability criteria:

- · Self bias double-ended switching circuit; and
- A zero power consumption switch circuit to simplify the energy star solution for external power adapter

Computer Software

These pertain to the Parent Company's acquisitions of various computer software and applications such as APIS IQ – FMEA Pro, Microsoft Visio and MS Project v6 in 2010 and Acrobat Pro 9, Quest DBA Module, and Toad Oracle Professional in 2009.

Amortization of intangible assets included in operating expenses for the years ended December 31, 2010, 2009 and 2008 amounted to \$2.65 million, \$2.74 million and \$2.69 million, respectively (see Note 21).

12. Noncurrent Receivables and Other Noncurrent Assets

As of December 31, 2010 and 2009, noncurrent receivables amounting to \$0.18 million and \$0.56 million, respectively, pertain to advances to customers for equipment purchased by the Group that are reimbursable from the former.

Other noncurrent assets consist of:

	2010	2009
Miscellaneous deposits	\$1,467,268	\$826,514
Noncurrent portion of deferred licensing fee	30,000	****
Long-term investments (Note 8)	-	2,000,000
	\$1,497,268	\$2,826,514

Miscellaneous deposits include electric and water meter deposits.

Deferred licensing fee pertains to the payment made by PSi to Amkor Technology, Inc. (ATI), an unrelated party, in 2004 amounting to \$100,000, in accordance with the terms of their Microleadframe Patent License Agreement. The amortization expense, using the straight-line method, amounts to \$10,000 for each of the ten succeeding years. Moreover, PSi has to pay additional fees for the use of the license based on a certain formula. The account is payable quarterly and any unpaid balance shall be subject to 1% interest per month. The agreement is for a period of ten years, which started in 2004. The amortization expense and additional licensing fee for 2010 amounting to \$2,500 and \$3,190, respectively, are included in "Cost of goods sold" under "Facilities and others - others".



13. Accounts Payable and Accrued Expenses

This account consists of:

	2010	2009
Trade payables	\$71,090,278	\$60,666,337
Accrued expenses	21,776,704	11,200,102
Accrued payroll	3,563,987	4,319,142
Obligation under finance lease - current (Note 30)	1,209,960	188,142
Nontrade payables	1,053,866	423,604
Employee-related payables	687,935	484,391
Customers' deposits	681,259	1,327,825
Taxes payable	639,641	172,131
Accrued interest payable (Notes 15 and 16)	60,919	41,424
Unwinding cost payable		2,295,500
Others (Note 17)	4,581,071	2,038,860
	\$105,345,620	\$83,157,458

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

Trade payables include PSi's liability to a certain supplier amounting to \$3.39 million as of December 31, 2010, which is covered by an MPC amounting to \$3.00 million under PSi's MTI with a local bank (see Note 15). In addition, all overdue accounts from July 1, 2010 to December 31, 2010 with the supplier are subject to 0.50% interest per month.

Accrued expenses consist mainly of accruals for light and water, taxes, repairs and maintenance, professional fees, transportation and travel, subcontractual costs, security, insurance and representation. This also includes a separation pay amounting to \$0.40 million payable in 2011 to a retired officer of Psi (see Note 27).

Nontrade payables includes provision for losses on purchase commitments of PSi amounting to \$0.25 million as of December 31, 2010, which pertains to losses arising from price decline and expected termination of several firm and executory purchase commitments. No additional provisions were recorded in 2010.

Unwinding cost payable in 2009 pertains to the Parent Company's outstanding liability for the unwinding costs of the derivative contracts it entered in 2008 (see Note 33).

14. Provisions

This account consists of:

	Warranty	Restructuring	Total	
At January 1, 2010	\$18,481	\$25,283	\$43,764	
Provision (reversal of provision) during the	,	•	,	
year	(18,481)	246,382	227,901	
Payment	****	(271,665)	(271,665)	
At December 31, 2010	\$-	\$	\$-	



2009

	Warranty	Restructuring	Total	
At January 1, 2009	\$13,238	\$6,000,000	\$6,013,238	
Provision (reversal of provision) during				
the year	5,243	(889,304)	(884,061)	
Payment		(5,085,413)	(5,085,413)	
At December 31, 2009	\$18,481	\$25,283	\$43,764	

A provision for warranty is recognized for all products under warranty at the reporting date based on the Group's estimate of possible repairs or returns. No significant repairs or returns are expected in the future related to the sales made during the year. Consequently, no provision for warranty was recognized as of December 31, 2010.

In 2010, the Parent Company announced a restructuring of operations due to closure of two business activities. The restructuring was completed in July 2010 with actual payout of \$0.25 million (see Note 27).

In 2008, the Parent Company provided for its estimate of benefits to be paid to employees that will be separated as a result of a restructuring of its operations to respond to decline in business activities. The Parent Company drew a restructuring plan and estimated costs amounting to \$6.00 million to be incurred. The restructuring was completed in September 2009. The remaining provision for restructuring as of December 31, 2009 pertains to unclaimed separation pay. Total actual payout as of December 31, 2009 amounted to \$5.08 million (see Note 27).

The provisions (reversal of provisions) for restructuring and warranty costs form part of "Operating expenses" and are included under "Salaries, wages and employee benefits" and "Facilities costs and others", respectively.

15. Loans Payable

This account consists of:

	2010	2009
Parent Company	\$10,000,000	\$
PSi	6,625,249	
STEL	1,296,389	2,302,233
	\$17,921,638	\$2,302,233

The Parent Company has two (2) 90-day term loans amounting to \$5.00 million each, and subject to fixed interest rates of 1.18% and 1.16%.

PSi has short-term loans from the following banks:

Metropolitan Bank & Trust Co. (MBTC)	\$5,000,000
PVB	1,625,249
	\$6,625,249



MBTC

PSi has an unsecured Omnibus Line Credit Facility of \$10.00 million granted on November 24, 2010, which includes 30 to 360 days Promissory Notes, maybe denominated in USD or Philippine peso (PHP), Letter of Credit/Trust Receipt (LC/TR) Line, Export Packing Credit Line, FX Forward Cover, Foreign Bills Line and Domestic Bill Purchase Line. The credit facility will expire on October 30, 2011. The undrawn credit facility amounted to \$5.00 million as of December 31, 2010. The interest rate in 2010 is 2.56%.

PVB

The existing short-term credit facility with PVB, which will expire in April 2011, is secured by trade receivables from certain customers and MTI on machinery and equipment (see Note 9). The interest rates in 2010 ranged from 3.16% to 3.72%.

Under the terms of the Credit Facility Agreement with PVB, PSi shall ensure that the collection of eligible receivables under the Borrowing Base (equivalent to 95% of the value of the outstanding eligible receivables) will be deposited with its PVB bank account. Furthermore, PSi shall maintain a Borrowing Base to cover the outstanding principal drawn under the Credit Facility Agreement at all times. The undrawn credit facility amounted to \$1.37 million as of December 31, 2010.

The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates ranging from 3.52% to 3.70% and 1.94% to 3.86% in 2010 and 2009, respectively, and have maturities of 30 to 240 days from the date of issue with renewal options.

16. Long-Term Debt

This account consists of:

	2010	2009
Parent Company	\$30,000,000	\$30,000,000
STEL	8,000,000	16,000,000
PSi	372,084	
	\$38,372,084	\$46,000,000

As of December 31, 2010 and 2009, current portion of long-term debt amounts to \$38.00 million and \$46.00 million, respectively.

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



Loan covenants related to the Parent Company's loan are as follows:

- The ratio of debt to earnings before income tax, depreciation and amortization (EBITDA) shall not exceed 3:1 at all times with reference to the borrower's consolidated financial statements:
- maintenance of debt service coverage ratio (DSCR) of at least 1.5:1;
- maintenance at all times of a current ratio of at least 1:1; and
- maintenance of a debt to equity ratio, computed with reference to the borrower's consolidated financial statements, of not greater than 1.75:1.

As of December 31, 2010, the Parent Company has complied with all the above-mentioned loan covenants.

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

Loan covenants related to STEL's loan are as follows:

- The ratio of borrower's consolidated debt to borrower's consolidated net worth for each test period will not exceed 1.5:1;
- Guarantor's consolidated net worth for each test period will not be less than \$50.00 million;
- The ratio of guarantor's consolidated debt to guarantor consolidated net worth for each test period will not exceed 1.5:1; and
- The ratio of guarantor's EBITDA to guarantor's consolidated current debt for each test period will not be less than 1.25:1.

As of December 31, 2010, STEL has complied with all the above-mentioned loan covenants.

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

17. Deferred Revenue

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

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

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



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

As of December 31, 2010, the current and noncurrent portion of the advances from Microsemi is as follows:

Total outstanding advances from Microsemi	\$2,829,335
Less current portion	264,741
Noncurrent portion	\$2,564,594

The current portion is included under "Account payable and accrued expense - others" (see Note 13).

18. Equity

Capital Stock

This account consists of:

	2010 2009		2010		2009		2008
Shares	Amount	Shares	Amount	Shares	Amount		
	, , ,						
2,250,000,000		1,500,000,000		1,500,000,000			
1,500,000,000		1,500,000,000		1,500,000,000			
1,137,788,197	\$20,267,538	1,137,020,302	\$20,253,054	1,135,476,364	\$20,223,972		
187,500,000	4,117,259	_	_	-			
27,001,897	508,916	767,895	14,484	1,543,938	29,082		
1,352,290,094	\$24,893,713	1,137,788,197	\$20,267,538	1,137,020,302	\$20,253,054		
1,300,000,000	\$26,601,155	1,300,000,000	\$26,601,155		\$		
	<u> </u>	-	-	1,300,000,000	26,601,155		
1,300,000,000	\$26,601,155	1,300,000,000	\$26,601,155	1,300,000,000	\$26,601,155		
	2,250,000,000 1,500,000,000 1,137,788,197 187,500,000 27,001,897 1,352,290,094 1,300,000,000	Shares Amount 2,250,000,000 4,500,000,000 1,137,788,197 \$20,267,538 187,500,000 4,117,259 27,001,897 508,916 1,352,290,094 \$24,893,713 1,300,000,000 \$26,601,155 - -	Shares Amount Shares 2,250,000,000 1,500,000,000 1,500,000,000 1,500,000,000 1,137,788,197 \$20,267,538 1,137,020,302 187,500,000 4,117,259 — 27,001,897 508,916 767,895 1,352,290,094 \$24,893,713 1,137,788,197 1,300,000,000 \$26,601,155 1,300,000,000	Shares Amount Shares Amount 2,250,000,000 1,500,000,000 1,500,000,000 1,500,000,000 20,267,538 1,137,788,197 \$20,267,538 1,137,020,302 \$20,253,054 187,500,000 4,117,259 — — 27,001,897 508,916 767,895 14,484 1,352,290,094 \$24,893,713 1,137,788,197 \$20,267,538 1,300,000,000 \$26,601,155 1,300,000,000 \$26,601,155	Shares Amount Shares Amount Shares 2,250,000,000 1,500,000,000 1,500,000,000 1,500,000,000 1,500,000,000 1,500,000,000 1,137,788,197 \$20,267,538 1,137,020,302 \$20,253,054 1,135,476,364 187,500,000 4,117,259 — — — 27,001,897 508,916 767,895 14,484 1,543,938 1,352,290,094 \$24,893,713 1,137,788,197 \$20,267,538 1,137,020,302 1,300,000,000 \$26,601,155 — — — 1,300,000,000		

*Out of the total issued shares, 15,892,109 shares as of December 31, 2010 and 15,892,365 shares as of December 31, 2009 and 2008 pertain to treasury shares.

On June 4, 2008, the BOD of the Parent Company approved and authorized the increase in its authorized capital stock from \$\textstyle{1.50}\$ billion consisting of 1.50 billion common shares with a par value of \$\textstyle{1.00}\$ per share, to \$\textstyle{3.00}\$ billion, consisting of 1.50 billion common shares and 1.50 billion preferred shares both with a par value of \$\textstyle{1.00}\$ per share and the amendment of the Articles of Incorporation to reflect such increase. The BOD also approved and authorized the offering of 1.30 billion preferred shares to all existing stockholders of the Parent Company on a pro-rata basis at the par value of \$\textstyle{1.00}\$ per share. The increase in authorized capital stock, amendment of the Articles of Incorporation and the preferred shares offering were subsequently ratified in the special stockholders' meeting held on June 30, 2008.



The increase in authorized capital stock of the Parent Company and the amended Articles of Incorporation were approved by the Philippine Securities and Exchange Commission (SEC) on November 21, 2008 in accordance with the provisions of Section 38 of the Corporation Code of the Philippines.

The preferred shares have certain features, rights and privileges, which include voting rights, quarterly dividends at dividend rate of 8.25% rate p.a., cumulative in payment of current dividends, nonparticipating in any other or further dividends beyond those that are specifically payable on the shares, nonconvertibility to common shares, preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation and in the payment of the dividend at the rate specified, no pre-emptive rights, redeemable at the option of the issuer and certificated.

On April 8, 2010, the Parent Company's BOD approved the increase in its authorized capital stock from \$\mathbb{P}3.00\$ billion to \$\mathbb{P}3.75\$ billion, which shall consist of an additional 750 million common shares with a par value of \$\mathbb{P}1.00\$ per share, and the amendment of the articles of incorporation to reflect such increase. The Parent Company's BOD also approved the declaration of stock dividends equivalent to 187.5 million common shares to all the subscribed and outstanding common shares of the Parent Company as of the record date to be set by the SEC in connection with its approval of the Parent Company's application for increase in authorized capital stock.

The BOD of the Parent Company further resolved to consolidate into whole shares, the fractional shares resulting from the declaration of stock dividend and the Parent Company to redeem it as treasury stock, at a price equal to the last closing price at the PSE, immediately prior to the record date.

On August 12, 2010 the SEC approved the (1) increase in the Parent Company's authorized capital stock from \$\mathbb{P}3.00\$ billion to \$\mathbb{P}3.75\$ billion and the amendments in its Articles of Incorporation to reflect the increase, and (2) its payment of 15% stock dividend equivalent to 187.50 million common shares to its stockholders of record as of August 31, 2010. The issuance of the stock dividends was made on September 24, 2010.

<u>Subscribed Capital Stock</u> Details of this account are as follows:

	2010		2009		2008	
	Shares	Amount	Shares	Amount	Shares	Amount
At beginning of year	107,898,420	\$2,167,895	108,666,315	\$2,182,379	108,671,253	\$2,178,004
Subscriptions during the year ESOWN (Note 28)	30,885,000	668,506			1,539,000	33,457
Preferred stock			****	quinte	1,300,000,000	26,601,155
	30,885,000	668,506	****		1,301,539,000	26,634,612
Issuances during the year ESOWN Preferred stock	(27,001,897) —	(508,916) -	(767,895) -	(14,484)	(1,543,938) (1,300,000,000)	(29,082) (26,601,155)
	(27,001,897)	(508,916)	(767,895)	(14,484)	(1,301,543,938)	(26,630,237)
Forfeitures during the year ESOWN	(21,194,523)	(425,522)				
At end of year	90,587,000	\$1,901,963	107,898,420	\$2,167,895	108,666,315	\$2,182,379



Subscriptions Receivable

Details of this account are as follows:

	2010		2009		2008	
-	Shares	Amount	Shares	Amount	Shares	Amount
At beginning of year	111,297,000	\$10,153,255	111,297,000	\$10,439,358	109,758,000	\$11,101,002
Subscriptions during the year (Note 28)	30,885,000	3,390,814	-	****	1,539,000	306,137
Collections		(1,215,793)		(40,383)	Lana .	(1,635,657)
Accretion (Note 28)	T40	1,913,073		(245,720)		667,876
Forfeitures	(21,194,523)	(2,829,355)	-	_		· -
At end of year	120,987,477	\$11,411,994	111,297,000	\$10,153,255	111,297,000	\$10,439,358

Dividends

On April 8, 2010, the BOD of the Parent Company approved and authorized the declaration and payment of cash dividend in the amount of \$0.0024 or \$\frac{1}{2}0.11\$ per common share or the equivalent of \$2.99 million, out of the unrestricted retained earnings of the Parent Company as of December 31, 2009, to all common stockholders of the Parent Company as of record date April 30, 2010. The dividends were paid on May 27, 2010.

On January 21, 2010, the Parent Company's BOD approved and authorized the declaration and payment of quarterly dividend of 8.25% p.a. from the unappropriated retained earnings as of December 31, 2008, to all shareholders of the Parent Company's Preferred Class shares. Other details follow:

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Covering period	November 21, 2009	February 22, 2010	May 21, 2010	August 24, 2010
	10	to	to	to
	February 22, 2010	May 21, 2010	August 24, 2010	November 22, 2010
Record date	February 8, 2010	May 10, 2010	August 9, 2010	November 8, 2010
Payment date	February 22, 2010	May 21, 2010	August 24, 2010	November 22, 2010
Amount	\$599,703	\$567,460	\$612,599	\$580,357

On November 4, 2009, the BOD of the Parent Company approved and authorized the declaration and payment of quarterly dividend of 8.25% p.a. or the equivalent of \$0.58 million, out of the unrestricted retained earnings of the Parent Company as of December 31, 2008, to all stockholders of the Parent Company's Preferred Class shares of record as of November 9, 2009. The dividends were paid on November 21, 2009.

On July 21, 2009, the BOD of the Parent Company approved and authorized the declaration and payment of quarterly dividend of 8.25% p.a. or the equivalent of \$0.57 million, out of the unrestricted retained earnings of the Parent Company as of December 31, 2008, to all stockholders of the Parent Company's Preferred Class shares of record as of August 10, 2009. The dividends were paid on August 21, 2009.

On March 26, 2009, the BOD of the Parent Company approved and authorized the declaration and payment of quarterly dividend of 8.25% p.a. or the equivalent of \$0.55 million, out of the unrestricted retained earnings of the Parent Company as of December 31, 2008, to all stockholders of the Parent Company's Preferred Class shares of record as of May 8, 2009. The dividends were paid on May 11, 2009.



Likewise, on March 26, 2009, the BOD of the Parent Company approved and authorized the declaration and payment of cash dividend amounting to \$0.00163 per share or the equivalent of \$2.00 million, out of the unrestricted retained earnings of the Parent Company as of December 31, 2008, to all common stockholders of the Parent Company as of record date March 26, 2009. Payment was made on June 6, 2009.

On December 16, 2008, the BOD of the Parent Company approved and authorized the declaration of quarterly dividend of 8.25% p.a. or the equivalent of \$0.56 million, out of the unrestricted retained earnings of the Parent Company as of December 31, 2007, to all stockholders of the Parent Company's Preferred Class "B" shares of record as of February 9, 2009. Payment was made on February 14, 2009.

On May 7, 2008, the BOD of the Parent Company approved and authorized the declaration of cash dividend amounting to \$0.00873 per share or the equivalent of \$10.74 million, out of the unrestricted retained earnings of the Parent Company as of December 31, 2007, to all stockholders of record as of April 30, 2008. Payments were made in June and November 2008 amounting to \$6.45 million and \$4.29 million, respectively.

Treasury Stock

The movements in the treasury stock follow:

_	2010		2009		2008	
	Shares	Amount	Shares	Amount	Shares	Amount
Beginning of year	15,892,365	\$1,012,592	15,892,365	\$1,012,592	15,745,302	\$970,291
Issuance during the year	(300)	(17)				
Acquisition during the year	44	10	nu.	_	147,063	42,301
End of year	15,892,109	\$1,012,585	15,892,365	\$1,012,592	15,892,365	\$1,012,592

On April 8, 2010, the Management of the Parent Company approved to assign 100 qualifying shares to each of its three (3) independent directors. The qualifying shares were pulled out from the treasury shares of the Parent Company.

On September 24, 2010, the Parent Company redeemed the fractional shares aggregating to 44 shares resulting from the stock dividend declared on April 8, 2010.

Retained Earnings

The appropriated retained earnings will be used to finance the Group's planned expansion and acquisition of other EMS companies.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company has no retained earnings available for dividend declaration as of December 31, 2010. However, on February 23, 2011, the BOD of the Parent Company approved the reclassification of appropriated retained earnings amounting to \$20.00 million to unappropriated retained earnings as of December 31, 2010 (see Note 35).



19. Revenues from Sales and Services

This account consists of:

	2010	2009	2008
Sale of goods	\$328,697,578	\$347,788,074	\$312,004,752
Sale of services	83,629,027	47,714,207	129,139,930
	\$412,326,605	\$395,502,281	\$441,144,682

20. Cost of Goods Sold and Services

This account consists of:

	2010	2009	2008
Direct, indirect and other material-related			
costs (Note 7)	\$265,483,888	\$263,560,759	\$222,773,763
Direct labor, salaries, wages and employee			
benefits (Note 27)	64,704,176	55,309,521	97,895,700
Depreciation and amortization (Note 9)	16,231,694	15,683,663	15,175,848
Impairment loss (Note 9)	Maser		1,501,700
Facilities costs and others (Note 22)	21,432,255	16,357,707	33,021,059
	\$367,852,013	\$350,911,650	\$370,368,070

21. Operating Expenses

This account consists of:

	2010	2009	2008
Salaries, wages and employee benefits			
(Note 27)	\$22,897,063	\$16,388,199	\$27,668,944
Depreciation and amortization	, ,		, ,
(Notes 9 and 11)	5,786,993	5,115,969	6,137,677
Facilities costs and others (Note 22)	11,539,960	13,667,151	20,292,654
	\$40,224,016	\$35,171,319	\$54,099,275

22. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			Operating Expenses		
	2010	2009	2008	2010	2009	2008
Utilities	\$8,071,258	\$6,092,725	\$9,035,267	\$649,768	\$435,802	\$662,805
Variable overhead	3,616,274	3,682,733	12,347,007	_	****	
Repairs and maintenance	3,381,890	2,223,681	3,998,284	492,723	486,894	915,777
Outsourced activities (Note 30)	3,379,122	3,007,146	4,896,894	5,549,611	5,360,863	5,069,310
Government-related	1,171,785	1,110,324	840,556	157,017	638,063	693,875
Technology-related	41,733	9,343	211,244	1,063,758	590,429	959,669
Provision (reversal of provision) for				. ,	,	,
inventory obsolescence			****	(1,734,481)	1,322,908	5,514,988
Others	1,770,193	231,755	1,691,807	5,361,564	4,832,192	6,476,230
	\$21,432,255	\$16,357,707	\$33,021,059	\$11,539,960	\$13,667,151	\$20,292,654



"Others" include provision for doubtful accounts, transportation, travel, sales commission, postage and communication. In 2009, "Others" also includes reversal of previously deferred professional fees incurred in 2008 amounting to \$1.10 million in relation to a business acquisition that the Parent Company was pursuing. The acquisition did not push through and the deferred costs were expensed in 2009.

23. Interest Expense and Bank Charges

This account consists of:

	2010	2009	2008
Interest on bank loans (Notes 15 and 16)	\$942,202	\$1,739,827	\$3,027,546
Bank and other financing charges	94,727	47,639	566,063
	\$1,036,929	\$1,787,466	\$3,593,609

24. Interest Income

This account consists of:

	2010	2009	2008
Interest on bank balances and fixed deposits			
(Notes 5 and 12)	\$333,798	\$676,847	\$1,042,355
Accretion of Meralco receivable (Note 6)	18,780	46,414	99,246
	\$352,578	\$723,261	\$1,141,601

25. Income Tax

Parent Company

As discussed in Note 1, the Parent Company is registered with PEZA and is entitled to certain incentives, which include ITH. The Parent Company's entitlements to ITH under the current PEZA registrations have expirations beginning January 2010, for which extension has been applied for, up to July 2013 for the different registered activities. The Parent Company's application for extension of its ITH is still pending PEZA approval. Upon the expiration of the ITH, the Parent Company will be subject to a five percent (5%) final tax on gross income earned after certain allowable deductions in lieu of payment of national and local taxes. As of December 31, 2010, application for extension for PEZA registration is still on-going, for which the Parent Company expects approval in 2011.

PSi

PSi is a PEZA-registered entity, and is subject to a 5% tax on gross income less allowable deductions, as defined in RA No. 7916, as amended by RA No. 8748, in lieu of all national and local taxes, except real property tax on land being leased by the Parent Company in FTI-SEZ. The 5% tax on gross income shall be paid and remitted as follows: (a) three percent (3%) to the National Government; and (b) two percent (2%) to the treasurer's office of the municipality or city where the enterprise is located.



PSi registered its subcontracted services with PEZA on July 9, 2010. Under the Supplemental Agreement, the subcontracted services are entitled to incentives granted to non-pioneer projects under RA No. 7916, as amended. PSi started rendering subcontracted services on July 15, 2010.

On August 9, 2010, PSi was registered by PEZA as an Ecozone Logistics Service Enterprise to provide warehousing logistics support services.

No ITH incentives were availed in 2010.

STHK

Hong Kong profits tax has been provided at the rate of 16.5% for the years ended December 31, 2010 and 2009, on the assessable profit for the year.

SZSTE, SZSTT, STJX and STCQ

In accordance with the "Income Tax Law of PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax (EIT) for the first two (2) years and a 50% reduction in EIT for the next three (3) years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five (5) years.

SZSTE is subject to taxation at the statutory tax rate of 25% and 20% for the years ended December 31, 2010 and 2009, respectively, on its taxable income as reported in the financial statements of SZSTE prepared in accordance with the accounting regulations in the PRC.

SZSTT has been dormant for the financial year under audit and thus there is no current tax expense for SZSTT. Deferred income tax assets arising from the tax losses of SZSTT are not recognized in the consolidated financial statements due to uncertainty as to whether sufficient taxable income will be available against which the deferred income tax assets can be utilized.

STJX is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year, that is after all tax losses have been fully offset in accordance with the "Income Tax of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STJX is in its sixth profitable year, and hence is subject to taxation at the rate of 25% in 2010 and 2009 on the taxable income as reported in the financial statements of STJX prepared in accordance with the accounting regulations in the PRC.

STCQ is entitled to full exemption from EIT for the first five (5) years, commencing from the first profitable year, that is after all tax losses have been fully offset in accordance with the "Income Tax of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STCQ is in its second profitable year, and hence is not subject to taxation on the taxable income as reported in the financial statements of STCQ prepared in accordance with the accounting regulations in the PRC.

STPHIL

STPHIL is registered with the PEZA as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to 5% on gross income, as defined under R.A. No. 7916, in lieu of all local and national taxes.



The effective income tax of the Group is accounted for as follows:

	2010	2009	2008
Income (loss) before income tax	\$7,822,169	\$15,161,368	(\$14,350,346)
Tax on:			
Income from foreign subsidiaries	3,085,736	4,906,082	1,982,193
Income subject to 5% gross income tax	324,316	189,422	248,629
Income subject to regular tax	4,077	16,696	175,510
Others	46	-	
Deferred income tax expense (benefit)	(6,651)	(81,012)	25,670
Effective income tax	\$3,407,524	\$5,031,188	\$2,432,002

The tax on income from foreign subsidiaries was derived by aggregating the effective income tax for each national jurisdiction.

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

	2010	2009	2008
Statutory income tax	30.00%	30.00%	35.00%
Tax effects of:			
Income subject to income tax holiday	50.87%	(7.86%)	10.24%
Income subject to gross income tax	(14.07%)	(6.25%)	12.13%
Interest income subjected to final tax	(0.54%)	(1.22%)	2.19%
Nondeductible expenses	(13.75%)	7.31%	(69.49%)
Difference in tax jurisdiction	(8.95%)	11.20%	(7.02%)
Provision for income tax	43.56%	33.18%	(16.95%)

Deferred taxes of the Group relate to the tax effects of the following:

	2010	2009
Deferred income tax assets:		
Unutilized business losses	\$556,000	\$556,000
Allowance for inventory obsolescence	386,104	386,104
Others	54,386	54,386
	996,490	996,490
Deferred income tax liabilities:		
Excess of net book value over tax written down		
value of fixed assets of subsidiaries	(672,988)	(672,988)
Revaluation of fixed assets of subsidiaries	(205,414)	(205,414)
Others	(2,920)	(9,571)
	(881,322)	(887,973)
Net deferred tax assets	\$115,168	\$108,517

As of December 31, 2010, deferred tax asset on accrued retirement obligations, excess of cost over NRV of inventories, MCIT and NOLCO of PSi aggregating to \$7.34 million has not been recognized due to uncertainty of its recoverability.



As of December 31, 2009, deferred tax asset on unutilized business losses and capital allowances of STEL amounting to \$0.76 million has not been recognized due to uncertainty of its recoverability.

Details of PSi's NOLCO and MCIT follow:

Inception Year	Expiry Year	NOLCO	MCIT
2008	2011	\$22,848	\$2,321
2009	2012	28,516	870
2010	2013	24,127	46
		\$75,491	\$3,237

26. Earnings (Loss) per Share

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

	2010	2009	2008
Net income (loss)	\$4,738,929	\$10,065,517	(\$16,830,089)
Less dividends on preferred stock (Note 18)	2,360,119	2,251,226	267,946
	\$2,378,810	\$7,814,291	(\$17,098,035)
Weighted average number of common shares			· · · · · · · · · · · · · · · · · · ·
Outstanding	1,337,038,223	1,229,749,252	1,229,202,023
Basic and Diluted EPS	\$0.002	\$0.006	(\$0.014)

As of December 31, 2010, 2009 and 2008, the Parent Company has no dilutive potential common shares.

27. Employee Benefits

The Parent Company and PSi have defined benefit pension plans covering substantially all of their employees, which require contributions to be made to administered funds. The plans are administered by local banks as trustees. The latest retirement valuation was made on December 31, 2010.

The following tables summarize the components of the net defined benefit expense (income) recognized in the consolidated statements of comprehensive income and the funded status and amounts recognized in the consolidated balance sheets for the plan:

Net defined benefit expense

	2010	2009	2008
Current service cost	\$630,577	\$535,987	\$922,933
Interest cost on benefit obligation	583,682	703,313	1,235,452
Curtailment loss	146,377	8,274,802	, ,
Settlement gain	136,079	(3,229,952)	_
Expected return on plan assets	(992,574)	(1,502,793)	(1,290,911)
Amortization of actuarial gain	(55,578)	(108,734)	. , , ,
Benefits paid due to settlement	····	(5,085,413)	_
Net defined benefit expense (income)	\$448,563	(\$412,790)	\$867,474



Net pension asset

	2010	2009
Plan assets	\$12,812,771	\$10,997,452
Benefit obligation	(14,145,445)	(5,294,481)
Over (under) funded	(1,332,674)	5,702,971
Unrecognized net actuarial losses (gains)	2,711,374	(2,836,751)
Foreign currency exchange difference	(6,020)	
Net pension asset	\$1,372,680	\$2,866,220

Movements in the net pension asset of the Parent Company for the years ended December 31, 2010 and 2009 follow:

	2010	2009
At beginning of year	\$2,866,220	\$2,453,430
Benefits paid due to settlement	246,382	
Net benefit income (expense)	(346,927)	412,790
At end of year	\$2,765,675	\$2,866,220

Movements in the net pension liability of PSi for the year ended December 31, 2010 follow:

	2010
Additions through business combination	\$1,432,596
Benefits paid due to settlement	(141,237)
Net benefit expense	101,636
At end of year	\$1,392,995

The retirement liability of PSi to its retired officer amounting to \$0.40 million is due within a year and is recorded under "Accounts payable and accrued expenses" (see Note 13).

The rollforward of the fair value of plan assets follows:

	2010	2009
At beginning of year	\$10,997,452	\$13,282,258
Additions through business combination	359,215	
Expected return on plan assets	992,574	1,502,793
Foreign currency exchange gain	614,490	379,493
Benefits paid during the year	(351,715)	(204,870)
Settlements	(275,551)	(3,938,092)
Actuarial gains (losses)	476,306	(24,130)
At end of year	\$12,812,771	\$10,997,452
Actual return on plan assets	\$1,582,728	\$1,858,156

The Parent Company does not expect to contribute to the retirement fund in 2011 since the fair value of its plan assets exceeds the present value of its obligations.



The rollforward of the present value of obligation follows:

	2010	2009
At beginning of year	\$5,294,481	\$4,589,104
Additions through business combination	2,509,270	
Interest cost on benefit obligation	583,682	703,313
Current service cost	630,577	535,987
Foreign currency exchange loss	439,176	131,117
Curtailments	198,001	6,093,604
Benefits paid during the year	(351,715)	(204,870)
Settlements	(521,933)	(9,023,505)
Actuarial loss	5,499,387	2,469,731
Unpaid obligations	(135,481)	
At end of year	\$14,145,445	\$5,294,481

The rollforward of the unrecognized actuarial gains (losses) follows:

	2010	2009	2008
At beginning of year	\$2,836,751	\$6,239,724	(\$302,219)
Additions through business combinations	(691,475)	•••	
Foreign currency exchange difference	137,554	248,376	(396,393)
From plan assets	476,306	(24,130)	(2,561,408)
From pension obligation	(5,499,387)	(2,469,731)	9,499,744
Amortization of actuarial gain	(55,578)	(108,734)	
Recognized actuarial loss due to curtailment	(51,624)	2,181,198	_
Recognized actuarial gain due to settlement	136,079	(3,229,952)	
At end of year	(\$2,711,374)	\$2,836,751	\$6,239,724

The distribution of the plan assets at year-end follows:

	2010	2009
Government securities	\$7,184,652	\$6,046,038
Equities	2,011,537	1,549,558
Corporate bonds	1,120,172	1,191,017
Loans	907,199	1,129,217
Trust funds	435,834	367,445
Investment properties	293,072	272,165
Cash	263	2,192
Others	877,273	450,844
Liabilities	(17,231)	(11,024)
Total plan assets	\$12,812,771	\$10,997,452

Others include receivables from sale of shares of stock, deposit instruments, and mutual funds.

As of December 31, 2010, the plan assets include shares of stock, corporate bonds and deposit instruments of related parties (primarily Ayala Corporation, Ayala Land Inc. and Bank of Philippine Islands) with total fair value amounting to \$1.16 million, \$0.07 million and \$0.07 million, respectively.



As of December 31, 2009, the plan assets include shares of stock, corporate bonds and deposit instruments of related parties (primarily Ayala Corporation, Ayala Land Inc., Bank of Philippine Islands and Globe Telecom) with total fair value amounting to \$0.92 million, \$0.39 million and \$0.16 million, respectively.

The expected rates of return on the plan assets follow:

	2010	2009
Treasury bills	3.88%	5.50%
Equities	1.89%	11.50%
Corporate bonds	3.37%-7.75%	8.25%
Others	1.29%	3.50%

The overall rates of return are based on the expected return within each asset category and on current asset allocations. The expected returns are developed in conjunction with external advisers and take into account both current market expectations of future returns, where available, and historical returns.

The principal assumptions used to determine pension benefits of the Parent Company and PSi are shown below:

	2010	2009
Discount rate	7.75%-8.00%	10.50%
Expected rate of return on plan assets	7.75%-9.00%	9.00%
Rate of salary increase	5.00%-7.00%	4.00%-6.00%

In 2010, the deficit in the plan and the economic benefits available as a reduction in future contributions amounted to \$1.33 million and \$18.96 million, respectively.

In 2009, the surplus in the plan and the economic benefit available as a reduction in future contributions amounted to \$5.70 million and \$7.16 million, respectively.

Amounts for the current and previous years follow:

	2010	2009	2008	2007	2006
Plan assets	\$12,812,771	\$10,997,452	\$13,282,258	\$17,686,769	\$14,417,092
Defined benefit obligation	14,145,445	5,294,481	4,589,104	14,668,084	13,986,801
Surplus (Deficit)	(\$1,332,674)	\$5,702,971	\$8,693,154	\$3,018,685	\$430,291
Experience adjustments on plan assets	(\$489,126)	\$409,922	\$2,721,023	\$310,017	\$927,046
Experience adjustments on plan liabilities	\$461,141	\$832,013	\$4,720,473	\$2,885,346	\$983,158

The Parent Company's subsidiaries excluding PSi, participate in their respective national pension schemes which are considered as defined contribution plans. The total retirement expense of the subsidiaries amounted to \$0.30 million included under "Salaries, wages and employee benefits" under "Cost of goods sold and services" and "Operating expenses" in the consolidated statements of comprehensive income.



Salaries, wages, and employee benefits follow:

	2010	2009	2008
Wages and salaries	\$79,920,925	\$61,858,084	\$95,180,227
Social security costs	1,392,817	1,396,967	2,887,797
Net defined benefit expense (income)	448,563	(412,790)	867,474
Others	5,838,934	8,855,459	26,629,146
	\$87,601,239	\$71,697,720	\$125,564,644

Others include retirement expense of subsidiaries, expense for leave benefits, training and seminars, employee social and recreation, bonuses, Pag-ibig premium, health premium, and employee insurance expense.

28. ESOWN

The Group has an ESOWN which is a privilege extended to the Group's eligible managers and staff whereby the Group allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the plan. Under the ESOWN, for as long as the Group remains privately-owned, the subscription price of the shares granted shall be determined based on the multiples of net book value, earnings before income tax, depreciation and amortization and net income of 10 comparable Asian EMS companies as at the close of the calendar year prior to the grant. Once the Parent Company becomes publicly listed, the subscription price per share shall be based on market price with a discount to be determined by the Compensation Committee of the BOD at the date of grant.

To subscribe, the grantee must be an eligible participant as defined in the plan. However, should the grantee cease to be employed by or connected with the Group before the full payment is made for the subscribed shares, the remaining balance becomes due and demandable upon separation, except for special circumstances as provided for by the ESOWN. In such instances, the grantee/heirs may be allowed to continue paying for the balance for the duration of the original payment period. If the grantee is separated for cause, shares not fully paid will be forfeited and whatever the amount the grantee has partially paid will be returned to him with no interest; if fully paid prior to separation, the shares shall be subject to the Right to Repurchase. If the grantee separates voluntarily, fully vested but not fully paid shares may be paid for in full upon separation subject to Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price when the shares were availed of. If the grantee separates involuntarily, shares not fully paid for, whether fully vested or not, may be paid for in full within ninety (90) days from separation subject to the Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price.

A subscription is declared delinquent when the minimum payment required remains unpaid one month after the due date. Any cash dividend of a delinquent subscription will be applied to pay the subscription due. Stock dividends paid while the subscription is delinquent will only be released to the grantee when the delinquent account is paid. Sixty (60) days after the due date and account is still delinquent, the remaining shares are forfeited and the employee will not be eligible for future ESOWN grants.



On February 21, 2007, the Parent Company's BOD approved the granting of 45,150,000 shares of the Parent Company under the ESOWN at the subscription price of \$\mathbb{P}\$12.50 to various employees of STEL and to the Parent Company's top performers and key personnel. In 2008, additional 1,539,000 shares were granted to STEL and to the Parent Company's top performers and key personnel subject to the same terms as the shares subscribed in 2007. All the granted shares have been subscribed. The grantees will pay for the shares subscribed through installments over a period of 8 years, wherein an initial payment of 2.5% of the value of the subscribed shares is payable upon subscription. It shall serve as a down payment for the subscription. The subscribed shares have a holding period as follows: (a) 40% after one year from subscription date; (b) 30% after two years from subscription date; and (c) 30% after three years from subscription date. The actual grant date of the above two grants was on October 15, 2007. The fair value, determined based on a private bank's valuation of the Parent Company to be used by a potential investor, was \$\P\$14.98 per share. The difference between the fair value and the subscription price will be recognized as employee benefit expense over the required service period. In 2008, the management has approved a two-year moratorium on the scheduled payments due in 2008 and 2009 which resulted to an extension of the payment period from eight (8) to ten (10) years. This extension resulted to a net reversal of accretion amounting to \$0.25 million in 2009. The outstanding shares under this grant have fully vested in September 2010.

On December 14, 2009, the Chairman of the Parent Company's BOD approved the terms for granting 30,885,000 shares of the Parent Company under ESOWN at the subscription price of \$\mathbb{P}5.54\$ per share to various employees of the Group. The grant date was on January 21, 2010. The payment scheme and holding period for this grant are similar to the grant in 2007. The fair value per share used in valuing the grant is \$\mathbb{P}9.30\$, which is the closing price of the Parent Company's stock at the PSE at the date of grant.

Movements in the number of shares outstanding under ESOWN for the years ended December 31, 2010 and 2009 follow:

	2010		2009		
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	
At January 1	111,297,000	₽6.88	111,297,000	₽6.88	
Granted	30,885,000	5.54	erer	••••	
Forfeitures	(21,194,523)	6.59	_		
At December 31	120,987,477	₽6.59	111,297,000	₽6.88	

The employee benefit expense in 2010, 2009 and 2008 amounted to \$1.93 million, \$0.51 million and \$1.48 million, respectively. The accretion, net of reversal, recognized as increase (decrease) in subscriptions receivable and additional paid-in capital presented in the consolidated statements of changes of equity in 2010, 2009 and 2008 amounted to \$1.91 million, (\$0.25 million) and \$0.67 million, respectively (see Note 18).

29. 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, gross profit, operating income, interest income and net income before and after tax.



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

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

The following tables present revenue and profit information regarding the Group's geographical segments for the years ended December 31, 2010, 2009 and 2008.

						Consolidation and	
December 31, 2010	Philip	pines	Singapore	USA	Japan	Eliminations	Total
	Parent	no.					
Revenue	Company	PSi					
Third party	\$143,388,346	\$19,345,006	\$248,839,859	\$280,521	\$472,873	\$	\$412,326,605
Inter-segment	⊕145,500,540 		3,997,122	2,463,391	863,087	(7,323,600)	3412,320,003
Total revenue	\$143,388,346	\$19,345,006	\$252,836,981	\$2,743,912	\$1,335,960	(\$7,323,600)	\$412,326,605
Segment gross profit	\$13,857,388	\$963,522	\$32,701,351	\$2,588,665	\$935,889	(\$6,572,223)	\$44,474,592
Segment operating income (loss)	(\$8,573,328)	(\$707,780)	\$13,407,801	\$28,858	\$95,025	\$	\$4,250,576
Segment interest income	\$272,574	\$3,181	\$76,786	S-	\$37	\$-	\$352,578
Segment profit (loss) before income				****			
tax	(\$4,425,209)	(\$769,800)	\$12,871,708	\$27,297	\$118,173	\$	\$7,822,169
Segment provision for income tax	(282,199)	(46,240)	(3,078,292)	<u> </u>	(793)		(3,407,524)
Segment profit (loss) after income tax	(\$4,707,408)	(\$816,040)	\$9,793,416	\$27,297	\$117,380	S	\$4,414,645
December 31, 2009	Philippines	Singap	ore	USA	Japan	Eliminations	Total
Revenue							, , , , , , ,
Third party	\$196,295,400	\$198,837,		63,332	\$305,973	\$	\$395,502,281
Inter-segment		1,392,		83,085	566,118	(4,041,437)	***
Total revenue	\$196,295,400	\$200,229,	810 \$2,1	46,417	\$872,091	(\$4,041,437)	\$395,502,281
Segment gross profit	\$17,395,603	\$28,443,	194 \$1,9	63,998	\$414,707	(\$3,626,871)	\$44,590,631
Segment operating income (loss)	(\$585,141)	\$10,377,	126	\$4,135	(\$377,108)	\$-	\$9,419,312
Segment interest income	\$655,397	\$67,	730	\$	\$134	\$	\$723,261
Segment profit (loss) before income							
tax	\$4,739,424	\$10,790,		\$3,599	(\$372,342)	\$	\$15,161,369
Segment provision for income tax	(206,118)	(4,824,		_	(807)	-1-	(5,031,188)
Segment profit (loss) after income tax	\$4,533,306	\$5,966,	425	\$3,599	(\$373,149)	\$	\$10,130,181
December 31, 2008	Philippines	Singap	ore	USA	Japan	Eliminations	Total
Revenue							
Third party	\$219,524,947	\$221,032,		114,265	\$272,837	\$ -	\$441,144,682
Inter-segment				149,294	476,789	(2,833,498)	
Total revenue	\$219,524,947	\$221,040,		663,559	\$749,626	(\$2,833,498)	\$441,144,682
Segment gross profit	\$42,945,284	\$27,551,	<u>-</u>	184,692	\$285,681	(\$2,390,408)	\$70,776,612
Segment operating income (loss)	\$13,095,569	\$3,639,	771 \$2	12,101	(\$270,104)	\$-	\$16,677,337
Segment interest income	\$1,042,942	\$98,	452	\$-	\$207	\$-	\$1,141,601
Segment profit (loss) before tax	(\$17,208,190)	\$2,878,		11,949	(\$232,964)	\$-	(\$14,350,346)
Segment provision for income tax	(424,139)	(2,007,		·-	(28)		(\$2,432,002)
Segment profit (loss) after income tax	(\$17,632,329)	\$871,	024 \$7	11,949	(\$232,992)	\$	(\$16,782,348)

Inter-segment revenues, cost of sales and operating expenses are eliminated on consolidation.

For the year ended December 31, 2010, the operating income (loss) and profit (loss) before and after tax for each operating segment include net profit from inter-segment revenues aggregating to \$7.32 million and inter-segment cost of sales and operating expenses aggregating to \$0.75 million and \$6.57 million, respectively.

For the year ended December 31, 2009, the operating income (loss) and profit (loss) before and after tax for each operating segment include net profit from inter-segment revenues aggregating to \$4.04 million and inter-segment cost of sales and operating expenses aggregating to \$0.41 million and \$3.63 million, respectively.



For the year ended December 31, 2008, the operating income (loss) and profit (loss) before and after tax for each operating segment include net profit from inter-segment revenues aggregating to \$2.83 million and inter-segment cost of sales and operating expenses aggregating to \$0.44 million and \$2.39 million, respectively.

The following table presents segment assets of the Group's geographical segments as of December 31, 2010 and 2009.

	Phili	ppines	Singapore	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi					
Segment assets December 31, 2010	\$217,586,975	\$36,518,323	\$203,885,087	\$2,804,323	\$1,778,955	(\$119,395,662)	\$343,178,001
Segment assets December 31, 2009	\$221,586,980	\$ -	\$180,793,634	\$2,594,078	\$777,859	(\$103,670,501)	\$302,082,050

Segment assets as of December 31, 2010 do not include investments in subsidiaries amounting to \$96.21 million and inter-segment loans and receivables amounting to \$32.68 million which are eliminated on consolidation. Furthermore, goodwill arising from the acquisition of PSi amounting to \$9.49 million is recognized at consolidated level.

Segment assets as of December 31, 2009 do not include investments in subsidiaries amounting to \$83.22 million and inter-segment loans and receivables amounting to \$20.45 million which are eliminated on consolidation.

The following table presents revenues from external customers and noncurrent assets:

_	Revenues	Revenues from External Customers			ncurrent Assets
	2010	2009	2008	2010	2009
Philippines	\$73,948,544	\$132,958,167	\$150,713,643	\$53,595,897	\$28,940,942
Europe	153,701,402	106,543,852	92,802,896	900	· .
USA	101,406,122	80,232,365	102,342,473	1,246,318	898,314
Asia	67,921,099	54,385,497	75,344,593	76,398,853	82,296,822
Japan	15,349,438	21,382,400	19,941,077	25,386	20,791
	\$412,326,605	\$395,502,281	\$441,144,682	\$131,266,454	\$112,156,869

Revenues are attributed to countries on the basis of the customer's location. Revenues from one customer from the Philippine segment represent \$42.74 million or 10.37% of the Group's total revenues for the year ended December 31, 2010. For the years ended December 31, 2009 and 2008, another customer from the Philippine segment accounts for \$76.41 million or 19% and \$73.01 million or 17% of the Group's total revenues, respectively.

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



30. Lease Commitments

Finance Lease Agreement - as Lessee

On June 30, 2009, the Parent Company entered into a lease contract with IBM for the lease of servers for a three-year period starting on the same date. The Parent Company has a bargain option to purchase the servers after the lease term at \$\mathbb{P}50.09\$. The lease provides for monthly rental payments of \$17,141.

On March 31, 2010, the Parent Company entered into another lease contract with IBM for the lease of additional servers for a one-year period starting on May 1, 2010. The Parent Company has a bargain option to purchase the servers after the lease term at \$\mathbb{P}\$50.09. The lease provides rental payments of \$1,013,729 each in the first and last months of the lease.

Future minimum lease payments are as follows:

	2010		
	Minimum payments	Present value of payments	
Within one year (Note 13)	\$1,219,420	\$1,209,960	
After one year but not more than five years	119,987	118,313	
Total minimum lease payments	\$1,339,407	\$1,328,273	

	2009		
	Minimum payments	Present value of payments	
Within one year (Note 13)	\$205,692	\$188,142	
After one year but not more than five years	325,679	314,545	
Total minimum lease payments	\$531,371	\$502,687	

Operating Lease Agreements - as Lessee

Parent Company

On December 13, 2005, the Parent Company entered into a lease contract with Technopark Land, Inc. (TLI), an affiliate, for the lease of parcels of land situated at the Special Export Processing Zone, Laguna Technopark, Biñan, Laguna. The lease shall be for a three-year period commencing on December 31, 2005 up to December 31, 2008. On December 23, 2008, the Parent Company extended the lease contract for another three (3) years commencing on December 31, 2008 up to December 31, 2011. The lease contract is renewable at the option of TLI upon such terms and conditions and upon such rental rates as the parties may agree upon at the time of the renewal, taking into consideration comparable rental rates for similar properties prevailing at the time of renewal. The Parent Company shall advise TLI in writing at least sixty (60) days before the expiration of the term of its desire to renew the contract, which TLI may consider upon such terms and conditions as may be agreed upon between the parties. The Parent Company shall pay, as monthly rental for and in consideration of the use of the leased premises, the amount of \$1,407 exclusive of value added tax.

The Parent Company also leases condominium units for the use of its officers and certain managers. The terms are usually for two (2) to four (4) months and are normally renewable under conditions specified in separate lease contracts.



The Parent Company leases two office condominium units where some of its facilities are located under noncancellable operating leases with Cyberzone Properties Inc. The lease agreements are for three-year periods up to July 2008 and August 2008. On August 15, 2008, the lease agreements were extended for another three (3) years commencing September 1, 2008 up to August 31, 2011. The leases contain provisions including, but not limited to, an escalation rate of 7% per year and early termination penalties. The leases provide for quarterly rental payments of \$26,364 during the first year of the lease term.

IMI Japan

On December 1, 2006, IMI Japan entered into a two-year contract with Kaneshichi Administration for lease of office premises commencing on December 1, 2006, whereby it is committed to pay a monthly rental of \$6,406. The lease agreement provides for automatic renewal of the lease contract for another two (2) years unless prior notice of termination is given to the lessor. This was terminated on April 21, 2010.

On February 15, 2010, IMI Japan entered into a two-year contract with Kabushikigaisha Tokyu Community for lease of office premises located in Nagoya whereby it is committed to pay a monthly rental of 245,490 Yen inclusive of tax and monthly maintenance fee of 35,070 Yen inclusive of tax. The lease agreement provides for automatic renewal of the lease contract unless prior notice of termination is given to the lessor.

IMI USA

On July 17, 2008, IMI USA entered into seven-year contract with Roy G.G. Harris and Patricia S. Harris for lease of office premises commencing on August 2008 up to November 2014. The lease contains provisions including, but not limited to, an escalation rate of 3% per year and early termination penalties. The lease provides for monthly rental payments of \$13,464 during the first year of the lease term.

On January 28, 2010, IMI USA entered into a six-year lease agreement with Fremont Ventures, LLC commencing two months from issuance of building permit or maximum of three months if Fremont caused the delay. The base monthly rental rate is \$3,687 on the first 6 months with escalation every 11 months as listed in the lease contract. Average monthly rental rate amounts to \$9,523.

IMI Singapore and STEL

IMI Singapore and STEL Group have various operating lease agreements in respect of office premises and land. These noncancellable leases have remaining noncancellable lease terms of between 1 to 50 years commencing on January 1, 1992 to April 1, 2011 and ending on February 28, 2010 to April 30, 2050. Most leases contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

The aggregate rent expense of the Group included under "Outsourced activities" account included under "Operating expenses" in the consolidated statements of comprehensive income, recognized on these operating lease agreements for the years ended December 31, 2010, 2009 and 2008 amounted to \$1.09 million, \$1.88 million and \$2.88 million, respectively (see Note 22). Deposits made under these operating lease agreements are intended to be applied against the remaining lease payments.



PSi

PSi has a 15-year non-cancellable operating lease agreement with Food Terminal, Inc. (FTI) for its plant facilities, office spaces, and other facilities commencing on August 15, 2004 up to August 14, 2020. The lease agreement with FTI provides for increase in rental per year starting on the second year and annually thereafter until the end of the lease term. The lease agreement provides a late payment penalty of 2% per month for the monthly rental not paid on time. The difference between the actual rental payments of PSi and the straight-lined rental expense resulted to an accrued expense of \$0.89 million as of December 31, 2010 which is recorded under "Accrued rent" in the consolidated balance sheets.

Moreover, PSi leases its plant facilities, office spaces and other facilities from RBF Development Corporation for 36 months until March 31, 2011. PSi has the option to extend the term of the lease for another two (2) years. The lease agreement with RBF provides for increase in rental at varying rates over the term of the lease. The lease agreement provides penalty interest of 3% per month compounded for the late payment of monthly rental.

Other operating lease agreements for machinery and equipment and storage space entered into by PSi are for one (1) year, subject to renewal options.

These operating lease agreements of the Group include clauses to enable upward revision of the rental charges on agreed dates. Future minimum rentals payable under noncancellable operating leases as of December 31, 2010 and 2009 follow:

	2010	2009
Within one year	\$2,419,772	\$500,831
After one year but not more than five years	5,220,618	1,784,559
More than five years	3,607,709	415,740
	\$11,248,099	\$2,701,130

Operating Lease Agreements - as Lessor

On August 1, 2009, the Parent Company subleased the unused portion of its two leased office condominium units from Cyberzone Properties Inc., with the consent of the latter. 102.52 square meters and 32.80 square meters were leased to Stratpoint Technologies Inc. and Xepto Computing Inc., respectively, at the rate of \$\mathbb{P}475.00\$ per square meter in the first month and \$\mathbb{P}502.25\$ per square meter on the subsequent months. The lease contract is for a term of one (1) year, renewable upon mutual agreement of both parties.

On June 8, 2010, an extension of the lease contract was executed by the the Parent Company and the lessees for a period of one month from August 1 to 31, 2010. The monthly rental has been amended to \$\mathbb{P}\$543.83 per square meter. In addition, the lessees have the option to renew the extended lease under the same terms and conditions, for a month-to-month tenancy basis for 12 months until August 31, 2011. The renewal option was exercised by the lessees for which the term of the lease has been extended to February 15, 2011.

31. Related Party Transactions

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



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

Related Party	Relationship	telationship Nature of Transaction Balance Sheets		ce Sheets	Statements of Comprehensive Income		
			2010	2009	2010	2009	2008
Bank of the Philippine							
Islands (BPI)	Affiliate	Cash and cash equivalents	\$2,029,657	\$976,019	S	\$	\$-
		Nontrade receivable	70,504	132,323	Lauge	Anna	
		Nontrade payable	1,698	12,857	***	-	_
		Derivative asset	480,695	***	-		-
		Gains on derivatives		***	95,540	-	***
		Interest income		***	11,938	91,569	324,192
AG Counselors							
Corporation (AGCC)	Affiliate	Nontrade payable	718	103,721			
		Professional and service fees			209,743	2,969	7,161
Technopark Land, Inc.							
(TLI)	Affiliate	Nontrade receivable	7,682	11,420		_	-
Innove Communications,							
Inc. (ICI)	Affiliate	Nontrade payable	67,102	17,006		-	***
		Postal and communication		-	202,143	286,541	393,414
Globe Telecom, Inc. (GT	I)Affiliate	Nontrade payable	3,828	3,617	•••	***	-
		Postal and communication		*10	94,926	95,029	219,198

- a. As of December 31, 2010, the Parent Company has savings and current accounts and short-term deposits with BPI amounting to \$546,993 and \$1,482,664, respectively. As of December 31, 2009, the Parent Company has savings and current accounts and short-term deposits with BPI amounting to \$560,358 and \$415,661, respectively. Total interest income earned from investments with BPI amounted to \$11,938 in 2010, \$91,569 in 2009 and \$324,192 in 2008.
- b. As of December 31, 2010 and 2009, nontrade receivables from BPI pertain to retirement and separation pay advanced by the Parent Company but is reimbursable from the trust fund with BPI.
- c. The Parent Company has outstanding housing and automobile financing loans from BPI amounting to \$1,698 and \$12,857 as of December 31, 2010 and 2009, respectively, included in "Employee-related payables" under "Accounts payable and accrued expenses". The outstanding housing and automobile financing loans arise from the differences in the timing of remittances by the Parent Company to BPI and the period of withholding from employee salaries and wages.
- d. As of December 31, 2010 and 2009, certain plan assets of the Parent Company under its retirement fund with BPI are invested with its related parties (see Note 27).
- e. The Parent Company engages AGCC, an affiliate, for corporate secretarial services subject to a monthly fee of \$\mathbb{P}40,000\$. As of December 31, 2010 and 2009, payable to AGCC amounted to \$718 and \$103,721, respectively.
- f. The Parent Company has nontrade receivable from TLI, an affiliate, amounting to \$7,682 and \$11,420 as of December 31, 2010 and 2009, which pertains to advances by the Parent Company for various expenses incurred by TLI, primarily on real property taxes and corporate secretarial services.



- g. The Parent Company has nontrade payables to Innove Communications, Inc., an affiliate, amounting to \$67,102 and \$17,006 as of December 31, 2010 and 2009, respectively, which pertains to billing on leased lines, internet connections and ATM connections. Related expense for 2010, 2009 and 2008, amounted to \$202,143, \$286,541 and \$393,414, respectively.
- h. As of December 31, 2010 and 2009, the Parent Company's accounts payable to GTI, an affiliate, amounted to \$3,828 and \$3,617 for the purchase of Blackberry software and billings for cellphone charges and WiFi connections. Related expense for 2010, 2009 and 2008, amounted to \$94,926, \$95,029 and \$219,198, respectively.

Key management personnel

Key management personnel of the Group include all management committee members. Compensation of key management personnel by benefit type follows:

	2010	2009
Short-term employee benefits	\$4,973,639	\$4,522,006
Post-employment benefits	447,949	335,977
Share-based payments	596,826	151,203
	\$6,018,414	\$5,009,186

32. Fair Value of Financial Instruments

The following table sets forth the comparison of the carrying values and fair values of the Group's financial assets and liabilities recognized as of December 31, 2010 and 2009. There are no material unrecognized financial assets and liabilities as of December 31, 2010 and 2009.

	Car	rying Value	Fair Value	
	2010	2009	2010	2009
Financial Assets				
Cash and cash equivalents	\$38,134,743	\$53,931,767	\$38,134,743	\$53,931,767
Loans and receivables	, ,	•	, ,	, , , , , , , , , , , , , , , , , , , ,
Trade	95,513,159	83,790,476	95,513,159	83,790,476
Nontrade	8,211,481	4,733,736	8,211,481	4,733,736
Short-term investments	2,000,000		2,000,000	.,,
Receivable from insurance	1,859,984	5,625,707	1,859,984	5,625,707
Receivable from employees	707,172	426,884	707,172	426,884
Receivable from Meralco	549,923	793,768	549,923	793,768
Others	1,094,720	436,278	1,094,720	436,278
Noncurrent receivables	184,179	558,707	176,034	534,270
Miscellaneous deposits	1,467,268	826,514	1,467,268	826,514
Long-term investments	. ,	2,000,000	****	2,000,019
	149,722,629	153,123,837	149,714,484	153,099,419
AFS financial assets	382,527	309,448	382,527	309,448
Derivative Asset	1,693,121		1,693,121	······································
Total Financial Assets	\$151,798,277	\$153,433,285	\$151,790,132	\$153,408,867

(Forward)



	Car	rying Value	F	air Value
	2010	2009	2010	2009
Financial Liabilities				
Other financial liabilities				
Accounts payable and accrued expenses				
Trade payables	\$71,090,278	\$60,666,337	\$71,090,278	\$60,666,337
Accrued expenses	20,445,890	10,205,181	20,445,890	10,205,181
Accrued payroll	3,563,987	4,319,142	3,563,987	4,319,142
Obligation under finance lease -			, ,	. ,
current	1,209,960	188,142	1,209,960	188,142
Nontrade payables	1,053,866	423,604	1,053,866	423,604
Employee-related payables	131,265	120,984	131,265	120,984
Accrued interest payable	60,919	41,424	60,919	41,424
Unwinding cost payable		2,295,500	· <u>-</u>	2,295,500
Others	4,581,071	2,038,860	4,581,071	2,038,860
Long-term debt	38,372,084	46,000,000	38,372,084	45,330,826
Loans payable	17,921,638	2,302,233	17,921,638	2,302,233
Derivative liabilities	3,832,474	hom	3,832,474	_
Accrued rent	894,088	19,978	894,088	19,978
Obligation under finance lease -	,	•	•	,
noncurrent	118,313	314,545	110,202	321,037
Total Financial Liabilities	\$163,275,833	\$128,935,930	\$163,267,722	\$128,273,248

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:

All loans and receivables except noncurrent receivables - Carrying amounts approximate fair values due to the short-term maturities of these receivables.

Noncurrent receivables - 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 are 4.56% in 2010 and 7.06% to 7.08% in 2009.

Miscellaneous deposits - Carrying amounts are deemed to approximate fair values since the fair values of certain deposits cannot be reasonably and reliably estimated.

Long-term investments - 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 range from 2.74% to 2.75% in 2009.

AFS financial assets - These pertain to investments in club shares. Fair value is based on quoted prices.

Derivatives instruments - The fair value of freestanding currency forwards is based on counterparty valuation. The call and put options were valued using binomial model. This valuation technique considers the probability of PSi's share price based on a five-year discounted cash flow to move up or down depending on the volatility, risk free rate and exercise price based or a 12-month trailing EBITDA as of the valuation date.

Accounts payable and accrued expenses and loans payable - The fair values approximate the carrying amounts due to the short-term nature of these transactions.



Long-term debt - The fair value of long-term debt that is repriced on a semi-annual basis is estimated 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 range from 1.91% to 1.96% in 2009. For variable rate loans that reprice every three (3) months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

The long term debt amounting to \$0.37 million pertains to PSi's employee vacation leave benefits that are to be settled at retirement date. Fair value approximates the accrual that was discounted using the assumptions and method used in discounting the retirement benefits obligation.

Obligation under finance lease - noncurrent - 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 range from 0.14% to 3.06% in 2010 and 1.36% to 2.29% in 2009.

Fair Value Hierarchy

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

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and,

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the Group's financial instruments carried at fair value as of December 31, 2010 and 2009, based on fair value hierarchy:

	Level 1	Level 2	Level 3
2010			
AFS financial assets	\$382,527	\$	\$ —
Derivative assets			
Currency forwards	••••	480,696	
Call option	****		1,212,425
Derivative liabilities			, ,
Put option	900ar	-	3,832,474
	\$382,527	\$480,696	\$5,044,899
2009			
AFS financial assets	\$309,448	\$	\$

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.

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



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

	Increase
	(Decrease)
	in Net Income
Estimated EBITDA is 5% higher	
Call option	(\$116,673)
Put option	(499,093)
Estimated EBITDA is 5% lower	
Call option	130,204
Put option	489,184

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

	Increase
	(Decrease)
	in Net Income
Cost of equity is 5% higher	
Call option	(\$283,328)
Put option	(462,008)
Cost of equity is 5% lower	
Call option	391,032
Put option	501,489

33. Financial Risk Management Objectives and Policies

The Group's principal financial instruments composed of 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 derivative transactions, including structured currency options and 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 December 31, 2010 and 2009. There is no other impact on the Group's equity other than those already affecting income.

Increase/decrease in basis points	Effect on profit before tax			
	2010	2009		
+100	(\$380,000)	(\$460,000)		
-100	\$380,000	\$460,000		

The following table shows the information about the Group's financial instruments as of December 31, 2010 and 2009 that are exposed to interest rate risk presented by maturity profile.

	Long-Term Debt				
	LIBOR Plus margin of 0.75% to 0.80%				
	2010	2009			
Within one year	\$38,000,000	\$8,000,000			
1-2 years	_	38,000,000			
	\$38,000,000	\$46,000,000			

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.

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities based on contractual undiscounted payments.

2010

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial assets				· · · · · · · · · · · · · · · · · · ·	
Cash and cash equivalents	\$24,894,015	\$13,240,728	\$	\$	\$38,134,743
Short-term investments			2,000,000	***	2,000,000
	24,894,015	13,240,728	2,000,000		40,134,743
Financial liabilities					
Accounts payable and accrued expenses					
Trade payables		71,090,278	***	,	71,090,278
Accrued expenses	····	20,445,890			20,445,890
Accrued payroll	••••	3,563,987	****	para.	3,563,987
Employee-related payables	Man.	131,265			131,265
Nontrade payables		1,053,866			1,053,866
Accrued interest payable		60,919	***		60,919
Obligation under finance lease - current		-	1,219,430		1,219,430
Others		4,581,071			4,581,071



		Less than	3 to		
	On demand	3 months	12 months	1 to 5 years	Total
Loans payable	\$-	\$10,029,250	\$8,106,522	\$	\$18,135,772
Derivative liabilities	3,832,474		-	_	3,832,474
Accrued rent		***	***	894,088	894,088
Long-term debt		Name .	38,427,318	372,084	38,799,402
Obligation under finance lease - noncurrent				119,987	119,987
	3,832,474	110,956,526	47,753,270	1,386,159	163,928,429
	\$21,061,541	(\$97,715,798)	(\$45,753,270)	(\$1,386,159)	(\$123,793,686)

<u>2009</u>

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial assets	•				
Cash and cash equivalents	\$28,773,426	\$25,158,341	\$-	\$	\$53,931,767
Long-term investments		_		2,000,000	2,000,000
	28,773,426	25,158,341		2,000,000	55,931,767
Financial liabilities					
Accounts payable and accrued expenses					
Trade payables		60,666,337			60,666,337
Accrued expenses	<u></u>	10,205,181		_	10,205,181
Accrued payroll		4,319,142	***		4,319,142
Unwinding cost payable	2,295,500	•••			2,295,500
Employee-related payables		120,984	****		120,984
Accrued interest payable	1000	41,424		***	41,424
Nontrade payables	_	423,604		_	423,604
Obligation under finance lease - current	•	51,423	154,269		205,692
Others	-	2,038,860	_	-	2,038,860
Loans payable	_	2,314,000			2,314,000
Accrued rent	-	_	_	19,978	19,978
Long-term debt			8,474,054	38,395,878	46,869,932
Obligation under finance lease - noncurrent		<u></u>		325,679	325,679
	2,295,500	80,180,955	8,628,323	38,741,535	129,846,313
	\$26,477,926	(\$55,022,614)	(\$8,628,323)	(\$36,741,535)	(\$73,914,546)

<u>Credit Lines</u>
The Group has credit lines with different financing institutions as at December 31, 2010 and 2009, as follows:

<u>2010</u>

<u> </u>		Available
Financial Institutions	Credit Limit	Credit Line
Local:		
U.S. Dollar	\$36,000,000	\$36,000,000
Philippine Peso	₽1,060,000,000	₽1,060,000,000
Foreign:		
U.S. Dollar	\$87,700,000	\$76,771,639
Singapore Dollar	SGD30,000,000	SGD28,852,908
2009		
		Available
Financial Institutions	Credit Limit	Credit Line
Local:		
U.S. Dollar	\$26,000,000	\$26,000,000
Philippine Peso	₽1,060,000,000	₱1,060,000,000
Foreign:		
U.S. Dollar	\$34,700,000	\$33,846,029
Singapore Dollar	SGD30,000,000	SGD27,912,000
Philippine Peso Foreign: U.S. Dollar Singapore Dollar 2009 Financial Institutions Local: U.S. Dollar Philippine Peso Foreign: U.S. Dollar	\$87,700,000 \$87,700,000 \$GD30,000,000 Credit Limit \$26,000,000 \$1,060,000,000 \$34,700,000	P1,060,000,000 \$76,771,639 \$GD28,852,906 Available Credit Line \$26,000,000 ₱1,060,000,000 \$33,846,020



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

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

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

The table below shows the maximum exposure to credit risk for the components of the consolidated balance sheets. The maximum exposure is shown net of impairment losses.

	2010	2009
Cash and cash equivalents (excluding cash on hand)	\$37,891,794	\$53,866,106
Loans and receivables		
Trade	95,513,159	83,790,476
Nontrade	8,211,481	4,733,736
Short-term investments	2,000,000	
Receivable from insurance	1,859,984	5,625,707
Receivable from employees	707,172	426,884
Receivable from Meralco	549,923	793,768
Others	1,094,720	436,278
AFS financial assets	382,527	309,448
Noncurrent receivables	184,179	558,707
Miscellaneous deposits	1,467,268	826,514
Long-term investments		2,000,000
Total credit risk exposure	\$149,862,207	\$153,367,624

The Group has 51% and 46% of trade receivables relating to three (3) major customers as of December 31, 2010 and 2009, respectively.



As of December 31, 2010 and 2009, the aging analysis of loans and receivables, noncurrent receivables and miscellaneous deposits follows:

<u>2010</u>

		Neither						
		past due		Past due but not impaired				Specifically
	Total	nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days	Impaired
Trade	\$95,629,246	\$79,551,182	\$6,020,051	\$110,700	\$286,846	\$46,820	\$9,497,560	\$116,087
Nontrade	9,461,930	2,314,595	666,051	1,146,554	570,767	289,132	3,224,382	1,250,449
Receivable from								
insurance	1,859,984	1,859,984		_	-			
Short-term								
investments	2,000,000	2,000,000			***			
Receivable from								
employees	707,172	333,154	250,293	72,911	12,191	30,291	8,332	
Receivable from							•	
Meralco	549,923	549,923	-					
Others	1,094,720	174,530	841,477	52,281	22,191		4,241	-
	\$111,302,975	\$86,783,368	\$7,777,872	\$1,382,446	\$891,995	\$366,243	\$12,734,515	\$1,366,536
Noncurrent			*****			***********		
receivables	\$184,179	\$184,179	\$	\$	\$	\$	\$	\$
Miscellaneous								
deposits	\$1,467,268	\$1,467,268	S	\$	\$-	S	S	S

2009

		Neither						
		past due		Past c	ue but not imp	aired		Specifically
	Total	nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days	Impaired
Trade	\$84,013,831	\$77,245,901	\$3,433,456	\$1,419,458	\$393,946	\$345,569	\$952,146	\$223,355
Nontrade	4,822,828	3,162,194	358,311	248,888	237,267	1,821	725,255	89,092
Receivable from					•	•	,	,
insurance	5,625,707	5,294,677	146,893	81,809	54,331	3,449	44,548	ana.
Receivable from					•	•		
employees	426,884	308,549	82,079	6,721	279	24	29,232	
Receivable from				,			,	
Meralco	793,768	793,768	_	***		_	_	
Others	436,278	436,278	-	wo-	Auto	-	_	M15.
	\$96,119,296	\$87,241,367	\$4,020,739	\$1,756,876	\$685,823	\$350,863	\$1,751,181	\$312,447
Noncurrent	-							
receivables	\$558,707	\$558,707	\$	\$-	\$	\$	\$	\$-
Miscellaneous				***				
deposits	\$826,514	\$826,514	\$	\$-	\$	\$-	\$	\$

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2010 and 2009:

<u>2010</u>

	1	Neither Past Du	Past Due or			
	Minimal Risk	Average Risk	Fairly High Risk	High Risk	Individually Impaired	Total
Cash and cash equivalents	\$37,891,794	S	\$	\$	S	\$37,891,794
Loans and receivables						,,
Trade	54,682,891	20,951,727	2,974,036	942,528	16,078,064	95,629,246
Nontrade	2,314,595	_	****	-	7,147,335	9,461,930
Short-term investments	2,000,000	_		***	-	2,000,000
Receivable from insurance	1,859,984					1,859,984
Receivable from employees	333,154	Yerr		-	374,018	707,172
Receivable from Meralco	549,923	_				549,923
Others	174,530				920,190	1.094,720
AFS financial assets	382,527	mor				382,527
Noncurrent receivables	118,480	pro-		****	***	118,480
Miscellaneous deposits	1,467,268		printer .			1,467,268
	\$101,775,146	\$20,951,727	\$2,974,036	\$942,528	\$24,519,607	\$151,163,044



2009

	Neither Past Due nor Impaired			Past Due or		
	Minimal Risk	Average Risk	Fairly High Risk	High Risk	Individually Impaired	Total
Cash and cash equivalents	\$53,866,106	\$-	\$-	\$-	\$-	\$53,866,106
Loans and receivables						
Trade	66,898,093	5,562,767	307,940	4,477,101	6,767,930	84,013,831
Nontrade	2,294,574	838,152	15,575	13,893	1,660,634	4,822,828
Receivable from insurance	5,625,707	****		***		5,625,707
Receivable from employees	308,549	-	_		118,335	426,884
Receivable from Meralco	793,768	-	-		4104	793,768
Others	105,248		_	_	331,030	436,278
AFS financial assets	309,448	-		~-	_	309,448
Noncurrent receivables	558,707					558,707
Miscellaneous deposits	826,514	***	***	****		826,514
Long-term investments	2,000,000	-	_			2,000,000
	\$133,586,714	\$6,400,919	\$323,515	\$4,490,994	\$8,877,929	\$153,680,071

The Group classifies credit quality as follows:

Minimal Risk - credit can proceed with favorable credit terms; can offer term of 15 to maximum of 45 days.

Average Risk - credit can proceed normally; can extend term of 15 to maximum of 30 days.

Fairly High Risk - credit could be extended under a confirmed and irrevocable Letters of Credit and subject to semi-annual review for possible upgrade.

High Risk - transaction should be under advance payment or confirmed and irrevocable Stand-By Letters of credit; subject to quarterly review for possible upgrade after one year.

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. In 2010 and 2009, the Group entered into currency forward contracts and structured currency options, respectively, to hedge its risks associated with foreign currency fluctuations.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than the Group's functional currency. Approximately 20% and 23% of the Group's sales for the years ended December 31, 2010 and 2009, respectively, and 31% and 22% of costs for the years ended December 31, 2010 and 2009, respectively, are 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 U.S. Dollar equivalent follows:

Philippine Peso (₱)

	201	0	2009	
_	In U.S	In Philippine	In U.S.	In Philippine
	Dollar	Peso	Dollar	Peso
Cash and cash equivalents	\$6,229,646	₽273,385,951	\$9,183,581	₱424,281,464
Loans and receivables	1,715,843	75,299,204	2,306,843	106,576,132
Miscellaneous deposits	1,350,975	59,287,083	688,619	36,051,800
Accounts payable and accrued expenses	(19,518,736)	(856,573,305)	(11,541,759)	(533,229,285)
Other current liabilities	(5,407,324)	(237,298,620)		
Net foreign currency-denominated assets				
(liabilities)	(\$15,629,596)	(¥685,899,687)	\$637,284	₽33,680,111

Singapore Dollar (SGD)

	201	0	2009	
	In U.S	In Singapore	In U.S.	In Singapore
	Dollar	Dollar	Dollar	Dollar
Cash and cash equivalents	\$	SGD	\$619,248	SGD869,920
Loans and receivables	155,000	200,384	100,294	140,894
Accounts payable and accrued expenses	(826,133)	(1,068,025)	(4,022,763)	(5,651,178)
Other current liabilities	(981,034)	(1,268,281)	-	POR.
Loans payable	(1,301,359)	(1,682,397)	n-w	
Net foreign currency-denominated				
liabilities	(\$2,953,526)	(SGD3,818,319)	(\$3,303,221)	(SGD4,640,364)

Euro (€)

	2010		2009	
	In U.S. Dollar	In Euro	In U.S. Dollar	In Euro
Cash and cash equivalents	\$662,782	€501,197	\$544,798	€378,832
Loans and receivables	326,262	246,719	108,895	75,722
Accounts payable and accrued expenses	(439,873)	(332,632)	(409,536)	(284,776)
Net foreign currency-denominated assets	\$549,171	€415,284	\$244,157	€169,778

Japanese Yen (¥)

	20	10	2009	
	In U.S. Dollar I	n Japanese Yen	In U.S. Dollar	In Japanese Yen
Cash and cash equivalents	\$819,333	¥66,906,179	\$210,119	¥19,253,973
Loans and receivables	2,687,836	219,486,880	1,654,226	151,583,035
Miscellaneous deposits	28,468	2,324,638		<u></u>
Accounts payable and accrued expenses	(6,434,075)	(525,402,184)	(3,528,547)	(323,334,264)
Other current liabilities	(16,424)	(1,341,175)	-	
Net foreign currency-denominated liabilities	(\$2,914,862)	(¥238,025,662)	(\$1,664,202)	(¥152,497,256)



Renminbi (RMB)

	20	10	2009		
	In U.S. Dollar	In Renminbi	In U.S. Dollar	In Renminbi	
Cash and cash equivalents	\$4,713,572	RMB31,209,508	\$6,330,118	RMB43,234,669	
Loans and receivables	38,570,596	255,383,674	23,506,933	160,552,225	
Accounts payable and accrued					
expenses	(23,234,523)	(153,840,450)	(34,314,738)	(234,369,477)	
Net foreign currency-denominated					
assets (liabilities)	\$20,049,645	RMB132,752,732	(\$4,477,687)	(RMB30,582,583)	

Hong Kong Dollar (HKD)

	201	10	2009	
	In U.S. Dollar	In Hong Kong Dollar	In U.S. Dollar	In Hong Kong Dollar
Cash and cash equivalents	\$71,134	HKD553,550	\$46,365	HKD359,577
Loans and receivables	201,670	1,569,358	125,399	972,521
Accounts payable and accrued				
expenses	(789,914)	(6,146,953)	(595,742)	(4,620,229)
Net foreign currency-denominated				
liabilities	(\$517,110)	(HKD4,024,045)	(\$423,978)	(HKD3,288,131)

UK Pound (£)

	2010)	2009	
	In U.S. Dollar	In UK Pound	In U.S. Dollar	In UK Pound
Loans and receivables	\$-	£−	\$230	£144
Accounts payable and accrued expenses	(3,610)	(2,329)	(1,355)	(847)
Net foreign currency-denominated				
liabilities	(\$3,610)	(£2,329)	(\$1,125)	(£703)

Australia Dollar (AUD)

	20)10	2009		
		In Australia		In Australia	
	In U.S. Dollar	Dollar	In U.S. Dollar	Dollar	
Cash and cash equivalents	\$458	AUD450			
Accounts payable and accrued expenses	(179,748)	(176,709)	(\$54,467)	(AUD61,373)	
Net foreign currency-denominated					
liabilities	(\$179,290)	(AUD176,259)	(\$54,467)	(AUD61,373)	

Sensitivity analysis

The following table demonstrates sensitivity to a reasonably possible change in the U.S. Dollar exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2010 and 2009. The reasonably possible change was computed based on one year average historical movement of exchange rates between the U.S Dollar and other currencies.



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

<u>2010</u>

	Increase/decrease	Effect on
Currency	in U.S. Dollar rate	profit before tax
PHP	+2%	(\$257,639)
	-2%	257,639
SGD	+2%	(44,365)
	-2%	44,365
EUR	+3%	15,496
	-3%	(15,496)
JPY	+3%	(73,740)
	-3%	73,740
RMB	+1%	253,450
	~1%	(253,450)
HKD	+1%	(6,015)
	-1%	6,015
GBP	+2%	(88)
	-2%	88
AUD	+4%	(7,085)
	-4%	7,085
2009		
	Increase/decrease	Effect on
Currency	in U.S. Dollar rate	profit before tax
PHP	+1%	\$15,025
	-1%	(15,025)
SGD	+2%	(55,865)
	-2%	55,865
EUR	+3%	7,166
	-3%	(7,166)
JPY	+3%	(46,892)
	-3%	46,892
RMB	+1%	(47,252)
	-1%	47,252
HKD	+1%	(4,325)
	-1%	4,325
GBP	+3%	(29)
	-3%	29
AUD	+3%	(1,862)
	-3%	1,862
		•

Derivatives

In 2010 and 2009, the Parent entered into various short-term currency forwards with aggregate nominal amount of \$59.00 million and \$27.64 million, respectively. As of December 31, 2010, the outstanding forward contracts have a net positive fair value of \$0.48 million. There are no outstanding contracts as of December 31, 2009. Net fair value gain recognized in 2010 and 2009 amounted to \$2.08 million and \$0.16 million, respectively.



As discussed in Note 2, the acquisition of PSi gave rise to a long equity call option and written equity put option for the Parent Company. As of December 31, 2010, the call option has a positive value of \$1.21 million, while the put option has a negative value of \$3.83 million. Net fair value loss on the options amounted to \$0.21 million in 2010.

In 2008, the Parent Company entered into structured currency options. The weakening of the peso during the second quarter of 2008 resulted to an unfavorable position on the Parent Company's derivative transactions. In May 2008, the BOD approved the unwinding of four major derivative contracts and the Parent Company incurred unwinding cost amounting to \$33.36 million. As of December 31, 2009, outstanding liability on unwinding cost amounted to \$2.30 million, which is included under "Other accounts payable and accrued expenses" (see Note 13). In 2010, such liability was condoned by the counterparty. The gain from the condonation is included under "Miscellaneous income" in the consolidated statements of comprehensive income.

Fair Value Changes on Derivatives

The net movements in fair value changes of the Group's derivative instruments as of December 31, 2010 and 2009 follow:

	2010	2009
Derivative assets		
Balance at beginning of year	\$ —	\$
Initial value of long call option	1,403,991	
Net changes in fair value	1,890,536	160,198
Fair value of settled instruments	(1,601,406)	(160,198)
	\$1,693,121	\$
Derivative liabilities		
Balance at beginning of year	\$ -	\$-
Initial value of written put option	3,816,484	
Net changes in fair value	15,990	
	\$3,832,474	\$

The net changes in fair value of currency forwards and options are recognized in the consolidated statements of comprehensive income under "Foreign exchange gains (losses)" and "Miscellaneous expense", respectively.

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 years ended December 31, 2010 and 2009.

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. Debt consists of loans payable and long-term debt. Net debt includes loans payable and long-term debt less cash and cash equivalents. The Group considers as capital the equity attributable to the equity holders of the Parent Company.

	2010	2009
Loans payable	\$17,921,638	\$2,302,233
Long-term debt	38,000,000	46,000,000
Total debt	55,921,638	48,302,233
Less cash and cash equivalents	(38,134,743)	(53,931,767)
Net debt (assets)	\$17,786,895	(\$5,629,534)
Equity attributable to equity holders of the		
Parent Company	\$169,290,252	\$166,690,001
Debt to equity ratio	33%	29%
Net debt to equity ratio	11%	(3%)

34. Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested. The outcome of these cases is not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37 is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

35. Events after the Reporting Period

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

Dividends declaration

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

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

	2 nd Quarter	3 rd Quarter	4 th Quarter
Record date	May 9, 2011	August 17, 2011	November 9, 2011
Payment date	May 20, 2011	August 23, 2011	November 22, 2011



On the same date, the BOD of the Parent Company approved the declaration of regular cash dividend of \$\mathbb{P}0.044\$ per share to all outstanding common shares as of record date March 9, 2011, payable on April 4, 2011.



EXHIBIT 2

Supplementary Schedules



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BOA/PRC Reg. No. 0001 SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors Integrated Micro-Electronics, Inc. North Science Avenue Laguna Technopark Biñan, Laguna

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Integrated Micro-Electronics, Inc. and Subsidiaries for the years ended December 31, 2010 and 2009, included in this Form 17-A and have issued our report thereon dated February 23, 2011. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management and are presented for purposes of complying with the Securities Regulation Code Rules 68.1 and SEC Memorandum Circular No.11, series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca

Partner

CPA Certificate No. 92126

SEC Accreditation No. 0466-A

Tax Identification No. 163-257-145

BIR Accreditation No. 08-001998-61-2009,

June 1, 2009, Valid until May 31, 2012

PTR No. 2641501, January 3, 2011, Makati City

February 23, 2011

A member from of Ernst & Young Global Limited

INTEGRATED MICROELECTRONICS, INC. SCHEDULE A - MARKETABLE SECURITIES (CURRENT MARKETABLE SECURITIES AND OTHER SHORT-TERM CASH INVESTMENT) As of December 31, 2010 (in US Dollars)

Name of Issuing entity & association of each issue	Number of shares or principal amount of bonds & interest	Amount shown in the Balance Sheet	Value based on market quotation at balance sheet date	Income received and accrued
Peso Time Deposit				
SCB Enhancer		41,639.92		1.68
BPI - LTI		1,026,459.85		1,878.87
Union Bank		296,532.85		478.93
BPI - LTI		456,204.38		15.35
Metro Bank		1,029,197.08		1,773.06
Metro Bank		1,437,043.80		1,257.34
Metro Bank		1,003,649.34		878.14
US Dollar Time Deposit				
Citibank		1,800,000.00		1.00
Bank of Tokyo		250,000.00		0.69
Metro Bank		1,500,000.00		1,375.00
Security Bank		1,800,000.00		1,312.50
Security Bank		1,000,000.00		680.56
Chinabank		800,000.00		177.78
RCBC		800,000.00		5.56
BDO		1,000,000.00		20,000.00
BDO		1,000,000.00		20,000.00
Total		15,240,727		49,836.45

INTEGRATED MICROELECTRONICS, INC.
SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES
AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES
As of December 31, 2010
(in US Dollars)

	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE	
	NOTES ACCOUNTS		NOTES	ACCOUNTS	NOTES ACCOUNTS		ACCOUNTS RECEIVABLE	
	RECEIVABLE *	RECEIVABLE	RECEIVABLE *	RECEIVABLE	RECEIVABLE *	RECEIVABLE	CURRENT	NON-CURRENT
Various Employees		426,884		2,961,875		2,681,586		707,172
Total		426,884		2,961,875		2,681,586		707,172

INTEGRATED MICROELECTRONICS, INC.
SCHEDULE C - NON CURRENT MARKETABLE EQUITY SECURITIES,
OTHER LONG-TERM INVESTMENT IN STOCKS AND OTHER INVESTMENTS
As of December 31, 2010
(in US Dollars)

	BEGINNING BALANCE ADDITIONS		DITIONS	DEDUCTIONS		ENDING BALANCE				
NAME OF COMPANY	Number of Shares	Amount in USD	Equity in Earnings (Losses) of Investees for the period	Others (Cost & Equity Adj.)	Distribution of Earnings by Investees	Others (Cost & Equity Adj.)	Number	Effective % of Ownership	Amount	Dividends received/accrued fr Investments not accounted for by the equity method
Available-for-sale financial assets		309,448		77,486		4,407			382,527	
Total		309,448		77,486		4,407			382,527	

INTEGRATED MICROELECTRONICS, INC. SCHEDULE D - INDEBTEDNESS OF UNCOSOLIDATED SUBSIDIARIES & RELATED PARTIES As of December 31, 2010 (in US Dollars)

Name of Related Parties	Balance at Beginning of Period	Balance at End of Period
Bank of the Philippine Islands (BPI) Technopark Land, Inc. (TLI)	132,323 11,420	70,504 7,682
Total	143,743	78,186

INTEGRATED MICROELECTRONICS, INC. SCHEDULE E - INTANGIBLE ASSETS AND OTHERS ASSETS (DEFERRED CHARGES) As of December 31, 2010 (in US Dollars)

			CHARGED TO		OTHER	
	BEGINNING	ADDITIONS	COSTS &	CHARGED TO	CHANGES	ENDING
DESCRIPTION	BALANCE	AT COST	EXPENSES	OTHER ACCTS.	ADD/(DED)	BALANCE
INTANGIBLE ASSETS:						
Goodwill	46,225,800	9,493,385				55,719,185
Customer relationship	2,365,000		(2,365,000)			0
Order backlog	0	0	0	0	0	0
Unpatented technologyCopyrights	18,333	0	(18,333)	0	0	0
Licenses	419,297	765,833	(262,128)	0	0	923,002
Total	49,028,430	10,259,218	(2,645,461)	0	0	56,642,187
		_		_	_	

INTEGRATED MICROELECTRONICS, INC. SCHEDULE F - LONG-TERM DEBT As of December 31, 2010 (in US Dollars)

TITLE OF ISSUE & TYPE OF OBLIGATION	CURRENT PORTION OF LONG-TERM DEBT	LONG-TERM DEBT	TOTAL
Syndicated Loan	8,000,000		8,000,000
Clean Ioan/5 year Term Loan - Metro Bank			0
3-month or 6-month LIBOR plus margin	30,000,000		30,000,000
	22.222.222		22.222.222
Total	38,000,000	0	38,000,000

INTEGRATED MICROELECTRONICS, INC. SCHEDULE G - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES) As of December 31, 2010 (in US Dollars)

Name of Related Parties	Balance at Beginning of Period	Balance at End of Period
NOT APPLICABLE		
Total		0

INTEGRATED MICROELECTRONICS, INC. SCHEDULE H - GUARANTEES OF SECURITIES OF OTHER ISSUERS As of December 31, 2010 (in US Dollars)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount of guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guaranty
NOT APPLICABLE				
Total		0	0	0

INTEGRATED MICROELECTRONICS, INC. SCHEDULE I - CAPITAL STOCK As of December 31, 2010 (in US Dollars)

TITLE OF ISSUE	NUMBER OF SHARES AUTHORIZED	# OF SHARES ISSUED/SUBSCRIBED	# OF SHARES RESERVED FOR OPTIONS, WARRANTS, CONVERSION & RIGHTS	# OF SHARES HELD BY AFFILIATES	DIRECTORS, OFFICERS & EMPLOYEES	OTHERS
Common Stocks issued & subscribed	2,250,000,000	1,352,290,094				
Less: Treasury Shares		(15,892,109)				
Common shares outstanding	2,250,000,000	1,336,397,985			103,522,012	1,232,875,973
Preferred Shares	1,500,000,000	1,300,000,000			1,343,400	1,298,656,600
_						

INTEGRATED MICRO-ELECTRONICS, INC. SCHEDULE J - RETAINED EARNINGS AVAILABLE FOR DIVIDEND DISTRIBUTION DECEMBER 31, 2010

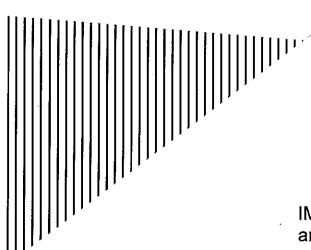
	(Figures based on functional currenc Audited Financial Statement		
Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning		\$12,214,797	
Add: Net income actually earned/realized during the period			
Net income during the period closed to retained earnings	(4,288,823)		
Less: Non- actual/unrealized income net of tax Equity in net income of associate/joint venture Unrealized foreign exchange gain - net (except those	-		
attributable to cash and cash equivalents Unrealized actuarial gain	- -		
Fair value adjustment (fair value gains in prior years reversed in current year) Fair value adjustment in investment property resulting	-		
to gain	_		
Adjustment due to deviation from PFRS/GAAP – gain Accretion of Meralco receivable Other unrealized gains or adjustments to the retained	(18,780)		
earnings as a result of certain transactions accounted for under the PFRS	_		
Sub-total	(4,307,603)		
Add: Non-actual losses			
Amount of provision for deferred tax during the year Depreciation on revaluation increment (after tax) Adjustment due to deviation from PFRS/GAAP - loss	- -		
Unrealized foreign exchange loss Loss on fair value adjustment of investment property	76,889		
(after tax) Fair value adjustment on call and put option that are not yet realized	207,555		
Net income actually earned during the period	201,000	(4,023,159)	
Add (less): Dividend declarations during the period	(9,469,166)		
Appropriations of retained earnings during the period Reversals of appropriations	_		
Effects of prior period adjustments Treasury shares	 (1,012,585)_		
·		(10,481,751)	
TOTAL RETAINED EARNINGS AVAILABLE FOR		(40.000.4.5)	

(\$2,290,113)

DIVIDEND DECLARATION, END

EXHIBIT 3

2010 Audited Annual Financial Statements, IMI International (Singapore) Pte Ltd and its subsidiary



Annual Financial Statements 31 December 2010

General Information

Directors

Arthur R. Tan Chng Poh Guan Sherisa P. Nuesa

Company Secretary

Lynn Wan Tiew Leng

Registered Office

50 Raffles Place Singapore Land Tower, #32-01 Singapore 048623

Bankers

BNP Paribas Citibank DBS Bank Ltd OCBC Bank Ltd KBC Bank N.V. Standard Chartered Bank

Auditors

Ernst & Young LLP

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Consolidated Statement of Comprehensive Income	5
Balance Sheets	6
Statements of Changes in Equity	7
Consolidated Cash Flow Statement	10
Notes to the Financial Statements	11

Directors' Report

The directors are pleased to present their report to the member together with the audited consolidated financial statements of IMI International (Singapore) Pte Ltd (the Company) and its subsidiary (collectively, the Group) and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2010.

Directors

The directors of the Company in office at the date of this report are:

Arthur R. Tan Chng Poh Guan Sherisa P. Nuesa

Arrangements to enable Directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares and debentures

The following director, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in shares of the Company and related corporations as stated below:

Direct interest

	At beginning of the financial year	At end of the financial year
Ultimate holding company	, , , , , , , , , , ,	, ,
Ayala Corporation Ordinary shares of 1 Peso each		
Sherisa P. Nuesa	99,232	101,365
Immediate holding company		
Integrated Microelectronics, Inc.		
Ordinary shares of 1 Peso each		
Arthur R. Tan	13,000,000	14,955,352
Chng Poh Guan	2,915,647	1,376,248
Sherisa P. Nuesa	· · ·	862,808
Fellow subsidiary		
Ayala Land Inc.		
Ordinary shares of 1 Peso each		
Sherisa P. Nuesa	3,774,724	4,053,846

Except as disclosed in this report, no other director who held office at the end of the financial year had an interest in any shares, share options or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or the end of the financial year.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit (other than a benefit or any fixed salary of a full-time employee of the Company included in the aggregate amount of emoluments shown in the financial statements) by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

IMI International	(Singapore)	Pte Ltd	and its	subsidiary
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Directors' Report

Auditors

Ernst & Young LLP have expressed their willingness to accept reappointment as auditors.

On behalf of the board of directors,

Arthur R. Tan Director

Chng Poh Guan Director

Singapore 10 March 2011

Statement by Directors

We, Arthur R. Tan and Chng Poh Guan, being two of the directors of IMI International (Singapore)

Pte Ltd, do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, consolidated statement of comprehensive income,

statements of changes in equity and consolidated cash flow statement together with notes

thereto are drawn up so as to give a true and fair view of the state of affairs of the Group

and of the Company as at 31 December 2010 and the results of the business, changes in

equity and cash flows of the Group and the changes in equity of the Company for the year

ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will

be able to pay its debts as and when they fall due as the immediate holding company has

given an undertaking in terms of the Company's obligations as a going concern.

On behalf of the board of directors,

Arthur R. Tan Director

Chng Poh Guan Director

Singapore 10 March 2011

Independent Auditors' Report to the Member of IMI International (Singapore) Pte Ltd

Report on the Financial Statements

We have audited the accompanying financial statements of IMI International (Singapore) Pte Ltd (the "Company") and its subsidiary (collectively, the Group), set out on pg 5 to 56, which comprise the balance sheets of the Group and the Company as at 31 December 2010, the statement of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the Act) and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and the results and cash flows of the Group and changes in equity of the Group and of the Company for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by the subsidiary incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Public Accountants and Certified Public Accountants

Singapore 10 March 2011

ERNST & YOUNG LLP

Consolidated Statement of Comprehensive Income for the financial year ended 31 December 2010

(Amounts expressed in United States dollars)

	Note	Grou	
		2010 \$'000	2009 \$'000
Revenue	3	252,805	203,800
Cost of sales		(220,748)	(168,949)
Gross profit		32,057	34,851
Other operating income	4	1,249	1,999
Distribution and selling expenses		(58)	(239)
Administrative expenses		(20,617)	(21,692)
Finance costs	7	(498)	(892)
Profit before taxation	5	12,133	14,027
Taxation	8	(2,166)	(5,269)
Profit for the year, representing total comprehensive income for the year		9,967	8,758
Total comprehensive income attributable to :			
Equity holder of the Company		9,941	8,688
Non-controlling interests		26	70
		9,967	8,758

Balance Sheets as at 31 December 2010

(Amounts expressed in United States dollars)

	Note	Gro	up	Comp	any
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Non-current assets Property, plant and equipment Defered tax assets	9 22	39,978 115	40,499 108	276 -	143
Investment in subsidiaries Intangible assets	10 11	45,337	47,937	121,354 -	120,498 -
Current assets					
Inventories Trade receivables Other receivables, deposits	12 13	33,553 69,126	18,195 48,004	_	-
and prepayments Due from immediate holding	14	2,563	1,470	52	44
company Fixed deposits	15 16	5,566	1,392 3,439	5,396	1,392
Cash and bank balances	16	17,526	22,406	815	. 878
		128,334	94,906	6,263	2,314
Current liabilities					
Bank overdrafts Trade payables Other payables and accruals Provision for taxation	16 17 18	586 41,700 9,767 1,317	26,012 7,571 3,401	803 29	- - 138 11
Short term bank loan (unsecured)	19	1,296	2,302	_	_
Long term bank loan, current portion Amount due to immediate	20	8,000	8,000	8,000	8,000
holding company Amount due to subsidiary	21 21	105,872	94,128	85,195 11,080	81,540 18,039
		168,538	141,414	105,107	107,728
Net current liabilities		(40,204)	(46,508)	(98,844)	(105,414)
Non-current liabilities Long term bank loan, non-current portion	20		(8,000)		(8,000)
Net assets	20	45.006		20.706	
Net assets		45,226	34,036	22,786	7,227
Equity attributable to equity holder of the Company					
Share capital Reserves	23 24	123 44,840	123 33,615	123 22,663	123 7,104
Non-controlling interests		44,963 263	33,738 298	22,786	7,227 –
Total equity		45,226	34,036	22,786	
					•

IMI International (Singapore) Pte Ltd and its subsidiary

Statements of Changes in Equity for the year ended 31 December 2010

(Amounts expressed in United States dollars)

ı	Atí	ributable to	Attributable to equity holder of the Company	of the Compan	,	,	
Group	Share capital (Note 23) \$'000	Capital reserve (Note 24a) \$'000	Capital contribution reserves (Note 24b) \$'000	Revenue reserves (Note 24c) \$'000	Total \$'000	Non- controlling interests \$'000	Total equity \$'000
At 1 January 2010 Net profit for the year	123	189	1,409	32,017 9,941	33,738 9,941	298 26	34,036 9,967
Total comprehensive income for the year	1	1	 	9,941	9,941	26	9,967
Contributions by and distributions to owners Arising from dilution of minority interest as a result of additional investment in a subsidiary of Speedy- Tech Electronics Ltd	l	ത	. 1	I	O	(6)	ı
holding company to employees Dividend paid by subsidiary	1 1	1 1	1,275	1 1	1,275	_ (52)	1,275 (52)
Total contributions by and distributions to owners	1	6	1,275	1	1,284	(61)	1,223
Total transactions with owners in their capacity as owners	1	6	1,275	9,941	11,225	(35)	11,190
Balance at 31 December 2010	123	198	2,684	41,958	44,963	263	45,226
İ							

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

IMI International (Singapore) Pte Ltd and its subsidiary

Statements of Changes in Equity for the year ended 31 December 2010

(Amounts expressed in United States dollars)

	Atí	tributable to	Attributable to equity holder of the Company	f the Company	,		
Group	Share capital (Note 23)	Capital reserve (Note 24a) \$'000	Capital contribution reserves (Note 24b) \$'000	Revenue reserves (Note 24c) \$'000	Total \$'000	Non- controlling interests \$'000	Total equity \$'000
At 1 January 2009 Net profit for the year	123	96 I	1,122	23,329 8,688	24,670 8,688	407 70	25,077 8,758
Total comprehensive income for the year	1	1	1	8,688	8,688	70	8,758
Contributions by and distributions to owners Arising from dilution of minority interest as a result of additional investment in a subsidiary of Speedy- Tech Electronics Ltd	l ,	69	I	I	693	(63)	· 1
holding company to employees Dividend paid by subsidiary	1 1	1 1	287	1 1	287	- (88)	287 (86)
Total contributions by and distributions to owners	1	93	287		380	(179)	201
Total transactions with owners in their capacity as owners	l	63	287	8,688	890'6	(109)	8,959
Balance at 31 December 2009	123	189	1,409	32,017	33,738	298	34,036

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity for the year ended 31 December 2010

(Amounts expressed in United States dollars)

Company	Share capital (Note 23) \$'000	Capital contribution reserves (Note 24b) \$'000	Revenue reserves (Note 24c) \$'000	Total \$'000
At 1 January 2010	123	1,409	5,695	7,227
Net profit for the year	_	-	14,284	14,284
Total comprehensive loss for the year	_	-	14,284	14,284
Contributions by and distributions to owners Grant of equity settled share options in immediate holding company to				
employees	-	1,275	-	1,275
Total contributions by and distributions to owners	_	1,275	-	1,275
Total transactions with owners in their capacity as owners	_	1,275	14,284	15,559
At 31 December 2010	123	2,684	19,979	22,786
At 1 January 2009	123	1,122	6,202	7,447
Net loss for the year		-	(507)	(507)
Total comprehensive loss for the year	_	_	(507)	(507)
Contributions by and distributions to owners Grant of equity settled share options in immediate holding company to				
employees	_	287	-	287
Total contributions by and distributions to owners	_	287	_	287
Total transactions with owners in their capacity as owners	_	287	(507)	(220)
At 31 December 2009	123	1,409	5,695	7,227

Consolidated Cash Flow Statement for the year ended 31 December 2010

(Amounts expressed in United States dollars)

	Gro	oup
	2010 \$'000	2009 \$'000
Cash flows from operating activities Profit before taxation	12,133	14,027
Adjustments for:	12, 133	14,027
Gain on disposal of property, plant and equipment Depreciation of property, plant and equipment Allowance for doubtful debts	(158) 8,413 —	(109) 9,009 166
Write back of allowance for inventories obsolescence, net Interest expense	(908) 498	(1,159) 892
Interest income Amortisation of intangible assets	(78) 2,600	(49) 2,600
Share option expenses	1,275	287
Operating profit before working capital changes	23,775	25,664
(Increase)/decrease in inventories Increase in trade receivables (Increase)/decrease in other receivables, deposits and	(14,450) (21,122)	12,689 (2,229)
prepayments	(1,093)	1,403
Increase in amount due from immediate holding company Increase/(decrease) in trade payables	(4,174) 15,688	(1,335) (4,912)
Increase/(decrease) in other payables and accruals	2,196	(969)
Cash generated from operations	820	30,311
Interest paid Income taxes paid	(498) (4,257)	(892) (3,152)
Net cash generated from operating activities	(3,935)	26,267
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment Purchase of property, plant and equipment (Note 16)	794 (9.529)	1,069
Interest received	(8,528) 78	(2,388) 49
Net cash used in investing activities	(7,656)	(1,270)
Cash flows from financing activities		
Dividend paid by subsidiary to minority interest	(52)	(86)
(Repayment of)/net proceeds from short term bank loans Repayment of long term loans	(1,006) (8,000)	(6,707) (8,000)
Increase in amount due to immediate holding company	11,744	1,263
Net cash (used in)/generated from financing activities	2,686	(13,530)
Net increase in cash and cash equivalents	(8,905)	11,467
Cash and cash equivalents at beginning of year (Note 16)	25,845	14,378
Cash and cash equivalents at end of year (Note 16)	16,940 	25,845 ————

(Amounts expressed in United States dollars unless otherwise stated)

1. Corporate information

IMI International (Singapore) Pte Ltd (the "Company") is a private limited company incorporated and domiciled in Singapore. The Company has a wholly-owned subsidiary incorporated and domiciled also in Singapore which is Speedy-Tech Electronics Ltd. ("STEL") (collectively referred to as the "Group").

The immediate holding company is Integrated Microelectronics Inc. (the "Parent Company") which is incorporated in the Philippines and is a subsidiary of AYC Holdings, Ltd. ("AYC"). AYC is a corporation incorporated in British Virgin Islands and a subsidiary of Ayala Corporation ("AC"), a corporation incorporated in the Republic of the Philippines and listed on the Philippine Stock Exchange. On 21 January 2010, the Parent Company was listed by way of introduction on the Philippines Stock Exchange.

On 16 April 2009, the Company established its Philippine Regional Operating Headquarters also known as IMI International ROHQ (the "Headquarters"), under Executive Order No.226, otherwise known as the Omnibus Investments Code of 1987, as amended by Republic Act No. 8756. The Headquarters started its commercial operations on 1 July 2009. The Headquarters serves as a supervisory, communications and coordinating centre for the affiliates and subsidiaries of the Company.

The registered office of the Company is located at 50 Raffles Place, Singapore Land Tower, #32-01, Singapore 048623 and its principal place of business is located at Speedy-Tech Industrial Building, 20 Kian Teck Lane, Singapore 627854.

The principal activities of the Company are the procurement of raw materials, suppliers and provision of customer services. STEL and its subsidiaries (see Note 10) are principally engaged in the provision of Electronic Manufacturing Services and Power Electronics solutions to Original Equipment Manufacturer ("OEM") customers in the consumer electronics, computer peripherals/IT, industrial equipment, telecommunications and medical devices sectors; manufacture and trading of power supplies, adaptors, electric discharge machines and electronic components; and procurement, marketing and supply of chain services.

2. Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet, statement of comprehensive income and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The financial statements have been prepared on the historical cost basis except for leasehold land and building which are stated at fair value less depreciation charged subsequent to the date of revaluation.

The financial statements are presented in United States dollars (USD or \$) and all values are rounded to the nearest thousand (\$'000) except when otherwise indicated.

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.2 Changes in accounting polices

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 January 2010. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company except as disclosed below:

FRS 103 Business Combinations (revised) and FRS 27 Consolidated and Separate Financial Statements (revised)

The revised FRS 103 Business Combinations and FRS 27 Consolidated and Separate Financial Statements are applicable for annual periods beginning on or after 1 July 2009. As of 1 January 2010, the Group adopted both revised standards at the same time in accordance with their transitional provisions.

FRS 103 Business Combinations (revised)

The revised FRS 103 introduces a number of changes to the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Changes in significant accounting policies resulting from the adoption of the revised FRS 103 include:

- Transaction costs would no longer be capitalised as part of the cost of acquisition but will be expensed immediately;
- Consideration contingent on future events are recognised at fair value on the acquisition date and any changes in the amount of consideration to be paid will no longer be adjusted against goodwill but recognised in profit or loss;
- The Group elects for each acquisition of a business, to measure non-controlling interest at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, and this impacts the amount of goodwill recognised; and
- When a business is acquired in stages, the previously held equity interests in the
 acquiree is remeasured to fair value at the acquisition date with any corresponding gain
 or loss recognised in profit or loss, and this impacts the amount of goodwill recognised.

According to its transitional provisions, the revised FRS 103 has been applied prospectively. Assets and liabilities that arose from business combinations whose acquisition dates are before 1 January 2010 are not adjusted.

FRS 27 Consolidated and Separate Financial Statements (revised)

Changes in significant accounting policies resulting from the adoption of the revised FRS 27 include:

- A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss recognised in profit or loss;
- Losses incurred by a subsidiary are allocated to the non-controlling interest even if the losses exceed the non-controlling interest in the subsidiary's equity; and
- When control over a subsidiary is lost, any interest retained is measured at fair value with the corresponding gain or loss recognised in profit or loss.

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.2 Changes in accounting polices (cont'd)

FRS 27 Consolidated and Separate Financial Statements (revised) (cont'd)

According to its transitional provisions, the revised FRS 27 has been applied prospectively, and does not impact the Group's consolidated financial statements in respect of transactions with non-controlling interests, attribution of losses to non-controlling interests and disposal of subsidiaries before 1 January 2010. The changes will affect future transactions with non-controlling interests.

2.3 Standards issued but not yet effective

The Group and Company have not adopted the following FRS and INT FRS that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendment to FRS 32 Financial Instruments: Presentation - Classification of Rights Issues	1 February 2010
INT FRS 119 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Revised FRS 24 Related Party Disclosures	1 January 2011
Amendments to INT FRS 114 Prepayments of a Minimum Funding Requirement	1 January 2011
INT FRS 115 Agreements for the Construction of Real Estate	1 January 2011

Except for the revised FRS 24, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the revised FRS 24 is described below.

Revised FRS 24 Related Party Disclosures

The revised FRS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised FRS 24 expands the definition of a related party and would treat two entities as related to each other whenever a person (or a close member of that person's family) or a third party has control or joint control over the entity, or has significant influence over the entity. The revised standard also introduces a partial exemption of disclosure requirements for government-related entities. The Group is currently determining the impact of the changes to the definition of a related party has on the disclosure of related party transaction. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in 2011.

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.4 Functional and foreign currency

The Group's consolidated financial statements are presented in United States Dollars, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(a) Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in the profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

(b) Group companies

The assets and liabilities of foreign operations are translated into USD at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

The Group has elected to recycle the accumulated exchange differences in the separate component of other comprehensive income that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.5 Basis of consolidation

Business combinations from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

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.

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

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.5 Basis of consolidation (cont'd)

Business combinations before 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations are accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent measurements to the contingent consideration affected goodwill.

2.6 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment losses.

2.7 Transactions with non-controlling interests

Non-controlling interests represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.8 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, all items of property, plant and equipment except leasehold land and building are measured at cost less accumulated depreciation and accumulated impairment losses. Leasehold land and buildings are measured at fair value less accumulated depreciation and impairment losses recognised after the date of the revaluation.

Prior to 1 January 1997, there was no fixed policy with respect to the frequency of valuation of property, plant and equipment stated at valuation. Property, plant and equipment were revalued as and when deemed appropriate by the directors. Subsequent to 1 January 1997, property, plant and equipment stated at valuation are revalued every three to five years based on directors' revaluation to ensure that their carrying amount does not differ materially from their fair value at the balance sheet date.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the profit or loss, in which case the increase is recognised in the profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Depreciation of an asset begins when it is available for use and is computed on a straightline basis with a residual value of 0% to 10% over the estimated useful life of the asset as follows:

Leasehold land and building 30 years (over the tenure period)

Land use rights 30 years (over the tenure period of the land)

Plant and machinery

Furniture and fittings

Office equipment

Renovation

Motor vehicles

Tools and equipment

Syears

5 years

Electronics equipment and computer software 3 - 5 years EMC testing facility 3 - 10 years

Leasehold building and improvements 5 - 30 years (over the term of lease)

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

(Amounts expressed in United States dollars unless otherwise stated)

2. Summary of significant accounting policies (cont'd)

2.8 Property, plant and equipment (cont'd)

The residual value, useful life and depreciation method are reviewed at each financial yearend and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

2.9 Intangible assets

(a) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.6.

Goodwill and fair value adjustments which arose on acquisitions of foreign operation before 1 January 2005 are deemed to be assets and liabilities of the Company and are recorded in SGD at the rates prevailing at the date of acquisition.

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.9 Intangible assets (cont'd)

(b) Other intangible assets – customer relationships, order backlog, unpatented technology and club membership

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The amortisation expense on intangible assets with finite lives is recognised in the administrative profit or loss.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable.

Amortisation of intangible assets is computed on a straight-line basis over the estimated useful life of the intangible assets as follows:

Customer relationships 5 years Order backlog 5 years

Unpatented technology 6 months

2.10 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.10 Impairment of non-financial assets (cont'd)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2.11 Financial assets

Initial recognition and measurement

Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

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

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by FRS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Group has not designated any financial assets upon initial recognition at fair value through profit or loss.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.11 Financial assets (cont'd)

(b) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(c) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

(d) Available-for-sale financial assets

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

Cash and short-term deposits carried on the balance sheets are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.10.

2.13 Trade and other receivables

Trade and other receivables, including amounts due from intermediate holding company, immediate holding company and subsidiaries are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.10.

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.14 below.

2.14 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.14 Impairment of financial assets (cont'd)

Financial assets carried at amortised cost (cont'd)

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- Raw materials purchase costs on a weighted average basis;
- Finished goods and work-in-progress costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned as a first-in first-out basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.16 Trade and other payables

Liabilities for trade and other amounts payable, which are normally settled on 30-60 days terms, and payables to related parties are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.17 Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.18 Borrowings costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.19 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

2.20 Employee benefits

Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

Singapore

The Singapore companies in the Group make contributions to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

PRC

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

Hong Kong

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

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.20 Employee benefits (cont'd)

Deferred contribution plans (cont'd)

The Philippines

Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

Equity-settled transactions

The cost of equity-settled transactions with employees was measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account was taken of any performance conditions, other than conditions linked to the price of the shares of the company ('market conditions'), if applicable.

The cost of equity-settled transactions was recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date').

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Since the scheme was cancelled after the vesting period, share option reserves representing the cumulative share option expense recognised was retained as part of equity.

2.21 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.21 Revenue (cont'd)

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Rental income

Rental income is recognised on a straight-line basis. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

(d) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

2.22 Taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. 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.

(b) Deferred tax

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

Deferred tax liabilities are recognised for all temporary differences, except:

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

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.22 Income taxes (cont'd)

(b) Deferred tax (cont'd)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

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

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.22 Income taxes (cont'd)

(c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.23 Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gain or losses arising from changes in fair value on derivative financial instruments that do not qualify for hedge accounting are taken to the profit or loss for the year.

2.24 Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

Subsequent measurement

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

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.24 Financial liabilities (cont'd)

(a) Financial liabilities at fair value through profit or loss (cont'd)

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

The Group has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

(b) Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

A financial liability is derecognised 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, and the difference in the respective carrying amounts is recognised in profit or loss.

2.25 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of INT FRS 104.

(a) As lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

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

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

2. Significant accounting policies (cont'd)

2.25 Leases (cont'd)

(b) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.21(c). Contingent rents are recognised as revenue in the period in which they are earned.

2.26 Share capital and share issue expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.27 Related parties

A party is considered to be related to the Group if:

- (a) The party, directly or indirectly through one or more intermediaries,
 - (i) controls, is controlled by, or is under common control with, the Group;
 - (ii) has an interest in the Group that gives it significant influence over the Group; or
 - (iii) has joint control over the Group;
- (b) The party is an associate;
- (c) The party is a jointly-controlled entity;
- (d) The party is a member of the key management personnel of the Group or its parent;
- The party is a close member of the family of any individual referred to in (a) or (d);
- (f) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) The party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2. Significant accounting policies (cont'd)

2.28 Significant accounting estimates and judgements

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

(a) Key sources of estimation uncertainty

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

(i) Impairment of investment in subsidiaries

The Company assesses at each reporting date whether there is an indication that the investment in subsidiaries may be impaired. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Company's investment in subsidiaries at 31 December 2010 was \$121,354,000 (2009: \$120,498,000).

(ii) Depreciation of plant and equipment

The cost of plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these property, plant and equipment as discussed in Note 2.8. These are common life expectancies applied in the electronics and telecommunication manufacturing industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's property, plant and equipment at 31 December 2010 was \$39,978,000 (2009: \$40,499,000).

(iii) Income taxes

The Group has exposure to taxes in numerous jurisdictions. Significant judgement is involved in determining the Group-wide provision for taxes including value-added tax, consumption tax and customs duty. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes are due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the profit and loss in the period in which such determination is made. The carrying amounts of the Group's tax payables and deferred tax assets at 31 December 2010 were \$1,317,000 (2009: \$3,401,000) and \$115,000 (2009: \$108,000) respectively.

2. Significant accounting policies (cont'd)

2.28 Significant accounting estimates and judgements (cont'd)

(a) Key sources of estimation uncertainty (cont'd)

(i) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details of the key assumptions applied in the impairment assessment of goodwill, are given in Note 11 to the financial statements.

(b) Critical judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following critical accounting judgements that will have a significant effect on the amounts recognised in the consolidated financial statements.

(i) Impairment of property, plant and equipment

The carrying values of property, plant and equipment are reviewed for impairment when there are indicators of impairment. As at 31 December 2010, there are no indications of impairment.

(ii) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

3. Revenue

	Gro	oup
	2010 \$'000	2009 \$'000
Sale of goods Service fees	248,808 3,997	202,407 1,393
	252,805	203,800

Service fees relate to fees from services provided to the immediate holding company.

4. Other operating income

,	Gr	oup .
	2010 \$'000	2009 \$'000
Sundry income* Rental income	472 220	1,622 219
Interest income from loans and receivables	78	49
Gain on disposal of property, plant and equipment Write back of provision of sales commission	158 321	109 -
	1,249	1,999

^{*} This mainly relates to commission and engineering fees from product development activities and income earned from purchases on behalf of customers.

5. Profit before taxation

Profit before taxation is stated after charging/(crediting) the following:

	Grou	ıρ
	2010	2009
	\$'000	\$'000
Depreciation of property, plant and equipment	8,413	9,009
Exchange (gain)/loss, net	(341)	(31)
Amortisation of intangible assets	2,600	2,600
Employee benefits expense (Note 6)	44,796	34,662
Allowance for doubtful debts	·	,
- Trade receivables	-	166
Allowance for inventory obsolescence	165	2,111
Write back of allowance for inventory obsolescence	(1,073)	(3,270)
Research costs	199	59
Operating lease expenses	1,270	1,062
Loss on sale of materials	1,392	· –
	•	

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

6. Employee benefits expense

	Gro	ир
	2010 \$'000	2009 \$'000
Wages, salaries and bonuses Central Provident Fund/pension contributions Other personnel benefits Share option expenses (not including directors of Company) Directors' remuneration – directors of the Company	37,348 2,141 3,216 1,198 893	30,425 1,713 1,608 244 672
-	44,796	34,662

Share options expenses relate to the difference between the fair value and the subscription price of the share of the intermediate holding company's Employee Stock Ownership Plan ("ESOWN") granted to employees of the Group. Details of the ESOWN are disclosed in the financial statement of the intermediate holding company.

7. Finance costs

	Grou	ıp
	2010 \$'000	2009 \$'000
Interest expense - bank loans - bank overdrafts/bank charges	220 278	789 103
	498	892

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

8. Income tax

Major components of taxation

The major components of taxation for the year ended 31 December 2010 and 2009 are:

	Grou	ıp
	2010 \$'000	2009 \$'000
Current taxation Singapore Current year		
(Over)/under provision in respect of prior years	(629)	- 588
Foreign Current year Over-provision in respect of prior years	2,941 (139)	4,672
	2,173	5,260
Deferred taxation Foreign		
Origination and reversal of temporary differences	(7)	9
	(7)	9
Tax expense recognised in the statement of comprehensive income.	2,166	5,269

Relationship between taxation and accounting profit

A reconciliation between the taxation and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December 2010 and 2009 is as follows:

	Gro	up
	2010 \$'000	2009 \$'000
Accounting profit before income taxes	12,133	14,027
Tax at the domestic rates applicable to profits in the countries concerned * Adjustments:	3,128	4,053
Tax effect of expenses not deductible for tax purposes (Over)/under provision of current tax in respect of prior years Benefits of previously unrecognised tax losses Deferred tax assets not recognised Income not subject to tax Others	630 (768) (335) 46 (302) (233)	589 588 - 113 (487) 413
Tax expense recognised in the statement of comprehensive income.	2,166	5,269

(Amounts expressed in United States dollars unless otherwise stated)

8. Income tax (cont'd)

Relationship between taxation and accounting profit (cont'd)

* The reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction. The corporate income tax rate applicable to Singapore companies of the Group was reduced to 17% for the year of assessment 2010 onwards from 18% for year of assessment 2009.

Speedy Tech Electronics (HK) Limited ("STHK")

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the year.

Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE"), Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX"), Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ") and IMI (Cheng Du) Ltd. ("IMICD")

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

SZSTE is subject to taxation at the statutory tax rate of 22% (2009: 20%) on its taxable income as reported in the financial statements of SZSTE prepared in accordance with the accounting regulations in the PRC.

STJX is entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year, ie. after all tax losses have been fully offset in accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STJX is in its sixth profitable year, and hence is subject to taxation at the rate of 25% (2009: 25%) on the taxable income as reported in the financial statements of STJX prepared in accordance with the accounting regulations in the PRC.

STCQ is entitled to full exemption from Enterprise Income Tax ("EIT") for the first five years, commencing from the first profitable year, ie. after all tax losses have been fully offset in accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STCQ is in its first profitable year, and hence is not subject to taxation on the taxable income as reported in the financial statements of STCQ prepared in accordance with the accounting regulations in the PRC.

IMICD is subject to taxation at the statutory tax rate of 25% on their taxable income as reported in the financial statement. With effect from year 2008, the China tax authority ceased the incentive of preferential tax treatment for enterprises with foreign investment and foreign enterprises.

Speedy-Tech (Philippines) Inc. ("STPHIL")

Speedy-Tech (Philippines) Inc. is registered with the Philippine Economic Zone Authority ("PEZA") as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to 5% on gross income, as defined under Republic Act No. 7916, in lieu of all local and national taxes.

IMI International (Singapore) Pte Ltd and its subsidiary

(Amounts expressed in United States dollars unless otherwise stated)

. Property, plant and equipment

	At valuation_					A	At cost					
Group	Leasehold land and building \$'000	Land Use rights	Plant and machinery \$'000	Furniture and fittings \$'000	Office equipment \$'000	Office equipment Renovation \$'000 \$'000	Motor vehicles \$'000	Tools and equipment \$'000	Electronics equipment and computer software \$`000	Leasehold building and improvements \$'000	EMC testing facility \$'000	Total \$'000
Cost or valuation At 1 January 2009 Additions Disposals/written off	6,492	517	67,763 1,668 (2,888)	1,072 69 (66)	1,648 42 (29)	7,553 161 –	685 175 (53)	442	7,631 263 (49)	5,448	2,179	101,430 2,388 (3,085)
At 31 December 2009 and 1 January 2010 Additions Disposals/written off	6,492	517	66,543 7,330 (2,378)	1,075 4 (13)	1,661 108 (467)	7,714	807 304 (139)	445 173 -	7,845 296 (214)	5,455	2,179	100,733 8,528 (3,211)
At 31 December 2010	6,492	517	71,495	1,066	1,302	8,027	972	618	7,927	5,455	2,179	106,050
Accumulated depreciation and impairment loss At 1 January 2009 Charge for the year Disposals/written off	4,171 275 -	445 30 -	33,988 5,561 (1,945)	646 63 (66)	1,194 184 (29)	4,319 1,359 -	349 124 (38)	253 87 -	5,482 937 (47)	1,456 182 —	1,047 207 -	53,350 9,009 (2,125)
At 31 December 2009 and 1 January 2010 Charge for the year Disposals/written off	4,446 276 -	475 30 -	37,604 5,613 (1,822)	643 41 (13)	1,349 176 (421)	5,678 881 -	. 435 188 (109)	340 90 -	6,372 719 (210)	1,638 198 –	1,254 201 -	60,234 8,413 (2,575)
At 31 December 2010	4,722	505	41,395	671	1,104	6,559	514	430	6,881	1,836	1,455	66,072
Net carrying amount At 31 December 2009	2,046	42	28,939	432	312	2,036	372	105	1,473	3,817	925	40,499
At 31 December 2010	1,770	12	30,100	395	198	1,468	458	188	1,046	3,619	724	39,978

(Amounts expressed in United States dollars unless otherwise stated)

9. Property, plant and equipment (cont'd)

Company	Computer equipment \$'000	Motor vehicles \$'000	Total \$'000
Cost At 1 January 2009 Additions	7	_ 175	7 175
At 31 December 2009 and 1 January 2010 Additions Disposals/written off	7 - -	175 251 (22)	182 251 (22)
At 31 December 2010	7	404	411
Accumulated depreciation At 1 January 2009 Charge for the year	. 7 -	_ 32	. 7 32
At 31 December 2009 and 1 January 2010 Charge for the year Disposal/written off	7 - -	32 105 (9)	39 105 (9)
At 31 December 2010	7	128	135
Net carrying amount At 31 December 2009	_	143	143
At 31 December 2010	_	276	276

10. Investment in subsidiaries

•	Comp	any
	2010 \$'000	2009 \$'000
Unquoted equity shares, at cost	121,354	120,498

These shares are pledged to a bank for banking facilities granted to the immediate holding company.

Details of the subsidiary are as follows:

Name Held by the Company	Country of incorporation	Principal activities	Percent equity h the Cor 2010 %	reld by
Speedy-Tech Electronics Ltd *	Singapore	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100

10. Investment in subsidiaries (cont'd)

Name	Country of incorporation	Principal activities		tage of held by mpany 2009 %
Held by Speedy-Tech Electro	onics Ltd			
Vista Manufacturing Pte Ltd * ("VISTA")	Singapore	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
Speedy-Tech Technologies Pte Ltd * ("STTS")	Singapore	Manufacture and trading of electrical discharge machines and electronic components (dormant)	100	100
Speedy-Tech Electronics (HK) Limited * ("STHK")	Hong Kong	Procurement, marketing and supply chain services	100	100
Speedy-Tech (Philippines) Inc. # ("STPHIL")	Philippines	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	99.99	99.99
Shenzhen Speedy-Tech Electronics Co., Ltd. * ("SZSTE")	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing, procurement and research and development	99.47	99.45
Speedy-Tech Electronics Inc. **	United States of America	Marketing, liaison and support services (dormant)	100	100
Speedy-Tech Electronics (Jiaxing) Co. Ltd. * ("STJX")	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ") ##	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
IMI (Cheng Du) Ltd. ("IMICD")&	People's Republic of China	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	100	-

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

10. Investment in subsidiaries (cont'd)

- * Audited by Ernst & Young LLP, Singapore.
- # Audited by member firms of Ernst & Young Global in the respective countries.
- ** The subsidiary was set up in 1999 with no paid up capital. No audit is required by the law of its country of incorporation.
- ## Audited by Jiaxing Hengxin Certified Public Accountants Co., Ltd, Certified Public Accountants.
- & Audited by Sichuan Junyi Accounting Firm Co., Ltd, Certified Public Accountants in the PRC.

11. Intangible assets

Group	Goodwill \$'000	Customer relationship \$'000	Unpatented technology \$'000	Order backlog \$'000	Club membership \$'000	Total \$'000
Cost: Balance at 1 January 2009, 31 December 2009, and 31 December 2010	45,337	12,900	100	100	13	58,450
Accumulated amortisation : Balance at 1 January 2009 Amortisation	_ _	7,740 2,580	60 20	100 –	13 -	7,913 2,600
Balance at 31 December 2009 and 1 January 2010 Amortisation	_ _	10,320 2,580	80 20	100 –	13 -	10,513 2,600
Balance at 31 December 2010	_	12,900	100	100	13	13,113
Net carrying amount : At 31 December 2009	45,337	2,580	20	<u>-</u>		47,937
At 31 December 2010	45,337		-	_	_	45,337
Average remaining amortisation period (years) – 2009		1	1	_	-	
Average remaining amortisation period (years) – 2010		_	-	_		

(Amounts expressed in United States dollars unless otherwise stated)

11. Intangible assets (cont'd)

Customer relationship

Customer relationship pertains to non-contractual master agreements with certain customers which lay out the principal terms upon which the parties agree to undertake business.

Unpatented technology

Unpatented technology pertains to products which are technologically feasible. The Group's patents were applied for the following technologies, both of which are unique, difficult to design around and which meet the separability criteria:

- Self Bias Double-Ended Switching Circuit; and
- A Zero Power Consumption Switch Circuit to Simplify the Energy Star Solution for External Power Adapter

·Order backlog

Order backlog pertains to agreed orders which are yet unfulfilled. The order backlog acquired as at the valuation date meets the contractual-legal criterion for identification as an intangible asset. Order backlog was fully amortized as at 30 June 2006.

Amortisation expense

The amortisation of the intangible assets is included in the 'Administrative expenses' line item in the consolidated income statement.

Impairment testing of goodwill

The Group has identified the cash generating unit ("CGU") to be Speedy-Tech Electronics Ltd and subsidiaries ("STEL").

The recoverable amounts of the CGU have been determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 12.4% and 12.0% in 2010 and 2009 respectively and cash flows beyond the 5-year period are extrapolated using a very conservative steady growth rate of 1% (2009: 1%) which does not exceed the compound annual growth rate for the global EMS industry.

Key assumptions used in value in use calculations

The calculations of value in use for the CGU are most sensitive to the following assumptions:

- Budgeted gross margins Gross margins are based on the mix of business model arrangements with the customers whether semi or full turnkey.
- Growth rates The forecasted growth rate is based on a very conservative steady growth rate which does not exceed the compound annual growth rate for global EMS industry.
- Pre-tax discount rates Discount rates reflect management's estimate of the risks specific to each CGU. This is the benchmark used by management to assess operating performance.

12. Inventories

	Group		Comp	any
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Finished goods	5,712	2,793	_	-
Work-in-progress	3,494	2,974		_
Raw materials	24,216	12,273	_	_
Goods-in-transit	11	15	_	_
Tools	120	140	_	-
Total inventories at lower of cost and net realisable				
value	33,553	18,195	_	_
				

13. Trade receivables

	Gro	oup	Comp	any
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trade receivables Less : Allowance for	69,242	48,214	_	_
doubtful trade debts	(116)	(210)	_	
Trade receivables, net Add:	69,126	48,004	_	_
Other receivables (Note 14)	2,177	1,212	34	36
Deposits (Note 14) Sales tax recoverable	123	134	_	-
(Note 14) Due from immediate	26	14	-	-
holding company	5,566	1,392	5,396	1,392
Fixed deposits (Note 16) Cash and bank balances	-	3,439		-
(Note 16)	17,526	22,406	815	878
Total loans and receivables	94,544	76,601	6,245	2,306

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Included in trade receivables are the following amounts denominated in foreign currencies at 31 December:

	Gro	Group		pany
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Singapore Dollar	1	50		_
Renminbi	38,478	21,873	_	-
Philippines Peso		36		_

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

13. Trade receivables (cont'd)

Receivables that are past due but not impaired

The Group has trade receivables amounting to \$5,376,000 (2009: \$2,542,000) that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

Gro	Group		
2010	2009		
\$'000	\$'000		
·	·		
3,647	1,260		
1,198	900		
139	85		
392	297		
5,376	2,542		
	2010 \$'000 3,647 1,198 139 392		

Receivables that are impaired

The Group's trade receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Grou	ıp
	2010 \$	2009 \$
Trade receivables – nominal amounts Less: Allowance for doubtful trade debts	116 (116)	210 (210)
	_	
Movements in allowance account: At 1 January Charge for the year Written off	210 - (94)	44 166 -
At 31 December	116	210

Trade receivables that are determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

14. Other receivables, deposits and prepayments

	Group		Comp	any
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Other receivables	2,179	1,214	34	36
Less : Allowance for doubtful debts	(2)	(2)		_
Deposits Prepayments Sales tax recoverable	2,177	1,212	34	36
	123	134	-	-
	237	110	18	8
	26	14	-	-
	2,563	1,470	52	44

Included in other receivables are the following amounts denominated in foreign currencies at 31 December:

	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Singapore Dollar	133	9	-	_
Renminbi	92	1,485		-

Receivables that are past due but not impaired

The Group has other receivables amounting to \$760,000 (2009: \$408,000) that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Grou	Group		
	2010 \$'000	2009 \$'000		
Other receivables past due:				
Lesser than 30 days	342	337		
30-60 days	418	71		
	760	408		

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

14. Other receivables, deposits and prepayments (cont'd)

Receivables that are impaired

The Group's other receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group		
	2010 \$'000	2009 \$'000	
Other receivables – nominal amounts Less: Allowance for doubtful debts	2 (2)	2 (2)	
	<u>-</u>		
Movements in allowance account: At 1 January Charge for the year	2 -	_2 	
At 31 December	2	2	

Other receivables that are determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

15. Due from immediate holding company

Amount due from immediate holding company is trade related, unsecured, interest-free, repayable on demand and to be settled in cash.

(Amounts expressed in United States dollars unless otherwise stated)

16. Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at the balance sheet date:

	Group		Company	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Fixed deposits ⁽¹⁾ Cash and bank balances ⁽²⁾ Bank overdrafts ⁽³⁾	-	3,439	_	_
	17,526	22,406	815	878
Cash and cash equivalents	(586)	25,845	815	878

⁽¹⁾ Fixed deposits are mainly short term deposits made for varying periods of approximately one to two months depending on the immediate cash requirements of the Group and bears interest ranging from 0.05% to 0.19% (2009: 0.025% to 3.05%) per annum during the year.

Cash and cash equivalents denominated in foreign currencies at 31 December are as follows;

	Group		Comp	any
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Singapore Dollar Renminbi Philippines Peso	(40) 4,706 43	629 6,332 17	511 _ _ _	514 - -
Note to the consolidated cas	h flow statement		Gro	un
			2010 \$'000	2009 \$'000
Purchase of property, plant a Aggregate cost of property, p Adjustment: Payable to creditors		ent acquired	8,528 _	2,388 _
Cash payments to acquire pr	operty, plant and	d equipment	8,528	2,388

⁽²⁾ Cash at banks earns interest at floating rates based on daily bank deposit rates.

⁽³⁾ Bank overdrafts of the Group bear interest ranging from 4.25% to 6.00% (2009: 4.25% to 6.00%) per annum.

17. Trade payables

	Gro	oup	Company		
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	
Trade payables Add:	41,700	26,012	-	~	
Other payables (Note 18) Accrued operating expenses	1,839	1,054	243	4	
(Note 18)	7,499	5,961	560	134	
Deposits received (Note 18)	429	556	_	-	
Amount due to subsidiary Amount due to immediate	-	_	11,080	18,039	
holding company Short term bank loan	105,872	94,128	85,195	81,540	
(unsecured)	1,296	2,302	_	_	
Long term bank loan (Note 20)	8,000	16,000	8,000	16,000	
Bank overdrafts (Note 16)	586				
Total financial liabilities carried at amortised cost	167,221	146,013	105,078	115,717	

Trade payables are non-interest bearing and are generally on 30 to 60 days' terms.

Included in trade payables are the following amounts denominated in foreign currencies at 31 December:

	Gro	Group		pany
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Euros	35	212	-	_
Singapore Dollar	55	49	_	_
Hong Kong Dollar	971	612	_	_
Renminbi	17,740	12,177	_	_
Philippines Peso	3	15		

(Amounts expressed in United States dollars unless otherwise stated)

18. Other payables and accruals

	Gro	up	Company		
	2010	2009	2010	2009	
	\$'000	\$'000	\$'000	\$'000	
Other payables	1,839	1,054	243	4	
Accrued operating expenses	7,499	5,961	560	134	
Deposits received	429	556	-	-	
_	9,767	7,571	803	138	

Other payables are non-interest bearing and are normally settled on 30 to 90 days' terms.

Included in other payables are the following amounts denominated in foreign currencies at 31 December:

	Gro	Group		Company	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	
Singapore Dollar	481	781	243	4	
Hong Kong Dollar	79	61	_	-	
Renminbi	1,240	2,667	_	-	

19. Short term bank loan (unsecured)

The unsecured Singapore dollar denominated short term bank loan of the Group is revolving in nature and bears interest at rates ranging from 3.51% to 3.70% (2009: 1.81% to 4.90%) per annum.

20. Long term bank loan

	Group and 2010 \$'000	Company 2009 \$'000
Current: - Loan 1	8,000	8,000
Non-current: - Loan 1	_	8,000
	8,000	16,000

Loan 1 from a bank is denominated in United States Dollar. This variable rate loan which is repayable in 10 equal semi-annual instalments of \$4,000,000, commencing on 29 May 2007 and maturing on 29 November 2011. Interest is payable at LIBOR plus 0.75% quoted by the bank. Interest rates ranged from 3.6% to 5.6% (2009: 3.6% to 5.6%).

The fair value for the loan approximates their carrying values.

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

21. Amounts due to immediate holding company and subsidiary

Amounts due to immediate holding company for the Group and Company and amounts due from subsidiary for the Company are non-trade in nature, unsecured, interest-free, repayable on demand and are to be settled in cash, subject to the approval of the Company's lenders.

22. Deferred tax (assets)/ liabilities

	Group		
Deferred tax liabilities	2010 \$'000	2009 \$'000	
Excess of net book value over tax written down value of property, plant and equipment Fair value adjustments on acquisition of subsidiary Others	359 183 1	434 205 10	
	543 ———	649	
Deferred tax assets Unutilised tax losses General provisions Others	(324) (313) (21)	(279) (451) (27)	
	(658)	(757)	
Net deferred tax assets	(115)	(108)	

Deferred tax asset not recognised

At the balance sheet date, the Group has allowance for inventory obsolescence of approximately \$931,000 (2009: \$2,770,000) that are available for offset against future taxable profits of the companies in which the provision of inventory arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability.

Unrecognised temporary differences relating to investments in subsidiaries

At the balance sheet date, no deferred tax liability (2009: Nil) has been recognised for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries as the Group has determined that undistributed earnings of its subsidiaries will not be distributed in the foreseeable future.

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

23. Share capital

•	Group and Company				
	No. of Shares 2010	2010	No. of Shares 2009	2009	
Issued and fully paid	,000	\$'000	'000	\$'000	
At 1 January and 31 December	200	123	200	123	

The holder of ordinary shares is entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

24. Reserves

(a) Capital reserve

Capital reserve represents premium paid or discount on acquisition of non-controlling interests and it is not available for distribution.

(b) <u>Capital contribution reserves</u>

Capital contribution reserves are made up of the difference between the fair value and the subscription price of the share of the immediate holding company's Employee Stock Ownership Plan ("ESOWN") granted to employees of the Group.

(c) Revenue reserves

Revenue reserves of the Company are available for distribution as dividends.

25. Related party information

An equity or individual is considered a related party of the group for the purposes of the financial statements if: i) possess the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the group or vice versa; or ii) it is subject to common control or common significant influence.

The Group did not have any significant transactions with related parties, who are not members of the Group, on terms agreed between the parties.

Compensation of key management personnel

	Group		
	2010 \$'000	2009 \$'000	
Short-term employee benefits Pension and post-employment medical benefits Share option expenses	3,386 270 419	3,357 130 287	
Total compensation entitled to key management personnel	4,075	3,774	
Comprise amounts entitled to : Directors of the Company Other key management personnel	893 3,182	672 3,102	
	4,075	3,774	

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

26. Commitments

Non-cancellable operating leases

The Group has various operating lease agreements in respect of office premises and land. These non-cancellable leases have remaining non-cancellable lease terms of between 1 and 50 years. Most leases contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases are as follows as at 31 December:

	Group		
	2010 \$'000	2009 \$'000	
Within 1 year Within 2 to 5 years After 5 years	1,260 1,888 1,973	1,106 1,281 1,401	
	5,121	3,788	

27. Financial risk management objectives and policies

The Group principal financial instruments, other than derivative financial instruments, comprise bank loans, overdrafts, cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's debt obligations. The Group obtains additional financing through bank borrowings. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Surplus funds are placed with reputable banks.

(Amounts expressed in United States dollars unless otherwise stated)

27. Financial risk management objectives and policies (cont'd)

Interest rate risk (cont'd)

Sensitivity analysis for interest rate risk

As at 31 December 2010, it is estimated that a general increase/decrease of 75 (2009: 75) basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit net of tax by approximately \$72,750 (2009: decrease/increase the Group's profit net of tax by approximately \$144,663).

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 75 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2009.

Foreign currency risk

The Group is exposed to foreign currency risk from revenues generated and cost incurred in foreign currencies, principally in Chinese RMB ("RMB"), Hong Kong Dollar ("HKD") and Singapore Dollar ("SGD"). The Group does not enter into forward foreign exchange contracts to hedge against its foreign exchange risk resulting from sale and purchase transactions denominated in foreign currencies.

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.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in RMB, HKD and SGD exchange rates (against USD), with all other variables held constant, of the Group's profit net of tax.

	Gro	oup
	2010 \$'000 Profit net of tax Increase/(decrease)	\$'009 \$'000 Profit net of tax Increase/(decrease)
RMB – strengthened 4% (2009: 4%) – weakened 4% (2009: 4%)	953 (880)	619 (571)
HKD - strengthened 4% (2009: 4%) - weakened 4% (2009: 4%)	(15) 14	(18) 16
SGD – strengthened 4% (2009: 4%) – weakened 4% (2009: 4%)	(132) 122	(27) 25

(Amounts expressed in United States dollars unless otherwise stated)

27. Financial risk management objectives and policies (cont'd)

Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the balance sheet date based on the contractual undiscounted payments.

		2010			2009	
	1 year or less \$'000	2 to 5 years \$'000	Total \$'000	1 year or less \$'000	2 to 5 years \$'000	Total \$'000
Group						
Financial assets:						
Trade receivables	69,126	_	69,126	48,004	_	48,004
Other receivables and deposits Due from immediate holding	2,326	-	2,326	1,360	_	1,360
company	5,566	-	5,566	1,392	_	1,392
Fixed deposits	_	-	_	3,439	-	3,439
Cash and bank balances	17,526	-	17,526	22,406	-	22,406
Total undiscounted financial assets	94,544	_	94,544	76,601	_	76,601
Financial liabilities:						
Trade payables	41,700	_	41,700	26,012	_	26,012
Other payables and accruals Due to immediate holding	9,767	-	9,767	7,571	-	7,571
company Short-term bank loan	105,872	-	105,872	94,128	-	94,128
(unsecured)	1,300	_	1,300	2,309		2,309
Long-term bank loan	8,083	_	8,083	8,145	8,083	16,228
Bank overdraft	588	-	588	_		_
Total undiscounted financial liabilities	167,310		167,310	138,165	8,083	146,248
Total net undiscounted financial liabilities	72,766	_	72,766	61,564	8,083	69,647

27. Financial risk management objectives and policies (cont'd)

Liquidity risk (cont'd)

		2010			2009	
	1 year or less \$'000	2 to 5 years \$'000	Total \$'000	1 year or less \$'000	2 to 5 years \$'000	Total \$'000
Company						
Financial assets:						
Other receivables	34	_	34	36	_	36
Due from immediate						
holding company	5,396	_	5,396	1,392	-	1,392
Cash and bank balances	815	_	815	878	-	878
Total undiscounted financial		******				
assets	6,245	_	6,245	2,306	_	2,306
Financial liabilities:						
Other payables and accruals	803	_	803	138	_	138
Due to immediate holding						
company	85,195	_	85,195	81,540	_	81,540
Due to subsidiaries	11,080	_	11,080	18,039	-	18,039
Long-term bank loan	8,083	_	8,083	8,145	8,083	16,228
Total undiscounted financial				 		······································
liabilities	105,161	_	105,161	107,862	8,083	115,945
Total net undiscounted						
financial liabilities	98,916	_	98,916	105,556	8,083	113,639

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Credit risk, or the risk of counterparties defaulting, is managed through the application of credit approvals, credit limits and monitoring procedures. Where appropriate, the Company and its subsidiaries obtain collateral from the customer or arrange master netting agreements. Cash terms, advance payments, and letters of credit are required for customers of lower credit standing.

Exposure to credit risk

At the balance sheet date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

Notes to the Financial Statements - 31 December 2010

(Amounts expressed in United States dollars unless otherwise stated)

27. Financial risk management objectives and policies (cont'd)

Credit risk (cont'd)

Credit risk concentration profile

At balance sheet date, approximately:

 34% (2009: 39%) of the Group's trade receivables were due from 3 major customers of the Group.

Financial assets that are neither past due nor impaired

Trade receivables and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 13 (Trade receivables) and Note 14 (Other receivables, deposits and prepayments).

28. Fair value of financial instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models where practical.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Bank balances, other liquid funds and short-term receivables

The carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.

Short term borrowings and other current liabilities

The carrying amounts approximate fair values because of the short period to maturity of these instruments.

Long term bank loans

The fair value of long term borrowings with variable interest rates approximate their carrying amount.

Disclosure of the nature of financial instruments and their significant terms and conditions that could affect the amount, timing and certainty of future cash flow is presented in the respective Notes to the financial statements, where applicable.

29. 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 maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

The Group monitors capital using a gearing ratio of debt to equity and net debt to equity. Debt consists of loans payable and long-term debt. Net debt includes loans payable and long-term debt less cash and cash equivalent. The Group considers as capital the equity attributable to the equity holder of the Company and the amount due to immediate holding company used for the acquisition of STEL.

	Group	
	2010 \$'000	2009 \$'000
Short term bank loan (unsecured) Long term bank loan (Note 20) Less:	1,296 8,000	2,302 16,000
Cash and bank balances (Note 16) Fixed deposits (Note 16)	(16,940) —	(22,406) (3,439)
Net (cash)/debt	(7,644)	(7,543)
Equity attributable to equity holder of the Company, Add: Due to immediate holding company	44,963 79,119	33,738 79,119
Capital	124,082	112,857
Debt to equity ratio	7%	16%
Net (cash)/debt to equity ratio	(6%)	(7%)

30. Subsequent events

On 18 February 2011, the Singapore Finance Minister announced enhancements made to the Productivity and Innovation Credit ("PIC") Scheme which will be effective from Year of Assessment 2011. Under the PIC Scheme, business were entitled to enhanced deductions or allowances of amount of expenditure incurred (subject to an annual ceiling) on qualifying activities. The enhancements increased the PIC tax deduction to 400% (up from 250%) on the first S\$400,000 (up from S\$300,000) of qualifying expenditure.

According to FRS10, this is a non-adjusting subsequent event and the financial effect of the PIC scheme will be reflected in the 31 December 2011 financial year.

31. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 10 March 2011.