



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

**INTEGRATED MICRO-ELECTRONICS, INC.**

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(Company's Full Name)

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

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(Company Address)

(632) 756-6840

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(Telephone Number)

September 30, 2012

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(Quarter Ending)

**SEC Form 17-Q Quarterly Report**

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(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: **September 30, 2012**
2. Commission Identification No.: **94419**
3. BIR Tax Identification No.: **000-409-747-000**
4. Exact name of issuer as specified in its charter: **INTEGRATED MICRO-ELECTRONICS, INC.**
5. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office: **33/F Tower One, Ayala Triangle, Ayala Avenue, Makati City**  
Postal Code: **1226**
8. Issuer's telephone number, including area code: **(632) 756-6840**
9. Former name, former address and former fiscal year: **Not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA:

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

\* Net of 15,892,109 treasury shares;

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

A total of 1,350,476,697 common shares are listed with the Philippine Stock Exchange as of September 30, 2012.

12. Indicate by check mark whether the registrant:

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

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

**PART I--FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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

**UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET**

**AS OF SEPTEMBER 30, 2012**

**(With Comparative Audited Figures as of December 31, 2011)**

**(In thousand dollars)**

	(Unaudited) Sep 30, 2012	(Audited) Dec 31, 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	\$46,190	\$54,069
Loans and receivables - net (Note 5)	160,435	133,677
Inventories (Note 6)	85,781	80,402
Derivative assets (Note 16)	2,736	2,799
Other current assets	8,092	8,855
<b>Total Current Assets</b>	<b>303,234</b>	<b>279,802</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment - net (Note 7)	90,521	97,506
Goodwill	54,355	54,355
Intangible assets (Note 8)	6,083	7,333
Pension asset	2,807	2,807
Available-for-sale financial assets	506	414
Noncurrent receivables	95	214
Deferred income tax assets	773	744
Other noncurrent assets	1,722	1,518
<b>Total Noncurrent Assets</b>	<b>156,862</b>	<b>164,891</b>
	<b>\$460,096</b>	<b>\$444,693</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 9)	\$151,078	\$143,993
Trust receipts and loans payable (Note 11)	39,020	39,009
Income tax payable	1,083	1,687
Provisions (Note 10)	569	249
Derivative liabilities	-	34
<b>Total Current Liabilities</b>	<b>191,750</b>	<b>184,972</b>
<b>Noncurrent Liabilities</b>		
Long-term debt (Note 12)	64,902	60,398
Deferred income tax liabilities	4,580	4,810
Deferred revenue	2,100	2,304
Pension liability	1,202	1,329
Accrued rent	882	914
Obligation under finance lease	787	613
Other long-term employee benefits	212	231
<b>Total Noncurrent Liabilities</b>	<b>74,665</b>	<b>70,599</b>
<b>Total Liabilities</b>	<b>266,415</b>	<b>255,571</b>

(Forward)

	(Unaudited) Sep 30, 2012	(Audited) Dec 31, 2011
<b>Equity</b>		
<b>Equity attributable to equity holders of the Parent Company</b>		
Capital stock - common	<b>\$24,942</b>	\$24,932
Capital stock - preferred	<b>26,601</b>	26,601
Subscribed capital stock	<b>6,497</b>	6,507
Additional paid-in capital	<b>56,568</b>	59,085
Subscriptions receivable	<b>(7,735)</b>	(10,395)
Retained earnings:		
Appropriated for expansion	<b>30,661</b>	30,661
Unappropriated	<b>64,624</b>	59,671
Treasury stock	<b>(1,012)</b>	(1,012)
Reserve for fluctuation on available-for-sale financial assets	<b>181</b>	144
Cumulative translation adjustments	<b>(3,130)</b>	(6,043)
Other reserves	<b>253</b>	171
	<b>198,450</b>	190,322
<b>Equity attributable to noncontrolling interests in consolidated subsidiaries</b>	<b>(4,769)</b>	(1,200)
<b>Total Equity</b>	<b>193,681</b>	189,122
	<b>\$460,096</b>	\$444,693

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

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE**  
**INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**  
(In thousand dollars, except Earnings per Share)

	Unaudited 2012		Unaudited 2011	
	Jul to Sept	Jan to Sept	Jul to Sept	Jan to Sept
<b>REVENUES FROM SALES AND SERVICES</b> (Note 14)	\$170,022	\$495,673	\$157,587	\$420,058
<b>COST OF GOODS SOLD AND SERVICES</b>	155,966	454,549	145,526	387,471
<b>GROSS PROFIT</b>	14,056	41,124	12,061	32,587
<b>OPERATING EXPENSES</b>	(11,999)	(35,854)	(12,657)	(32,722)
<b>OTHERS - Net</b>				
Interest and bank charges	(710)	(2,441)	(584)	(1,128)
Interest income	243	498	54	188
Foreign exchange gains (losses)	260	11	701	2,399
Miscellaneous	16	626	1,272	2,218
<b>INCOME BEFORE INCOME TAX</b>	1,866	3,964	847	3,542
<b>PROVISION FOR INCOME TAX</b>	(893)	(2,580)	(1,168)	(3,227)
<b>NET INCOME</b>	973	1,384	(321)	315
<b>OTHER COMPREHENSIVE INCOME</b>				
Fair value changes on available-for-sale financial assets	43	37	2	28
<b>TOTAL COMPREHENSIVE INCOME</b>	\$1,016	\$1,421	(\$319)	\$343
<b>Net Income Attributable to:</b>				
Equity holders of the Parent Company	\$1,845	\$4,953	\$465	\$1,603
Noncontrolling interests	(872)	(3,569)	(786)	(1,288)
	\$973	\$1,384	(\$321)	\$315
<b>Total Comprehensive Income Attributable to:</b>				
Equity holders of the Parent Company	\$1,888	\$4,990	\$467	\$1,631
Noncontrolling interests	(872)	(3,569)	(786)	(1,288)
	\$1,016	\$1,421	(\$319)	\$343
<b>Earnings (Loss) per Share</b>				
Basic and Diluted (Note 13)		\$0.002		(\$0.0001)

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (in thousand dollars)**

Attributable to Equity Holders of the Parent Company													
	Capital Stock - Common	Capital Stock -Preferred	Subscribed Capital Stock	Additional Paid-in Capital	Subscriptions Receivable	Retained Earnings Appropriated for Expansion	Retained Earnings Unappropriated	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustments	Other Reserves	Attributable to Noncontrolling Interest	Total
Balances at January 1, 2012	\$24,932	\$26,601	\$6,507	\$59,085	(\$10,395)	\$30,661	\$59,671	(\$1,012)	\$144	(\$6,043)	\$171	(\$1,200)	\$189,122
Shares issued during the year	10	-	(10)	-	-	-	-	-	-	-	-	-	-
Cost of share-based payments	-	-	-	191	-	-	-	-	-	-	-	-	191
Net reversal of accretion	-	-	-	(2,708)	2,708	-	-	-	-	-	-	-	-
Net refund on subscriptions	-	-	-	-	(48)	-	-	-	-	-	-	-	(48)
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
Translation adjustments	-	-	-	-	-	-	-	-	-	2,913	-	-	2,913
Other reserves	-	-	-	-	-	-	-	-	-	-	82	-	82
	24,942	26,601	6,497	56,568	(7,735)	30,661	59,671	(1,012)	144	(3,130)	253	(1,200)	192,260
Net income (loss)	-	-	-	-	-	-	4,953	-	-	-	-	(3,569)	1,384
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	37	-	-	-	37
Total comprehensive income (loss)	-	-	-	-	-	-	4,953	-	37	-	-	(3,569)	1,421
Balances at September 30, 2012	\$24,942	\$26,601	\$6,497	\$56,568	(\$7,735)	\$30,661	\$64,624	(\$1,012)	\$181	(\$3,130)	\$253	(4,769)	\$193,681

Attributable to Equity Holders of the Parent Company													
	Capital Stock - Common	Capital Stock -Preferred	Subscribed Capital Stock	Additional Paid-in Capital	Subscriptions Receivable	Retained Earnings Appropriated for Expansion	Retained Earnings Unappropriated	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustments	Other Reserves	Attributable to Noncontrolling Interest	Total
Balances at January 1, 2011	\$24,894	\$26,601	\$1,902	\$34,647	(\$11,412)	\$60,661	\$32,727	(\$1,013)	\$112	-	\$171	\$1,554	\$170,844
Additional minority interest due to acquisition	-	-	-	-	-	-	-	-	-	-	-	1,213	1,213
Shares issued during the period	37	-	(37)	-	-	-	-	-	-	-	-	-	-
Cost of share-based payments	-	-	-	491	-	-	-	-	-	-	-	-	491
Collection on subscriptions	-	-	-	-	532	-	-	-	-	-	-	-	532
Forfeitures during the year	-	-	(74)	(587)	661	-	-	-	-	-	-	-	-
Translation Adjustment	-	-	-	-	-	-	-	-	-	(352)	-	-	(352)
Accretion of subscription receivable	-	-	-	703	(703)	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	(3,853)	-	-	-	-	(20)	(3,873)
Reversal of appropriated retained earnings	-	-	-	-	-	(20,000)	20,000	-	-	-	-	-	-
	24,931	26,601	1,791	35,254	(10,922)	40,661	48,874	(1,013)	112	(352)	171	2,747	168,855
Net income (loss)	-	-	-	-	-	-	1,603	-	-	-	-	(1,288)	315
Other comprehensive income	-	-	-	-	-	-	-	-	28	-	-	-	28
Total comprehensive income (loss)	-	-	-	-	-	-	1,603	-	28	-	-	(1,288)	343
Balances at September 30, 2011	\$24,931	\$26,601	\$1,791	\$35,254	(\$10,922)	\$40,661	\$50,477	(\$1,013)	\$140	(\$352)	\$171	\$1,459	\$169,198

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**  
(In thousand dollars)

	<b>Unaudited</b>	
	<b>Sept 30, 2012</b>	<b>Sept 30, 2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>\$3,964</b>	\$3,542
Adjustments for:		
Depreciation of property, plant and equipment (Note 7)	<b>17,783</b>	16,783
Interest expense	<b>2,441</b>	1,128
Provision for restructuring (Note 10)	<b>1,662</b>	–
Amortization of intangible assets (Note 8)	<b>1,628</b>	378
Unrealized foreign exchange losses (gains)	<b>1,395</b>	(714)
Provision for doubtful accounts	<b>361</b>	3
Provision for inventory obsolescence (Note 6)	<b>322</b>	277
Cost of share-based payments	<b>191</b>	491
Losses (gains) on derivatives (Note 16)	<b>29</b>	(1,087)
Interest income	<b>(498)</b>	(188)
Gain on sale of property, plant and equipment	<b>(331)</b>	(202)
Gain on bargain purchase	<b>–</b>	(420)
Mark to market	<b>–</b>	(940)
Operating income before working capital changes	<b>28,947</b>	19,051
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Loans and receivables	<b>(26,895)</b>	5,274
Inventories	<b>(5,644)</b>	(2,378)
Other current assets	<b>763</b>	(3,476)
Noncurrent receivables	<b>119</b>	(29)
Net pension asset	<b>–</b>	201
Increase (decrease) in:		
Accounts payable and accrued expenses	<b>7,090</b>	(9,003)
Provisions (Note 10)	<b>(1,342)</b>	–
Deferred revenue	<b>(204)</b>	(171)
Accrued rent-noncurrent	<b>(32)</b>	144
Deferred tax assets	<b>–</b>	1,928
Pension liability and other long-term benefits	<b>(146)</b>	–
Net cash generated from operations	<b>2,656</b>	11,541
Interest received	<b>444</b>	188
Interest paid	<b>(1,953)</b>	(1,108)
Income tax paid	<b>(3,443)</b>	(2,988)
Net cash provided by (used in) operating activities	<b>(2,296)</b>	7,633
(Forward)		



	<b>Unaudited</b>	
	<b>Sept 30, 2012</b>	<b>Sept 30, 2011</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property, plant and equipment	<b>\$3,725</b>	\$1,314
Acquisition through business combination	–	5,074
Acquisition of:		
Property, plant and equipment (Note 7)	<b>(13,511)</b>	(7,928)
Intangible assets (Note 8)	<b>(378)</b>	(373)
Decrease (increase) in other noncurrent assets	<b>(193)</b>	416
Settlement of derivatives	–	1,087
<b>Net cash used in investing activities</b>	<b>(10,357)</b>	<b>(410)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Availment of loans	<b>35,332</b>	6,721
Payments of:		
Loans payable	<b>(28,849)</b>	(902)
Long-term debt	–	(4,000)
Increase (decrease) in obligation under finance lease	<b>174</b>	(103)
Dividends paid to equity holders of Parent Company	<b>(1,869)</b>	(3,248)
Dividends paid to minority	–	(20)
Collections (refund) of subscriptions receivable	<b>(48)</b>	531
<b>Net cash provided by (used in) financing activities</b>	<b>4,740</b>	<b>(1,021)</b>
<b>NET FOREIGN EXCHANGE DIFFERENCE IN CASH AND CASH EQUIVALENTS</b>	<b>34</b>	<b>(276)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(7,879)</b>	<b>5,926</b>
<b>CASH AND CASH EQUIVALENTS AT JANUARY 1</b>	<b>54,069</b>	<b>38,135</b>
<b>CASH AND CASH EQUIVALENTS AT SEPTEMBER 30</b>	<b>\$46,190</b>	<b>\$44,061</b>

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

**INTEGRATED MICROELECTRONICS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Financial Statement Preparation**

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with the Philippine Accounting Standard (PAS) 34 (Amended), *Interim Financial Reporting*. Accordingly, the unaudited interim condensed consolidated financial statements do not include all of the information and disclosures required in the December 31, 2011 annual audited consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as of and for the year ended December 31, 2011.

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

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

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

The accompanying unaudited interim condensed consolidated financial statements were approved and authorized for release by the Audit Committee on October 23, 2012.

**2. Basis of Consolidation**

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

	Percentage of Ownership		Country of Incorporation	Functional Currency
	2012	2011		
IMI USA	100.00%	100.00%	USA	USD
IMI Japan	100.00%	100.00%	Japan	USD
IMI Singapore	100.00%	100.00%	Singapore	USD
IMI International Regional Operating Headquarter (“IMI ROHQ”)	100.00%	100.00%	Philippines	USD

(Forward)

	Percentage of Ownership		Country of Incorporation	Functional Currency
	2012	2011		
Speedy-Tech Electronics Ltd. and Subsidiaries ("STEL and Subsidiaries")				
Speedy-Tech Electronics (HK) Limited ("STHK")	100.00%	100.00%	Hong Kong	USD
Speedy-Tech (Philippines), Inc. ("STPHIL")	100.00%	100.00%	Philippines	USD
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE")	99.48%	99.48%	China	USD
Speedy-Tech Electronics, Inc.	100.00%	100.00%	USA	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. ("STJX")	100.00%	100.00%	China	USD
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ")	100.00%	100.00%	China	USD
IMI (Chengdu) Ltd.	100.00%	100.00%	China	USD
Monarch	100.00%	–	Hong Kong	USD
Cooperatief EPIQ EA	100.00%	–	Netherlands	Euro
Microenergia OOD	70.00%	–	Bulgaria	Bulgarian Lev
EPIQ CZ	100.00%	–	Bulgaria	Bulgarian Lev
EPIQ MX	100.00%	–	Czech Republic	Czech Koruna
EPIQ Manufactura S.A.P.I de C.V.	100.00%	–	Mexico	Mexican Peso
IMI France	100.00%	–	France	Euro
Psi	55.78%	55.78%	Philippines	USD
PSi Laguna*	–	55.78%	Philippines	USD
PSiTech Realty, Inc.*	22.31%	22.31%	Philippines	USD
Pacsem Realty, Inc.*	35.70%	35.70%	Philippines	USD

\* The percentage pertains to ownership of the Parent Company

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 such 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.

In 2011, the Parent Company recorded the identifiable net assets and liabilities of EPIQ subsidiaries using provisional fair values at the date of acquisition. In 2012, the Parent Company finalized the purchase price allocation and determined that the adjustments to the provisional fair values are not material to the consolidated financial statements.

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### 3. Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements as of and for the year ended December 31, 2011 except for the adoption of the following new and amended standards and interpretations as of January 1, 2012. Except as otherwise indicated, the adoption of the new and amended Standards and Interpretations did not have a significant impact on the Group's unaudited interim condensed consolidated financial statements.

- *PFRS 7, Financial Instruments: Disclosures* – Enhanced Derecognition Disclosure Requirements  
This amendment requires additional disclosures about financial assets that have been transferred but not derecognized to enable the users of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the users to evaluate the nature of and the risks associated with the entity's continuing involvement in those derecognized assets.
- *PAS 1, Financial Statement Presentation* – Presentation of Items of Other Comprehensive Income (OCI)  
The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.
- *PAS 12, Income Taxes (Amendment)* – Deferred Taxes: Recovery of Underlying Assets  
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment properties measured using the fair value model under PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on nondepreciable assets measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset.

#### Future Changes in Accounting Policies

The Group will adopt the standards, interpretations and amendments 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 Group's unaudited interim condensed consolidated financial statements.

*Effective in 2013*

- PFRS 7, *Financial instruments: Disclosures* – Offsetting Financial Assets and Financial Liabilities (retrospectively applied for annual periods beginning on or after January 1, 2013)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’, irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  - b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  - c) The net amounts presented in the statement of financial position;
  - d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    - ii. Amounts related to financial collateral (including cash collateral); and
  - e) The net amount after deducting the amounts in (d) from the amounts in (c) above.
- PFRS 10, *Consolidated Financial Statements* (effective for annual periods beginning on or after January 1, 2013)

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that address the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidated – Special Purpose Entities*.

PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The Group does not expect the adoption of this Standard to have an impact on the unaudited interim condensed consolidated financial statements and have assessed that no facts and circumstances would suggest change to any criteria of control since majority of the Parent Company’s subsidiaries are wholly-owned.

- PFRS 11, *Joint Arrangements* (effective for annual periods beginning on or after January 1, 2013)
- This standard replaces PAS 31, *Interest on Joint Ventures* and SIC-13 *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. The standard removes the option to account for jointly controlled entities (JCEs) using proportionate consolidated. Instead, JCEs that meet the definition of a joint control must be accounted for using the equity method.

- PFRS 12, *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after January 1, 2013)  
This standard includes all disclosures that were previously in PAS 27 related to the consolidated financial statements, as well as all the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.
- PFRS 13, *Fair Value Measurement* (effective for annual periods beginning on or after January 1, 2013)  
This standard establishes a single source of guidance under PFRS for all fair value measurements. The standard does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.
- PAS 19, *Employee Benefits (Amendment)* (effective for annual periods beginning on or after January 1, 2013)  
The amendments focus on the following key areas: the elimination of the option to defer the recognition of gains and losses resulting from defined benefit plans (the corridor approach); the elimination of options for the presentation of gains and losses relating to those plans; and the improvement of disclosure requirements that will better show the characteristics of defined benefit plans and the risks arising from those plans. The amendments to the recognition, presentation and disclosure requirements will ensure that the financial statements provide investors and other users with a clear picture of an entity's commitments resulting from defined benefit plans.
- PAS 27, *Separate Financial Statements* (as revised in 2011) (effective for annual periods beginning on or before January 1, 2013)  
As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011) (effective for annual periods beginning on or after January 1, 2013)  
As a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been remained PAS 28, *Investment in Associates and Joint Ventures*. The standard describes the application of the equity method to investments in joint ventures in addition to associates.

#### *Effective in 2014*

- PAS 32, *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial liabilities (retrospectively applied for annual periods beginning on or after January 1, 2014)  
These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

#### *Effective in 2015*

- PFRS 9, *Financial Instruments: Classification and Measurement* (effective for annual periods beginning on or after January 1, 2015)

PFRS 9, as issued in 2010, reflects the first phase of the IASBs 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, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or in the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurement of financial liabilities. The Group has decided not to early adopt for its 2012 financial reporting, thus, has not conducted a quantification of full impact of this Standard. The Group, however, will quantify the effect in conjunction with the other phases, when issued, to present a more comprehensive picture.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate* (effective for annual periods beginning on or after January 1, 2015)

This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

#### 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 to complete the required 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.

##### *Miscellaneous income*

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

### 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 September 30, 2012 and December 31, 2011 consist of loans and receivables, financial asset at FVPL, AFS financial assets, financial liability at FVPL and other financial liabilities.

### *Determination of fair value*

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

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

### *Day 1 profit*

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

In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of



comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

*Financial assets or financial liabilities at FVPL*

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

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

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

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

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

The Group uses 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. AFS financial assets are classified as current assets if management intends to sell these financial assets within 12 months from financial reporting. Otherwise, these are classified as noncurrent assets.

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 pertains 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 the liabilities are derecognized as well as through the amortization process. Financial liabilities are classified as current liabilities if maturity is within 12 months from financial reporting. Otherwise, these are classified as noncurrent liabilities.

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

#### *Offsetting*

Financial assets and financial liabilities are offset and the net amount 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 operations 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 5 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.

#### Investments in Subsidiaries

Investments in subsidiaries in the Parent Company's separate financial statements are accounted for under cost method of accounting. Dividends received are reported as dividend income when the right to receive the payment is established.

#### 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 an ITH is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the Group neither results in a deductible temporary difference or 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 net 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 (except for EPIQ EA, EPIQ CZ, EPIQ MX, IMI France, and Cooperatief) is the U.S. Dollar. 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. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currencies of EPIQ EA, EPIQ CZ, and EPIQ MX, are the Bulgarian Lev (BGN), Czech Koruna (CZK) and Mexican Peso (MXN), respectively. The functional currency of IMI France and Cooperatief is the Euro (€). These subsidiaries mostly use their local currencies for their daily transactions. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

#### Pensions and Other Employee Benefits

##### *Defined contribution plans*

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

##### Singapore

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

### PRC

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

### Hong Kong

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

### EPIQ CZ

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

### *Defined benefit plans*

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

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#### 4. Cash and Cash Equivalents

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
	(In thousands)	
Cash on hand and in banks	\$38,946	\$36,507
Short-term deposits	7,244	17,562
	<b>\$46,190</b>	<b>\$54,069</b>

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

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#### 5. Loans and Receivables

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
	(In thousands)	
Trade	\$154,465	\$127,744
Nontrade	6,776	4,293
Receivable from insurance	1,230	1,230
Receivables from employees	794	1,811
Due from related parties (Note 15)	262	211
Others	672	1,791
	<b>164,199</b>	<b>137,080</b>
Less allowance for doubtful accounts	<b>3,764</b>	<b>3,403</b>
	<b>\$160,435</b>	<b>\$133,677</b>

##### *Trade*

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

##### *Nontrade*

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

### Receivable from insurance

Insurance claims for damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu, Philippines in May 2009 amounted to \$1.23 million as of September 30, 2012 and December 31, 2011, respectively.

## 6. Inventories

Provision (net of reversal) for inventory obsolescence recognized for the nine-month period ended September 30, 2012 and 2011 amounted to \$0.32 million and \$0.28 million, respectively.

## 7. Property, Plant and Equipment

### September 30, 2012 (Unaudited)

In thousands	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation	Tools and Instruments	Construction in Progress	Total
<b>Cost</b>							
At January 1, 2012	\$70,940	\$128,579	\$14,338	\$1,284	\$2,943	\$1,814	\$219,898
Additions	755	8,321	512	290	811	2,822	13,511
Disposals	(7)	(9,018)	(30)	(254)	(1)	(350)	(9,660)
Reclassifications	–	1,841	190	–	–	(2,031)	–
Foreign currency exchange difference	319	313	12	–	–	37	681
At September 30, 2012	72,007	130,036	15,022	1,320	3,753	2,292	224,430
<b>Accumulated depreciation and amortization</b>							
At January 1, 2012	34,269	73,322	10,747	430	2,122	–	120,890
Depreciation and amortization	2,430	13,287	1,371	335	360	–	17,783
Disposals	(7)	(5,994)	(30)	(234)	(1)	–	(6,266)
At September 30, 2012	36,692	80,615	12,088	531	2,481	–	132,407
<b>Accumulated impairment loss</b>	737	753	12	–	–	–	1,502
<b>Net book value as of September 30, 2012</b>	<b>\$34,578</b>	<b>\$48,668</b>	<b>\$2,922</b>	<b>\$789</b>	<b>\$1,272</b>	<b>\$2,292</b>	<b>\$90,521</b>

### December 31, 2011

In thousands	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation	Tools and Instruments	Construction in Progress	Total
<b>Cost</b>							
At January 1, 2011	\$51,326	\$119,640	\$13,911	\$972	\$2,724	\$96	\$188,669
Additions	2,666	9,486	1,032	288	229	1,129	14,830
Additions through business combination	19,050	18,796	187	319	–	811	39,163
Disposals	(445)	(17,395)	(689)	(270)	(10)	–	(18,809)
Reclassifications	7	89	–	–	–	(96)	–
Foreign currency exchange difference	(1,664)	(2,037)	(103)	(25)	–	(126)	(3,955)
At December 31, 2011	70,940	128,579	14,338	1,284	2,943	1,814	219,898

(Forward)

In thousands	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation	Tools and Instruments	Construction in Progress	Total
<b>Accumulated depreciation and amortization</b>							
At January 1, 2011	\$31,519	\$69,966	\$9,110	\$238	\$1,710	\$-	\$112,543
Depreciation and amortization	2,985	18,463	2,308	439	420	-	24,615
Disposals	(235)	(15,107)	(671)	(247)	(8)	-	(16,268)
At December 31, 2011	34,269	73,322	10,747	430	2,122	-	120,890
Accumulated impairment loss	737	753	12	-	-	-	1,502
<b>Net book value as of December 31, 2011</b>	<b>\$35,934</b>	<b>\$54,504</b>	<b>\$3,579</b>	<b>\$854</b>	<b>\$821</b>	<b>\$1,814</b>	<b>\$97,506</b>

Depreciation and amortization expense included in cost of goods sold and services for the nine months ended September 30, 2012 and 2011 amounted to \$13.57 million and \$14.80 million, respectively. Depreciation and amortization expense included in operating expenses for the nine months ended September 30, 2012 and 2011 amounted to \$4.21 million and \$1.98 million, respectively.

## 8. Intangible Assets

During the nine months ended September 30, 2012 and 2011, the Parent Company acquired additional computer software and licenses amounting to \$0.38 million and \$0.15 million, respectively.

Amortization of intangible assets for the nine months ended September 30, 2012 and 2011 amounted to \$1.6 million and \$0.38 million, respectively.

## 9. Accounts Payable and Accrued Expenses

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
(In thousands)		
Trade payables	\$103,563	\$99,199
Accrued expenses	25,197	20,555
Accrued payroll	10,112	8,422
Nontrade payables	3,934	6,536
Accrued interest payable	1,164	676
Dividends payable	819	2,539
Employee-related payables	627	679
Customers' deposits	552	1,234
Taxes payable	507	486
Obligation under finance lease - current	492	802
Deferred revenue - current	271	261
Due to related parties (Note 15)	1	36
Others	3,839	2,568
	<b>\$151,078</b>	<b>\$143,993</b>



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

Accrued expenses consist mainly of accruals for light and water, taxes, repairs and maintenance, professional fees, transportation and travel, subcontractual costs, security, insurance and representation.

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## 10. Provisions

In 2011, PSi and IMI Singapore announced restructuring of operations due to unfavorable economic and business situation and recognized provision for restructuring of \$0.83 million. Remaining balance of provision amounting to \$0.25 million pertains to IMI Singapore. In 2012, IMI Singapore recognized additional provision of \$0.74 million and paid out \$0.85 million. PSi also recorded provision of \$0.92 million and paid \$0.49 million. The balance of the provision for restructuring as of September 30, 2012 will be paid in phases within the year.

	<b>September 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
	(In thousands)	
At January 1	<b>\$249</b>	\$—
Provisions	<b>1,662</b>	832
Payment	<b>(1,342)</b>	(583)
At September 30	<b>\$569</b>	\$249

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## 11. Trust Receipts and Loans Payable

	<b>September 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
	(In thousands)	
Parent Company	<b>\$18,000</b>	\$16,460
EPIQ EA	<b>10,409</b>	11,066
PSi	<b>9,217</b>	10,168
STEL	<b>1,394</b>	1,315
	<b>\$39,020</b>	\$39,009

### Parent Company

During the first half of 2012, the 92-day term loan amounting to EUR5.00 million with a fixed rate of 2.09% was settled and the Parent Company obtained a five-year loan from another bank (see Note 12). Loans obtained in December 2011 and first half of 2012 have matured and the Parent Company obtained three 60-day term loans amounting to \$5.00 million each, and subject to fixed interest rates ranging from 1.80% to 2.00% and a \$3.00 million 60-day term loan with an interest rate of 2.33% during the third quarter.

As of December 31, 2011, the Parent Company has two (2) 90-day term loans amounting to \$5.00 million each, and subject to fixed interest rate of 1.10% and a 92-day term loan amounting to 5.00 million euro with a fixed interest rate of 2.09%.

#### EPIQ EA

	<b>September 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
	(In thousands)	
UniCredit Bulbank	<b>\$9,568</b>	\$10,352
BNP Paribas	<b>841</b>	714
	<b>\$10,409</b>	\$11,066

The loans from UniCredit Bulbank and BNP Paribas are from existing revolving credit facilities with terms of one year and six months, respectively. The loans bear interest based on 1-month EURIBOR plus 3.00% and 3-month EURIBOR plus 2.50%, respectively.

The credit facility with UniCredit Bulbank is subject to the following collaterals:

- First ranking pledge on materials, ready made and unfinished production at balance sheet value, minimum of €10,000;
- first ranking pledge on receivables from a certain customer; and
- notary signed Strong Letter of Patronage from the Parent Company.

The Parent Company also provided a Soft Letter of Comfort to the creditor.

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

- First rank pledge on receivables from selected customers of EPIQ EA, subject to pre-financing in the amount of 125% of the utilized portion of the facility but not more than €2,125,000; and
- first rank pledge on goods of EPIQ EA in the amount of 125% of the utilized portion of the facility but not more than €2,125,000.

#### PSI

PSi has short-term loans from the following banks:

	<b>September 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
	(In thousands)	
Metropolitan Bank & Trust Co. (MBTC)	<b>\$9,217</b>	\$9,248
PVB	–	920
	<b>\$9,217</b>	\$10,168

### *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, and Foreign Bills Line and Domestic Bill Purchase Line, subject to interest rate of 2.74% in 2012 and ranging from 2.27% to 2.85% in 2011.

As of September 30, 2012 and December 31, 2011, the outstanding trust receipts payable amounted to \$0.5 million and \$1.75 million. The facility will expire on October 30, 2012.

### *PVB*

In 2010, PSi had a Revolving Promissory Note Line (RPNL) of \$3.00 million, including the availability of Letters of Credit (LC)/Trust Receipts (TR) up to \$1.50 million. This short-term credit facility, which expired in April 2011, is secured by trade receivables from certain customers and MTI on machinery and equipment. This was renewed on April 20, 2011, through an Omnibus Line Facility of \$5.00 million, which includes unsecured RPNL of \$3.00 million, which may be available for LC, and 5-year term loan of \$2.00 million secured by the MTI on machineries and equipment. PSi has not yet availed of the 5-year term loan as of September 30, 2012 and December 31, 2011, hence the MPC of PVB is temporarily not effective. The interest rates in 2011 ranged from 2.36% to 2.71%, respectively. There are no outstanding liabilities under this credit line as of September 30, 2012..

### STEL

The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates ranging from 3.40% to 3.50% and 3.35% to 3.45% as of September 30, 2012 and December 31, 2012, respectively, and have maturities of 30 days from the date of issue with renewal options.

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## 12. Long-Term Debt

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
	(In thousands)	
Parent Company	\$46,468	\$40,000
Cooperatief	18,434	20,398
	<b>\$64,902</b>	<b>\$60,398</b>

In October 2011, the Parent Company obtained a five-year clean loan from a Philippine bank amounting to \$40.0 million payable in a single balloon payment at the end of the loan term. The Parent Company may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty. Interest on the loan is payable quarterly and re-priced quarterly at the rate of 3-month LIBOR plus margin of 0.80%.

On February 29, 2012, the Parent Company applied with a local bank a 5-year loan in the amount of EUR5.00 million payable at the end of the loan term. The Parent Company may, at its option, prepay the loan in part or in full, together with accrued interest thereon without penalty, if made on an interest payment date, subject to certain conditions. Interest is payable semi-annually at the rate of 6-month LIBOR plus 1.50% spread per annum.

Cooperatief's long-term debt relates to the acquisition of EPIQ shares and receivables of EPIQ NV from the EPIQ subsidiaries. This is subject to interest rate of 1.599% plus 1.5%. Below is the amortization schedule:

<b>Due dates</b>	<b>Amounts in Euro</b>	<b>Amount in USD</b>
		(in thousands)
2013	€2,000	\$2,587
2014	2,000	2,587
2015	2,000	2,587
2016	2,000	2,587
2017	2,000	2,587
2018	4,249	5,499
<b>Total</b>	<b>€14,249</b>	<b>\$18,434</b>

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### 13. Earnings (Loss) per Share

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

	<b>September 30, 2012 (Unaudited)</b>	September 30, 2011 (Unaudited)
		(In thousands)
Net income	<b>\$4,953</b>	\$1,603
Less dividends on preferred stock	<b>(1,869)</b>	(1,823)
	<b>\$3,084</b>	(\$220)
Weighted average number of common shares Outstanding	<b>1,634,078</b>	1,472,767
Basic and Diluted	<b>\$0.002</b>	(\$0.0001)

As of September 30, 2012 and December 31, 2011, the Parent Company has no dilutive potential common shares.

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### 14. 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 nine months ended September 30, 2012 and 2011 (in thousands):

	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue								
Third party	\$115,884	\$36,836	\$210,548	\$131,705	\$284	\$416	\$-	\$495,673
Inter-segment	1,768	-	2,773	-	2,194	699	(7,434)	-
Total revenue	\$117,652	\$36,836	\$213,321	\$131,705	\$2,478	\$1,115	(\$7,434)	\$495,673
Segment gross profit (loss)	\$10,132	(\$2,246)	\$20,338	\$13,343	(\$357)	\$111	(\$197)	\$41,124
Segment operating income (loss)	\$2,890	(\$7,493)	\$6,670	\$5,955	(\$2,197)	(\$555)	-	\$5,270
Segment interest income	\$291	\$2	\$96	\$109	\$-	\$-	\$-	\$498
Segment interest expense	(\$884)	(\$290)	(\$58)	(\$1,207)	(\$1)	(\$1)	\$-	(\$2,441)
Segment profit (loss) before income tax	\$2,813	(\$8,086)	\$7,012	\$4,984	(\$2,199)	(\$560)	\$-	\$3,964
Segment provision for income tax	(614)	(12)	(1,577)	(376)	-	(1)	-	(2,580)
Segment profit (loss)	\$2,199	(\$8,098)	\$5,435	\$4,608	(\$2,199)	(\$561)	-	\$1,384
Segment profit (loss) attributable to equity holders of the Parent	\$2,199	(\$4,517)	\$5,427	\$4,604	(\$2,199)	(\$561)	\$-	\$4,953

  

	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue								
Third party	\$118,169	\$61,431	\$213,790	\$25,686	\$286	\$696	\$-	\$420,058
Inter-segment	-	-	3,131	-	2,139	639	(5,909)	-
Total revenue	\$118,169	\$61,431	\$216,921	\$25,686	\$2,425	\$1,335	(\$5,909)	\$420,058
Segment gross profit	\$8,976	\$4,407	\$20,560	\$2,771	\$1,737	\$767	(\$6,631)	\$32,587
Segment operating income (loss)	(\$4,611)	(\$1,672)	\$5,318	\$1,366	\$31	\$155	(\$722)	(\$135)
Segment interest income	\$127	\$2	\$59	\$-	\$-	\$-	\$-	\$188
Segment interest expense	(\$355)	(\$296)	(\$252)	(\$223)	(\$1)	(\$1)	\$-	(\$1,128)
Segment profit (loss) before income tax	(\$1,935)	(\$2,011)	\$6,635	\$1,349	\$28	\$198	(\$722)	\$3,542
Segment provision for income tax	(428)	(182)	(2,496)	(121)	-	-	-	(3,227)
Segment profit (loss)	(\$2,363)	(\$2,193)	\$4,139	\$1,228	\$28	\$198	(\$722)	\$315
Segment profit (loss) attributable to equity holders of the Parent	(\$2,363)	(\$1,224)	\$4,139	\$1,228	\$28	\$198	(403)	\$1,603

For the nine months ended September 30, 2012, the operating income (loss) and profit (loss) before and after tax for each operating segment includes net profit from inter-segment revenues aggregating to \$7.4 million and inter-segment cost of sales and operating expenses aggregating to \$7.2 million and \$3.1 million, respectively.

For the nine months ended September 30, 2011, the operating income (loss) and profit (loss) before and after tax for each operating segment includes net profit from inter-segment revenues aggregating to \$5.91 million and inter-segment cost of sales and operating expenses aggregating to \$2.4 million and \$2.8 million, respectively.

The following table presents segment assets of the Group's geographical segments as of September 30, 2012 and December 31, 2011 (in thousands):

	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Eliminations	Total
	Parent Company	PSi						
<b>Segment assets</b>								
<b>Sept 30, 2012 (Unaudited)</b>	<b>\$256,316</b>	<b>\$22,212</b>	<b>\$218,189</b>	<b>\$123,779</b>	<b>\$2,865</b>	<b>\$907</b>	<b>(\$164,172)</b>	<b>\$460,096</b>
Segment assets								
December 31, 2011 (Audited)	\$245,451	\$28,860	\$207,482	\$113,565	\$2,822	\$889	(\$154,376)	\$444,693

Segment assets as of September 30, 2012 do not include investments in subsidiaries amounting to \$129.67 million and inter-segment loans and receivables amounting to \$41.86 million which are eliminated on consolidation.

Segment assets as of December 31, 2011 do not include investments in subsidiaries amounting to \$129.53 million and inter-segment loans and receivables amounting to \$32.21 million which are eliminated on consolidation.

Goodwill arising from the acquisition of PSi and EPIQ CZ amounting to \$7.48 million (net of impairment loss of \$2.72 million) and \$0.65 million are recognized at consolidated level as of September 30, 2012 and December 31, 2011.

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

	Revenues from External Customers		Noncurrent Assets	
	Sept 30, 2012 (Unaudited)	Sept 30, 2011 (Unaudited)	Sept 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Europe	\$242,008	\$207,126	\$41,364	\$40,892
USA	150,455	98,522	1,159	1,200
Asia	52,258	54,385	72,778	71,657
Philippines	44,518	52,774	35,641	45,367
Japan	6,434	7,251	17	78
	<b>\$495,673</b>	<b>\$420,058</b>	<b>\$150,959</b>	<b>\$159,194</b>

Revenues are attributed to countries on the basis of the customer's location. For the nine months ended September 30, 2012, top customer from Europe segment accounts for \$53.0 million or 11% of the Group's total revenues.

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

The following table presents revenues per product type (in thousands):

	<b>Sept 30, 2012</b> <b>(Unaudited)</b>	Sept 30, 2011 (Unaudited)
Automotive	<b>\$151,054</b>	60,111
Telecom	<b>95,532</b>	81,053
Industrial	<b>79,585</b>	75,697
Consumer	<b>82,019</b>	87,993
Multiple Market	<b>43,354</b>	68,334
Computer Peripherals	<b>24,668</b>	25,095
Medical	<b>15,986</b>	17,853
Others	<b>3,475</b>	3,922
<b>Total</b>	<b>\$495,673</b>	<b>\$420,058</b>

## 15. Related Party Transactions

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

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

Related Party	Relationship	Nature of Transaction	Balance Sheets		Statements of Comprehensive Income	
			Sept 30, 2012 (Unaudited)	December 31, 2011 (Audited)	Sept 30, 2012 (Unaudited)	Sept 30, 2011 (Unaudited)
Bank of the Philippine Islands (BPI)	Affiliate	Cash and cash equivalents	919	\$3,754	-	\$-
		Nontrade receivable	253	202	-	-
		Nontrade payable	-	33	-	-
		Derivative asset	-	1	-	-
		Gains on derivatives	-	-	36	30
		Interest income	-	-	20	6
AG Counselors Corporation (AGCC)	Affiliate	Professional fees	-	-	66	38
Technopark Land, Inc. (TLI)	Affiliate	Nontrade receivable	9	9	-	-
Innove Communications, Inc. (ICI)	Affiliate	Nontrade Payable	-	0	-	-
		Postal and communication	-	-	68	134
		Building rental	-	-	31	30
Globe Telecom, Inc. (GTI)	Affiliate	Nontrade payable	1	3	-	-

Related Party	Relationship	Nature of Transaction	Balance Sheets		Statements of Comprehensive	
					Income	
		Postal and communication	-	-	46	68
		Nontrade receivable	-	-	-	-
Ayala Land, Inc.	Affiliate	Nontrade Receivable	-	-	-	-

- a. As of September 30, 2012, the Parent Company has savings and current accounts and short-term deposits with BPI amounting to \$0.91 million and \$nil, respectively. As of December 31, 2011, the Parent Company has savings and current accounts and short-term deposits with BPI amounting to \$0.41 million and \$3.34 million, respectively. Total interest income earned from investments with BPI amounted to \$0.02 million and \$0.006 million for the nine months ended September 30, 2012 and 2011, respectively.
- b. As of September 30, 2012 and December 31, 2011, 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 \$0.03 million as of December 31, 2011, 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. The Parent Company has outstanding short-term foreign currency forwards with BPI amounting to \$0.001 million as of December 31, 2011.
- e. As of September 30, 2012 and December 31, 2011, certain plan assets of the Parent Company under its retirement fund with BPI are invested with its related parties.
- f. The Parent Company engages AGCC, an affiliate, for corporate secretarial services subject to a monthly fee of ₱40,000.
- g. The Parent Company has nontrade receivable from TLI, an affiliate, amounting to \$0.009 million as of September 30, 2012 and December 31, 2011, respectively, which pertains to advances by the Parent Company for various expenses incurred by TLI, primarily on real property taxes and corporate secretarial services.
- h. As of September 30, 2012 and December 31, 2011, the Parent Company's accounts payable to GTI, an affiliate, amounted to \$0.001 million and \$0.003 million for the purchase of Blackberry software and billings for cellphone charges and WiFi connections. These are due and demandable. Related expense for the nine months ended September 30, 2012 and 2011 amounted to \$0.05 million and \$0.07 million, respectively.



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## 16. Financial Risk Management Objectives and Policies

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

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

The Group's risk management policies are summarized below:

### *Interest rate risk*

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings) as of September 30, 2012 and December 31, 2011. There is no other impact on the Group's equity other than those already affecting income (in thousands):

Increase/decrease in basis points	Effect on profit before tax	
	2012	2011
+100	(\$465)	(\$400)
-100	465	400

### *Liquidity risk*

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

### *Credit risk*

Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's major credit risk exposure relates primarily to its holdings of cash and cash equivalents and short-term investments and receivables from customers and other third parties. Credit risk management involves dealing with institutions for which credit limits have been established. The treasury policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties. The Group

has a well-defined credit policy and established credit procedures. The Group extends credit to its customers consistent with sound credit practices and industry standards. The Group deals only with reputable, competent and reliable customers who pass the Group's credit standards. The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group's maximum exposure to credit risk for the components of the consolidated balance sheets as at September 30, 2012 and December 31, 2011 are the carrying amounts except for cash and cash equivalents. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

The Group has 23% and 36% of trade receivables relating to three (3) major customers as of September 30, 2012 and December 31, 2011, respectively.

As of September 30, 2012 and December 31, 2011, the aging analysis of trade receivables follows:

	Total	Neither past due nor impaired	Past due but not impaired					Specifically Impaired
			<30 days	30-60 days	60-90 days	90-120 days	>120 days	
September 30, 2012 (Unaudited)	\$154,465	\$130,150	\$12,787	\$4,411	\$2,447	\$719	\$1,670	\$2,280
December 31, 2011 (Audited)	\$127,744	\$105,979	\$11,233	\$3,841	\$1,213	\$624	\$2,737	\$2,117

#### *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 2012 and 2011, 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.

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 (P)

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	In U.S. Dollar	In Philippine Peso	In U.S. Dollar	In Philippine Peso
Cash and cash equivalents	\$1,127	P46,979	\$3,156	P138,586
Loans and receivables	979	40,817	682	29,971
Miscellaneous deposits	1,080	45,056	1,136	49,899
Accounts payable and accrued expenses	(30,230)	(1,260,623)	(18,685)	(820,602)
Other current liabilities	(2,296)	(95,755)	(345)	(15,190)
Other noncurrent liabilities	(294)	(12,265)	(2,227)	(97,807)
Net foreign currency-denominated liabilities	(\$29,634)	(P1,235,792)	(\$16,283)	(P715,143)

Singapore Dollar (SGD)

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	In U.S. Dollar	In Singapore Dollar	In U.S. Dollar	In Singapore Dollar
Cash and cash equivalents	\$360	SGD441	\$1,182	SGD1,534
Accounts payable and accrued expenses	(1,210)	(1,482)	(1,063)	(1,380)
Other current liabilities	(1,190)	(1,458)	(977)	(1,268)
Loans payable	(1,423)	(1,743)	(1,258)	(1,632)
Net foreign currency-denominated liabilities	(\$3,463)	(SGD4,242)	(\$2,116)	(SGD2,746)

Euro (€)

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	In U.S. Dollar	In Euro	In U.S. Dollar	In Euro
Cash and cash equivalents	\$2,820	€2,180	\$4,571	€3,533
Loans and receivables	26,490	20,476	22,226	17,176
Accounts payable and accrued expenses	(13,728)	(10,611)	(13,819)	(10,679)
Other current liabilities	(6,285)	(4,858)	(32,332)	(24,986)
Other liabilities	-	-	(243)	(188)
Loans payable	(10,409)	(8,046)	(17,526)	(13,544)
Long-term debt	(6,468)	(5,000)	-	-
Net foreign currency-denominated liabilities	(\$7,580)	(€5,859)	(\$37,123)	(€28,688)

Japanese Yen (¥)

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	In U.S. Dollar	In Japanese Yen	In U.S. Dollar	In Japanese Yen
Cash and cash equivalents	\$418	¥32,407	\$318	¥24,801
Loans and receivables	1,697	131,682	1,771	137,928
Miscellaneous deposits	98	7,569	30	2,392
Accounts payable and accrued expenses	(4,088)	(317,130)	(6,104)	(475,424)
Other current liabilities	(29)	(2,256)	(40)	(3,189)
Net foreign currency-denominated liabilities	(\$1,904)	(¥147,728)	(\$4,025)	(¥313,492)

Renminbi (RMB)

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	In U.S. Dollar	In Renminbi	In U.S. Dollar	In Renminbi
Cash and cash equivalents	\$7,250	RMB45,973	\$6,725	RMB42,513
Loans and receivables	53,967	342,216	43,024	271,961
Accounts payable and accrued expenses	(36,273)	(230,015)	(29,529)	(186,654)
Other current liabilities	-	-	(5)	(37)
Net foreign currency-denominated assets	\$24,944	RMB158,174	\$20,215	RMB127,783

Hong Kong Dollar (HKD)

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	In U.S. Dollar	In Hong Kong Dollar	In U.S. Dollar	In Hong Kong Dollar
Cash and cash equivalents	\$55	HKD424	\$43	HKD335
Loans and receivables	806	6,253	517	4,020
Accounts payable and accrued expenses	(32)	(246)	(417)	(3,243)
Net foreign currency-denominated assets	\$829	HKD6,430	\$143	HKD1,112

Thai Baht (THB)

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	In U.S. Dollar	In Thai Baht	In U.S. Dollar	In Thai Baht
Loans and receivables - net	\$1	THB34	\$1	THB25
Net foreign currency-denominated assets	\$1	THB34	\$1	THB25

Bulgarian Lev (BGN)

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	In U.S. Dollar	In Bulgarian Lev	In U.S. Dollar	In Bulgarian Lev
	Cash and cash equivalents	\$341	BGN516	\$68
Loans and receivables	1,742	2,634	1,523	2,233
Accounts payable and accrued expenses	(2,787)	(4,216)	(1,620)	(2,375)
Net foreign currency-denominated liabilities	(\$704)	(BGN1,065)	(\$29)	(BGN43)

Czech Koruna (CZK)

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	In U.S. Dollar	In Czech Koruna	In U.S. Dollar	In Czech Koruna
	Cash and cash equivalents	\$0	CZK3	\$3
Loans and receivables	96	1,873	55	1,063
Accounts payable and accrued expenses	(182)	(3,527)	(1,061)	(20,420)
Other current liabilities	(312)	(6,064)	(217)	(4,172)
Net foreign currency-denominated liabilities	(\$397)	(CZK7,715)	(\$1,220)	(CZK23,468)

Mexican Peso (MXN)

	September 30, 2012 (Unaudited)		December 31, 2011 (Audited)	
	In U.S. Dollar	In Mexican Peso	In U.S. Dollar	In Mexican Peso
	Cash and cash equivalents	\$390	MXN4,998	\$162
Loans and receivables	-	-	-	-
Accounts payable and accrued expenses	(2,724)	(34,932)	(1,651)	(23,136)
Net foreign currency-denominated liabilities	(\$2,334)	(MXN29,934)	(\$1,489)	(MXN20,870)

*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 September 30, 2012 and December 31, 2011. The reasonably possible change was computed based on one year average historical movement of exchange rates between U.S. Dollar and other currencies.

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

**September 30, 2012 (Unaudited)**

<b>Currency</b>	<b>Increase/decrease in U.S. Dollar rate</b>	<b>Effect on profit before tax (in thousands)</b>
PHP	+1%	(396)
	-1%	396
SGD	+1%	(43)
	-1%	43
EUR	+1%	78
	-1%	(78)
JPY	+1%	(16)
	-1%	16
RMB	+1%	271
	-1%	(271)
HKD	+1%	8
	-1%	(8)
BGN	+1%	(7)
	-1%	7
CZK	+2%	(6)
	-2%	6
MXN	+2%	(39)
	-2%	39

**December 31, 2011 (Audited)**

<b>Currency</b>	<b>Increase/decrease in U.S. Dollar rate</b>	<b>Effect on profit before tax</b>
PHP	1%	(189)
	-1%	189
SGD	1%	(21)
	-1%	21
EUR	1%	(1,462)
	-1%	1,462
JPY	1%	(21)
	-1%	21
RMB	1%	166
	-1%	(166)
HKD	1%	1
	-1%	(1)
GBP	1%	(2)
	-1%	2
BGN	1%	(1)
	-1%	1
CZK	2%	(24)
	-2%	24
MXN	3%	(42)
	-3%	42

### *Derivatives*

The net changes in fair value of currency forwards and options amounting to (\$0.03) million and \$1.1 million for nine months period ended September 30, 2012 and 2011, respectively, are recognized in the consolidated statements of comprehensive income under "Foreign exchange gains (losses).

### *Capital management*

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

No changes were made in the objectives, policies and processes during the period ended September 30, 2012 and December 31, 2011.

The Group is not subject to externally imposed capital requirements.

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

	<b>September 30, 2012 (Unaudited)</b>	December 31, 2011 (Audited)
Trust receipts and loans payable	<b>\$39,020</b>	\$39,009
Long-term debt	<b>46,468</b>	40,000
Total debt	<b>85,488</b>	79,009
Less cash and cash equivalents	<b>(46,190)</b>	(54,069)
Net debt	<b>\$39,298</b>	\$24,940
Equity attributable to equity holders of the Parent Company	<b>\$198,450</b>	\$190,322
Debt to equity ratio	<b>43%</b>	42%
Net debt to equity ratio	<b>20%</b>	13%

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## **17. Events after the Reporting Period**

On October 19, 2012, the valuation of the 200 million shares of stock to be issued to EPIQ NV in the amount of Php1.214 billion (\$28.8 million) was approved by the Securities and Exchange Commission pursuant to the provision of Section 62 of the Corporation Code of the Philippines Batas Pambansa Blg. 68. The shares have been issued to EPIQ NV on October 31, 2012 and the Parent Company is in the process of applying for the listing of the securities with the Philippine Stock Exchange.

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

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

#### Results of Operations

#### Financial Highlights

	For the quarters ended 30 September	
	2012	2011
	<i>(in US\$ thousands, except Basic EPS)</i>	
Revenues from Sales and Services	495,673	420,058
Cost of Goods Sold and Services	454,549	387,471
Gross Profit	41,124	32,587
Net Income Attributable to Equity holders	4,953	1,603
EBITDA <sup>i</sup>	24,883	19,916
Basic Earnings per Share (EPS)	0.002	(0.0001)

#### Revenues from Sales and Services

The Company generated consolidated revenues of US\$495.7 million, an 18% growth year over year for the nine months ended September 30, 2012. The company's operations in China and Singapore contributed US\$210.6 million in combined revenues, or a drop of 1.5% year-on-year due primarily to reduced volume in a telecommunication infrastructure program and delay in the production of new models for an industrial electronics program. IMI's Philippine operations posted US\$117.7 million revenues, slightly lower by 0.4% year-on-year due to weaker sales to the computing and industrial sectors. IMI's subsidiaries in Europe and Mexico contributed US\$131.7 million revenues while PSi Technologies recorded US\$36.8 million in revenues for the nine months ended September 30, 2012.

On the overall, the automotive segment continues to dominate the Company's market comprising 30% of consolidated revenues. The Company also has robust sales pipeline for the telecommunications, consumer and industrial segments. Europe remains to be the biggest market of the company's products, comprising 49% of global sales, followed by America at 30%.

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



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

Direct material cost ratio is slightly higher this year at 63% of revenues as against last year's 61% due to conversion of some businesses to turnkey model while direct labor and overhead cost ratios are lower due to better utilization particularly in China resulting to better margins.

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

The Company's operations generated gross profit of US\$41.1 million, an increase of 26% year-on-year. GP margin is slightly higher by 54 bps.

### **Operating Expenses**

The Company's operating expenses went up by US\$3.1 million or 10% with reference to the increase in volumes, but lower as a percentage of revenues by 56 bps due to reduced operating expenses from savings on people cost and deferral of some expenses and reversals of prior year excess accruals.

### **Net Income**

The Company posted US\$5.0 million in net income for nine month period, or a 209% year-on-year growth due to higher operating income resulting from the Company's business expansion in Europe and Mexico, better utilization of China overhead reduced operating expenses of Philippine operations. Lower tax provision in China also contributed to the increase.

### **EBITDA**

EBITDA up by 25%, from last year's US\$19.9 million to US\$24.9 million, mainly from increase in operating income by \$5.4 million. Depreciation also increased by 13% mainly from the additional depreciation on the increase in fair value of the Europe Group's property, plant and equipment at the date of acquisition.

### **Liquidity and Capital Resources**

The Company maintains financial stability with a cash balance of US\$46.2 million as of September 30, 2012. Current ratio and debt-to-equity ratio remains healthy at 1:6:1 and 0.4:1, respectively. The strong balance sheet shields the Company against volatilities in the operating environment and positions the Company in a manner that would seize growth opportunities.

The Company's strong financial position continues to ensure that its financial flexibility can sustain its ongoing strategic initiatives and meet both operating requirements and debt payment obligations. The Company ensures that its operations continue to generate adequate operating cash flows to meet its liquidity requirements. Moreover, it has sufficient credit facilities to support its working capital requirements and finance its growth agenda.

## Key performance indicators of the Company

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

	As of end	
	30 Sept 2012	31 Dec 2011
<b>Performance indicators</b>		
Liquidity:		
Current ratio	1.6x	1.5x
Solvency:		
Debt-to-equity ratio	0.43x	0.42x
	<b>For the quarters ended 30 Sept</b>	
	<b>2012</b>	<b>2011</b>
Operating efficiency:		
Revenue growth	18%	43%
Profitability:		
EBITDA margin <sup>ii</sup>	5%	5%

### In the above:

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

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

## **Causes for any material changes**

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

### **Income Statement items**

(Quarter ended 30 September 2012 versus 30 September 2011)

#### *18% growth in Revenues from Sales and Services (\$420.1M to \$495.7M)*

Increase in revenues was mainly due to nine-month revenue contribution of Europe and Mexico entities acquired in July 2011 amounting to US\$131.7 million for 2012 vs last year's two-month revenues of US\$25.7M.

#### *17% increase in Cost of Goods Sold and Services (\$387.5M to \$454.5M)*

The increase in Cost of Goods Sold and Services was driven by increase in direct material cost resulting from conversion to turnkey of some major customers in China and business expansion in Europe and Mexico, majority of which are turnkey businesses.

#### *10% increase in Operating Expenses (\$32.7M to \$35.9M)*

The increase is with reference to higher revenues contributed by the European acquisition. Incremental expense from Europe group amounted to \$6.0M, \$1.4 million from China entities while the Philippine operations showed reduction of \$2.7 million due to reversals of prior year excess accruals and provisions and savings on people costs and deferral of some expenses.

#### *136% decrease in net finance and other income (\$3.7M to -\$1.3M)*

The decrease is mainly attributable to mark-to-market gains on derivatives recognized in the first half of 2011 amounting to US\$0.6 million, increase in interest expense on short and long-term debt by US\$1.3 million (bulk of which pertains to interest expense on long term debt related to acquisition of EPIQ entities) and decrease in foreign exchange gains by US\$2.4 million.

#### *209% increase in net income attributable to equity holders of the Parent Company (\$1.6M to \$5.0M)*

On account of higher revenues and reduced operating expenses resulting to higher operating income by US\$5.4 million.

#### *177% increase in net loss attributable to Noncontrolling Interest (-\$1.3M to -\$3.6M)*

Higher net loss of PSi Technologies, Inc, a 56% owned subsidiary of the Company, by 269% due to soft demand leading to insourcing by its major customers.

### **Balance Sheet items**

(30 September 2012 versus 31 December 2011)

#### *15% decrease in Cash and cash equivalents (\$54.1M to \$46.2M)*

Decrease driven by cash used in operating activities amounted to US\$2.3M and capital expenditures of US\$13.5M. Net avilment of loans by the Group amounted to US\$6.5M.

#### *20% increase in Loans and Receivables (\$133.7M to \$160.4M)*

Increase is attributable to 21% increase in trade receivables on account of 18% increase in revenues.

*7% increase in Inventories (\$80.4M to \$85.8M)*

Increase in inventories levels of EPIQ (particularly in Mexico) and China (due to increasing turnkey projects) by \$5.1 million.

*9% decrease in Other Current Assets (\$8.9M to \$8.1M)*

The increase was largely due decrease in tax credits of IMI Mexico.

*7% decrease in Property, Plant and Equipment (\$97.5M to \$90.5M)*

Mainly attributable to depreciation expense amounting to \$17.8 million and disposals of assets with net book value of \$3.4 million. Capital expenditures for the nine-month period ended September 30, 2012 amounted to \$13.5 million.

*17% decrease in Intangible Asset (\$7.3K to \$6.1M)*

Pertains mainly to amortization expense for nine months amounting to US\$1.6 million.

*22% increase in Available for Sale financial assets (\$0.4M to \$0.5M)*

Represents increase in fair value of investments in club shares.

*56% decrease in Noncurrent Receivables (\$0.2M to \$0.1M)*

Represents advances to customers for equipment purchased by the Company that are reimbursable from the former.

*13% increase in Other noncurrent asset (\$1.5M to \$1.7M)*

Increase can be attributed to project development costs in relation to new projects which are subsequently amortized and increase in electric and water meter deposits.

*5% increase in Accounts payable and accrued expenses (\$144.0M to \$151.1M)*

Attributable to increase in accrued expenses such as accrued sales commission, subcontracting labor costs, employee socials, light and water, rental, retirement costs and taxes.

*36% decrease in Income tax payable (\$1.7M to \$1.1M)*

Mainly from payment of taxes of China subsidiaries

*129% increase in Provisions (\$0.2M to \$0.6M)*

Increase represents restructuring provisions for PSi and Singapore amounting to \$0.9 million and \$0.7 million, respectively. Actual pay-outs for the nine-month period amounted to \$1.3 million.

*7% increase in Long-term debt (\$60.4 to \$64.9)*

Increase mainly represents €5 million loan from a bank of IMI Philippines equivalent to US\$6.7 million previously obtained from a bank as a 92-day term loan from another bank, thus the restructuring from short to long-term. Additional short-term loans obtained during the year amounted to US\$5 million.

*5% decrease in Deferred tax liabilities (\$4.8M to \$4.6M)*

Due to amortization of deferred tax liabilities on increase in fair value of PPE and recognition of intangibles for IMI Europe at the time of acquisition.

*9% decrease in Deferred revenue (\$2.3M to \$2.1M)*

Deferred revenue represents advances made by a customer to PSi to be applied and to cover for the facilities support services that will be rendered by the latter. Decrease represents amortization.

*10% decrease in Pension liability (\$1.3M to \$1.2M)*

Decrease represents benefits paid.

*28% increase in Obligation under finance lease (\$0.6M to \$0.8M)*

Represents additional finance lease contracts entered into by Europe entities related to its machinery and production equipment.

*8% decrease in Other long-term employee benefits (\$231K to 212K)*

Represents benefits paid.

*26% decrease in Subscriptions receivable (\$10.4M to \$7.7M)*

Due to reversal of accretion amounting to \$2.7 million.

*48% decrease in Cumulative translation adjustments (\$6.0M to \$3.1M)*

Arising from translation of accounts of newly acquired entities in Europe and Mexico denominated in their respective local currencies to the Parent Company's functional currency. Movement is attributable to appreciation of the subsidiaries local currencies against US\$.

*297% decrease in Minority interests in a consolidated subsidiary (-\$1.2M to -\$4.8M)*

Due to share in net loss of PSi Technologies, Inc. of which IMI owns 56%.

**EXHIBIT 1**  
**FINANCIAL RATIOS**  
For the period ended September 30, 2012 and 2011

Ratios	Formula	As of and for the period ended		
		September 30, 2012	September 30, 2011	December 31, 2011
(i) Current ratio	Current Assets / Current liabilities	1.58		1.51
(ii) Debt/Equity Ratio	Bank debts / Equity attributable to parent	0.43		0.42
(iii) Asset to Equity Ratio	Total assets / Equity attributable to parent	2.32		2.34
(iv) Interest rate coverage ratio	EBIT / Interest expense	2.16	(0.12)	
(v) Profitability ratios				
GP margin	Gross profit / Revenues	8.3%	7.8%	
Net profit margin	Net income after tax / Revenues	1.0%	0.4%	
EBITDA margin	EBITDA / Revenues	5.0%	4.7%	
Return on assets	Net income after tax / Total Assets	1.1%	0.4%	
Return on equity	Net income after tax / Average equity attributable to parent	2.5%	1.0%	

in \$'000

Current Assets	303,234		279,802
Current Liabilities	191,750		184,972
Bank debts	85,488		79,009
Equity attributable to parent	198,450		190,322
Total Assets	460,096	445,989	444,693
EBIT	5,270	(135)	
Interest expense	2,441	1,128	
Gross Profit	41,124	32,587	
Revenues	495,673	420,058	
Net income after tax	4,953	1,603	
EBITDA	24,883	19,916	
Average equity attributable to parent	194,386	168,515	

## PART II--OTHER INFORMATION

1. Integrated Micro-Electronics, Inc. reported \$5.0 million net income for the first nine months of 2012, a year-on-year growth of 209%.
2. At the Regular Annual Stockholders' meeting held on April 13, 2012 the stockholders considered and approved the following:

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

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

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

- Board Committees and Memberships:

Executive Committee

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

Audit Committee

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

Nomination Committee

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

Compensation Committee

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

Finance Committee

Delfin C. Gonzalez – Chairman  
John Eric T. Francia – Member  
Rafael Ma. C. Romualdez – Member

• Officers:

Jaime Augusto Zobel de Ayala	- Chairman of the Board
Arthur R. Tan	- President & Chief Executive Officer
Jerome S. Tan	- Chief Financial Officer
Sheila Marie U. Tan <sup>iii</sup>	- Corporate Secretary
Christian Gerard P. Castillo <sup>iv</sup>	- Assistant Corporate Secretary
Linardo Z. Lopez	- Senior Managing Director, Global Materials & Supply Chain
Shong Cheng Yeh	- Senior Managing Director – COO Asia
Gilles Bernard	- Managing Director, Europe Operations
Andrew C. Carreon	- Managing Director, Chief Information Officer and COO of PSi Technologies, Inc.
Jeremy Cowx	- Managing Director, Sales Director
Michael R. Hansson	- Managing Director, Chief Technology Architect for Test and Systems Development
Lucrecio B. Mendoza	- Managing Director, Head of Test & Systems Development and Value Engineering
Mary Ann S. Natividad	- Managing Director – Global Head of Key Accounts Management
Timothy P. Patterson	- Managing Director – USA and Global Head of Advanced Manufacturing Engineering
Melita R. Tomelden	- Managing Director, Global Head of Quality and Reliability
Reynaldo N. Torda	- Managing Director – Head of Operations of PSi Technologies, Inc.
Monina S. Lasala	- Vice President, Global Head of Human Resources
Rafael Nestor V. Mantaring	- Vice President, Head of Design and Development
Jaime G. Sanchez	- Vice President, Deputy CFO and Group Controller
Olaf Gresens	- Global Head of Sales and Marketing
Joselito B. Bantatua	- AVP, General Manager - Jiaxing
Fernandel I. Evangelista	- AVP, Energy Solutions
Dominador P. Leonida III	- AVP, Deputy Head of Test and Development System
Geronimo B. Magsombol	- AVP, Plant Engineering Head
Jawaharlal K. Milanés	- AVP, General Manager of Laguna 1
Anthony Raymond P. Rodriguez	- AVP, Head of Treasury and Credit
Mario Bernardo N. Santos	- AVP, General Manager of Laguna 2

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<sup>iii</sup> Elected as Corporate Secretary, in place of Solomon M. Hermosura, at the Board meeting held on June 7, 2011.

<sup>iv</sup> Elected as Assistant Corporate Secretary, in place of Ma. Carlota Christina G. Laiño-Santiago, at the Board meeting held on June 7, 2011.



**SIGNATURES**

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

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

By:



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

Date: November 12, 2012



JEROME S. TAN  
Chief Financial Officer

Date: November 12, 2012