COVER SHEET

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INTEGRATED MICRO-ELECTRONICS, INC.

(Company's Full Name)

NORTH SCIENCE AVE., LAGUNA
TECHNOPARK, BIÑAN, LAGUNA

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

ATTY. SHEILA MARIE U. TAN

Contact Person

908-3468

Company Telephone Number

1 2 | **3 1**

Month *Day*

Fiscal Year

SEC FORM 17-A

FORM TYPE

0 4 | **1 2**

Month *Day*

Annual Meeting

Secondary License Type, if Applicable

C F D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. Of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes

SEC Number: 94419
File Number: ______

INTEGRATED MICRO-ELECTRONICS, INC.

(Company's Full Name)

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

(Company Address)

(632) 756-6840

(Telephone Number)

December 31, 2012

(Fiscal Year Ending)
(Month & Day)

SEC Form 17-A

(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended: **December 31, 2012**

2. SEC Identification Number: **94419**

3. BIR Tax Identification No. **000-409-747-000**

4. Exact name of issuer as specified in its charter: **INTEGRATED MICRO-ELECTRONICS, INC.**

5. Province, Country or other jurisdiction of incorporation or organization: **Philippines**

6. Industry Classification Code: __________ (SEC Use Only)

7. Address of principal office: **33rd Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City**
Postal Code: **1226**

8. Registrant's telephone number: **(632) 756-6840**

9. Former name, former address, and former fiscal year: **Not applicable**

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares Issued and Outstanding
Common *	1,634,078,088

* Net of 15,892,109 treasury shares

11. Are any or all of these securities listed on a Stock Exchange? Yes [**x**] No [ ]

    1,350,636,697 common shares are listed with the Philippine Stock Exchange, including 15,892,109 treasury shares as of March 31, 2013.

12. Check whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports): Yes [**x**] No [ ]

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

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B"). **The aggregate market value of the voting stock held by**

non-affiliates of the Company is about ₱2.98 billion (based on closing stock price of IMI common shares as of December 31, 2012 and issue value of IMI preferred shares.

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

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

Unless otherwise expressly indicated, the information provided herein is as of December 31, 2012.

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

(A) Description of Business

(1) Business Development

Integrated Micro-Electronics, Inc. (IMI), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four subsidiaries, namely: IMI International (Singapore) Pte. Ltd. ("IMI Singapore"), IMI USA, Inc. ("IMI USA"), IMI Japan, Inc. ("IMI Japan") and PSi Technologies Inc. (PSi) (collectively referred to as the "Group"). IMI Singapore, IMI USA and IMI Japan are wholly owned subsidiaries while PSi is 55.78% owned.

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

IMI is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assembly (PCBA), flip chip assembly, box build sub-assembly, enclosure system, and provider of electronics product design, research and development, product development outsourcing and other electronic parts, among others. IMI is also engaged in the business of providing test development and systems integration services and distributing related products and equipment and related services. These PEZA registrations entitle IMI to a four-year income tax holiday (ITH) and an option to apply for ITH extension for a maximum of three (3) years subject to various PEZA requirements.

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

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

In 2011, IMI infused additional capital to IMI Singapore in exchange for newly issued shares of the latter. This was used by IMI Singapore to set up Monarch Elite Ltd. and Cooperatief IMI Europe U.A. as holding companies and facilitate the acquisition of EPIQ Electronic Assembly EOOD, EPIQ CZ s.r.o, and EPIQ MX, S.A.P.I de C.V. (collectively the EPIQ subsidiaries) from EPIQ NV. The EPIQ subsidiaries design and produce printed circuits and spray casting of plastics, and supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, industrial market and other applications with plastic parts and electronic components. The EPIQ subsidiaries also provide engineering, research and development, and logistics management services.

IMI USA was incorporated and is domiciled in Tustin, California in the United States. It is at the forefront of technology with regard to precision assembly capabilities including surface mount technology, chip on flex, chip on board and flip chip on flex. It specializes in prototyping low to medium PCBA and sub-assembly. It is also engaged in engineering, design for manufacturing technology, advanced manufacturing process development, new product innovations (NPI), direct chip attach and small precision assemblies. In 2010 the IMI Energy Solutions, a division of IMI USA, was established in Fremont, California, to develop and manufacture solar panels and other related technologies. RETC is right next door to IMI Energy Solutions to ensure fast turnaround time from prototyping to product certification. IMI Energy Solutions offers its clients PV module NPI (new product introduction), and the capability to build different PV panel sizes and PV panel coupons for new product-technology validation.

IMI Japan was registered and is domiciled in Japan. IMI Japan acts as sales office and program management center for new business. There is no manufacturing operation in IMI Japan.

PSi is a power semiconductor assembly and test services (SATS) company serving niche markets in the global power semiconductor market. It provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices. PSi wholly owns PSi Technologies Laguna, Inc. (PSi Laguna), which also provides SATS. In addition, PSi owns 40% of PSiTech Realty, Inc., the holding company of Pacsem Realty, which is a real estate company that acquires, holds, develops and disposes any real estate or interest acquired. In 2012, the Philippine Securities and Exchange Commission (SEC) approved the legal merger of PSi Laguna and PSi, with the former as the absorbed entity and PSi as the surviving entity.

(2) Business of Issuer

Principal Products and Services

Design and Engineering Solutions

Partnering with IMI allows a complete and successful product development. This is made possible by IMI's capability to design and develop complete products and subsystems, analyze product design and materials for costs reduction through value and profit engineering, and develop solutions for cost-effective production and fast time-to-market while safeguarding intellectual property. IMI's product development and engineering service offerings include Contract Design and Joint Development Solutions, Advanced Manufacturing Engineering, Test and Systems Development, and Reliability/Failure Analysis and Calibration Quality Test solutions.

Supply Chain Solutions

IMI's supply chain management solutions are equipped to help partners reduce the risk brought about by a volatile global market. The three-pronged approach include a systematic Order Management Solution, a dynamic Supply Chain Strategy hinged on Supplier Managed Inventory, Continuous Replenishment and Buffer Stock Programs, and a comprehensive Cost Management Solution that revolves around regular price reviews and negotiations with leading materials strategic supplier-partners, distributors and manufacturers.

Manufacturing Solutions

IMI's comprehensive manufacturing experience allows a prospective client to leverage its strength in RoHS-compliant and cleanroom manufacturing process, complex manufacturing using consigned equipment and materials, complete turnkey manufacturing, and ERP-based planning. IMI has the essential infrastructure equipment, manpower and quality systems to assure quick start of operations and turnaround time. These include: PCBA and FCPA Assembly (Flexible PCBA, Aluminum PCBA, Ceramic PCBA, Flip Chip On Flex, Chip-On-Board, Chip-On-flex, Chip-On-Glass, Hybrid Module PCBA), Automated Through-Hole Assembly, PCBA with Multiple BGA SMT - Automated Manufacturing, Complete Box build Solutions, Sub Assembly services, Component Assembly and Manufacturing of Enclosure Systems.

Business Models

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

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

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

Capabilities and Solutions

IMI's capabilities allow it to take on the specific outsourcing needs of its customers, providing them with flexible solutions that encompass design, manufacturing, and order fulfilment. It develops platforms to customize solutions in response to its customers' unique requirements. Its platforms in areas like short-range wireless systems, embedded systems, and sensors and imaging technology represent capabilities to manufacture products. New manufacturing capabilities are developed by IMI's Advanced Manufacturing Engineering (AME) group. Its expertise includes immersion silver process, pre-flow underfill process, thermally enhanced flip chip technology, traceless flip chip technology, and flip chip on flex assembly, among others. IMI has a complete range of manufacturing solutions-- from printed circuit board assembly to complete box build. Through its flexible, efficient, and cost–effective end-to-end EMS solutions, IMI gives OEMs the luxury of focusing on their core competencies of technology R&D and brand marketing.

Subsidiary in Power Semiconductor Assembly and Test

IMI through its subsidiary PSi Technologies Inc provides outsourced power semiconductor assembly and test services for legacy packages, power QFNs, and power modules.

Global Materials and Supply Chain Management

IMI's mission is to offer strategic and competitive Supply Chain Management for complete order fulfillment of its Customers. IMI's turnkey capabilities involve major commodities for direct/indirect materials: passive/active/mechanical/electro-mechanical components, existing vendor base for over 36,000 line items, and Global sourcing in Asia, US and Europe of over 200 major and strategic suppliers from over 2,000 suppliers listed in our database. IMI is not or is not expected to be dependent upon one supplier for raw materials or other items.

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

IMI also has Vendor Partnership Programs to leverage for the most competitive cost and engaged the supply base on vendor qualification, certification and development. With regard to inbound and outbound logistics, IMI are partners with the best in the industry. The major lines inbound are Singapore, Japan, Hong Kong, Taiwan, Malaysia, Thailand, Germany and the US. Major lines outbound are US, Germany, Malaysia, Hong Kong, Israel, Switzerland, Vietnam, UK, Japan, Singapore and France.

Product Capabilities

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

Automotive Electronics

- Automotive Camera,
- PCBA for Electronic Stability Program (ESP)
- Tire Pressure Sensor PCBA
- Car Windshield Temperature and Humidity Sensor
- Electronic Power Steering (EPS)
- Rotor Position Sensor (RPS)
- PCBA for Headlight
- Switch Controller for Main Light
- Communication Power PCBA
- Body Control Module (BCM)
- Antenna Receiver / DAB Tuner
- Powertrain Control Solutions
- Semiconductors used in Electric Drive/ Hybrid Electric Vehicles
- Fuel Management
- Pump Driver
- Steering Wheel Control Device
- Cockpit Control Device, Audio Processor

Industrial Electronics

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

Medical Electronics

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

Telecommunications	• Back Panel for Telecommunication Board • Fiber to the "X" (FFTx) systems • Booster Amplifier • GPON (Gigabit Passive Optical Network) Systems • Wireless Security System • Base Station Power Supply • Digital Station Control Board • Power Transistors for amplifiers in cellular base stations • Power Conversion ICs in adapters and chargers for cell phones and cordless phones • DC port and USB port protection for cell phones and satellite radio peripherals
Computing and Storage Devices	• CD/Combo Drive • DVD Drive • Blu-Ray Disc Drive • Hard Disk Drive • Solid State Drives • Printer Sensor • Printer Control Board • Multi-Function Copier Machine • DVD Recorder Power Supply • Power Supplies for Servers, PCs, Notebooks, and Netbooks • Over-voltage protection for HDD and DC port protection for keyboard mouse
Consumer Electronics	• Ultrasonic Toothbrush • Hybrid IC • Gas Ignitor and Re-Ignitor • Air-Conditioning (HVAC) Controller • Power Management and Home Appliance for Lighting Control • Refrigerator and Cooker Hood Control Board • Projector Lamp Drivers • Household Metering Device • Bluetooth Headset • Electric Drive Control for home appliances • Main Power Supply for Flat-panel TV • Power Supply for game consoles and entertainment electronics • High Voltage Power Conversion ICs in adapters and chargers for personal electronics • Garage Door Control • Programmable Timer • Pressure Cooker Modules • Steamer Controller Modules • Washing Machine controllers Coffee Machine

Power Semiconductor	• Low-Medium Power Packages: - TO 220 Fpak 2/3L; TO 220 2/3/5/7L, SOT 82 - PowerFlex 2/3/5/7L, TO252 / TO251, TO 263 3L; - 3 x 3 mm QFN, 3.3 x 3.3mm QFN ; 5x6mm QFN • Medium-High Power Packages: - SOT 93 3L, TO 247 3L, TO 264 3/5L, SOT 227 - Standard Packages - SP3, SP4, SP6 - DRF, ARF • Small Signal Packages - SOT 223 3L, TO 220 2/3/5/7L
Renewable Energy	• PV Panel Assembly • PV Co-Design & Development • PV Panel High Volume Manufacturing • PV Panel Platform • PV Inverter Platform • Inverter Electronics

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

Except as otherwise disclosed as above, there are no other publicly-announced new products or services during the year.

Foreign Sales Contribution

	2012	**2011**	**2010**
Share in Total Revenue (%)	69.1	60.4	60.5
Singapore/China	41.4	48.7	60.3
Europe/Mexico	27.5	11.5	-
USA	0.1	0.1	0.1
Japan	0.1	0.2	0.1
Share in Total Net Income Attributable To Equity Holders of the Parent Company (%)	263.4	481.2	209.7
Singapore/China	149.1	119.8	206.7
Europe/Mexico	128.0	361.0	-
USA	(16.1)	(6.9)	0.6
Japan	2.4	7.3	2.5

Strategic Partnerships

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

Competition

IMI is an electronics manufacturing services (EMS) provider to original equipment manufacturers (OEMs) in the computing, communications, consumer, automotive, industrial, and medical electronics segments as well as emerging industries like renewable energy. The global economy continues to be weak and fragile amid gradual improvements. Recent reforms in the Euro area have yet to be fully deployed to counter what is considered the largest global downside risk. Global economy grew by a mere 3.2 percent in 2012 and is forecasted to stay at about the same pace at 3.5 percent in 2013.
The growth of electronics end-markets are mostly in the area of consumer electronics -- primarily tablets and smartphones. Despite the 3 percent growth of worldwide consumer electronics, global electronics equipment production dropped by 1 percent in 2012 with a projected 4.0 percent growth in 2013. Global outsourcing (EMS and ODM) revenues rose 5 percent in 2012 and will further go up by 4.5 percent in 2013. Leading EMS companies continue to seek more innovation by focusing on higher margins in non-traditional markets as it faces rising challenges in the changing electronics landscape.

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

There are two methods of competition: a) price competitiveness, b) robustness of total solution (service, price, quality, special capabilities or technology). IMI competes with EMS companies and original design manufacturers (ODMs) all over the world. Some of its fierce EMS provider competitors include Hon Hai, Flextronics, Hana, and Plexus.

Hon Hai is a Taiwanese company with annual revenues of US$108 billion in 2012, best known as the vertically integrated outsourcing partner of Apple for tablets and smartphones. Hon Hai is a competitor of IMI in the computing and telecommunication infrastructure markets. Flextronics is a Singapore-headquartered company with annual revenues of US$30 billion in 2012; its cost structure is very competitive it is vertically integrated as well. Flextronics poses competition to IMI in the automotive space. Hana is a Thai company with annual revenues of US$547 million; it has a semiconductor manufacturing arm. Hana competes with IMI in industrial market. Plexus, U.S.-based, recorded US$2.3 billion revenues in fiscal 2012 ended Sept 31, 2012. Plexus is a key EMS player in industrial and medical sectors, which are target markets of IMI.

IMI is focused on delivering customized solutions of highest quality at reasonable prices. It collaborates with the customers in finding the right solutions to their problems. IMI even challenges its own systems and processes if needed. It has a distinct advantage in serving customers who value quality over price and require complex non-standard solutions. Living up to the flexible expertise brand, IMI is adaptable to the needs and conditions of its customers. This expertise has propelled IMI onto the current list of the top 30 EMS providers in the world and earned for IMI several accolades from its customers.

Transactions with Related Parties

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

a. Transactions with Bank of the Philippine Islands (BPI), an affiliate

As of December 31, 2012 and 2011, the Group maintains current and savings accounts, and other short-term investments with BPI as follows:

	2012	2011
Cash in bank	**$749,838**	$411,556
Short-term investments	**1,318,027**	3,342,153

Total interest income earned from investments with BPI amounted to $22,652, $10,402 and $11,938 in 2012, 2011 and 2010, respectively.

b. Outstanding balances of related party transactions follow:

	Receivables		**Payables**	
	2012	2011	**2012**	2011
Affiliates:				
BPI	**$417,487**	$201,726	**$–**	$33,262
TLI	**8,229**	9,377	**3,425**	–
Innove Communication Inc. (ICI)	**–**	–	**1,994**	446
Globe Telecom, Inc. (GTI)	**–**	–	**871**	2,931
	425,716	211,103	**6,290**	36,639
Subsidiaries:				
STEL	**$21,592,138**	$21,596,858	**$1,518,066**	$1,449,658
Monarch and EPIQ Subsidiaries	**11,060,830**	4,673,470	**–**	–
PSi	**7,289,665**	30,558	**546,135**	546,135
IMI Singapore	**1,016,936**	1,020,251	**–**	–
IMI Japan	**979,125**	1,061,160	**717,056**	171,417
IMI USA	**257,652**	250,000	**125,679**	1,024,886
IMI ROHQ	**–**	–	**436,367**	520,141
	42,196,346	28,632,297	**3,343,303**	3,712,237
	$42,622,062	$28,843,400	**$3,349,593**	$3,748,876

i. Receivables from BPI are nontrade in nature and pertain to retirement and separation pay advanced by the Parent Company but reimbursable from the trust fund with BPI. These are non-interest bearing and are due quarterly.

ii. Receivables from TLI are nontrade in nature and pertain to advances by the Parent Company for various expenses incurred by TLI, primarily on real property taxes and corporate secretarial services. These are reimbursable with a 30-day term.

iii. Receivables from IMI Singapore, STEL, IMI Japan, IMI USA, PSi, Monarch and EPIQ Subsidiaries pertain to operating cash advances made by the Parent Company.

Operating cash advances to subsidiaries that have been billed are presented as "Nontrade receivables," while those still for billing are recognized as "Advances to related party". Advances to Singapore, STEL, IMI Japan and IMI USA are non-interest bearing and are due on demand.

Advances to EPIQ MX, EPIQ CZ and PSi have a 90-day term subject to interest rates ranging from 2.31% to 2.81%.

iv. Payables to BPI pertain to the outstanding housing and automobile financing loans included in "Employee-related payables" under "Accounts payable and accrued expenses." The outstanding housing and automobile financing loans arise from timing differences of the remittances by the Parent Company to BPI and the period of withholding from employee salaries and wages. The loan reductions are remitted on a monthly basis.

v. Payables to TLI are nontrade in nature and pertain to the new lease agreement between the Parent Company and TLI which was executed for a period of three (3) years, commencing on January 2, 2012 up to December 31, 2014 with the same terms and condition of the prior agreement except for the rental fees.

vi. Payables to ICI are nontrade in nature and pertain to leased lines, internet connections and automated teller machines connections. These are non-interest bearing and are due every month.

vii. Payables to GTI pertain to billings for Blackberry cellphone charges, software and wifi connections. These are due and demandable.

viii. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ which serve as a supervisory, communications and coordinating center for its affiliates.

ix. Payables to STEL pertain to various expenses of the Parent Company advanced by IMI Singapore and its subsidiaries such as travel expenses of the Parent Company's personnel when going to STEL for business purposes. These advances are noninterest-bearing and are payable on demand.

x. Payables to PSi represent payments to settle certain liabilities that had arisen prior to the investment of New Investors and which have been identified as Pre-Completion Liabilities. Pursuant to the Agreement, Old Investors and the New Investors shall reimburse PSi for these payments to the extent of two-thirds (2/3) and one-third (1/3) of the amounts, respectively, for the first $3.00 million of the Pre-Completion Liabilities, with the Old Investors absorbing any amount in excess, but only to the extent of the value of the shares that will be eventually sold to the new Investors under the put and call option provision.

c. Revenue and expenses from related parties follow:

	Revenue/Income			Expenses		
	2012	2011	2010	**2012**	2011	2010
Affiliates:						
BPI	**$58,198**	$252,370	$107,478	**$–**	$–	$–
Ayala Group Legal (AG Legal)	**–**	–	–	**72,351**	110,786	209,743
TLI	**–**	–	–	**26,531**	–	–
ICI	**–**	–	–	**144,905**	203,951	202,143
GTI	**–**	–	–	**68,355**	88,248	94,926
	58,198	252,370	107,478	**312,142**	402,985	506,812
Subsidiaries:						
IMI Singapore	**–**	–	–	**–**	–	–
STEL	**2,665,499**	4,887,483	–	**–**	–	–
IMI ROHQ	**3,859,491**	3,130,303	3,997,122	**55,625**	50,702	–
EPIQ Subsidiaries	**292,303**	–	–	**–**	–	–
IMI USA	**2,695,395**	128,047	2,463,391	**798,982**	–	–
IMI Japan	**908,796**	–	863,087	**–**	–	–
PSi	**68,681**	–	–	**–**	–	–
	10,490,165	8,145,833	7,323,600	**854,607**	50,702	–
	$10,548,363	$8,398,203	$7,431,078	**$1,166,749**	$453,687	$506,812

Revenue recognized from related parties includes:

i. Interest income earned from investments, gain on foreign currency forwards with BPI and intercompany advances to EPIQ MX, EPIQ CZ and PSi.
ii. Intercompany revenues mainly pertain to billings of IMI USA and IMI Japan to the Parent Company for recovery costs, billings for management salaries of key management personnel under IMI ROHQ and intercompany transfers of finished goods to be shipped to ultimate customers.

Expenses incurred for related parties include:

i. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.
ii. Lot rental expense from lease agreement with TLI.
iii. Building rental, leased lines, internet connections and ATM connections with ICI.
iv. Purchases of Blackberry software and billings for cellphone charges and WiFi connections with GTI.
v. Allocation of retirement expense covering IMI ROHQ.
vi. Professional fees from IMI USA.

Compensation of Key Management Personnel of the Group

Key management personnel of the Group include all management committee members. Compensation of key management personnel by benefit type follows:

	2012	2011
Short-term employee benefits	**$6,264,578**	$5,275,504
Post-employment benefits	**258,904**	387,529
Share-based payments	**24,793**	208,877
	$6,548,275	$5,871,910

Intellectual Property

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

Name	Filing Date	Expiration
Anisotropic Bonding System and Method Using Dynamic Feedback	27 November 2000	26 November 2020
Traceless Flip Chip assembly and method	26 February 2001	25 February 2021
Manufacturing Method for Attaching Components to a Substrate	05 March 2001	04 March 2021
Passive circuitry for harmonic current regulation in a power supply by energy efficient input current shaping	16 September 2001	17 September 2020
Energy efficient method and apparatus for shaping input waveform (Singapore)	20 April 2000	19 April 2020
Self-coupled driver used in dual-switch forward power converter (Singapore)	27 February 2007	26 February 2027
Self-coupled driver used in dual-switch forward power converter (US)	9 January 2008	8 January 2028

IMI's patents are not critical to operations. These were obtained for possible future opportunities and are in various stages of being commercialized or used in some of the solutions we deliver.

Government Regulations and Approvals

IMI complies with all existing government regulations applicable to the company and secures all government approvals for its registered activities. Currently, there are no known probable governmental regulations that may significantly affect the business of the company.

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

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

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

Among these regulations are the following:

- DENR Administrative Order No. 35, Series of 1990 (Revised effluent regulations);
- Resolution No. 25, Series of 1996 (Implementation of the Environmental User Fee System in the Laguna de Bay Region);
- Resolution No. 33, Series of 1996 (Approving the Rules and Regulations implementing the Environmental User Fee System in the Laguna de Bay Region);
- DENR Administrative Order No. 26, Series of 1992 (Appointment/Designation of Pollution Control Officers);
- Philippine Clean Water Act of 2004 – Republic Act No. 9275; and
- Republic Act (RA 6969) Control of Toxic Substances and Hazardous and Nuclear Wastes

IMI paid nominal fees required for the submission of applications for the above mentioned environmental laws.

Research and Development Activities

IMI spent the following for the last three years:

		% to Revenues
2012	$809,381	0.1
2011	$872,254	0.2
2010	$752,791	0.2

Human Resources

The Company has a total workforce of 14,913 employees as of December 31, 2012, shown in the following table:

Job Groups	Total	Philippines	China/ Singapore	USA	Japan	Europe
Managers	**391**	153	170	6	3	59
Supervisors	**1,456**	519	662	5	-	270
Rank-and-File	**1,787**	785	689	3	1	309
Technicians	**891**	287	534	-	-	70
Operators	**10,388**	4,158	4,809	10	-	1,411
TOTAL	**14,913**	5,902	6,864	24	4	2,119

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

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

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

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

Risk Factors

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

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

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

(1) changes in demand for its products and services;
(2) customers' sales outlook, purchasing patterns, and inventory adjustments;
(3) the mix of the types of services provided to its customers such as: volume of products, complexity of services, and product maturity;
(4) the extent to which it can provide vertically integrated services for a product;

(5) its effectiveness in managing its manufacturing processes, controlling costs, and integrating any potential future acquisitions;
(6) its ability to make optimal use of its available manufacturing capacity;
(7) changes in the cost and availability of labor, raw materials and components, which affect its margins and its ability to meet delivery schedules;
(8) its ability to manage the timing of its component purchases so that components are available when needed for production while avoiding the risks of accumulating inventory in excess of immediate production needs;
(9) timing of new technology development and the qualification of its technology by its customers; and
(10) local conditions and events that may affect its production volumes, such as labor conditions, political instability, and local holidays.

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

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

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

In response to a very dynamic operating environment and intense industry competition, IMI focuses on high-growth/high-margin specialized product niches, diversifies its markets and products, engages in higher value add services, improves its cost structure, and pursues strategies to grow existing accounts.
Moreover, IMI has established a structure that promotes a transparent corporate governance system. It has an Audit Committee that reviews quarterly and audited annual results of operations. It also has a Finance Committee that reviews and approves significant financial policies and performs oversight function over the risk management process of the organization. The Company's financial statements are certified by a reputable accounting firm.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) Diversion of management's attention from the normal operations of IMI's business;

(2) Potential loss of key employees and customers of the acquired companies;

(3) Difficulties in managing and integrating operations in geographically dispersed locations;

(4) Lack of experience operating in the geographic market of the acquired business;

(5) Reduction in cash balance and increases in expenses and working capital requirements, which may reduce return on invested capital;

(6) Potential increases in debt, which may increase operating costs as a result of higher interest payments;

(7) Difficulties in integrating acquired businesses into existing operations, which may prevent it from achieving, or may reduce the anticipated synergy.

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

(1) Dilution of the percentage of ownership of current stockholders;

(2) Periodic impairment of goodwill and other intangible assets; and,

(3) Liabilities, litigations, and/or unanticipated contingent liabilities assumed from the acquired companies.

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

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

M&As have to be reviewed by the Executive Committee, Finance Committee, and approved by the Board.

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

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

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

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

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

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

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

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

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

IMI operates in a highly competitive industry

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

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

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

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

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

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

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

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

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

The profitability of companies in the same industry as IMI depends on the performance and business of the industry's customers, driven by the demand for electronic products by end consumers. If the end-user demand is low for the industry's customers' products, companies in IMI's industry may see significant changes in orders from customers and may experience greater pricing pressures.

Therefore, risks that could seriously harm the customers of IMI's industry could, as a result, adversely affect IMI as well. These risks include:

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

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

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

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

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

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

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

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

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

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

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

(1) managing operations that require coordination of communications, directions for the manufacture and delivery of products, coordination regarding procurement and delivery of components and raw materials, and other activities and decisions of different management teams;

(2) coordinating the activities of senior management who are spread out internationally;

(3) reversal of currently favorable policies encouraging foreign investment or foreign trade by host countries could lead to the imposition of government controls, changes in tariffs or trade restrictions on component or assembled products;

(4) the burden of complying with a variety of foreign laws, including delays or difficulties in obtaining import and export licenses, and regulations and unexpected changes in legal and regulatory environments, including changes to import and export regulations and duties;

(5) lower levels of protection for intellectual property rights in some countries;

(6) potentially adverse tax consequences, including tax consequences which may arise in connection with inter-company pricing for transactions between separate legal entities within a group operating in different tax jurisdictions, and overall increases in duties and taxation;

(7) potential foreign exchange and repatriation controls on foreign earnings, exchange rate fluctuations, and currency conversion restrictions;

(8) lack of developed local infrastructure, transportation and water supply, and difficult and costly local staffing and sourcing of raw materials or components in some countries;

(9) actions which may be taken by foreign governments pursuant to any trade restrictions; and

(10) possible labor unrest and political economic instability.

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

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

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

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

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

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

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

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

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

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

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

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

IMI faces risks related to foreign currency exchange rates

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

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

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

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

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

Risks relating to the Philippines or other country where IMI operates

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

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

The following tables present revenue and profit information regarding the Group's geographical segments for the years ended December 31, 2012, 2011 and 2010.

December 31, 2012	**Philippines**		**Singapore/ China**	**Europe/ Mexico**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**						
Revenue								
Third party	**$159,081,890**	**$45,598,208**	**$273,994,631**	**$182,233,202**	**$457,897**	**$483,894**	**$–**	**$661,849,722**
Inter-segment	–	–	**6,521,490**	–	**2,695,395**	**908,796**	**(10,125,681)**	–
Total revenue	**$159,081,890**	**$45,598,208**	**$280,516,121**	**$182,233,202**	**$3,153,292**	**$1,392,690**	**($10,125,681)**	**$661,849,722**
Segment gross profit (loss)	**$14,113,123**	**($3,861,153)**	**$28,379,263**	**$18,776,688**	**$2,231,718**	**$1,038,289**	**($7,463,683)**	**$53,214,245**
Segment operating income (loss)	**($2,518,520)**	**($9,868,520)**	**$11,172,370**	**$8,897,538**	**($875,279)**	**$151,546**	**$2,933**	**$6,962,068**
Segment interest income	**$469,490**	**$2,858**	**$125,175**	**$5,312**	**$–**	**$57**	**($335,800)**	**$267,092**
Segment interest expense	**$1,197,181**	**$323,317**	**$419,371**	**$1,414,671**	**$1,945**	**$788**	($335,800)	**$3,021,473**
Segment profit (loss) before income tax	**($2,267,634)**	**($10,510,556)**	**$10,792,286**	**$7,504,568**	**($877,764)**	**$133,917**	**($25,752)**	**$4,749,065**
Segment provision for income tax	**(697,756)**	**(42,271)**	**(2,677,956)**	**(540,396)**	–	**(931)**	–	**(3,959,310)**
Segment profit (loss) after income tax	**($2,965,390)**	**($10,552,827)**	**$8,114,330**	**$6,964,172**	**($877,764)**	**$132,986**	**($25,752)**	**$789,755**

December 31, 2011	Philippines		Singapore/ China	Europe/Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue								
Third party	$154,151,770	$73,559,713	$280,118,990	$66,239,366	$394,919	$989,150	$–	$575,453,908
Inter-segment	–	403,500	3,898,157	–	2,842,333	885,430	(8,029,420)	–
Total revenue	$154,151,770	$73,963,213	$284,017,147	$66,239,366	$3,237,252	$1,874,580	($8,029,420)	$575,453,908
Segment gross profit	$12,128,822	$3,127,887	$22,014,238	$5,425,951	$2,338,546	$1,088,152	($7,946,062)	$38,177,534
Segment operating income (loss)	($13,936,898)	($4,024,730)	$3,902,328	($683,681)	$25,602	$208,146	$–	($14,509,233)
Segment interest income	$185,072	$3,334	$100,007	$27,077	$–	$30	$–	$315,520
Segment interest expense	$624,079	$389,496	$291,989	$1,191,848	$1,775	$811	$–	$2,499,998
Segment profit (loss) before income tax	($8,574,088)	($4,390,951)	$6,666,192	$12,098,547	$22,844	$239,468	($116,413)	$5,945,599
Segment provision for income tax	(1,326,845)	(129,022)	(2,724,363)	(223,009)	(250,000)	(847)	–	(4,654,086)
Segment profit (loss) after income tax	($9,900,933)	($4,519,973)	$3,941,829	$11,875,538	($227,156)	$238,621	($116,413)	$1,291,513

December 31, 2010	Philippines		Singapore/ China	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi					
Revenue							
Third party	$143,388,346	$19,345,006	$248,839,859	$280,521	$472,873	$–	$412,326,605
Inter-segment	–	–	3,997,122	2,463,391	863,087	(7,323,600)	–
Total revenue	$143,388,346	$19,345,006	$252,836,981	$2,743,912	$1,335,960	($7,323,600)	$412,326,605
Segment gross profit	$13,857,388	$963,522	$32,701,351	$2,588,665	$935,889	($6,572,223)	$44,474,592
Segment operating income (loss)	($8,573,328)	($707,780)	$13,407,801	$28,858	$95,025	$–	$4,250,576
Segment interest income	$272,574	$3,181	$76,786	$–	$37	$–	$352,578
Segment interest expense	$437,792	$102,701	$493,646	$1,561	$1,229	$–	$1,036,929
Segment profit (loss) before income tax	($4,425,209)	($769,800)	$12,871,708	$27,297	$118,173	$–	$7,822,169
Segment provision for income tax	(282,199)	(46,240)	(3,078,292)	–	(793)	–	(3,407,524)
Segment profit (loss) after income tax	($4,707,408)	($816,040)	$9,793,416	$27,297	$117,380	$–	$4,414,645

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

Please refer also to Note 27 ("Segment Information") of the Notes to Consolidated Financial Statements of the 2012 Audited Consolidated Financial Statements which is incorporated herein as Exhibit 1.

Item 2. Properties

IMI has production facilities in the Philippines (Laguna, Cavite and Taguig), China (Shenzhen, Jiaxing, Chongqing and Chengdu), Singapore, Bulgaria, Czech Republic, and Mexico. It also has a prototyping and NPI facility located in Tustin, California. Engineering and design centers, on the other hand, are located in the Philippines, Singapore, China, United States, Bulgaria and Czech Republic. IMI also has a global network of sales and logistics offices in Asia, North America, and Europe.

The Parent Company does not own land. As a result, it leases the land on which its manufacturing plants, office buildings and sales offices are located. The head office and main plant of IMI are located at North Science Avenue, Laguna Technopark, Biñan, 4024, Laguna,Philippines. The premises are leased from Technopark Land, Inc. On December 23, 2008, IMI renewed the lease for 3 years, which expired on December 31, 2011. On January 2, 2012, the Parent Company again extended the lease contract for another three years commencing January 2, 2012 up to December 31, 2015. The lease contract is renewable at the option of the lessor upon such terms and conditions and upon such rental rates as the parties may agree upon at the time of the renewal, taking into consideration comparable rental rates for similar properties prevailing at the time of renewal. IMI is liable to pay a monthly rental of $1,642 specified in the lease contract, exclusive of value added tax, which increases over the years. In the event of sale, transfer or disposition of the leased premises, the lessor shall ensure that the lease will be honored by the buyer.

IMI's subsidiaries, except for IMI-USA, IMI-Japan and Speedy-Tech Electronics (HK) Limited in Hong Kong, lease the land on which their respective manufacturing and office buildings are located. While the newly-acquired subsidiaries in Bulgaria, Czech Republic and Mexico own the land wherein their respective manufacturing and office premises are located.

The Company's global facilities and capabilities of each location as of December 31, 2012 are shown below:

Location	Floor Area (in square meters)	Capabilities
Philippines-Laguna	96,182	DFM, NPI, Test & System Dev't, 37 SMT Lines (inc. In-line SP-AOI, Post-Reflow AOI, X-ray), ICT, FCT, PCBA & Box-Build Assembly, COB (inc. DA of Imager Die), COF, Al Wirebonding , Robotic & selective wave soldering, ACF & Hotbar (Flex to rigid board), Heat stake & ultrasonic weld for plastic enclosureClass 10k Facility w/ Class 100 Laminar Flow Hood, LVHM and HVLM
Philippines-Cavite	2,350	3 SMT & PTH Lines, BGA, X-ray, ICT, Functional Testing, PCBA Assembly & Full System Box Build, NPI Center, LVHM
Singapore	4,000	1 SMT & PTH Line, BGA, AOI, X-ray, ICT, Functional Testing, Test Development, H/W & S/W, PCBA Assembly & Full System Box Build, Central Warehouse, Logistics Services, HMLV
China-Liantang	18,600	Turnkey & Consignment, HMLV & LMHV, SMT & PTH Lines, BGA & COB, X-ray, AOI, ICT, Functional Testing, Test Development, H/W & S/W, PCBA Assembly & Full System Box Build, New Product Introduction (NPI) Center, Central Warehouse, Logistics Services, D&D Center
China-Kiuchong	18,000	Turnkey & Consignment, HMLV & LMHV, SMT & PTH Lines, BGA & COB, X-ray, AOI, ICT, Functional Testing, Test Development, H/W & S/W, PCBA Assembly & Full System Box Build, New Product Introduction (NPI) Center, Central Warehouse, Logistics Services
China-Jiaxing	13,000	
China-Chengdu	7,500	
China-Chongqing	2,243	Consignment, HMLV, SMT & PTH Lines, BGA & COB, X-ray, AOI, PCBA Assembly & Full System Box Build, New Product Introduction (NPI) Center, Central Warehouse, Logistics Services
Hong Kong*	300	Procurement, marketing and supply chain facility
Philippines-PSi Taguig	2,799	Customer Specific Quality Requirements, Low/ Med Power Discrete Packaging and Processes including Au Wire Bonding; Al Ribbon ,Cu Clip interconnect; 3D Packaging, MCM ,High Reliability Hermetic Packages - Metal Cans and Ceramic Packages

Philippines-PSi Laguna	9,209	Power Management (IC) Discrete Packaging, e.g., 5 - 7L TO-220, Diversified Packaging - from Low to High Power and Small to Large Outline, Module Research and Development Line
Japan*	110	Offers technical, quality assurance, sales and commercial support in a broad range of industries for Japan-based clients
USA-Tustin, CA*	1,184	Engineering Development and Prototype Manufacturing Center, Full Range of Assembly Capabilities with focus on Precision Assembly; SMT; COB FCOF; Process Development
USA-Fremont, CA*	1,143	PV Module or Panel Design/co-Development (Material Qualification, Process Development), Solar Panel Testing and Certification, Solar Panel Prototyping Development, Low-Volume Manufacturing, Inverter Platform, EMS and Test Services for Control Electronics of Solar Systems
Botevgrad, Bulgaria	23,778	PCBA: SMT, COB/COF/ IC Encapsulation, Pin Through Hole, Automatic Pin Insertion, Wave Soldering, Selective Soldering System, BGA, X-ray, Nitrogen Equipment, Protective Coating, ICT/ FCT Test, Thermopaste Dispensing, AOI, Plastic Injection, Embedded Toolshop, Overmoulding, Box build: Mechanical Design and Assembly,
El Salto, Guadalajara, Mexico	18,000	PCBA: (Pb & LF): SMT, AOI, Pin Through Hole (Pin Insertion, Radial/Axial), Wave Soldering (Hot Bar and Selective), Protective Coating, ICT/ FCT Test, Plastic Injection : from 50 to 850T + Vertical Bi-injection (220T)/Individual Dryers for every Machine, supported by Embedded Toolshop (CNC, EDM,...) and 3D Inspection CMM Box built : Customized Operations for PCBA and Plastic Box assembly
Třemošná, Plzeňská, Czech Republic	7,740	PCBA: SMT; Pin Through Hole, Automatic Pin Insertion, Wave Soldering, UltraSonic Welding, Selective Soldering System, BGA, Protective Coating, RF Testing, ICT/ FCT Test, AOI, Mechanical Assembly
Total	226,138	

IMI leases some of its machinery and production equipment, transportation equipment and servers under various finance lease agreements. Future minimum lease payments for these finance lease contracts amounted to $1,483,764 as of December 31, 2012. IMI also entered into operating lease contracts for the lease of parcels of land, condominium units, office premises and other facilities. Future minimum rentals payable under these noncancellable operating leases as of December 31, 2012 amounted to $6,900,871 (see Note 28).

The aggregate rent expense of the Group included under "Outsourced activities" account included under "Operating expenses" in the consolidated statements of comprehensive income, recognized on these operating lease agreements for the year ended December 31, 2012 amounted to $0.54 million. Deposits made under these operating lease agreements are intended to be applied against the remaining lease payments (see Note 28).

For 2013, the Company budgeted $18.1M for capital expenditures. These capital expenditures are to be partially funded by proceeds of the Company's cash from operations and debt. The main components of these expenditures are building improvements for new production facility, purchase of equipment and various machineries restorations and innovations. These will ensure uninterrupted services and meeting demands of the Company's customers.

Item 3. Legal Proceedings

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

The Company filed a civil case on April 11, 2011 against Standard Insurance ("Standard") seeking to collect Standard's share in the loss incurred by the Company consisting in damage to production equipment and machineries as a result of the May 24, 2009 fire at the Company's Cebu facility which the Company claims to be covered by Standard's "Industrial All Risks Material Damage with Machinery Breakdown and Business Interruption" policy. The share of Standard in the loss is 22% or US $1,117,056.84 after its co-insurers all paid the amount of loss respectively claimed from them. The Company had to resort to court action after Standard denied its claim on the ground that the claim is an excepted peril. Standard filed a motion to dismiss on various grounds, such as lack of cause of action and of prescription. The RTC denied the motion to dismiss but Standard filed a Motion for Reconsideration, which is pending resolution.

There are no known legal proceedings contemplated by government authorities or by any other entity.

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

The following table shows the high and low prices (in PhP) of IMI's shares in the Philippine Stock Exchange for the year 2011 and 2012:

Philippine Stock Exchange
2012 Prices (in PhP/share)

	High		Low	
	2012	2011	2012	2011
First Quarter	5.30	8.20	4.91	5.75
Second Quarter	4.99	8.55	3.90	6.01
Third Quarter	4.35	6.60	3.98	5.08
Fourth Quarter	4.32	5.68	3.86	4.75

The market capitalization of the Company's common shares as of December 31, 2012, based on the closing price of ₱3.98/share, was approximately ₱6.6 billion.

The price information of IMI's common shares as of the close of the latest practicable trading date, March 15, 2013, is ₱4.01 per share.

Holders

There are approximately 591 and 42 registered holders of common and preferred shares, respectively, as of January 31, 2013.

The following are the top 20 registered holders of the common and preferred stockholders of the Company:

Common Shares:

	Stockholder Name	No. of Common Shares	Percentage of Common Shares
1.	AYC Holdings, Ltd.	945,537,373	57.8636%
2.	PCD Nominee Corporation (Filipino)	290,219,861	17.7605%
3.	EPIQ NV	200,000,000	12.2393%
4.	POMS Investment Pte Ltd.	57,339,671	3.5090%
5.	2007 ESOWN Subscriptions	44,988,446	2.7531%
6.	2009 ESOWN Subscription	30,164,963	1.8460%
7.	PCD Nominee Corporation (Non-Filipino)	28,337,832	1.7342%
8.	SIIX Corporation	6,581,622	0.4028%
9.	2004 ESOWN Subscription	3,765,248	0.2304%
10.	Chow Phui Kheong	3,164,906	0.1937%
11.	Arthur R. Tan	1,955,451	0.1197%
12.	Kwok Kai Ming	1,698,768	0.1039%
13.	Josef Pfister	1,415,860	0.0866%
14.	Rafael Nestor Velez Mantaring	1,057,930	0.0647%
15.	Timothy Patterson	955,696	0.0585%
16.	Richard D. Bell	910,572	0.0557%
17.	Helmut Baumgart	865,448	0.0530%
18.	Maria Rosa L. Santos	750,000	0.0459%
19.	Reynaldo N. Bartolome	550,000	0.0336%
20.	Lucrecio B. Mendoza	540,245	0.0331%

Preferred Shares:

	Stockholder Name	No. of Common Shares	Percentage of Preferred Shares
1.	Ayala Corporation	596,043,238	45.8495%
2.	AsiaCom Philippines, Inc.	460,000,000	35.3846%
3.	Resins, Inc.	219,979,398	16.9215%
4.	Mitsubishi Corporation	11,098,843	0.8538%
5.	SIIX Corp.	6,047,392	0.4652%
6.	Helmut Baumgart	1,062,122	0.0817%
7.	Andrew C. Carreon	1,043,400	0.0803%
8.	Meneleo J. Carlos, Jr.	855,000	0.0658%
9.	Neilson C. Esguerra	500,000	0.0385%
10.	Ceferino L. Follosco	426,720	0.0328%
11.	Francisco I. Ferrer	426,720	0.0328%
12.	Josef Pfister	362,824	0.0279%
13.	Transtechnology Pte Ltd	280,092	0.0215%
14.	Claudio Truzzi	208,680	0.0161%
15.	Mary Ann S. Natividad	200,000	0.0154%
16.	Rosalyn O. Tesoro	177,492	0.0137%
17.	Sherly D. del Carmen	121,920	0.0094%
18.	Peter Lausen	104,340	0.0080%
19.	Ceferina S. Santos	100,000	0.0077%
19.	Reynaldo N. Torda	100,000	0.0077%
20.	Fe R. Gonzales	80,000	0.0062%

Dividends

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

Cash Dividends			
CLASS	PAYMENT DATE	RATE	RECORD DATE
Common shares	June 6, 2009	n/a*	March 26, 2009
Common shares	May 27, 2010	USD0.0024/PhP0.11	April 30, 2010
Common shares	April 4, 2011	USD0.00099/ PhP0.044	March 9, 2011

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

Dividend policy

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors. There are no known restrictions or impediments to the company's ability to pay dividends on common equity, whether current or future.

Cash dividends are subject to approval by the Company's Board but no stockholder approval is required. Property dividends which may come in the form of additional shares of stock are subject to approval by both the Company's Board of Directors and the Company's stockholders. In addition, the payment of stock dividends is likewise subject to the approval of the SEC and PSE.

Recent Sale of Exempt Securities

The following shares were subscribed by the Company's executives as a result of their subscription to the stock ownership (ESOWN) plans:

Year	**No. of Shares***
2012	863,963
2011	NIL

**Net of cancelled subscriptions.*

The above shares formed part of the 150,000,000 ESOWN shares subject of the Commission's resolution dated July 20, 2004 confirming the issuance of such shares as exempt transactions pursuant to Section 10.2 of the Securities Regulation Code.

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

Results of Operations

Revenues, gross profit, net income, and the related computed EBITDA and basic earnings per share, for years ended 2012, 2011 and 2010 are shown on the following table:

	For the years ended 31 December		
	2012	**2011**	**2010**
	(in US$ thousands, except Basic EPS)		
Revenues from sales and services	661,850	575,454	412,327
Cost of goods sold and services	608,635	537,276	367,852
Gross profit	53,214	38,178	44,475
Net income attributable to equity holders of the Parent Company	5,442	3,289	4,739
EBITDA	32,611	19,574	30,242
Basic Earnings per Share (EPS)	0.002	0.001	0.002

2012 vs. 2011

Revenues from Sales and Services

The Company recorded US$661.9 million consolidated revenues from sales and services in 2012, a 15% increase from last year's US$545.5 million. The increase can be attributed mainly to the incremental revenues amounting to US$116.0 million (from US$66.2 million to US$182.2 million) resulting from full-year contribution of subsidiaries in Europe and Mexico acquired in July 2011. The Company's operations in China and Singapore posted US$276.7 million in combined revenues for 2012, a slight decline of 1% year-on-year due to delay in transition of new models. The Philippine operations generated US$159.1 million revenues, a 3% increase from 2011 due to strong programs in the automotive, industrial and storage device sectors. PSi contributed US$45.6 million revenues to the Group.

Cost of Goods Sold and Services

The increase in cost of goods sold and services in absolute amount by 13% was driven mainly by higher revenues from existing businesses and revenue contribution of entities acquired in 2011. Increase can be attributed also to material-related costs as a result of increasing turnkey businesses. Under-utilized facilities and lower capacity utilization in some operating sites also caused overhead to increase.

Gross Profit and Gross Profit Margin

Consolidated gross profit, in absolute amount increased by US$15.0 million or 39% driven by the European acquisition, higher revenues of Philippine operations and improvement in the contribution margin of China despite drop in revenues. Gross profit margin went up from 6.6% to 8.0% due to improvement in DM% of Philippines and China turnkey businesses.

Operating Expenses

Operating expenses was reduced by 12% from US$52.7 million in 2011 to US$46.3 million in 2012. This resulted from expenses related to key acquisition incurred in 2011 and reversal of prior year excess provisions in 2012.

Net Income

In spite of very daunting global economic scenario, IMI generally performed better than 2011. The Company generated positive operating income mainly due to the incremental contribution of the European acquisition and better performance of its Philippine and China operations. This resulted to consolidated net income of US$5.4 million in 2012, a 65% improvement against last year's $3.3 million.

EBITDA

Increase in EBITDA by US$13.0 million was mainly driven by increased operating income by $21.5 million.

Financial Condition

The Company continued to maintain financial stability, ending the year with a positive cash balance of US$56.2 million, an increase of US$2.1 million from last year's US$54.1 million.

The Company's current ratio and debt-to-equity ratio are 1.56:1 and 0.46:1, respectively.

In 2012, the Company's capital expenditures amounted to US$16.8 million which comprised mainly of machineries and facilities equipment to sustain continuous plant expansions. For 2013, the Company expects to spend $18.1M for capital expenditures. These capital expenditures are to be partially funded by proceeds of the Company's cash from operations and debt. The main components of these expenditures are building improvements for new production facility, purchase of equipment and various machineries restorations and innovations. These will ensure uninterrupted services and meeting demands of the Company's customers.

Prospects for the future

The Company remains optimistic despite sluggish global economic growth. The Company begun to see the synergies expected from the European acquisition. New customer programs will continue to mass produce and the Company's objective is to optimize its capacity utilization to match its global customers' requirements.

Key Performance Indicators of the Company

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

	As of the Years Ended		
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2010**
Performance indicators			
Liquidity:			
Current ratio	1.56x	1.51x	1.23x
Solvency:			
Debt-to-equity ratio	0.46x	0.42x	0.33x

	For the years ended 31 December		
	2012	**2011**	**2010**
Operating efficiency:			
Revenue growth	15%	40%	4%
Profitability:			
Return on equity	3%	2%	3%
Return on assets	1%	1%	1%
[1]EBITDA margin	5%	3%	7%

In the above:

(i) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.

(ii) There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

(iii) Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

(iv) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Company's revenues from continuing operations.

(v) There were no significant elements of income or loss that did not arise from continuing operations.

(vi) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

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

Income Statement items - YTD December 31, 2012 versus YTD December 31, 2011

15% increase in Revenues from sale of goods and services (US$575.5M to US$661.8M)
Increase was mainly driven by full year revenue contribution of the European acquisition in July 2011 resulting to incremental revenues of US$116.0 million. The Company's Philippine operation contributed additional US$4.9 million or 3% from 2011 due to strong programs in automotive, industrial and storage device sectors.

[1] *EBITDA Margin = EBITDA divided by revenues from sales and services where EBITDA represents net operating income after adding depreciation and amortization, cost of share-based payments 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.*

13% increase in Cost of goods sold and services (US$537.3M to US$608.6M)
Primarily due to increase in turnkey businesses that resulted to higher direct material cost and higher manufacturing overhead due to unutilized capacity of facilities and machineries in some operating sites.

12% decrease in Operating expenses (US$52.7M to US$46.3M)
Higher operating expenses in 2011 can be attributed to expenses incurred related to the acquisition. Decline also resulted from reversals of prior year excess provisions.

111% decrease in Net finance and other income (US$20.5M to US$2.2M loss)
The Company's non-operating income in 2011 includes gain related to the European acquisition (US$13.0 million) and mark-to-market gains from put and call options (US$5.4 million). Foreign exchange gains also decreased by US$4.3 million mainly due to appreciation of PHP and RMB resulting to higher USD liabilities.

15% decrease in Provision for income tax (US$4.7M to US$4.0M)
Decrease arise mainly from amortization of deferred tax liabilities recognized in 2011 relating to the increase in fair value of property, plant and equipment and recognition of intangible assets (customer relationships) pertaining to the acquired companies.

163% increase in Other comprehensive income (US$6.0M loss to US$3.8M)
Comprehensive income went up due to increase in cumulative translation adjustments arising from translation of Europe and Mexico entities to US$ reporting currency resulting from appreciation of foreign currencies against U.S. Dollar as to the net assets of the said companies.

133% increase in Noncontrolling interests in net loss (US$2.0M to US$4.6M)
Pertains to the increase in share on net loss of PSi as a result of soft demand in the semiconductor business.

Balance Sheet items - December 31, 2012 versus December 31, 2011

13% increase in Loans and receivables (US$133.7M to US$150.9M)
Arose from increase in revenues and trade receivables from the new subsidiaries which implement longer credit terms for their customers.

16% decrease in Other current assets (US$8.8M to US$7.4M)
Increase is mainly due to decrease in tax credits from the subsidiary in Mexico.

10% decrease in Property, plant and equipment – net (US$97.5M to US$88.1M)
Capital expenditures to set-up new production lines for new projects amounted to US$16.8 million. These were offset by depreciation recognized during the year amounting to US$23.3 million, disposals and retirement of assets with a net book value of US$3.8 million. Foreign exchange differences arising from subsidiaries with functional currencies other than US$ amounting to $1.2 million also caused the balance to increase.

20% decrease in Intangible assets – net (US$7.3M to US$5.9M)
Purchased licenses and software amounted to US$0.5 million. Amortization of customer relationships and software amounted to $2.1 million.

31% decrease in Pension asset (US$2.8M to US$1.9M)
Decline resulting from net benefit expense recognized by the Parent Company for 2012 amounting to US$1.0 million.

288% increase in Available-for-sale financial assets – net (US$0.4M to US$1.6M)
Additional long-term investment of IMI Singapore amounting $1.0 million.

<u>100% decrease in Noncurrent receivables (US$0.2M to US$–)</u>
Collection of receivables from customers for equipment purchased by the Company that are reimbursable from the former.

<u>46% increase in Deferred income tax assets (US$0.7M to US$1.1M)</u>
Recognition of deferred tax asset on additional allowance for inventory obsolescence and doubtful accounts provisions.

<u>19% increase in Other noncurrent assets (US$1.5M to US$1.8M)</u>
Increase pertains to increase in miscellaneous deposits.

<u>13% increase in Trust receipts and notes payable (US$39.0M to US$44.2M)</u>
Availments of loans mostly by the Parent Company for the year amounted to US$37.0 million of which $32.8 million was repaid. Foreign currency fluctuations on Euro loans amounted to $1.0 million.

<u>13% increase in Income tax payable (US$1.7M to US$1.9M)</u>
Due to higher taxable base as a result of better performance.

<u>100% decrease in Provisions (US$0.2M to US$–)</u>
Relates to provision for restructuring recognized in its Singapore and PSi entities. No outstanding balance as of December 31, 2012.

<u>100% increase in Current portion of long-term debt (US$– to US$2.6M)</u>
Represents current portion of long-term debt equivalent to EUR2.0 million payable to the previous owner of the acquired European entities.

<u>12% decrease in Deferred revenue (US$2.3M to 2.0M)</u>
Pertains to amortization of cash advances made by a customer of PSi related to a subcontracting service agreement for the facilities support services that will be rendered.

<u>16% decrease in Pension liability (US$1.3M to US$1.1M)</u>
Increased by $1.6 million from net benefit expense recognized majority of which attributable to PSi but offset by forex exchange difference of $1.8 million which caused the decline.

<u>15% increase in Obligation under finance lease (US$0.6M to 0.7M)</u>
Represents increase in finance lease obligations from Europe entities related to machineries and production equipment.

<u>62% decrease in Other long-term employee benefits (US$0.2M to US$0.09M)</u>
Decline in other long-term benefits in its PSi subsidiary.

<u>20% increase in Capital stock - common (US$24.9M to US$30.0M)</u>
<u>80% decrease in Subscribed capital stock (US$6.5M to US$1.3M)</u>
Issuance to EPIQ NV of 200 million shares equivalent to US$4.7 million as part of the purchase consideration in acquiring Europe and Mexico entities. Additional issuances during the year through the Company's Employee Stock Ownership (ESOWN) plan amounted to US$0.3 million equivalent to 17.6 million shares.

<u>7% decrease in Subscriptions receivable (US$11.4M to US$10.4M)</u>
Mainly represents forfeitures of ESOWN and collections of subscriptions, net of accretion of receivables.

<u>33% decrease in Retained earnings appropriated (US$30.7M to US$20.7M)</u>
Due to reversals of appropriations amounting to US$10.0 million for dividend declaration.

21% increase in Retained earnings unappropriated (US$59.7M to US$72.4M)
Increase was caused by reclassification from appropriated to unappropriated of US$10.0 million for dividend declaration and net income attributable to parent company of US$5.4 million. The increase was offset by actual dividend declaration amounting to US$2.7 million.
37% increase in Reserve for fluctuation on available-for-sale financial assets (US$0.14M to US$0.2M)
Represents changes in the fair values of the Company's investments in club shares.

62% increase in Cumulative translation adjustment (-US$6.0M to -US$2.3M)
Exchange differences arising from translation of newly acquired entities to the Company's reporting currency. Increase is attributable to appreciation of US Dollar against Euro resulting to lower US Dollar long term debt to EPIQ NV and appreciation of currencies of Europe and Mexico entities against US Dollar with regard to its net assets.

389% decrease in Noncontrolling interests in consolidated subsidiaries (-US$1.2M to US$-5.9M)
Pertains to the increase in share on net loss of PSi as a result of soft demand in the semiconductor business.

2011 vs. 2010

Revenues from Sales and Services

The Company recorded US$575.5 million consolidated revenues from sales and services in 2011, a 40% increase from last year's $412.3 million. The Company's operations in China and Singapore posted US$279.7 million in combined revenues in 2011, a 12% year-on-year growth due mainly to new turnkey programs for major customers. The Philippine operations generated US$154.2 million revenues, an 8 percent increase from 2010 due to strong programs in the automotive and industrial sectors. Toward the end of the year, IMI's assembly operations for the storage device manufacturers also increased, as hard disk drive manufacturers in flood-plagued Thailand transferred production to the Philippines. The increase can also be attributed to full year revenue contribution of PSi Technologies, Inc. (PSi) acquired in 2010 which posted revenue of US$74.0 million and newly-acquired entities in Europe and Mexico (EPIQ subsidiaries) which contributed 5-month revenue amounting to $US66.2 million.

Cost of Goods Sold and Services

The increase in cost of goods sold and services in absolute amount by 46% was driven mainly by higher revenues from existing businesses and revenue contribution of entities acquired in 2010 and 2011. Significant increase, however, can be attributed to material-related costs as a result of higher revenues from turnkey businesses. Direct labor, on the other hand, increased as a result of mandated wage increases particularly in China. The under-utilized facility specifically in its PSi subsidiary also caused overhead to increase.

Gross Profit and Gross Profit Margin

Consolidated gross profit, in absolute amount, declined by US$6.3 million or 14%. Gross profit margin went down from 10.8% to 6.6% due to higher direct material and labor costs particularly in China.

Operating Expenses

Operating expenses grew by 31% from US$40.2 million in 2010 to US$52.7 million in 2011. This resulted from provisions made during the year (e.g., provisions for bad debts, allowance for obsolescence, etc.) and one-time expenses related to key acquisition.

Net Income

Against a backdrop of weak global economic growth, higher material and direct labor costs and lower factory utilization rate caused IMI's margins to decline. This resulted to consolidated net income of US$3.3 million (inclusive of non-recurring items), which was 31% lower than previous year's net income of US4.7 million. Without the income resulting from the acquisition of EPIQ subsidiaries, mark-to-market gains on derivatives and one-time expenses, the consolidated bottomline would be at US$0.2 million.

EBITDA

Decrease in EBITDA by US$10.6 million was mainly driven by decline in gross profit of US$6.3 million and various provisions made during the year.

Financial Condition

The Company continued to maintain financial stability, ending the year with a positive cash balance of US$54.1 million, an increase of US$15.9 million from last year's US$38.1 million.

The Company's current ratio and debt-to-equity ratio are 1.5:1 and 0.42:1, respectively.

In 2011, the Company spent US$14.8 million capital expenditures mainly machinery and facilities equipment and plant improvements. Fair value of property, plant and equipment acquired through the acquisition of Europe and Mexico entities amounted to US$39.2 million. The Company budgeted US$14.1 million in 2012 primarily for additional line equipment and equipment restoration.

Prospects for the future

The Company is cautiously optimistic in the face of market uncertainty. It banks on its expanded reach and capability, and growing presence in high-margin and less volatile markets such as the automotive and industrial sectors.

Key Performance Indicators of the Company

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

	31 Dec 2011	**As of end 31 Dec 2010 (as Restated)**	**31 Dec 2009**
Performance indicators			
Liquidity:			
Current ratio	1.51x	1.23x	1.89x
Solvency:			
Debt-to-equity ratio	0.42x	0.33x	0.29x

	For the years ended 31 December		
	2011	**2010**	**2009**
Operating efficiency:			
Revenue growth	40%	4%	(10%)
Profitability:			
Return on equity	2%	3%	6%
Return on assets	1%	1%	3%
[2]EBITDA margin	3%	7%	8%

In the above:

(i) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.

(ii) There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

(iii) Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

(iv) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Company's revenues from continuing operations.

(v) There were no significant elements of income or loss that did not arise from continuing operations.

(vi) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

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

Income Statement items - YTD December 31, 2011 versus YTD December 31, 2010

40% increase in Revenues from sale of goods and services (US$412.3M to US$575.5M)
Increase was mainly driven by five-month revenue contribution of newly acquired entities in Europe and Mexico of $66.2m and full year revenue contribution of PSi in 2011 of $74.0 million as against last year's three month contribution of $19.3 million on the year of acquisition. On the other hand, the Company's China and Singapore operations increased revenues by US$30.9 million or 12% mainly due to new turnkey programs for major customers. The Philippine operations also increased by $10.8 million or an 8% increase year-on-year due to strong programs in the automotive and industrial sectors.

[2] *EBITDA Margin = EBITDA divided by revenues from sales and services where EBITDA represents net operating income after adding depreciation and amortization, cost of share-based payments 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.*

46% increase in Cost of goods sold and services (US$367.9M to US$537.3M)
Primarily due to increase in turnkey businesses that resulted to higher direct material cost, mandated wage increase particularly in China and higher manufacturing overhead due to unutilized capacity of facilities and machineries in some of its Philippine plants.

31% increase in Operating expenses (US$40.2M to US$52.7M)
Brought about by increase in provisions for inventory obsolescence and doubtful accounts and one-time expenses related to the acquisition of EPIQ subsidiaries.

473% increase in Net finance and other income (US$3.6M to US$20.5M)
Increase pertains mainly to the gain on bargain purchase from the newly acquired entities in Europe and Mexico of US$13.0 million and mark-to-market gains on derivatives of US$6.2 million. These were offset by impairment loss recognized on goodwill of US$2.7 million and increase in interest expense pertaining to additional bank loans availed during the year and existing loans of acquired entities.

37% increase in Provision for income tax (US$3.4M to US$4.7M)
Increase was caused by expiration of some the Parent Company's entitlements to Income Tax Holidays and additional provision for taxes from EPIQ subsidiaries. The increase can be attributed also to deferred tax liabilities recognized from transactions related to acquisition of subsidiaries and derivative transactions.

110% decrease in Other comprehensive income (US$0.06M to US$6.01M loss)
Comprehensive loss recognized resulted from cumulative translation adjustments arising from translation of subsidiaries' functional currency to US$ reporting currency.

516% increase in Noncontrolling interests in net loss (US$0.32M to US$2.0M)
Increase can be attributed to full-year profit and loss of PSi which was acquired during the last quarter of 2010.

Balance Sheet items - December 31, 2011 versus December 31, 2010 (As Restated)

42% increase in Cash and cash equivalents (US$38.1M to US$54.1M)
Increase can be attributable to the Company's financing activities to support planned expansions.

29% increase in Loans and receivables (US$104.3M to US$134.7M)
Arose from increase in revenues and trade receivables from the new subsidiaries which implement longer credit terms for their customers.

47% increase in Inventories-net (US$54.7M to US$80.4M)
Due to increase in turnkey businesses for which the Company is responsible in providing materials and acquisition of EPIQ subsidiaries which also have turnkey arrangements with customers.
65% increase in Derivative assets (US$1.7M to US$2.8M)
Arising from mark-to-market valuations of put and call options related to the acquisition of PSi in 2010.

213% increase in Other current assets (US$2.5M to US$8.8M)
Increase is mainly due to tax credits from the newly acquired subsidiary in Mexico.

31% increase in Property, plant and equipment – net (US$74.6M to US$97.5M)
Arising mainly from the fair value of existing property, plant and equipment of EPIQ subsidiaries at the time of acquisition amounting to US$39.2M. Capital expenditures to set-up new production lines for new projects amounted to US$14.8 million. These were offset by depreciation recognized during the year amounting to US$24.6 million, disposals of assets with a net book value of US$2.5 million and foreign exchange differences arising from subsidiaries with functional currencies other than US$ amounting to $4.0 million.

695% increase in Intangible assets – net (US$0.9M to US$7.3M)
Increase pertains to valuation of customer relationship in one of the newly acquired entities in Europe amounting to US$6.8 million.

8% increase in Available-for-sale financial assets (US$0.38M to US$0.41M)
Represents increase in fair value of club shares classified as available-for-sale financial assets.

16% increase in Noncurrent receivables (US$0.18M to US$0.21M)
Increase in advances to customers for equipment purchased by the Company that are reimbursable from the former.

25% decrease in Deferred income tax assets (US$1.0M to US$0.7M)
Due to reversals of allowance for inventory obsolescence.

42% increase in Accounts payable and accrued expenses (US$101.2M to US$144.0M)
Increase pertains substantially to trade payables and accruals of EPIQ subsidiaries.

118% increase in Trust receipts and notes payable (US$17.9M to US$39.0M)
Increase represents existing loans of the newly acquired subsidiary in Bulgaria of US$11.1M, increase in loans payable of the Parent Company by US$6.5M and increase in PSi of US$3.5M.

27% decrease in Iincome tax payable (US$2.3M to US$1.7M)
Pertains to decrease in taxes payable in its China and Singapore sites.

100% increase in Provisions (US$nil to US$0.2M)
Relates to provision for restructuring recognized in its Singapore entity during the year.

99% decrease in Derivative liabilities (US$3.8M to US$0.03M)
Decrease is attributable to the exercise of the put option related to the acquisition of its PSi subsidiary in 2010.

100% decrease in Current portion of long-term debt (US$38M to US$nil)
Pertains to repayment of the Parent Company's long-term debt of US$30.0 million and remaining installment payment for the five-year term clean loan of its Singapore subsidiary amounting to US$8.0M.

100% increase in Long-term debt (US$nil to US$60.4M)
Relates to availment of a US$40.0 million loan of the Parent Company with the same terms as the previous loan and deferred payment to the seller arising from the acquisition of the subsidiaries in Europe and Mexico of US$20.4 million.

446% increase in Deferred tax liabilities (US$0.9M to US$4.8M)
Attributable to the recognition of deferred tax liability on the increase in fair value of property, plant and equipment and valuation of intangible assets related to acquisition of Europe and Mexico entities and valuation of call options.

10% decrease in Deferred revenue (US$2.6M to 2.3M)
Pertains to amortization of cash advances made by a customer of PSi related to a subcontracting service agreement for the facilities support services that will be rendered.

35% increase in Pension liability (US$1.0M to US$1.3M)
Due to retirement fund pension liability of newly acquired subsidiary in Europe.

418% increase in Obligation under finance lease (US$0.1M to 0.6M)
Represents increase in lease obligations of the newly acquired entities in Europe related to machineries, production equipments and transportation equipment.

38% decrease in Other long-term employee benefits (US$0.4M to US$0.2M)
Decline in other long-term benefits in its PSi subsidiary.

242% increase in Subscribed capital stock (US$1.9M to US$6.5M)
Primarily attributable to the subscription agreement entered in relation with the acquisition of EPIQ subsidiaries as part of the purchase price consideration equivalent to 200 million shares of the Parent Company.

71% increase in Additional paid-in capital (US$34.6M to US$59.1M)
Relates also to the subscription agreement in relation to the acquisition of EPIQ subsidiaries which pertains to the fair value of the shares at the time of acquisition in excess of par.

9% decrease in Subscriptions receivable (US$11.4M to US$10.4M)
Mainly represents forfeitures of ESOWN and collections of subscriptions, net of accretion of receivables.

49% decrease in Retained earnings appropriated (US$60.7M to US$30.7M)
Due to reversals of appropriations amounting to US$30.0 million.

82% increase in Retained earnings unappropriated (US$32.7M to US$59.7M)
Increase was caused by reclassification from appropriated to unappropriated of US$30.0 million, and net income attributable to parent company of US$3.3 million. The increase was offset by dividend declaration amounting to US$6.3 million.

29% increase in Reserve for fluctuation on available-for-sale financial assets (US$0.11M to US$0.14M)
Represents changes in the fair values of the Company's investments in club shares.

100% increase in Cumulative translation adjustment (US$nil to US$6.0M)
Exchange differences arising from translation of newly acquired entities to the Company's reporting currency.

256% decrease in Noncontrolling interests in consolidated subsidiaries (US$0.8M to US$-1.2M)
Attributed to full-year share in profit and loss of PSi which was acquired during the last quarter of 2010.

Item 7. Financial Statements and Supplementary Schedules

Please see attached Exhibit 1.

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

Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS and Philippine Accounting Standards (PAS) effective as of January 1, 2012. Except as otherwise indicated, the adoption of these new and amended standards did not have significant impact on the consolidated financial statements.

- PAS 12 (Amendment), *Income Taxes – Deferred Taxes: Recovery of Underlying Assets*
  This amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a "sale" basis. The presumption is rebutted if the investment property is

depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ("use" basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

- PFRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*
  The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user 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 user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

Annual Improvements to PFRSs
The Annual Improvements to PFRSs contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted. There are separate transitional provisions for each standard. The Group does not expect the adoption of these amendments to standards to have a significant impact on the financial position or performance of the Group.

Information on Independent Public Accountant

a. The principal accountants and external auditors of the Company is the accounting firm of SyCip, Gorres, Velayo & Company (SGV & Co.). The same accounting firm is being recommended for re-election at the scheduled annual stockholders' meeting.

b. Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor of the Company, and Ms. Josephine Adrienne A. Abarca has been the Partner In-Charge effective audit year 2009.

c. *Changes in and disagreements with accountants on accounting and financial disclosure.*

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

External Audit Fees and Services

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

	Audit & Audit-related Fees	Tax Fees	Other Fees
2012	₱ 3.20M	-	-
2011	₱ 3.05M	-	₱ 0.22M

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

Tax fees

No tax consultancy services were secured from SGV & Co.

All other fees

In 2011, SGV & Co. billed the Company for an aggregate fee of ₱0.22M for the review of the Company's interim condensed consolidated financial statements for the period March 31, June 30 and September 30, 2011 in connection with the Company's compliance to SEC Form 17-Q.

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

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

The write-ups below include positions held by the directors and executive officers currently and during the past five years and their personal circumstances as of December 31, 2012.

<u>Board of Directors</u>

Jaime Augusto Zobel de Ayala	Chairman of the Board of Directors
Fernando Zobel de Ayala	Director
Arthur R. Tan	Director, President & Chief Executive Officer
Diosdado P. Banatao	Independent Director
Jose Ignacio A. Carlos	Director
John Eric T. Francia	Director
Alelie T. Funcell	Independent Director
Delfin C. Gonzalez, Jr.	Director
Delfin L. Lazaro	Director
Hiroshi Nishimura	Independent Director
Rafael Ma. C. Romualdez	Director

***Jaime Augusto Zobel de Ayala**,* Filipino, 53, has served as Chairman of the Board of Directors of IMI since January 1995. He also holds the following positions: Chairman and Chief Executive Officer of Ayala Corporation, Chairman of Globe Telecom, Inc., and Bank of the Philippine Islands; Co-Chairman of Ayala Foundation, Inc.; Vice Chairman of Manila Water Company, Inc.; Co-Vice Chairman of Mermac, Inc.; Vice Chairman of Ayala Land, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte Ltd. and AC Energy Holdings, Inc.; Chairman of Harvard Business School Asia-Pacific Advisory Board, Children's Hour Philippines, Inc.; Vice Chairman of the Asia Business Council, Makati Business Club, and Asia Society Philippine Foundation, Inc.; Member of The Asia Society, Eisenhower Fellowships, Harvard University Asia Advisory Committee, Harvard Business School Social Enterprises Initiative Advisory Board, Harvard Global Advisory Council, Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, International Business Council of the World Economic Forum, Asia Pacific Basin Economic Council, Philippine Economic Society, World Wildlife Fund Philippine Advisory Council, Pacific Basin Economic Council and Toshiba International Advisory Group; and Philippine Representative for APEC Business Advisory Council.

***Fernando Zobel de Ayala**,* Filipino, 52, has served as a director of IMI since January 1995He is the Vice Chairman, President, and Chief Operating Officer of Ayala Corporation. He is also the Chairman of Ayala Land, Inc., Manila Water Company, Inc., AC International Finance Ltd., Ayala International Pte Ltd., Ayala DBS Holdings, Inc., Alabang Commercial Corporation, AC Energy Holdings, Inc., and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc.; Co-Vice Chairman of Mermac, Inc.; Director of Bank of The Philippine Islands, Globe Telecom, Inc., Integrated Micro-Electronics, Inc., LiveIt Investments, Ltd., Asiacom Philippines, Inc., AG Holdings Limited, Ayala International Holdings

Limited, AI North America, Inc., Vesta Property Holdings Inc., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, Pilipinas Shell Petroleum Corporation, and Manila Peninsula; Member of The Asia Society, World Economic Forum, INSEAD East Asia Council, and World Presidents' Organization; Chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; Vice Chairman of Habitat for Humanity International; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, Kapit Bisig para sa Ilog Pasig Advisory Board and National Museum.

Arthur R. Tan, Filipino, 53, is a member of the Board of Directors of IMI since July 2001. He has been the President and Chief Executive Officer of IMI since 23 April 2002. Concurrently, he is the President and Chief Executive Officer of PSi Technologies Inc., President of Speedy-Tech Electronics Ltd., and Chairman of the Board of Speedy-Tech Philippines, Inc.

Diosdado P. Banatao, American, 66, has been an independent director of IMI since January 1994 up to the present. He has been a Managing Partner of Tallwood Venture Capital, a venture capital firm, since July 2000. Prior to forming Tallwood, he was a venture partner at Mayfield Fund from January 1998 to May 2000. He co-founded three technology start-ups: S3 Incorporated (SBLU), Chips and Technologies (INTC) and Mostron. He also held positions in engineering and general management at National Semiconductor Corporation, Seeq Technologies and Intersil Corporation. He currently serves on the board of directors at Ikanos Communications, Inphi, Wave Semiconductor and Wilocity. He previously served as Chairman and led investments in SiRF Technology, acquired by CSR (CSR); Marvell Technology Group (MRVL), Acclaim Communications, acquired by Level One (INTC); Newport Communications, acquired by Broadcom (BRCM), Cyras Systems, acquired by Ciena (CIEN), and Stream Machine, acquired by Cirrus Logic (CRUS). He has also served on the board of directors of various privately held companies in the semiconductor industry.

Jose Ignacio A. Carlos, Filipino, 43, has been a Director of IMI since December 2006. Concurrently, he is the President of Polymer Products Philippines, Inc. and AVC Chemical Corporation. He is also a member of the Board of Directors of Resins, Inc., Riverbanks Development Corporation, Mindanao Energy Systems, Inc., Cagayan Electric Power and Light Co., and Philippine Iron Construction and Marine Works, Inc.

John Eric T. Francia, Filipino, 41, is a Director of IMI since July 2010. He is a Managing Director and a member of the Management Committee of Ayala Corporation since January 2009. He is the Head of Ayala's Corporate Strategy and Development Group, which is responsible for overseeing Ayala's portfolio strategy and new business development. He is also holds the following positions: Chairman and President of PhilNewEnergy, Inc., President of AC Energy Holdings, Inc and AC Infrastructure Holdings Corp.; Director of Manila Water Company, LiveIt Investments Ltd., and Integreon Managed Solutions (Philippines), Inc. Prior to joining Ayala, Mr. Francia was a senior consultant and member of the management team of Monitor Group, a strategy consulting firm based in Cambridge, Massachusetts, USA. Prior to consulting, he spent a few years in the field of academe and media.

Alelie T. Funcell, Filipino, 57, has been an independent director of IMI since April 2010. She is the Founder, CEO, and President of Renewable Energy Test Center. She served as Chief Operating Officer and Senior Vice President of Quality at Solaria, Inc., a manufacturer of Concentrator Photovoltaic products and Vice President of Supplier Management and Manufacturing Operations of Xilinx, Inc., a billion dollar semiconductor company. Prior to Xilinx, she also worked in several semiconductor companies, including Intel, IDT and Silicon Systems. She is credited with numerous patents in the Semiconductor Packaging and Solar Industry. She is twice a recipient of the S.C. Valley YWCA "Tribute to Woman in the Industry" (TWIN) Award in 1994 while at IDT and in 2000 while at Xilinx. She was President of the Filipino-American Association of Milpitas, California in 1994 to 1996, a very active Bay area Filipino organization. She received an award from the FWN, as one of the 100 Most Influential Filipino Women in the United States in 2009.

Delfin C. Gonzalez, Jr., Filipino, 63, joined the IMI board in July 2010 and became a member of the IMI's Finance Committee. He is the Chief Financial Officer of Ayala Corporation and is also a member of its Management Committee and Finance Committee. He joined Ayala Corporation in late 2000, and was the Chief Finance Officer for its subsidiary, Globe Telecom, Inc. until early 2010. He also holds the following positions in various companies of the Ayala Group: Chairman and President of Water Capital Works, Inc., and Azalea Technology Investments, Inc.; Chairman of Darong Agricultural Development Corporation and AYC Finance Ltd.; and Director of A.C.S.T Business Holdings, Inc., AC International Finance, Ltd., Asiacom Philippines, Inc., Ayala Aviation Corporation, AYC Holdings Ltd., Michigan Holdings, Inc., AC Energy Holdings, Inc., MPM Noodles Corporation, LiveIt Investments, Ltd., Azalea International Venture Partners Ltd., and various Ayala international companies.

***Delfin L. Lazaro*, ** Filipino, 66, has been a director of IMI since May 2000. He also holds the following positions: Director of Ayala Corporation since 2007; Chairman of Philwater Holdings Company, Inc., Atlas Fertilizer & Chemicals, Inc. and AYC Holdings, Inc.; Chairman and President of Purefoods International Ltd., and A.C.S.T. Business Holdings Inc.; Director of Ayala Land, Inc., Globe Telecom, Inc., Manila Water Company, Inc., Ayala DBS Holdings, Inc., AC Energy Holdings, Inc., Ayala International Holdings, Ltd., Bestfull Holdings Limited, AG Holdings, AI North America, Inc., Probe Productions, Inc., and Empire Insurance Company.

***Hiroshi Nishimura*,** Japanese, 60, has been an independent director of IMI since April 2010. He is the Chairman and President of Linkwest International Consultancy Services, Inc. He also serves as a Consultant to the Jesus V. Del Rosario Foundation, Inc. and he served as President of Panasonic Communications Philippines Corporation (PCP), formerly known as Kyushu Matsushita Electronics Philippines (PKME), from 2000-2007.

***Rafael Ma. C. Romualdez**,* Filipino, 49, has been a Director of IMI since May 1997. He is presently a Director of Resins, Inc., RI Chemical Corporation and Claveria Tree Nursery, Inc. He is also the Chairman of the Philippine Iron Construction and Marine Works, Inc., Pigmentex Incorporated, Pacific Resins, Inc., and MC Shipping Corp.

<u>Nominees to the Board of Directors for election at the stockholders' meeting:</u>

All the above incumbent directors are nominated for election at the stockholders' meeting to be held on April 12, 2013.

<u>Management Committee Members / Key Executive Officers</u>

*	Jaime Augusto Zobel de Ayala	Chairman of the Board
*	Arthur R. Tan	President & Chief Executive Officer
**	Jerome S. Tan	Global Chief Finance Officer
**	Linardo Z. Lopez	Senior Managing Director, Global Head of Materials and Supply Chain
**	Shong Cheng Yeh	Senior Managing Director, COO Asia
	Anthony Raymond P. Rodriguez	Assistant Vice President, Head – Treasury & Credit
	Sheila Marie U. Tan	Corporate Secretary
	Christian Gerard P. Castillo	Assistant Corporate Secretary

** Members of the Board of Directors*
*** Management Committee members*

Jerome S. Tan, Singaporean, 51, is the Global Chief Finance Officer of IMI since January 2011. He oversees Finance, Treasury, Credit, Controllership and ICT functions of the IMI global operation. He brings more than 20 years of broad-based experience and various achievements in finance, strategic planning, business development and acquisition/integration. He has assumed regional leadership roles in multinational Banking and Finance companies, and Food and Beverage industry located in different regions in the Asia Pacific. Prior to joining IMI, he was connected with NBC Universal, the media unit of General Electric Corporation by serving as the CFO of the TV Group and was responsible for the overall Finance function in Asia Pacific for CNBC and Universal Network. He was also a key member of the management team of San Miguel Brewing International Ltd., managing Treasury and Financial Planning, and Regional Business Planning and Development. Before his exposure in the food and beverage industry, he was an Assistant Director in First Pacific Bank Asia, Ltd., in Hong Kong. He started his career as an Associate in Robert Fleming, Inc., in New York City, USA.

Linardo Z. Lopez, Filipino, 55, joined IMI as Senior Managing Director and Global Head of Materials and Supply Chain in March 2008 and has served as such up to the present. He spent a significant part of his career in OEM and contract manufacturing industries, notably with industry leaders such as Solectron and Flextronics in China.

Shong Cheng Yeh, Malaysian, 43, is currently a Senior Managing Director, COO Asia of IMI since February 2009. He brings with him over 14 years of experience in electronics manufacturing. Prior to IMI, he was the General Manager for Asian Operations in the Infrastructure Global Manufacturing business of Flextronics overseeing China, Malaysia and India.

Anthony Raymond P. Rodriguez, Filipino, 45, is an Assistant Vice President and Head of Treasury and Credit of IMI since February 2009. Prior to IMI, he has gained nineteen (19) years of extensive professional experience from Banco de Oro – EPCI Bank as Senior Dealer –FX and Derivatives Desk and from Far East Bank & Trust Co. as International Desk Head for Treasury Marketing.

Sheila Marie U. Tan, Filipino, 45, is the Corporate Secretary of Integrated Micro-Electronics, Inc. since June 2011 Currently, she also holds the position of Corporate Secretary of Cebu Holdings, Inc., Cebu Property Ventures & Development Corp., Alveo Land Corp., Avida Land Corporation, Amaia Land Corp., Alabang Commercial Corporation, North Triangle Depot Commercial Corporation, Laguna Technopark, Inc., Makati Development Corporation: and Ayala Property Management Corporation. She is also the Assistant Corporate Secretary of Ayala Corporation and Ayala Land, Inc. She was a former head of the Legal Department of Ayala Land, Inc. She is an Associate Director in Ayala Corporation from January 1, 2009 to July 1, 2012. She is now a Managing Director and Corporate Secretary of Ayala Group Legal.

Christian Gerard P. Castillo, Filipino, 33, has served as Assistant Corporate Secretary of Integrated Micro-Electronics, Inc. since June 2011. He is a Senior Counsel of Ayala Group Legal. He handles various corporate secretarial functions for affiliates of Integrated Micro-Electronics, Inc., international holding companies of Ayala Corporation, and leisure, residential and leasing companies of Ayala Land, Inc. (ALI). Prior to joining ALI in 2008, he was an associate at SyCip, Salazar, Hernandez & Gatmaitan Law Offices.

Significant Employees

The significant employees of the Company consist of its entire work force. Everyone is expected to work as part of a team to achieve the Company's goals and objectives.

Family Relationships

Jaime Augusto Zobel de Ayala, Chairman of the Board, and Fernando Zobel de Ayala, a director of the Company, are brothers.

There are no known family relationships between the current members of the Board and key officers other than the above.

Involvement in Legal Proceedings

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

The Company filed a civil case on April 11, 2011 against Standard Insurance ("Standard") seeking to collect Standard's share in the loss incurred by the Company consisting in damage to production equipment and machineries as a result of the May 24, 2009 fire at the Company's Cebu facility which the Company claims to be covered by Standard's "Industrial All Risks Material Damage with Machinery

Breakdown and Business Interruption" policy. The share of Standard in the loss is 22% or US $1,117,056.84 after its co-insurers all paid the amount of loss respectively claimed from them. The Company had to resort to court action after Standard denied its claim on the ground that the claim is an excepted peril. Standard filed a motion to dismiss on various grounds, such as lack of cause of action and of prescription. The RTC denied the motion to dismiss but Standard filed a Motion for Reconsideration, which is pending resolution.

Item 10. Executive Compensation

Name and Principal Position	Year	Salary	Other Income
Arthur R. Tan President & Chief Executive Officer			
Linardo Z. Lopez Senior Managing Director, Global Materials & Supply Chain			
Anthony Raymond P. Rodriquez AVP, Head of Treasury and Credit			
Jerome S. Tan Global Chief Financial Officer			
Shong Cheng Yeh Senior Managing Director- COO Asia			
CEO & Other Named Executive Officers	Actual 2011 (Restated)	₱ 57.94	₱ 19.97
	Actual 2012	₱ 62.02	₱ 22.18
	Projected 2013	₱ 66.44	₱ 23.72
All officers as a group unnamed*	Actual 2011 (Restated)	₱ 294.23	₱ 62.39
	Actual 2012	₱ 331.54	₱ 62.31
	Projected 2013	₱ 371.10	₱ 64.75

**All employees with a rank of manager and higher, including all above-named officers.*

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

Compensation of Directors

Section 9 of Article IV of the By-laws provides:

"Section 9 - Each director shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of directors exceed five percent (5%) of the net income before income tax of the Corporation during the preceding year. (as amended on February 23, 2011.)

x x x

The Chairman of the Board shall receive such remuneration as may be fixed by the Board of Directors each year, in addition to the per diem and compensation that each Director may be entitled to receive. (as amended on February 23, 2011.)"

i. Standard arrangement

During the 2008 annual stockholders' meeting, the stockholders ratified the resolution fixing the remuneration of non-executive directors which the Board approved at its meeting on April 30, 2008, as follows:

a. For each Director – ₱100,000.00 per diem per Board meeting actually attended;

b. For each Board Committee member – ₱20,000.00 per diem per Committee meeting actually attended.

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

ii. Other arrangement

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

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

Item 11. Security Ownership of Certain Beneficial Owners and Management

1) Security ownership of certain record and beneficial owners (of more than 5%) as of January 31, 2013.

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of outstanding Shares
Common	AYC Holdings, Ltd.[3] 33/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Ave., Makati City	AYC Holdings, Ltd.[4]	BVI	945,537,373	32.2260%
Common	Ayala Corporation[5] 34/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Ave., Makati City	Ayala Corporation[6]	Filipino	180,492	0.0062%
Preferred				596,043,238	20.3145%
Preferred	Asiacom Philippines, Inc.[7] 34/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Ave., Makati City	Asiacom Philippines, Inc.[8]	Filipino	460,000,000	15.6778%
Common	PCD Nominee Corporation (Filipino)[9] 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City	Resins, Inc.[10]	Filipino	239,412,304	8.1597%

[3] AYC Holdings, Ltd. (AYC) is a stockholder of the Company.
[4] The Board of Directors of AYC has the power to decide how AYC's shares in IMI are to be voted. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power.
[5] The Chairman of Ayala Corporation (AC), Jaime Augusto Zobel de Ayala, is the Chairman of the Company.
[6] The Board of Directors of AC has the power to decide how AC's shares in IMI are to be voted. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power.
[7] The Chairman of Asiacom Philippines, Inc. (Asiacom), Jaime Augusto Zobel de Ayala, is the Chairman of the Company.
[8] The Board of Directors of Asiacom has the power to decide how Asiacom shares in IMI are to be voted. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power.
[9] The PCD is not related to the Company.
[10] Resins, Inc. (Resins) is a customer of a participant of PCD. The Board of Directors of Resins has the power to decide how Resins shares in IMI are to be voted. Mr. Jose Ignacio A. Carlos is usually appointed to exercise the voting power.

Preferred	Resins, Inc.[11] E. Rodriguez Ave., Pasig City	Resins, Inc.[12]	Filipino	219,979,398	7.4974%
Common	EPIQ NV[13] Transportstraat 1, 3980 Tessenderlo, Belgium	EPIQ NV[14]	Belgian	200,000,000	6.8165%

2) Security ownership of directors and management as of January 31, 2013.

Title of Class	**Name of Beneficial Owner**	**Amount and Nature of Beneficial Ownership**		**Citizenship**	**Percent of All Class**
Directors					
Common	Jaime Augusto Zobel de Ayala	100	(direct)	Filipino	0.0000%
Common	Fernando Zobel de Ayala	100	(direct)	Filipino	0.0000%
Common	Delfin L. Lazaro	100	(direct)	Filipino	0.0000%
Common	Arthur R. Tan	7,279,252	(direct & indirect)	Filipino	0.2481%
Common	Rafael Ma. C. Romualdez	115	(direct)	Filipino	0.0000%
Common	Jose Ignacio A. Carlos	115	(direct)	Filipino	0.0000%
Common	Diosdado P. Banatao	115	(direct)	American	0.0000%
Common	Delfin C. Gonzalez, Jr.	100	(direct)	Filipino	0.0000%
Common	Hiroshi Nishimura	115	(direct)	Japanese	0.0000%
Common	Alelie T. Funcell	115	(direct)	Filipino	0.0000%
Common	John Eric T. Francia	100	(direct)	Filipino	0.0000%
CEO and Most Highly Compensated Officers					
Common	Arthur R. Tan	7,279,252	(direct & indirect)	Filipino	0.2481%
Common	Linardo Z. Lopez	2,872,583	(direct & indirect)	Filipino	0.0979%
Common	Anthony Raymond P. Rodriquez	172,561	(direct & indirect)	Filipino	0.0059%
Common	Jerome S. Tan	0		Singaporean	0.0000%
Common	Shong Cheng Yeh	1,725,617	(direct & indirect)	Malaysian	0.0588%
Other Executive Officers					
Common	Sheila Marie U. Tan	0		Filipino	0.0000%
Common	Christian Gerard P. Castillo	0		Filipino	0.0000%
All Directors and Officers as a group		**12,051,088**			**0.4107%**

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

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

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

As of December 2012, 10.07% of IMI's common shares were owned by the public.

[11] Resins is not related to the Company.
[12] The Board of Directors of Resins has the power to decide how Resins shares in IMI are to be voted. Mr. Jose Ignacio A. Carlos is usually appointed to exercise the voting power.
[13] EPIQ NV is a stockholder of the Company.
[14] The Board of Directors of EPIQ NV has the power to decide how EPIQ NV shares in IMI are to be voted.

Item 12. Certain Relationships and Related Transactions

The Company and its subsidiaries, in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of advances and reimbursement of expenses, and sales and purchases of goods on an arm's length basis and at current market prices at the time of the transactions.

No other transaction was undertaken by the Company in which any director or executive officer was involved or had a direct or indirect material interest.

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

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Good Governance at IMI

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

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

(i) The evaluation system which was established to measure or determine the level of compliance of the Board and top level management with its Revised Manual of Corporate Governance consists of a Board Performance Assessment which is accomplished by the members of the Board indicating the compliance ratings. The above is submitted to the Compliance Officer who issues the required certificate of compliance with the Company's Revised Manual of Corporate Governance to the Securities and Exchange Commission.

(ii) To ensure good governance, the Board establishes the vision, strategic objectives, key policies, and procedures for the management of the Company, as well as the mechanism for monitoring and evaluating management's performance. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.

(iii) There were no deviations from the Company's Revised Manual of Corporate Governance. The Company has adopted in the Revised Manual of Corporate Governance the leading practices and principles of good corporate governance and full compliance therewith has been made since the adoption of the Manual.

(iv) The Company is taking further steps to enhance adherence to principles and practices of good corporate governance through the adoption of the Revised Code of Corporate Governance.

In compliance with Securities and Exchange Commission (SEC) Memorandum Circular No.6, Series of 2009 (Revised Code of Corporate Governance), IMI submitted its revised Corporate Governance Manual to the SEC in March 31, 2011.

Board Structure and Process

Key Role and Responsibilities

The Board of Directors is the supreme authority in matters of governance and managing the regular and ordinary business of the Corporation. Within their chartered authority, the directors acting as a board have the fullest powers to regulate the concerns of the Corporation according to their judgment.

To ensure good governance of the Corporation, the Board establishes the Corporation's vision, mission, strategic objectives, policies and procedures that guide its activities, including the means to effectively monitor Management's performance.

Composition

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

IMI has three independent directors each of whom has no interest or relationship with the Company that may hinder his or her independence from the Company, and which could interfere in the exercise of impartial judgment in carrying out the director's responsibilities.

The Board has separate and independent access to the Corporate secretary, who oversees the adequate flow of information to the Board prior to meetings and advises directors about their duties.

Board meetings are scheduled at the beginning of the year and held at least quarterly, or as often as necessary, for the Board to fulfill its role. The Board had five meetings for the financial year ending December 31, 2012.

Directors	No. of Meetings Attended/Held[15]	Percent Present
Jaime Augusto Zobel de Ayala	5/5	100%
Fernando Zobel de Ayala	3/5	60%
Delfin L. Lazaro	4/5	80%
Arthur R. Tan	5/5	100%
Jose Ignacio A. Carlos	5/5	100%
Rafael Ma. C. Romualdez	4/5	80%
Delfin C. Gonzalez, Jr.	4/5	80%
John Eric T. Francia	5/5	100%
Hiroshi Nishimura	5/5	100%
Diosdado P. Banatao	3/5	60%
Alelie T. Funcell	4/5	80%

Board Committees

Five committees support the Board in the performance of specific functions and to aid in good governance: Executive, Compensation, Audit, Finance, and Nomination.

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

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

[15] In 2012 during the incumbency of the director

The Audit Committee oversees IMI's internal control and financial reporting on behalf of the Board of Directors. The activities of the Audit Committee are discussed in the Accountability and Audit section and on the Report of the Audit Committee to the Board.

The Finance Committee supervises the implementation of an enterprise-wide risk management program and oversees major financial policies. IMI's risk management program involves risk identification, formulation of risk mitigation strategies, and execution of such strategies.

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

Directors and Senior Executive Compensation

Non-executive directors, defined as members of the Board of Directors who are neither officers nor consultants of the Company, receive per diem of Php100,000 for each Board meeting attended, and Php20,000 per Committee meeting attended. This remuneration scheme for non-executive directors was ratified at the 2008 annual stockholders meeting. None of the directors, in their personal capacity, has been contracted and compensated by the Company for services other than those provided as a director.

The Company implemented a performance-based compensation method for its senior executives. The total compensation paid to non-executive directors and officers is disclosed yearly in the Definitive Information Statement sent to shareholders before the annual stockholders' meeting. The total annual compensation includes basic salary, guaranteed bonus and variable pay.

Management

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

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

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

Accountability and Audit

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

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

A separate Internal Audit Charter approved by the Audit Committee governs the internal audit function. The internal audit head reports directly to the Audit Committee. The appointment and removal of the internal head require the approval by the Audit Committee.

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

Financial Reporting

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

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

Disclosures

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

IMI complies with the periodic reportorial requirements of SEC and PSE and discloses major and market-sensitive information such as dividend declarations, acquisitions, the sale and disposition of significant assets, as well as other material information that may affect the decision of the investing public.

Trading Blackouts

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

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

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

The company strictly enforces compliance with these trading blackout periods, no reported violation in 2012.

Code of Conduct

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

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

Whistle-Blowing Policy

The Company has in place a Whistle Blower Policy to provide a process for employees to report in good faith, instances of non-compliance with the Code of Ethics through a channel that is outside the normal chain of command while preserving confidentiality and providing assurance that the employees will not be subject to retaliation or reprisals.

The policy provides guidance on the responsibilities of the reporting party, the procedures for reporting as well as the process for handling of reports and reported violations.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

Exhibit 1: 2012 Audited Consolidated Financial Statements, Integrated Micro-Electronics, Inc. and Subsidiaries

Statement of Management's Responsibility for the Financial Statements
Report of Independent Auditors
Consolidated Balance Sheets as of December 31, 2012 and 2011
Consolidated Statements of Comprehensive Income for the Years ended December 31, 2012, 2011 and 2010
Consolidated Statement of Changes in Equity for the Years Ended December 31, 2012, 2011 and 2010
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010
Notes to Consolidated Financial Statements

Exhibit 2: Supplementary Schedules

Report of Independent Public Accountant on Supplementary Schedules

A. Financial Assets
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
D. Intangible Assets – Other Assets
E. Long-Term Debt
F. Indebtedness to Related Parties (Long-term Loans from Related Companies)
G. Guarantees of Securities of Other Issuers
H. Capital Stock

Reconciliation of Retained Earnings Available For Dividend Declaration

Schedule of Financial Ratios

Map Showing the Relationships between and Among the Companies in the Group, its Ultimate Parent Company and Co-Subsidiaries

Schedule of All Effective Standards and Interpretations under Philippine Financial Reporting Standards as of December 31, 2012

2012 Audited Annual Financial Statements of Significant Foreign Subsidiaries

Exhibit 3: IMI International (Singapore) Pte Ltd

Exhibit 4: Speedy-Tech Electronics Ltd and its subsidiaries

Exhibit 5: Cooperatief IMI Europe U.A. and Subsidiaries

Reports on SEC Form 17-C

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

Date	Particulars
August 8, 2012	News Release "IMI's First Half Income up 173%
September 12, 2012	Press Release on IMI Renews Bosch Preferred Supplier Status
September 26, 2012	Press Release-IMI Receives Special Award from Philips Lighting
October 12, 2012	Assessment of the Performance of Audit Committees
November 8, 2012	IMI's Performance in First Nine Months of 2012: Profits up 209%

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 11, 2013.

By:

Jaime Augusto Zobel de Ayala
Chairman of the Board

Arthur R. Tan
President and Chief Executive Officer

Jerome S. Tan
Chief Finance Officer

Sheila Marie U. Tan
Corporate Secretary

Jaime G. Sanchez
Deputy CFO and Group Controller

SUBSCRIBED AND SWORN to before me this APR 11 2013 day of April 2013, affiants exhibiting to me their respective passports as follows:

	Passport No.	Date Of Issue	Place of Issue
Jaime Augusto Zobel de Ayala	EB1548914	Dec 13, 2010	Manila City
Arthur R. Tan	EA0025242	Jan. 29, 2010	Manila City
Jerome S. Tan	E2068508C	Sep. 21, 2010	Singapore
Sheila Marie U. Tan	EB4803423	Feb. 27, 2012	Manila City
Jaime G. Sanchez	EB4408073	Jan. 10, 2012	Batangas City

Doc. No. 423
Page No. 86
Book No. II
Series of 2013.

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

JENNIFER L. PASIC-LOMIBAO
NOTARY PUBLIC
ROLL NO. 47208
MAKATI CITY, PHILIPPINES

JENNIFER L. PASIC-LOMIBAO
Notary Public - Makati City
Appt. No. 333 until December 2014
Attorney's Roll No. 47208
PTR No. 3671493MC; 01-02-2013; Makati City
IBP Lifetime Roll No. 010327
MCLE Compliance No. III-0017190; 6-9-2010
3rd Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

EXHIBIT 1

2012 Audited Consolidated Financial Statements, Integrated Micro-Electronics, Inc. and Subsidiaries

Integrated Micro-Electronics, Inc.
North Science Avenue
Special Export Processing Zone Laguna Technopark
Biñan 4024 Laguna Philippines

Tel (63 49) 541 1015 to 20
Fax (63 49) 541 0013
www.global-imi.com

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Integrated Micro-Electronics, Inc. (Parent Company) and its subsidiaries (collectively referred to as the Group) is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors of the Parent Company reviews and approves the consolidated financial statements and submits the same to the stockholders of the Parent Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders for the period December 31, 2012 and 2011, has examined the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders of the Parent Company, has expressed its opinion on the fairness of presentation upon completion of such examination.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors

ARTHUR R. TAN
President & Chief Executive Officer

JEROME S. TAN
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this FEB 2 8 2013 at MAKATI CITY, affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.	Date & Place of Issue
Jaime Augusto Zobel de Ayala	EB1548914	13 Dec. 2010 – Manila
Arthur R. Tan	EA0025242	29 January 2010 – Manila
Jerome S. Tan	E2068508C	21 September 2010 - Singapore

Doc. No. 25 ;
Page No. 6 ;
Book No. 4 ;
Series of 2013.

ASHLEY LENE N. TAN
NOTARY PUBLIC
ROLL NO. 57037
MAKATI CITY, PHILIPPINES

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

ASHLEY LENE N. TAN
Notary Public - Makati City
Appt. No. M-567 until December 31, 2013
Attorney's Roll No. 57037
PTR No. 3671497MC; 01-02-2013; Makati City
IBP Lifetime Roll No. 08315
MCLE Compliance No. III-0011703; 4/12/2010
3rd Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

Integrated Micro-Electronics, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2012 and 2011
and years ended December 31, 2012, 2011 and 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
Ernst & Young

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

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

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Integrated Micro-Electronics, Inc.

We have audited the accompanying consolidated financial statements of Integrated Micro-Electronics, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Integrated Micro-Electronics, Inc. and Subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-2 (Group A),
February 4, 2013, valid until February 3, 2016
Tax Identification No. 163-257-145
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April 11, 2012, valid until April 10, 2015
PTR No. 3669656, January 2, 2013, Makati City

February 28, 2013

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

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**$56,196,382**	$54,069,180
Loans and receivables (Note 6)	**150,880,855**	133,676,580
Inventories (Note 7)	**83,175,869**	80,402,000
Derivative assets (Notes 30 and 31)	**2,857,010**	2,798,912
Other current assets (Note 8)	**7,425,912**	8,854,602
Total Current Assets	**300,536,028**	279,801,274
Noncurrent Assets		
Property, plant and equipment (Notes 2 and 9)	**88,071,187**	97,505,460
Goodwill (Notes 2 and 10)	**54,355,193**	54,355,193
Intangible assets (Notes 2 and 11)	**5,894,121**	7,333,491
Pension asset (Note 25)	**1,941,695**	2,807,134
Available-for-sale financial assets	**1,608,404**	414,348
Noncurrent receivables	**–**	213,577
Deferred tax assets (Note 23)	**1,082,869**	743,592
Other noncurrent assets (Note 12)	**1,805,084**	1,518,225
Total Noncurrent Assets	**154,758,553**	164,891,020
	$455,294,581	$444,692,294
LIABILITIES AND EQUITY		
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses (Note 13)	**$143,405,648**	$144,242,009
Trust receipts and loans payable (Note 14)	**44,206,600**	39,008,811
Current portion of long-term debt (Note 15)	**2,649,600**	–
Income tax payable (Note 23)	**1,911,110**	1,686,735
Derivative liabilities (Notes 30 and 31)	**–**	34,562
Total Current Liabilities	**192,172,958**	184,972,117
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Note 15)	**62,851,135**	60,398,500
Deferred revenue (Note 16)	**2,031,018**	2,303,765
Obligation under finance lease (Note 28)	**704,866**	612,724
Deferred tax liabilities (Note 23)	**4,628,438**	4,810,158
Pension liabilities (Note 25)	**1,120,466**	1,329,257
Accrued rent (Note 28)	**585,408**	913,688
Other long-term employee benefits	**86,609**	230,704
Total Noncurrent Liabilities	**72,007,940**	70,598,796
Total Liabilities	**264,180,898**	255,570,913

(Forward)

	December 31	
	2012	2011
EQUITY (Note 17)		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock-common	**$30,011,256**	$24,932,075
Capital stock-preferred	**26,601,155**	26,601,155
Subscribed capital stock	**1,300,851**	6,506,970
Additional paid-in capital	**58,558,091**	59,085,110
Subscriptions receivable	**(9,650,842)**	(10,395,200)
Retained earnings:		
Appropriated for expansion	**20,660,981**	30,660,981
Unappropriated	**72,447,569**	59,671,124
Treasury stock	**(1,012,585)**	(1,012,585)
Reserve for fluctuation on available-for-sale financial assets	**197,894**	144,067
Cumulative translation adjustment	**(2,303,539)**	(6,042,819)
Other reserves	**170,714**	170,714
	196,981,545	190,321,592
Equity Attributable to Non-controlling Interests in Consolidated Subsidiaries	**(5,867,862)**	(1,200,211)
Total Equity	**191,113,683**	189,121,381
	$455,294,581	$444,692,294

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2012	2011	2010
REVENUES			
Sale of goods	**$590,363,704**	$482,388,266	$328,697,578
Sale of services	**71,486,018**	93,065,642	83,629,027
	661,849,722	575,453,908	412,326,605
COST OF SALES (Note 18)			
Cost of goods sold	**542,011,155**	451,886,042	294,328,303
Cost of services	**66,624,322**	85,390,332	73,523,710
	608,635,477	537,276,374	367,852,013
GROSS PROFIT	**53,214,245**	38,177,534	44,474,592
OPERATING EXPENSES (Note 19)	**(46,252,177)**	(52,686,767)	(40,224,016)
OTHERS - Net			
Interest expense and bank charges (Note 21)	**(3,021,473)**	(2,499,998)	(1,036,929)
Interest income (Note 22)	**267,092**	315,520	352,578
Foreign exchange gains - net	**201,735**	4,480,815	1,792,949
Mark-to-market gains (losses) from put and call options	**121,185**	5,355,873	(207,555)
Gain from bargain purchase (Note 2)	–	13,018,493	–
Impairment loss on goodwill (Note 10)	–	(2,717,451)	–
Miscellaneous income (Notes 7, 9 and 31)	**218,458**	2,501,580	2,670,550
INCOME BEFORE INCOME TAX	**4,749,065**	5,945,599	7,822,169
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**4,687,578**	4,177,862	3,414,175
Deferred	**(728,268)**	476,224	(6,651)
	3,959,310	4,654,086	3,407,524
NET INCOME	**789,755**	1,291,513	4,414,645
OTHER COMPREHENSIVE INCOME (LOSS)			
Fair value changes on available-for-sale financial assets	**53,827**	32,108	55,080
Exchange differences arising from translation of foreign operations	**3,739,280**	(6,042,819)	–
	3,793,107	(6,010,711)	55,080
TOTAL COMPREHENSIVE INCOME (LOSS)	**$4,582,862**	($4,719,198)	$4,469,725
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$5,441,942**	$3,289,314	$4,738,929
Non-controlling interests	**(4,652,187)**	(1,997,801)	(324,284)
	$789,755	$1,291,513	$4,414,645
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$9,235,049**	($2,721,397)	$4,794,009
Non-controlling interests	**(4,652,187)**	(1,997,801)	(324,284)
	$4,582,862	($4,719,198)	$4,469,725
Earnings Per Share (Note 24)			
Basic and Diluted	$0.002	$0.001	$0.002

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

	Attributable to Equity Holders of the Parent Company												
	Capital Stock - Common (Note 17)	Capital Stock - Preferred (Note 17)	Subscribed Capital Stock (Note 17)	Additional Paid-in Capital	Subscriptions Receivable (Note 17)	Retained Earnings Appropriated for Expansion (Note 17)	Retained Earnings Unappropriated (Note 17)	Treasury Stock (Note 17)	Reserve for Fluctuation on Available-for-Sale Financial Assets	Other Reserves	Cumulative Translation Adjustment	Attributable to Non-controlling Interests	Total
Balances at January 1, 2012	$24,932,075	$26,601,155	$6,506,970	$59,085,110	($10,395,200)	$30,660,981	$59,671,124	($1,012,585)	$144,067	$170,714	($6,042,819)	($1,200,211)	$189,121,381
Issued shares during the year (Note 17)	5,079,181	–	(5,079,181)	–	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 26)	–	–	–	70,490	–	–	–	–	–	–	–	–	70,490
Accretion of subscriptions receivable (Note 17)	–	–	–	676,304	(676,304)	–	–	–	–	–	–	–	–
Collections on subscriptions (Note 17)	–	–	–	–	19,911	–	–	–	–	–	–	–	19,911
Forfeitures during the year (Note 17)	–	–	(126,938)	(1,273,813)	1,400,751	–	–	–	–	–	–	–	–
Reversal of appropriation (Note 17)	–	–	–	–	–	(10,000,000)	10,000,000	–	–	–	–	–	–
Cash dividends (Note 17)	–	–	–	–	–	–	(2,665,497)	–	–	–	–	(15,464)	(2,680,961)
	30,011,256	26,601,155	1,300,851	58,558,091	(9,650,842)	20,660,981	67,005,627	(1,012,585)	144,067	170,714	(6,042,819)	(1,215,675)	186,530,821
Net income (loss)	–	–	–	–	–	–	5,441,942	–	–	–		(4,652,187)	789,755
Other comprehensive income	–	–	–	–	–	–	–	–	53,827	–	3,739,280	–	3,793,107
Total comprehensive income (loss)	–	–	–	–	–	–	5,441,942	–	53,827	–	3,739,280	(4,652,187)	4,582,862
Balances at December 31, 2012	$30,011,256	$26,601,155	$1,300,851	$58,558,091	($9,650,842)	$20,660,981	$72,447,569	($1,012,585)	$197,894	$170,714	($2,303,539)	($5,867,862)	$191,113,683

	Attributable to Equity Holders of the Parent Company												
	Capital Stock - Common (Note 17)	Capital Stock - Preferred (Note 17)	Subscribed Capital Stock (Note 17)	Additional Paid-in Capital	Subscriptions Receivable (Note 17)	Retained Earnings Appropriated for Expansion (Note 17)	Retained Earnings Unappropriated (Note 17)	Treasury Stock (Note 17)	Reserve for Fluctuation on Available-for-Sale Financial Assets	Other Reserves	Cumulative Translation Adjustment	Attributable to Non-controlling Interests	Total
Balances at January 1, 2011	$24,893,713	$26,601,155	$1,901,963	$34,646,889	($11,411,994)	$60,660,981	$32,727,457	($1,012,585)	$111,959	$170,714	$–	$769,280	$170,059,532
Increase in non-controlling interests due to the acquisition of a subsidiary during the year (Note 2)	–	–	–	–	–	–	–	–	–	–	–	48,092	48,092
Issued shares during the year (Note 17)	38,362	–	(38,362)	–	–	–	–	–	–	–	–	–	–
Subscriptions during the year (Notes 2 and 17)	–	–	4,746,084	24,062,649	–	–	–	–	–	–	–	–	28,808,733
Cost of share-based payments (Note 26)	–	–	–	673,762	–	–	–	–	–	–	–	–	673,762
Accretion of subscriptions receivable (Note 17)	–	–	–	427,535	(427,535)	–	–	–	–	–	–	–	–
Collections on subscriptions (Note 17)	–	–	–	–	615,889	–	–	–	–	–	–	–	615,889
Forfeitures during the year (Note 17)	–	–	(102,715)	(725,725)	828,440	–	–	–	–	–	–	–	–
Reversal of appropriation (Note 17)	–	–	–	–	–	(30,000,000)	30,000,000	–	–	–	–	–	–
Cash dividends (Note 17)	–	–	–	–	–	–	(6,345,647)	–	–	–	–	(19,782)	(6,365,429)
	24,932,075	26,601,155	6,506,970	59,085,110	(10,395,200)	30,660,981	56,381,810	(1,012,585)	111,959	170,714	–	797,590	193,840,579
Net income (loss)	–	–	–	–	–	–	3,289,314	–	–	–	–	(1,997,801)	1,291,513
Other comprehensive income (loss)	–	–	–	–	–	–	–	–	32,108	–	(6,042,819)	–	(6,010,711)
Total comprehensive income (loss)	–	–	–	–	–	–	3,289,314	–	32,108	–	(6,042,819)	(1,997,801)	(4,719,198)
Balances at December 31, 2011	$24,932,075	$26,601,155	$6,506,970	$59,085,110	($10,395,200)	$30,660,981	$59,671,124	($1,012,585)	$144,067	$170,714	($6,042,819)	($1,200,211)	$189,121,381

	Attributable to Equity Holders of the Parent Company											
	Capital Stock - Common (Note 17)	Capital Stock - Preferred (Note 17)	Subscribed Capital Stock (Note 17)	Additional Paid-in Capital	Subscriptions Receivable (Note 17)	Retained Earnings Appropriated for Expansion (Note 17)	Retained Earnings Unappropriated (Note 17)	Treasury Stock (Note 17)	Reserve for Fluctuation on Available-for-Sale Financial Assets	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2010	$20,267,538	$26,601,155	$2,167,895	$30,482,156	($10,153,255)	$60,660,981	$37,457,693	($1,012,592)	$56,879	$161,551	$292,318	$166,982,319
Increase in non-controlling interests due to the acquisition of a subsidiary during the year (Note 2)	–	–	–	–	–	–	–	–	–	–	861,883	861,883
Issued shares during the year (Note 17)	508,916	–	(508,916)	–	–	–	–	17	–	–	–	17
Subscriptions during the year (Note 17)	–	–	668,506	2,722,308	(3,390,814)	–	–	–	–	–	–	–
Cost of share-based payments (Note 26)	–	–	–	1,933,185	–	–	–	–	–	–	–	1,933,185
Accretion of subscriptions receivable (Note 17)	–	–	–	1,913,073	(1,913,073)	–	–	–	–	–	–	–
Collections on subscriptions (Note 17)	–	–	–	–	1,215,793	–	–	–	–	–	–	1,215,793
Forfeitures during the year (Note 17)	–	–	(425,522)	(2,403,833)	2,829,355	–	–	–	–	–	–	–
Dilution of non-controlling interest	–	–	–	–	–	–	–	–	–	9,163	(9,163)	–
Reacquired shares (Note 17)	–	–	–	–	–	–	–	(10)	–	–	–	(10)
Cash dividends (Note 17)	–	–	–	–	–	–	(5,351,906)	–	–	–	(51,474)	(5,403,380)
Stock dividends (Note 17)	4,117,259	–	–	–	–	–	(4,117,259)	–	–	–	–	–
	24,893,713	26,601,155	1,901,963	34,646,889	(11,411,994)	60,660,981	27,988,528	(1,012,585)	56,879	170,714	1,093,564	165,589,807
Net income (loss)	–	–	–	–	–	–	4,738,929	–	–	–	(324,284)	4,414,645
Other comprehensive income	–	–	–	–	–	–	–	–	55,080	–	–	55,080
Total comprehensive income (loss)	–	–	–	–	–	–	4,738,929	–	55,080	–	(324,284)	4,469,725
Balances at December 31, 2010	$24,893,713	$26,601,155	$1,901,963	$34,646,889	($11,411,994)	$60,660,981	$32,727,457	($1,012,585)	$111,959	$170,714	$769,280	$170,059,532

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

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**$4,749,065**	$5,945,599	$7,822,169
Adjustments for:			
Depreciation of property, plant and equipment (Notes 9, 18 and 19)	**23,319,434**	24,615,286	19,373,226
Interest expense (Note 21)	**2,900,187**	2,182,374	928,072
Net pension expense (Note 25)	**2,650,546**	1,851,764	448,563
Amortization of intangible assets (Notes 11,18 and 19)	**2,057,626**	1,163,969	2,645,461
Provision for restructuring (Note 13)	**1,896,238**	831,718	246,382
Gain on derivative transactions (Note 31)	**(1,758,926)**	(6,218,718)	(1,874,546)
Unrealized foreign exchange loss (gain) - net	**(862,535)**	(2,128,698)	566,968
Provision for doubtful accounts (Notes 6 and 20)	**441,498**	1,977,541	1,531,927
Provision (reversal of provision) for inventory obsolescence (Notes 7 and 20)	**282,948**	1,029,155	(1,734,481)
Interest income (Note 22)	**(267,092)**	(315,520)	(352,578)
Amortization of deferred revenue	**(260,829)**	(260,829)	(358,359)
Impairment loss on property, plant and equipment (Note 9)	**225,521**	–	–
Gain on sale of property, plant and equipment (Note 9)	**(132,752)**	(115,117)	(186,476)
Cost of share-based payments (Note 26)	**70,490**	673,762	1,933,185
Gain from bargain purchase (Note 2)	**–**	(13,018,493)	–
Impairment loss on goodwill (Note 10)	**–**	2,717,451	–
Dividend income	**–**	(367)	(61)
Reversal of provision for warranty (Note 13)	**–**	–	(18,481)
Operating income before working capital changes	**35,311,419**	20,930,877	30,970,971
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Loans and receivables	**(16,858,982)**	(836,152)	1,889,943
Inventories	**(2,591,634)**	(400,171)	(14,503,933)
Other current assets	**1,428,690**	(6,346,587)	(103,392)
Net pension asset	**–**	(723,300)	(1,148,215)
Noncurrent receivables	**213,577**	(29,398)	374,527
Increase (decrease) in:			
Accounts payable and accrued expenses	**(3,044,414)**	8,524,113	(15,072,250)
Accrued rent	**(328,280)**	19,600	(27,918)
Other long-term employee benefits	**(144,095)**	(141,380)	–
Net cash generated from operations	**13,986,281**	20,997,602	2,379,733
Income tax paid	**(4,463,203)**	(4,789,919)	(4,377,137)
Interest paid	**(2,470,666)**	(1,567,431)	(908,577)
Interest received	**238,560**	315,521	333,798
Dividends received	**–**	367	61
Net cash provided by (used in) operating activities	**7,290,972**	14,956,140	(2,572,122)

(Forward)

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Notes 9 and 33)	**($16,026,776)**	($14,830,473)	($22,039,260)
Available-for-sale financial assets	**(1,000,000)**	–	–
Intangible assets (Note 11)	**(525,070)**	(411,344)	(765,833)
Proceeds from sale of property, plant and equipment	**3,710,103**	2,656,466	2,594,526
Settlement of derivatives (Note 31)	**1,666,266**	1,315,015	1,601,406
Decrease (increase) in other noncurrent assets	**(288,683)**	293,354	1,900,973
Acquisition through business combination - net of cash acquired (Note 2)	–	5,053,343	2,202,930
Net cash used in investing activities	**(12,464,160)**	(5,923,639)	(14,505,258)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans	**43,697,044**	50,838,903	15,619,405
Payments of:			
Loans payable	**(32,780,287)**	(2,622,978)	(2,347,609)
Finance lease	**(800,671)**	–	–
Long-term debt	–	(38,000,000)	(8,000,000)
Dividends paid to equity holders of the Parent Company (Note 17)	**(2,468,881)**	(3,883,683)	(5,351,906)
Collections of subscriptions receivable (Note 17)	**19,911**	615,889	1,215,793
Dividends paid to non-controlling interests	**(15,464)**	(19,782)	(51,474)
Net cash provided by financing activities	**7,651,652**	6,928,349	1,084,209
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**(351,262)**	(26,413)	196,147
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,127,202**	15,934,437	(15,797,024)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**54,069,180**	38,134,743	53,931,767
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**$56,196,382**	$54,069,180	$38,134,743

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

Integrated Micro-Electronics, Inc. (the “Parent Company”), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four subsidiaries, namely: IMI International (Singapore) Pte. Ltd. (“IMI Singapore”), IMI USA, Inc. (“IMI USA”), IMI Japan, Inc. (“IMI Japan”) and PSi Technologies, Inc. (PSi) (collectively referred to as the “Group”). IMI Singapore, IMI USA and IMI Japan are wholly-owned subsidiaries while PSi is 55.78% owned. The Group’s parent company is AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands. AYC is a subsidiary of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE). AC is 51.15% owned by Mermac, Inc., 10.62% owned by Mitsubishi Corporation and the rest by the public. The registered office address of the Parent Company is North Science Avenue, Laguna Technopark, Biñan, Laguna.

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

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assembly (PCBA), flip chip assembly, box build sub-assembly, enclosure system, and provider of electronics product design, research and development, product development outsourcing and other electronic parts, among others. The Parent Company is also engaged in the business of providing test development and systems integration services and distributing related products and equipment and related services. These PEZA registrations entitle the Parent Company to a four-year income tax holiday (ITH) and an option to apply for ITH extension for a maximum of three (3) years subject to various PEZA requirements. The Parent Company’s entitlements to ITH under the current PEZA registrations had expirations beginning January 2010. As of December 31, 2012, there are two (2) remaining project activities with ITH entitlement which will expire in 2013 and 2016. Under its PEZA registrations, the Parent Company’s projects and activities are subject to certain requirements and are entitled to certain incentives, which include, but are not limited to, ITH and tax and duty free importation of inventories and capital equipment. Upon the expiration of the ITH on these projects and activities, the Parent Company will be subject to a 5% final tax on gross income earned after certain allowable deductions provided under Republic Act (R.A.) No. 7916 (otherwise known as the “Special Economic Zone Act of 1995”) in lieu of payment of national and local taxes.

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

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

On April 28, 2011, the Parent Company infused additional capital to IMI Singapore consisting of $7,026,195 cash and 200 million of the Parent Company's own shares in exchange for 43,077,144 newly issued ordinary shares of the latter with par value of SGD1.00 per share. This was used by IMI Singapore to set up Monarch Elite Ltd. (Monarch) and Cooperatief IMI Europe U.A. (Cooperatief) as holding companies and to facilitate the acquisition of EPIQ Electronic Assembly EOOD (EPIQ EA), EPIQ CZ s.r.o (EPIQ CZ), and EPIQ MX, S.A.P.I de C.V. (EPIQ MX) (collectively the "EPIQ Subsidiaries") from EPIQ NV (see Note 2). The EPIQ Subsidiaries design and produce printed circuits and spray casting of plastics, and supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, industrial market and other applications with plastic parts and electronic components. The EPIQ Subsidiaries also provide engineering, research and development, and logistics management services.

On December 10, 2012, the Board of Directors (BOD) of the Parent Company approved and authorized the Parent Company and STEL to enter into an agreement to integrate Speedy-Tech (Philippines), Inc. (STPHIL) to the Parent Company in 2013.

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

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

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

On June 21, 2012, the Philippine Securities and Exchange Commission (SEC) approved the legal merger of PSi Laguna and PSi, with the former as the absorbed entity and PSi as the surviving entity.

The consolidated financial statements as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 were authorized for issue by the Parent Company's BOD on February 28, 2013.

2. Business Combinations

Acquisition of PSi

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

The equity subscription of the New Investors was finalized on October 6, 2010, and the Parent Company took control of PSi on that date.

The Agreement also provided details regarding the grant of put and call options, as follows:

Put Option	Option to require the New Investors to purchase all but not some of the shares held by the Old Investors (Option Shares) at the time of exercise, at anytime during the Put Option Period.
Put Option Period	The period from acquisition date up to twenty-four (24) months from completion date, with 7-day exercise notice.
Put Option Strike Price	The higher of (a) $1.00 and (b) value of the shares calculated based on 5.5x trailing 12-month earnings before interest, taxes, depreciation and amortization (EBITDA) of PSi as of receipt of the exercise notice less net debt.
Call Option	Option to require the Old Investors to sell all but not some only of the shares held by the Old Investors at the time of exercise, at anytime during the Call Option Period.
Call Option Period	The period commencing six (6) days prior to the lapse of the Put Option Period and ending thirty (30) days after the lapse of the Put Option Period.
Call Option Strike Price	The higher of (a) $1.00 and (b) value of the shares calculated based on 6.0x trailing 12-month EBITDA of PSi as of the date of receipt of the exercise notice less net debt.

In 2010, the Parent Company recorded its share in the identifiable assets and liabilities of PSi using provisional fair values due to unavailability of certain information to facilitate fair value computation of accounts receivable, property, plant and equipment, accounts payable and accrued expenses, and goodwill. The acquisition cost also includes contingent consideration.

In 2011, the Parent Company finalized the purchase price allocation as follows:

	Fair Value	Provisional Values
Assets		
Cash	$10,527,930	$10,527,930
Accounts receivable	12,454,190	18,419,853
Inventories	6,580,987	6,580,987
Property, plant and equipment	9,210,386	9,210,386
Other assets	1,311,932	1,311,932
Total	40,085,425	46,051,088
Liabilities		
Accounts payable and accrued expenses	31,591,670	35,783,492
Loans payable	2,347,609	2,347,609
Deferred revenue	2,922,953	2,922,953
Accrued rental	902,028	902,028
Other long-term employee benefits	372,084	372,084
Total	38,136,344	42,328,166
Net assets	$1,949,081	$3,722,922
Non-controlling interest share in the fair value of net assets acquired (44.22%)	$861,884	$1,646,276
Cost of acquisition	$11,283,628	$11,570,031
Less: Parent Company's share in the fair value of net assets acquired (55.78%)	1,087,197	2,076,646
Goodwill (Note 10)	$10,196,431	$9,493,385

The 2010 comparative information was restated to reflect the above adjustments. Accounts receivable, accounts payable and accrued expenses, and the cost of acquisition (as adjusted for contingent consideration) decreased by $5.97 million, $4.19 million, and $0.29 million, respectively. The final purchase price allocation resulted in a goodwill of $10.20 million.

Cash on acquisition follows:

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

Acquisition-related costs, which consist of professional fees, representation and travel expenses amounting to $0.17 million, were recognized as expenses in 2010.

From the date of acquisition up to December 31, 2010, the Parent Company's share in PSi's revenue and net loss amounted to $19.34 million and $0.45 million, respectively. If the combination had taken place at the beginning of 2010, the Group's total revenue would have increased by $27.23 million, while the Group's net income before tax would have decreased by $1.04 million.

Acquisition of EPIQ Subsidiaries

On April 28, 2011, the Parent Company infused additional capital to IMI Singapore consisting of $7,026,195 cash and 200 million of the Parent Company's own shares in exchange for 43,077,144 newly issued ordinary shares of the latter with par value of SGD1.00 per share. This was used by IMI Singapore to set up Monarch and Cooperatief as holding companies and to facilitate the acquisition of the EPIQ Subsidiaries from EPIQ NV.

On May 4, 2011, the Parent Company, Cooperatief (the "Purchaser"), and EPIQ NV (the "Seller"), entered into a Sale and Purchase Agreement (SPA), for the Purchaser to buy the Seller's 100% direct or indirect ownership shares (the "EPIQ shares") in the EPIQ Subsidiaries.

The Parent Company, Cooperatief and EPIQ NV agreed that the consideration for the EPIQ shares would include issuance of 200 million of the Parent Company's shares (the "IMI Consideration Shares"); deferred payment of €7,345,080 ($10,515,218) from 2013 to 2018 subject to an interest rate of 1.60% plus 1.50% (see Note 15); and assumption of liabilities of EPIQ NV to the EPIQ Subsidiaries aggregating to €2,546,419 ($3,645,453).

The acquisition costs are allocated as follows:

	EPIQ EA	EPIQ CZ	EPIQ MX	Total
Issuance of 200 million IMI Consideration Shares (Note 17)	$20,638,697	$524,970	$7,645,066	$28,808,733
Deferred payment	7,533,146	191,615	2,790,457	10,515,218
Assumed liabilities of EPIQ NV to the EPIQ Subsidiaries	115,265	8,887	3,521,301	3,645,453
	$28,287,108	$725,472	$13,956,824	$42,969,404

On July 29, 2011, all of the completion conditions under the SPA were fulfilled by the responsible parties, and the acquisition of the EPIQ Subsidiaries by Cooperatief was completed.

Under the SPA, Cooperatief also purchased receivables of EPIQ NV from the EPIQ Subsidiaries aggregating to €11,734,824 ($16,799,576). On July 29, 2011, €4,831,161 ($6,916,294) of this was settled through cash payment, while the rest will be settled through additional deferred payment from 2013 to 2018 subject to interest rate of 1.60% plus 1.50% (see Note 15).

In 2011, the purchase price allocation for the acquisition of the EPIQ Subsidiaries was done on a preliminary basis as certain information were unavailable to finalize the fair value calculations of property, plant and equipment, intangible assets, contingent liabilities and goodwill.

In 2012, the Group finalized the purchase price allocation. As shown below, no changes were made to the provisional values as the impact of additional information subsequently obtained was not significant to affect the preliminary values.

	EPIQ EA		EPIQ CZ		EPIQ MX	
	Fair Value	Provisional Values	Fair Value	Provisional Values	Fair Value	Provisional Values
Assets						
Cash and cash equivalents	$1,152,558	$1,152,558	$515,223	$515,223	$3,385,562	$3,385,562
Receivables	26,485,891	26,485,891	3,333,944	3,333,944	10,508,102	10,508,102
Inventories	20,700,958	20,700,958	2,984,546	2,984,546	4,476,328	4,476,328
Property, plant and equipment	24,810,566	24,810,566	5,734,207	5,734,207	8,618,229	8,618,229
Computer software	158,818	158,818	–	–	299,735	299,735
Customer relationships	6,766,617	6,766,617	–	–	–	–

(Forward)

	EPIQ EA		EPIQ CZ		EPIQ MX	
	Fair Value	Provisional Values	Fair Value	Provisional Values	Fair Value	Provisional Values
Deferred tax assets	$–	$–	$444,245	$444,245	$–	$–
Other assets	193,184	193,184	–	–	120,831	120,831
Total	80,268,592	80,268,592	13,012,165	13,012,165	27,408,787	27,408,787
Liabilities						
Accounts payable	17,650,612	17,650,612	2,444,865	2,444,865	6,409,754	6,409,754
Bank loans	12,871,248	12,871,248	–	–	–	–
Long-term debt	4,779,883	4,779,883	10,114,478	10,114,478	2,909,135	2,909,135
Provisions	1,319,762	1,319,762	–	–	–	–
Accrued charges and deferred income	1,158,778	1,158,778	377,763	377,763	–	–
Taxes payable	352,571	352,571	–	–	1,089,987	1,089,987
Deferred tax liabilities	2,138,855	2,138,855	–	–	1,686,277	1,686,277
Total	40,271,709	40,271,709	12,937,106	12,937,106	12,095,153	12,095,153
Net assets	$39,996,883	$39,996,883	$75,059	$75,059	$15,313,634	$15,313,634
Cost of acquisition	$28,287,108	$28,287,108	$725,472	$725,472	$13,956,824	$13,956,824
Less: Cooperatief's share in the fair value of net assets acquired	39,948,791	39,948,791	75,059	75,059	15,313,634	15,313,634
Goodwill (gain from bargain purchase)	($11,661,683)	($11,661,683)	$650,413	$650,413	($1,356,810)	($1,356,810)

Acquisition-related costs, which consist of professional fees, representation and travel expenses amounting to $2.14 million, were recognized as expenses in 2011.

In 2011, from the date of acquisition, the EPIQ Subsidiaries have contributed $66.24 million and $2.42 million to the Group's total revenue and net income before tax, respectively. If the combination had taken place at the beginning of 2011, the Group's total revenue and net income before tax would have increased by $189.90 million and $10.45 million, respectively.

3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The consolidated financial statements have been prepared under the historical cost method, except for available-for-sale (AFS) financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in United States (U.S.) Dollar, which is the functional currency of the Parent Company, and are rounded off to the nearest dollar, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

	Percentage of Ownership			Country of	Functional
	2012	2011	2010	Incorporation	Currency
IMI USA	**100.00%**	100.00%	100.00%	USA	USD
IMI Japan	**100.00%**	100.00%	100.00%	Japan	USD
IMI Singapore	**100.00%**	100.00%	100.00%	Singapore	USD
IMI ROHQ	**100.00%**	100.00%	100.00%	Philippines	USD
STEL and Subsidiaries					
Vista Manufacturing Pte Ltd (“VISTA”)*	–	100.00%	100.00%	Singapore	USD
Speedy-Tech Technologies Pte. Ltd. (“STTS”)*	–	100.00%	100.00%	Singapore	USD
Speedy-Tech Electronics (HK) Limited (“STHK”)	**100.00%**	100.00%	100.00%	Hong Kong	USD
Speedy-Tech (Philippines), Inc. (“STPHIL”)	**100.00%**	100.00%	100.00%	Philippines	USD
Shenzhen Speedy-Tech Electronics Co., Ltd. (“SZSTE”)	**99.48%**	99.48%	99.48%	China	USD
Speedy-Tech Electronics, Inc.	**100.00%**	100.00%	100.00%	USA	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. (“STJX”)	**100.00%**	100.00%	100.00%	China	USD
Speedy-Tech Electronics (Chong Qing) Co. Ltd. (“STCQ”)	**100.00%**	100.00%	100.00%	China	USD
IMI (Chengdu) Ltd. (“IMICD”)	**100.00%**	100.00%	100.00%	China	USD
Monarch	**100.00%**	100.00%	–	Hong Kong	USD
Cooperatief	**100.00%**	100.00%	–	Netherlands	Euro
EPIQ EA	**100.00%**	100.00%	–	Bulgaria	Bulgarian Lev
Microenergia OOD	**70.00%**	70.00%	–	Bulgaria	Bulgarian Lev
EPIQ CZ	**100.00%**	100.00%	–	Czech Republic	Czech Koruna
EPIQ MX	**100.00%**	100.00%	–	Mexico	Mexican Peso
EPIQ Manufactura S.A.P.I de C.V.	**100.00%**	100.00%	–	Mexico	Mexican Peso
IMI France	**100.00%**	100.00%	–	France	Euro
PSi	**55.78%**	55.78%	55.78%	Philippines	USD
PSi Laguna**	–	55.78%	55.78%	Philippines	USD
PSiTech Realty ***	**22.31%**	22.31%	22.31%	Philippines	USD
Pacsem Realty ***	**35.70%**	35.70%	35.70%	Philippines	USD

** On August 8, 2012 and July 3, 2012, VISTA and STTS were liquidated, respectively.*
*** On June 21, 2012, PSi Laguna was legally merged with PSi.*
**** The percentage pertains to ownership of the Parent Company.*

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same balance sheet date as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions, are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly-owned 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 non-controlling interests 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 non-controlling interests;
- 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; and
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Legal Merger of PSi and PSi Laguna
The plan of merger provides that PSi, as the surviving entity, received all the assets and assumed all the liabilities of PSi Laguna effective June 21, 2012. No new shares of stock shall be issued by PSi for the aforementioned transfer.

At the time PSi Laguna was merged to PSi, PSi already had an investment in PSi Laguna. Therefore, the legal merger does not represent PSi obtaining control of PSi Laguna and hence, outside the scope of PFRS 3, *Business Combinations*. Accordingly, the consolidated financial statements continue to carry the same amounts.

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS and Philippine Accounting Standards (PAS) effective as of January 1, 2012. Except as otherwise indicated, the adoption of these new and amended standards did not have any impact on the consolidated financial statements.

- PAS 12 (Amendment), *Income Taxes – Deferred Taxes: Recovery of Underlying Assets*
  This amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a "sale" basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ("use" basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

- PFRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*
  The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's consolidated 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 user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

Standards Issued but not yet Effective

New and amended standards and interpretations

The Group will adopt the following PFRS, PAS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have a significant impact on the consolidated financial statements.

- PAS 1 (Amendment), *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after July 1, 2012)
  The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be reclassified.

- PAS 19 (Amendment), *Employee Benefits* (effective for annual periods beginning on or after January 1, 2013)
  Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The amended standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once the amended standard is effective, the Group has to apply the amendments retroactively to the earliest period presented.

  The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an actuary to compute the impact to the consolidated financial statements upon adoption of the standard. The effects are detailed below:

Increase (decrease) in:	As at December 31, 2012	As at January 1, 2012	As at January 1, 2011
Consolidated balance sheet			
Net defined benefit asset	($1,941,695)	($2,806,876)	$–
Net defined benefit liability	1,222,559	2,093,572	(2,207,975)
Other comprehensive income	(4,618,237)	(6,211,759)	(5,208,989)
Retained earnings	1,942,088	1,311,311	3,001,014

	2012	2011
Consolidated statement of comprehensive income		
Net benefit cost	($417,836)	($47,055)
Income tax expense	(13,311)	(12,794)
Profit for the year	431,147	59,849
Attributable to the owners of the Parent Company	197,137	(8,287)
Attributable to non-controlling interests	234,010	68,136
Other comprehensive income	(4,618,237)	(6,211,759)
Tax effect on other comprehensive income	(515,895)	(677,201)

- PAS 27 (as revised in 2011), *Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2013)
  As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities (JCEs), and associates in the separate financial statements.

- PAS 28 (as revised in 2011), *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after January 1, 2013)
  As a consequence of issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28, *Investments in Associates*, has been renamed PAS 28, *Investment in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2013)
  These amendments require the Group to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on the Group's financial position. The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The disclosures also apply to recognize 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 balance sheet date:

  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 consolidated balance sheet;
  c) The net amounts presented in the consolidated balance sheet;
  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 consolidated 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 addresses the accounting for consolidated financial statements. It also addresses the issues raised in Standing Interpretations Committee (SIC)-12, *Consolidation – 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 consolidated financial statements and have assessed that no facts and circumstances would suggest change to any criteria of control since majority of the subsidiaries are wholly-owned by the Parent Company.

- 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 JCEs using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture 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 of the disclosures that were previously in PAS 27 related to the consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to the Group'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 the Group 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. The Group is yet to implement this Standard by January 1, 2013 and would want to consider the key implications of PFRS 13 in its overall assessment.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after January 1, 2013)
  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity.

- PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014)
  These amendments clarify the meaning of "currently has a legally enforceable right to set-off." The amendments 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.

- PFRS 9, *Financial Instruments* (effective for annual periods beginning on or after January 1, 2015)
  PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss (FVPL). All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at FVPL. For FVO liabilities, the amount of change in the fair value of a liability

that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The Group will quantify the effect in conjunction with other phases, when the final standard, including all phases, is issued. The Group's assessment of the impact of PFRS 9 is still in progress and no early adoption will be made as of the date of this report as there are still major changes that are expected to be made in the existing draft of the Standard that could impact the Group's decision to early adopt or not.

- 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 Philippine SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Annual improvements to PFRSs
The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted. Except as otherwise indicated, the Group does not expect the adoption of these amendments to standards to have a significant impact on the consolidated financial statements.

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

- PAS 16, *Property, Plant and Equipment – Classification of Servicing Equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise.

- PAS 32, *Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

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

Financial Instruments - Initial Recognition and Subsequent Measurement
Classification of financial instruments
Financial instruments within the scope of PAS 39 are classified as: (1) financial assets and financial liabilities at FVPL; (2) loans and receivables; (3) held-to-maturity (HTM) investments; (4) AFS financial assets; and (5) other financial liabilities. The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. The Group determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every balance sheet date.

The financial instruments of the Group as of December 31, 2012 and 2011 consist of loans and receivables, financial asset at FVPL, AFS financial assets, financial liability at FVPL and other financial liabilities.

Date of recognition of financial instruments
Financial instruments are recognized in the consolidated balance 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.

Determination of fair value
The fair value of financial instruments that are traded in active markets at each balance sheet date is determined by reference to quoted market prices or dealer price quotations (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 financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same; and
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 30.

"Day 1" difference
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" difference) in the consolidated statement of comprehensive income under "Interest income" or "Interest expense and bank charges," unless it qualifies for recognition as some other type of asset or liability.

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

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

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

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

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

Financial assets and financial liabilities at FVPL are subsequently measured at fair value. Changes in fair value of such assets or liabilities are accounted for in profit or loss.

The Group uses currency forwards to hedge its risks associated with foreign currency fluctuations. Such are accounted for as nonhedge derivatives.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (1) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract; (2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (3) the hybrid or combined instrument is not recognized at FVPL. The Group assesses whether an embedded derivative is required to be separated from the host contract when the Group first becomes party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at FVPL.

Loans and receivables are recognized initially at fair value, plus transaction costs.

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

Loans and receivables are included in current assets if maturity is within twelve (12) months from the 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 recognized initially at fair value, plus transaction costs.

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 recognized in other comprehensive income under "Fair value changes on available-for-sale financial assets." The losses arising from impairment of such investments are recognized as impairment losses in profit or loss. When the security is disposed of, the cumulative gains or losses previously recognized in other comprehensive income are recognized as realized gains or losses in profit or loss.

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

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

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

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

After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Other financial liabilities are included in current liabilities if maturity is within twelve (12) months from the balance sheet date. 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, and long-term debt.

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

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

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

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

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

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

Impairment of Financial Assets
The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will

enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR 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 recognized in profit or loss. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. If, in a subsequent period, the amount of the estimated impairment loss decreases because of 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 AFS financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

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

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

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

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

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

	Years
Buildings	25 - 30
Building improvements	5
Machinery and facilities equipment	7 - 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 five (5) years.

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

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

The EUL of property, plant and equipment are reviewed annually based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of property, plant and equipment. 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 asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

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.

Business Combination and Goodwill or Gain on Bargain Purchase

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in consolidated statement of comprehensive income under "Operating 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

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

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

Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes 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. When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. When 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.

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

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 accumulated amortization and any accumulated impairment losses.

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

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

The EUL of intangible assets are as follows:

	Years
Customer relationships	5
Unpatented technology	5
Computer software	3

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

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

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

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

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

For assets excluding goodwill, an assessment is made at each balance sheet date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss, unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining EUL.

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

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

Provisions

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

When the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Equity

Capital stock

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

Additional paid-in-capital

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

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

Retained earnings and dividend on capital stock of the Parent Company
Retained earnings represent net accumulated earnings of the Group, less dividends declared. Appropriated retained earnings are set aside for future expansion. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the shareholders of the Parent Company and its subsidiaries.

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. 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 EIR method.

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

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

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

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

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

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

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

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

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient future taxable profits will be available against which the temporary differences can be utilized.

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

Deferred tax liabilities are recognized for all taxable temporary differences.

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

Income tax relating to items recognized directly in equity is recognized in equity.

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

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

Foreign Currency Transactions
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 balance sheet date. All differences are taken to profit or loss. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currencies of 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 balance sheet date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity. 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.

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

Pensions and Other Employee Benefits
Defined contribution plans
The Parent Company’s subsidiaries in Singapore, PRC and Hong Kong, EPIQ CZ, and EPIQ MX 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 expense as accrued.

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

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

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

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

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

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 expense 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 balance sheet date 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 profit or loss, 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 balance sheet 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, the Group 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 Group, 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 Group.

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 balance sheet 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 (EPS) Attributable to Equity Holders of the Parent Company
Basic EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding and adjusted to give retroactive effect to any stock dividends declared during the period. Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. The calculation of diluted 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 at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement. A reassessment is made after inception of the lease only if one of the following applies:

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

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

Operating lease commitment - Group as lessor
A lease in which the Group does not transfer substantially all the risks and benefits of ownership of an asset is classified as an operating lease. Lease income is recognized in the consolidated statement of comprehensive income under “Miscellaneous income” on a straight-line basis over the lease term.

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

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

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

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

Events after the Balance Sheet Date
Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the consolidated financial statements when material.

4. **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities affected in future periods.

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

Functional currency
PAS 21, *Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Group's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Group. In making this judgment, the Group considers the currency in which the sales prices for its goods and services are denominated and settled. Further details are given in Note 3.

Operating lease commitment - Group as lessor
In agreement with the original lessor, the Parent Company subleased a portion of the property it occupies. Based on the evaluation of the terms and conditions of the arrangement between the Parent Company and the sublessee, the contract is an operating lease. The sublease agreement expired in March 2011.

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

In addition, the Parent Company has entered into finance lease agreements covering certain office equipment while EPIQ EA and EPIQ CZ have various finance lease contracts related to machineries and production equipment and transportation equipment. They have determined, based on the evaluation of the terms and conditions of their respective arrangements, that they bear substantially all the risks and rewards incidental to the ownership of the said machineries and equipment and so account for the contracts as finance leases. Further details are given in Note 28.

Contingencies
The Group is currently involved in various legal proceedings and tax assessments. The estimate of the probable costs of the resolutions and assessments of these claims have been developed in consultation with outside counsels handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings and tax assessments will have a material effect on the Group's financial position. It is possible, however,

that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings. Further details are given in Note 32.

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

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of loans and receivables
The Group reduces the carrying amount of its loans and receivables through the use of an allowance account if there is objective evidence that an impairment loss on the loans and receivables has been incurred, based on the result of the individual and collective impairment assessments. Factors considered are payment history and past due status.

Loans and receivables, net of the allowance for doubtful accounts, amounted to $150.88 million and $133.68 million as of December 31, 2012 and 2011, respectively. Allowance for doubtful accounts amounted to $3.78 million and $3.40 million as of December 31, 2012 and 2011, respectively. Further details are given in Note 6.

Estimating NRV of inventories
Inventories are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, costs of completion and costs necessary to make a sale to determine the NRV. In the event that NRV is lower than cost, the decline is recognized as an expense.

Inventories carried at cost amounted to $41.98 million and $51.61 million as of December 31, 2012 and 2011, respectively. Inventories carried at NRV amounted to $41.19 million and $28.80 million as of December 31, 2012 and 2011, respectively. Allowance for inventory obsolescence amounted to $4.40 million and $4.12 million as of December 31, 2012 and 2011, respectively. Further details are given in Note 7.

Depreciation and amortization
The Group computes depreciation of property, plant and equipment on a straight-line basis over the assets' EUL. The EUL and depreciation method are reviewed annually to ensure that these are consistent with the expected pattern of the economic benefits from the assets. This requires the Group to make an estimate of the expected asset utilization from business plans and strategies, future technical developments and market behavior to determine the expected pattern of economic benefits from the assets.

Property, plant and equipment, net of accumulated depreciation and accumulated impairment losses, amounted to $88.07 million and $97.51 million as of December 31, 2012 and 2011, respectively. Depreciation expense on property, plant and equipment amounted to $23.32 million, $24.62 million and $19.37 million in 2012, 2011 and 2010, respectively. Further details are given in Notes 9, 18 and 19.

The Group computes amortization of intangible assets on a straight-line basis over the assets' EUL. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at the end of each balance sheet date. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the consolidated statements of comprehensive income in the expense category, consistent with the function of the intangible assets.

Intangible assets, net of accumulated amortization, amounted to $5.89 million and $7.33 million as of December 31, 2012 and 2011, respectively. Amortization expense amounted to $2.06 million, $1.16 million and $2.65 million in 2012, 2011 and 2010, respectively. Further details are given in Notes 11, 18 and 19.

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

Property, plant and equipment, net of accumulated depreciation and accumulated impairment losses, amounted to $88.07 million and $97.51 million as of December 31, 2012 and 2011, respectively. Impairment loss on property, plant and equipment was recognized in 2012 amounting to $0.23 million. No impairment loss on property, plant and equipment was recognized in 2011 and 2010. Intangible assets, net of accumulated amortization, amounted to $5.89 million and $7.33 million as of December 31, 2012 and 2011, respectively. No impairment loss on intangible assets was recognized in 2012, 2011 and 2010. Further details are given in Notes 9 and 11.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount, which is the net selling price or value in use of the CGUs to which the goodwill is allocated. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

Goodwill amounted to $54.36 million as of December 31, 2012 and 2011. No impairment loss on goodwill was recognized in 2012 and 2010. Impairment loss on goodwill was recognized in 2011 amounting to $2.72 million. Further details are given in Note 10.

Fair value measurement of intangible assets resulting from business combinations
Intangible assets resulting from business combinations are valued at fair value at the acquisition date as part of the business combination. Upon acquisition of EPIQ EA (see Note 2), the Parent Company identified an intangible asset (customer relationships) and determined its fair value

based on discounted 5-year projected income from existing customers as of acquisition date after excluding projected returns contributed by working capital, workforce and fixed assets.

The customer relationships amounted to $4.85 million and $6.20 million as of December 31, 2012 and 2011, respectively. Further details are given in Note 11.

Impairment of AFS financial assets
The Group classifies certain equity investments as AFS financial assets and recognizes movements in their fair value in other comprehensive income. When the fair value of these assets declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss.

The carrying amount of AFS financial assets of the Group amounted to $1.61 million and $0.41 million as of December 31, 2012 and 2011, respectively. In 2012, 2011, and 2010, no impairment losses have been recognized on AFS financial assets.

Deferred tax assets
The Group reviews the carrying amounts of its deferred tax assets at each balance sheet date and reduces the deferred tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

As of December 31, 2012 and 2011, the Group has deferred tax assets of $1.08 million and $0.74 million, respectively. Further details are given in Note 23.

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

For the years ended December 31, 2012 and 2011, the Group did not recognize any provision for warranty while a reversal of $0.02 million was recognized for the year ended December 31, 2010. Further details are given in Note 13.

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

The carrying amount of the Group's income tax payable as of December 31, 2012 and 2011 amounted to $1.91 million and $1.69 million, respectively.

Pensions and other employee benefits
The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, mortality rates, future salary rate increases, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term

nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

The Group has unrecognized actuarial losses of $3.09 million, $4.92 million and $2.71 million in 2012, 2011 and 2010, respectively. Further details are given in Note 25.

The Group also estimates other employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the period.

Current accrued leaves as of December 31, 2012 and 2011 amounting to $1.75 million and $2.14 million, respectively, are recognized under "Accounts payable and accrued expenses," while noncurrent accrued leaves as of December 31, 2012 and 2011 amounting to $0.09 million and $0.23 million, respectively, are recognized under "Other long-term employee benefits" in the consolidated balance sheets. Cost of leaves in 2012, 2011 and 2010 amounted to $2.30 million, $2.65 million and $1.94 million, respectively, and are recognized under "Direct labor, salaries, wages and employee benefits" and "Salaries, wages and employee benefits" under "Cost of goods sold and services" and "Operating expenses" in the consolidated statements of comprehensive income.

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

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

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

In 2012, 2011 and 2010, the Group recognized cost of equity-settled share options amounting to $0.07 million, $0.67 million and $1.93 million, respectively. Further details are given in Note 26.

Fair value of put and call options
The acquisition of PSi on October 6, 2010 gave rise to a long equity call option and written equity put option for the Parent Company (see Note 2). The put and call options were valued using binomial model. This valuation technique considers the probability of the value of PSi's shares, determined based on a five-year discounted cash flow model, to move up or down depending on the volatility, risk-free rate and exercise price.

As of December 31, 2012 and 2011, the call option has a positive value of $2.86 million and $2.74 million, respectively, while the put option has zero value. Further details are given in Note 31.

5. **Cash and Cash Equivalents**

This account consists of:

	2012	2011
Cash on hand	**$127,180**	$103,983
Cash in banks	**48,304,387**	36,403,020
Short-term deposits	**7,764,815**	17,562,177
	$56,196,382	$54,069,180

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. Interest income earned from cash in banks and short-term deposits amounted to $0.27 million, $0.30 million and $0.33 million in 2012, 2011 and 2010, respectively (see Note 22).

6. **Loans and Receivables**

This account consists of:

	2012	2011
Trade	**$147,455,163**	$127,744,520
Nontrade	**2,360,269**	4,292,680
Receivable from insurance	**1,178,785**	1,230,038
Receivable from employees	**539,159**	1,811,210
Due from related parties (Note 29)	**425,716**	211,103
Others	**2,702,067**	1,790,216
	154,661,159	137,079,767
Less: Allowance for doubtful accounts	**3,780,304**	3,403,187
	$150,880,855	$133,676,580

Trade

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

Trade receivables of PSi from certain customers totaling $5.40 million as of December 31, 2010, were assigned as collateral to Philippine Veterans Bank (PVB). Upon renewal of the credit facility in April 2011, security in the form of trade receivables was no longer required (see Note 14).

Certain receivables of EPIQ EA have been pledged to UniCredit Bullbank and BNP Paribas (see Note 14).

As of December 31, 2012 and 2011, EPIQ EA's pledged receivables with UniCredit Bulbank amounted to €8.00 million ($10.60 million) and €2.73 million ($3.62 million), respectively (see Note 14).

As of December 31, 2012 and 2011, EPIQ EA's pledged receivables with BNP Paribas amounted to €0.32 million ($0.43 million) (see Note 14).

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 $1.18 million and $1.23 million as of December 31, 2012 and 2011, respectively.

Allowance for Doubtful Accounts

Trade receivables, nontrade receivables, and receivable from insurance with aggregate nominal value of $3.78 million and $3.40 million were individually assessed to be impaired and fully provided with allowance for doubtful accounts as of December 31, 2012 and 2011, respectively.

Movements in the allowance for doubtful accounts follow:

2012

	Trade	**Nontrade**	**Receivable from Insurance**	**Total**
At January 1, 2012	**$2,117,204**	**$83,848**	**$1,202,135**	**$3,403,187**
Provisions (reversals)	**344,666**	**120,182**	**(23,350)**	**441,498**
Accounts written-off	**(2,697)**	**(61,684)**	**–**	**(64,381)**
At December 31, 2012	**$2,459,173**	**$142,346**	**$1,178,785**	**$3,780,304**

2011

	Trade	Nontrade	Receivable from Insurance	Total
At January 1, 2011	$116,087	$48,314	$1,202,135	$1,366,536
Provisions	1,920,224	57,317	–	1,977,541
Recovery of previously written-off accounts	80,893	–	–	80,893
Accounts written-off	–	(21,783)	–	(21,783)
At December 31, 2011	$2,117,204	$83,848	$1,202,135	$3,403,187

Provisions during the year form part of "Operating expenses" and are included under "Facilities costs and others" (see Note 20).

7. Inventories

This account consists of:

	2012	2011
At cost:		
Raw materials and supplies	**$33,753,536**	$39,239,263
Work-in-process	**3,017,263**	6,134,662
Finished goods	**5,210,691**	6,231,243
	41,981,490	51,605,168
At NRV:		
Raw materials and supplies	**27,832,543**	22,553,457
Work-in-process	**7,429,997**	1,875,642
Finished goods	**5,931,839**	4,367,733
	41,194,379	28,796,832
	$83,175,869	$80,402,000

The cost of the inventories carried at NRV amounted to $45.59 million and $32.92 million as of December 31, 2012 and 2011, respectively. The amount of inventories recognized as an expense amounted to $449.06 million, $388.88 million and $265.48 million in 2012, 2011 and 2010, respectively (see Note 18).

Movements in the allowance for inventory obsolescence are as follows:

	2012	2011
At beginning of year	**$4,120,666**	$3,749,822
Provisions	**282,948**	1,029,155
Write-offs	**(6,158)**	(658,311)
At end of year	**$4,397,456**	$4,120,666

Provision for (reversal of) inventory obsolescence recognized in 2012, 2011 and 2010 amounted to $0.28 million, $1.03 million, and ($1.73 million), respectively (see Note 20).

Gain from sale of scrapped packaging supplies in 2012, 2011 and 2010 amounting to $0.01 million, $0.01 million and $0.23 million, respectively, are included under "Miscellaneous income" in the consolidated statements of comprehensive income.

As of December 31, 2012, inventories of EPIQ EA amounting to €8.00 million ($10.60 million) and €0.32 million ($0.43 million) were pledged to UniCredit Bulbank and BNP Paribas, respectively (see Note 14).

As of December 31, 2011, inventories of EPIQ EA amounting to €2.73 million ($3.62 million) and €0.32 million ($0.43 million) were pledged to UniCredit Bulbank and BNP Paribas, respectively (see Note 14).

8. Other Current Assets

This account consists of:

	2012	2011
Tax credits	**$5,587,697**	$6,987,291
Advances to suppliers	**1,031,452**	959,386
Prepayments	**683,528**	674,612
Current portion of deferred licensing fee (Note 12)	**10,000**	10,000
Others	**113,235**	223,313
	$7,425,912	$8,854,602

Tax credits are mainly attributable to EPIQ MX, EPIQ EA and the Parent Company.

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

9. Property, Plant and Equipment

Movements in this account are as follows:

2012

	Buildings and Improvements	**Machinery and Facilities Equipment**	**Furniture, Fixtures and Office Equipment**	**Transportation Equipment**	**Tools and Instruments**	**Construction in Progress**	**Total**
Cost							
At January 1, 2012	**$70,939,508**	**$128,579,403**	**$14,338,511**	**$1,284,067**	**$2,942,712**	**$1,813,527**	**$219,897,728**
Additions	**1,838,855**	**10,835,276**	**813,327**	**454,204**	**867,854**	**2,000,310**	**16,809,826**
Disposals	**(6,214)**	**(11,869,870)**	**(89,987)**	**(426,333)**	**(600)**	**–**	**(12,393,004)**
Transfers	**82,368**	**2,282,879**	**184,721**	**40**	**–**	**(2,550,008)**	**–**
Retirement	**(205,774)**	**(908,415)**	**–**	**(51,339)**	**(58,459)**	**–**	**(1,223,987)**
Foreign currency exchange difference	**(420,063)**	**(868,891)**	**862,347**	**(44,018)**	**–**	**(49,758)**	**(520,383)**
At December 31, 2012	**72,228,680**	**128,050,382**	**16,108,919**	**1,216,621**	**3,751,507**	**1,214,071**	**222,570,180**
Accumulated depreciation							
At January 1, 2012	**34,269,032**	**73,322,521**	**10,747,278**	**429,385**	**2,122,352**	**–**	**120,890,568**
Depreciation	**3,249,977**	**17,399,707**	**1,740,835**	**428,570**	**500,345**	**–**	**23,319,434**
Disposals	**(7,097)**	**(8,873,429)**	**(151,280)**	**(352,238)**	**(568)**	**–**	**(9,384,612)**
Retirement	**(205,774)**	**(418,156)**	**–**	**(31,098)**	**–**	**–**	**(655,028)**
Foreign currency exchange difference	**(890,433)**	**(1,500,882)**	**744,288**	**(49,600)**	**–**	**–**	**(1,696,627)**
Write-off	**82,787**	**215,250**	**–**	**–**	**–**	**–**	**298,037**
At December 31, 2012	**36,498,492**	**80,145,011**	**13,081,121**	**425,019**	**2,622,129**	**–**	**132,771,772**
Accumulated impairment losses							
At January 1, 2012	**736,565**	**752,909**	**12,226**	**–**	**–**	**–**	**1,501,700**
Impairment loss	**–**	**225,521**	**–**	**–**	**–**	**–**	**225,521**
At December 31, 2012	**736,565**	**978,430**	**12,226**	**–**	**–**	**–**	**1,727,221**
Net book value as of December 31, 2012	**$34,993,623**	**$46,926,941**	**$3,015,572**	**$791,602**	**$1,129,378**	**$1,214,071**	**$88,071,187**

2011

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At January 1, 2011	$51,325,675	$119,640,340	$13,911,109	$971,441	$2,724,079	$96,435	$188,669,079
Additions	2,665,898	9,486,367	1,032,112	288,382	228,659	1,129,055	14,830,473
Additions through business combination (Note 2)	19,050,081	18,795,575	187,357	319,147	–	810,842	39,163,002
Disposals	(444,789)	(17,395,390)	(689,057)	(269,918)	(10,026)	–	(18,809,180)

(Forward)

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Reclassifications	$7,035	$89,400	$–	$–	$–	($96,435)	$–
Foreign currency exchange difference	(1,664,392)	(2,036,889)	(103,010)	(24,985)	–	(126,370)	(3,955,646)
At December 31, 2011	70,939,508	128,579,403	14,338,511	1,284,067	2,942,712	1,813,527	219,897,728
Accumulated depreciation							
At January 1, 2011	31,519,105	69,965,946	9,110,181	237,442	1,710,438	–	112,543,112
Depreciation	2,984,521	18,463,462	2,308,112	439,127	420,064	–	24,615,286
Disposals	(234,594)	(15,106,887)	(671,015)	(247,184)	(8,150)	–	(16,267,830)
At December 31, 2011	34,269,032	73,322,521	10,747,278	429,385	2,122,352	–	120,890,568
Accumulated impairment losses	736,565	752,909	12,226	–	–	–	1,501,700
Net book value as of December 31, 2011	$35,933,911	$54,503,973	$3,579,007	$854,682	$820,360	$1,813,527	$97,505,460

PSi has a Mortgage Trust Indenture (MTI) with the Trust and Investment Division of a local bank, as Trustee. The mortgaged properties securing the Mortgage Obligations under the MTI are machinery and equipment. The holders of the Mortgage Participation Certificates (MPC) under the MTI are PVB and a major supplier, with a participation of $3.00 million each (see Notes 13 and 14). As of December 31, 2011, mortgaged machinery and equipment have a net carrying amount of $2.78 million. The credit facility was terminated in 2012.

As of December 31, 2012 and 2011, fully depreciated property, plant and equipment amounting to $40.75 million and $34.90 million, respectively, are still being used by the Group.

The carrying values of equipment under finance lease amounted to $2.05 million and $2.22 million, as of December 31, 2012 and 2011, respectively.

Depreciation expense included in "Cost of goods sold and services" and "Operating expenses" follows:

	2012	2011	2010
Cost of goods sold and services (Note 18)	**$20,448,129**	$21,682,170	$16,223,661
Operating expenses (Note 19)	**2,871,305**	2,933,116	3,149,565
	$23,319,434	$24,615,286	$19,373,226

In 2012, PSi recognized an impairment loss of $0.23 million on certain machineries and directly wrote-off building improvements and machineries totaling $0.30 million.

Gains from disposal of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments included under "Miscellaneous income" in the consolidated statements of comprehensive income follows:

	2012	2011	2010
PSi	**$120,709**	$5,577	$2,325
Parent Company	**6,144**	108,076	183,171
IMI Singapore	**5,899**	1,464	980
	$132,752	$115,117	$186,476

10. **Goodwill**

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

	2012	2011
STEL Group	**$45,128,024**	$45,128,024
PSi	**7,478,980**	7,478,980
IMI USA	**656,610**	656,610
EPIQ CZ	**650,413**	650,413
Parent Company	**441,166**	441,166
	$54,355,193	$54,355,193

STEL Group, PSi, IMI USA and EPIQ CZ
The recoverable amounts of these CGUs have been based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections are as follows:

	2012	2011
STEL Group	**11.85%**	11.12%
PSi	**13.47%**	12.60%
IMI USA	**11.41%**	10.16%
EPIQ CZ	**12.40%**	–

Cash flows beyond the five-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate for the global EMS industry.

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

- Budgeted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Growth rate - The forecasted growth rate is based on a very conservative steady growth rate that does not exceed the compounded annual growth rate for the global EMS industry.
- Pre-tax discount rates - Discount rates reflect management's estimate of the risks specific to each CGU. This is the benchmark used by management to assess operating performance.

No impairment loss was assessed for STEL Group, IMI USA, and EPIQ CZ in 2012, 2011 and 2010.

With regard to the assessment of value in use of STEL Group, IMI USA, and EPIQ CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to exceed their recoverable amount.

For PSi, the assessment resulted to an impairment loss of $2.72 million in 2011 but no impairment losses in 2012 and 2010.

Parent Company
This pertains to the goodwill from the Parent Company's purchase of M. Hansson Consulting, Inc. (MHCI) in 2006. MHCI was subsequently merged to the Parent Company as testing and development department.

The recoverable amount was based on the market price of the Parent Company's shares at valuation date less estimated costs to sell. The comparison of the recoverable amount and the carrying amount resulted to no impairment loss in 2012, 2011 and 2010.

11. Intangible Assets

Movements in this account are as follows:

2012

	Customer Relationships	**Unpatented Technology**	**Computer Software**	**Total**
Cost				
At January 1, 2012	**$19,666,617**	**$100,000**	**$2,254,030**	**$22,020,647**
Additions	**–**	**–**	**525,070**	**525,070**
Foreign currency exchange difference	**–**	**–**	**118,661**	**118,661**
At December 31, 2012	**19,666,617**	**100,000**	**2,897,761**	**22,664,378**
Accumulated amortization				
At January 1, 2012	**13,463,885**	**100,000**	**1,123,271**	**14,687,156**
Amortization	**1,353,323**	**–**	**704,303**	**2,057,626**
Foreign currency exchange difference	**–**	**–**	**25,475**	**25,475**
At December 31, 2012	**14,817,208**	**100,000**	**1,853,049**	**16,770,257**
Net book value as of December 31, 2012	**$4,849,409**	**$–**	**$1,044,712**	**$5,894,121**

	Customer Relationships	Unpatented Technology	Computer Software	Total
Cost				
At January 1, 2011	$12,900,000	$100,000	$1,463,282	$14,463,282
Additions	–	–	411,344	411,344
Additions through business combination (Note 2)	6,766,617	–	458,553	7,225,170
Foreign currency exchange difference	–	–	(79,149)	(79,149)
At December 31, 2011	19,666,617	100,000	2,254,030	22,020,647
Accumulated amortization				
At January 1, 2011	12,900,000	100,000	540,280	13,540,280
Amortization	563,885	–	600,084	1,163,969
Foreign currency exchange difference	–	–	(17,093)	(17,093)
At December 31, 2011	13,463,885	100,000	1,123,271	14,687,156
Net book value as of December 31, 2011	$6,202,732	$–	$1,130,759	$7,333,491

Customer Relationships

Customer relationships pertain to STEL Group's and EPIQ EA's noncontractual and contractual agreements, respectively, with certain customers which lay out the principal terms upon which the parties agree to undertake business.

Unpatented Technology

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

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

Computer Software
This includes the Parent Company's acquisitions of computer applications and modules. EPIQ Subsidiaries also have computer software with aggregate carrying value of $0.56 million and $0.35 million as of December 31, 2012 and 2011, respectively.

Amortization of intangible assets included in "Cost of goods sold and services" and "Operating expenses" in 2012, 2011 and 2010 amounted to $2.06 million, $1.16 million and $2.65 million, respectively (see Notes 18 and 19).

12. Other Noncurrent Assets

Other noncurrent assets consist of:

	2012	2011
Miscellaneous deposits	**$1,795,084**	$1,498,225
Noncurrent portion of deferred licensing fee	**10,000**	20,000
	$1,805,084	$1,518,225

Miscellaneous deposits include electric and water meter deposits.

Deferred licensing fee pertains to the payment made by PSi to Amkor Technology, Inc., an unrelated party, in 2004 amounting to $100,000, in accordance with the terms of their Microleadframe Patent License Agreement (the "Patent License Agreement"). The amortization expense, using the straight-line method, amounts to $10,000 for each of the ten (10) succeeding years. Moreover, PSi has to pay additional fees for the use of the license based on a certain formula included in the Patent License Agreement. The account is payable quarterly and any unpaid balance shall be subject to 1% interest per month. The Patent License Agreement is for a period of ten (10) years, which started in 2004. The amortization expense and additional licensing fee amounting to $10,000 and $74,870, respectively in 2012, $10,000 and $71,559, respectively in 2011 and $2,500 and $3,190, respectively in 2010 are included in "Cost of goods sold and services" under "Facilities costs and others - others."

13. Accounts Payable and Accrued Expenses

This account consists of:

	2012	2011
Trade payables	**$101,772,745**	$99,217,065
Accrued expenses	**21,107,739**	20,554,660
Accrued payroll	**8,826,799**	8,421,735
Dividends payable (Note 17)	**2,648,865**	2,538,556
Nontrade payables	**1,791,492**	7,020,404
Accrued interest payable (Notes 14 and 15)	**1,105,384**	675,863
Customers' deposits	**729,557**	1,233,595
Taxes payable	**704,023**	485,924
Current portion of obligation under finance lease (Note 28)	**674,071**	783,833

(Forward)

	2012	2011
Employee-related payables	**$612,713**	$678,833
Current portion of obligation under deferred revenue (Note 16)	**272,747**	260,829
Due to related parties (Note 29)	**6,290**	36,639
Provision for restructuring	**–**	249,044
Others	**3,153,223**	2,085,029
	$143,405,648	$144,242,009

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

Trade Payables
Trade payables in 2011 include PSi's liability to a certain supplier amounting to $2.10 million, which is covered by an MPC amounting to $3.00 million under PSi's MTI with a local bank (see Notes 9 and 14).

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

Accrued Payroll
As of December 31, 2012 and 2011, accrued payroll contains current accrued leaves amounting to $1.75 million and $2.14 million, respectively.

Nontrade Payables
Nontrade payables include provision for losses on purchase commitments of PSi amounting to $0.29 million and $0.17 million as of December 31, 2012 and 2011, respectively, which pertain to losses arising from price decline and expected termination of several firm and executory purchase commitments. Additional provisions of $0.13 million and $0.01 million were recorded in 2012 and 2011, respectively. In 2011, nontrade payables also include SZSTE's liability for acquisition of fixed assets amounting to $3.00 million.

Provision for Restructuring
In 2011, PSi and STEL announced a restructuring of operations due to unfavorable economic and business situation. PSi made actual payout in September and November 2011 aggregating to $1.14 million. Part of this payout amounting to $0.58 million is not covered by its retirement plan. This was recognized as provision in 2011. In addition, STEL recognized provision amounting to $0.25 million, which was paid in 2012.

In 2012, PSi and STEL recognized additional provision of $1.16 million and $0.74 million, respectively, which were also paid during the year. Movement in provision for restructuring follows:

	2012	2011
At beginning of year	**$249,044**	$–
Provision during the year	**1,896,238**	831,718
Payment during the year	**(2,145,282)**	(582,674)
At end of year	**$–**	$249,044

Provision for Warranty
A provision for warranty is recognized for all products under warranty at the balance sheet date based on the Group's estimate of possible repairs or returns. No significant repairs or returns are expected in the future related to the sales made during the year and in prior years. Consequently, no provisions for warranty were recognized as of December 31, 2012 and 2011.

For the year ended December 31, 2010, the Group recognized reversal of provision of $0.02 million.

14. **Trust Receipts and Loans Payable**

This account consists of borrowings by the following entities:

	2012	2011
Parent Company	**$22,000,000**	$16,460,500
EPIQ EA	**9,700,611**	11,066,203
PSi	**9,099,902**	10,167,932
EPIQ MX	**2,009,461**	–
STEL	**1,396,626**	1,314,176
	$44,206,600	$39,008,811

Parent Company
As of December 31, 2012, the Parent Company has short-term loans aggregating to $22.00 million. The loans have maturities ranging from 32-60 days and fixed interest rates ranging from 1.64% to 2.00%.

As of December 31, 2011, there were two (2) $5.00 million 90-day term loans subject to fixed interest rate of 1.18% and 1.16%, respectively, and a 60-day term loan amounting to €5.00 million ($6.46 million), subject to a fixed interest rate of 2.27%.

Interest expense incurred on the short-term loans amounted to $0.27 million, $0.16 million and $0.04 million in 2012, 2011 and 2010, respectively.

EPIQ EA
EPIQ EA has short-term loans from the following banks:

	2012	2011
UniCredit Bulbank	**$9,275,017**	$10,351,817
BNP Paribas	**425,594**	714,386
	$9,700,611	$11,066,203

The loans from UniCredit Bulbank and BNP Paribas are from existing revolving credit facilities with terms of one (1) year. The loans bear interest based on 1-month EURIBOR plus 3.00% and 3-month EURIBOR plus 2.50%, respectively. Interest expense recognized on the loans in 2012 and 2011 amounted to $0.48 million and $0.45 million, 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 €8,000,000;

- First ranking pledge on receivables from a certain customer; and
- Notary signed Soft Letter of Comfort from the Parent Company.

As of December 31, 2012 and 2011, EPIQ EA's pledged inventories and receivables with UniCredit Bulbank amounted to €16.00 million ($21.20 million) and €5.46 million ($7.24 million), respectively.

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 €3,750,000; 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 €3,750,000.

As of December 31, 2012 and 2011, EPIQ EA's pledged inventories and receivables with BNP Paribas amounted to €0.64 million ($0.86 million).

PSi

PSi has short-term loans and trust receipts payable to the following banks:

	2012	2011
Metropolitan Bank & Trust Co. (MBTC)	**$9,099,902**	$9,247,621
PVB	**–**	920,311
	$9,099,902	$10,167,932

MBTC

PSi has an unsecured Omnibus Line Credit Facility of $10.00 million granted on November 24, 2010 which will expire on October 30, 2012, and 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 rates ranging from 2.21% to 2.71% in 2012, 2.18% to 2.80% in 2011 and 2.56% in 2010. On January 13, 2012, the credit facility with MBTC was renewed for one (1) year until January 6, 2013.

As of December 31, 2012 and 2011, the outstanding trust receipts payable amounted to $0.40 million and $1.75 million, respectively.

The undrawn credit facility amounted to $0.41 million and $0.75 million as of December 31, 2012 and 2011, respectively.

PSi incurred interest expense on its short-term loan and trust receipts payable aggregating to $0.20 million in 2012, $0.44 million in 2011 and $0.03 million in 2010.

PVB

In 2010, PSi had a Revolving Promissory Note Line (RPNL) of $3.00 million, including the availability of LC/TR up to $1.50 million. This short-term credit facility, which expired in April 2011, was secured by trade receivables from certain customers and MTI on machinery and equipment (see Notes 6 and 9). 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. As of December 31, 2011, PSi has not yet availed of the 5-year term loan, hence, the MPC of PVB is temporarily not effective. In February 2012, PSi terminated this short-term credit facility. The interest rates in 2011 and 2010 ranged from 2.59% to 2.72% and 2.21% to 3.49%, respectively. As of December 31, 2012 and 2011, there are no outstanding trust receipts payables under this facility.

The undrawn credit facility amounted to $4.08 million as of December 31, 2011. PSi incurred interest expense for its short-term loan amounting to $1.33 thousand, $0.10 million and $0.03 million in 2012, 2011 and 2010, respectively.

EPIQ MX
EPIQ MX has a revolving credit line with Banamex with term not exceeding twelve (12) months maturing on September 30, 2013 and bears interest based on Libor plus 2%. Interest expense incurred on the short-term loan amounted to $0.08 million in 2012.

STEL
The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates of 3.55%, 3.35% to 3.45%, and 3.52% to 3.70% in 2012, 2011 and 2010, respectively, and have maturities of 30 to 240 days from the date of issue, with renewal options. STEL incurred interest expense for its short-term loans amounting to $0.40 million, $0.34 million and $0.34 million in 2012, 2011 and 2010, respectively.

15. **Long-Term Debt**

This account consists of borrowings by the following entities:

	2012	2011
Parent Company	**$46,624,000**	$40,000,000
Cooperatief	**18,876,735**	20,398,500
	65,500,735	60,398,500
Less: Current portion	**2,649,600**	–
Noncurrent portion	**$62,851,135**	$60,398,500

Parent Company
In October 2011, the Parent Company obtained a five-year term 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 three-month LIBOR plus margin of 0.80%.

On February 29, 2012, the Parent Company obtained a €5,000,000 ($6,624,000), five-year term clean loan from a local bank payable in a single balloon payment at the end of the loan term. The Parent Company may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty, if made on an interest payment date, subject to certain conditions. Interest is payable semi-annually at the rate of six-month LIBOR plus 1.50% spread per annum.

The Parent Company incurred interest expense for its long-term loans amounting to $0.90 million, $0.43 million and $0.34 million in 2012, 2011 and 2010, respectively.

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

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

As of December 31, 2012 and 2011, the Parent Company has complied with all of the above-mentioned loan covenants.

Cooperatief

Cooperatief's long-term debt relates to the acquisition of EPIQ shares and receivables of EPIQ NV from the EPIQ Subsidiaries (see Note 2). This is subject to interest rate of 1.60% plus 1.50%. Below is the amortization schedule:

Due dates	Amounts in Euro	Amount in USD
2013	€2,000,000	$2,649,600
2014	2,000,000	2,649,600
2015	2,000,000	2,649,600
2016	2,000,000	2,649,600
2017	2,000,000	2,649,600
2018	4,248,743	5,628,735
Total	€14,248,743	$18,876,735

In 2012 and 2011, Cooperatief incurred interest expense amounting to $0.57 million and $0.28 million, respectively, for its long-term debt.

16. **Deferred Revenue**

On June 28, 2010, PSi and a local customer entered into a Subcontracting Services Agreement (SSA) for PSi to provide subcontracted services. In consideration, the local customer shall pay PSi service fees as provided for in the SSA. The subcontracted services shall be effective starting from July 15, 2010 and ending February 29, 2020, renewable upon mutual agreement by both parties.

In September 2009, PSi received noninterest-bearing cash advances amounting to $3.00 million from a foreign customer, an affiliate of the local customer. On July 15, 2010, the foreign customer assigned all of its rights with respect to the cash advances, including payments thereof, to the above local customer. The local customer and PSi agree that the full cash advances amounting to $3.00 million will be applied to pre-pay and cover any, and all of the fees payable under Annex B of the SSA for the facilities support services that will be rendered by PSi to the local customer. Moreover, PSi shall return to the local customer, upon termination of the SSA, for any reason, the cash advances less any amount applied to pay the fees as detailed in the SSA.

As of December 31, 2012 and 2011, the current and noncurrent portion of the advances from the local customer follow:

	2012	2011
Total outstanding advances from the local customers	**$2,303,765**	$2,564,594
Less: Current portion	**272,747**	260,829
Noncurrent portion	**$2,031,018**	$2,303,765

The current portion is included under "Accounts payable and accrued expenses" (see Note 13).

17. **Equity**

Capital Stock
This account consists of:

	2012		2011		2010	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized - ₱1 par value						
Common	**2,250,000,000**		2,250,000,000		2,250,000,000	
Preferred	**1,500,000,000**		1,500,000,000		1,500,000,000	
Issued - Common						
At beginning of year	**1,354,230,740**	**$24,932,075**	1,352,290,094	$24,893,713	1,137,788,197	$20,267,538
Issuances during the year through stock dividend	–	–	–	–	187,500,000	4,117,259
Issuances during the year through ESOWN	**17,643,691**	**333,097**	1,940,646	38,362	27,001,897	508,916
Issuances during the year to EPIQ NV	**200,000,000**	**4,746,084**	–	–	–	–
At end of year*	**1,571,874,431**	**$30,011,256**	1,354,230,740	$24,932,075	1,352,290,094	$24,893,713
Issued - Preferred						
At end of year	**1,300,000,000**	**$26,601,155**	1,300,000,000	$26,601,155	1,300,000,000	$26,601,155

**Out of the total issued shares, 15,892,109 shares as of December 31, 2012, 2011 and 2010 pertain to treasury shares.*

The preferred shares have certain features, rights and privileges, which include voting rights, quarterly dividends at a dividend rate of 8.25% rate per annum, cumulative in payment of current dividends, nonparticipating in any other or further dividends beyond those that are specifically payable on the shares, nonconvertibility to common shares, preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation and in the payment of the dividend at the rate specified, no pre-emptive rights, redeemable at the option of the issuer and certificated.

On October 23, 2009, the Philippine SEC approved the registration of 1,268,497,252 common shares of the Parent Company with ₱1.00 par value. As of December 31, 2012, 2011 and 2010, there were 562,112 and 143 registered common stockholders, respectively.

On April 8, 2010, the Parent Company's BOD approved the increase in its authorized capital stock from ₱3.00 billion to ₱3.75 billion, which shall consist of an additional 750 million common shares with par value of ₱1.00 per share, and the amendment of the Articles of Incorporation to reflect such increase. The Parent Company's BOD also approved the declaration of stock dividends equivalent to 187.5 million common shares to all the subscribed and outstanding common shares of the Parent Company as of the record date to be set by the Philippine SEC in connection with its approval of the Parent Company's application for increase in authorized capital stock. The BOD of the Parent Company further resolved to consolidate into whole shares, the fractional shares resulting from the declaration of stock dividend and the Parent Company to redeem it as treasury stock, at a price equal to the last closing price at the PSE immediately prior to the record date.

On August 12, 2010, the Philippine SEC approved the (1) increase in the Parent Company's authorized capital stock from ₱3.00 billion to ₱3.75 billion and the amendment in its Articles of Incorporation to reflect the increase, and (2) its payment of 15% stock dividend equivalent to 187.5 million common shares to its stockholders of record as of August 31, 2010. The issuance of the stock dividends was made on September 24, 2010.

Subscribed Capital Stock
Details of this account follow:

	2012		2011		2010	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**283,909,186**	**$6,506,970**	90,587,000	$1,901,963	107,898,420	$2,167,895
Subscriptions during the year						
ESOWN (Note 26)	**–**	**–**	–	–	30,885,000	668,506
EPIQ NV	**–**	**–**	200,000,000	4,746,084	–	–
Issuances during the year						
ESOWN	**(17,643,691)**	**(333,097)**	(1,940,646)	(38,362)	(27,001,897)	(508,916)
EPIQ NV	**(200,000,000)**	**(4,746,084)**	–	–	–	–
Forfeitures during the year						
ESOWN	**(5,844,495)**	**(126,938)**	(4,737,168)	(102,715)	(21,194,523)	(425,522)
At end of year	**60,421,000**	**$1,300,851**	283,909,186	$6,506,970	90,587,000	$1,901,963

As mentioned in Note 2, the consideration for the acquisition of EPIQ shares includes issuance of 200 million of the Parent Company's shares to EPIQ NV. On July 29, 2011, the Parent Company and EPIQ NV executed a subscription agreement for the subscription of the said shares. On October 19, 2012, the Philippine SEC approved the valuation of shares of stock of EPIQ NV applied as payment for the 200 million unissued shares of the Parent Company. The shares were issued to EPIQ NV on October 31, 2012 and the securities are yet to be filed for listing with the PSE.

Subscriptions Receivable
Details of this account are as follows:

	2012	2011	2010
At beginning of year	**$10,395,200**	$11,411,994	$10,153,255
Subscriptions during the year (Note 23)	**–**	–	3,390,814
Collections during the year	**(19,911)**	(615,889)	(1,215,793)
Accretion during the year (Note 23)	**676,304**	427,535	1,913,073
Forfeitures during the year (Note 23)	**(1,400,751)**	(828,440)	(2,829,355)
At end of year	**$9,650,842**	$10,395,200	$11,411,994

Dividends
2012
On December 10, 2012, the Parent Company's BOD approved the declaration and payment of the quarterly dividends of 8.25% per annum for 2013 to all shareholders of the Parent Company's preferred shares. Details of the dividend payment are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Record date	February 8, 2013	May 8, 2013	August 9, 2013	November 11, 2013
Payment date	February 21, 2013	May 21, 2013	August 23, 2013	November 22, 2013
Amount	$662,846	$655,106	$684,699	$662,846

2011
On February 14, 2011, the Finance Committee of the Parent Company approved the declaration and payment of the first quarter cash dividends of 8.25% per annum or equivalent of $0.61 million to all shareholders of the Parent Company's preferred shares as of record date of February 8, 2011. Payment date was on February 21, 2011. This was ratified by the BOD of the Parent Company on February 23, 2011.

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

	2nd Quarter	3rd Quarter	4th Quarter
Record date	May 9, 2011	August 17, 2011	November 9, 2011
Payment date	May 20, 2011	August 23, 2011	November 22, 2011
Amount	$605,658	$605,658	$605,658

On the same date, the BOD of the Parent Company approved the declaration of regular cash dividend of ₱0.04 per share (aggregating to $1.43 million) to all outstanding common shares as of record date, March 9, 2011. This was paid on April 4, 2011.

On December 5, 2011, the BOD of the Parent Company also approved the declaration of the quarterly cash dividends of 8.25% per annum for 2012 on its outstanding preferred shares. The record and payment dates for the cash dividends are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Record date	February 8, 2012	May 9, 2012	August 10, 2012	November 9, 2012
Payment date	February 21, 2012	May 21, 2012	August 23, 2012	November 22, 2012
Amount	$621,229	$607,575	$641,709	$621,229

2010
On January 21, 2010, the Parent Company's BOD approved and authorized the declaration and payment of quarterly dividend of 8.25% per annum from the unappropriated retained earnings as of December 31, 2008, to all shareholders of the Parent Company's preferred shares. Other details follow:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Covering period	November 21, 2009 to February 22, 2010	February 22, 2010 to May 21, 2010	May 21, 2010 to August 24, 2010	August 24, 2010 to November 22, 2010
Record date	February 8, 2010	May 10, 2010	August 9, 2010	November 8, 2010
Payment date	February 22, 2010	May 21, 2010	August 24, 2010	November 22, 2010
Amount	$599,703	$567,460	$612,599	$580,357

On April 8, 2010, the BOD of the Parent Company approved and authorized the declaration and payment of cash dividends in the amount of $0.0024 or ₱0.11 per common share or the equivalent of $2.99 million, out of the unrestricted retained earnings of the Parent Company as of December 31, 2009, to all common stockholders of the Parent Company as of record date April 30, 2010. The dividends were paid on May 27, 2010.

Treasury Stock
The movements in the treasury stock follow:

	2012		2011		2010	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**15,892,109**	**$1,012,585**	15,892,109	$1,012,585	15,892,365	$1,012,592
Issuances during the year	**–**	**–**	–	–	(300)	(17)
Acquisitions during the year	**–**	**–**	–	–	44	10
At end of year	**15,892,109**	**$1,012,585**	15,892,109	$1,012,585	15,892,109	$1,012,585

On April 8, 2010, the management of the Parent Company approved to assign 100 qualifying shares to each of its three (3) independent directors. The qualifying shares were pulled out from the treasury shares of the Parent Company.

On September 24, 2010, the Parent Company redeemed the fractional shares aggregating to 44 shares resulting from the stock dividend declared on April 8, 2010.

Retained Earnings
The balance of the appropriated retained earnings from prior years' appropriations approved by the Parent Company's BOD and Executive Committee will be used to finance continuous plant expansions in the newly acquired facilities in Europe and Mexico.

On December 10, 2012, the BOD of the Parent Company approved the reclassification of appropriated retained earnings to unappropriated retained earnings amounting to $10.00 million for dividend declaration.

On February 23, 2011 and December 5, 2011, the BOD of the Parent Company approved the reclassification of appropriated retained earnings to unappropriated retained earnings amounting to $20.00 million and $10.00 million, respectively.

Accumulated net earnings of the subsidiaries amounting to $53.13 million and $44.72 million as of December 31, 2012 and 2011, respectively, are not available for dividend declaration. This accumulated equity in net earnings becomes available for dividend upon receipt of cash dividends from the investees.

In accordance with Securities Regulation Code Rule 68, As Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2012 amounted to $13.04 million.

18. Cost of Goods Sold and Services

This account consists of:

	2012	2011	2010
Direct, indirect and other material-related costs (Note 7)	**$449,059,291**	$388,879,422	$265,483,888
Direct labor, salaries, wages and employee benefits (Note 25)	**101,177,267**	90,847,467	64,704,176
Depreciation and amortization (Notes 9 and 11)	**20,465,277**	21,698,353	16,231,694
Facilities costs and others (Note 20)	**37,933,642**	35,851,132	21,432,255
	$608,635,477	$537,276,374	$367,852,013

19. **Operating Expenses**

This account consists of:

	2012	2011	2010
Salaries, wages and employee benefits (Note 25)	**$23,631,371**	$28,175,341	$22,897,063
Depreciation and amortization (Notes 9 and 11)	**4,911,783**	4,080,902	5,786,993
Facilities costs and others (Note 20)	**17,709,023**	20,430,524	11,539,960
	$46,252,177	$52,686,767	$40,224,016

20. **Facilities Costs and Others**

This account consists of:

	Cost of Goods Sold and Services			**Operating Expenses**		
	2012	2011	2010	**2012**	2011	2010
Utilities	**$13,408,630**	$12,993,248	$8,071,258	**$935,136**	$913,419	$649,768
Repairs and maintenance	**6,249,440**	6,189,964	3,381,890	**856,785**	974,965	492,723
Outsourced activities (Note 28)	**5,139,000**	6,008,519	3,379,122	**5,915,728**	6,828,361	5,549,611
Variable overhead	**3,751,925**	2,945,218	3,616,274	–	–	–
Travel	**1,158,276**	1,435,137	192,176	**2,112,897**	1,922,497	1,496,090
Government-related	**1,132,098**	1,262,184	1,171,785	**1,725,075**	1,605,101	157,017
Insurance	**758,459**	586,854	–	**948,695**	550,173	262,678
Provision (reversal of provision) for inventory obsolescence (Note 7)	**593,469**	–	–	**(310,521)**	1,029,155	(1,734,481)
Postal and communication	**121,147**	142,677		**986,286**	869,266	781,162
Technology-related	**90,820**	184,563	41,733	**1,949,604**	1,408,556	1,063,758
Promotional materials, representation and entertainment	**67,229**	116,445	–	**518,765**	492,746	270,215
Staff house	**841**	482	–	**30,581**	271,366	25,844
Membership fee	**92**	30,322	–	**51,453**	182,961	69,929
Provision for doubtful accounts (Note 6)	**–**	–	–	**441,498**	1,977,541	1,531,927
Sales commission	**–**	–	–	**753,667**	835,092	556,665
Others	**5,462,216**	3,955,519	1,578,017	**793,374**	569,325	367,054
	$37,933,642	$35,851,132	$21,432,255	**$17,709,023**	$20,430,524	$11,539,960

"Others" include donations, small tools and instruments, spare parts, brokerage charges, freight out, test material, service processing fees, scrap materials, office supplies, copying expenses and impairment loss on property and equipment.

21. **Interest Expense and Bank Charges**

This account consists of:

	2012	2011	2010
Interest expense (Notes 14 and 15)	**$2,900,187**	$2,182,374	$928,072
Bank charges	**81,621**	155,191	94,727
Others	**39,665**	162,433	14,130
	$3,021,473	$2,499,998	$1,036,929

"Others" include interest on finance lease and employees' car and housing loans.

22. **Interest Income**

This account consists of:

	2012	2011	2010
Interest on bank balances and fixed deposits (Note 5)	**$267,092**	$299,849	$333,798
Others	**–**	15,671	18,780
	$267,092	$315,520	$352,578

23. **Income Taxes**

Parent Company
As discussed in Note 1, the Parent Company is registered with PEZA and is entitled to certain incentives, which include ITH. The Parent Company's entitlements to ITH under the current PEZA registrations have expirations beginning January 2010. As of December 31, 2012, there are two (2) remaining project activities with ITH entitlement which will expire in 2013 and 2016. Upon the expiration of the ITH, the Parent Company will be subject to a five percent (5%) final tax on gross income earned after certain allowable deductions in lieu of payment of national and local taxes.

PSi
PSi is registered with PEZA under the Omnibus Investment Code of 1987 and R.A. No. 7916 on May 17, 2004, for the manufacture of semiconductor devices and for export and importation of raw materials, machinery and equipment, and other materials used in manufacturing semiconductor devices in the Food Terminal Incorporated - Special Economic Zone (FTI-SEZ), Taguig City and Carmelray Industrial Park II, Calamba City.

On August 24, 2012, PEZA issued an amended Certificate of Registration to PSi as an Ecozone Export Enterprise to include the transfer of registered activities of PSi Laguna to PSi. The issuance of the new certification was based on the approval of the merger of PSi and PSi Laguna with the former as the surviving entity and the latter as the absorbed entity, by the Philippine SEC on June 21, 2012 (see Note 1).

As a PEZA-registered entity, PSi is subject to a five percent (5%) tax on gross income less allowable deductions, as defined in R.A. No. 7916, as amended by R.A. No. 8748, in lieu of all national and local taxes, except real property tax on land being leased by PSi in FTI-SEZ and Carmelray Industrial Park II. The five percent (5%) tax on gross income shall be paid and remitted as follows: (a) three percent (3%) to the National Government; and (b) two percent (2%) to the treasurer's office of the municipality or city where the enterprise is located.

On July 9, 2010, PSi registered its subcontracted services with PEZA. Under the Supplemental Agreement, the subcontracted services are entitled to incentives granted to non-pioneer projects under R.A. No. 7916, as amended. PSi started rendering subcontracted services on July 15, 2010.

On July 9, 2010, PSi was registered with PEZA as an Ecozone Logistics Service Enterprise to provide warehousing logistics support services.

On February 17, 2011, the BOD of PEZA approved, through Resolution Nos. 11-073 and 11-074, the application of PSi for the registration of its new activity, particularly the manufacture of Power

Modules semiconductor products ("New Activity"). The New Activity shall be entitled to incentives granted to non-pioneer projects under R.A. No. 7916, as amended, as indicated in the Supplemental Agreement between PSi and PEZA executed on April 6, 2011.

As of December 31, 2012, there are two (2) remaining PEZA registered activities with ITH entitlement which will expire in 2014.

ITH incentives availed in 2012, 2011 and 2010 amounted to $6,307, $11,079 and nil, respectively.

STHK and Monarch
Hong Kong profits tax has been provided at the rate of 16.5% for the years ended December 31, 2012, 2011 and 2010 on the assessable profit for the year.

SZSTE, STJX and STCQ and IMICD
In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises," the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax (EIT) for the first two (2) years and a 50% reduction in EIT for the next three (3) years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five (5) years.

SZSTE is subject to taxation at the statutory tax rate of 24% for the years ended December 31, 2012 and 2011 and 22% in 2010 on its taxable income as reported in the financial statements of SZSTE prepared in accordance with the accounting regulations in the PRC.

STJX is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after all tax losses have been fully offset in accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STJX is in its seventh profitable year, and hence, is subject to taxation at the rate of 28% in 2012 and 2011 and 25% in 2010 on the taxable income as reported in the financial statements of STJX prepared in accordance with the accounting regulations in the PRC.

STCQ is entitled to full exemption from EIT for the first five (5) years, commencing from the first profitable year, that is, after all tax losses have been fully offset in accordance with the "Income Tax Law of PRC for Enterprises with Foreign Investment and Foreign Enterprises." STCQ is in its second profitable year, and hence, is not subject to taxation on the taxable income as reported in the financial statements of STCQ prepared in accordance with the accounting regulations in the PRC.

IMICD is subject to taxation at the statutory rate of 25% on their taxable income as reported in the financial statement. With effect from year 2008, the China authority ceased the incentive of preferential tax treatment for enterprises with foreign investment and foreign enterprises.

STPHIL
STPHIL is registered with the PEZA as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to five percent (5%) on gross income, as defined under R.A. No. 7916, in lieu of payment of national and local taxes.

Cooperatief
Taxation is calculated on the reported pre-tax result, at the prevailing tax rates, taking into account of any losses carried forward from previous financial years (if applicable) and tax-exempt items and nondeductible expenses and using tax facilities.

IMI France
Income tax is computed based on the income earned by the entity during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back one year. The tax rate applicable in 2012 and 2011 is 33.33% based on net profits.

EPIQ EA
Income taxes are calculated in accordance with the Bulgarian legislation, and the effect of the current and deferred taxes is reported. The current tax is calculated based on the taxable income for tax purposes. The nominal tax rate in 2012 and 2011 is 10%.

EPIQ MX
EPIQ MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in profit or loss in the year they are incurred. Income tax rate for 2012 and 2011 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%.

Income tax incurred will be the higher of Income Tax and Business Flat Tax.

EPIQ CZ
Income tax due is calculated by multiplying the tax base by the rate as defined by the income tax law of Czech Republic. The tax base comprises the book income from operations which is increased or decreased by permanently or temporarily tax-decreasing costs and tax-deductible revenues (e.g. creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate in 2012 and 2011 is 19%.

The effective income tax of the Group is as follows:

	2012	2011	2010
Income before income tax	**$4,749,065**	$5,945,599	$7,822,169
Tax on:			
Income from foreign subsidiaries	**3,820,307**	3,431,467	3,085,736
Income subject to 5% gross income tax	**831,774**	741,540	324,316
Income subject to regular corporate income tax	**35,497**	3,939	4,077
Others	–	916	46
Current income tax expense	**4,687,578**	4,177,862	3,414,175
Deferred income tax expense (benefit)	**(728,268)**	476,224	(6,651)
Effective income tax	**$3,959,310**	$4,654,086	$3,407,524

The tax on income from foreign subsidiaries was derived by aggregating the effective income tax for each national jurisdiction.

The reconciliation of the statutory income tax rate to the effective income tax rate of the Group follows:

	2012	2011	2010
Statutory income tax	**30.00%**	30.00%	30.00%
Tax effects of:			
Income subject to ITH	**(1.65%)**	(15.12%)	50.87%
Income subject to gross income tax	**(13.76%)**	(28.54%)	(14.07%)
Interest income subjected to final tax	**(0.88%)**	(0.90%)	(0.54%)
Nondeductible expenses	**111.85%**	134.47%	(13.75%)
Difference in tax jurisdiction	**(42.19%)**	(41.63%)	(8.95%)
Provision for income tax	**83.37%**	78.28%	43.56%

Deferred taxes of the Group relate to the tax effects of the following:

	2012	2011
Deferred tax assets:		
Revaluation of property, plant and equipment of subsidiaries	**$444,245**	$444,245
Allowance for inventory obsolescence	**231,245**	111,275
Allowance for doubtful accounts	**194,591**	–
Others	**212,788**	188,072
	1,082,869	743,592
Deferred tax liabilities:		
Revaluation of property, plant and equipment and intangibles of subsidiaries	**(3,405,195)**	(3,966,754)
Unrealized mark-to-market gains from put and call options	**(802,557)**	(820,748)
Accelerated depreciation	**(186,914)**	–
Excess of net book value over tax written-down value of property, plant and equipment of subsidiaries	**(9,988)**	(9,988)
Others	**(223,784)**	(12,668)
	(4,628,438)	(4,810,158)
Net deferred tax liabilities	**($3,545,569)**	($4,066,566)

The temporary differences, MCIT and NOLCO of PSi for which no deferred income tax assets have been recognized are as follows:

	2012	2011
Excess of:		
Cost over NRV of inventories	**$2,682,635**	$2,097,023
Rent expense under operating lease arrangement computed on a straight-line basis over the amount computed based on lease agreement	**263,902**	417,307
Minimum corporate income tax (MCIT) over regular corporate income tax	**49**	916
Unrealized foreign exchange loss on monetary assets	**1,437,866**	2,439,561
Net operating loss carryover (NOLCO)	**631,228**	820,789
Pension liability	**430,878**	431,122
	$5,446,558	$6,206,718

Details of PSi's NOLCO and MCIT follow:

Inception Year	Expiry Year	NOLCO	MCIT
2012	2015	$402	$–
2011	2014	505	–
2010	2013	429,971	49
		$430,878	$49

Movements in NOLCO and MCIT are as follows:

2012

	NOLCO	**MCIT**
At January 1, 2012	**$431,122**	**$916**
Expiration	**(29,949)**	**(929)**
Foreign currency exchange difference	**29,303**	**62**
Addition	**402**	**–**
At December 31, 2012	**$430,878**	**$49**

2011

	NOLCO	MCIT
At January 1, 2011	$453,628	$3,237
Expiration	(22,848)	(2,321)
Addition	342	–
At December 31, 2011	$431,122	$916

24. Earnings per Share (EPS)

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company:

	2012	2011	2010
Net income	**$5,441,942**	$3,289,314	$4,738,929
Less: Dividends on preferred stock (Note 17)	**2,665,497**	2,477,852	2,360,119
	$2,776,445	$811,462	$2,378,810
Weighted average number of common shares outstanding	**1,621,760,776**	1,526,590,221	1,337,038,223
Basic and diluted EPS	**$0.002**	$0.001	$0.002

As of December 31, 2012, 2011 and 2010, the Parent Company has no dilutive potential common shares.

25. Employee Benefits

The Parent Company, PSi and EPIQ EA have defined benefit pension plans covering substantially all of their employees, which require contributions to be made to administered funds. The plans are administered by local banks as trustees. The latest retirement valuation was made on December 31, 2012.

The following tables summarize the components of the net pension expense recognized in the consolidated statements of comprehensive income and the funded status and amounts recognized in the consolidated balance sheets for the plan:

Net Pension Expense

	2012	2011	2010
Current service cost	**$1,360,128**	$1,497,897	$630,577
Expected return on plan assets	**(1,083,210)**	(1,178,866)	(992,574)
Benefits paid due to settlement	**1,065,922**	(23,837)	–
Interest cost on benefit obligation	**1,047,994**	1,095,671	583,682
Amortization of actuarial losses (gains)	**259,712**	133,506	(55,578)
Settlement gain	**–**	166,774	136,079
Curtailment loss	**–**	160,619	146,377
Net defined benefit expense	**$2,650,546**	$1,851,764	$448,563

Net Pension Asset

	2012	2011
Plan assets	**$12,630,615**	$12,185,092
Benefit obligation	**(14,955,921)**	(15,629,752)
Underfunded	**(2,325,306)**	(3,444,660)
Unrecognized net actuarial losses	**3,091,955**	4,922,537
Foreign currency exchange difference	**54,580**	–
Net pension asset	**$821,229**	$1,477,877

These are presented in the consolidated balance sheets as follows:

	2012	2011
Pension asset -		
Parent Company	**$1,941,695**	$2,807,134
Pension liabilities:		
PSi	**$835,763**	$1,086,610
EPIQ EA	**284,703**	242,647
	$1,120,466	$1,329,257
Net pension asset	**$821,229**	$1,477,877

The Parent Company will contribute $428,154 to the retirement fund in February 2013 to compensate the underfunded status of the retirement plan.

Movements in the net pension asset of the Parent Company for the years ended December 31, 2012 and 2011 follow:

	2012	2011
At beginning of year	**$2,807,134**	$2,765,675
Net pension expense	**(1,026,539)**	(1,018,375)
Foreign currency exchange difference	**161,100**	1,059,834
At end of year	**$1,941,695**	$2,807,134

Movements in the net pension liability of PSi for the years ended December 31, 2012 and 2011 follow:

	2012	2011
At beginning of year	**$1,086,610**	$1,392,995
Benefits paid due to settlement	**(1,870,335)**	(1,111,767)
Net pension expense	**1,587,549**	815,334
Foreign currency exchange difference	**31,939**	(9,952)
At end of year	**$835,763**	$1,086,610

Movements in the net pension liability of EPIQ EA for the year ended December 31, 2012 and for the five-month period ended December 31, 2011 follow:

	2012	2011
At beginning of period	**$242,647**	$220,123
Net pension expense	**36,458**	18,055
Foreign currency exchange difference	**5,598**	4,469
At end of period	**$284,703**	$242,647

The rollforward of the fair value of plan assets follows:

	2012	2011
At beginning of year	**$12,185,092**	$12,812,771
Expected return on plan assets	**1,083,210**	1,178,866
Benefits paid during the year	**(995,997)**	(1,129,315)
Foreign currency exchange difference	**452,506**	7,679
Actuarial losses	**(94,196)**	(684,909)
At end of year	**$12,630,615**	$12,185,092
Actual return on plan assets	**$1,014,304**	$484,101

The rollforward of the present value of obligation follows:

	2012	2011
At beginning of year	**$15,629,752**	$14,145,445
Current service cost	**1,360,128**	1,497,897
Actuarial losses (gains)	**(1,304,235)**	528,960
Curtailments	**(1,148,389)**	238,797
Benefits paid during the year	**(1,114,283)**	(1,513,280)
Interest cost on benefit obligation	**1,047,994**	1,095,671
Foreign currency exchange difference	**484,954**	(28,627)
Settlements	**–**	(555,234)
Additions through business combination	**–**	220,123
At end of year	**$14,955,921**	$15,629,752

The rollforward of the unrecognized actuarial losses follows:

	2012	2011	2010
At beginning of year	**($4,922,537)**	($2,711,374)	$2,836,751
From pension obligation	**1,304,235**	(528,960)	(5,499,387)
Recognized actuarial losses (gains) due to curtailment	**394,905**	(64,551)	(51,624)
Amortization of actuarial losses (gains)	**262,783**	126,741	(55,578)
From plan assets	**(94,196)**	(684,909)	476,306
Foreign currency exchange difference	**(37,145)**	(1,226,161)	137,554
Recognized actuarial losses due to settlement	**–**	159,912	136,079
Additions through business combination	**–**	6,765	(691,475)
At end of year	**($3,091,955)**	($4,922,537)	($2,711,374)

The distribution of the plan assets at year-end follows:

	2012	2011
Government securities	**$7,828,734**	$7,560,086
Equities	**1,327,058**	1,081,823
Corporate bonds	**1,283,963**	1,608,780
Loans	**891,505**	1,032,678
Trust funds	**822,352**	670,448
Investment properties	**450,329**	221,556
Others	**52,721**	47,574
Cash	**13,397**	26
Liabilities	**(39,444)**	(37,879)
Total plan assets	**$12,630,615**	$12,185,092

Others include receivables from sale of shares of stock, deposit instruments, and mutual funds.

The plan assets include shares of stock, corporate bonds and deposit instruments of related parties (primarily Ayala Corporation (AC), Ayala Land, Inc. (ALI), Bank of the Philippine Islands (BPI) and Manila Water Corporation (MWC) as follows:

2012

	Equity Securities	**Debt Securities**	**Other Securities**	**Total**
Fair Value				
AC shares/bonds	**$112,468**	**$320,287**	**$245,769**	**$678,524**
Other AC group shares/bonds	**198,307**	**73,916**	**323,809**	**596,032**
Total	**$310,775**	**$394,203**	**$569,578**	**$1,274,556**
Carrying Value				
AC shares/bonds	**$97,804**	**$316,687**	**$243,605**	**$658,096**
Other AC group shares/bonds	**149,285**	**73,082**	**323,266**	**545,633**
Total	**$247,089**	**$389,769**	**$566,871**	**$1,203,729**
Unrealized Gain				
AC shares/bonds	**$14,664**	**$3,600**	**$2,164**	**$20,428**
Other AC group shares/bonds	**49,022**	**834**	**543**	**50,399**
Total	**$63,686**	**$4,434**	**$2,707**	**$70,827**

2011

	Equity Securities	Debt Securities	Other Securities	Total
Fair Value				
AC shares/bonds	$20,714	$299,903	$230,128	$550,745
Other AC group shares/bonds	59,191	69,212	12,006	140,409
Total	$79,905	$369,115	$242,134	$691,154
Carrying Value				
AC shares/bonds	$20,385	$296,533	$228,102	$545,020
Other AC group shares/bonds	58,988	68,431	12,027	139,446
Total	$79,373	$364,964	$240,129	$684,466
Unrealized Gain (Loss)				
AC shares/bonds	$329	$3,370	$2,026	$5,725
Other AC group shares/bonds	203	781	(21)	963
Total	$532	$4,151	$2,005	$6,688

The expected rates of return on the plan assets follow:

	2012	2011
Treasury bills	**4.92%**	5.09%
Equities	**0.84%**	1.61%-1.84%
Corporate bonds	**1.74%**	2.08%

The overall rates of return are based on the expected return within each asset category and on current asset allocations. The expected returns are developed in conjunction with external advisers and take into account both current market expectations of future returns, when available, and historical returns.

The principal assumptions used to determine pension benefits of the Parent Company, PSi and EPIQ EA are shown below:

	2012	2011
Discount rate	**5.80%-5.96%**	6.20%-7.00%
Expected rate of return on plan assets	**7.25%-7.50%**	7.25%-9.00%
Salary rate increase	**5.00%**	5.00%-7.00%

The deficit in the plan and the economic benefit available as a reduction in future contributions amounted to $2.33 million and nil, respectively, in 2012, and $3.44 million and nil, respectively, in 2011.

Amounts for the current and previous years follow:

	2012	2011	2010	2009	2008
Plan assets	**$12,630,615**	$12,185,092	$12,812,771	$10,997,452	$13,282,258
Defined benefit obligation	**(14,955,921)**	(15,629,752)	(14,145,445)	(5,294,481)	(4,589,104)
Surplus (deficit)	**($2,325,306)**	($3,444,660)	($1,332,674)	$5,702,971	$8,693,154
Experience adjustments on plan assets	**($94,196)**	($684,909)	($489,126)	$409,922	$2,721,023
Experience adjustments on plan liabilities	**$1,083,619**	$1,919,560	$461,141	$832,013	$4,720,473

The Parent Company's subsidiaries, excluding PSi and EPIQ EA, participate in their respective national pension schemes which are considered as defined contribution plans. The retirement expenses of these subsidiaries are allocated as follows:

	2012	2011	2010
Cost of goods sold and services (Note 18)	**$1,720**	$1,072	$1,127
Operating expenses (Note 19)	**251,148**	316,043	284,843
	$252,868	$317,115	$285,970

The retirement expenses of the Group are recorded under "Salaries, wages, and employee benefits."

Salaries, wages, and employee benefits follow:

	2012	2011	2010
Salaries and wages	**$111,243,118**	$106,227,793	$79,920,925
Social security costs	**1,375,183**	1,652,411	1,392,817
Retirement expense under defined benefit plans	**2,650,546**	1,851,764	448,563
Retirement expense under defined contribution plans	**252,868**	317,115	285,970
Others	**9,286,923**	8,973,725	5,552,964
	$124,808,638	$119,022,808	$87,601,239

"Others" include expense for leave benefits, training and seminars, employee social and recreation, bonuses, Pag-ibig premium, health premium, employee insurance expenses and other employee benefits.

Salaries, wages, and employee benefits are allocated as follows:

	2012	2011	2010
Cost of goods sold and services (Note 18)	**$101,177,267**	$90,847,467	$64,704,176
Operating expenses (Note 19)	**23,631,371**	28,175,341	22,897,063
	$124,808,638	$119,022,808	$87,601,239

26. Employee Stock Ownership Plan (ESOWN)

The Group has an ESOWN which is a privilege extended to the Group's eligible managers and staff whereby the Group allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the plan. Under the ESOWN, for as long as the Group remains privately-owned, the subscription price of the shares granted shall be determined based on the multiples of net book value, earnings before income tax, depreciation and amortization and net income of 10 comparable Asian EMS companies as at the close of the calendar year prior to the grant. Once the Parent Company becomes publicly listed, the subscription price per share shall be based on market price with a discount to be determined by the Compensation Committee of the BOD at the date of grant.

To subscribe, the grantee must be an eligible participant as defined in the plan. However, should the grantee cease to be employed by or connected with the Group before the full payment is made for the subscribed shares, the remaining balance becomes due and demandable upon separation, except for special circumstances as provided for by the ESOWN. In such instances, the grantee/heirs may be allowed to continue paying for the balance for the duration of the original payment period. If the grantee is separated for cause, shares not fully paid will be forfeited and whatever the amount the grantee has partially paid will be returned to him with no interest; if fully paid prior to separation, the shares shall be subject to the Right to Repurchase. If the grantee separates voluntarily, fully vested but not fully paid shares may be paid for in full upon separation subject to Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price when the shares were availed of. If the grantee separates involuntarily, shares not fully paid for, whether fully vested or not, may be paid for in full within ninety (90) days from separation subject to the Right to Repurchase; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price.

A subscription is declared delinquent when the minimum payment required remains unpaid one month after the due date. Any cash dividend of a delinquent subscription will be applied to pay the subscription due. Stock dividends paid while the subscription is delinquent will only be released to the grantee when the delinquent account is paid. Sixty (60) days after the due date and account is still delinquent, the remaining shares are forfeited and the employee will not be eligible for future ESOWN grants.

On February 21, 2007, the Parent Company's BOD approved the granting of 45,150,000 shares of the Parent Company under the ESOWN at the subscription price of ₱12.50 to various employees of STEL and to the Parent Company's top performers and key personnel. In 2008, additional 1,539,000 shares were granted to STEL and to the Parent Company's top performers and key personnel subject to the same terms as the shares subscribed in 2007. All the granted shares have been subscribed. The grantees will pay for the shares subscribed through installments over a period of eight (8) years, wherein an initial payment of 2.5% of the value of the subscribed shares is payable upon subscription. It shall serve as a down payment for the subscription. The subscribed shares have a holding period as follows: (a) 40% after one year from subscription date; (b) 30% after two years from subscription date; and (c) 30% after three years from subscription date. The actual grant date of the above two grants was on October 15, 2007. The fair value, determined based on a private bank's valuation of the Parent Company to be used by a potential investor, was ₱14.98 per share. The difference between the fair value and the subscription price will be recognized as employee benefit expense over the required service period. In 2008, the management has approved a two-year moratorium on the scheduled payments due in 2008 and 2009 which resulted in an extension of the payment period from eight (8) to ten (10) years. This extension resulted in a net reversal of accretion amounting to $0.25 million in 2009. The outstanding shares under this grant have fully vested in September 2010.

On December 14, 2009, the Chairman of the Parent Company's BOD approved the terms for granting 30,885,000 shares of the Parent Company under ESOWN at the subscription price of ₱5.54 per share to various employees of the Group. The grant date was on January 21, 2010. The payment scheme and holding period for this grant are similar to the grant in 2007. The fair value per share used in valuing the grant is ₱9.30, which is the closing price of the Parent Company's stock at the PSE at the date of grant.

Movements in the number of shares outstanding under ESOWN for the years ended December 31, 2012 and 2011 follow:

	2012		2011	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
At January 1	**116,250,309**	**₱6.59**	120,987,477	₱6.59
Forfeitures	**(5,844,495)**	**6.59**	(4,737,168)	6.59
At December 31	**110,405,814**	**₱6.59**	116,250,309	₱6.59

The employee benefit expense in 2012, 2011 and 2010 amounted to $0.07 million, $0.67 million and $1.93 million, respectively. The accretion, recognized as increase in "Subscriptions receivable" and "Additional paid-in capital" presented in the consolidated statements of changes of equity in 2012, 2011 and 2010 amounted to $0.68 million, $0.43 million and $1.91 million, respectively (see Note 17).

27. Segment Information

Management monitors operating results per geographical area (with the Philippine operations further subdivided into the Parent Company and PSi) for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue, gross profit, operating income, interest income and net income before and after tax.

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

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

The following tables present revenue and profit information regarding the Group's geographical segments for the years ended December 31, 2012, 2011 and 2010.

December 31, 2012	**Philippines**		**Singapore/ China**	**Europe Mexico**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**						
Revenue								
Third party	**$159,081,890**	**$45,598,208**	**$273,994,631**	**$182,233,202**	**$457,897**	**$483,894**	**$–**	**$661,849,722**
Intersegment	–	–	**6,521,490**	–	**2,695,395**	**908,796**	**(10,125,681)**	–
Total revenue	**$159,081,890**	**$45,598,208**	**$280,516,121**	**$182,233,202**	**$3,153,292**	**$1,392,690**	**($10,125,681)**	**$661,849,722**
Segment gross profit (loss)	**$14,113,123**	**($3,861,153)**	**$28,379,263**	**$18,776,688**	**$2,231,718**	**$1,038,289**	**($7,463,683)**	**$53,214,245**
Segment operating income (loss)	**($2,518,520)**	**(9,868,520)**	**$11,172,370**	**$8,897,538**	**($875,279)**	**$151,546**	**$2,933**	**$6,962,068**
Segment interest income	**$469,490**	**$2,858**	**$125,175**	**$5,312**	**$–**	**$57**	**($335,800)**	**$267,092**
Segment interest expense	**$1,197,181**	**$323,317**	**$419,371**	**$1,414,671**	**$1,945**	**$788**	($335,800)	**$3,021,473**
Segment profit (loss) before income tax	**($2,267,634)**	**($10,510,556)**	**$10,792,286**	**$7,504,568**	**($877,764)**	**$133,917**	**($25,752)**	**$4,749,065**
Segment provision for income tax	**(697,756)**	**(42,271)**	**(2,677,956)**	**(540,396)**	–	**(931)**	–	**(3,959,310)**
Segment profit (loss) after income tax	**($2,965,390)**	**($10,552,827)**	**$8,114,330**	**$6,964,172**	**($877,764)**	**$132,986**	**($25,752)**	**$789,755**

December 31, 2011	Philippines		Singapore/ China	Europe/Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue								
Third party	$154,151,770	$73,559,713	$280,118,990	$66,239,366	$394,919	$989,150	$–	$575,453,908
Intersegment	–	403,500	3,898,157	–	2,842,333	885,430	(8,029,420)	–
Total revenue	$154,151,770	$73,963,213	$284,017,147	$66,239,366	$3,237,252	$1,874,580	($8,029,420)	$575,453,908
Segment gross profit	$12,128,822	$3,127,887	$22,014,238	$5,425,951	$2,338,546	$1,088,152	($7,946,062)	$38,177,534
Segment operating income (loss)	($13,936,898)	($4,024,730)	$3,902,328	($683,681)	$25,602	$208,146	$–	($14,509,233)
Segment interest income	$185,072	$3,334	$100,007	$27,077	$–	$30	$–	$315,520
Segment interest expense	$624,079	$389,496	$291,989	$1,191,848	$1,775	$811	$–	$2,499,998
Segment profit (loss) before income tax	($8,574,088)	($4,390,951)	$6,666,192	$12,098,547	$22,844	$239,468	($116,413)	$5,945,599
Segment provision for income tax	(1,326,845)	(129,022)	(2,724,363)	(223,009)	(250,000)	(847)	–	(4,654,086)
Segment profit (loss) after income tax	($9,900,933)	($4,519,973)	$3,941,829	$11,875,538	($227,156)	$238,621	($116,413)	$1,291,513

December 31, 2010	Philippines		Singapore/ China	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi					
Revenue							
Third party	$143,388,346	$19,345,006	$248,839,859	$280,521	$472,873	$–	$412,326,605
Intersegment	–	–	3,997,122	2,463,391	863,087	(7,323,600)	–
Total revenue	$143,388,346	$19,345,006	$252,836,981	$2,743,912	$1,335,960	($7,323,600)	$412,326,605
Segment gross profit	$13,857,388	$963,522	$32,701,351	$2,588,665	$935,889	($6,572,223)	$44,474,592
Segment operating income (loss)	($8,573,328)	($707,780)	$13,407,801	$28,858	$95,025	$–	$4,250,576
Segment interest income	$272,574	$3,181	$76,786	$–	$37	$–	$352,578
Segment interest expense	$437,792	$102,701	$493,646	$1,561	$1,229	$–	$1,036,929
Segment profit (loss) before income tax	($4,425,209)	($769,800)	$12,871,708	$27,297	$118,173	$–	$7,822,169
Segment provision for income tax	(282,199)	(46,240)	(3,078,292)	–	(793)	–	(3,407,524)
Segment profit (loss) after income tax	($4,707,408)	($816,040)	$9,793,416	$27,297	$117,380	$–	$4,414,645

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

For the year ended December 31, 2012, the operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $10.13 million and intersegment cost of sales and services and operating expenses aggregating to $2.66 million and $4.80 million, respectively.

For the year ended December 31, 2011, the operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $8.03 million and intersegment cost of sales and services and operating expenses aggregating to $0.08 million and $6.71 million, respectively.

For the year ended December 31, 2010, the operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $7.32 million and intersegment cost of sales and services and operating expenses aggregating to $0.75 million and $5.88 million, respectively.

The following table presents segment assets of the Group's geographical segments as of December 31, 2012 and 2011:

Segment assets	**Philippines**		**Singapore/ China**	**Europe/ Mexico**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**						
December 31,2012	**$254,327,137**	**$19,756,312**	**$219,501,358**	**$127,487,552**	**$1,926,343**	**$914,487**	**($168,618,608)**	**$455,294,581**
December 31,2011	$245,450,884	$28,859,573	$207,481,985	$113,564,811	$2,821,955	$889,596	($154,376,510)	$444,692,294

Segment assets as of December 31, 2012 do not include investments in subsidiaries amounting to $129.56 million and intersegment loans and receivables amounting to $46.39 million which are eliminated on consolidation. Furthermore, goodwill arising from the acquisition of STEL, PSi, IMI USA and EPIQ CZ amounting to $45.13 million, $7.48 million, $0.66 million and $0.65 million, respectively, are recognized at consolidated level.

Segment assets as of December 31, 2011 do not include investments in subsidiaries amounting to $129.53 million and intersegment loans and receivables amounting to $32.21 million which are eliminated on consolidation. Furthermore, goodwill arising from the acquisition of STEL, PSi, IMI USA and EPIQ CZ amounting to $45.13 million, $7.48 million (net of impairment loss of $2.72 million), $0.66 million and $0.65 million, respectively, are recognized at consolidated level.

The following table presents revenues from external customers and noncurrent assets:

	Revenues from External Customers			**Noncurrent Assets**	
	2012	2011	2010	**2012**	2011
Philippines	**$328,827,668**	$284,763,474	$153,701,402	**$42,341,822**	$40,891,989
Europe	**203,910,809**	139,314,874	101,406,122	**1,141,157**	1,200,195
USA	**63,268,887**	72,609,453	67,921,099	**63,507,886**	71,656,878
Asia	**60,160,816**	69,646,659	73,948,544	**41,312,873**	45,366,664
Japan	**5,681,542**	9,119,448	15,349,438	**16,763**	78,418
	$661,849,722	$575,453,908	$412,326,605	**$148,320,501**	$159,194,144

Revenues are attributed to countries on the basis of the customer's location. In 2012, certain customers independent of each other but within the same group account for 11.55% of the Group's total revenue. In 2011, no revenue of a specific customer reached 10% of the Group's total revenue.

For the year ended December 31, 2012, one customer group from the Europe segment accounts for $76.42 million or 11.55 % of the Group's total revenues. For the years ended December 31, 2011 and 2010, one customer from the Philippine segment accounts for $47.06 million or 8.18% and $42.74 million or 10.37% of the Group's total revenues, respectively.

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

The following table presents revenues per product type:

	2012	2011	2010
Automotive	**$207,949,017**	$106,497,849	$36,604,125
Telecom	**127,209,820**	109,859,417	112,253,127
Industrial	**107,491,974**	102,569,175	80,627,459
Consumer	**107,307,549**	114,272,192	91,000,340
Multiple market	**53,872,819**	83,417,526	26,423,871
Computer peripherals	**30,488,587**	32,627,483	36,822,362
Medical	**22,085,306**	22,451,137	24,594,396
Others	**5,444,650**	3,759,129	4,000,925
Total	**$661,849,722**	$575,453,908	$412,326,605

28. **Lease Commitments**

Finance Lease Commitments - Group as Lessee
On June 30, 2009, the Parent Company entered into a lease contract with International Business Machines Corporation (IBM) for the lease of servers for a three-year period starting on the same date. The Parent Company has a bargain option to purchase the servers after the lease term at ₱50.09. The lease provides for monthly rental payments of $17,141.

On March 31, 2010, the Parent Company entered into another lease contract with IBM for the lease of additional server for a one-year period starting on May 1, 2010. The Parent Company has a bargain option to purchase the servers after the lease term at ₱50.09. The lease provides rental payments of $1,013,729 each in the first and last months of the lease. At the end of the lease term, the Parent Company exercised its bargain option to purchase the servers at a nominal amount of ₱45.45.

EPIQ EA has various finance lease contracts with Interlease AD related to its machinery and production equipment with terms of three (3) to five (5) years and final repayment dates between 2012 and 2016. The leases are subject to interest rates of 3-month Euribor plus 2% to 4%.

EPIQ CZ has various finance lease contracts related to its machinery and production equipment and transportation equipment with terms of five (5) to ten (10) years and final repayment dates between 2013 and 2016. The leases of machinery and equipment are subject to interest rates ranging from 5.90% to 7.41% per annum. The lease of transportation equipment is subject to interest of 12.26% per annum.

Future minimum lease payments are as follows:

	2012	
	Minimum Payments	**Present value of payments**
Within one year (Note 13)	**$777,907**	**$674,071**
After one year but not more than five years	**705,857**	**704,866**
	$1,483,764	**$1,378,937**

	2011	
	Minimum Payments	Present value of payments
Within one year (Note 13)	$787,247	$783,833
After one year but not more than five years	625,340	612,724
	$1,412,587	$1,396,557

Operating Lease Commitments - Group as Lessee
Parent Company
On December 13, 2005, the Parent Company entered into a lease contract with Technopark Land, Inc. (TLI), an affiliate, for the lease of parcels of land situated at the Special Export Processing Zone, Laguna Technopark, Biñan, Laguna. The lease shall be for a period of three (3) years, commencing on December 31, 2005 up to December 31, 2008, renewable at the option of TLI upon such terms and conditions and upon such rental rates as the parties may agree upon at the time of the renewal, taking into consideration comparable rental rates for similar properties prevailing at the time of renewal. IMI shall advise TLI in writing at least sixty (60) days before the expiration of the term of its desire to renew the contract, which TLI may consider upon such

terms and conditions as may be agreed upon between the parties. On December 23, 2008, the lease agreement was extended for another three (3) years commencing from December 31, 2008 up to December 31, 2012 with the same terms and conditions.

For the period December 31, 2005 to December 31, 2011, IMI paid, as monthly rental for and in consideration of the use of the leased premises, the amount of $1,642, exclusive of VAT.

On January 2, 2012, a new lease agreement was executed for a period of three (3) years, commencing on January 2, 2012 up to December 31, 2014 with the same terms and conditions of the prior agreement except for the rental fees. IMI shall pay a monthly rental of $1,704, exclusive of VAT. This agreement was subsequently amended on July 2, 2012 due to increase in real property taxes as included in the escalation clause of the contract. Monthly rentals increased to $1,934, retroactive from January, for 2012, $2,198 for 2013, and $2,501 for 2014.

The future minimum rent payable follow:

	2012	2011
Within one year	**$27,176**	$21,066
More than one year but less than five years	**30,922**	42,133
	$58,098	$63,199

IMI Japan
On February 15, 2010, IMI Japan entered into a two-year contract with Kabushikigaisha Tokyu Community for lease of office premises located in Nagoya whereby it is committed to pay a monthly rental of ¥245,490, inclusive of tax and monthly maintenance fee of ¥35,070, inclusive of tax. The lease agreement provides for automatic renewal of the lease contract unless prior notice of termination is given to the lessor.

IMI USA
On July 17, 2008, IMI USA entered into a seven-year contract with Roy G.G. Harris and Patricia S. Harris for lease of office premises commencing in August 2008 up to November 2014. The lease contains provisions including, but not limited to, an escalation rate of 3% per year and early termination penalties. The lease provides for monthly rental payments of $13,464 during the first year of the lease term.

On January 28, 2010, IMI USA entered into a six-year lease agreement with Fremont Ventures, LLC commencing two months from issuance of building permit or maximum of three (3) months if Fremont caused the delay. The base monthly rental rate is $3,687 on the first six (6) months with escalation every eleven (11) months as listed in the lease contract. Average monthly rental rate amounts to $9,523.

IMI Singapore and STEL
IMI Singapore and STEL Group have various operating lease agreements in respect of office premises and land. These noncancellable leases have remaining noncancellable lease terms of between 1 to 50 years commencing on January 1, 1992 to April 1, 2011 and ending on February 28, 2010 to April 30, 2050. Most leases contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

PSi
PSi has a 15-year non-cancellable operating lease agreement with FTI for its plant facilities, office spaces, and other facilities, with Lot Nos. 92-A and 92-B commencing on August 15, 2004 up to August 14, 2019. The lease agreement with FTI provides for a 5% increase in rental per year starting on the second year and annually thereafter until the end of the lease term.

In 2012, PSi pre-terminated the lease contract of Lot 92-B and transferred its legacy manufacturing operations and offices to Calamba, Laguna. Accordingly, as of December 31, 2012, the balance of the rent expense computed on a straight-line basis over the amount computed based on the operating lease agreement for this lot included under “Accrued rent” in the consolidated statement of financial position amounting to \$0.44 million was reversed and recorded as part of “Facilities” account.

Moreover, PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from Centereach Resources, Inc. (CRI), an unrelated entity. The contract commenced in April 2011 and expires in March 2013. In 2012, PSi accepted the Letter of Offer for the renewal of the lease until March 2018.

In 2012, the contract of lease for the second lot was executed between CRI and PSi for office and warehouse use. The contract commenced on October 13, 2012 and will expire on October 12, 2015.

The lease agreement with CRI provides for increase in rental at varying rates over the term of the lease and a penalty interest rate of 3% per month using simple interest.

These operating lease agreements of the Group include clauses to enable upward revision of the rental charges on agreed dates. Future minimum rentals payable under noncancellable operating leases as of December 31, 2012 and 2011 follow:

	2012	2011
Within one year	**\$1,912,566**	\$2,113,206
After one year but not more than five years	**2,053,972**	1,743,440
More than five years	**2,934,333**	3,081,319
	\$6,900,871	\$6,937,965

The aggregate rent expense of the Group included under “Outsourced activities” account under “Operating expenses” in the consolidated statements of comprehensive income, recognized on these operating lease agreements for the years ended December 31, 2012, 2011 and 2010 amounted to \$0.54 million, \$1.00 million and \$1.09 million, respectively (see Note 20). Deposits made under these operating lease agreements are intended to be applied against the remaining lease payments.

Operating Lease Agreements - Group as Lessor
On August 1, 2009, the Parent Company subleased the unused portion of its two leased office condominium units from Cyberzone Properties Inc., with the consent of the latter. 102.52 square meters and 32.80 square meters were leased to Stratpoint Technologies Inc. and Xepto Computing Inc., respectively, at the rate of ₱475.00 per square meter in the first month and ₱502.25 per square meter on the subsequent months. The lease contract is for a term of one (1) year, renewable upon mutual agreement of both parties.

On June 8, 2010, an extension of the lease contract was executed by the Parent Company and the lessees for a period of one month from August 1 to 31, 2010. The monthly rental has been amended to ₱543.83 per square meter. In addition, the lessees have the option to renew the extended lease under the same terms and conditions, for a month-to-month tenancy basis for 12 months until August 31, 2011. The renewal option was exercised by the lessees for which the term of the lease has been extended to March 15, 2011. The lease income amounted to nil, \$1,899, and \$17,376 in 2012, 2011 and 2010, respectively, recognized under "Miscellaneous income" in the consolidated statements of comprehensive income.

29. Related Party Transactions

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

Terms and Conditions of Transactions with Related Parties
The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2012, 2011 and 2010, the Group has not recorded any impairment on loans and receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

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

a. Transactions with BPI, an affiliate

As of December 31, 2012 and 2011, the Group maintains current and savings accounts, and other short-term investments with BPI as follows:

	2012	2011
Cash in bank	**\$749,838**	\$411,556
Short-term investments	**1,318,027**	3,342,153

Total interest income earned from investments with BPI amounted to \$22,652, \$10,402 and \$11,938 in 2012, 2011 and 2010, respectively.

b. Outstanding balances of related party transactions follow:

	Receivables		**Payables**	
	2012	2011	**2012**	2011
Affiliates:				
BPI	**\$417,487**	\$201,726	**\$–**	\$33,262
TLI	**8,229**	9,377	**3,425**	–
Innove Communication Inc. (ICI)	**–**	–	**1,994**	446
Globe Telecom, Inc. (GTI)	**–**	–	**871**	2,931
	425,716	211,103	**6,290**	36,639

(Forward)

	Receivables		Payables	
	2012	2011	**2012**	2011
Subsidiaries:				
STEL	**$21,592,138**	$21,596,858	**$1,518,066**	$1,449,658
Monarch	**11,060,830**	4,673,470	**–**	–
PSi	**7,289,665**	30,558	**546,135**	546,135
IMI Singapore	**1,016,936**	1,020,251	**–**	–
IMI Japan	**979,125**	1,061,160	**717,056**	171,417
IMI USA	**257,652**	250,000	**125,679**	1,024,886
IMI ROHQ	**–**	–	**436,367**	520,141
	42,196,346	28,632,297	**3,343,303**	3,712,237
	$42,622,062	$28,843,400	**$3,349,593**	$3,748,876

i. Receivables from BPI are nontrade in nature and pertain to retirement and separation pay advanced by the Parent Company but reimbursable from the trust fund with BPI. These are noninterest-bearing and are due quarterly.

ii. Receivables from TLI are nontrade in nature and pertain to advances by the Parent Company for various expenses incurred by TLI, primarily on real property taxes and corporate secretarial services. These are reimbursable with a 30-day term.

iii. Receivables from Singapore, STEL, IMI Japan, IMI USA, PSi and EPIQ Subsidiaries pertain to operating cash advances made by the Parent Company.

    Operating cash advances to subsidiaries that have been billed are presented as "Nontrade receivables," while those still for billing are recognized as "Advances to related parties." Advances to Singapore, STEL, IMI Japan and IMI USA are noninterest-bearing and are due on demand.

    Advances to EPIQ MX, EPIQ CZ and PSi have a 90-day term subject to interest rates ranging from 2.31% to 2.81%.

iv. Payables to BPI pertain to the outstanding housing and automobile financing loans included in "Employee-related payables" under "Accounts payable and accrued expenses." The outstanding housing and automobile financing loans arise from timing differences of the remittances by the Parent Company to BPI and the period of withholding from employee salaries and wages. The loan reductions are remitted on a monthly basis.

v. Payables to TLI are nontrade in nature and pertain to the new lease agreement between the Parent Company and TLI which was executed for a period of three (3) years, commencing on January 2, 2012 up to December 31, 2014 with the same terms and condition of the prior agreement except for the rental fees (see Note 28).

vi. Payables to ICI are nontrade in nature and pertain to leased lines, internet connections and automated teller machines connections. These are noninterest-bearing and are due every month.

vii. Payables to GTI pertain to billings for Blackberry cellphone charges, software and WiFi connections. These are due and demandable.

viii. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ which serve as a supervisory, communications and coordinating center for its affiliates.

ix. Payables to STEL pertain to various expenses of the Parent Company advanced by IMI Singapore and its subsidiaries such as travel expenses of the Parent Company's personnel when going to STEL for business purposes. These advances are noninterest-bearing and are payable on demand.

x. Payables to PSi represent payments to settle certain liabilities that had arisen prior to the entry of New Investors and which have been identified as Pre-Completion Liabilities. Pursuant to the Agreement, Old Investors and the New Investors shall reimburse PSi for these payments to the extent of two-thirds (2/3) and one-third (1/3) of the amounts, respectively, for the first $3.00 million of the Pre-Completion Liabilities, with the Old Investors absorbing any amount in excess, but only to the extent of the value of the shares that will be eventually sold to the New Investors under the put and call options provision.

c. Revenue and expenses from related parties follow:

	Revenue/Income			Expenses		
	2012	2011	2010	**2012**	2011	2010
Affiliates:						
BPI	**$58,198**	$252,370	$107,478	**$–**	$–	$–
Ayala Group Legal (AG Legal)	**–**	–	–	**72,351**	110,786	209,743
TLI	**–**	–	–	**26,531**	–	–
ICI	**–**	–	–	**144,905**	203,951	202,143
GTI	**–**	–	–	**68,355**	88,248	94,926
	58,198	252,370	107,478	**312,142**	402,985	506,812
Subsidiaries:						
IMI Singapore	**–**	–	–	**–**	–	–
STEL	**2,665,499**	4,887,483	–	**–**	–	–
IMI ROHQ	**3,859,491**	3,130,303	3,997,122	**55,625**	50,702	–
Monarch	**292,303**	–	–	**–**	–	–
IMI USA	**2,695,395**	128,047	2,463,391	**798,982**	–	–
IMI Japan	**908,796**	–	863,087	**–**	–	–
PSi	**68,681**	–	–	**–**	–	–
	10,490,165	8,145,833	7,323,600	**854,607**	50,702	–
	$10,548,363	$8,398,203	$7,431,078	**$1,166,749**	$453,687	$506,812

Revenue recognized from related parties includes:

i. Interest income earned from investments and gain on foreign currency forwards with BPI and intercompany advances to EPIQ MX, EPIQ CZ and PSi.

ii. Intercompany revenues mainly pertain to billings of IMI USA and IMI Japan to the Parent Company for recovery costs, billings for management salaries of key management personnel under IMI ROHQ and intercompany transfers of finished goods to be shipped to ultimate customers.

Expenses incurred for related parties include:

i. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.

ii. Lot rental expense from lease agreement with TLI.

iii. Building rental, leased lines, internet connections and ATM connections with ICI.

iv. Purchases of Blackberry software and billings for cellphone charges and WiFi connections with GTI.
v. Allocation of retirement expense covering IMI ROHQ.
vi. Professional fees from IMI USA.

Compensation of Key Management Personnel of the Group
Key management personnel of the Group include all management committee members. Compensation of key management personnel by benefit type follows:

	2012	2011
Short-term employee benefits	**$6,264,578**	$5,275,504
Post-employment benefits	**258,904**	387,529
Share-based payments	**24,793**	208,877
	$6,548,275	$5,871,910

30. Fair Value of Financial Instruments

The following table sets forth the comparison of the carrying amounts and fair values of the Group's financial assets and financial liabilities recognized as of December 31, 2012 and 2011. There are no material unrecognized financial assets and liabilities as of December 31, 2012 and 2011.

	Carrying Amounts		Fair Values	
	2012	2011	**2012**	2011
Financial Assets				
Cash and cash equivalents	**$56,196,382**	$54,069,180	**$56,196,382**	$54,069,180
Loans and receivables:				
Trade	**144,995,990**	125,627,316	**144,995,990**	125,627,316
Nontrade	**2,217,923**	4,208,832	**2,217,923**	4,208,832
Receivable from employees	**539,159**	1,811,210	**539,159**	1,811,210
Due from related parties	**425,716**	211,103	**425,716**	211,103
Receivable from insurance	**–**	27,903	**–**	27,903
Others	**2,521,168**	1,598,369	**2,521,168**	1,598,369
Noncurrent receivables	**–**	213,577	**–**	195,848
Miscellaneous deposits	**1,388,059**	1,498,225	**1,388,059**	1,498,225
Loans and receivables	**208,284,397**	189,265,715	**208,284,397**	189,246,986
AFS financial assets	**1,608,404**	414,348	**1,608,404**	414,348
Derivative assets	**2,857,010**	2,798,912	**2,857,010**	2,798,912
Total Financial Assets	**$212,749,811**	$192,478,975	**$212,749,811**	$192,461,246
Financial Liabilities				
Derivative liabilities	**$–**	$34,562	**$–**	$34,562
Other financial liabilities				
Accounts payable and accrued expenses:				
Trade payables	**101,772,745**	99,217,065	**101,772,745**	99,217,065
Accrued expenses	**17,285,296**	17,677,151	**17,285,296**	17,677,151
Nontrade payables	**1,791,492**	7,020,404	**1,791,492**	7,020,404
Accrued payroll	**8,826,799**	8,421,735	**8,826,799**	8,421,735
Dividends payable	**2,648,865**	2,538,556	**2,648,865**	2,538,556
Current portion of obligation under finance lease	**674,071**	783,833	**674,071**	783,833
Employee-related payables	**168,749**	169,596	**168,749**	169,596

(Forward)

	Carrying Amounts		Fair Values	
	2012	2011	**2012**	2011
Accrued interest payable	**$1,105,384**	$675,863	**$1,105,384**	$675,863
Due to related parties	**6,290**	36,639	**6,290**	36,639
Others	**3,153,223**	2,085,029	**3,153,223**	2,085,029
Trust receipts and loans payable	**44,206,600**	39,008,811	**44,206,600**	39,008,811
Provision for restructuring	**–**	249,044	**–**	249,044
Long-term debt	**62,851,135**	60,398,500	**68,606,380**	60,917,515
Accrued rent	**585,408**	913,688	**760,726**	622,298
Noncurrent portion of obligation under finance lease	**704,866**	612,724	**660,662**	541,528
Other long-term employee benefits	**86,609**	230,704	**86,609**	230,704
	245,867,532	240,039,342	**251,753,891**	240,195,771
Total Financial Liabilities	**$245,867,532**	$240,073,904	**$251,753,891**	$240,230,333

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

All loans and receivables, except noncurrent receivables - Carrying amounts approximate fair values due to the short-term maturities of these loans and receivables.

Noncurrent receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used in 2011 is 4.36%.

Miscellaneous deposits - Carrying amounts are deemed to approximate fair values since the fair values of certain deposits cannot be reasonably and reliably estimated.

AFS financial assets - These pertain to investments in club shares. Fair value is based on quoted prices.

Derivative instruments - The fair value of freestanding currency forwards is based on counterparty valuation. The put and call options were valued using a binomial model. This valuation technique considers the probability of PSi's share price, which is valued based on discounted cash flows, to move up or down depending on the volatility, risk-free rate and exercise price.

Accounts payable and accrued expenses and trust receipts and loans payable - The fair values approximate the carrying amounts due to the short-term nature of these transactions.

Long-term debt - The fair value of long-term debt that is re-priced on a semi-annual basis is estimated by using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used in 2012 and 2011 ranged from 1.84% to 3.10% and 2.10% to 3.90%, respectively. For variable rate loans that re-price every three (3) months, the carrying amount approximates the fair value because of recent and regular re-pricing based on current market rates.

Accrued rent - The fair value are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used range from 2.71% to 6.06% and 3.68% to 7.03% in 2012 and 2011, respectively.

Noncurrent portion of obligation under finance lease - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used range from 2.00% to 12.26% in 2012 and 2011.

Other long-term employee benefits - The fair value approximates the accrual that was discounted using the assumptions and method used in discounting the pension obligation.

Fair Value Hierarchy

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

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the Group's financial instruments carried at fair value as of December 31, 2012 and 2011, based on fair value hierarchy:

	Level 1	Level 2	Level 3
2012			
AFS financial assets	**$1,608,404**	**$–**	**$–**
Derivative assets -			
Call option	**–**	**–**	**2,857,010**
	$1,608,404	**$–**	**$2,857,010**
2011			
AFS financial assets	$414,348	$–	$–
Derivative assets:			
Currency forwards	–	63,087	–
Call option	–	–	2,735,825
Derivative liabilities -			
Currency forwards	–	34,562	–
	$414,348	$97,649	$2,735,825

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

In 2011, the fair value of the put and call options are highly sensitive to the estimated 12-month trailing EBITDA of PSi during the option period (as the strike price is based on EBITDA) and PSi's cost of equity as of valuation date.

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

	2012 Increase (Decrease) in Net Income	2011 Increase (Decrease) in Net Income
Estimated EBITDA is 5% higher		
Call option	**$–**	($271,472)
Put option	**–**	–
Estimated EBITDA is 5% lower		
Call option	**–**	161,879
Put option	**–**	–

In 2012, an amendment to the Agreement regarding the call strike price was made (see Note 31). The amended Agreement fixed the strike price of the put and call options at $150,000. Hence, the fair value of the put and call options are no longer sensitive to estimated EBITDA.

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

	2012 Increase (Decrease) in Net Income	2011 Increase (Decrease) in Net Income
Cost of equity is 5% higher		
Call option	**($173,734)**	($209,005)
Put option	**–**	–
Cost of equity is 5% lower		
Call option	**194,490**	234,412
Put option	**–**	–

31. **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 December 31, 2012 and 2011. There is no other impact on the Group's equity other than those already affecting income.

	Effect on Profit before Tax	
Increase/Decrease in Basis Points	**2012**	2011
+100	**($583,341)**	($510,662)
-100	**583,341**	510,662

The following table shows the information about the Group's financial instruments as of December 31, 2012 and 2011 that are exposed to interest rate risk presented by maturity profile:

	Debt	
	2012	2011
Within one year	**$11,710,072**	$11,066,203
One to five years	**46,624,000**	40,000,000
	$58,334,072	$51,066,203

Liquidity Risk
Liquidity or funding risk is the risk that the Group 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 its operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover financing requirements, the Group intends to use internally-generated funds and loan facilities with local and foreign banks. Surplus funds are placed with reputable banks.

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities based on contractual undiscounted payments:

2012

	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Financial assets					
Cash and cash equivalents	**$48,431,567**	**$7,870,632**	**$–**	**$–**	**$56,302,199**
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	–	**101,772,745**	–	–	**101,772,745**
Accrued expenses*	–	**17,285,296**	–	–	**17,285,296**
Accrued payroll	–	**8,826,799**	–	–	**8,826,799**
Dividends payable	–	–	**2,648,865**	–	**2,648,865**
Nontrade payables	–	**1,791,492**	–	–	**1,791,492**

(Forward)

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Accrued interest payable	**$–**	**$1,105,384**	**$–**	**$–**	**$1,105,384**
Current portion of obligation under finance lease	**–**	**–**	**674,071**	**–**	**674,071**
Employee-related payables*	**–**	**168,749**	**–**	**–**	**168,749**
Due to related parties	**–**	**6,290**	**–**	**–**	**6,290**
Others	**–**	**3,173,476**	**–**	**–**	**3,173,476**
Long-term debt	**–**	**–**	**–**	**69,597,367**	**69,597,367**
Trust receipt and loans payable	**–**	**–**	**44,853,242**	**–**	**44,853,242**
Noncurrent portion of obligation under finance lease	**–**	**–**	**–**	**704,866**	**704,866**
Accrued rent	**–**	**–**	**–**	**585,408**	**585,408**
Other long-term employee benefits	**–**	**–**	**–**	**86,609**	**86,609**
	–	**134,130,231**	**48,176,178**	**70,974,250**	**253,280,659**
	$48,431,567	**($126,259,599)**	**($48,176,178)**	**($70,974,250)**	**($196,978,460)**

**Excluding statutory payables*

2011

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets					
Cash and cash equivalents	$36,507,003	$17,675,873	$–	$–	$54,182,876
Financial liabilities					
Derivative liabilities	–	34,562	–	–	34,562
Accounts payable and accrued expenses					
Trade payables	–	99,217,065	–	–	99,217,065
Accrued expenses*	–	17,677,151	–	–	17,677,151
Accrued payroll	–	8,421,735	–	–	8,421,735
Nontrade payables	–	7,020,404	–	–	7,020,404
Dividends payable	–	–	2,538,556	–	2,538,556
Current portion of obligation under finance lease	–	–	783,833	–	783,833
Accrued interest payable	–	675,863	–	–	675,863
Employee-related payables*	–	169,596	–	–	169,596
Due to related parties	–	36,639	–	–	36,639
Others	–	2,085,029	–	–	2,085,029
Long-term debt	–	–	–	70,057,156	70,057,156
Trust receipt and loans payable	–	–	39,662,504	–	39,662,504
Accrued rent	–	–	–	913,688	913,688
Noncurrent portion of obligation under finance lease	–	–	–	612,724	612,724
Provisions for restructuring	–	249,044	–	–	249,044
Other long-term employee benefits	–	–	–	230,704	230,704
	–	135,587,088	42,984,893	71,814,272	250,386,253
	$36,507,003	($117,911,215)	($42,984,893)	($71,814,272)	($196,203,377)

**Excluding statutory payables*

Credit lines

The Group has credit lines with different financing institutions as at December 31, 2012 and 2011, as follows:

2012

Financial Institutions	**Credit Limit**	**Available Credit Line**
Local:		
U.S. Dollar	**30,000,000**	**13,000,000**
Philippine Peso	**1,060,000,000**	**1,060,000,000**
Singapore Dollar	**25,000,000**	**23,773,017**
Czech Koruna	**4,000,000**	**4,000,000**
Euro	**11,000,000**	**3,678,796**

(Forward)

Financial Institutions	**Credit Limit**	**Available Credit Line**
Foreign:		
U.S. Dollar	**39,475,000**	**31,009,680**
Singapore Dollar	**25,000,000**	**23,773,017**

2011

Financial Institutions	Credit Limit	Available Credit Line
Local:		
U.S. Dollar	36,000,000	36,000,000
Philippine Peso	1,060,000,000	1,060,000,000
Singapore Dollar	30,000,000	28,713,951
Czech Koruna	4,000,000	958,404
Euro	9,500,000	947,915
Foreign:		
U.S. Dollar	79,700,000	62,035,986
Singapore Dollar	30,000,000	28,713,951

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 as of December 31, 2012 and 2011 is the carrying amounts of the financial assets presented in Note 30. The Group’s maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

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

As of December 31, 2012 and 2011, the aging analysis of loans and receivables, noncurrent receivables and miscellaneous deposits follows:

2012

	Total	Neither Past Due nor Impaired	Past Due but not Impaired <30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	Specifically Impaired
Trade	**$147,455,163**	**$121,003,761**	**$17,351,627**	**$3,598,589**	**$1,440,648**	**$545,744**	**$1,055,621**	**$2,459,173**
Nontrade	**2,360,269**	**701,392**	**512,565**	**571,920**	**231,564**	**3,884**	**196,598**	**142,346**
Receivable from insurance	**1,178,785**	–	–	–	–	–	–	**1,178,785**
Receivable from employees	**539,159**	**451,011**	**5,031**	**6,447**	**222**	**1,874**	**74,574**	–
Due from related parties	**425,716**	**425,716**	–	–	–	–	–	–
Others	**2,702,067**	**1,176,054**	**992,375**	**177,361**	**119,900**	**155,531**	**80,846**	–
	$154,661,159	**$123,757,934**	**$18,861,598**	**$4,354,317**	**$1,792,334**	**$707,033**	**$1,407,639**	**$3,780,304**
Miscellaneous deposits	**$1,388,059**	**$1,388,059**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**

2011

	Total	Neither Past Due nor Impaired	Past Due but not Impaired <30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	Specifically Impaired
Trade	$127,744,520	$105,979,396	$11,232,980	$3,841,339	$1,212,561	$624,467	$2,736,573	$2,117,204
Nontrade	4,292,680	2,126,197	1,313,161	286,195	415,902	67,377	–	83,848
Receivable from insurance	1,230,038	–	–	–	–	–	27,903	1,202,135
Receivable from employees	1,811,210	967,651	607,422	107,833	23,555	2,640	102,109	–
Due from related parties	211,103	211,103	–	–	–	–	–	–
Others	1,790,216	–	1,318,465	68,271	167,642	110,462	125,376	–
	$137,079,767	$109,284,347	$14,472,028	$4,303,638	$1,819,660	$804,946	$2,991,961	$3,403,187
Noncurrent receivables	$213,577	$213,577	$–	$–	$–	$–	$–	$–
Miscellaneous deposits	$1,498,225	$1,498,225	$–	$–	$–	$–	$–	$–

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2012 and 2011:

2012

	Neither Past Due nor Impaired Minimal Risk	Average Risk	Fairly High Risk	High Risk	Past Due or Individually Impaired	Total
Cash and cash equivalents	**$56,069,202**	**$–**	**$–**	**$–**	**$–**	**$56,069,202**
Loans and receivables:						
Trade	**6,992,886**	**112,250,969**	**1,759,906**	**–**	**26,451,402**	**147,455,163**
Nontrade	**701,392**	**–**	**–**	**–**	**1,658,877**	**2,360,269**
Receivable from insurance	**–**	**–**	**–**	**–**	**1,178,785**	**1,178,785**
Receivable from employees	**451,011**	**–**	**–**	**–**	**88,148**	**539,159**
Due from related parties	**425,716**	**–**	**–**	**–**	**–**	**425,716**
Others	**1,176,054**	**–**	**–**	**–**	**1,526,013**	**2,702,067**
AFS financial assets	**1,608,404**	**–**	**–**	**–**	**–**	**1,608,404**
Miscellaneous deposits	**1,388,059**	**–**	**–**	**–**	**–**	**1,388,059**
	$68,812,724	**$112,250,969**	**$1,759,906**	**$–**	**$30,903,225**	**$213,726,824**

2011

	Neither Past Due nor Impaired Minimal Risk	Average Risk	Fairly High Risk	High Risk	Past Due or Individually Impaired	Total
Cash and cash equivalents	$53,965,197	$–	$–	$–	$–	$53,965,197
Loans and receivables:						
Trade	96,874,571	6,484,107	1,150,880	1,469,838	21,765,124	127,744,520
Nontrade	2,126,197	–	–	–	2,166,483	4,292,680
Receivable from insurance	–	–	–	–	1,230,038	1,230,038
Receivable from employees	967,651	–	–	–	843,559	1,811,210
Due from related parties	211,103	–	–	–	–	211,103
Others	–	–	–	–	1,790,216	1,790,216
AFS financial assets	414,348	–	–	–	–	414,348
Noncurrent receivables	213,577	–	–	–	–	213,577
Miscellaneous deposits	1,498,225	–	–	–	–	1,498,225
	$156,270,869	$6,484,107	$1,150,880	$1,469,838	$27,795,420	$193,171,114

The Group classifies credit quality as follows:

Minimal Risk - credit can proceed with favorable credit terms; can offer term of 15 to maximum of 45 days.

Average Risk - credit can proceed normally; can extend term of 15 to maximum of 30 days.

Fairly High Risk - credit could be extended under a confirmed and irrevocable LC and subject to semi-annual review for possible upgrade.

High Risk - transaction should be under advance payment or confirmed and irrevocable Stand-By LC; subject to quarterly review for possible upgrade after one year.

Foreign Currency Risk

The Group's foreign exchange risk results primarily from movements of the U.S. Dollar against other currencies. As a result of significant operating expenses in Philippine Peso, the Group's consolidated statements of comprehensive income can be affected significantly by movements in the U.S. Dollar versus the Philippine Peso. In 2012 and 2011, the Group entered into currency forward contracts to hedge its risks associated with foreign currency fluctuations.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than the Group's functional currency. Approximately 43% and 37% of the Group's sales for the years ended December 31, 2012 and 2011, respectively, and 35% and 51% of costs for the years ended December 31, 2012 and 2011, respectively, are denominated in currencies 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 (₱)

	2012		2011	
	In U.S. Dollar	**In Philippine Peso**	In U.S. Dollar	In Philippine Peso
Cash and cash equivalents	**\$2,524,544**	**₱103,632,511**	\$3,155,606	₱138,586,115
Loans and receivables	**1,267,619**	**52,035,744**	682,449	29,971,390
Miscellaneous deposits	**1,097,588**	**45,056,007**	1,136,210	49,899,432
Accounts payable and accrued expenses	**(30,727,252)**	**(1,261,353,697)**	(18,685,121)	(820,602,594)
Other current liabilities	**(2,332,655)**	**(95,755,486)**	(345,891)	(15,190,659)
Other noncurrent liabilities	**(311,785)**	**(12,798,786)**	(2,227,069)	(97,807,142)
Net foreign currency-denominated liabilities	**(\$28,481,941)**	**(₱1,169,183,707)**	(\$16,283,816)	(₱715,143,458)

Singapore Dollar (SGD)

	2012		2011	
	In U.S. Dollar	**In Singapore Dollar**	In U.S. Dollar	In Singapore Dollar
Cash and cash equivalents	**$828,978**	**SGD1,013,177**	$1,182,114	SGD1,534,256
Loans and receivables	**32,790**	**40,156**	–	–
Accounts payable and accrued expenses	**(1,933,932)**	**(2,363,731)**	(1,063,060)	(1,379,738)
Other current liabilities	**(1,106,394)**	**(1,352,234)**	(977,220)	(1,268,326)
Loans payable	**(1,395,373)**	**(1,705,424)**	(1,258,190)	(1,632,995)
Net foreign currency-denominated liabilities	**($3,573,931)**	**(SGD4,368,056)**	($2,116,356)	(SGD2,746,803)

Euro (€)

	2012		2011	
	In U.S. Dollar	**In Euro**	In U.S. Dollar	In Euro
Cash and cash equivalents	**$2,429,922**	**€1,835,566**	$2,129,369	€1,645,571
Loans and receivables	**41,286,662**	**31,187,991**	528,889	408,724
Accounts payable and accrued expenses	**(13,740,963)**	**(10,379,939)**	(161,531)	(124,831)
Other current liabilities	**(31,193)**	**(23,563)**	–	–
Loans payable	**(16,319,612)**	**(12,327,853)**	(17,526,703)	(13,544,593)
Net foreign currency-denominated assets (liabilities)	**$13,624,816**	**€10,292,202**	($15,029,976)	(€11,615,129)

Japanese Yen (¥)

	2012		2011	
	In U.S. Dollar	**In Japanese Yen**	In U.S. Dollar	In Japanese Yen
Cash and cash equivalents	**$241,456**	**¥20,777,535**	$318,454	¥24,801,744
Loans and receivables	**1,661,465**	**142,970,938**	1,770,996	137,928,015
Miscellaneous deposits	**1,889,291**	**162,575,616**	30,712	2,391,931
Accounts payable and accrued expenses	**(4,186,844)**	**(360,282,581)**	(6,104,454)	(475,424,732)
Other current liabilities	**–**	**–**	(40,959)	(3,189,916)
Net foreign currency-denominated liabilities	**($394,632)**	**(¥33,958,492)**	($4,025,251)	(¥313,492,958)

Renminbi (RMB)

	2012		2011	
	In U.S. Dollar	**In Renminbi**	In U.S. Dollar	In Renminbi
Cash and cash equivalents	**$14,713,080**	**RMB91,750,882**	$6,725,654	RMB42,513,614
Loans and receivables	**55,410,423**	**345,539,841**	43,024,337	271,961,674
Accounts payable and accrued expenses	**(38,457,523)**	**(239,821,418)**	(29,528,588)	(186,653,530)
Other current liabilities	**–**	**–**	(5,982)	(37,813)
Net foreign currency-denominated assets	**$31,665,980**	**RMB197,469,305**	$20,215,421	RMB127,783,945

Hong Kong Dollar (HK$)

	2012		2011	
	In U.S. Dollar	**In Hong Kong Dollar**	In U.S. Dollar	In Hong Kong Dollar
Cash and cash equivalents	**$60,245**	**HK$466,954**	$43,089	HK$334,932
Loans and receivables	**119,222**	**924,084**	517,213	4,020,312
Accounts payable and accrued expenses	**(785,622)**	**(6,089,334)**	(417,235)	(3,243,178)
Net foreign currency-denominated assets (liabilities)	**($606,155)**	**(HK$4,698,296)**	$143,067	HK$1,112,066

British Pound (£)

	2012		2011	
	In U.S. Dollar	**In UK Pound**	In U.S. Dollar	In UK Pound
Loans and receivables	**$1,000**	**£621**	$742	£480
Accounts payable and accrued expenses	**(14,505)**	**(9,009)**	(151,974)	(98,346)
Net foreign currency-denominated liabilities	**($13,505)**	**(£8,388)**	($151,232)	(£97,866)

Australian Dollar (AUD)

	2012		2011	
	In U.S. Dollar	**In Australian Dollar**	In U.S. Dollar	In Australian Dollar
Cash and cash equivalents	**$3**	**AUD3**	$–	AUD–
Accounts payable and accrued expenses	**(504,114)**	**(486,621)**	–	–
Net foreign currency-denominated liabilities	**($504,111)**	**(AUD486,618)**	$–	AUD–

Thai Baht (THB)

	2012		2011	
	In U.S. Dollar	**In Thai Baht**	In U.S. Dollar	In Thai Baht
Loans and receivables	**$1,123**	**THB34,398**	$803	THB25,318
Net foreign currency-denominated assets	**$1,123**	**THB34,398**	$803	THB25,318

Bulgarian Lev (BGN)

	2012		2011	
	In U.S. Dollar	**In Bulgarian Lev**	In U.S. Dollar	In Bulgarian Lev
Cash and cash equivalents	**$1,142,402**	**BGN1,697,952**	$67,505	BGN98,956
Loans and receivables	**3,269,012**	**4,858,733**	1,523,099	2,232,727
Accounts payable and accrued expenses	**(3,035,848)**	**(4,512,181)**	(1,620,203)	(2,375,072)
Other current liabilities	**(662,181)**	**(984,200)**	–	–
Net foreign currency-denominated assets (liabilities)	**$713,385**	**BGN1,060,304**	($29,599)	(BGN43,389)

Czech Koruna (CZK)

	2012		2011	
	In U.S. Dollar	**In Czech Koruna**	In U.S. Dollar	In Czech Koruna
Cash and cash equivalents	**$78,297**	**CZK1,507,157**	$3,165	CZK60,917
Loans and receivables	**219,898**	**4,183,007**	55,240	1,063,330
Accounts payable and accrued expenses	**(1,025,718)**	**(19,511,717)**	(1,060,807)	(20,419,768)
Other current liabilities	**(337,234)**	**(6,415,029)**	(216,736)	(4,172,005)
Net foreign currency-denominated liabilities	**($1,064,757)**	**(CZK20,236,582)**	($1,219,138)	(CZK23467,526)

Mexican Peso (MXN)

	2012		2011	
	In U.S. Dollar	**In Mexican Peso**	In U.S. Dollar	In Mexican Peso
Cash and cash equivalents	**$569,244**	**MXN7,318,827**	$161,737	MXN2,266,174
Loans and receivables	**153,617**	**1,975,074**	–	–
Other assets	**4,905,342**	**63,068,476**	3,666,259	51,369,752
Accounts payable and accrued expenses	**(3,660,058)**	**(47,057,735)**	(1,651,199)	(23,135,761)
Other current liabilities	**(39,173)**	**(503,650)**	–	–
Net foreign currency-denominated assets	**$1,928,972**	**MXN24,800,992**	$2,176,797	MXN30,500,165

Swiss Franc (CHF)

	2012		2011	
	In U.S. Dollar	**In Swiss Franc**	In U.S. Dollar	In Swiss Franc
Cash and cash equivalents	**$13,442**	**CHF12,274**	**$–**	CHF –
Accounts payable and accrued expenses	**(2,645)**	**(2,415)**	–	–
Net foreign currency-denominated assets	**$10,797**	**CHF9,859**	**$–**	CHF –

Sensitivity analysis

The following tables demonstrate sensitivity to a reasonably possible change in the U.S. Dollar exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2012 and 2011. The reasonably possible change was computed based on one year average historical movement of exchange rates between the U.S Dollar and other currencies.

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

2012

Currency	**Increase/Decrease in U.S. Dollar Rate**	**Effect on Profit before Tax**
PHP	1%	**($164,175)**
	-1%	**164,175**
SGD	1%	**(18,536)**
	-1%	**18,536**
EUR	1%	**166,513**
	-1%	**(166,513)**
JPY	1%	**(3,132)**
	-1%	**3,132**
RMB	1%	**280,508**
	-1%	**(280,508)**
HKD	1%	**(6,205)**
	-1%	**6,205**
GBP	1%	**(102)**
	-1%	**102**
AUD	1%	**(6,408)**
	-1%	**6,408**

Currency	Increase/Decrease in U.S. Dollar Rate	Effect on Profit before Tax
THB	1%	**$14**
	-1%	**(14)**
BGN	1%	**7,718**
	-1%	**(7,718)**
CZK	1%	**(8,935)**
	-1%	**8,935**
MXN	1%	**15,536**
	-1%	**(15,536)**
CHF	1%	**140**
	-1%	**(140)**

2011

Currency	Increase/Decrease in U.S. Dollar Rate	Effect on Profit before Tax
PHP	1%	($190,082)
	-1%	190,082
SGD	1%	(21,486)
	-1%	21,486
EUR	1%	(134,784)
	-1%	134,784
JPY	1%	(21,248)
	-1%	21,248
RMB	1%	165,933
	-1%	(165,933)
HKD	1%	1,484
	-1%	(1,484)
GBP	1%	(1,518)
	-1%	1,518
THB	1%	5
	-1%	(5)
BGN	1%	(312)
	-1%	312
CZK	2%	(24,237)
	-2%	24,237
MXN	3%	60,883
	-3%	(60,883)

Derivatives
In 2012 and 2011, the Parent Company entered into various short-term currency forwards with an aggregate notional amount of $13.00 million and $21.00 million, respectively. As of December 31, 2012 and 2011, the outstanding forward contracts have a net positive fair value of nil and $0.03 million, respectively. Net fair value gains recognized in 2012, 2011 and 2010 amounted to $1.64 million, $0.86 million and $2.08 million, respectively.

As discussed in Note 2, the acquisition of PSi gave rise to a long equity call option and written equity put option for the Parent Company. On September 26, 2012, amendments relating to the Agreement were made. Accordingly, call option period shall mean the period commencing from the amendment date and ending January 4, 2013 and put option period shall mean the period from January 4, 2013 up to January 30, 2013. In addition, both the call and put strike prices were fixed at $150,000.

As of December 31, 2012 and 2011, the call option has a positive value of $2.86 million and $2.74 million, respectively, while the put option has a zero value. Net fair value gain (loss) on the options amounted to $0.12 million, $5.36 million and ($0.21 million) in 2012, 2011, and 2010, respectively.

In 2008, the Parent Company entered into structured currency options. The weakening of the peso during the second quarter of 2008 resulted in an unfavorable position on the Parent Company's derivative transactions. In May 2008, the BOD approved the unwinding of four major derivative contracts and the Parent Company incurred unwinding cost amounting to $33.36 million. In 2010, the outstanding liability on unwinding cost amounting to $2.30 million was condoned by the counterparty. The gain from the condonation is included under "Miscellaneous income" in the consolidated statement of comprehensive income.

Fair value changes on derivatives
The net movements in fair value of the Group's derivative instruments as of December 31, 2012 and 2011 follow:

	2012	2011
Derivative assets		
At beginning of year	**$2,798,912**	$1,693,121
Net changes in fair value:		
Call option	**121,185**	1,523,399
Currency forwards	**1,603,179**	897,407
Fair value of settled instruments	**(1,666,266)**	(1,315,015)
At end of year	**$2,857,010**	$2,798,912
Derivative liabilities		
At beginning of year	**$34,562**	$3,832,474
Net changes in fair value:		
Put option	–	(3,832,474)
Currency forwards	**(34,562)**	34,562
At end of year	**$–**	$34,562

The net changes in fair value of currency forwards are recognized in the consolidated statements of comprehensive income under "Foreign exchange gains - net."

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

No changes were made in the objectives, policies and processes during the years ended December 31, 2012 and 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.

	2012	2011
Trust receipts and loans payable	**$44,206,600**	$39,008,811
Long-term debt	**46,624,000**	40,000,000
Total debt	**90,830,600**	79,008,811
Less: Cash and cash equivalents	**(56,196,382)**	(54,069,180)
Net debt	**$34,634,218**	$24,939,631
Equity attributable to equity holders of the Parent Company	**$196,981,545**	$190,321,592
Debt to equity ratio	**46%**	42%
Net debt to equity ratio	**18%**	13%

32. Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested. The outcome of these cases is not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

33. Notes to Consolidated Statements of Cash Flows

The Group's noncash investing activities includes capitalization by the Group of office equipment under finance lease amounting to $0.78 million, $1.94 million and $2.03 million in 2012, 2011, and 2010, respectively.

34. Events after the Balance Sheet Date

Pursuant to the second amendment to the Agreement dated September 26, 2012 executed among the Old and New Investors of PSi on the exercise of option rights, the exercise notice which is one of the conditions for the completion of the sale and purchase of the option shares was received by the parties on January 9, 2013. The sale and purchase transaction involving the option shares shall be deemed completed upon compliance of the rest of the conditions set forth in the Agreement.

EXHIBIT 2

Supplementary Schedules

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Integrated Micro-Electronics, Inc. and its subsidiaries (the "Group") as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, included in this Form 17-A, and have issued our report thereon dated February 28, 2013. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules, are the responsibility of the Group's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-2 (Group A),
February 4, 2013, valid until February 3, 2016
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669656, January 2, 2013, Makati City

February 28, 2013

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule A. Financial Assets
December 31, 2012

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
NOT APPLICABLE				
Total		0	0	0

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2012
(in U.S. Dollars)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
Receivables from Employees:							
Various Officers and Employees*	1,811,210	9,849,549.16	(11,121,600.30)	-	539,159	-	539,159
Total	**1,811,210**	**9,849,549**	**(11,121,600)**	**-**	**539,159**	**-**	**539,159**

* Consist of receivables from approximately more than 2,300 Officers and Employees.

Integrated Microelectronics, Inc. and Subsidiaries
Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
December 31, 2012
(in U.S. Dollars)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
Accounts receivable -trade							
Speedy-Tech Electronics	696,706	1,592,602			2,289,309		2,289,309
IMI International (Singapore) Pte Ltd.	555,924		555,924				-
Monarch and EPIQ Subsidiaries		1,029			1,029		1,029
PSi Technologies Inc.		738			738		738
IMI USA		7,652			7,652		7,652
Accounts receivable -nontrade							
Speedy-Tech Electronics Ltd.	20,094,072		1,597,323		18,496,749		18,496,749
Monarch and EPIQ Subsidiaries	-				907,933		907,933
PSi Technologies Inc.	30,558	7,258,369			7,288,927		7,288,927
IMI International (Singapore) Pte Ltd.	408,537	604,232			1,012,770		1,012,770
IMI Japan	1,061,160		84,621		976,540		976,540
IMI USA	-				-		-
IMI International ROHQ	-				-		-
Due From							
Speedy-Tech Electronics Ltd.	806,080	-	-		806,080		806,080
Monarch and EPIQ Subsidiaries	4,673,470	5,478,398			10,151,868		10,151,868
IMI International (Singapore) Pte Ltd.	55,790		51,624		4,167		4,167
IMI Japan	-	2,586			2,586		2,586
IMI USA	250,000	-	-		250,000		250,000
Total	**28,632,297**	**14,945,607**	**2,289,491**	**-**	**42,196,346**	**-**	**42,196,346**

These related party receivables are collectible on demand.

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule D. Intangible Assets
December 31, 2012
(in U.S. Dollars)

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance	Remarks
Customer relationships	6,202,732		1,353,323		-	4,849,409	
Unpatented technology	-	-	-		-	-	
Computer software	1,130,759	525,070	704,303		93,186	1,044,712	Other changes represent foreign currency exchange difference
	7,333,491	**525,070**	**2,057,626**	**-**	**93,186**	**5,894,121**	

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule E. Long-Term Debt
December 31, 2012
(in U.S. Dollars)

Title of Issue and type of obligation	**Amount authorized by indenture**	**Amount shown under caption "Current portion of long-term debt" in related balance sheet**	**Amount shown under caption "Long-term debt" in related balance sheet**
5-year clean loan (Parent Company)	46,624,000	-	46,624,000
			principal payable in October 2016; interest payable and repriced quarterly at the rate of 3-month LIBOR plus margin of 0.80%
Deferred payment to EPIQ NV (Cooperatief)	18,876,735	2,649,600	16,227,135
			periodic payment of $2,649,600 for the first 5 years from 2013 to 2017 and $5,628,735 in 2018; subject to interest rate of 1.5999% plus 1.5%
Total	**65,500,735**	**2,649,600**	**62,851,135**

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule F. Indebtedness to Related Parties
December 31, 2012
(in U.S. Dollars)

Indebtedness to Related Parties (Long-term Loans from Related Companies)

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
NOT APPLICABLE		

Related party payables eliminated during consolidation:

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
Accounts Payable - Nontrade		
Speedy-Tech Electronics Ltd.	841	42,620
IMI USA	-	32,428
Due To		
Speedy-Tech Electronics Ltd.	1,448,817	1,475,446
Monarch and EPIQ Subsidiaries	-	-
PSi Technologies Inc.	546,135	546,135
IMI International (Singapore) Pte Ltd.	-	-
IMI Japan	171,417	717,056
IMI USA	1,024,886	93,250
IMI International ROHQ	520,141	436,367
Total	**3,712,236**	**3,343,302**

These related party liabilities are payable on demand.

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule G. Guarantees of Securities of Other Issuers
December 31, 2012
(in U.S. Dollars)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which this statement if filed	Nature of Guarantee
NOT APPLICABLE				
Total		0	0	0

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule H. Capital Stock
December 31, 2012

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Stocks	2,250,000,000	1,571,874,431				
Less: Treasury Shares		(15,892,109)				
Common shares	**2,250,000,000**	**1,555,982,322**	150,000,000		84,650,459	1,321,331,863
Preferred Shares	**1,500,000,000**	**1,300,000,000**			2,652,196	1,297,347,804

INTEGRATED MICROELECTRONICS, INC.
ANNEX 68-C - RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2012
(in U.S. Dollars)

Unappropriated retained earnings available for dividend distribution, beginning	14,950,592	
Adjustments:		
Fair value adjustment (M2M gains)	(5,148,318)	
Treasury shares	(1,012,585)	
Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning		8,789,689
Add: Net income actually earned/realized during the period		
Net income (loss) during the period closed to Retained Earnings	(2,965,390)	
Less:Fair value adjustment (M2M gains)	(121,185)	
Net income actually earned during the period		(3,086,575)
Add (less):		
Dividend declarations during the period	(2,665,497)	
Reversals of appropriation	10,000,000	
		7,334,503
TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, END		**13,037,617**

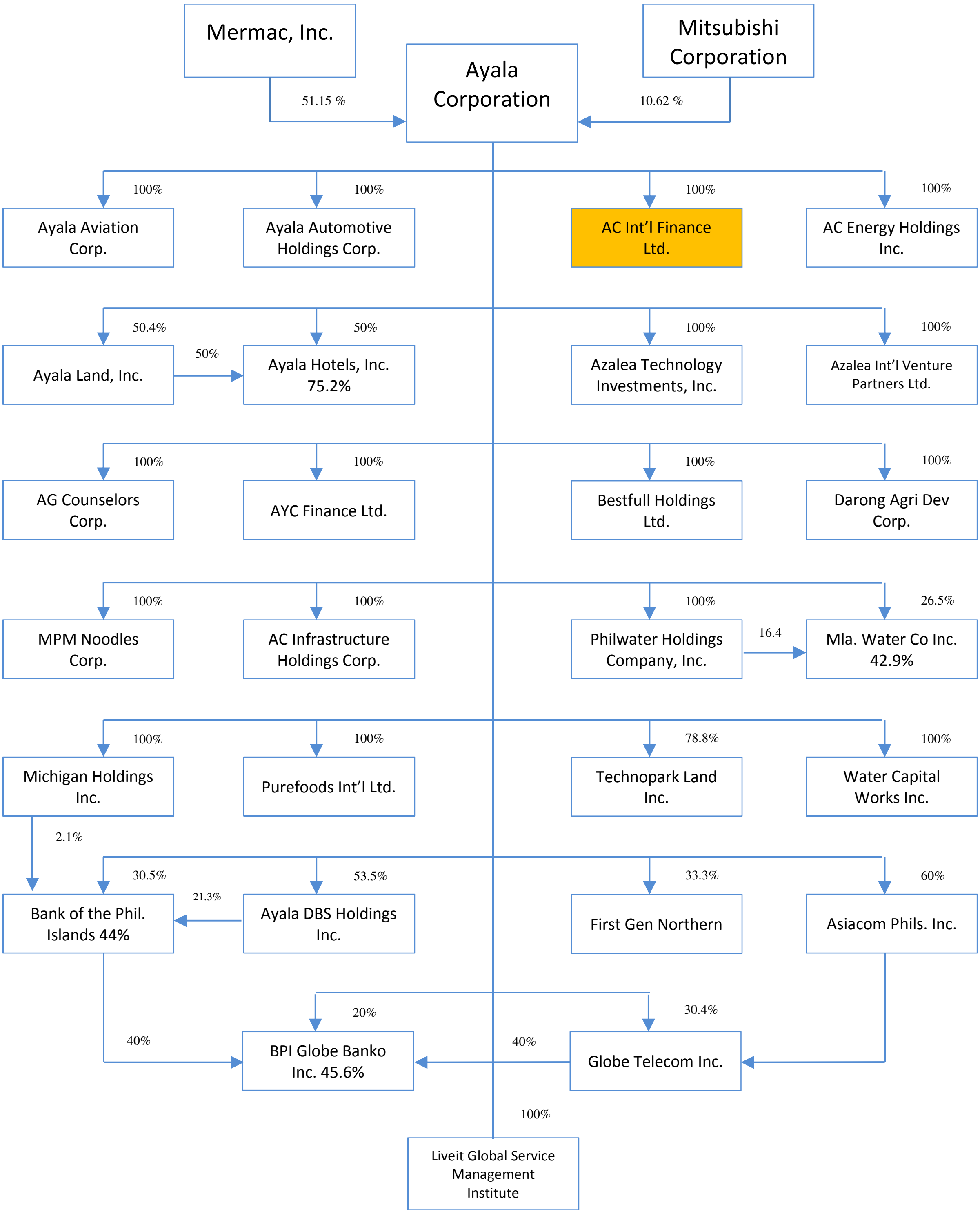
INTEGRATED MICRO-ELECTRONICS INC. AND SUBSIDIARIES
FINANCIAL RATIOS
DECEMBER 31, 2012 and 2011

Ratios	Formula	As of December 31, 2012	As of December 31, 2011
(i) Current ratio	Current assets / Current Liabilities	**1.56**	1.51
(ii) Debt/Equity ratio	Bank debts / Equity attributable to parent	**0.47**	0.42
(iii) Asset to Equity ratio	Total Assets / Equity attributable to parent	**2.31**	2.34
(iv) Interest rate coverage ratio	Earnings before interest and taxes / Interest Expense	**2.48**	3.25
(v) Profitability ratios			
GP margin	Gross Profit / Revenues	**8%**	7%
Net profit margin	Net Income after Tax / Revenues	**1%**	1%
EBITDA margin	EBITDA / Revenues	**5%**	3%
Return on assets	Net Income after Tax / Total Asset	**1%**	1%
Return on equity	Net Income after Tax / Average equity attributable to parent	**3%**	2%

	(in U.S. Dollars)	
	2012	**2011**
Current Assets	300,536,028	279,801,274
Current Liabilities	192,172,958	184,972,117
Bank Debts	93,480,200	79,008,811
Equity attributable to parent	196,981,545	190,321,592
Total Assets	455,294,581	444,692,294
Earnings before interest and taxes	7,503,446	8,130,077
Interest expense	3,021,473	2,499,998
Gross Profit	53,214,245	38,177,534
Revenues	661,849,722	575,453,908
Net Income after Tax	5,441,942	3,289,314
EBITDA	32,611,353	19,574,498
Average equity attributable to parent	193,651,569	179,805,922

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

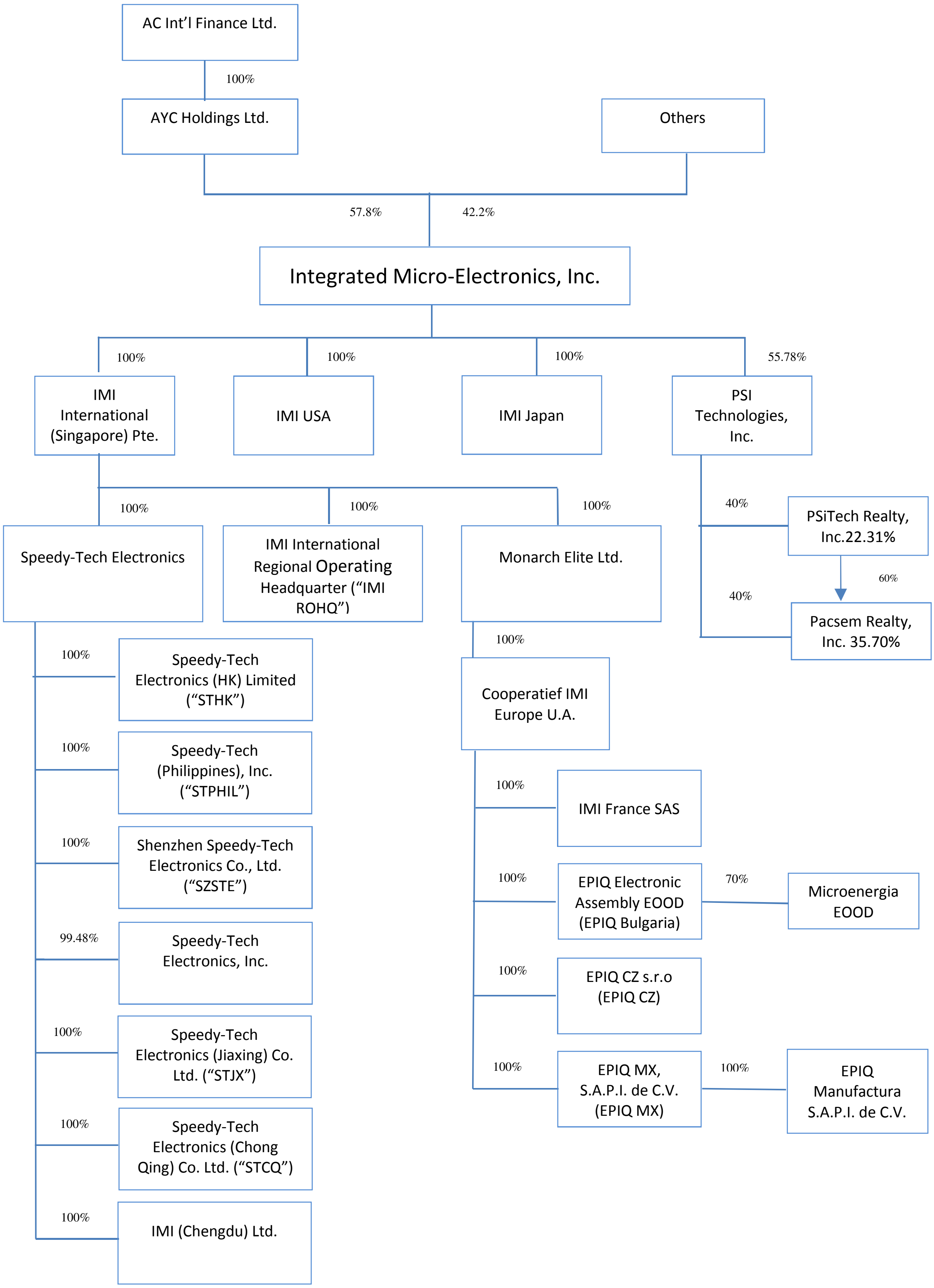
MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES



Legend:

% of ownership appearing on top of the box – direct % of ownership

% of ownership appearing inside the box – effective % of ownership


AC Int'l Finance Ltd.
100%
AYC Holdings Ltd.
Others
57.8%
42.2%
Integrated Micro-Electronics, Inc.
100%
IMI International (Singapore) Pte.
100%
IMI USA
100%
IMI Japan
55.78%
PSI Technologies, Inc.
40%
PSiTech Realty, Inc.22.31%
60%
40%
Pacsem Realty, Inc. 35.70%
100%
Speedy-Tech Electronics
100%
IMI International Regional Operating Headquarter ("IMI ROHQ")
100%
Monarch Elite Ltd.
100%
Speedy-Tech Electronics (HK) Limited ("STHK")
100%
Speedy-Tech (Philippines), Inc. ("STPHIL")
100%
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE")
99.48%
Speedy-Tech Electronics, Inc.
100%
Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX")
100%
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ")
100%
IMI (Chengdu) Ltd.
100%
Cooperatief IMI Europe U.A.
100%
IMI France SAS
100%
EPIQ Electronic Assembly EOOD (EPIQ Bulgaria)
70%
Microenergia EOOD
100%
EPIQ CZ s.r.o (EPIQ CZ)
100%
EPIQ MX, S.A.P.I. de C.V. (EPIQ MX)
100%
EPIQ Manufactura S.A.P.I. de C.V.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics				
PFRSs Practice Statement Management Commentary				
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9*	Financial Instruments	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
PFRS 10*	Consolidated Financial Statements	✓		
PFRS 11*	Joint Arrangements			✓
PFRS 12*	Disclosure of Interests in Other Entities	✓		
PFRS 13*	Fair Value Measurement	✓		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the **Reporting Period**	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Amended)*	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	**Consolidated and Separate Financial Statements**	✓		
PAS 27 (Amended)*	Separate Financial Statements	✓		
PAS 28	**Investments in Associates**			✓
PAS 28	Investments in Associates and Joint Ventures			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
(Amended)*				
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items			✓
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*	✓		
IFRIC 9	Reassessment of Embedded Derivatives	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

EXHIBIT 3

**2012 Audited Annual Financial Statements,
IMI International (Singapore) Pte Ltd**

Co. Reg. No. 200502337G

IMI International (Singapore) Pte Ltd

Annual Financial Statements
31 December 2012

IMI International (Singapore) Pte Ltd

General Information

Directors

Arthur R. Tan
Chng Poh Guan
Jerome Su Tan (Appointed on 3 January 2012)

Company Secretary

Chang Ai Ling

Registered Office

50 Raffles Place
Singapore Land Tower, #32-01
Singapore 048623

Bankers

Bank of the Philippine Islands
Citibank
Standard Chartered Bank

Auditors

Ernst & Young LLP

Index

IMI International (Singapore) Pte Ltd

Directors' Report

The directors are pleased to present their report to the member together with the audited financial statements of IMI International (Singapore) Pte Ltd (the "Company") for the financial year ended 31 December 2012.

Directors

The directors of the Company in office at the date of this report are:

Arthur R. Tan
Chng Poh Guan
Jerome Su Tan

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in shares of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

	Direct interest	
	At the beginning of financial year or at date of appointment	**At the end of financial year**
Ultimate holding company		
Ayala Corporation		
Ordinary shares of 1 Peso each		
Arthur R. Tan	243,360	249,023
Immediate holding company		
Integrated Micro-Electronics, Inc.		
Ordinary shares of 1 Peso each		
Arthur R. Tan	14,955,352	7,279,252
Chng Poh Guan	352,000	20,000
Fellow subsidiary		
Ayala Land Inc.		
Ordinary shares of 1 Peso each		
Jerome Su Tan	–	20,000

Except as disclosed in this report, no other director who held office at the end of the financial year had an interest in any shares, share options or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit (other than a benefit or any fixed salary of a full-time employee of the Company included in the aggregate amount of emoluments shown in the financial statements) by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Auditors

Ernst & Young LLP have expressed their willingness to accept reappointment as auditors.

On behalf of the board of directors,

Arthur R. Tan
Director

Jerome Su Tan
Director

Singapore
8 April 2013

IMI International (Singapore) Pte Ltd

Statement by Directors

We, Arthur R. Tan and Jerome Su Tan, being two of the directors of IMI International (Singapore) Pte Ltd, do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, statement of comprehensive income, statements of changes in equity and cash flows statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2012 and the results of the business, changes in equity and cash flows of the Company for the year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due as the immediate holding company has given an undertaking in terms of the Company's obligations as a going concern.

On behalf of the board of directors,

Arthur R. Tan
Director

Jerome Su Tan
Director

Singapore
8 April 2013

Report on the financial statements

We have audited the accompanying financial statements of IMI International (Singapore) Pte Ltd (the "Company"), set out on pages 6 to 37, which comprise the balance sheet of the Company as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity and cash flow statement of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Company for the year ended on that date.

Other matters

We draw attention to Note 23, which describes that the statement of comprehensive income and cash flow statement of the Company for the year ended 31 December 2011 were not audited. We had audited the consolidated financial statements of IMI International (Singapore) Pte Ltd and its subsidiaries and the statement of changes in equity of the Company for the year ended 31 December 2011 and the balance sheet of the Company as at that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

ERNST & YOUNG LLP
Public Accountants and Certified Public Accountants
Singapore
8 April 2013

Statement of Comprehensive Income for the financial year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue	3	3,859	4,302
Cost of sales		(3,522)	(3,802)
Gross profit		337	500
Other operating income/(expense)	4	8	(7)
Administrative expenses		(1,402)	(416)
Finance costs	7	(6)	(72)
(Loss)/profit before taxation	5	(1,063)	5
Taxation	8	(15)	(43)
Loss for the year		(1,078)	(38)
Other comprehensive income:		–	–
Total comprehensive loss for the year		(1,078)	(38)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

IMI International (Singapore) Pte Ltd

Balance Sheet as at 31 December 2012

	Note	2012 $'000	2011 $'000
Non-current assets			
Property, plant and equipment	9	250	277
Investment in subsidiaries	10	127,997	121,637
Investment security	11	1,000	–
Current assets			
Other receivables, deposits and prepayments	12	44	41
Due from immediate holding company	13	436	470
Due from related party	13	117	395
Due from subsidiaries	13	28,812	35,835
Cash and cash equivalents	14	1,086	969
		30,495	37,710
Current liabilities			
Other payables and accruals	15	1,252	1,321
Provision for taxation		10	37
Due to immediate holding company	16	80,405	80,129
Due to a subsidiary	16	20,122	19,122
		101,789	100,609
Net current liabilities		(71,294)	(62,899)
Net assets		57,953	59,015
Equity attributable to owner of the Company			
Share capital	17	35,958	35,958
Reserves	18	21,995	23,057
Total equity		57,953	59,015

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

IMI International (Singapore) Pte Ltd

Statement of Changes in Equity for the year ended 31 December 2012

	Share capital (Note 17) $'000	Capital contribution reserves (Note 18a) $'000	Revenue reserves (Note 18b) $'000	Total $'000
Balance at 1 January 2012	35,958	3,116	19,941	59,015
Loss for the year	–	–	(1,078)	(1,078)
Total comprehensive income for the year	–	–	(1,078)	(1,078)
<u>Contributions by and distributions to owner</u>				
Grant of equity-settled share options in immediate holding company to employees	–	16	–	16
Total transactions with owner in their capacity as owner	–	16	–	16
At 31 December 2012	35,958	3,132	18,863	57,953
Balance at 1 January 2011	123	2,684	19,979	22,786
Loss for the year	–	–	(38)	(38)
Total comprehensive income for the year	–	–	(38)	(38)
<u>Contributions by and distributions to owner</u>				
Issuance of ordinary shares	35,835	–	–	35,835
Grant of equity-settled share options in immediate holding company to employees	–	432	–	432
Total transactions with owner in their capacity as owner	35,835	432	–	36,267
At 31 December 2011	35,958	3,116	19,941	59,015

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

IMI International (Singapore) Pte Ltd

Cash Flow Statement for the year ended 31 December 2012

	2012 $'000	2011 $'000
Cash flows from operating activities		
(Loss)/profit before taxation	(1,063)	5
Adjustments for:		
(Gain)/loss on disposal of property, plant and equipment	(6)	8
Depreciation of property, plant and equipment	129	138
Interest expense	6	72
Interest income	(2)	(1)
Share option expenses	16	432
Unrealised exchange loss	276	–
Operating profit before working capital changes	(644)	654
Decrease/(increase) in other receivables, deposits and prepayments	(3)	11
Decrease in amount due from immediate holding company	34	4,926
Decrease/(increase) in amount due from a related party	278	(395)
Decrease in amount due from subsidiaries	663	–
(Decrease)/increase in other payables and accruals	(69)	719
Decrease in amount due to immediate holding company	–	(5,267)
Increase in amount due to subsidiary	–	7,759
Cash generated from operations	259	8,407
Interest received	2	1
Interest paid	(6)	(72)
Income taxes paid	(42)	(35)
Net cash generated from operating activities	213	8,301
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	32	7
Purchase of property, plant and equipment	(128)	(154)
Net cash used in investing activities	(96)	(147)
Cash flows from financing activities		
Repayment of loan	–	(8,000)
Net cash used in financing activities	–	(8,000)
Net increase in cash and cash equivalents	117	154
Cash and cash equivalents at beginning of year (Note 14)	969	815
Cash and cash equivalents at end of year (Note 14)	1,086	969

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. Corporate information

IMI International (Singapore) Pte Ltd (the "Company") is a private limited company incorporated and domiciled in Singapore. The immediate holding company is Integrated Micro-Electronics Inc. ("IMI") which is incorporated in the Republic of the Philippines and is a subsidiary of AYC Holdings, Ltd. ("AYC"). AYC is a corporation incorporated in British Virgin Islands and a subsidiary of Ayala Corporation ("AC"), a corporation incorporated in the Republic of the Philippines and listed on the Philippine Stock Exchange. On 21 January 2010, the immediate holding company was listed by way of introduction on the Philippines Stock Exchange.

The Company has a wholly-owned subsidiary incorporated and domiciled also in Singapore which is Speedy-Tech Electronics Ltd. ("STEL"). On 16 April 2009, the Company established its Philippine Regional Operating Headquarters also known as IMI International ROHQ (the "Headquarters"). The Headquarters serves as a supervisory, communications and coordinating centre for the affiliates and subsidiaries of the Company. On 28 April 2011, IMI infused additional capital to the Company consisting of $7,026,000 (€4,850,000) cash and 200,000 of the IMI's own shares in exchange for 43,077,144 newly issued ordinary shares of the latter amounting to $3,835,000. This was used by the Company to set up Monarch Elite Ltd. ("Monarch") and Cooperatief IMI Europe U.A. ("Cooperatief") as holding companies and to facilitate the acquisition of EPIQ Electronic Assembly EOOD ("EPIQ EA"), EPIQ CZ s.r.o ("EPIQ CZ"), and EPIQ MX, S.A.P.I de C.V. ("EPIQ MX") (collectively the "EPIQ Subsidiaries") from EPIQ NV.

The registered office of the Company is located at 50 Raffles Place, Singapore Land Tower, #32-01, Singapore 048623 and its principal place of business is located at Speedy-Tech Industrial Building, 20 Kian Teck Lane, Singapore 627854.

The principal activities of the Company are the procurement of raw materials, suppliers and provision of customer services.

The principal activities of the subsidiaries are disclosed in Note 10 to the financial statements.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The financial statements of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The Company incurred a loss attributable to owners of the Company for the year ended 31 December 2012 of $1,078,000 (2011: loss of $38,000). As at that date, the Company was in a net current liability position of $71,294,000 (2011: $62,899,000). These factors indicate the existence of a material uncertainty which may cast significant doubt about the Group and Company's ability to continue as going concern.

The directors are of the opinion that the financial statements of the Company can be prepared on a going concern basis as the immediate holding company has given an undertaking in terms of the Company's obligations as a going concern.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in United States Dollars (USD or $) and all values in the tables are rounded to the nearest thousand ($'000) as indicated.

2. Summary of significant accounting policies (cont'd)

2.1 *Basis of preparation (cont'd)*

Pursuant to Section 201(3BA) of the Singapore Companies Act and Singapore Financial Reporting Standards No. 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, the Company need not prepare consolidated financial statements as the Company is itself a wholly-owned subsidiary of Integrated Micro-Electronics Inc., which prepared one set of consolidated financial statements incorporating the financial statements of the Company and its subsidiaries. The registered office of Integrated Micro-Electronics Inc. is North Science Avenue, Laguna Technopark, Biñan, Laguna.

2.2 *Changes in accounting polices*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Company has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 January 2012. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Company.

2.3 *Standards issued but not yet effective*

The Group has not adopted the following relevant standards and interpretations that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income*	1 July 2012
Revised FRS 19 *Employee Benefits*	1 January 2013
FRS 113 *Fair Value Measurements*	1 January 2013
Amendments to FRS 107 *Disclosure – Offsetting Financial Assets and Financial Liabilities*	1 January 2013
Improvements to FRSs 2012	
- Amendment to FRS 1 *Presentation of Financial Statements*	1 January 2013
- Amendment to FRS 16 *Property, Plant and Equipment*	1 January 2013
- Amendment to FRS 32 *Financial Instruments: Presentation*	1 January 2013
Revised FRS 27 *Separate Financial Statements*	1 January 2014
FRS 110 *Consolidated Financial Statements*	1 January 2014
FRS 112 *Disclosure of Interests in Other Entities*	1 January 2014
Amendments to FRS 32 *Offsetting Financial Assets and Financial Liabilities*	1 January 2014

Except for the Amendments to FRS 1 and FRS 112, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the Amendments to FRS 1 and FRS 112 are described below.

2. Summary of significant accounting policies (cont'd)

2.3 *Standards issued but not yet effective (cont'd)*

Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income*

The Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income* (OCI) is effective for financial periods beginning on or after 1 July 2012.

The Amendments to FRS 1 changes the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. As the Amendments only affect the presentations of items that are already recognised in OCI, the Group does not expect any impact on its financial position or performance upon adoption of this standard.

FRS 112 *Disclosure of Interests in Other Entities*

FRS 112 *Disclosure of Interests in Other Entities* is effective for financial periods beginning on or after 1 January 2014.

FRS 112 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. FRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in 2014.

2.4 *Foreign currency*

The Company's financial statements are presented in United States Dollars, which is also the Company's functional currency.

Transactions and balances

Transactions in foreign currencies are measured in the functional currency of the Company and are recorded on initial recognition in the functional currency at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2.5 *Investment in subsidiaries*

A subsidiary is an entity over which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Company generally has such power when it directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries are accounted for at cost less any impairment losses.

2. Summary of significant accounting policies (cont'd)

2.6 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Subsequent to recognition, all items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis with a residual value of 0% to 10% over the estimated useful life of the asset as follows:

Motor vehicles	5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.
The residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

2.7 *Impairment of non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

2. Summary of significant accounting policies (cont'd)

2.7 *Impairment of non-financial assets (cont'd)*

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2.8 *Financial assets*

Initial recognition and measurement

Financial assets are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) ***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by FRS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Company has not designated any financial assets upon initial recognition at fair value through profit or loss.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

2. Summary of significant accounting policies (cont'd)

2.8 *Financial assets (cont'd)*

Subsequent measurement (cont'd)

(a) ***Financial assets at fair value through profit or loss (cont'd)***

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(b) ***Loans and receivables***

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(c) ***Held-to-maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

(d) ***Available-for-sale financial assets***

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

2. Summary of significant accounting policies (cont'd)

2.8 *Financial assets (cont'd)*

Derecognition

(d) ***Available-for-sale financial assets (cont'd)***

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

2.9 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Company's cash management.

Cash and short-term deposits carried on the balance sheets are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.8.

2.10 *Other receivables*

Other receivables, including amounts due from immediate holding company, related party and subsidiaries are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.8.

An allowance is made for uncollectible amounts when there is objective evidence that the Company will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.11 below.

2.11 *Impairment of financial assets*

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired.

(a) ***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

2. Summary of significant accounting policies (cont'd)

2.11 *Impairment of financial assets (cont'd)*

(a) ***Financial assets carried at amortised cost (cont'd)***

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(b) ***Financial assets carried at cost***

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2.12 *Other payables*

Other payables and payables to related parties are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.13 *Provisions*

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

2. Summary of significant accounting policies (cont'd)

2.13 *Provisions (cont'd)*

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.14 *Employee benefits*

Defined contribution plans

The Company participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Company makes contributions to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

Defined benefit plans

IMI maintains a defined benefit plan covering substantially all of its employees, including the employees of the Headquarters. IMI allocates pension expense to the Headquarters according to IMI's best estimate based on the prevailing basic pay of the employees, including the employees of the Headquarters. The plan is a funded, non-contributory pension plan administered by a Board of Trustees. Pension expense 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 employees participating in the plan.

Past service costs, if any, are recognized immediately in profit or loss, 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.

2. Summary of significant accounting policies (cont'd)

2.14 *Employee benefits (cont'd)*

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 recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

Equity-settled transactions

The cost of equity-settled transactions with employees was measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account was taken of any performance conditions, other than conditions linked to the price of the shares of the company ('market conditions'), if applicable.

The cost of equity-settled transactions was recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date').

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Since the scheme was cancelled after the vesting period, share option reserves representing the cumulative share option expense recognised was retained as part of equity.

2.15 *Revenue*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(a) ***Rendering of services***

Revenue is recognized when the related services have been rendered.

(b) ***Interest income***

Interest income is recognised using the effective interest method.

2. Summary of significant accounting policies (cont'd)

2.16 *Taxes*

(a) *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Company operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) *Deferred tax*

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

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

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

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

2. Summary of significant accounting policies (cont'd)

2.16 *Taxes (cont'd)*

(b) ***Deferred tax (cont'd)***

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

2.17 *Derivative financial instruments*

The Company uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gain or losses arising from changes in fair value on derivative financial instruments that do not qualify for hedge accounting are taken to profit or loss for the year.

2.18 *Financial liabilities*

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

2. Summary of significant accounting policies (cont'd)

2.18 *Financial liabilities* (cont'd)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(a) ***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

The Company has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

(b) ***Other financial liabilities***

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

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

2.19 *Share capital and share issuance expenses*

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2. Summary of significant accounting policies (cont'd)

2.20 *Related parties*

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Company if that person:

(i) Has control or joint control over the Company;

(ii) Has significant influence over the Company; or

(iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2. Summary of significant accounting policies (cont'd)

2.21 *Significant accounting estimates and judgements*

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

(a) ***Key sources of estimation uncertainty***

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

(i) ***Impairment of investment in subsidiaries***

The Company assesses at each reporting date whether there is an indication that the investment in subsidiaries may be impaired. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Company's investment in subsidiaries at 31 December 2012 was $127,997,000 (2011: $121,637,000).

(ii) ***Depreciation of plant and equipment***

The cost of plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these property, plant and equipment as discussed in Note 2.6. These are common life expectancies applied in the electronics and telecommunication manufacturing industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Company's property, plant and equipment at 31 December 2012 was $250,000 (2011: $277,000).

(iii) ***Impairment of non-financial assets***

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

2. Summary of significant accounting policies (cont'd)

2.21 *Significant accounting estimates and judgements (cont'd)*

(b) ***Critical judgements made in applying accounting policies***

In the process of applying the Company's accounting policies, management has made the following critical accounting judgements that will have a significant effect on the amounts recognised in the consolidated financial statements.

(i) ***Impairment of property, plant and equipment***

The carrying values of property, plant and equipment are reviewed for impairment when there are indicators of impairment. As at 31 December 2012, there are no indications of impairment.

3. Revenue

Revenues relate to service fees provided by the Headquarters to IMI and PSi Technologies, Inc. (PSi), a related party.

4. Other operating income/(expense)

	2012 $'000	2011 $'000
Interest income from loans and receivables	2	1
Gain/(loss) on disposal of property, plant and equipment	6	(8)
	8	(7)

5. (Loss)/profit before taxation

(Loss)/profit before taxation is stated after charging/(crediting) the following:

	2012 $'000	2011 $'000
Employee benefits expense (Note 6)	3,696	4,026
Depreciation of property, plant and equipment (Note 9)	129	138
Exchange loss/(gain), net	832	(231)

6. Employee benefits expense

	2012 $'000	2011 $'000
Wages, salaries and bonuses	2,310	2,516
Other personnel benefits	130	74
Share option expenses (not including directors of Company)	37	154
Directors' remuneration – directors of the Company	1,219	1,282
	3,696	4,026

Share options expenses relate to the difference between the fair value and the subscription price of the share of the immediate holding company's Employee Stock Ownership Plan ("ESOWN") granted to employees of the Group. Details of the ESOWN are disclosed in the financial statement of the immediate holding company.

7. Finance costs

	2012 $'000	2011 $'000
Interest expense		
- bank loans	5	60
- bank overdrafts/bank charges	1	12
	6	72

8. Income tax

Major components of taxation

The components of taxation for the year ended 31 December 2012 and 2011 are:

	2012 $'000	2011 $'000
Current taxation		
Foreign		
Current year	15	43
Tax expense recognised in the statement of comprehensive income	15	43

The Headquarters derives income in the Philippines by charging service fees to IMI and PSi, a related party. It is subject to the following tax rules, among others:

- Its taxable income is taxed at 10%. Remittances to the Company are subject to the Headquarters profit tax of 15%;
- It is exempted from all kinds of local taxes, fees or charges, except real property tax on land improvements and equipment tax;
- The importation of equipment and materials for training and conferences which are needed and used solely for its functions, and which are not available locally, are tax and duty free, subject to the approval of the Board of Investments; and
- The gross income of its local and foreign employees is taxed at the preferential rate of 15%.

8. Income tax (cont'd)

Relationship between taxation and accounting (loss)/profit

A reconciliation between the taxation and the product of accounting (loss)/profit multiplied by the applicable tax rate for the years ended 31 December 2012 and 2011 are as follows:

	2012 $'000	**2011** $'000
Accounting (loss)/profit before taxation	(1,063)	5
Tax at the applicable statutory tax rate of 17% (2011: 17%)	(181)	1
Adjustments:		
Tax effect of expenses not deductible for tax purposes	190	62
Income not subject to taxation	–	(1)
Effect of differences in tax rates in other countries where Company operates	7	(6)
Others	(1)	(13)
Tax expense recognised in the statement of comprehensive income.	15	43

9. Property, plant and equipment

	Motor vehicles $'000
Cost	
At 1 January 2011	415
Additions	154
Disposals/written off	(38)
At 31 December 2011 and 1 January 2012	531
Additions	128
Disposals/written off	(51)
At 31 December 2012	608
Accumulated depreciation	
At 1 January 2011	138
Charge for the year	138
Disposal/written off	(22)
At 31 December 2011 and 1 January 2012	254
Charge for the year	129
Disposal/written off	(25)
At 31 December 2012	358
Net carrying amount	
At 31 December 2011	277
At 31 December 2012	250

9. Property, plant and equipment (cont'd)

Motor vehicles pertain to cars used by the employees of the Headquarters. It includes cars which were transferred from IMI on July 1, 2009 at book value of $0.15 million at the time of transfer.

Fully depreciated transportation equipment is transferred to the senior personnel assigned to it. For the financial years ended 31 December 2012 and 2011, cost of fully depreciated transportation equipment transferred to senior personnel amounted to $0.03 million and $0.09 million, respectively.

10. Investment in subsidiaries

	2012 $'000	2011 $'000
Unquoted equity shares, at cost	127,997	121,637

The cash consideration equivalent to €4,850,000 infused as additional capital by IMI and used by the Company to set up Monarch and Cooperatief was previously recorded as "Due from subsidiaries" in 2011. On December 18, 2012, the Company applied for 48,985,402 shares of HKD1.00 each in the capital of Monarch equivalent to €4,801,500 (US$6,320,684) at the time of conversion which represents 99% ownership interests in Monarch.

Details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group 2012 %	2011 %
Held by the Company				
Speedy-Tech Electronics Ltd *	Singapore	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
Monarch Elite Ltd #	Hong Kong	Investment holding	99	99
Cooperatief IMI Europe U.A.	Netherlands	Provision of material needs of its members, pursuant to agreements concluded with its members in respect of the business that it carries on or procures to be carried on for the benefit of its members	1	1
Held by Speedy-Tech Electronics Ltd				
Vista Manufacturing Pte Ltd @@ ("VISTA")	Singapore	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	–	100

10. Investment in subsidiaries (cont'd)

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group 2012	2011
Held by Speedy-Tech Electronics Ltd (cont'd)				
Speedy-Tech Technologies Pte Ltd @@ ("STTS")	Singapore	Manufacture and trading of electrical discharge machines and electronic components (dormant)	–	100
Speedy-Tech Electronics (HK) Limited * ("STHK")	Hong Kong	Procurement, marketing and supply chain services	100	100
Speedy-Tech (Philippines) Inc. # ("STPHIL")	Philippines	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	99.99	99.99
Shenzhen Speedy-Tech Electronics Co., Ltd. * ("SZSTE")	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing, procurement and research and development	99.48	99.48
Speedy-Tech Electronics Inc. **	United States of America	Marketing, liaison and support services (dormant)	100	100
Speedy-Tech Electronics (Jiaxing) Co. Ltd. * ("STJX")	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ") ##	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
IMI (Cheng Du) Ltd. ("IMICD") &	People's Republic of China	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	100	100
Held by Monarch Elite Ltd				
Cooperatief IMI Europe U.A.**	Netherlands	Provision of material needs of its members, pursuant to agreements concluded with its members in respect of the business that it carries on or procures to be carried on for the benefit of its members	99	99

10. Investment in subsidiaries (cont'd)

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group 2012	2011
Held by Cooperatief IMI Europe U.A.				
EPIQ Electronic Assembly EOOD (EPIQ EA) #	Bulgaria	Production of electronic modules for domestic goods and automobile manufacturing	100	100
Microenergia OOD #	Bulgaria	Supply of water, refurbishment and infrastructure maintenance activities	70	70
EPIQ CZ s.r.o (EPIQ CZ) #	Czech Republic	Installation and repairs of products and equipment of consumer electronics; purchase of goods for the purpose of resale thereof, and sale of goods; leasing of real property, residential and non-residential premises without provision of other than basic services ensuring proper operation of the real property, residential and non-residential premises	100	100
EPIQ MX, S.A.P.I de C.V. (EPIQ MX) #	Mexico	Manufacture and sale of electronic components and plastic injection moulding primarily for the automotive and household industries	100	100
EPIQ Manufactura S.A.P.I de C.V. #	Mexico	Provides operation and management services	100	100
IMI France @	France	Employer of executives in EPIQ subsidiaries	100	100

* Audited by Ernst & Young LLP, Singapore.

\# Audited by member firms of Ernst & Young Global in the respective countries.

** No audit is required by the law of its country of incorporation.

\## Audited by Jiaxing Hengxin Certified Public Accountants Co., Ltd, Certified Public Accountants in the PRC.

& Audited by Sichuan Junyi Accounting Firm Co., Ltd, Certified Public Accountants in the PRC.

@ Audited by SEGEC in France.

@@ The subsidiary was liquidated during the financial year.

11. Investment security

	2012 $'000	2011 $'000
Available-for-sale financial asset - 8% non-cumulative, convertible preferred shares, at cost	1,000	-

12. Other receivables, deposits and prepayments

	2012 $'000	2011 $'000
Other receivables	21	10
Tax credits	7	8
Prepayments	16	23
	44	41

Other receivables represent various receivables from employees.

Prepayments pertain to prepaid expenses for membership fees of employees in golf clubs.

Included in other receivables are the following amounts denominated in foreign currencies at 31 December:

	2012 $'000	2011 $'000
Philippine Peso	21	10

13. Due from immediate holding company, related party and subsidiaries

Amounts due from immediate holding company and related party are trade related, unsecured, interest-free, repayable on demand and to be settled in cash.

Amount due from subsidiaries is non-trade related, unsecured, interest-free, repayable on demand and to be settled in cash. This pertains mainly to the advances made by the Company in connection with the acquisition of EPIQ subsidiaries in 2011.

14. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following at the balance sheet date:

	2012 $'000	2011 $'000
Cash and cash equivalents	1,086	969

Cash and cash equivalents denominated in foreign currencies at 31 December are as follows:

	2012 $'000	2011 $'000
Singapore Dollar	474	492
Philippines Peso	198	214

15. Other payables and accruals

	2012 $'000	2011 $'000
Accrued operating expenses	1,190	1,272
Other payables	62	49
	1,252	1,321

Accrued operating expenses include accruals for employee benefits such as leave credits and bonuses.

Other payables include employee-related payables and taxes payables.

Included in other payables are the following amounts denominated in foreign currencies at 31 December:

	2012 $'000	2011 $'000
Singapore Dollar	43	22
Philippine Peso	1,209	1,299

16. Due to immediate holding company and subsidiary

Amounts due to immediate holding company and subsidiary of the Company are non-trade in nature, unsecured, interest-free, repayable on demand and are to be settled in cash.

17. Share capital

	No. of Shares 2012 '000	2012 $'000	No. of Shares 2011 '000	2011 $'000
Issued and fully paid				
At 1 January	43,277	35,958	200	123
Issuance of ordinary shares	–	–	43,077	35,835
At 31 December	43,277	35,958	43,277	35,958

The holder of ordinary shares is entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

18. Reserves

(a) ***Capital contribution reserves***

Capital contribution reserves are made up of the difference between the fair value and the subscription price of the share of the immediate holding company's Employee Stock Ownership Plan ("ESOWN") granted to employees of the Group.

(b) ***Revenue reserves***

Revenue reserves of the Company are available for distribution as dividends.

19. Related party transactions

(a) ***Sale and purchase of goods and services***

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Company and related parties took place at terms agreed between the parties during the financial year:

	2012 $'000	2011 $'000
Service fees from:		
Immediate holding company	3,521	3,898
Related party	338	404
Share option expenses from:		
Immediate holding company	16	432

19. Related party transactions (cont'd)

(b) ***Compensation of key management personnel***

	2012 $'000	2011 $'000
Short-term employee benefits	3,424	3,574
Pension and post-employment medical benefits	235	298
Share option expenses	37	154
Total compensation entitled to key management personnel	3,696	4,026
Comprise amounts entitled to :		
• Directors of the Company	1,219	1,282
• Other key management personnel	2,477	2,744
	3,696	4,026

20. Financial risk management objectives and policies

The Company's principal financial instruments, other than derivative financial instruments, comprise cash and short term deposits. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial assets and liabilities such as other receivables and other payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Company's policy that no trading in derivative financial instruments shall be undertaken.

Foreign currency risk

The Company is exposed to foreign currency risk from revenues generated and cost incurred in foreign currencies, principally in Singapore Dollar ("SGD") and Philippine Peso ("PHP"). The Company does not enter into forward foreign exchange contracts to hedge against its foreign exchange risk resulting from sale and purchase transactions denominated in foreign currencies.

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

20. Financial risk management objectives and policies (cont'd)

Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in SGD and PHP exchange rates (against USD), with all other variables held constant, of the Company's loss net of tax.

		2012 $'000 Loss net of tax Increase/(decrease)	2011 $'000 Loss net of tax Increase/(decrease)
SGD	– strengthened 1% (2011: 4%)	3	5
	– weakened 1% (2011: 4%)	(3)	(5)
PHP	– strengthened 1% (2011: 4%)	6	11
	– weakened 1% (2011: 4%)	(6)	(11)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

In the management of liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the directors to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

The table below summarises the maturity profile of the Company's financial liabilities at the balance sheet date based on the contractual undiscounted payments.

	2012			2011		
	1 year or less $'000	2 to 5 years $'000	Total $'000	1 year or less $'000	2 to 5 years $'000	Total $'000
Financial assets:						
Other receivables and deposits	28	–	28	18	–	18
Due from immediate holding company	436	–	436	–	470	470
Due from related party	117	–	117	–	395	395
Due from subsidiaries	–	28,812	28,812	–	35,835	35,835
Cash and cash equivalents	1,086	–	1,086	969	–	969
Total undiscounted financial assets	1,667	28,812	30,479	987	36,700	37,687
Financial liabilities:						
Other payables and accruals	1,252	–	1,252	1,321	–	1,321
Due to immediate holding company	–	80,405	80,405	–	80,129	80,129
Due to subsidiary	–	20,122	20,122	–	19,122	19,122
Total undiscounted financial liabilities	1,252	100,527	101,779	1,321	99,251	100,572
Total net undiscounted financial (liabilities)/assets	415	(71,715)	(71,300)	(334)	(62,551)	(62,885)

20. Financial risk management objectives and policies (cont'd)

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Company's exposure to credit risk arises primarily from other receivables. For other financial assets (including cash and cash equivalents), the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Credit risk, or the risk of counterparties defaulting, is managed through the application of credit approvals, credit limits and monitoring procedures. Where appropriate, the Company and its subsidiaries obtain collateral from the customer or arrange master netting agreements. Cash terms, advance payments, and letters of credit are required for customers of lower credit standing.

Exposure to credit risk

At the balance sheet date, the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

21. Fair value of financial instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models where practical.

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Bank balances, other liquid funds and short-term receivables

The carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.

Other current liabilities

The carrying amounts approximate fair values because of the short period to maturity of these instruments.

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

Available-for-sale financial assets amounting to $1,000,000 (2011: $Nil) are carried at cost because the fair value cannot be measured reliably. This investment is not quoted on any market and does not have any comparable industry peers that are listed. In addition, the variability in the range of reasonable fair value estimates derived from valuation techniques is significant. Consequently it is carried at cost less provision for impairment. The Company does not intend to dispose of this investment in the foreseeable future.

Disclosure of the nature of financial instruments and their significant terms and conditions that could affect the amount, timing and certainty of future cash flow is presented in the respective notes to the financial statements, where applicable.

The Company does not have any financial instruments that are carried at fair value.

22. Capital management

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011.

23. Comparatives

For the previous financial year ended 31 December 2011, the Company had elected to present consolidated financial statements comprising the Company and its subsidiaries, even though the Company was exempted under FRS 27 Consolidated and Separate Financial Statements from doing so. In accordance with the Singapore Companies Act, Cap. 50 (the "Act"), the Company did not present the statement of comprehensive income and cash flow statement of the Company for the year then ended. Accordingly, the statement of comprehensive income and cash flow statement for the year ended 31 December 2011 presented as comparatives in these financial statements were not audited.

24. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 8 April 2013.

EXHIBIT 4

2012 Audited Annual Financial Statements, Speedy-Tech Electronics Ltd and its subsidiaries

Co. Reg. No. 198502018H

Speedy-Tech Electronics Ltd and its subsidiaries

Annual Financial Statements
31 December 2012

Speedy-Tech Electronics Ltd and its subsidiaries

General Information

Directors

Arthur R. Tan	
Chng Poh Guan	
Shong Cheng Yeh	
Mary Ann Natividad	
Jerome Su Tan	
Emmanuel V. Barcelon	(resigned on 4 January 2012)
Ong Mong Siang	(resigned on 17 August 2012)
Koh Chee Wee Eric	(resigned on 21 December 2012)

Company Secretary

Chang Ai Ling

Registered Office

50 Raffles Place
Singapore Land Tower, #32-01
Singapore 048623

Bankers

BNP Paribas
DBS Bank Ltd
OCBC Bank
Standard Chartered Bank
JP Morgan Bank

Auditors

Ernst & Young LLP

Index

The directors are pleased to present their report to the member together with the audited consolidated financial statements of Speedy-Tech Electronics Ltd (the "Company") and its subsidiaries (collectively, the "Group") and the statement of comprehensive income, balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2012.

Directors

The directors of the Company in office at the date of this report are:

Arthur R. Tan
Chng Poh Guan
Shong Cheng Yeh
Mary Ann Natividad
Jerome Su Tan

In accordance with Articles 87 and 94 of the Company's Articles of Association, Mary Ann Natividad retires and, being eligible, offers herself for re-election.

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in shares of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

	Direct interest	
	At the beginning of financial year or at date of appointment	**At the end of financial year**
Ultimate holding company		
Ayala Corporation		
<u>Ordinary shares of 1 Peso each</u>		
Arthur R. Tan	243,360	249,023
Intermediate holding company		
Integrated Micro-Electronics, Inc.		
<u>Ordinary shares of 1 Peso each</u>		
Arthur R. Tan	14,955,352	7,279,252
Chng Poh Guan	352,000	20,000
Shong Cheng Yeh	1,725,000	1,725,000
Mary Ann Natividad	1,410,000	–
Fellow subsidiary		
Ayala Land Inc.		
<u>Ordinary shares of 1 Peso each</u>		
Jerome Su Tan	–	20,000

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit (other than a benefit or any fixed salary of a full-time employee of the Company included in the aggregate amount of emoluments shown in the financial statements) by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Auditor

Ernst & Young LLP have expressed their willingness to accept reappointment as auditor.

On behalf of the board of directors,

Arthur R. Tan
Director

Jerome Su Tan
Director

Singapore
1 April 2013

Statement by Directors

We, Arthur R. Tan and Jerome Su Tan, being two of the directors of Speedy-Tech Electronics Ltd, do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, statements of comprehensive income, statements of changes in equity and consolidated cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results of the business and changes in equity of the Group and Company and cash flows of the Group for the year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of directors,

Arthur R. Tan
Director

Jerome Su Tan
Director

Singapore
1 April 2013

Speedy-Tech Electronics Ltd and its subsidiaries

Independent Auditor's Report
For the financial year ended 31 December 2012
To the member of Speedy-Tech Electronics Ltd

Report on the financial statements

We have audited the accompanying financial statements of Speedy-Tech Electronics Ltd (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 5 to 60, which comprise the balance sheets of the Group and the Company as at 31 December 2012, the statements of comprehensive income and statements of changes in equity of the Group and the Company and the consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet, statement of comprehensive income and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results and changes in equity of the Group and of the Company and cash flows of the Group for the year ended on that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

ERNST & YOUNG LLP
Public Accountants and Certified Public Accountants
Singapore
1 April 2013

Statements of Comprehensive Income for the financial year ended 31 December 2012

(Amounts expressed in United States Dollars)

	Note	Group 2012 $'000	Group 2011 $'000	Company 2012 $'000	Company 2011 $'000
Continuing operations					
Revenue	3	271,976	274,988	103,120	136,612
Cost of sales		(245,259)	(250,236)	(98,688)	(130,414)
Gross profit		26,717	24,752	4,432	6,198
Other operating income	4	1,427	1,196	5,507	7,241
Distribution and selling expenses		(18)	(48)	(10)	(38)
Administrative expenses		(16,472)	(16,145)	(5,445)	(6,780)
Finance costs	7	(236)	(200)	(78)	(95)
Profit before tax from continuing operations	5	11,418	9,555	4,406	6,526
Income tax expense	8	(2,627)	(2,557)	–	–
Profit from continuing operations, net of tax		8,791	6,998	4,406	6,526
Discontinued operation					
Loss from discontinued operation, net of tax	9	(657)	(1,177)	–	–
Profit for the year, representing total comprehensive income for the year		8,134	5,821	4,406	6,526
Total comprehensive income attributable to :					
Owner of the Company					
Profit from continuing operations, net of tax		8,792	6,991	4,406	6,526
Loss from discontinued operation, net of tax		(657)	(1,177)	–	–
		8,135	5,814	4,406	6,526
Non-controlling interests					
(Loss)/ profit from continuing operations, net of tax		(1)	7	–	–
Loss from discontinued operation, net of tax		–	–	–	–
		(1)	7	–	–
		8,134	5,821	4,406	6,526

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Speedy-Tech Electronics Ltd and its subsidiaries

Balance Sheets as at 31 December 2012

(Amounts expressed in United States Dollars)

	Note	Group		Company	
		2012	2011	2012	2011
		$'000	$'000	$'000	$'000
Non-current assets					
Property, plant and equipment	10	28,688	36,928	3,692	3,740
Investment in subsidiaries	11	–	–	66,129	66,777
Current assets					
Inventories	12	30,359	32,122	611	695
Trade receivables	13	78,421	70,590	16,059	15,032
Other receivables, deposits and prepayments	14	1,476	3,072	174	160
Due from intermediate holding company	15	2,002	1,006	1,935	339
Due from immediate holding company	15	20,122	19,122	20,122	19,122
Due from subsidiaries	15	–	–	27,613	115,478
Cash and short-term deposits	16	37,184	23,390	10,970	6,907
		169,564	149,302	77,484	157,733
Assets of disposal group classified as held for sale	9	4,549	–	–	–
		174,113	149,302	77,484	157,733
Current liabilities					
Trade payables	17	54,792	47,611	5,805	8,443
Other payables and accruals	18	8,759	10,715	1,649	2,000
Due to intermediate holding company	17	21,103	20,938	20,832	20,791
Due to subsidiaries	15	–	–	64,361	146,826
Tax payables		1,295	1,066	179	179
Short term bank loan (unsecured)	19	1,397	1,314	1,397	1,314
		87,346	81,644	94,223	179,553
Liabilities directly associated with disposal group classified as held for sale		2,780	–	–	–
		90,126	81,644	94,223	179,553
Net current assets/(liabilities)		83,987	67,658	(16,739)	(21,820)
Non-current liabilities					
Deferred tax liabilities	20	34	48	1	1
Net assets		112,641	104,538	53,081	48,696
Equity attributable to owner of the Company					
Share capital	21	26,872	26,872	26,872	26,872
Reserves	22	84,593	77,416	26,209	21,824
Reserve of disposal group classified as held for sale	9	943	–	–	–
		112,408	104,288	53,081	48,696
Non-controlling interests		233	250	–	–
Total equity		112,641	104,538	53,081	48,696

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity for the financial year ended 31 December 2012

(Amounts expressed in United States Dollars)

Group	Attributable to owner of the Company									
	Share capital (Note 21)	**Revaluation reserve (Note 22a)**	**Capital reserve (Note 22a)**	**Restricted reserves (Note 22b)**	**Share option reserve (Note 22c)**	**Capital contribution reserves (Note 22d)**	**Revenue reserves (Note 22e)**	**Total**	**Non-controlling interests**	**Total equity**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Opening balance at 1 January 2011	26,872	1,810	429	268	743	2,234	65,838	98,194	263	98,457
Profit for the year	–	–	–	–	–	–	5,814	5,814	7	5,821
Total comprehensive income for the year	–	–	–	–	–	–	5,814	5,814	7	5,821
Contributions by and distributions to owners										
Grant of equity-settled share options in intermediate holding company to employees	–	–	–	–	–	280	–	280	–	280
Dividend paid to non-controlling interest	–	–	–	–	–	–	–	–	(20)	(20)
Total contributions and distributions to owners	–	–	–	–	–	280	–	280	(20)	260
Total transactions with owners in their capacity as owners	–	–	–	–	–	280	–	280	(20)	260
Closing balance at 31 December 2011	26,872	1,810	429	268	743	2,514	71,652	104,288	250	104,538

The accompanying accounting policies and explanatory notes form an integral part of the financial statements

Speedy-Tech Electronics Ltd and its subsidiaries

Statements of Changes in Equity for the financial year ended 31 December 2012 (cont'd)

(Amounts expressed in United States Dollars)

Att	Attributable to owner of the Company										
Group	**Share capital (Note 21)** $'000	**Revaluation reserve (Note 22a)** $'000	**Capital reserve (Note 22a)** $'000	**Restricted reserves (Note 22b)** $'000	**Share option reserve (Note 22c)** $'000	**Capital contribution reserves (Note 22d)** $'000	**Revenue reserves (Note 22e)** $'000	**Reserve of disposal group classified as held for sale (Note 9)**	**Total** $'000	**Non-controlling interests** $'000	**Total equity** $'000
Opening balance as at 1 January 2012	26,872	1,810	429	268	743	2,514	71,652	–	104,288	250	104,538
Profit for the year	–	–	–	–	–	–	8,135	–	8,135	(1)	8,134
Total comprehensive income for the year	–	–	–	–	–	–	8,135	–	8,135	(1)	8,134
Contributions by and distributions to owners											
Grant of equity-settled share options in intermediate holding company to employees	–	–	–	–	–	(15)	–	–	(15)	–	(15)
Dividend paid to non-controlling interest	–	–	–	–	–	–	–	–	–	(16)	(16)
Total contributions by and distributions to owners	–	–	–	–	–	(15)	–	–	(15)	(16)	(31)
Total transactions with owners in their capacity as owners	–	–	–	–	–	(15)	–	–	(15)	(16)	(31)

Statements of Changes in Equity for the financial year ended 31 December 2012 (cont'd)

(Amounts expressed in United States Dollars)

Group	Attributable to owner of the Company										
	Share capital (Note 21) $'000	**Revaluation reserve (Note 22a)** $'000	**Capital reserve (Note 22a)** $'000	**Restricted reserves (Note 22b)** $'000	**Share option reserve (Note 22c)** $'000	**Capital contribution reserves (Note 22d)** $'000	**Revenue reserves (Note 22e)** $'000	**Reserve of disposal group classified as held for sale (Note 9)**	**Total** $'000	**Non-controlling interests** $'000	**Total equity** $'000
<u>Others</u>											
Reserve attributable to disposal group classified as held for sale	–	–	–	–	–	–	(943)	943	–	–	–
Transfer to restricted reserves	–	–	–	9,418	–	–	(9,418)	–	–	–	–
	–	–	–	9,418	–	–	(10,361)	943	–	–	–
Closing balance at 31 December 2012	26,872	1,810	429	9,686	743	2,499	69,426	943	112,408	233	112,641

The accompanying accounting policies and explanatory notes form an integral part of the financial statements

Speedy-Tech Electronics Ltd and its subsidiaries

Statements of Changes in Equity for the financial year ended 31 December 2012 (cont'd)

(Amounts expressed in United States Dollars)

Company	Share capital (Note 21) $'000	Share option reserve (Note 22c) $'000	Capital contribution reserves (Note 22d) $'000	Revenue reserves (Note 22e) $'000	Total $'000
At 1 January 2011	26,872	743	1,754	12,521	41,890
Profit for the year	–	–	–	6,526	6,526
Total comprehensive income for the year	–	–	–	6,526	6,526
Contributions by and distributions to owner					
Grant of equity-settled share options in intermediate holding company to employees	–	–	280	–	280
Total transactions with owner in its capacity as owner	–	–	280	–	280
At 31 December 2011	26,872	743	2,034	19,047	48,696
At 1 January 2012	26,872	743	2,034	19,047	48,696
Profit for the year	–	–	–	4,406	4,406
Total comprehensive income for the year	26,872	743	2,034	23,453	53,102
Contributions by and distributions to owner					
Grant of equity-settled share options in intermediate holding company to employees	–	–	(21)	–	(21)
Total transactions with owner in its capacity as owner	–	–	(21)	–	(21)
At 31 December 2012	26,872	743	2,013	23,453	53,081

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Speedy-Tech Electronics Ltd and its subsidiaries

Consolidated Cash Flow Statement for the financial year ended 31 December 2012

(Amounts expressed in United States Dollars)

	Group	
	2012	**2011**
	$'000	$'000
Cash flows from operating activities		
Profit before tax from continuing operations	11,418	9,555
Loss before tax from discontinued operation	(618)	(1,108)
Profit before tax, total	10,800	8,447
Adjustments:		
Gain on disposal of property, plant and equipment	(436)	(72)
Depreciation of property, plant and equipment	7,502	7,779
Write-back for inventories obsolescence, net	(293)	(487)
Impairment loss on property, plant and equipment	221	–
Interest expense	244	220
Interest income	(123)	(99)
Share options expense	(15)	280
Operating profit before working capital changes	17,900	16,068
Decrease in inventories	230	1,918
Increase in trade receivables	(8,395)	(1,464)
Decrease/(increase) in other receivables, deposits and prepayments	811	(560)
Increase in trade payables	8,644	5,642
(Decrease)/increase in other payables and accruals	(639)	1,751
Cash generated from operations	18,551	23,355
Interest paid	(244)	(202)
Taxes paid	(2,462)	(2,685)
Net cash generated from operating activities	15,845	20,468
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	2,847	1,009
Purchase of property, plant and equipment	(2,257)	(5,943)
Interest received	123	99
Net cash generated from/(used in) investing activities	713	(4,835)
Cash flows from financing activities		
Dividend paid to non-controlling interest	(16)	(20)
Decrease in amount due to intermediate holding company	(1,120)	(575)
Increase in amount due from immediate holding company	(1,000)	(8,042)
Net cash used in financing activities	(2,136)	(8,637)
Net increase in cash and cash equivalents	14,422	6,996
Effect of exchange rate changes on cash and cash equivalents	83	269
Cash and cash equivalents at beginning of year (Note 16)	23,390	16,125
Cash and cash equivalents at end of year (Note 16)	37,895	23,390

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

(Amounts expressed in United States Dollars unless otherwise stated)

1. Corporate information

The Company is a private limited company incorporated and domiciled in Singapore. The registered office of the Company is located at 50 Raffles Place, Singapore Land Tower, #32-01, Singapore 048623 and its principal place of business is at Speedy-Tech Industrial Building, 20 Kian Teck Lane, Singapore 627854.

Its immediate holding company is IMI International (Singapore) Pte Ltd, a company incorporated and domiciled in Singapore and its ultimate holding company is Ayala Corporation ("AC"), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange.

The Group is principally engaged in the provision of Electronic Manufacturing Services and Power Electronics solutions to Original Equipment Manufacturer ("OEM") customers in the consumer electronics, computer peripherals/IT, industrial equipment, telecommunications and medical devices sectors. The principal activities of the subsidiaries are stated below.

The subsidiaries at 31 December 2012 are :-

Name	Principal activities	Country of incorporation	Effective equity interest held by the Group 2012 %	2011 %
Held by the Company				
Vista Manufacturing Pte Ltd ("VISTA")@@	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement (dormant)	Singapore	–	100
Speedy-Tech Technologies Pte Ltd ("STTS")@@	Manufacture and trading of electrical discharge machines and electronic components (dormant)	Singapore	–	100
Speedy Tech Electronics (HK) Limited ("STHK")@	Procurement, marketing and supply chain services	Hong Kong	100	100
Speedy-Tech (Philippines) Inc. ("STPHIL")#	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	The Philippines	99.99	99.99
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE")@	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing, procurement and research and development	People's Republic of China	99.48	99.48

(Amounts expressed in United States Dollars unless otherwise stated)

1. Corporate information (cont'd)

Name	Principal activities	Country of incorporation	Effective equity interest held by the Group 2012 %	2011 %
Held by the Company (cont'd)				
Speedy-Tech Electronics Inc.*	Marketing, liaison and support services (dormant)	United States of America	100	100
Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX")@	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	People's Republic of China	100	100
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ")##	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	People's Republic of China	100	100
IMI (Cheng Du) Ltd. ("IMICD")@	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	People's Republic of China	100	100

\# Audited by member firms of Ernst & Young Global.

@ Audited by Ernst & Young LLP, Singapore.

@@ The subsidiary was liquidated during the financial year.

* The subsidiary was set up in 1999 with no paid up capital. No audit is required by the law of its country of incorporation.

\## Audited by JiaXing HengXin Certified Public Accountants Co., Ltd, Certified Public Accountants in the PRC.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The consolidated financial statements of the Group and the balance sheet, statement of comprehensive income and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The financial statements have been prepared on the historical cost basis except for leasehold land and building which are stated at fair value less depreciation charged subsequent to the date of revaluation.

The financial statements are presented in United States Dollars (USD or $) and all values in the tables are rounded to the nearest thousand ($'000) as indicated.

2.2 *Changes in accounting polices*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 January 2012. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company.

2.3 *Standards issued but not yet effective*

The Group has not adopted the following relevant standards and interpretations that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income*	1 July 2012
Revised FRS 19 *Employee Benefits*	1 January 2013
FRS 113 *Fair Value Measurements*	1 January 2013
Amendments to FRS 107 *Disclosure – Offsetting Financial Assets and Financial Liabilities*	1 January 2013
Improvements to FRSs 2012	
- Amendment to FRS 1 *Presentation of Financial Statements*	1 January 2013
- Amendment to FRS 16 *Property, Plant and Equipment*	1 January 2013
- Amendment to FRS 32 *Financial Instruments: Presentation*	1 January 2013
Revised FRS 27 *Separate Financial Statements*	1 January 2014
FRS 110 *Consolidated Financial Statements*	1 January 2014
FRS 112 *Disclosure of Interests in Other Entities*	1 January 2014
Amendments to FRS 32 *Offsetting Financial Assets and Financial Liabilities*	1 January 2014

Except for the Amendments to FRS 1 and FRS 112, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the Amendments to FRS 1 and FRS 112 are described below.

2. Summary of significant accounting policies (cont'd)

2.3 *Standards issued but not yet effective (cont'd)*

Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income*

The Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income* (OCI) is effective for financial periods beginning on or after 1 July 2012.

The Amendments to FRS 1 changes the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. As the Amendments only affect the presentations of items that are already recognised in OCI, the Group does not expect any impact on its financial position or performance upon adoption of this standard.

FRS 112 *Disclosure of Interests in Other Entities*

FRS 112 *Disclosure of Interests in Other Entities* is effective for financial periods beginning on or after 1 January 2014.

FRS 112 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. FRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in 2014.

2.4 *Foreign currency*

The Group's consolidated financial statements are presented in United States Dollars, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(a) *Transactions and balances*

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

2. Summary of significant accounting policies (cont'd)

2.4 *Foreign currency (cont'd)*

(b) *Consolidated financial statements*

For consolidation purpose, the assets and liabilities of foreign operations are translated into USD at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

2.5 *Basis of consolidation and business combinations*

(a) *Basis of consolidation*

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

2.5 ***Basis of consolidation and business combinations (cont'd)***

(a) ***Basis of consolidation (cont'd)***

Basis of consolidation from 1 January 2010 (cont'd)

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:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when controls is lost;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to 1 January 2010

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

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

2. Summary of significant accounting policies (cont'd)

2.5 ***Basis of consolidation and business combinations (cont'd)***

(b) ***Business combinations***

Business combinations from 1 January 2010

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

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

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

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

2. Summary of significant accounting policies (cont'd)

2.5 *Basis of consolidation and business combinations (cont'd)*

(b) ***Business combinations (cont'd)***

Business combinations prior to 1 January 2010

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

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

Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity. 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 th e cash flows that would otherwise have been req uired under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.6 *Transactions with non-controlling interests*

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2. Summary of significant accounting policies (cont'd)

2.7 *Subsidiaries*

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

2.8 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.18. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, all items of property, plant and equipment except leasehold land and building are measured at cost less accumulated depreciation and accumulated impairment losses. Leasehold land and buildings are measured at fair value less accumulated depreciation and impairment losses recognised after the date of the revaluation.

Prior to 1 January 1997, there was no fixed policy with respect to the frequency of valuation of property, plant and equipment stated at valuation. Property, plant and equipment were revalued as and when deemed appropriate by the directors. Subsequent to 1 January 1997, property, plant and equipment stated at valuation are revalued every three to five years based on directors' revaluation to ensure that their carrying amount does not differ materially from their fair value at the balance sheet date.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

2. Summary of significant accounting policies (cont'd)

2.8 *Property, plant and equipment (cont'd)*

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis with a residual value of 0% to 10% over the estimated useful life of the asset as follows:

Leasehold land and building	30 years (over the tenure period)
Land use rights	30 years (over the tenure period of the land)
Plant and machinery	3 - 10 years
Motor vehicles	5 years
Office equipment	3 - 10 years
Electronics equipment and computer software	3 - 5 years
Furniture and fittings	3 - 5 years
Tools and equipment	5 years
Leasehold building and improvements	5 - 30 years (over the term of lease)
EMC testing facility	3 - 10 years
Renovation	3 - 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

2.9 *Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

2. Summary of significant accounting policies (cont'd)

2.9 *Impairment of non-financial assets (cont'd)*

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2.10 *Financial assets*

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) ***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by FRS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Group has not designated any financial assets upon initial recognition at fair value through profit or loss.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

2. Summary of significant accounting policies (cont'd)

2.10 ***Financial assets (cont'd)***

(a) ***Financial assets at fair value through profit or loss (cont'd)***

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(b) ***Loans and receivables***

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

2.11 ***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

Cash and short-term deposits carried on the balance sheets are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.10.

2. Summary of significant accounting policies (cont'd)

2.12 *Trade and other receivables*

Trade and other receivables, including amounts due from intermediate holding company, immediate holding company and subsidiaries are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.10.

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.14 below.

2.13 *Impairment of financial assets*

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired.

(a) ***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2. Summary of significant accounting policies (cont'd)

2.13 *Impairment of financial assets (cont'd)*

(b) ***Financial assets carried at cost***

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2.14 *Inventories*

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- Raw materials – purchase costs on a weighted average basis;
- Finished goods and work-in-progress – costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned as a first-in first-out basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.15 *Trade and other payables*

Liabilities for trade and other amounts payable, which are normally settled on 30-60 days terms, and payables to related parties are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.16 *Interest bearing loans and borrowings*

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2. Summary of significant accounting policies (cont'd)

2.17 *Borrowings costs*

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.18 *Provisions*

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

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.19 *Employee benefits*

Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

Singapore

The Singapore companies in the Group make contributions to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

PRC

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

Hong Kong

The subsidiary in Hong Kong participates in the defined Provident Fund. The subsidiary and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions of the subsidiary and the employees are subject to a cap of HK$1,250 per month and thereafter contributions are voluntary.

2. Summary of significant accounting policies (cont'd)

2.19 *Employee benefits (cont'd)*

The Philippines

Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

Equity-settled transactions

The cost of equity-settled transactions with employees was measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account was taken of any performance conditions, other than conditions linked to the price of the shares of the company ('market conditions'), if applicable.

The cost of equity-settled transactions was recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date').

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Since the scheme was cancelled after the vesting period, share option reserves representing the cumulative share option expense recognised was retained as part of equity.

2.20 *Non-current assets held for sale and discontinued operations*

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. A component of the Group is classified as a "discontinued operation" when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

In profit or loss of the current reporting period, and of the comparative period of the previous year, all income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in profit or loss.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

2. Summary of significant accounting policies (cont'd)

2.21 *Revenue*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(a) ***Sale of goods***

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) ***Interest income***

Interest income is recognised using the effective interest method.

(c) ***Rental income***

Rental income is recognised on a straight-line basis. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

(d) ***Dividend income***

Dividend income is recognised when the Group's right to receive payment is established.

2.22 *Taxes*

(a) ***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. Summary of significant accounting policies (cont'd)

2.22 *Taxes (cont'd)*

(b) ***Deferred tax***

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

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

2. Summary of significant accounting policies (cont'd)

2.22 *Taxes (cont'd)*

(b) ***Deferred tax (cont'd)***

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

(c) ***Sales tax***

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.23 *Derivative financial instruments*

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gain or losses arising from changes in fair value on derivative financial instruments that do not qualify for hedge accounting are taken to profit or loss for the year.

2. Summary of significant accounting policies (cont'd)

2.24 *Financial liabilities*

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(a) ***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

The Group has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

(b) ***Other financial liabilities***

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

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

2. Summary of significant accounting policies (cont'd)

2.25 *Leases*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of INT FRS 104.

(a) ***As lessee***

Finance leases which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods which they are incurred.

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

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(b) ***As lessor***

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.21(c). Contingent rents are recognised as revenue in the period in which they are earned.

2.26 *Share capital and share issuance expenses*

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2. Summary of significant accounting policies (cont'd)

2.27 *Related parties*

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

(i) Has control or joint control over the Company;

(ii) Has significant influence over the Company; or

(iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies :

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2. Summary of significant accounting policies (cont'd)

2.28 *Significant accounting estimates and judgements*

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

(a) *Key sources of estimation uncertainty*

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

(i) *Impairment of investment in subsidiaries*

The Company assesses at each reporting date whether there is an indication that the investment in subsidiaries may be impaired. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Company's investment in subsidiaries at 31 December 2012 was $66,129,000 (2011: $66,777,000).

(ii) *Depreciation of plant and equipment*

The cost of plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these property, plant and equipment as discussed in Note 2.8. These are common life expectancies applied in the electronics and telecommunication manufacturing industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's property and equipment at the end of each reporting period is disclosed in Note 10.

2. Summary of significant accounting policies (cont'd)

2.28 *Significant accounting estimates and judgements (cont'd)*

(a) ***Key sources of estimation uncertainty (cont'd)***

(iii) ***Income taxes***

The Group has exposure to taxes in numerous jurisdictions. Significant judgement is involved in determining the Group-wide provision for taxes including value-added tax, consumption tax and customs duty. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes are due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the profit and loss in the period in which such determination is made. The carrying amounts of the Group's tax payables and deferred tax liabilities as at 31 December 2012 were $1,295,000 (2011: $1,066,000) and $34,000 (2011: $48,000) respectively.

(b) ***Critical judgements made in applying accounting policies***

In the process of applying the Group's accounting policies, management has made the following critical accounting judgements that will have a significant effect on the amounts recognised in the consolidated financial statements.

(i) ***Impairment of property, plant and equipment***

The carrying values of property, plant and equipment are reviewed for impairment when there are indicators of impairment. For the year ended 31 December 2012, the impairment of property, plant and equipment of the Group was $221,000 (2011: $Nil).

(ii) ***Determination of functional currency***

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

2. Summary of significant accounting policies (cont'd)

2.28 *Significant accounting estimates and judgements (cont'd)*

(b) ***Critical judgements made in applying accounting policies (cont'd)***

(iii) ***Discontinued operation***

On 14 December 2012, the Board of Directors announced its decision to dispose of one of its wholly-owned subsidiary, Speedy-Tech (Philippines) Inc. ("STPHIL") and, therefore classified it as disposal group held for sale. The Board considered the subsidiary met the criteria to be classified as held for sale at that date for the following reasons:

- STPHIL is available for immediate sale and can be sold to a potential buyer in its current condition;
- On 2 January 2013, the Company completed the disposal of STPHIL to its intermediate holding company, Integrated Micro-Electronics, Inc., which has been classified as discontinued operation (Note 9) as at 31 December 2012, for a cash consideration of $1,769,000.

For more details on the discontinued operations refer to Note 9.

3. Revenue

Revenue represents the invoiced value of goods sold, net of returns and discounts.

4. Other operating income

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Sundry income*	303	595	279	25
Dividend income from unquoted subsidiaries	–	–	4,663	6,786
Rental income	565	430	565	430
Interest income from loans and receivables	123	99	–	–
Gain on disposal of property, plant and equipment	436	72	–	–
	1,427	1,196	5,507	7,241

* This mainly relates to commission and engineering fees from product development activities and income earned from purchases on behalf of customers.

5. Profit before taxation from continuing operations

Profit before taxation from continuing operations is stated after charging /(crediting) the following:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Depreciation of property, plant and equipment	7,462	7,722	465	472
Exchange (gain)/loss, net	(492)	(1,180)	68	100
Employee benefits expense (Note 6)	47,604	47,589	4,568	5,117
Allowance for inventory obsolescence	228	291	–	–
Write-back of allowance for inventory obsolescence	(582)	(379)	–	(56)
Research costs	149	193	87	131
Operating lease expenses	1,248	1,312	71	64
(Gain)/loss on sale of materials	(116)	–	–	669
Impairment of investment in a subsidiary	–	–	289	103
Impairment loss on property, plant and equipment	221	–	–	–

6. Employee benefits expense

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Wages, salaries and bonuses	41,170	41,565	3,291	3,755
Central Provident Fund/pension contributions	2,667	2,396	355	372
Other personnel benefits	3,577	3,043	732	405
Share options expenses (not including directors of Company)	(21)	273	(21)	273
Directors' remuneration - directors of the Company	211	312	211	312
	47,604	47,589	4,568	5,117

Share option expenses relate to the difference between the fair value and the subscription price of the share of the intermediate holding company's Employee Stock Ownership Plan ("ESOWN") granted to employees of the Group. Details of the ESOWN are disclosed in the financial statement of the intermediate holding company.

7. Finance costs

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Interest expense				
- bank loans	60	71	60	71
- bank overdrafts/bank charges	176	129	18	24
	236	200	78	95

8. Income tax expense

Major components of taxation

The major components of taxation for the year ended 31 December 2012 and 2011 are:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Current taxation – continuing operations:				
Foreign				
Current year	2,185	2,311	–	–
Under/(over) provision in respect of prior years	442	86	–	–
	2,627	2,397	–	–
Deferred taxation – continuing operations				
Foreign				
Origination and reversal of temporary differences	–	47	–	–
Underprovision in respect of prior years	–	113	–	–
	–	160	–	–
Tax attributable to continuing operations	2,627	2,557	–	–
Tax attributable to discontinued operations (Note 9)	39	69	–	–
Tax expense recognised in profit or loss	2,666	2,626	–	–

8. Income tax expense (cont'd)

Relationship between taxation and accounting profit/(loss)

A reconciliation between the taxation and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December 2012 and 2011 are as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Profit before tax from continuing operations	11,418	9,555	4,406	6,526
Loss before tax from discontinued operations (Note 9)	(618)	(1,108)	–	–
Accounting profit before taxes	10,800	8,447	4,406	6,526
Tax at the domestic rates applicable to profits in the countries concerned *	3,237	2,137	749	1,109
Adjustments:				
Tax effect of expenses not deductible for tax purposes	266	305	154	160
Benefits of previously unrecognised tax losses	(458)	(67)	(92)	(67)
Under/(over) provision of current tax in respect of prior years	489	83	–	–
Under provision of deferred tax in respect of prior years	–	113	–	–
Income not subject to tax	(873)	(24)	(793)	(1,157)
Deferred tax asset not recognised (Note 20)	67	66		–
Others	(62)	13	(18)	(45)
Tax expense recognised in profit or loss	2,666	2,626	–	–

* The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

Speedy Tech Electronics (HK) Limited ("STHK")

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the year.

8. Income tax expense (cont'd)

Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE"), Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX"), Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ") and IMI (Cheng Du) Ltd. ("IMICD")

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

SZSTE is subject to taxation at the statutory tax rate of 24% (2011: 24%) on their taxable income as reported in their respective financial statements, prepared in accordance with the accounting regulations in the PRC.

STJX is entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year, ie. after all tax losses have been fully offset in accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STJX is in its sixth profitable year, and hence is subject to taxation at the rate of 25% (2011: 28%) on the taxable income as reported in the financial statements of STJX prepared in accordance with the accounting regulations in the PRC.

STCQ is entitled to full exemption from Enterprise Income Tax ("EIT") for the first five years, commencing from the first profitable year, ie. after all tax losses have been fully offset in accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STCQ is in its first profitable year, and hence is not subject to taxation on the taxable income as reported in the financial statements of STCQ prepared in accordance with the accounting regulations in the PRC.

IMICD is subject to taxation at the statutory tax rate of 25% (2011: 25%) on their taxable income as reported in the financial statement. With effect from year 2008, the China tax authority ceased the incentive of preferential tax treatment for enterprises with foreign investment and foreign enterprises.

Speedy-Tech (Philippines) Inc. ("STPHIL")

Speedy-Tech (Philippines) Inc. is registered with the Philippine Economic Zone Authority ("PEZA") as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to 5% on gross income, as defined under Republic Act No. 7916, in lieu of all local and national taxes.

9. Discontinued operation and disposal group classified as held for sale

On 14 December 2012, the board of directors of the Company, made a decision to dispose of one of its subsidiaries, Speedy-Tech (Philippines) Inc. ("STPHIL"). As at 31 December 2012, the assets and liabilities related to STPHIL have been presented in the balance sheet as "Assets of disposal group classified as held for sale" and "Liabilities directly associated with disposal group classified as held for sale", and its results are presented separately on profit or loss as "Loss from discontinued operation, net of tax". The disposal of STPHIL was completed on 2 January 2013 (Note 28).

Balance sheet disclosures

The major classes of assets and liabilities of STPHIL classified as held for sale and the related asset revaluation reserve as at 31 December are as follows:

	Group 2012 $'000
Assets:	
Property, plant and equipment	363
Deferred tax assets	11
Inventories	1,826
Trade receivables	564
Other receivables deposit and prepayments	785
Due from intermediate holding company	289
Cash and short term deposits	711
Assets of disposal group classified as held for sale	4,549
Liabilities:	
Trade payables	1,463
Other payables and accruals	1,317
Liabilities directly associated with disposal group classified as held for sale	2,780
Net assets directly associated with disposal group classified as held for sale	1,769
Reserves:	
Revenue reserve	943

9. Discontinued operation and disposal group classified as held for sale (cont'd)

Income statement disclosures

The results of STPHIL for the years ended 31 December are as follows:

	Group	
	2012	**2011**
	$'000	$'000
Revenue	4,681	4,727
Cost of sales	(5,106)	(5,854)
Loss from operations	(425)	(1,127)
Other operating income	(43)	–
Administrative expenses	(142)	39
Finance costs	(8)	(20)
Loss before tax from discontinued operation	(618)	(1,108
Income tax expense	(39)	(69)
Loss from discontinued operation, net of tax	(657)	(1,177)

Loss before tax from discontinued operation is stated after charging /(crediting) the following:

	Group	
	2012	**2011**
	$'000	$'000
Depreciation of property, plant and equipment	40	57
Allowance for inventory obsolescence	107	686
Write-back of allowance for inventory obsolescence	(46)	(111)

Cash flow statement disclosures

	Group	
	2012	**2011**
	$'000	$'000
Operating	217	274
Investing	(3)	(32)
Financing	–	–
Effect of exchange rate changes on cash and cash equivalents	(1)	(6)
Net cash inflows	213	236

(Amounts expressed in United States Dollars unless otherwise stated)

10. Property, plant and equipment

Group	At valuation	At cost										
	Leasehold land and building $'000	Land use rights $'000	Plant and machinery $'000	Motor vehicles $'000	Office equipment $'000	Electronics equipment and computer software $'000	Furniture and fittings $'000	Tools and equipment $'000	Leasehold building and improve-ments $'000	EMC testing facility $'000	Reno-vation $'000	Total $'000
Cost or valuation												
At 1 January 2011	6,492	517	70,129	567	1,302	7,927	1,066	618	5,455	2,179	8,027	104,279
Additions	–	–	4,360	34	113	376	4	118	8	–	930	5,943
Disposals/written off	–	–	(2,681)	(108)	(83)	(468)	(16)	(2)	–	–	–	(3,358)
At 31 December 2011 and 1 January 2012	6,492	517	71,808	493	1,332	7,835	1,054	734	5,463	2,179	8,957	106,864
Additions	–	–	1,107	82	156	58	6	153	–	415	280	2,257
Disposals/written off	–	–	(5,685)	(139)	(57)	(12)	(17)	(1)	–	–	–	(5,911)
Attributable to discontinued operation (Note 9)	–	–	(1,268)	(69)	(4)	(2)	(312)	(1)	(723)	–	–	(2,379)
At 31 December 2012	6,492	517	65,962	367	1,427	7,879	731	885	4,740	2,594	9,237	100,831
Accumulated depreciation and impairment loss												
At 1 January 2011	4,722	505	40,029	386	1,104	6,881	671	430	1,836	1,455	6,559	64,578
Charge for the year	276	5	5,455	66	155	564	16	134	181	199	728	7,779
Disposals/written off	–	–	(1,771)	(96)	(82)	(456)	(16)	–	–	–	–	(2,421)
At 31 December 2011 and 1 January 2012	4,998	510	43,713	356	1,177	6,989	671	564	2,017	1,654	7,287	69,936
Charge for the year	275	–	5,548	62	141	132	5	148	184	236	771	7,502
Disposals/written off	–	–	(3,323)	(96)	(54)	(11)	(16)	–	–	–	–	(3,500)
Attributable to discontinued operation (Note 9)	–	–	(1,250)	(51)	(2)	(1)	(312)	–	(400)	–	–	(2,016)
Impairment loss	–	–	221	–	–	–	–	–	–	–	–	221
At 31 December 2012	5,273	510	44,909	271	1,262	7,109	348	712	1,801	1,890	8,058	72,143
Net carrying amount												
At 31 December 2011	1,494	7	28,095	137	155	846	383	170	3,446	525	1,670	36,928
At 31 December 2012	1,219	7	21,053	96	165	770	382	173	2,939	704	1,179	28,688

(Amounts expressed in United States Dollars unless otherwise stated)

10. Property, plant and equipment (cont'd)

Company	Plant and machinery $'000	Furniture and fittings $'000	Office equipment $'000	Computer software $'000	Leasehold building and improvements $'000	EMC testing facility $'000	Motor vehicle $'000	Total $'000
Cost								
At 1 January 2011	989	93	362	469	4,471	2,180	58	8,622
Additions	70	–	–	–	–	–	–	70
Disposals	–	–	(3)	–	–	–	–	(3)
At 31 December 2011 and 1 January 2012	1,059	93	359	469	4,471	2,180	58	8,689
Additions	–	–	2	–	–	415	–	417
Disposals	–	–	(2)	–	–	–	–	(2)
At 31 December 2012	1,059	93	359	469	4,471	2,595	58	9,104
Accumulated depreciation								
At 1 January 2011	764	89	338	469	1,324	1,456	40	4,480
Charge for the year	90	3	19	–	149	199	12	472
Disposals	–	–	(3)	–	–	–	–	(3)
At 31 December 2011 and 1 January 2012	854	92	354	469	1,473	1,655	52	4,949
Charge for the year	66	1	5	–	151	236	6	465
Disposals	–	–	(2)	–	–	–	–	(2)
At 31 December 2012	920	93	357	469	1,624	1,891	58	5,412
Net carrying amount								
At 31 December 2011	205	1	5	–	2,998	525	6	3,740
At 31 December 2012	139	–	2	–	2,847	704	–	3,692

10. Property, plant and equipment (cont'd)

A subsidiary's leasehold land and factory building at Area 7, Liantang Industrial Zone, Luo Hu, Shenzhen, People's Republic of China, stated at valuation, was valued by Richard Ellis, a firm of independent professional valuers as at 31 December 1993. The valuation was based on the open market value on a willing buyer and willing seller basis for existing use. The surplus on revaluation of $1,810,000 has been taken to asset revaluation reserve.

Had the leasehold land and building of the subsidiary been stated at cost less accumulated depreciation and any impairment loss, the net book value of the leasehold land and building as at 31 December 2012 would have been approximately $586,000 (2011: $734,000) instead of $1,219,000 (2011: $1,494,000).

11. Investment in subsidiaries

	Company	
	2012	**2011**
	$'000	$'000
Unquoted equity shares at cost	66,418	67,137
Less provision for diminution in value	(289)	(360)
Carrying amount of investment	66,129	66,777

Details of the subsidiaries at the end of the financial year are set out in Note 1.

12. Inventories

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Finished goods	3,819	3,536	7	5
Work-in-progress	4,055	3,677	105	40
Raw materials	21,895	24,042	234	153
Goods-in-transit	437	777	265	497
Tools	153	90	–	–
Total inventories at lower of cost and net realisable value	30,359	32,122	611	695

Analysis of allowance for inventories obsolescence:

	Group		Company	
At 1 January	990	1,078	91	147
Charge for the year	228	291	–	–
Written back	(582)	(379)	–	(56)
	636	990	91	91

13. Trade receivables

	Group		Company	
	2012 $'000	**2011** $'000	**2012** $'000	**2011** $'000
Trade receivables	78,432	70,601	16,070	15,043
Less : Allowance for doubtful trade debts	(11)	(11)	(11)	(11)
Trade receivables, net	78,421	70,590	16,059	15,032
Add:				
Other receivables (Note 14)	905	2,323	89	28
Deposits (Note 14)	368	394	37	61
Sales tax recoverable (Note 14)	(5)	14	(5)	14
Due from intermediate holding company	2,002	1,006	1,935	339
Due from immediate holding company	20,122	19,122	20,122	19,122
Due from subsidiaries	–	–	27,613	115,478
Cash and short-term deposits (Note 16)	37,184	23,390	10,970	6,907
Total loans and receivables	138,997	116,839	76,820	156,981

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Included in trade receivables are the following amounts denominated in foreign currencies at 31 December:

	Group		Company	
	2012 $'000	**2011** $'000	**2012** $'000	**2011** $'000
Singapore Dollar	7	–	7	–
Renminbi	50,192	40,296	–	–

Receivables that are past due but not impaired

The Group and Company have trade receivables amounting to $50,469,000 (2011: $7,268,000) and $3,609,000 (2011: $212,000) respectively, that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

Trade receivables past due:				
Less than 30 days	41,656	5,107	3,436	210
30-60 days	7,602	1,631	168	1
61-90 days	751	148	5	–
More than 90 days	460	382	–	1
	50,469	7,268	3,609	212

13. Trade receivables (cont'd)

<u>Receivables that are impaired</u>

The Group's and Company's trade receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Trade receivables – nominal amounts	11	11	11	11
Less: Allowance for doubtful trade debts	(11)	(11)	(11)	(11)
	–	–	–	–
Movements in allowance account:				
At 1 January	11	116	11	11
Written off	–	(105)	–	–
At 31 December	11	11	11	11

Trade receivables that are determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

14. Other receivables, deposits and prepayments

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Other receivables	907	2,325	91	30
Less : Allowance for doubtful debts	(2)	(2)	(2)	(2)
	905	2,323	89	28
Deposits	368	394	37	61
Prepayments	208	341	53	57
Sales tax recoverable	(5)	14	(5)	14
	1,476	3,072	174	160

Included in other receivables are the following amounts denominated in foreign currencies at 31 December:

Singapore Dollar	10	6	10	–
Renminbi	2,362	1,612	-	–

14. Other receivables, deposits and prepayments (cont'd)

Receivables that are past due but not impaired

The Group has other receivables amounting to $12,000 (2011: $651,000) that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group 2012 $'000	Group 2011 $'000
Other receivables past due:		
Less than 30 days	7	501
30-60 days	5	150
	12	651

Receivables that are impaired

The Group's other receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group 2012 $'000	Group 2011 $'000
Other receivables – nominal amounts	2	2
Less: Allowance for doubtful debts	(2)	(2)
	–	–
Movements in allowance account:		
At 1 January	2	2
Charge for the year	–	–
At 31 December	2	2

Other receivables that are determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

15. Due from/(to) subsidiaries, immediate and intermediate holding company

Amount due from/(to) the immediate and intermediate holding companies are non-trade in nature, unsecured, interest-free, repayable on demand and are to be settled in cash.

Amount due from/(to) subsidiaries are trade in nature, unsecured, interest-free, repayable on demand and are to be settled in cash.

16. Cash and cash equivalents

Cash and cash equivalents comprise:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Fixed deposits [1]	2,067	4,206	–	–
Cash and bank balances [2]	35,117	19,184	10,970	6,907
Cash and short-term deposits	37,184	23,390	10,970	6,907

[1] Fixed deposits are mainly short term deposits made for varying periods of approximately one to two months depending on the immediate cash requirements of the Group and bears interest ranging from 0.05% to 1.35% (2011: 0.05% to 0.19%) per annum during the year.

[2] Cash at banks earns interest at floating rates based on daily bank deposit rates.

Cash and short-term deposits denominated in foreign currencies at 31 December are as follows :

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Singapore Dollar	195	640	195	640
Euro	1,012	917	1,007	915
Renminbi	14,415	8,715	–	–
Philippines Peso	–	33	–	–

For the purpose of the consolidated cash flow sta tement, cash and cash equivalents comprise the following at the end of the reporting period:

	Group	
	2012	**2011**
	$'000	$'000
Continuing operations	37,184	23,390
Discontinued operation (Note 9)	711	–
Cash and short-term deposits	37,895	23,390

17. Trade payables

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Trade payables	54,792	47,611	5,805	8,443
Add:				
Other payables (Note 18)	1,240	1,291	450	212
Accrued operating expenses (Note 18)	7,089	8,509	769	936
Deposits received (Note 18)	430	915	430	852
Due to intermediate holding company	21,103	20,938	20,832	20,791
Due to subsidiaries	–	–	64,361	146,826
Short term bank loan (unsecured)	1,397	1,314	1,397	1,314
Total financial liabilities carried at amortised cost	86,051	80,578	94,044	179,374

Trade payables are non-interest bearing and are generally on 30 to 60 days' terms.

Included in trade payables are the following amounts denominated in foreign currencies at 31 December:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Euros	320	116	22	–
Singapore Dollar	57	33	5	25
Hong Kong Dollar	142	460	–	–
Renminbi	25,060	22,737	–	–
Philippines Peso	16	7	–	–
Japanese Yen	1	1,478	–	–
Australian Dollar	–	351	–	–

18. Other payables and accruals

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Other payables	1,240	1,291	450	212
Accrued operating expenses	7,089	8,509	769	936
Deposits received	430	915	430	852
	8,759	10,715	1,649	2,000

Other payables are non-interest bearing and are normally settled on 30 to 90 days' terms.

18. Other payables and accruals (cont'd)

Included in other payables are the following amounts denominated in foreign currencies at 31 December :

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Singapore Dollar	962	133	962	133
Hong Kong Dollar	537	60	–	–
Renminbi	1,480	2,294	–	–

19. Short term bank loan (unsecured)

The unsecured Singapore Dollar denominated short term bank loan of the Group and Company is revolving in nature and bears interest at rates ranging from 3.36% to 3.55% (2011: 3.37% to 3.70%) per annum.

20. Deferred taxation

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Deferred tax assets				
Unutilised tax losses	(173)	(274)	(173)	(274)
General provisions	(15)	(29)	(15)	(15)
Others	(166)	(175)	–	–
	(354)	(478)	(188)	(289)
Deferred tax liabilities				
Excess of net book value over tax written down value of property, plant and equipment	189	300	189	290
Revaluation reserve	158	213	–	–
Others	41	13	–	–
	388	526	189	290
Net deferred tax liabilities	34	48	1	1

Deferred tax asset not recognised

At the balance sheet date, the Group has allowance for inventory obsolescence of approximately $1,058,000 (2011: $1,353,000) that are available for offset against future taxable profits of the companies in which the provision of inventory arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability.

20. Deferred taxation (cont'd)

Unrecognised temporary differences relating to investments in subsidiaries

At the balance sheet date, no deferred tax liability (2011: Nil) has been recognised for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries as the Group has determined that undistributed earnings of its subsidiaries will not be distributed in the foreseeable future.

21. Share capital

	Group and Company			
	No. of shares 2012 '000	**2012** $'000	**No. of shares 2011** '000	**2011** $'000
Issued and fully paid				
At 1 January and 31 December	376,200	26,872	376,200	26,872

The holder of ordinary shares is entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

22. Reserves

(a) ***Revaluation and capital reserves***

(i) Revaluation reserve represents increase in the fair value of freehold land and buildings, net of tax, and decrease to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

(ii) Capital reserve represents premium paid or discount on acquisition of non-controlling interest.

These reserves are not available for distribution.

(b) ***Restricted reserves***

Pursuant to the relevant laws in the People's Republic of China ("PRC"), the PRC subsidiaries of the Group have each set up a general reserve fund and an enterprise expansion fund by way of appropriation from their PRC statutory net profits at a rate to be determined by the board of directors of the subsidiaries. The respective board of directors of the subsidiaries use a guideline, that 10% of the PRC statutory profit after tax be appropriated each year to the general reserve fund and enterprise expansion reserve fund respectively. The funds may be utilised to off-set accumulated losses or increase the capital of the PRC subsidiaries, subject to approval from the PRC authorities. The funds are not available for dividend distribution to the shareholders.

22. Reserves (cont'd)

(c) ***Share option reserve***

Share option reserve are made up of the cumulative value of services received from employees recorded over the vesting period commencing from grant date, in relation to the Speedy-Tech Employee Stock Option Scheme 2003 which has since lapsed.

(d) ***Capital contribution reserves***

Capital contribution reserves are made up of the difference between the fair value and the subscription price of the share of the Integrated Microelectronics, Inc. Employee Stock Ownership Plan ("ESOWN") granted to employees of the Group.

(e) ***Revenue reserves***

Revenue reserves of the Company that are available for distribution as dividend.

23. Related party information

An equity or individual is considered a related party of the group for the purposes of the financial statements if : i) possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the group or vice versa; or ii) it is subject to common control or common significant influence.

The Group did not have any significant transactions with related parties, who are not members of the Group, on terms agreed between the parties.

Compensation of key management personnel

	Group	
	2012	**2011**
	$'000	$'000
Short-term employee benefits	518	1,109
Pension and post-employment medical benefits	38	81
Share option expenses	–	35
Total compensation entitled to key management personnel	556	1,225
Comprise amounts entitled to :		
Directors of the Company	173	391
Other key management personnel	383	834
	556	1,225

24. Commitments

(a) ***Non-cancellable operating leases***

The Group and Company has various operating lease agreements in respect of office premises and land. These non-cancellable leases have remaining non-cancellable lease terms of between 1 and 39 years. Most leases contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases are as follows as at 31 December:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	$'000	$'000	$'000	$'000
Within 1 year	1,510	1,808	69	64
Within 2 to 5 years	1,427	728	263	256
After 5 years	2,911	2,531	1,984	2,131
	5,848	5,067	2,316	2,451

25. Financial risk management objectives and policies

The Group principal financial instruments, other than derivative financial instruments, comprise bank loans, overdrafts, cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of financing.

It is, and has been throughout the year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's debt obligations. The Group obtains additional financing through bank borrowings. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Surplus funds are placed with reputable banks.

25. Financial risk management objectives and policies (cont'd)

Interest rate risk (cont'd)

Sensitivity analysis for interest rate risk

As at 31 December 2012, it is estimated that a general increase/decrease of 75 (2011: 75) basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit before tax by approximately $12,750 (2011: decrease/increase the Group's profit before tax by approximately $9,796).

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 75 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2011.

Foreign currency risk

The Group is exposed to foreign currency risk from revenues generated and cost incurred in foreign currencies, principally in Chinese RMB ("RMB"), Hong Kong Dollars ("HKD") and Singapore Dollars ("SGD"). The Group does not enter into forward foreign exchange contracts to hedge against its foreign exchange risk resulting from sale and purchase transactions denominated in foreign currencies.

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

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in RMB, HKD and SGD exchange rates (against USD), with all other variables held constant, of the Group's profit before tax.

		Group	
		2012	**2011**
		$'000	$'000
		Profit before tax Increase/(decrease)	Profit before tax Increase/(decrease)
RMB	– strengthened 4% (2011: 4%)	(1,555)	1,066
	– weakened 4% (2011: 4%)	1,684	(984)
HKD	– strengthened 4% (2011: 4%)	19	(22)
	– weakened 4% (2011: 4%)	(21)	20
SGD	– strengthened 4% (2011: 4%)	31	20
	– weakened 4% (2011: 4%)	(33)	(19)

25. Financial risk management objectives and policies (cont'd)

Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the balance sheet date based on the contractual undiscounted payments.

	2012		**2011**	
	1 year or less $'000	**Total** $'000	**1 year or less** $'000	**Total** $'000
Group				
Financial assets:				
Trade receivables	78,421	78,421	70,590	70,590
Other receivables and deposits	1,268	1,268	2,731	2,731
Due from intermediate holding company	2,002	2,002	1,006	1,006
Due from immediate holding company	20,122	20,122	19,122	19,122
Cash and short-term deposits	37,184	37,184	23,390	23,390
Total undiscounted financial assets	138,997	138,997	116,839	116,839
Financial liabilities:				
Trade payables	54,792	54,792	47,611	47,611
Other payables and accruals	8,759	8,759	10,715	10,715
Due to intermediate holding company	21,103	21,103	20,938	20,938
Short term bank loan	1,446	1,446	1,318	1,318
Total undiscounted financial liabilities	86,100	86,100	80,582	80,582
Total net undiscounted financial assets	52,897	52,897	36,257	36,257

25. Financial risk management objectives and policies (cont'd)

Liquidity risk (cont'd)

	2012		2011	
	1 year or less $'000	**Total** $'000	**1 year or less** $'000	**Total** $'000
Company				
Financial assets:				
Trade receivables	16,059	16,059	15,032	15,032
Other receivables and deposits	121	121	103	103
Due from intermediate holding company	1,935	1,935	339	339
Due from immediate holding company	20,122	20,122	19,122	19,122
Due from subsidiaries	27,613	27,613	115,478	115,478
Cash and bank balances	10,970	10,970	6,907	6,907
Total undiscounted financial assets	76,820	76,820	156,981	156,981
Financial liabilities:				
Trade payables	5,805	5,805	8,443	8,443
Other payables and accruals	1,649	1,649	2,000	2,000
Due to intermediate holding company	20,832	20,832	20,791	20,791
Due to subsidiaries	64,361	64,361	146,826	146,826
Short term bank loan	1,446	1,446	1,318	1,318
Total undiscounted financial liabilities	94,093	94,093	179,378	179,378
Total net undiscounted financial liabilities	(17,273)	(17,273)	(22,397)	(22,397)

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Credit risk, or the risk of counterparties defaulting, is managed through the application of credit approvals, credit limits and monitoring procedures. Where appropriate, the Company and its subsidiaries obtain collateral from the customer or arrange master netting agreements. Cash terms, advance payments, and letters of credit are required for customers of lower credit standing.

25. Financial risk management objectives and policies (cont'd)

Credit risk (cont'd)

Exposure to credit risk

At the balance sheet date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

Credit risk concentration profile

At balance sheet date, approximately:

29% (2011: 28%) of the Group's trade receivables were due from 3 major customers of the Group.

22% (2011: 21%) of the Group's trade and other receivables were due from related parties.

Financial assets that are neither past due nor impaired

Trade receivables and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 13 (Trade receivables) and Note 14 (Other receivables, deposits and prepayments).

26. Fair value of financial instruments

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Bank balances, other liquid funds and short-term receivables

The carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.

Short term borrowings and other current liabilities

The carrying amounts approximate fair values because of the short period to maturity of these instruments.

Disclosure of the nature of financial instruments and their significant terms and conditions that could affect the amount, timing and certainty of future cash flow is presented in the respective notes to the financial statements, where applicable.

The Group and Company does not have any financial instruments that are carried at fair value or any financial instruments that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value.

27. Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011.

As disclosed in Note 22(b), the subsidiaries of the Group are required by the relevant laws of the PRC to contribute to and maintain restricted reserves whose utilisation is subject to approval by the relevant PRC authorities.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes all liabilities (excluding tax payables) less cash and cash equivalents as the net debt. Capital includes equity attributable to the equity holder of the Company less the abovementioned restricted reserves.

	Group	
	2012	**2011**
	$'000	$'000
Trade payables (Note 17)	54,792	47,611
Other payables and accruals (Note 18)	8,759	10,715
Due to intermediate holding company	21,103	20,938
Short term bank loan	1,397	1,314
Less:		
Cash and short-term deposits (Note 16)	(37,184)	(23,390)
Financial liabilities, net of cash and short-term deposits attributable to discontinued operation	2,069	–
Net debt	50,936	57,188
Equity attributable to equity holder of the Company	112,408	104,288
Less: Restricted reserves	(9,686)	(268)
Total capital	102,722	104,020
Capital and net debt	153,658	161,208
Gearing ratio	33%	35%

28. Events occurring after the reporting period

On 2 January 2013, the Company completed the disposal of one of its subsidiary, Speedy-Tech (Philippines) Inc. ("STPHIL"), which has been classified as discontinued operation (Note 9) as at 31 December 2012, for a cash consideration of $1,769,000.

29. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 1 April 2013.

EXHIBIT 5

2012 Audited Annual Financial Statements, Cooperatief IMI Europe U.A. and Subsidiaries

Cooperatief IMI Europe U.A. and Subsidiaries

Consolidated Financial Statements
December 31, 2012 and 2011

and

Independent Auditors' Report

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Members and the Board of Directors
Cooperatief IMI Europe U.A. and Subsidiaries

We have audited the accompanying consolidated financial statements of Cooperatief IMI Europe U.A. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of comprehensive income, statements of changes in members' equity and statements of cash flows for the year ended December 31, 2012 and for the period August 1 to December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cooperatief IMI Europe U.A. and Subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for the year ended December 31, 2012 and for the period August 1 to December 31, 2011, in accordance with Philippine Financial Reporting Standards.

Basis of Accounting and Restriction of Use

Without modifying our opinion, we draw attention to Note 3 to the consolidated financial statements, which describes the basis of preparation. The consolidated financial statements are prepared to assist Integrated Micro-Electronics, Inc. to meet the requirements of the Philippine Securities and Exchange Commission. As a result, the consolidated financial statements may not be suitable for another purpose. Our auditors' report is intended solely for Integrated Micro-Electronics, Inc. and the Philippine Securities and Exchange Commission and should not be used by parties other than Integrated Micro-Electronics, Inc. and the Philippine Securities and Exchange Commission.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-2 (Group A),
February 4, 2013, valid until February 3, 2016
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669656, January 2, 2013, Makati City

April 8, 2013

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash (Note 5)	**$6,701,078**	$7,796,569
Loans and receivables (Note 6)	**43,763,004**	33,408,059
Inventories (Note 7)	**28,766,955**	27,006,955
Other current assets (Note 8)	**5,126,918**	3,988,868
Total Current Assets	**84,357,955**	72,200,451
Noncurrent Assets		
Property, plant and equipment (Note 9)	**36,285,608**	33,684,220
Goodwill (Notes 2 and 10)	**650,413**	650,413
Intangible assets (Notes 2 and 11)	**5,405,801**	6,557,357
Deferred tax assets (Note 20)	**717,790**	657,888
Other noncurrent assets	**73,241**	72,970
Total Noncurrent Assets	**43,132,853**	41,622,848
	$127,490,808	$113,823,299
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 12)	**$29,714,828**	$31,283,813
Loans payable (Note 13)	**21,760,072**	15,566,203
Current portion of long-term debt (Note 14)	**2,649,600**	–
Income tax payable	**151,408**	31,758
Total Current Liabilities	**54,275,908**	46,881,774
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Note 14)	**16,227,135**	20,398,500
Obligation under finance lease (Note 22)	**704,866**	612,724
Deferred tax liabilities (Note 20)	**3,556,429**	3,967,375
Pension liability (Note 21)	**284,703**	242,647
Due to related parties (Notes 15 and 23)	**28,808,733**	35,834,928
Total Noncurrent Liabilities	**49,581,866**	61,056,174
Total Liabilities	**103,857,774**	107,937,948
MEMBERS' EQUITY (Note 15)		
Equity Attributable to Equity Holders of the Parent Company		
Members' contribution	**6,388,893**	4,363
Retained earnings	**18,843,171**	11,875,715
Cumulative translation adjustment	**(1,662,112)**	(6,042,819)
	23,569,952	5,837,259
Equity Attributable to Non-controlling Interests in a Consolidated Subsidiary	**63,082**	48,092
Total Members' Equity	**23,633,034**	5,885,351
	$127,490,808	$113,823,299

See accompanying Notes to Consolidated Financial Statements.

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012 AND
FOR THE PERIOD AUGUST 1 TO DECEMBER 31, 2011*

	2012	2011
REVENUES		
Sale of goods	**$181,632,380**	$66,239,366
Sale of services	**600,822**	–
	182,233,202	66,239,366
COST OF SALES (Note 16)		
Cost of goods sold	**162,933,635**	60,813,415
Cost of services	**522,880**	–
	163,456,515	60,813,415
GROSS PROFIT	**18,776,687**	5,425,951
OPERATING EXPENSES (Note 17)	**(9,860,886)**	(6,109,633)
OTHERS - Net		
Interest expense (Note 19)	**(1,447,049)**	(1,191,848)
Interest income (Note 5)	**5,312**	27,077
Foreign exchange gains (losses) - net	**(89,178)**	149,445
Gain from bargain purchase (Note 2)	–	13,018,493
Miscellaneous income	**137,956**	779,239
INCOME BEFORE INCOME TAX	**7,522,842**	12,098,724
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 20)		
Current	**1,141,421**	180,807
Deferred	**(601,025)**	42,202
	540,396	223,009
NET INCOME	**6,982,446**	11,875,715
OTHER COMPREHENSIVE INCOME (LOSS)		
Exchange differences arising from translation of foreign operations	**4,380,707**	(6,042,819)
TOTAL COMPREHENSIVE INCOME	**$11,363,153**	$5,832,896
Net Income Attributable to:		
Equity holders of the Parent Company	**$6,967,456**	$11,875,715
Non-controlling interests	**14,990**	–
	$6,982,446	$11,875,715
Total Comprehensive Income Attributable to:		
Equity holders of the Parent Company	**$11,348,163**	$5,832,896
Non-controlling interests	**14,990**	–
	$11,363,153	$5,832,896

* The Parent Company was incorporated on May 2, 2011 and started commercial operations on August 1, 2011.

See accompanying Notes to Consolidated Financial Statements.

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Attributable to Equity Holders of the Parent Company			Attributable to Non-controlling Interests in a Consolidated Subsidiary	
	Members' Contribution	Retained Earnings	Cumulative Translation Adjustment		Total
Balances at January 1, 2012	**$4,363**	**$11,875,715**	**($6,042,819)**	**$48,092**	**$5,885,351**
Members' contributions during the year (Note 15)	**6,384,530**	**–**	**–**	**–**	**6,384,530**
	6,388,893	**11,875,715**	**(6,042,819)**	**48,092**	**12,269,881**
Net income	**–**	**6,967,456**	**–**	**14,990**	**6,982,446**
Other comprehensive income	**–**	**–**	**4,380,707**	**–**	**4,380,707**
Total comprehensive income	**–**	**6,967,456**	**4,380,707**	**14,990**	**11,363,153**
Balances at December 31, 2012	**$6,388,893**	**$18,843,171**	**($1,662,112)**	**$63,082**	**$23,633,034**
Balances at August 1, 2011 *	$–	$–	$–	$–	$–
Increase in non-controlling interests due to the acquisition of subsidiaries during the period (Note 15)	–	–	–	48,092	48,092
Members' contributions during the period (Note 15)	4,363	–	–	–	4,363
	4,363	–	–	48,092	52,455
Net income	–	11,875,715	–	–	11,875,715
Other comprehensive loss	–	–	(6,042,819)	–	(6,042,819)
Total comprehensive income (loss)	–	11,875,715	(6,042,819)	–	5,832,896
Balances at December 31, 2011	$4,363	$11,875,715	($6,042,819)	$48,092	$5,885,351

* The Parent Company was incorporated on May 2, 2011 and started commercial operations on August 1, 2011.

See accompanying Notes to Consolidated Financial Statements.

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012 AND
FOR THE PERIOD AUGUST 1 TO DECEMBER 31, 2011*

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**$7,522,842**	$12,098,724
Adjustments for:		
Depreciation of property, plant and equipment (Note 9)	**5,358,654**	4,451,931
Amortization of intangible assets (Note 11)	**1,450,749**	603,073
Interest expense (Note 19)	**1,447,049**	1,191,848
Provision for doubtful accounts (Note 6)	**215,642**	45,900
Provision for inventory obsolescence (Note 7)	**198,006**	122,780
Net pension expense (Note 21)	**36,458**	18,055
Gain on sale of property, plant and equipment (Note 9)	**(19,835)**	–
Unrealized foreign exchange losses - net	**5,598**	4,469
Interest income (Note 5)	**(5,312)**	(27,077)
Gain from bargain purchase (Note 2)	**–**	(13,018,493)
Operating income before working capital changes	**16,209,851**	5,491,210
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Loans and receivables	**(10,031,790)**	6,100,133
Inventories	**(1,603,836)**	402,996
Other current assets	**(1,138,050)**	(3,988,868)
Decrease in accounts payable and accrued expenses	**(1,687,615)**	(4,968,664)
Net cash generated from operations	**1,748,560**	3,036,807
Income tax paid	**(1,021,771)**	(149,049)
Interest paid	**(971,141)**	(791,548)
Interest received	**5,312**	27,077
Net cash provided by (used in) operating activities	**(239,040)**	2,123,287
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment (Notes 9 and 27)	**(6,130,697)**	(2,316,071)
Intangible assets (Note 11)	**(157,253)**	–
Proceeds from sale of property, plant and equipment	**149,781**	–
Increase in other noncurrent assets	**(271)**	241,045
Acquisition through business combination - net of cash acquired (Note 2)	**–**	5,053,353
Net cash provided by (used in) investing activities	**(6,138,440)**	2,978,327

(Forward)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of:		
Loans payable (Note 13)	**$13,964,467**	$4,500,000
Payments of:		
Loans payable	**(8,000,130)**	(1,805,045)
Finance lease	**(682,348)**	–
Net cash provided by financing activities	**5,281,989**	2,694,955
NET INCREASE (DECREASE) IN CASH	**(1,095,491)**	7,796,569
CASH AT BEGINNING OF PERIOD	**7,796,569**	–
CASH AT END PERIOD (Note 5)	**$6,701,078**	$7,796,569

* The Parent Company was incorporated on May 2, 2011 and started commercial operations on August 1, 2011.

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

Cooperatief IMI Europe U.A. ("Cooperatief" or the "Parent Company"), a non-stock holding entity registered under the laws of Amsterdam, the Netherlands on May 2, 2011, has three wholly-owned subsidiaries, namely: EPIQ Electronic Assembly EOOD (EPIQ EA), EPIQ CZ s.r.o. (EPIQ CZ), and EPIQ MX, S.A.P.I. de C.V. (EPIQ MX) (collectively referred to as the "Group"). The Group's parent company is Monarch Elite Ltd. (Monarch), a limited liability company incorporated in Hong Kong and is a subsidiary of IMI International (Singapore) Pte Ltd. ("IMI Singapore"), a wholly-owned subsidiary of Integrated Micro-Electronics, Inc. (IMI) which is a company registered under the laws of the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE). The Group's ultimate parent company is Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the PSE. AC is 51.15% owned by Mermac, Inc., 10.62% owned by Mitsubishi Corporation and the rest by the public. The registered office address of Cooperatief is Locatellikade 1, 1077 MA Amsterdam, the Netherlands.

On April 28, 2011, IMI infused additional capital to IMI Singapore consisting of $7,026,195 cash and 200 million of IMI's own shares in exchange for 43,077,144 newly issued ordinary shares of the latter with par value of SGD1.00 per share. This was used by IMI Singapore to set up Monarch and Cooperatief as holding companies and to facilitate the acquisition of EPIQ EA, EPIQ CZ, and EPIQ MX (collectively the "EPIQ Subsidiaries") from EPIQ NV (see Note 2). The EPIQ Subsidiaries design and produce printed circuits and spray casting of plastics, and supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, industrial market and other applications with plastic parts and electronic components. The EPIQ Subsidiaries also provide engineering, research and development, and logistics management services.

The consolidated financial statements as of December 31, 2012 and 2011 and for the year ended December 31, 2012 and for the period August 1 to December 31, 2011 were authorized for issue by the Cooperatief's Board of Directors on April 8, 2013.

2. **Business Combinations**

On April 28, 2011, IMI infused additional capital to IMI Singapore consisting of $7,026,195 cash and 200 million of IMI's own shares in exchange for 43,077,144 newly issued ordinary shares of the latter with par value of SGD1.00 per share. This was used by IMI Singapore to set up Monarch and Cooperatief as holding companies and to facilitate the acquisition of the EPIQ Subsidiaries from EPIQ NV.

On May 4, 2011, IMI, Cooperatief (the "Purchaser"), and EPIQ NV (the "Seller"), entered into a Sale and Purchase Agreement (SPA), for the Purchaser to buy the Seller's 100% direct or indirect ownership shares in the EPIQ Subsidiaries (the "EPIQ shares").

IMI, Cooperatief and EPIQ NV agreed that the consideration for the EPIQ shares would include issuance of 200 million of IMI's shares (the "IMI Consideration Shares"); deferred payment of €7,345,080 ($10,515,218) from 2013 to 2018 subject to an interest rate of 1.60% plus 1.50% (see Note 14); and assumption of liabilities of EPIQ NV to the EPIQ Subsidiaries aggregating to €2,546,419 ($3,645,453).

The acquisition costs are allocated as follows:

	EPIQ EA	EPIQ CZ	EPIQ MX	Total
Issuance of 200 million IMI Consideration Shares	$20,638,697	$524,970	$7,645,066	$28,808,733
Deferred payment	7,533,146	191,615	2,790,457	10,515,218
Assumed liabilities of EPIQ NV to the EPIQ Subsidiaries	115,265	8,887	3,521,301	3,645,453
	$28,287,108	$725,472	$13,956,824	$42,969,404

On July 29, 2011, all of the completion conditions under the SPA were fulfilled by the responsible parties, and the acquisition of the EPIQ Subsidiaries by Cooperatief was completed.

Under the SPA, Cooperatief also purchased receivables of EPIQ NV from the EPIQ Subsidiaries aggregating to €11,734,824 ($16,799,576). On July 29, 2011, €4,831,161 ($6,916,294) of this was settled through cash payment, while the rest will be settled through additional deferred payment from 2013 to 2018 subject to interest rate of 1.60% plus 1.50% (see Note 14).

In 2011, the purchase price allocation for the acquisition of the EPIQ Subsidiaries was done on a preliminary basis as certain information were unavailable to finalize the fair value calculations of property, plant and equipment, intangible assets, contingent liabilities and goodwill.

In 2012, the Group finalized the purchase price allocation. As shown below, no changes were made to the provisional values as the impact of additional information subsequently obtained was not significant to affect the preliminary values.

	EPIQ EA		EPIQ CZ		EPIQ MX	
	Fair Value	Provisional Values	Fair Value	Provisional Values	Fair Value	Provisional Values
Assets						
Cash and cash equivalents	$1,152,558	$1,152,558	$515,223	$515,223	$3,385,562	$3,385,562
Receivables	26,485,891	26,485,891	3,333,944	3,333,944	10,508,102	10,508,102
Inventories	20,700,958	20,700,958	2,984,546	2,984,546	4,476,328	4,476,328
Property, plant and equipment	24,810,566	24,810,566	5,734,207	5,734,207	8,618,229	8,618,229
Computer software	158,818	158,818	–	–	299,735	299,735
Customer relationships	6,766,617	6,766,617	–	–	–	–
Deferred tax assets	–	–	444,245	444,245	–	–
Other assets	193,184	193,184	–	–	120,831	120,831
Total	80,268,592	80,268,592	13,012,165	13,012,165	27,408,787	27,408,787
Liabilities						
Accounts payable	17,650,612	17,650,612	2,444,865	2,444,865	6,409,754	6,409,754
Bank loans	12,871,248	12,871,248	–	–	–	–
Long-terms debt	4,779,883	4,779,883	10,114,478	10,114,478	2,909,135	2,909,135
Provisions	1,319,762	1,319,762	–	–	–	–
Accrued charges and deferred income	1,158,778	1,158,778	377,763	377,763	–	–
Taxes payable	352,571	352,571	–	–	1,089,987	1,089,987
Deferred tax liabilities	2,138,855	2,138,855	–	–	1,686,277	1,686,277
Total	40,271,709	40,271,709	12,937,106	12,937,106	12,095,153	12,095,153
Net assets	$39,996,883	$39,996,883	$75,059	$75,059	$15,313,634	$15,313,634
Cost of acquisition	$28,287,108	$28,287,108	$725,472	$725,472	$13,956,824	$13,956,824
Less: Cooperatief's share in the fair value of net assets acquired	39,948,791	39,948,791	75,059	75,059	15,313,634	15,313,634
Goodwill (gain from bargain purchase)	($11,661,683)	($11,661,683)	$650,413	$650,413	($1,356,810)	($1,356,810)

Acquisition-related costs, which consist of professional fees, representation and travel expenses amounting to $2.14 million, were recognized as expenses in 2011 by IMI.

In 2011, from the date of acquisition, the EPIQ Subsidiaries have contributed $66.24 million and $2.42 million to the Group's total revenue and net income before tax, respectively. If the combination had taken place at the beginning of 2011, the Group's total revenue and net income before tax would have increased by $189.90 million and $10.45 million, respectively.

3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation
The consolidated financial statements have been prepared under the historical cost basis. The consolidated financial statements are presented in United States (U.S.) Dollar, which is the Group's presentation currency for purposes of reporting to IMI, and are rounded off to the nearest dollar, except when otherwise indicated.

The consolidated financial statements have been prepared for submission to the Philippine Securities and Exchange Commission (SEC) to comply with the requirements under *Part II, Additional Requirements for Issuers of Securities to the Public, of the amended Securities Regulation Code Rule 68* on submission of the financial statements of significant foreign subsidiaries.

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

Name of Subsidiary	Percentage of Ownership **2012**	2011	Country of Incorporation	Functional Currency
EPIQ EA	**100.00%**	100.00%	Bulgaria	Bulgarian Lev
Microenergia OOD	**70.00%**	70.00%	Bulgaria	Bulgarian Lev
EPIQ CZ	**100.00%**	100.00%	Czech Republic	Czech Koruna
EPIQ MX	**100.00%**	100.00%	Mexico	Mexican Peso
EPIQ Manufactura S.A.P.I de C.V.	**100.00%**	100.00%	Mexico	Mexican Peso
IMI France SAS (IMI France)	**100.00%**	100.00%	France	Euro

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same balance sheet date as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions, are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly-owned 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 non-controlling interests 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 non-controlling interests;
- 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; and
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the new and amended PFRS and Philippine Accounting Standards (PAS) effective as of January 1, 2012. Except as otherwise indicated, adoption of these new and amended standards did not have any impact on the consolidated financial statements.

- PAS 12 (Amendment), *Income Taxes – Deferred Taxes: Recovery of Underlying Assets*
  This amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a "sale" basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ("use" basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

- PFRS 7, *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*
  This amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's consolidated 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 user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

Standards Issued but not yet Effective
New and amended standards and interpretations
The Group will adopt the following PFRS, PAS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have a significant impact on the consolidated financial statements.

- PAS 1 (Amendment), *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after July 1, 2012)
  The amendments to PAS 1 change the grouping of items presented in other comprehensive

income. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be reclassified.

- PAS 19 (Amendment), *Employee Benefits* (effective for annual periods beginning on or after January 1, 2013)
  Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The amended standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once the amended standard is effective, the Group has to apply the amendments retroactively to the earliest period presented.

  The Group reviewed its existing employee benefits and determined that the amended standard will not have a significant impact on its accounting for retirement benefits.

- PAS 27 (as revised in 2011), *Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2013)
  As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities (JCEs), and associates in the separate financial statements.

- PAS 28 (as revised in 2011), *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after January 1, 2013)
  As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28, *Investments in Associates*, has been renamed PAS 28, *Investment in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2013)
  These amendments require the Group to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on the Group's financial position. The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The disclosures also apply to recognize 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 balance sheet date:

  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 consolidated balance sheet;
  c) The net amounts presented in the consolidated balance sheet;

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 addresses the accounting for consolidated financial statements. It also addresses the issues raised in Standing Interpretations Committee (SIC). 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.

- 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 JCEs using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture 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 of the disclosures that were previously included in PAS 27 related to the consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to the Group'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 the Group 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. The Group is yet to implement this Standard by January 1, 2013 and would want to consider the key implications of PFRS 13 in its overall assessment.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after January 1, 2013)
  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity.

- PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014)
  These amendments clarify the meaning of "currently has a legally enforceable right to set-off." The amendments 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.

- PFRS 9, *Financial Instruments* (effective for annual periods beginning on or after January 1, 2015)
  PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss (FVPL). All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at FVPL. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The Group will quantify the effect in conjunction with other phases, when the final standard, including all phases, is issued. The Group's assessment of the impact of PFRS 9 is still in progress and no early adoption will be made as of the date of this report as there are still major changes that are expected to be made in the existing draft of the Standard that could impact the Group's decision to early adopt or not.

- 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 Philippine SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Annual improvements to PFRSs
The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted. Except as otherwise indicated, the Group does not expect the adoption of these amendments to standards to have a significant impact on the consolidated financial statements.

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

supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements) are not required.

- PAS 16, *Property, Plant and Equipment – Classification of Servicing Equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise.

- PAS 32, *Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

Cash
Cash includes cash on hand and in banks.

Financial Instruments - Initial Recognition and Subsequent Measurement
Classification of financial instruments
Financial instruments within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, are classified as: (1) financial assets and financial liabilities at FVPL; (2) loans and receivables; (3) held-to-maturity investments; (4) available-for-sale financial assets; and (5) other financial liabilities. The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. The Group determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every balance sheet date.

The financial instruments of the Group as of December 31, 2012 and 2011 consist of loans and receivables and other financial liabilities.

Date of recognition of financial instruments
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.

Determination of fair value
The fair value of financial instruments that are traded in active markets at each balance sheet date is determined by reference to quoted market prices or dealer price quotations (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 financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same; and
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 24.

"Day 1" difference
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" difference) in the consolidated statement of comprehensive income under "Interest income" or "Interest expense and bank charges," unless it qualifies for recognition as some other type of asset or liability.

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

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognized initially at fair value, plus transaction costs.

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

Loans and receivables are included in current assets if maturity is within twelve (12) months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

This accounting policy relates primarily to the Group's cash in banks and loans and receivables.

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

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

After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Other financial liabilities are included in current liabilities if maturity is within twelve (12) months from the balance sheet date. Otherwise, these are classified as noncurrent liabilities.

This accounting policy relates primarily to the Group's accounts payable and accrued expenses (excluding customers' deposits), loans payable, long-term debt and due to related parties.

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

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

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

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

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

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

Impairment of Financial Assets
The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial

difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR 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 recognized in profit or loss. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. If, in a subsequent period, the amount of the estimated impairment loss decreases because of 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.

Inventories

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

Property, Plant and Equipment

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

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

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

	Years
Buildings	25 - 30
Building improvements	5
Machinery and facilities equipment	4 - 10
Furniture, fixtures and office equipment	3 - 5
Transportation equipment	4 - 6

Leasehold improvements are amortized over the shorter of the related lease terms or their EUL of five (5) years.

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

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

The EUL of property, plant and equipment are reviewed annually based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of property, plant and equipment. 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 asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

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.

Business Combination and Goodwill or Gain on Bargain Purchase
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in consolidated statement of comprehensive income under "Operating 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

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

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

Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes 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. When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. When 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.

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

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 accumulated amortization and any accumulated impairment losses.

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

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

The EUL of intangible assets are as follows:

	Years
Customer relationships	5
Computer software	3

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

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

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

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

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

For assets excluding goodwill, an assessment is made at each balance sheet date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss, unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining EUL.

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

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

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

When the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

<u>Equity</u>
Members' contribution
Members' contribution pertains to the capital contributed by members.

Retained earnings
Retained earnings represent the net accumulated earnings of the Group.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. 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 EIR method.

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

<u>Expenses</u>
Expenses of the Group include cost of sales and operating expenses.

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

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

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

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

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

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient future taxable profits will be available against which the temporary differences can be utilized.

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

Deferred tax liabilities are recognized for all taxable temporary differences.

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

Income tax relating to items recognized directly in equity is recognized in equity.

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

Foreign Currency Transactions

For the purpose of the consolidated financial statements, the results and financial position of each entity within the Group are expressed in U.S. Dollar, which is the presentation currency of the Group for purposes of reporting to IMI.

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 balance sheet date. All differences are taken to profit or loss. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currencies of 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 entities mostly use their local currencies for their daily transactions. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of IMI at the rate of exchange ruling at the balance sheet date and their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity. 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.

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

Pension Benefits

Defined contribution plans

EPIQ CZ and EPIQ MX 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 expense as accrued.

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.

EPIQ MX

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

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

Defined benefit plan

EPIQ EA maintains a separate defined benefit plan covering substantially all of its employees. The plan 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. An actuarial valuation is conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur. Pension expense 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 balance sheet date 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 profit or loss, 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 defined benefit obligation is calculated annually by an independent actuary 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.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

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

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

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

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

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

Events after the Balance Sheet Date
Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities affected in future periods.

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

Functional currency
PAS 21, *Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Group's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Group. In making this judgment, the Group considers the currency in which the sales prices for its goods and services are denominated and settled. Further details are given in Note 3.

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

In addition, EPIQ EA and EPIQ CZ have various finance lease contracts related to machineries and production equipment and transportation equipment. They have determined, based on the evaluation of the terms and conditions of their respective arrangements, that they bear substantially all the risks and rewards incidental to the ownership of the said machineries and equipment and so account for the contracts as finance leases. Further details are given in Note 22.

Contingencies
The Group is currently involved in various legal proceedings and tax assessments. The estimate of the probable costs of the resolutions and assessments of these claims have been developed in consultation with outside counsels handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings and tax assessments will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings. Further details are given in Note 26.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of loans and receivables
The Group reduces the carrying amount of its loans and receivables through the use of an allowance account if there is objective evidence that an impairment loss on the loans and receivables has been incurred, based on the result of the individual and collective impairment assessments. Factors considered are payment history and past due status.

Loans and receivables, net of the allowance for doubtful accounts, amounted to \$43.76 million and \$33.41 million as of December 31, 2012 and 2011, respectively. Allowance for doubtful accounts amounted to \$0.26 million and \$0.05 million as of December 31, 2012 and 2011, respectively. Further details are given in Note 6.

Estimating NRV of inventories
Inventories are valued at the lower of cost and NRV. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, costs of completion and costs necessary to make the sale to determine the NRV. In the event that NRV is lower than cost, the decline is recognized as an expense.

Inventories carried at cost amounted to $28.58 million and $27.01 million as of December 31, 2012 and 2011, respectively. Inventories carried at NRV amounted to $0.18 million and nil as of December 31, 2012 and 2011, respectively. Allowance for inventory obsolescence amounted to $0.32 million and $0.12 million as of December 31, 2012 and 2011, respectively. Further details are given in Note 7.

Depreciation and amortization
The Group computes depreciation of property, plant and equipment on a straight-line basis over the assets' EUL. The EUL and depreciation method are reviewed annually to ensure that these are consistent with the expected pattern of the economic benefits from the assets. This requires the Group to make an estimate of the expected asset utilization from business plans and strategies, future technical developments and market behavior to determine the expected pattern of economic benefits from the assets.

Property, plant and equipment, net of accumulated depreciation, amounted to $36.29 million and $33.68 million as of December 31, 2012 and 2011, respectively. Depreciation expense on property, plant and equipment amounted to $5.36 million and $4.45 million in 2012 and 2011, respectively. Further details are given in Notes 9, 16 and 17.

The Group computes amortization of intangible assets on a straight-line basis over the assets' EUL. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at the end of each balance sheet date. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the consolidated statements of comprehensive income in the expense category, consistent with the function of the intangible assets.

Intangible assets, net of accumulated amortization, amounted to $5.41 million and $6.56 million as of December 31, 2012 and 2011, respectively. Amortization expense amounted to $1.45 million and $0.60 million in 2012 and 2011, respectively. Further details are given in Notes 11 and 17.

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

Property, plant and equipment, net of accumulated depreciation, amounted to $36.29 million and $33.68 million as of December 31, 2012 and 2011, respectively. No impairment loss on property, plant and equipment was recognized in 2012 and 2011. Intangible assets, net of accumulated amortization, amounted to $5.41 million and $6.56 million as of December 31, 2012 and 2011, respectively. No impairment loss on intangible assets was recognized in 2012 and 2011. Further details are given in Notes 9 and 11.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount, which is the net selling price or value in use of the CGUs to which the goodwill is allocated. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

Goodwill amounted to $0.65 million as of December 31, 2012 and 2011. No impairment loss on goodwill was recognized in 2012 and 2011. Further details are given in Note 10.

Fair value measurement of intangible assets resulting from business combinations
Intangible assets resulting from business combinations are valued at fair value at the acquisition date as part of the business combination. Upon acquisition of EPIQ EA (see Note 2), the Parent Company identified an intangible asset (customer relationships) and determined its fair value based on discounted 5-year projected income from existing customers as of acquisition date after excluding projected returns contributed by working capital, workforce and fixed assets.

The customer relationships amounted to $4.85 million and $6.20 million as of December 31, 2012 and 2011, respectively. Further details are given in Note 11.

Deferred tax assets
The Group reviews the carrying amounts of its deferred tax assets at each balance sheet date and reduces the deferred tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

As of December 31, 2012 and 2011, the Group has deferred tax assets of $0.72 million and $0.66 million, respectively. Further details are given in Note 20.

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

The carrying amount of the Group's income tax payable as of December 31, 2012 and 2011 amounted to $0.15 million and $0.03 million, respectively.

Pension benefits
The cost of defined benefit pension plan and the present value of the pension obligation are determined using an actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, mortality rates, future salary rate increases, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

The Group has unrecognized actuarial losses of nil and $0.02 million in 2012 and 2011, respectively. Further details are given in Note 21.

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

5. Cash

This account consists of:

	2012	2011
Cash on hand	**$34,619**	$9,936
Cash in banks	**6,666,459**	7,786,633
	$6,701,078	$7,796,569

Cash in banks earns interest at the respective bank deposit rates. Interest income earned from cash in banks amounted to $0.01 million and $0.03 million in 2012 and 2011, respectively.

6. Loans and Receivables

This account consists of:

	2012	2011
Trade	**$42,713,032**	$32,033,868
Nontrade	**1,146,748**	1,245,509
Due from related parties (Note 23)	**70,019**	17,280
Others	**93,724**	157,302
	44,023,523	33,453,959
Less: Allowance for doubtful accounts	**260,519**	45,900
	$43,763,004	$33,408,059

<u>Trade</u>
Trade receivables arise from manufacturing and other related services for electronic products and components and have credit terms ranging from 40 to 60 days after the sale.

Certain receivables of EPIQ EA have been pledged to UniCredit Bullbank and BNP Paribas (see Note 13).

As of December 31, 2012 and 2011, EPIQ EA's pledged receivables with UniCredit Bulbank amounted to €8.00 million ($10.60 million) and €2.73 million ($3.62 million), respectively (see Note 13).

As of December 31, 2012 and 2011, EPIQ EA's pledged receivables with BNP Paribas amounted to €0.32 million ($0.43 million) (see Note 13).

<u>Nontrade</u>
Nontrade receivables represent billings for all other charges agreed with the customers in carrying out business operations. These receivables have credit terms ranging from 40 to 60 days from invoice date.

Allowance for Doubtful Accounts
Trade receivables with aggregate nominal value of $0.26 million and $0.05 million were individually assessed to be impaired and fully provided with allowance for doubtful accounts as of December 31, 2012 and 2011, respectively.

Movements in the allowance for doubtful accounts follow:

	2012	2011
At beginning of period	**$45,900**	$–
Provisions	**215,642**	45,900
Accounts written-off	**(1,023)**	–
At end of period	**$260,519**	$45,900

Provisions during the year form part of "Operating expenses" and are included under "Facilities costs and others" (see Note 18).

7. **Inventories**

This account consists of:

	2012	2011
At cost:		
Raw materials and supplies	**$21,654,842**	$20,763,580
Work in-process	**2,089,498**	1,875,642
Finished goods	**4,837,855**	4,367,733
	28,582,195	27,006,955
At NRV:		
Raw materials and supplies	**181,573**	–
Work in-process	**142**	–
Finished goods	**3,045**	–
	184,760	–
	$28,766,955	$27,006,955

The cost of the inventories carried at NRV amounted to $0.51 million and $0.12 million as of December 31, 2012 and 2011, respectively. The amount of inventories recognized as an expense amounted to $131.18 million and $46.99 million in 2012 and 2011, respectively (see Note 16).

Movements in the allowance for inventory obsolescence are as follows:

	2012	2011
At beginning of period	**$122,780**	$–
Provisions	**198,006**	122,780
At end of period	**$320,786**	$122,780

Provision for inventory obsolescence recognized in 2012 and 2011 amounted to $0.20 million and $0.12 million, respectively (see Note 18).

As of December 31, 2012, inventories of EPIQ EA amounting to €8.00 million ($10.60 million) and €0.32 million ($0.43 million) were pledged to UniCredit Bulbank and BNP Paribas, respectively (see Note 13).

As of December 31, 2011, inventories of EPIQ EA amounting to €2.73 million ($3.62 million) and €0.32 million ($0.43 million) were pledged to UniCredit Bulbank and BNP Paribas, respectively (see Note 13).

8. Other Current Assets

This account consists of:

	2012	2011
Tax credits	**$4,951,559**	$3,755,942
Prepayments	**111,727**	122,913
Advances to suppliers	**35,913**	34,913
Others	**27,719**	75,100
	$5,126,918	$3,988,868

Tax credits are attributable to EPIQ MX and EPIQ EA.

Prepayments include prepayments for life and fire insurance and rent.

9. Property, Plant and Equipment

Movements in this account are as follows:

2012

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Construction in Progress	Total
Cost						
At January 1, 2012	$18,515,536	$17,491,115	$299,408	$356,632	$1,473,460	$38,136,151
Additions	312,457	4,479,244	130,018	36,140	1,955,889	6,913,748
Disposals	–	(1,530,672)	(60,011)	(253,938)	–	(1,844,621)
Transfers	(1,256)	2,005,444	205,711	40	(2,209,939)	–
Foreign currency exchange difference	(420,066)	(868,891)	862,347	(44,018)	(49,758)	(520,386)
At December 31, 2012	18,406,671	21,576,240	1,437,473	94,856	1,169,652	42,684,892
Accumulated depreciation						
At January 1, 2012	311,592	3,952,369	68,513	119,457	–	4,451,931
Depreciation	635,955	4,456,936	131,041	134,722	–	5,358,654
Disposals	(588)	(1,403,945)	(69,222)	(240,920)	–	(1,714,675)
Foreign currency exchange difference	(890,434)	(1,500,882)	744,288	(49,598)	–	(1,696,626)
At December 31, 2012	56,525	5,504,478	874,620	(36,339)	–	6,399,284
Net book value as of December 31, 2012	$18,350,146	$16,071,762	$562,853	$131,195	$1,169,652	$36,285,608

2011

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Construction in Progress	Total
Cost						
Additions through business combination (Note 2)	$19,050,081	$18,795,575	$187,357	$319,147	$810,842	$39,163,002
Additions	1,129,846	732,430	215,061	62,470	788,988	2,928,795
Foreign currency exchange difference	(1,664,391)	(2,036,890)	(103,010)	(24,985)	(126,370)	(3,955,646)
At December 31, 2011	18,515,536	17,491,115	299,408	356,632	1,473,460	38,136,151
Accumulated depreciation						
Depreciation	311,592	3,952,369	68,513	119,457	–	4,451,931
Net book value as of December 31, 2011	$18,203,944	$13,538,746	$230,895	$237,175	$1,473,460	$33,684,220

As of December 31, 2012 and 2011, fully depreciated property, plant and equipment amounting to $21.35 million and $17.48 million, respectively, are still being used by the Group.

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

	2012	2011
Cost of goods sold and services (Note 16)	**$4,921,375**	$4,253,257
Operating expenses (Note 17)	**437,279**	198,674
	$5,358,654	$4,451,931

Gains from disposal of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments included under “Miscellaneous income” in the consolidated statements of comprehensive income amounted to $0.02 million and nil in 2012 and 2011, respectively.

10. **Goodwill**

Goodwill resulted from the acquisition of EPIQ CZ which is treated as the CGU.

The recoverable amount of this CGU has been based on value in use calculation using cash flow projections from financial budget approved by management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 12.40% in 2012.

Cash flows beyond the five-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate for the global Electronic Manufacturing Services (EMS) industry.

Key Assumptions Used in the Value in Use Calculation
The calculation of value in use for the CGU is most sensitive to the following assumptions:

- Budgeted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Growth rate - The forecasted growth rate is based on a very conservative steady growth rate that does not exceed the compounded annual growth rate for the global EMS industry.
- Pre-tax discount rate - Discount rate reflects management’s estimate of the risks specific to this CGU. This is the benchmark used by management to assess operating performance.

No impairment loss was assessed for EPIQ CZ in 2012.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of this unit to exceed its recoverable amount.

11. **Intangible Assets**

Movements in this account are as follows:

2012

	Customer Relationships	**Computer Software**	**Total**
Cost			
At January 1, 2012	**$6,766,617**	**$393,813**	**$7,160,430**
Additions	**–**	**157,253**	**157,253**
Foreign currency exchange difference	**–**	**167,415**	**167,415**
At December 31, 2012	**6,766,617**	**718,481**	**7,485,098**
Accumulated amortization			
At January 1, 2012	**563,885**	**39,188**	**603,073**
Amortization	**1,353,323**	**97,426**	**1,450,749**
Foreign currency exchange difference	**–**	**25,475**	**25,475**
At December 31, 2012	**1,917,208**	**162,089**	**2,079,297**
Net book value as of December 31, 2012	**$4,849,409**	**$556,392**	**$5,405,801**

2011

	Customer Relationships	Computer Software	Total
Cost			
Additions through business combination (Note 2)	$6,766,617	$458,553	$7,225,170
Foreign currency exchange difference	–	(64,740)	(64,740)
At December 31, 2011	6,766,617	393,813	7,160,430
Accumulated amortization			
Amortization	563,885	39,188	603,073
Net book value as of December 31, 2011	$6,202,732	$354,625	$6,557,357

Customer relationships pertain to EPIQ EA’s contractual agreements with certain customers which lay out the principal terms upon which the parties agree to undertake business.

Amortization of intangible assets included in “Operating expenses” in 2012 and 2011 amounted to $1.45 million and $0.60 million, respectively (see Note 17).

12. **Accounts Payable and Accrued Expenses**

This account consists of:

	2012	2011
Trade payables	**$22,456,482**	$26,539,963
Accrued expenses	**4,014,079**	3,326,669
Due to related parties (Note 23)	**955,009**	173,470
Accrued interest payable (Note 23)	**876,208**	400,300
Current portion of obligation under finance lease (Note 22)	**674,071**	665,510
Customers' deposits	**10,831**	3,384
Others	**728,148**	174,517
	$29,714,828	$31,283,813

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

Accrued expenses consist mainly of accruals for taxes, compensation and benefits, repairs and maintenance, professional fees, light and water, supplies and transportation and travel.

13. **Loans Payable**

This account consists of borrowings by the following entities:

	2012	2011
EPIQ MX	**$11,009,461**	$4,000,000
EPIQ EA	**9,700,611**	11,066,203
EPIQ CZ	**1,050,000**	500,000
	$21,760,072	$15,566,203

<u>EPIQ MX</u>
EPIQ MX has a revolving credit line with Banamex amounting to $2.01 million with term not exceeding twelve (12) months, maturing on September 30, 2013 and bears interest based on Libor plus 2%. Interest expense incurred on the short-term loan amounted to $0.08 million in 2012.

EPIQ MX has outstanding loans from IMI aggregating to $9.0 million and $4.0 million as of December 31, 2012 and 2011, respectively, to fund its working capital requirements (see Note 23). The loans bear interest ranging from 2.79% to 2.81% with terms of 90 days. Interest expense incurred on these loans amounted to $0.24 million and $0.01 million in 2012 and 2011, respectively.

<u>EPIQ EA</u>
EPIQ EA has short-term loans from the following banks:

	2012	2011
UniCredit Bulbank	**$9,275,017**	$10,351,817
BNP Paribas	**425,594**	714,386
	$9,700,611	$11,066,203

The loans from UniCredit Bulbank and BNP Paribas are from existing revolving credit facilities with terms of one (1) year. The loans bear interest based on 1-month EURIBOR plus 3.00% and 3-month EURIBOR plus 2.50%, respectively. Interest expense recognized on the loans in 2012 and 2011 amounted to $0.48 million and $0.45 million, 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 €8,000,000;
- First ranking pledge on receivables from a certain customer; and
- Notary signed Soft Letter of Comfort from the Parent Company.

As of December 31, 2012 and 2011, EPIQ EA's pledged inventories and receivables with UniCredit Bulbank amounted to €16.00 million ($21.20 million) and €5.46 million ($7.24 million), respectively.

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 €3,750,000; 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 €3,750,000.

As of December 31, 2012 and 2011, EPIQ EA's pledged inventories and receivables with BNP Paribas amounted to €0.64 million ($0.86 million).

EPIQ CZ

EPIQ CZ has outstanding loans from IMI aggregating to $1.05 million and $0.5 million as of December 31, 2012 and 2011, respectively, to fund its working capital requirements (see Note 23). The loans bear interest at 2.81% with terms of 90 days. Interest expense incurred on these loans amounted to $0.03 million and $0.01 million in 2012 and 2011, respectively.

14. Long-Term Debt

This account consists of borrowings of Cooperatief amounting to $18.88 million and $20.40 million as of December 31, 2012 and 2011, respectively. The details of the current and noncurrent portion of these borrowings are as follows:

	2012	2011
Total long-term debt	**$18,876,735**	$20,398,500
Less: Current portion	**2,649,600**	–
Noncurrent portion	**$16,227,135**	$20,398,500

Cooperatief's long-term debt relates to the acquisition of EPIQ shares and receivables of EPIQ NV from the EPIQ Subsidiaries (see Note 2). This is subject to interest rate of 1.60% plus 1.50%.

Below is the amortization schedule:

Due dates	Amounts in Euro	Amount in USD
2013	€2,000,000	$2,649,600
2014	2,000,000	2,649,600
2015	2,000,000	2,649,600
2016	2,000,000	2,649,600
2017	2,000,000	2,649,600
2018	4,248,743	5,628,735
Total	€14,248,743	$18,876,735

In 2012 and 2011, Cooperatief incurred interest expense amounting to $0.57 million and $0.28 million, respectively, for its long-term debt.

15. **Member's Equity**

Details of the members of the Cooperatief follow:

	Country of Incorporation	**Ownership Interest**
Monarch	Hong Kong	99%
IMI Singapore	Singapore	1%

The movements in "Members' contribution" account follow:

	2012	2011
At beginning of period	**$4,363**	$–
Contributions during the period	**6,384,530**	4,363
At end of period	**$6,388,893**	$4,363

In 2011, based on the Members' Agreement effective as of May 2, 2011, the initial contribution of €990 ($1,466) from Monarch and €10 ($15) from IMI Singapore represents the capital commitment required for the Cooperatief to conduct its business (see Note 23). Additional contributions amounting to €1,980 ($2,853) and €20 ($29) from Monarch and IMI Singapore, respectively, were paid on June 20, 2011 for the share capital in IMI France as member's contribution into the Cooperatief.

The advances made by Monarch and IMI Singapore to the Cooperatief amounting to €4,801,500 ($6,320,684) and €48,500 ($63,846), respectively, representing the cash consideration used by the latter to facilitate the acquisition of the EPIQ Subsidiaries and presented in 2011 under "Due to related parties" account were converted into members' contributions on December 18, 2012.

16. Cost of Goods Sold and Services

This account consists of:

	2012 (One Year)	2011 (Five Months)
Direct, indirect and other material-related costs (Note 7)	**$131,178,141**	$46,994,162
Direct labor, salaries, wages and employee benefits (Note 21)	**20,413,198**	6,451,388
Depreciation (Note 9)	**4,921,375**	4,253,257
Facilities costs and others (Note 18)	**6,943,801**	3,114,608
	$163,456,515	$60,813,415

17. Operating Expenses

This account consists of:

	2012 (One Year)	2011 (Five Months)
Salaries, wages and employee benefits (Note 21)	**$3,940,044**	$3,373,508
Depreciation and amortization (Notes 9 and 11)	**1,888,028**	801,747
Facilities costs and others (Note 19)	**4,032,814**	1,934,378
	$9,860,886	$6,109,633

18. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services		**Operating Expenses**	
	2012 (One Year)	2011 (Five Months)	**2012 (One Year)**	2011 (Five Months)
Utilities	**$2,105,128**	$1,040,592	**$1,602**	$6,218
Repairs and maintenance	**2,000,786**	826,264	**137,104**	22,872
Travel	**680,455**	864,801	**807,661**	356,060
Outsourced activities	**221,452**	52,354	**1,327,053**	622,509
Insurance	**15,980**	–	**581,285**	88,552
Government-related	**1,811**	–	**286,678**	27,634
Postal and communication	–	–	**249,466**	105,896
Provision for doubtful accounts (Note 6)	–	–	**215,642**	45,900
Provision for inventory obsolescence (Note 7)	–	–	**198,006**	122,780
Promotional materials, representation and entertainment	–	–	**163,061**	70,252
Technology-related	–	–	**18,963**	29,678
Membership fee	–	–	**266**	130,789
Others	**1,918,189**	330,597	**46,027**	305,238
	$6,943,801	$3,114,608	**$4,032,814**	$1,934,378

"Others" include small tools and instruments, spare parts, brokerage charges, freight out, test material, service processing fees, scrap materials, office supplies, and copying expenses.

19. Interest Expense

This account consists of:

	2012 (One Year)	2011 (Five Months)
Interest expense (Notes 13 and 14)	**$1,401,618**	$754,119
Others	**45,431**	437,729
	$1,447,049	$1,191,848

"Others" pertains to interest on finance lease.

20. Income Taxes

Cooperatief
Taxation is calculated on the reported pre-tax result, at the prevailing tax rates (which should be at least 10%), taking into account any losses carried forward from previous financial years (if applicable) and tax-exempt items and nondeductible expenses and using tax facilities.

IMI France
Income tax is computed based on the income earned by the entity during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back one year. The tax rate applicable in 2012 and 2011 is 33.33% based on net profits.

EPIQ EA
Income taxes are calculated in accordance with the Bulgarian legislation, and the effect of the current and deferred taxes is reported. The current tax is calculated based on the taxable income for tax purposes. The nominal tax rate in 2012 and 2011 is 10%.

EPIQ MX
EPIQ MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in profit or loss in the year they are incurred. Income tax rate for 2012 and 2011 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%.

Income tax incurred will be the higher of Income Tax and Business Flat Tax.

EPIQ CZ
Income tax due is calculated by multiplying the tax base by the rate as defined by the income tax law of Czech Republic. The tax base comprises the book income from operations which is increased or decreased by permanently or temporarily tax-decreasing costs and tax-deductible revenues (e.g. creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate in 2012 and 2011 is 19%.

The reconciliation of the statutory income tax rate to the effective income tax rate of the Group follows:

	2012 (One Year)	2011 (Five Months)
Statutory income tax	**10%**	10%
Tax effects of:		
Difference in tax jurisdiction	**(150.23%)**	(107.54%)
Nondeductible expenses	**147.41%**	99.38%
Effective income tax rate	**7.18%**	1.84%

Deferred taxes of the Group relate to the tax effects of the following:

	2012	2011
Deferred tax assets:		
Revaluation of property, plant and equipment of subsidiaries upon acquisition	**$444,245**	$444,245
Allowance for inventory obsolescence	**114,369**	99,129
Allowance for doubtful accounts	**91,140**	88,242
Others	**68,036**	26,272
	717,790	657,888
Deferred tax liabilities:		
Revaluation of property, plant and equipment and intangibles of subsidiaries upon acquisition	**(2,012,889)**	(2,492,022)
Accelerated depreciation	**(186,914)**	(248,904)
Others	**(1,356,626)**	(1,226,449)
	(3,556,429)	(3,967,375)
Net deferred tax liabilities	**($2,838,639)**	($3,309,487)

21. Employee Benefits

EPIQ EA has a defined benefit pension plan covering substantially all of its employees, which require contributions to be made to administered funds. The plan is administered by a local bank as trustee. The latest retirement valuation was made on December 31, 2012.

The following tables summarize the components of the net pension expense recognized in the consolidated statements of comprehensive income and the pension liability recognized in the consolidated balance sheets:

Net Pension Expense

	2012 (One Year)	2011 (Five Months)
Current service cost	**$35,088**	$33,700
Interest cost on benefit obligation	**13,529**	14,957
Benefits paid due to settlement	**(9,428)**	(23,837)
Amortization of actuarial gains	**(2,731)**	(6,765)
	$36,458	$18,055

The pension liability is derived as follows:

	2012	2011
Present value of defined benefit obligation	**$284,703**	$264,479
Unrecognized actuarial losses	–	21,832
	$284,703	$242,647

Movements in the net pension liability of EPIQ EA for the year ended December 31, 2012 and for the five-month period ended December 31, 2011 follow:

	2012	2011
At beginning of period	**$242,647**	$–
Net pension expense	**36,458**	18,055
Foreign currency exchange difference	**5,598**	4,469
Additions through business combinations	–	220,123
At end of period	**$284,703**	$242,647

Changes in the present value of defined benefit obligation follow:

	2012	2011
At beginning of period	**$264,478**	$–
Current service cost	**35,088**	33,700
Actuarial losses (gains)	**(21,832)**	20,073
Interest cost on benefit obligation	**13,529**	14,957
Benefits paid during the period	**(6,560)**	(24,374)
Additions through business combinations	–	220,123
At end of period	**$284,703**	$264,479

Changes in the unrecognized actuarial losses follow:

	2012	2011
At beginning of period	**($21,832)**	$–
From pension obligation	**21,832**	(20,073)
Additions through business combinations	–	6,765
Amortization of actuarial gain	**(2,731)**	(6,765)
Foreign currency exchange difference	**2,731**	(1,759)
At end of period	**$–**	($21,832)

The principal assumptions used to determine pension benefits of EPIQ EA are shown below:

	2012	2011
Discount rate	**5.11%**	6.20%
Salary rate increase	**5.00%**	5.00%

The deficit in the plan and the economic benefit available as a reduction in future contributions amounted to $0.28 million and nil, respectively, in 2012, and $0.26 million and nil, respectively, in 2011.

Amounts for the current and previous years follow:

	2012	2011
Plan assets	**$–**	$–
Defined benefit obligation	**(284,703)**	264,479
Deficit	**($284,703)**	($264,479)
Experience adjustments on plan liabilities	**($21,832)**	$20,073

The retirement expenses of the Group are recorded under "Salaries, wages, and employee benefits."

Salaries, wages, and employee benefits follow:

	2012	2011
Salaries and wages	**$23,823,914**	$9,604,249
Social security costs	**405,462**	170,518
Retirement expense under defined contribution plan	**87,408**	32,074
Retirement expense under defined benefit plan	**36,458**	18,055
	$24,353,242	$9,824,896

Salaries, wages, and employee benefits are allocated as follows:

	2012	2011
Cost of goods sold and services (Note 16)	**$20,413,198**	$6,451,388
Operating expenses (Note 17)	**3,940,044**	3,373,508
	$24,353,242	$9,824,896

22. **Lease Commitments**

Finance Lease Commitments - Group as Lessee

EPIQ EA has various finance lease contracts with Interlease AD related to its machinery and production equipment with terms of three (3) to five (5) years and final repayment dates between 2012 and 2016. The leases are subject to interest rates of 3-month Euribor plus 2% to 4%.

EPIQ CZ has various finance lease contracts related to its machinery and production equipment and transportation equipment with terms of five (5) to ten (10) years and final repayment dates between 2013 and 2016. The leases of machinery and equipment are subject to interest rates ranging from 5.90% to 7.41% per annum. The lease of transportation equipment is subject to interest of 12.26% per annum.

Future minimum lease payments are as follows:

	2012	
	Minimum Payments	**Present value of payments**
Within one year (Note 12)	**$777,907**	**$674,071**
After one year but not more than five years	**705,857**	**704,866**
	$1,483,764	**$1,378,937**

	2011	
	Minimum Payments	Present value of payments
Within one year (Note 12)	$689,730	$665,510
After one year but not more than five years	625,340	612,724
	$1,315,070	$1,278,234

23. **Related Party Transactions**

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

Terms and Conditions of Transactions with Related Parties
The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2012 and 2011, the Group has not recorded any impairment on loans and receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

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

a. Outstanding balances of related party transactions follow:

	Receivables		**Payables**	
	2012	2011	**2012**	2011
Speedy-Tech Electronics Ltd. (STEL)	**$68,538**	$15,799	**$–**	$–
Monarch	**1,466**	1,466	**28,520,645**	35,834,928
IMI Singapore	**15**	15	**288,088**	–
IMI	–	–	**11,042,557**	4,673,470
	$70,019	$17,280	**$39,851,290**	$40,508,398

i. Receivables from STEL are trade related, unsecured, noninterest-bearing, repayable on demand and to be settled in cash.

ii. Receivables from IMI Singapore and Monarch are nontrade in nature and pertain to the members' contribution amounting to €1,000 ($1,481) based on the agreed allocation of 1% and 99%, respectively.

iii. Payables to IMI Singapore and Monarch, recorded under "Due to related parties" account are nontrade in nature and relate to the acquisition of EPIQ Subsidiaries (see Note 2).

iv. Payables to IMI include nontrade transactions and operating cash advances. Nontrade transactions are unsecured, noninterest-bearing, repayable on demand and to be settled in cash. Advances to EPIQ MX and EPIQ CZ have a 90-day term subject to interest rates ranging from 2.79% to 2.81%.

Payable to IMI are presented as follows:

	2012	2011
Accounts payable and accrued expenses:		
Accrued interest payable (Note 12)	**$37,548**	$–
Due to related parties (Note 12)	**955,009**	173,470
Loans payable (Note 13)	**10,050,000**	4,500,000
	$11,042,557	$4,673,470

b. Revenues and expenses from related parties follow:

	Revenues		**Expenses**	
	2012 (One Year)	2011 (Five Months)	**2012 (One Year)**	2011 (Five Months)
STEL	**$386,687**	$–	**$–**	$–
IMI	**–**	–	**286,138**	–
	$386,687	$–	**$286,138**	$–

Details of revenue and expenses follow:

i. Intercompany revenues mainly pertain to billings of IMI Bulgaria to STEL for intercompany transfers of finished goods to be shipped to ultimate customers.
ii. Interest expense from intercompany advances from IMI.

Compensation of Key Management Personnel of the Group

Key management personnel of the Group include all management committee members. Short-term employee benefits of key management personnel amounted to $1,087,457 and $575,988 in 2012 and 2011, respectively.

24. Fair Value of Financial Instruments

The following table sets forth the comparison of the carrying amounts and fair values of the Group's financial assets and financial liabilities recognized as of December 31, 2012 and 2011. There are no material unrecognized financial assets and liabilities as of December 31, 2012 and 2011.

	Carrying Amounts		**Fair Values**	
	2012	2011	**2012**	2011
Financial Assets				
Cash and cash equivalents	**$6,701,078**	$7,796,569	**$6,701,078**	$7,796,569
Loans and receivables:				
Trade	**42,452,513**	31,987,968	**42,452,513**	31,987,968
Nontrade	**1,146,748**	1,245,509	**1,146,748**	1,245,509
Due from related parties	**70,019**	17,280	**70,019**	17,280
Others	**93,724**	157,302	**93,724**	157,302
Total Financial Assets	**$50,464,082**	$41,204,628	**$50,464,082**	$41,204,628

(Forward)

	Carrying Amounts		Fair Values	
	2012	2011	**2012**	2011
Financial Liabilities				
Accounts payable and accrued expenses:				
Trade payables	**$22,456,482**	$26,539,963	**$22,456,482**	$26,539,963
Accrued expenses	**1,735,705**	1,825,806	**1,735,705**	1,825,806
Current portion of obligation under finance lease	**674,071**	665,510	**674,071**	665,510
Accrued interest payable	**876,208**	400,300	**876,208**	400,300
Due to related parties	**955,009**	173,470	**955,009**	173,470
Others	**728,148**	174,517	**728,148**	174,517
Loans payable	**21,760,072**	15,566,203	**21,760,072**	15,566,203
Long-term debt	**16,227,135**	20,398,500	**14,216,864**	18,139,987
Noncurrent portion of obligation under finance lease	**704,866**	612,724	**660,662**	541,528
Total Financial Liabilities	**$66,117,696**	$66,356,993	**$64,063,221**	$64,027,284

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

All loans and receivables - Carrying amounts approximate fair values due to the short-term maturities of these loans and receivables.

Accounts payable and accrued expenses and loans payable - The fair values approximate the carrying amounts due to the short-term nature of these transactions.

Long-term debt - The fair value of long-term debt is estimated by using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used in 2012 and 2011 is 3.10%.

Noncurrent portion of obligation under finance lease - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used range from 2.00% to 12.26% in 2012 and 2011.

The Group has no financial assets and liabilities that are carried at fair value.

25. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, composed of loans payable, long-term debt and other financial liabilities, were issued primarily to raise financing for the Group's operations. The Group has various financial instruments such as cash, 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'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 debt obligations with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

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

	Effect on Profit before Tax	
Increase/Decrease in Basis Points	**2012**	2011
+100	**($217,601)**	$155,662
-100	**217,601**	155,662

Liquidity Risk
Liquidity or funding risk is the risk that the Group 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 deemed sufficient to finance its operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. To cover financing requirements, the Group intends to use internally-generated funds and loan facilities with local and foreign banks. Surplus funds are placed with reputable banks.

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities based on contractual undiscounted payments:

2012

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets					
Cash and cash equivalents	**$6,701,078**	**$–**	**$–**	**$–**	**$6,701,078**
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	–	**22,456,482**	–	–	**22,456,482**
Accrued expenses*	–	**1,735,705**	–	–	**1,735,705**
Due to related parties	–	**955,009**	–	–	**955,009**
Accrued interest payable	–	**876,208**	–	–	**876,208**
Current portion of obligation under finance lease	–	–	**674,071**	–	**674,071**
Others	–	**728,148**	–	–	**728,148**
Current portion of long-term debt	–	**2,669,853**	–	–	**2,669,853**
Long-term debt	–	–	–	**18,707,886**	**18,707,886**
Loans payable	–	–	**22,123,310**	–	**22,123,310**
Noncurrent portion of obligation under finance lease	–	–	–	**704,866**	**704,866**
	–	**29,421,405**	**22,797,381**	**19,412,752**	**71,631,538**
	$6,701,078	**($29,421,405)**	**($22,797,381)**	**($19,412,752)**	**($64,930,460)**

**Excluding statutory payables*

2011

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets					
Cash and cash equivalents	$7,796,569	$–	$–	$–	$7,796,569
Financial liabilities					
Accounts payable and accrued expenses					
Trade payables	–	26,539,963	–	–	26,539,963
Accrued expenses*	–	1,825,806	–	–	1,825,806
Current portion of obligation under finance lease	–	–	665,510	–	665,510
Accrued interest payable	–	400,300	–	–	400,300
Due to related parties	–	173,470	–	–	173,470
Others	–	174,517	–	–	174,517
Long-term debt	–	–	–	23,515,950	23,515,950
Loans payable	–	–	15,942,293	–	15,942,293
Noncurrent portion of obligation under finance lease	–	–	–	612,724	612,724
	–	29,114,056	16,607,803	24,128,674	69,850,533
	$7,796,569	($29,114,056)	($16,607,803)	($24,128,674)	($62,053,964)

**Excluding statutory payables*

Credit lines

The Group has credit lines with different financing institutions as at December 31, 2012 and 2011, as follows:

2012

Financial Institutions	**Credit Limit**	**Available Credit Line**
Local -		
Euro	**11,500,000**	**4,178,796**
Foreign -		
U.S. Dollar	**2,000,000**	**–**

2011

Financial Institutions	Credit Limit	Available Credit Line
Local -		
Euro	9,500,000	947,915

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 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 as of December 31, 2012 and 2011 is the carrying amounts of the financial assets presented in Note 24. The Group's maximum exposure for cash excludes the carrying amount of cash on hand.

The Group has 60% of trade receivables relating to three (3) major customers as of December 31, 2012 and 2011.

As of December 31, 2012 and 2011, the aging analysis of loans and receivables follows:

2012

	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	
Trade	**$42,713,032**	**$37,192,914**	**$3,123,503**	**$921,105**	**$516,927**	**$187,328**	**$510,736**	**$260,519**
Nontrade	**1,146,748**	**1,146,748**	–	–	–	–	–	–
Due from related parties	**70,019**	**70,019**	–	–	–	–	–	–
Others	**93,724**	**93,724**	–	–	–	–	–	–
	$44,023,523	**$38,503,405**	**$3,123,503**	**$921,105**	**$516,927**	**$187,328**	**$510,736**	**$260,519**

2011

	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	
Trade	$32,033,868	$23,772,466	$2,570,569	$1,223,034	$573,227	$186,399	$3,662,273	$45,900
Nontrade	1,245,509	1,245,509	–	–	–	–	–	–
Due from related parties	17,280	17,280	–	–	–	–	–	–
Others	157,302	157,302	–	–	–	–	–	–
	$33,453,959	$25,191,557	$2,570,569	$1,223,034	$573,227	$186,399	$3,662,273	$45,900

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2012 and 2011:

2012

	Neither Past Due nor Impaired				Past Due or Individually Impaired	Total
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		
Cash	**$6,666,459**	**$–**	**$–**	**$–**	**$–**	**$6,666,459**
Loans and receivables:						
Trade	**37,192,914**	**–**	**–**	**–**	**5,520,118**	**42,713,032**
Nontrade	**1,146,748**	**–**	**–**	**–**	**–**	**1,146,748**
Due from related parties	**70,019**	**–**	**–**	**–**	**–**	**70,019**
Others	**93,724**	**–**	**–**	**–**	**–**	**93,724**
	$45,169,864	**$–**	**$–**	**$–**	**$5,520,118**	**$50,689,982**

2011

	Neither Past Due nor Impaired				Past Due or Individually Impaired	Total
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		
Cash	$7,786,633	$–	$–	$–	$–	$7,786,633
Loans and receivables:						
Trade	23,772,466	–	–	–	8,261,402	32,033,868
Nontrade	1,245,509	–	–	–	–	1,245,509
Due from related parties	17,280	–	–	–	–	17,280
Others	157,302	–	–	–	–	157,302
	$32,979,190	$–	$–	$–	$8,261,402	$41,240,592

The Group classifies credit quality as follows:

Minimal Risk - credit can proceed with favorable credit terms; can offer term of 15 to maximum of 45 days.

Average Risk - credit can proceed normally; can extend term of 15 to maximum of 30 days.

Fairly High Risk - credit could be extended under a confirmed and irrevocable LC and subject to semi-annual review for possible upgrade.

High Risk - transaction should be under advance payment or confirmed and irrevocable Stand-By LC; subject to quarterly review for possible upgrade after one year.

Foreign Currency Risk
Foreign currency risk arises when future commercial transactions and recognized financial assets and financial liabilities are denominated in a currency that is not the Group's functional currency. As there is no material exposure to foreign currency risk within the financial assets and financial liabilities outside of each operating site's functional currency, no sensitivity analysis has been prepared.

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.

No changes were made in the objectives, policies and processes during the years ended December 31, 2012 and 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 loans payable. Net debt is equivalent to the total bank borrowings less cash.

	2012	2011
Loans payable	**$21,760,072**	$15,566,203
Less: Cash	**6,701,078**	7,796,569
Net debt	**15,058,994**	7,769,634
Equity attributable to equity holders of the Parent Company	**$23,569,952**	$5,837,259
Debt to equity ratio	**0.92**	2.67
Net debt to equity ratio	**0.64**	1.33

26. **Contingencies**

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested. The outcome of these cases is not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

27. **Notes to Consolidated Statements of Cash Flows**

The Group's noncash investing activities includes capitalization by the Group of office equipment under finance lease amounting to \$0.78 million and \$0.61 million in 2012 and 2011, respectively.