

# COVER SHEET

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(Company's Full Name)

N	O	R	T	H		S	C	I	E	N	C	E		A	V	E	.	,		L	A	G	U	N	A		
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(Business Address: No. Street City / Town / Province)

<b>ATTY. SHEILA MARIE U. TAN</b>
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Contact Person

<b>908-3468</b>
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Company Telephone Number

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Month

Day

Fiscal Year

**SEC FORM 17-Q**

FORM TYPE

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Month

Day

Annual Meeting



Secondary License Type, if Applicable

C	F	D
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Dept. Requiring this Doc.



Amended Articles Number/Section

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Total No. Of Stockholders

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Domestic

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Foreign

Total Amount of Borrowings

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To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

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

**INTEGRATED MICRO-ELECTRONICS, INC.**

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(Company's Full Name)

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

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(Company Address)

(632) 756-6840

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(Telephone Number)

June 30, 2013

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(Quarter Ending)

**SEC Form 17-Q Quarterly Report**

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(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: **June 30, 2013**
2. Commission Identification No.: **94419**
3. BIR Tax Identification No.: **000-409-747-000**
4. Exact name of issuer as specified in its charter: **INTEGRATED MICRO-ELECTRONICS, INC.**
5. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office: **33/F Tower One, Ayala Triangle, Ayala Avenue, Makati City**  
Postal Code: **1226**
8. Issuer's telephone number, including area code: **(632) 756-6840**
9. Former name, former address and former fiscal year: **Not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA:

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

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

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

1,350,636,697 common shares are listed with the Philippine Stock Exchange, including 15,892,109 treasury shares as of June 30, 2013.

12. Indicate by check mark whether the registrant:

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

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

**PART I--FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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

**UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET**

**AS OF JUNE 30, 2013**

**(With Comparative Audited Figures as of December 31, 2012)**

**(In thousand dollars)**

	(Unaudited) Jun 30, 2013	(Audited, as restated) Dec 31, 2012
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	\$49,807	\$56,196
Loans and receivables - net (Note 5)	163,324	150,881
Inventories (Note 6)	90,311	83,176
Derivative assets (Notes 12 and 16)	38	2,857
Other current assets	13,363	7,426
<b>Total Current Assets</b>	<b>316,843</b>	<b>300,536</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment - net (Note 7)	84,505	88,071
Goodwill	54,355	54,355
Intangible assets (Note 8)	5,238	5,894
Available-for-sale financial assets	1,539	1,609
Deferred income tax assets	768	1,083
Other noncurrent assets	1,692	1,805
<b>Total Noncurrent Assets</b>	<b>148,097</b>	<b>152,817</b>
	<b>\$464,940</b>	<b>\$453,353</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 9)	\$160,185	\$143,405
Trust receipts and loans payable (Note 10)	43,660	44,207
Current portion of long-term debt (Note 11)	2,610	2,650
Income tax payable	1,487	1,911
<b>Total Current Liabilities</b>	<b>207,942</b>	<b>192,173</b>
<b>Noncurrent Liabilities</b>		
Long-term debt (Note 11)	62,511	62,851
Deferred income tax liabilities	3,248	4,628
Pension liabilities	1,903	2,343
Deferred revenue	1,890	2,031
Obligation under finance lease	1,189	705
Accrued rent	585	585
Other long-term employee benefits	87	87
<b>Total Noncurrent Liabilities</b>	<b>71,413</b>	<b>73,230</b>
<b>Total Liabilities</b>	<b>279,355</b>	<b>265,403</b>

(Forward)

	(Unaudited) Jun 30, 2013	(Audited, as restated) Dec 31, 2012
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the Parent Company</b>		
Capital stock - common	\$30,015	\$30,011
Capital stock - preferred	26,601	26,601
Subscribed capital stock	1,297	1,301
Additional paid-in capital (Note 12)	51,158	58,558
Subscriptions receivable	(9,476)	(9,651)
Retained earnings:		
Appropriated for expansion	20,661	20,661
Unappropriated	75,987	73,902
Treasury stock	(1,012)	(1,012)
Reserve for fluctuation on available-for-sale financial assets	158	197
Cumulative translation adjustments	(3,001)	(2,303)
Other reserves	(4,447)	(4,447)
	<b>187,941</b>	<b>193,818</b>
<b>Equity attributable to non-controlling interests in consolidated subsidiaries</b>	<b>(2,356)</b>	<b>(5,868)</b>
<b>Total Equity</b>	<b>185,585</b>	<b>187,950</b>
	<b>\$464,940</b>	<b>\$453,353</b>

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012**  
(In thousand dollars, except Earnings per Share)

	Unaudited 2013		Unaudited 2012	
	Apr to Jun	Jan to Jun	Apr to Jun	Jan to Jun
<b>REVENUES FROM SALES AND SERVICES</b>	\$185,651	\$350,469	\$173,689	\$325,651
<b>COST OF GOODS SOLD AND SERVICES</b>	170,599	325,326	158,519	300,252
<b>GROSS PROFIT</b>	15,052	25,143	15,170	25,399
<b>OPERATING EXPENSES</b>	(12,656)	(23,660)	(12,064)	(22,186)
<b>OTHERS - Net</b>				
Interest and bank charges	(749)	(1,511)	(830)	(1,731)
Interest income	53	116	130	255
Foreign exchange gains (losses)	479	1,063	(987)	(249)
Miscellaneous	745	1,337	598	610
<b>INCOME BEFORE INCOME TAX</b>	2,924	2,488	2,017	2,098
<b>PROVISION FOR INCOME TAX</b>	(1,298)	(1,432)	(1,160)	(1,687)
<b>NET INCOME</b>	\$1,626	\$1,056	\$857	\$411
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Equity holders of the Parent Company	\$1,832	\$2,085	\$2,254	\$3,108
Non-controlling interests	(206)	(1,029)	(1,397)	(2,697)
	\$1,626	\$1,056	\$857	\$411
<b>Earnings Per Share:</b>				
Basic and Diluted		\$0.0005		\$0.0011

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE**  
**INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012**

	Unaudited 2013		Unaudited 2012	
	Apr to Jun	Jan to Jun	Apr to Jun	Jan to Jun
<b>NET INCOME</b>	\$1,626	\$1,056	\$857	\$411
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>				
Exchange differences arising from translation of foreign operations	(322)	(697)	(2,395)	2,050
Fair value changes on available-for-sale financial assets	(77)	(40)	(9)	(6)
<b>Other Comprehensive Income (Loss)</b>	<b>(399)</b>	<b>(737)</b>	<b>(2,404)</b>	<b>2,044</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>\$1,227</b>	<b>\$319</b>	<b>(\$1,547)</b>	<b>\$2,455</b>
<b>Total Comprehensive Income (Loss)</b>				
<b>Attributable to:</b>				
Equity holders of the Parent Company	\$1,433	\$1,348	(\$150)	\$5,152
Non-controlling interests	(206)	(1,029)	(1,397)	(2,697)
	<b>\$1,227</b>	<b>\$319</b>	<b>(\$1,547)</b>	<b>\$2,455</b>

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

**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (in thousand dollars)**

Attributable to Equity Holders of the Parent Company													
	Capital Stock - Common	Capital Stock - Preferred	Subscribed Capital Stock	Additional Paid-in Capital	Subscriptions Receivable	Retained Earnings Appropriated for Expansion	Retained Earnings Unappropriated	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustments	Other Reserves	Attributable to Non-controlling Interest	Total
Balances at January 1, 2013	\$30,011	\$26,601	\$1,301	\$58,558	(\$9,651)	\$20,661	\$72,448	(\$1,012)	\$198	(\$2,304)	\$171	(\$5,868)	\$191,114
Effect of revised PAS 19 (Note 3)	-	-	-	-	-	-	1,454	-	-	-	(4,618)	-	(3,164)
Balances at January 1, 2013, as restated	30,011	26,601	1,301	58,558	(9,651)	20,661	73,902	(1,012)	198	(2,304)	(4,447)	(5,868)	187,950
Shares issued during the year	4	-	(4)	-	-	-	-	-	-	-	-	-	-
Cost of share-based payments	-	-	-	67	-	-	-	-	-	-	-	-	67
Collections on subscriptions	-	-	-	-	230	-	-	-	-	-	-	-	230
Accretion of subscriptions	-	-	-	55	(55)	-	-	-	-	-	-	-	-
Dilution of minority (Note 12)	-	-	-	(7,522)	-	-	-	-	-	-	-	4,541	(2,981)
	30,015	26,601	1,297	51,158	(9,476)	20,661	73,902	(1,012)	198	(2,304)	(4,447)	(1,327)	185,266
Net income (loss)	-	-	-	-	-	-	2,085	-	-	-	-	(1,029)	1,056
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	(40)	(697)	-	-	(737)
Total comprehensive income (loss)	-	-	-	-	-	-	2,085	-	(40)	(697)	-	(1,029)	319
Balances at June 30, 2013	\$30,015	\$26,601	\$1,297	\$51,158	(\$9,476)	\$20,661	\$75,987	(\$1,012)	\$158	(\$3,001)	(\$4,447)	(\$2,356)	\$185,585

Attributable to Equity Holders of the Parent Company													
	Capital Stock - Common	Capital Stock - Preferred	Subscribed Capital Stock	Additional Paid-in Capital	Subscriptions Receivable	Retained Earnings Appropriated for Expansion	Retained Earnings Unappropriated	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustments	Other Reserves	Attributable to Non-controlling Interest	Total
Balances at January 1, 2012	\$24,932	\$26,601	\$6,507	\$59,085	(\$10,395)	\$30,661	\$59,671	(\$1,012)	\$144	(\$6,043)	\$171	(\$1,200)	\$189,122
Effect of revised PAS 19 (Note 3)	-	-	-	-	-	-	94	-	-	-	(1,154)	-	(1,060)
Balances at January 1, 2012, as restated	24,932	26,601	6,507	59,085	(10,395)	30,661	59,765	(1,012)	144	(6,043)	(983)	(1,200)	188,062
Shares issued during the year	3	-	(3)	-	-	-	-	-	-	-	-	-	-
Cost of share-based payments	-	-	-	84	-	-	-	-	-	-	-	-	84
Net reversal of accretion	-	-	-	(254)	254	-	-	-	-	-	-	-	-
Collection on subscriptions	-	-	-	-	27	-	-	-	-	-	-	-	27
	24,935	26,601	6,504	58,915	(10,114)	30,661	59,765	(1,012)	144	(6,043)	(983)	(1,200)	188,173
Net income (loss)	-	-	-	-	-	-	3,108	-	-	-	-	(2,697)	411
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	(6)	2,050	-	-	2,044
Total comprehensive income (loss)	-	-	-	-	-	-	3,108	-	(6)	2,050	-	(2,697)	2,455
Balances at June 30, 2012	\$24,935	\$26,601	\$6,504	\$58,915	(\$10,114)	\$30,661	\$62,873	(\$1,012)	\$138	(\$3,993)	(\$983)	(\$3,897)	\$190,628

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.



**INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES**  
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012**  
(In thousand dollars)

	Unaudited June 30, 2013	June 30, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before tax	\$2,488	\$2,098
Adjustments for:		
Depreciation of property, plant and equipment (Note 7)	10,948	12,097
Interest expense	1,511	1,731
Amortization of intangible assets (Note 8)	899	1,099
Provision for inventory obsolescence (Note 6)	219	574
Cost of share-based payments	67	84
Provision for doubtful accounts (Note 5)	52	237
Provision for restructuring (Note 10)	-	1,662
Gains on derivatives	(38)	(210)
Interest income	(116)	(255)
Gain on sale of property, plant and equipment (Note 7)	(170)	(71)
Unrealized foreign exchange losses (gains)	(254)	1,191
Operating income before working capital changes	15,606	20,237
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Loans and receivables	(10,664)	(21,133)
Inventories	(7,467)	(4,477)
Other current assets	(5,937)	1,598
Noncurrent receivables	-	72
Increase (decrease) in:		
Accounts payable and accrued expenses	16,433	3,877
Provisions	-	(797)
Obligation under finance lease	484	-
Pension liabilities	(12)	(62)
Deferred revenue	(141)	(87)
Accrued rent-noncurrent	-	37
Net cash generated from (used in) operations	8,302	(735)
Interest received	116	185
Interest paid	(1,179)	(1,421)
Income tax paid	(2,921)	(2,740)
Net cash provided by (used) in operating activities	4,318	(4,711)
(Forward)		

	<b>Unaudited</b>	
	<b>June 30, 2013</b>	June 30, 2012
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property, plant and equipment	<b>\$854</b>	\$2,348
Acquisition of:		
Property, plant and equipment (Note 7)	<b>(8,564)</b>	(9,153)
Intangible assets (Note 8)	<b>(243)</b>	(307)
Cash paid upon exercise of call option (Note 12)	<b>(124)</b>	–
Increase in other noncurrent assets	<b>(565)</b>	(156)
<b>Net cash used in investing activities</b>	<b>(8,642)</b>	(7,268)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Availment of loans	<b>2,250</b>	11,732
Payment of loans	<b>(2,679)</b>	(8,374)
Collections of subscriptions receivable	<b>230</b>	27
Dividends paid to Parent Company	<b>(1,373)</b>	(1,268)
Dividends paid to minority	<b>–</b>	–
Obligation under finance lease	<b>–</b>	(271)
Contribution to retirement fund	<b>(428)</b>	–
<b>Net cash provided by (used in) financing activities</b>	<b>(2,000)</b>	1,846
<b>NET FOREIGN EXCHANGE DIFFERENCE IN CASH AND CASH EQUIVALENTS</b>	<b>(65)</b>	(8)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(6,389)</b>	(10,141)
<b>CASH AND CASH EQUIVALENTS AT JANUARY 1</b>	<b>56,196</b>	54,069
<b>CASH AND CASH EQUIVALENTS AT JUNE 30</b>	<b>\$49,807</b>	\$43,928

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

# INTEGRATED MICROELECTRONICS, INC. AND SUBSIDIARIES

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## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Basis of Financial Statement Preparation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with the Philippine Accounting Standard (PAS) 34 (Amended), *Interim Financial Reporting*. Accordingly, the unaudited interim condensed consolidated financial statements do not include all of the information and disclosures required in the December 31, 2012 annual audited consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2012.

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

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

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

The accompanying unaudited interim condensed consolidated financial statements were approved and authorized for release by the Audit Committee on August 8, 2013.

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### 2. Basis of Consolidation

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

	Percentage of Ownership		Country of Incorporation	Functional Currency
	2013	2012		
IMI USA	<b>100.00%</b>	100.00%	USA	USD
IMI Japan	<b>100.00%</b>	100.00%	Japan	USD
IMI Singapore	<b>100.00%</b>	100.00%	Singapore	USD
IMI International Regional Operating Headquarter ("IMI ROHQ")	<b>100.00%</b>	100.00%	Philippines	USD

(Forward)

	Percentage of Ownership		Country of Incorporation	Functional Currency
	2013	2012		
STEL and Subsidiaries				
Speedy-Tech Electronics (HK) Limited ("STHK")	100.00%	100.00%	Hong Kong	USD
Speedy-Tech (Philippines), Inc. ("STPHIL")*	–	100.00%		
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE")	99.48%	99.48%	China	USD
Speedy-Tech Electronics, Inc.	100.00%	100.00%	USA	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. ("STJX")	100.00%	100.00%	China	USD
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ")	100.00%	100.00%	China	USD
IMI (Chengdu) Ltd. ("IMICD")	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	83.25%	55.78%	Philippines	USD
PSiTech Realty **	33.30%	22.31%	Philippines	USD
Pacsem Realty**	53.28%	35.70%	Philippines	USD

\* The operations of STPHIL was integrated to the Parent Company in 2013

\*\* The percentage pertains to ownership of the Parent Company

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

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

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

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

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

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### 3. Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements as of and for the year ended December 31, 2012 except for the adoption of the following new and amended standards and interpretations as of January 1, 2013. Except as otherwise indicated, the adoption of the new and amended Standards and Interpretations did not have a significant impact on the Group's unaudited interim condensed consolidated financial statements.

- PAS 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
<u>Consolidated balance sheet</u>		
Net defined benefit asset	(\$1,941,695)	(\$2,806,876)
Net defined benefit liability	1,222,559	794,014
Other comprehensive income	(4,618,237)	(1,153,589)
Retained earnings	1,453,983	94,236
		<u>2012</u>
<u>Consolidated statement of comprehensive income</u>		
Net benefit cost		(\$417,836)
Income tax expense		(13,311)
Profit for the year		431,147
Attributable to the owners of the Parent Company		197,137
Attributable to non-controlling interests		234,010
Other comprehensive income		(4,618,237)
Tax effect on other comprehensive income		(515,895)

The Group's unaudited interim condensed consolidated financial statements have been restated to reflect the impact of this amendment to the Standard.

- 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 statement of financial position;
  - c) The net amounts presented in the consolidated statement of financial position;
  - d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    - i. Amounts related to recognized 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.

#### Future Changes in Accounting Policies

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

#### *Effective in 2014*

- 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.

#### *Effective in 2015*

- 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.

#### Cash and Cash Equivalents

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

#### Financial Instruments - Initial Recognition and Subsequent Measurement

##### *Classification of financial instruments*

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

The financial instruments of the Group as of June 30, 2013 and December 31, 2012 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.

#### *“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 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 but are disclosed in the 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.



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#### 4. Cash and Cash Equivalents

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
	(In thousands)	
Cash on hand	\$98	\$127
Cash in bank	44,297	48,304
Short-term deposits	5,412	7,765
	<b>\$49,807</b>	<b>\$56,196</b>

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

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#### 5. Loans and Receivables

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
	(In thousands)	
Trade	\$159,771	\$147,455
Nontrade	2,361	2,360
Receivable from insurance	1,179	1,179
Receivables from employees	540	539
Due from related parties (Note 15)	174	426
Others	2,976	2,702
	<b>167,001</b>	<b>154,661</b>
Less allowance for doubtful accounts	3,677	3,780
	<b>\$163,324</b>	<b>\$150,881</b>

##### *Trade*

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

##### *Nontrade*

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

##### *Receivable from insurance*

Insurance claims for damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu, Philippines in May 2009 amounted to \$1.18 million as of June 30, 2013 and December 31, 2012, respectively.

##### *Allowance for Doubtful Accounts*

Trade receivables, nontrade receivables, and receivable from insurance with aggregate nominal value of \$3.68 million and \$3.78 million were individually assessed to be impaired and fully provided with allowance for doubtful accounts as of June 30, 2013 and December 31, 2012, respectively. Provision for doubtful accounts recognized for the six-month period June 30, 2013 and 2012 amounted to \$0.05 million and \$0.24 million, respectively.

## 6. Inventories

Provision for inventory obsolescence recognized for the six-month period ended June 30, 2013 and 2012 amounted to \$0.22 million and \$0.57 million, respectively.

## 7. Property, Plant and Equipment

### June 30, 2013 (Unaudited)

In thousands	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation	Tools and Instruments	Construction in Progress	Total
<b>Cost</b>							
At January 1, 2013	\$72,229	\$128,050	\$16,109	\$1,217	\$3,751	\$1,214	\$222,570
Additions	1,326	2,291	370	44	138	4,395	8,564
Disposals	–	(8,379)	(66)	(221)	(64)	–	(8,730)
Reclassifications	–	1,107	28	–	–	(1,135)	–
Foreign currency exchange difference	(348)	(339)	(36)	(13)	–	(481)	(1,217)
At June 30, 2013	73,207	122,730	16,405	1,027	3,825	3,993	221,187
<b>Accumulated depreciation and amortization</b>							
At January 1, 2013	36,499	80,145	13,081	425	2,622	–	132,772
Depreciation and amortization	1,864	7,846	768	175	295	–	10,948
Disposals	–	(7,708)	(85)	(183)	(47)	–	(8,023)
Foreign currency exchange difference	(101)	(576)	(55)	(10)	–	–	(742)
At June 30, 2013	38,262	79,707	13,709	407	2,870	–	134,955
Accumulated impairment loss	737	978	12	–	–	–	1,727
<b>Net book value as of June 30, 2013</b>	<b>\$34,208</b>	<b>\$42,045</b>	<b>\$2,684</b>	<b>\$620</b>	<b>\$955</b>	<b>\$3,993</b>	<b>\$84,505</b>

### December 31, 2012

In thousands	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation	Tools and Instruments	Construction in Progress	Total
<b>Cost</b>							
At January 1, 2012	\$70,939	\$128,579	\$14,339	\$1,284	\$2,943	\$1,814	\$219,898
Additions	1,839	10,836	813	454	868	2,000	16,810
Disposals	(6)	(11,870)	(90)	(426)	(1)	–	(12,393)
Transfers	82	2,283	185	–	–	(2,550)	–
Retirement	(205)	(909)	–	(51)	(59)	–	(1,224)
Foreign currency exchange difference	(420)	(869)	862	(44)	–	(50)	(521)
At December 31, 2012	72,229	128,050	16,109	1,217	3,751	1,214	222,570
<b>Accumulated depreciation and amortization</b>							
At January 1, 2012	\$34,269	\$73,322	\$10,747	\$429	\$2,122	\$–	\$120,889
Depreciation	3,250	17,399	1,741	428	500	–	23,318
Disposals	(7)	(8,873)	(151)	(352)	–	–	(9,383)
Retirement	(206)	(418)	–	(31)	–	–	(655)
Foreign currency exchange difference	(890)	(1500)	744	(49)	–	–	(1,695)
Write-off	83	215	–	–	–	–	298
At December 31, 2012	36,499	80,145	13,081	425	2,622	–	132,772
Accumulated impairment loss	737	978	12	–	–	–	1,727
<b>Net book value as of December 31, 2012</b>	<b>\$34,993</b>	<b>\$49,927</b>	<b>\$3,015</b>	<b>\$791</b>	<b>\$1,129</b>	<b>\$1,214</b>	<b>\$88,071</b>

Depreciation and amortization expense included in cost of goods sold and services for the six months ended June 30, 2013 and 2012 amounted to \$9.51 million and \$9.19 million, respectively. Depreciation and amortization expense included in operating expenses for the six months ended June 30, 2013 and 2012 amounted to \$1.44 million and \$2.91 million, respectively.

Gains from disposal of certain assets included under "Miscellaneous income" in the unaudited interim consolidated statements of comprehensive income for the six months period ended June 30, 2013 and 2012 amounted to \$0.17 million and \$0.07 million, respectively.

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## 8. Intangible Assets

During the six months ended June 30, 2013 and 2012, the Parent Company acquired additional computer software amounting to \$0.24 million and \$0.31 million, respectively.

Amortization of intangible assets for the six months ended June 30, 2013 and 2012 amounted to \$0.90 million and \$1.1 million, respectively.

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## 9. Accounts Payable and Accrued Expenses

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
	(In thousands)	
Trade payables	\$115,483	\$101,773
Accrued expenses	28,463	21,108
Accrued payroll	5,985	8,827
Accrued interest payable	1,437	1,105
Nontrade payables	1,300	1,791
Dividends payable	1,276	2,649
Employee-related payables	614	613
Taxes payable	550	704
Obligation under finance lease - current	468	674
Deferred revenue - current	279	272
Customers' deposits	257	730
Due to related parties (Note 15)	2	6
Others	4,071	3,153
	<b>\$160,185</b>	<b>\$143,405</b>

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

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

## 10. Trust Receipts and Loans Payable

	<b>June 30, 2013</b> <b>(Unaudited)</b>	December 31, 2012 <b>(Audited)</b>
	(In thousands)	
Parent Company	<b>\$24,000</b>	\$22,000
PSi	<b>9,350</b>	9,100
EPIQ EA	<b>7,832</b>	9,701
EPIQ MX	<b>2,000</b>	2,009
STEL	<b>478</b>	1,397
	<b>\$43,660</b>	\$44,207

### Parent Company

As of June 30, 2013 and December 31, 2012, the Parent Company has short-term loans aggregating to \$24.00 million and \$22.0 million, respectively. The loans have maturities ranging from 30-180 days and fixed interest rates ranging from 1.77% to 2.13% in 2013 and from 1.64% to 2.00% in 2012.

### EPIQ EA

	<b>June 30, 2013</b> <b>(Unaudited)</b>	December 31, 2012 <b>(Audited)</b>
	(In thousands)	
UniCredit Bulbank	<b>\$7,832</b>	\$9,275
BNP Paribas	-	426
	<b>\$7,832</b>	\$9,701

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.

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 June 30, 2013 and December 31, 2012, EPIQ EA's pledged inventories and receivables with UniCredit Bulbank amounted to €16.00 million (\$20.88 million) and €16.00 million (\$21.20 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, EPIQ EA's pledged inventories and receivables with BNP Paribas amounted to €0.64 million (\$0.86 million).

### PSi

PSi has short-term loans from the following banks:

	<b>June 30, 2013 (Unaudited)</b>	December 31, 2012 (Audited)
	(In thousands)	
Metropolitan Bank & Trust Co. (MBTC)	<b>\$9,350</b>	\$9,100

PSi has an unsecured Omnibus Line Credit Facility of \$10.00 million which will expire on May 30, 2014, 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 rate of 2.19% to 2.57% in 2013 and from 2.21% to 2.71% in 2012.

As of June 30, 2013 and December 31, 2012, the outstanding trust receipts payable amounted to \$0.15 million and \$0.40 million, 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%.

### STEL

The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates of 3.40% and 3.55% in 2013 and 2012, respectively, and have maturities of 30 to 240 days from the date of issue, with renewal options.

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## 11. Long-Term Debt

	<b>June 30, 2013 (Unaudited)</b>	December 31, 2012 (Audited)
	(In thousands)	
Parent Company	<b>\$46,525</b>	\$46,624
Cooperatief	<b>18,596</b>	18,877
	<b>65,121</b>	65,501
Less: Current portion	<b>2,610</b>	2,650
Noncurrent portion	<b>\$62,511</b>	\$62,851

### 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 million (\$6.53 million), 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.

### Cooperatief

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

<b>Due dates</b>	<b>Amounts in Euro</b>	<b>Amount in USD</b>
	(in thousands)	
2013	€2,000	\$2,610
2014	2,000	2,610
2015	2,000	2,610
2016	2,000	2,610
2017	2,000	2,610
2018	4,249	5,546
<b>Total</b>	<b>€14,249</b>	<b>\$18,596</b>

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## 12. Equity

The exercise of the option rights among the Old and New Investors of PSi increased the Parent Company's ownership interest in PSi from 55.78% to 83.25%. This resulted to an increase in investment in PSi by \$2.98 million (equivalent to the fair value of call option as of March 12, 2013 amounting to \$2.86 million plus cash consideration upon the exercise of call option amounting to \$0.12 million). The share of non-controlling interest was also adjusted by \$4.54 million and adjustment to equity was allocated to "Additional Paid-in Capital" amounting to \$7.52 million as a result of the dilution of minority.

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## 13. Earnings per Share

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

	<b>June 30, 2013 (Unaudited)</b>	June 30, 2012 (Unaudited)
	(In thousands)	
Net income	<b>\$2,085</b>	\$3,108
Less dividends on preferred stock	<b>(1,329)</b>	(1,246)
	<b>\$756</b>	\$1,862
Weighted average number of common shares Outstanding	<b>1,616,403</b>	1,622,248
Basic and Diluted	<b>\$0.0005</b>	\$0.0011

As of June 30, 2013 and 2012, the Parent Company has no dilutive potential common shares.

## 14. Segment Information

Management monitors operating results per geographical area (with the Philippine operations further subdivided into the Parent Company and PSI) for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue, gross profit, operating income, interest income and net income before and after tax.

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

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

The following tables present revenue and profit information regarding the Group's geographical segments for the six months ended June 30, 2013 and 2012 (in thousands):

	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue								
Third party	\$88,139	\$23,019	\$122,165	\$116,749	\$199	\$198	\$-	\$350,469
Inter-segment	-	-	2,225	-	1,162	427	(3,814)	-
Total revenue	\$88,139	\$23,019	\$124,390	\$116,749	\$1,361	\$625	(\$3,814)	\$350,469
Segment gross profit (loss)	\$7,614	(\$1,380)	\$7,854	\$13,518	\$923	\$428	(\$3,814)	\$25,143
Segment operating income (loss)	(\$1,800)	(\$3,377)	(\$977)	\$7,832	(\$217)	\$22	\$-	1,483
Segment interest income	\$27	\$-	\$88	\$1	\$-	\$-	\$-	\$116
Segment interest expense	(\$672)	(\$270)	(\$149)	(\$650)	(\$1)	(\$1)	\$232	\$1,511
Segment profit (loss) before income tax	(\$1,648)	(\$3,200)	\$313	\$7,268	(\$218)	(\$27)	\$-	\$2,488
Segment provision for income tax	377	(46)	(994)	(769)	-	-	-	(1,432)
Segment profit (loss)	(\$1,271)	(\$3,246)	(\$681)	\$6,499	(\$218)	(\$27)	\$-	(\$1,056)
Segment profit (loss) attributable to equity holders of the Parent	(\$1,271)	(\$2,222)	(\$667)	\$6,490	(\$218)	(\$27)	\$-	\$2,085

	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue								
Third party	\$79,456	\$25,014	\$134,898	\$85,697	\$203	\$383	\$-	\$325,651
Inter-segment	53	-	1,826	-	1,469	448	(3,796)	-
Total revenue	\$79,509	\$25,014	\$136,724	\$85,697	\$1,672	\$831	(\$3,796)	\$325,651
Segment gross profit (loss)	\$7,451	(\$1,596)	\$13,251	\$8,227	\$1,243	\$533	(\$3,710)	\$25,399
Segment operating income (loss)	\$1,417	(\$5,630)	\$3,840	\$3,303	\$176	\$107	\$-	\$3,213
Segment interest income	\$203	\$2	\$49	\$1	\$-	\$-	\$-	\$255
Segment interest expense	(\$591)	(\$187)	(\$36)	(\$915)	(\$1)	(\$1)	(\$-)	(\$1,731)
Segment profit (loss) before income tax	\$1,222	(\$6,116)	\$4,113	\$2,603	\$175	\$101	\$-	\$2,098
Segment provision for income tax	(388)	-	(1,045)	(254)	-	-	-	(1,687)
Segment profit (loss)	\$834	(\$6,116)	\$3,068	\$2,349	\$175	\$101	\$-	\$411
Segment profit (loss) attributable to equity holders of the Parent	\$834	(\$3,411)	\$3,064	\$2,345	\$175	\$101	\$-	\$3,108

For the six months ended June 30, 2013, the operating income (loss) and profit (loss) before and after tax for each operating segment includes net profit from inter-segment revenues and inter-segment operating expenses amounting to \$3.81 million.

For the six months ended June 30, 2012, the operating income (loss) and profit (loss) before and after tax for each operating segment includes net profit from inter-segment revenues and inter-segment operating expenses amounting to \$3.80 million.

The following table presents segment assets of the Group's geographical segments as of June 30, 2013 and December 31, 2012 (in thousands):

	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Eliminations	Total
	Parent Company	PSi						
<b>Segment assets</b>								
<b>June 30, 2013 (Unaudited)</b>	\$260,916	\$22,479	\$215,236	\$141,999	\$1,780	\$885	(\$178,355)	\$464,940
Segment assets December 31, 2012 (Audited, as restated)	\$252,386	\$19,756	\$219,501	\$127,488	\$1,926	\$915	(\$168,619)	\$453,353

Segment assets as of June 30, 2013 do not include investments in subsidiaries amounting to \$132.08 million and inter-segment loans and receivables amounting to \$53.61 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, 2012 do not include investments in subsidiaries amounting to \$129.56 million and inter-segment 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.

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

	Revenues from External Customers		Noncurrent Assets	
	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Europe	\$168,655	\$161,138	\$43,612	\$42,342
USA	87,019	94,195	1,111	1,141
Philippines	32,462	31,401	39,361	41,313
Asia	59,194	35,674	59,999	63,508
Japan	3,139	3,243	15	16
	<b>\$350,469</b>	<b>\$325,651</b>	<b>\$144,098</b>	<b>\$148,320</b>

Revenues are attributed to countries on the basis of the customer's location. For the six months ended June 30, 2013, certain customers independent of each other but within the same group account for \$52.4 million or 15% of the Group's total revenues.

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



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

	<b>June 30, 2013</b> <b>(Unaudited)</b>	June 30, 2012 (Unaudited)
Automotive	<b>135,681</b>	97,793
Industrial	<b>56,160</b>	52,795
Telecom	<b>50,710</b>	59,947
Consumer	<b>48,609</b>	51,071
Multiple Market	<b>27,128</b>	29,642
Computer Peripherals	<b>15,454</b>	16,912
Medical	<b>12,434</b>	11,613
Others	<b>4,293</b>	5,878
<b>Total</b>	<b>\$350,469</b>	<b>\$325,651</b>

## 15. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence 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 period ended June 30, 2013 and December 31, 2012, the Group has not recorded any impairment of 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 June 30, 2013 and December 31, 2012, the Group maintains current and savings accounts, and other short-term investments with BPI as follows:

	<b>June 30, 2013</b> <b>(Unaudited)</b>	December 31, 2012 (Audited)
Cash in bank	<b>\$953</b>	\$750
Short-term investments	-	1,318

b. Outstanding balances of related party transactions follow:

(in Thousands)	Receivables		Payables	
	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
<b>Affiliates:</b>				
BPI	\$164	\$418	\$-	\$-
TLI	10	8	-	3
Innovate Communication Inc. (ICI)	-	-	-	2
Globe Telecom, Inc. (GTI)	-	-	2	1
	<b>174</b>	<b>426</b>	<b>2</b>	<b>6</b>
<b>Subsidiaries:</b>				
STEL	\$21,301	\$21,597	\$1,005	\$1,518
Monarch and EPIQ Subsidiaries	10,721	11,061	-	-
PSi	8,526	7,290	546	546
IMI Singapore	1,010	1,017	-	-
IMI Japan	979	979	546	717
IMI USA	250	258	197	126
IMI ROHQ	-	-	891	436
	<b>42,787</b>	<b>42,196</b>	<b>3,185</b>	<b>3,343</b>
	<b>\$42,961</b>	<b>\$42,622</b>	<b>\$3,187</b>	<b>\$3,349</b>

- i. Receivables from BPI are nontrade in nature and pertain to retirement and separation pay advanced by the Parent Company but reimbursable from the trust fund with BPI. These are 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 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 2.19% to 3.24%.
- iv. 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.
- v. Payables to GTI pertain to billings for software and wifi connections. These are due and demandable.
- vi. 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.
- vii. 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.

viii. 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:

(In Thousands)	Revenue/Income		Expenses	
	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)	June 30, 2013 (Unaudited)	June, 2012 (Unaudited)
<b>Affiliates:</b>				
BPI	\$2	\$19	\$-	\$-
Ayala Group Legal (AG Legal)	-	-	53	34
TLI	-	-	13	10
ICI	-	-	48	79
GTI	-	-	27	32
	<b>2</b>	<b>19</b>	<b>141</b>	<b>155</b>
<b>Subsidiaries:</b>				
STEL	257	-	-	53
IMI ROHQ	2,225	1,826	-	-
EPIQ subsidiaries	141	89	-	-
IMI USA	1,162	1,469	-	-
IMI Japan	427	448	-	-
PSi	91	18	-	-
	<b>4,303</b>	<b>3,850</b>	<b>-</b>	<b>53</b>
	<b>\$4,305</b>	<b>\$3,869</b>	<b>\$141</b>	<b>\$208</b>

Revenue recognized from related parties includes:

- i. Interest income earned from intercompany loans, investments and gain on foreign currency forwards with BPI.
- 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. Billings for cellphone charges and WiFi connections with GTI.
- v. Allocation of retirement expense covering IMI ROHQ.
- vi. Professional fees from IMI USA.

## 16. Financial Risk Management Objectives and Policies

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

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

The Group's risk management policies are summarized below:

*Interest rate risk*

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings) as of June 30, 2013 and December 31, 2012. There is no other impact on the Group's equity other than those already affecting income (in thousands):

Increase/decrease in basis points	Effect on profit before tax	
	2013	2012
+100	(\$564)	(\$583)
-100	564	583

*Liquidity risk*

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

*Credit risk*

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

The Group's maximum exposure to credit risk for the components of the consolidated balance sheets as at June 30, 2013 and December 31, 2012 are the carrying amounts

except for cash and cash equivalents. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

The Group has 23% and 36% of trade receivables relating to three (3) major customers as of June 30, 2013 and December 31, 2012, respectively.

As of June 30, 2013 and December 31, 2012, the aging analysis of trade receivables follows:

	Total	Neither past due nor impaired	Past due but not impaired					Specifically Impaired
			<30 days	30-60 days	60-90 days	90-120 days	>120 days	
<b>June 30, 2013</b>								
<b>(Unaudited)</b>	<b>\$159,771</b>	<b>\$137,851</b>	<b>\$12,083</b>	<b>\$1,379</b>	<b>\$1,206</b>	<b>\$1,054</b>	<b>\$3,817</b>	<b>\$2,380</b>
December 31, 2012								
(Audited)	\$147,455	\$121,003	\$17,352	\$3,598	\$1,441	\$546	\$1,056	\$2,459

#### *Foreign currency risk*

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

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

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

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

#### Philippine Peso (P)

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	In U.S. Dollar	In Philippine Peso	In U.S. Dollar	In Philippine Peso
Cash and cash equivalents	\$3,061	P132,245	\$2,524	P103,633
Loans and receivables	2,060	88,981	1,267	52,036
Miscellaneous deposits	1,474	63,690	1,097	45,056
Accounts payable and accrued expenses	(39,930)	(1,724,847)	(30,727)	(1,261,354)
Other current liabilities	(1,893)	(81,750)	(2,332)	(95,755)
Other noncurrent liabilities	(895)	(38,646)	(311)	(12,799)
Net foreign currency-denominated liabilities	<b>(\$36,123)</b>	<b>(P1,560,327)</b>	<b>(\$28,482)</b>	<b>(P1,169,183)</b>

Singapore Dollar (SGD)

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	In U.S. Dollar	In Singapore Dollar	In U.S. Dollar	In Singapore Dollar
Cash and cash equivalents	\$1,068	SGD1,350	\$829	SGD1,013
Loans and receivables	211	266	32	40
Accounts payable and accrued expenses	(1,068)	(1,350)	(1,934)	(2,364)
Other current liabilities	(2)	(2)	(1,106)	(1,352)
Loans payable	(477)	(603)	(1,395)	(1,705)
Net foreign currency-denominated liabilities	(\$268)	(SGD339)	(\$3,574)	(SGD4,368)

Euro (€)

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	In U.S. Dollar	In Euro	In U.S. Dollar	In Euro
Cash and cash equivalents	\$3,055	€2,341	\$2,430	€1,836
Loans and receivables	36,146	27,696	41,287	31,188
Accounts payable and accrued expenses	(17,838)	(13,668)	(13,741)	(10,380)
Other current liabilities	-	-	(31)	(24)
Loans payable	(14,357)	(11,000)	(16,320)	(12,328)
Net foreign currency-denominated assets	\$7,006	€5,369	\$13,625	€10,292

Japanese Yen (¥)

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	In U.S. Dollar	In Japanese Yen	In U.S. Dollar	In Japanese Yen
Cash and cash equivalents	\$101	¥9,957	\$241	¥20,778
Loans and receivables	1,360	134,677	1,661	142,971
Miscellaneous deposits	39	3,892	1,889	162,576
Accounts payable and accrued expenses	(3,876)	(383,725)	(4,186)	(360,283)
Other current liabilities	-	-	-	-
Net foreign currency-denominated liabilities	(¥2,376)	(¥235,199)	(\$395)	(¥33,958)

Renminbi (RMB)

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	In U.S. Dollar	In Renminbi	In U.S. Dollar	In Renminbi
Cash and cash equivalents	\$8,104	RMB 50,073	\$14,713	RMB91,750
Loans and receivables	46,074	284,669	55,410	345,540
Accounts payable and accrued expenses	(32,234)	(199,162)	(38,457)	(239,821)
Net foreign currency-denominated assets	\$21,944	RMB135,579	\$31,666	RMB197,469

Hong Kong Dollar (HKD)

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	In U.S. Dollar	In Hong Kong Dollar	In U.S. Dollar	In Hong Kong Dollar
Cash and cash equivalents	\$77	HKD594	\$60	HKD467
Loans and receivables	1,041	8,078	119	924
Accounts payable and accrued expenses	(785)	(6,086)	(785)	(6,089)
Net foreign currency-denominated liabilities	\$333	HKD2,586	(\$606)	(HKD4,698)

British Pound (£)

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	In U.S. Dollar	In UK Pound	In U.S. Dollar	In UK Pound
Loans and receivables	\$-	£-	\$1	£0.6
Accounts payable and accrued expenses	(86)	(56)	(14)	(10)
Net foreign currency-denominated liabilities	(\$86)	(£56)	(\$13)	(£9)

Australian Dollar (AUD)

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	In U.S. Dollar	In Australian Dollar	In U.S. Dollar	In Australian Dollar
Cash and cash equivalents	\$-	AUD -	\$-	AUD-
Accounts payable and accrued expenses	(169)	(182)	(504)	(486)
Net foreign currency-denominated liabilities	(\$169)	(AUD182)	(\$504)	(AUD486)

Thai Baht (THB)

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	In U.S. Dollar	In Thai Baht	In U.S. Dollar	In Thai Baht
Loans and receivables - net	\$-	THB -	\$1	THB34
Accounts payable and accrued expenses	(41)	(1,265)	-	-
Net foreign currency-denominated assets (liabilities)	(\$41)	(THB1,265)	\$1	THB34

Bulgarian Lev (BGN)

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	In U.S. Dollar	In Bulgarian Lev	In U.S. Dollar	In Bulgarian Lev
Cash and cash equivalents	\$379	BGN568	\$1,142	BGN1,698
Loans and receivables	2,448	3,667	3,269	4,858
Accounts payable and accrued expenses	(3,876)	(5,807)	(3,036)	(4,512)
Other current Liabilities	(110)	(164)	(662)	(984)
Net foreign currency-denominated assets (liabilities)	<b>(\$1,159)</b>	<b>(BGN1,736)</b>	\$713	BGN1,060

Czech Koruna (CZK)

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	In U.S. Dollar	In Czech Koruna	In U.S. Dollar	In Czech Koruna
Cash and cash equivalents	\$339	CZK6,521	\$78	CZK1,507
Loans and receivables	60	1,197	220	4,183
Accounts payable and accrued expenses	(157)	(3,118)	(1,026)	(19,512)
Other current liabilities	(111)	(2,212)	(337)	(6,415)
Net foreign currency-denominated assets (liabilities)	<b>\$131</b>	<b>CZK2,388</b>	(\$1,065)	(CZK20,237)

Mexican Peso (MXN)

	June 30, 2013 (Unaudited)		December 31, 2012 (Audited)	
	In U.S. Dollar	In Mexican Peso	In U.S. Dollar	In Mexican Peso
Cash and cash equivalents	\$1,691	MXN22,019	\$569	MXN7,319
Loans and receivables	-	-	154	1,975
Other assets	-	-	4,905	63,068
Accounts payable and accrued expenses	(6,779)	(88,269)	(3,660)	(47,058)
Other current Liabilities	-	-	(39)	(503)
Net foreign currency-denominated assets (liabilities)	<b>(\$5,088)</b>	<b>(MXN66,250)</b>	\$1,929	MXN24,801

*Sensitivity analysis*

The following table demonstrates sensitivity to a reasonably possible change in the U.S. Dollar exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of June 30, 2013 and December 31, 2012. The reasonably possible change was computed based on one year average historical movement of exchange rates between U.S Dollar and other currencies.



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

**June 30, 2013 (Unaudited)**

<b>Currency</b>	<b>Increase/decrease in U.S. Dollar rate</b>	<b>Effect on profit before tax (in thousands)</b>
PHP	+1%	(399)
	-1%	399
SGD	+1%	(3)
	-1%	3
EUR	+1%	(142)
	-1%	142
JPY	+1%	(30)
	-1%	30
RMB	+1%	191
	-1%	(191)
HKD	+1%	3
	-1%	(3)
AUD	+1%	(1)
	-1%	1
BGN	+1%	(12)
	-1%	12
CZK	+1%	(1)
	-1%	1
MXN	+1%	(26)
	-1%	26

**December 31, 2012 (Audited)**

<b>Currency</b>	<b>Increase/decrease in U.S. Dollar rate</b>	<b>Effect on profit before tax</b>
PHP	1%	(164)
	-1%	164
SGD	1%	(18)
	-1%	18
EUR	1%	166
	-1%	(166)
JPY	1%	(3)
	-1%	3
RMB	1%	280
	-1%	(280)
HKD	1%	(6)
	-1%	6
AUD	1%	(6)
	-1%	6
BGN	1%	7
	-1%	(7)
CZK	2%	(8)
	-2%	8
MXN	3%	15
	-3%	(15)

### *Derivatives*

The Group has outstanding forward contracts with a positive fair value of \$0.04 million as of June 30, 2013. Derivative asset as of December 31, 2012 representing the value of call option was exercised on March 12, 2013.

### *Capital management*

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

No changes were made in the objectives, policies and processes during the period ended June 30, 2013 and December 31, 2012.

The Group is not subject to externally imposed capital requirements.

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

	<b>June 30, 2013</b> <b>(Unaudited)</b>	December 31, 2012 (Audited)
Trust receipts and loans payable	<b>\$43,660</b>	\$44,207
Long-term debt	<b>46,525</b>	46,624
Total debt	<b>90,185</b>	90,831
Less cash and cash equivalents	<b>(49,807)</b>	(56,196)
Net debt	<b>\$40,378</b>	\$34,635
Equity attributable to equity holders of the Parent Company	<b>\$187,941</b>	\$193,818
Debt to equity ratio	<b>48%</b>	47%
Net debt to equity ratio	<b>21%</b>	18%

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

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

#### Results of Operations

#### Financial Highlights

	For the quarters ended 30 June	
	2013	2012
	<i>(in US\$ thousands, except Basic EPS)</i>	
Revenues from Sales and Services	<b>\$350,469</b>	\$325,651
Cost of Goods Sold and Services	<b>(325,326)</b>	(300,252)
Gross Profit	<b>25,143</b>	25,399
Net Income Attributable to Equity holders	<b>2,085</b>	3,108
EBITDA <sup>i</sup>	<b>14,460</b>	16,244
Basic Earnings per Share (EPS)	<b>0.0005</b>	0.0011

#### Revenues from Sales and Services

The Company generated consolidated revenues of US\$350.5 million in the first six months of 2013, an 8% growth year over year due mainly to the company's strong business expansion in Europe, Mexico and the Philippines. IMI's China and Singapore operations contributed US\$122.2 million in combined revenues in the first half of 2013, a decline of 9% year-on-year due primarily to reduced sales in the telecommunication infrastructure market segment. Operations in Europe and Mexico posted US\$117.1 million in combined revenues, up 37% year-over-year on the back of continued expansion of its automotive business. IMI's operations in the Philippines posted US\$88.4 million in revenues, an 11% year-on-year growth because of strong programs in the computing, consumer, and industrial segments. PSi Technologies, Inc., a subsidiary of IMI, recorded US\$23.0 million in revenues, down from last year by 8%.

On the overall, the automotive segment continues to dominate the Company's market comprising 39% of consolidated revenues. The Company also has robust sales pipeline for the industrial, telecommunications and consumer segments. Europe remains to be the biggest market of the company's products, comprising 48% of global sales, followed by America at 25%.

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

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

On the overall, cost ratio is higher by 61 bps mainly from higher labor cost due to increase in labor-intensive projects. Fixed overhead also increased relevant to increase in revenues of Europe.

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

The Company's operations generated gross profit of US\$25.1 million, a slight decline by 1% year-on-year. China drop driven by higher labor cost and lower capacity utilization was countered by Europe increase from ramp up of new projects. GP margin lower by 61 bps mainly due to lower utilization driven by reduced volumes in China operations.

## **Operating Expenses**

The Company's operating expenses went up by US\$1.5 million or 7% due to higher reversal of prior year excess accruals in 2012 and higher general and administrative costs (SAP upgrade, accrual of retirement benefits and higher utilities costs)

## **Net Income**

The company generated US\$2.1M in net income in the first half of fiscal year 2013, down from US\$3.1M in the same period last year. Drop in operating income by US\$1.7M due to slowdown of China operations. Share of minority in net loss of subsidiary decreased by US\$1.7M from change in ownership in PSi from 55.78% to 83.25%. The decline was tempered by beneficial FX positions +US\$1.3M due to strengthening of USD/PHP (liability position) and appreciation of RMB/USD (asset position). Other income from other business revenues from sale of materials and gain on sale of assets +US\$0.7M and amortization of deferred tax liability upon exercise of call option +US\$0.8M also offset the drop in operating income.

## **EBITDA**

EBITDA lower by US\$1.8 million or 11% from last year's US\$16.2 million due to lower operating income by US\$1.7M triggered by China operation's lower capacity utilization and lower depreciation by US\$1.3 million due to various end of life and disposals of assets. The decline was tempered by favorable FX position +US\$1.3 million.

## **Financial Condition**

The Company maintains financial stability with a cash balance of US\$49.8 million as of June 30, 2013. Current ratio and debt-to-equity ratio remains healthy at 1:52:1 and 0.48:1, respectively.

For the first half of 2013, the Company's capital expenditures amounted to US\$8.6 million which comprised mainly of warehouse, building improvements, 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 innovation. These will ensure uninterrupted services and meeting demands of the Company's customers.

### *Prospects for the future*

The Company continues to grow its topline and record a profit despite the unbalanced growth of the global economy. While the Company is affected by the slowdown in China, it takes advantage of opportunities in regional manufacturing in North America and Europe. IMI continues to expand its operations in Bulgaria and Mexico to accommodate additional orders from its customers in the automotive sector. But in China, the Company has started to consolidate operations to lessen the impact on its bottom line. The Company is also aggressively pursuing opportunities to increase both revenues and profit margins as it leverage its broadened geographic presence and expanded capabilities.

### **Key performance indicators of the Company**

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

	<b>As of end</b>	
	<b>30 Jun 2013</b>	<b>31 Dec 2012</b>
<b>Performance indicators</b>		
Liquidity:		
Current ratio	1.5x	1.6x
Solvency:		
Debt-to-equity ratio	0.48x	0.47x
	<b>For the quarters ended</b>	
	<b>30 Jun</b>	
	<b>2013</b>	<b>2012</b>
Operating efficiency:		
Revenue growth	8%	24%
Profitability:		
EBITDA margin <sup>ii</sup>	4%	5%

In the above:

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

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

- (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**

(Quarter ended 30 June 2013 versus 30 June 2012)

#### 8% growth in Revenues from Sales and Services (\$325.7M to \$350.5M)

Increase was mainly due to the Company's business expansion in Europe and Mexico (↑US\$31.4 million) from expansion of automotive businesses and the Philippines (↑US\$8.9 million) due to strong programs in computing, consumer and industrial segments.

#### 8% increase in Cost of Goods Sold and Services (\$300.3M to \$325.3M)

The increase in Cost of Goods Sold and Services was relative to the upsurge in revenues with slight increase in labor cost ratio due to expansion of labor-intensive projects and increase in fixed overhead cost mainly from increased rental on lot, higher utilities expenses and spareparts.

#### 7% increase in Operating Expenses (\$22.2M to \$23.7M)

The increase can be attributable to higher reversal of PY excess accruals in 2012 by US\$2M and increased expenses (SAP upgrade, accrual of retirement benefits and higher utilities costs)

#### 190% increase in net finance and other income (-\$1.1M to \$1.0M)

Foreign exchange +US\$1.3M due to strengthening of USD/PHP (liability position) and appreciation of RMB/USD (asset position). Other income also grew from other business revenues mainly on sale of materials and gain on sale of assets +US\$0.7M.

#### 15% decrease in Provision for Income Tax (\$1.7M to \$1.4M)

Mainly from reversal of deferred tax liability upon exercise of call option +US\$0.8 million but offset by higher taxes in Europe relevant to revenue growth -\$0.5 million

#### 33% decrease in net income attributable to equity holders of the Parent Company (\$3.1M to \$2.1M)

Due primarily to lower capacity utilization in China facilities.

#### 62% decrease in net loss attributable to Noncontrolling Interest (-\$2.7M to -\$1.0 million)

Lower net loss of PSi by 50% as a result of consolidation of facilities coupled by dilution of minority share in PSi (44.22% to 16.75%).

## Balance Sheet items

(30 June 2013 versus 31 December 2012)

### 11% decrease in Cash and cash equivalents (\$56.2M to \$49.8M)

Decrease in cash mainly from China and IMI Mexico. Working capital increased by US\$7.3M but the Company still manage to generate positive cash from operating activities (+US\$4.3M). Capital expenditures, net of proceeds from disposals of certain assets amounted to US\$8.0 million. Financing activities used US\$2 million of cash mainly for loan and dividend payments.

### 8% increase in Loans and receivables (\$150.9M \$163.3M)

On account of higher revenues by US\$25 million

### 9% increase in Inventories (\$83.2M \$90.3M)

Increase attributable to growth of turnkey businesses. Turnkey:consignment ratio from 89:11 to 92:8.

### 99% decrease in Derivative assets (\$2.9M to \$38K)

Reversal upon exercise of call option.

### 80% increase in Other current assets (\$7.4M to \$13.4M)

Represents VAT claims of IMI Mexico.

### 11% decrease in Intangible assets (\$5.9M to \$5.2M)

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

### 29% decrease in Deferred income tax assets (\$1.1M to \$0.8M)

Attributable to China' general provisions and unutilized losses.

### 12% increase in Accounts payable and accrued expenses (\$143.4M to \$160.2M)

Increase in trade payables for IMI Europe and Philippines with reference to increased inventories. Longer days payable for PSi.

### 22% decrease in Income tax payable (\$1.9M to \$1.5M)

Mainly from payment of taxes of China subsidiaries.

### 30% decrease in Deferred tax liabilities (\$4.6M to \$3.2M)

Due mainly to reversal of deferred tax liability upon exercise of the call option and amortization of deferred tax liabilities on increase in fair value of PPE and recognition of intangibles for IMI Europe at the time of acquisition.

### 7% decrease in Deferred revenue (\$2.0M to \$1.9M)

Amortization of deferred revenue of PSi representing advances from customers for facilities support services.

### 19% decrease in Pension liability (\$2.3M to \$1.9M)

Pertains mainly to contribution to retirement fund amounting to \$428K.

### 69% increase in Obligation under finance lease (\$0.7M to \$1.2M)

Additional finance lease contracts related to IMI Europe's machineries and production equipment.

13% decrease in Additional Paid-in Capital (\$58.6M to \$51.1M)

Arising from change in ownership in PSi from 55.78% to 83.25%. Additional investment in PSi amounting to US\$3.0 million equivalent to the value of call option at the time of exercise and cash consideration, and dilution of non-controlling interest was allocated to APIC.

30% decrease in Cumulative translation adjustments (-\$2.3M to -\$3.0M)

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

60% increase in Minority interests in a consolidated subsidiary (-\$5.9M to -\$2.4M)

Lower share of minority in the net liabilities of PSi as a result of change in ownership from 55.78% to 83.25%.



**EXHIBIT 1**  
**FINANCIAL RATIOS**  
For the period ended June 30, 2013 and 2012

<b>Ratios</b>	<b>Formula</b>	<b>As of June 30, 2013</b>	<b>As of December 31, 2012</b>	<b>As of June 30, 2012</b>
(i) Current ratio	Current assets / Current Liabilities	1.52	1.56	
(ii) Debt/Equity ratio	Bank debts / Equity attributable to parent	0.48	0.47	
(iii) Asset to Equity ratio	Total Assets / Equity attributable to parent	2.47	2.34	
(iv) Interest rate coverage ratio	Earnings before interest and taxes / Interest Expense	2.57		2.06
(v) Profitability ratios				
GP margin	Gross Profit / Revenues	7.2%		7.8%
Net profit margin	Net Income after Tax / Revenues	0.6%		1.0%
EBITDA margin	EBITDA / Revenues	4.1%		5.0%
Return on assets	Net Income after Tax / Total Asset	0.4%		0.7%
Return on equity	Net Income after Tax / Average equity attributable to parent	1.1%		1.6%

(in U.S. Dollars)

	<b>June 30, 2013</b>	<b>December 31, 2012</b>	<b>June 30, 2012</b>
Current Assets	316,843	300,536	
Current Liabilities	207,942	192,173	
Bank Debts	90,185	90,831	
Equity attributable to parent	187,941	193,818	194,525
Total Assets	464,940	453,353	441,707
Earnings before interest and taxes	3,883		3,574
Interest expense	1,511		1,731
Gross Profit	25,143		25,399
Revenues	350,469		325,651
Net Income after Tax	2,085		3,108
EBITDA	14,460		16,244
Average equity attributable to parent	190,880		191,233

## PART II--OTHER INFORMATION

1. At the Regular Annual Stockholders' meeting held on April 12, 2013 the stockholders considered and approved the following:

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

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

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

2. In the Organizational meeting held immediately after the Regular Annual Stockholders' meeting, the Board of Directors elected the following:

- Board Committees and Memberships:

Executive Committee

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

Audit Committee

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

Nomination Committee

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

Compensation Committee

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

Finance Committee

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

- Officers:

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

## SIGNATURES

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

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

By:



**JAIME G. SANCHEZ**

Vice President, Deputy CFO and Group Controller

Date: August 12, 2013



**JEROME S. TAN**

Chief Finance Officer

Date: August 12, 2013