Consolidated Financial Statements
December 31, 2008 and 2007
and years ended December 31, 2008, 2007 and 2006

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Integrated Microelectronics, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Integrated Microelectronics, Inc. and Subsidiaries as of December 31, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

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CPA Certificate No. 32614
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Tax Identification No. 102-096-610
PTR No. 1566465, January 5, 2009, Makati City

March 26, 2009

INTEGRATED MICROELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2008	2007 (As restated)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 29, 30 and 31)	**$57,604,535**	$28,288,830
Derivative assets (Notes 30 and 31)	–	2,042,019
Loans and receivables (Notes 3, 5, 30 and 31)	**74,927,235**	81,850,454
Inventories (Notes 3 and 6)	**35,484,994**	43,666,432
Other current assets (Note 7)	**3,412,706**	2,142,200
Total Current Assets	**171,429,470**	157,989,935
Noncurrent Assets		
Noncurrent receivables (Notes 5, 30 and 31)	**2,922,015**	5,230,875
Property, plant and equipment (Notes 3, 8 and 27)	**75,907,230**	83,594,209
Investment properties (Notes 3 and 9)	–	–
Goodwill (Notes 3, 10 and 27)	**46,225,800**	46,225,800
Intangible assets (Notes 3, 11 and 27)	**5,132,691**	7,747,853
Net pension asset (Note 25)	**2,453,430**	3,320,904
Available-for-sale financial assets (Notes 3, 30 and 31)	**265,046**	360,465
Deferred income tax assets (Notes 3 and 24)	**27,505**	53,175
Other noncurrent assets (Note 12)	**2,594,633**	1,237,245
Total Noncurrent Assets	**135,528,350**	147,770,526
	$306,957,820	$305,760,461

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 13, 30 and 31)	**$69,787,272**	$74,507,932
Provisions (Note 14)	**6,013,238**	1,692,114
Loans payable (Notes 15, 30 and 31)	**17,110,107**	9,007,819
Current portion of long-term debt (Notes 16, 30 and 31)	**8,000,000**	8,000,000
Total Current Liabilities	**100,910,617**	93,207,865
Noncurrent Liability		
Long-term debt (Notes 16, 30 and 31)	**46,000,000**	54,000,000
Total Liabilities	**146,910,617**	147,207,865

(Forward)

	December 31	
	2008	2007 (As restated)
Equity (Note 17)		
Equity attributable to equity holders of the Parent Company		
Capital stock - common	**$20,253,054**	$20,223,972
Capital stock - preferred	**26,601,155**	–
Subscribed capital stock	**2,182,379**	2,178,004
Additional paid-in capital	**30,213,723**	27,788,669
Subscriptions receivable	**(10,439,358)**	(11,101,002)
Retained earnings:		
Appropriated for expansion	**60,660,981**	60,660,981
Unappropriated	**31,091,806**	59,219,281
Treasury stock	**(1,012,592)**	(970,291)
Reserve for fluctuation on available-for-sale financial assets	**23,979**	116,147
Other reserves	**55,803**	36,441
	159,630,930	158,152,202
Minority interests in a consolidated subsidiary	**416,273**	400,394
Total Equity	**160,047,203**	158,552,596
	$306,957,820	$305,760,461

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICROELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2008	2007 (As restated)	2006 (As restated)
REVENUES FROM SALES AND SERVICES (Notes 18 and 27)	**$441,144,682**	$422,107,356	$395,001,930
COST OF GOODS SOLD AND SERVICES (Notes 19 and 21)	**370,368,070**	330,786,382	308,860,163
GROSS PROFIT	**70,776,612**	91,320,974	86,141,767
OPERATING EXPENSES (Notes 20 and 21)	**(54,099,275)**	(53,257,069)	(43,464,588)
OTHERS - Net			
Foreign exchange gains (losses) (Note 31)	**(30,458,199)**	1,872,799	(159,284)
Interest and bank charges (Note 22)	**(3,593,609)**	(5,059,686)	(6,143,402)
Interest income (Note 23)	**1,141,601**	1,455,519	760,490
Miscellaneous (Note 5)	**1,882,524**	2,129,386	445,927
INCOME (LOSS) BEFORE INCOME TAX	**(14,350,346)**	38,461,923	37,580,910
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)			
Current	**2,406,332**	3,185,181	3,040,033
Deferred	**25,670**	(483,183)	(178,197)
	2,432,002	2,701,998	2,861,836
NET INCOME (LOSS)	**($16,782,348)**	$35,759,925	$34,719,074
Attributable to:			
Equity holders of the Parent Company	**($16,830,089)**	$35,692,542	$34,674,981
Minority interest	**47,741**	67,383	44,093
Net income (loss)	**($16,782,348)**	$35,759,925	$34,719,074

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICROELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Equity Holders of the Parent Company											
	Capital Stock - Common (Note 17)	Capital Stock - Preferred (Note 17)	Subscribed Capital Stock (Note 17)	Additional Paid-in Capital	Subscriptions Receivable (Note 17)	Retained Earnings Appropriated for Expansion (Note 17)	Retained Earnings Unappropriated	Treasury Stock (Note 17)	Reserve for Fluctuation on Available-for-Sale Financial Assets	Other Reserves	Attributable to Minority Interest	Total
Balances at January 1, 2008, as previously stated	**$20,223,972**	**$–**	**$2,178,004**	**$27,788,669**	**($11,101,002)**	**$60,660,981**	**$58,378,306**	**($970,291)**	**$116,147**	**$–**	**$386,434**	**$157,661,220**
Adjustments as a result of change in reporting period of subsidiary (Note 2)	–	–	–	–	–	–	**840,975**	–	–	**36,441**	**13,960**	**891,376**
Balances at January 1, 2008, as restated	**20,223,972**	–	**2,178,004**	**27,788,669**	**(11,101,002)**	**60,660,981**	**59,219,281**	**(970,291)**	**116,147**	**36,441**	**400,394**	**158,552,596**
Shares issued during the year	**29,082**	**26,601,155**	**(26,630,237)**	–	–	–	–	–	–	–	–	–
Subscriptions during the year	–	–	**26,634,612**	**272,680**	**(306,137)**	–	–	–	–	–	–	**26,601,155**
Cost of share-based payments (Note 26)	–	–	–	**1,484,498**	–	–	–	–	–	–	–	**1,484,498**
Collections on subscriptions	–	–	–	–	**1,635,657**	–	–	–	–	–	–	**1,635,657**
Accretion of subscriptions receivable (Note 26)	–	–	–	**667,876**	**(667,876)**	–	–	–	–	–	–	–
Acquisition of treasury stock	–	–	–	–	–	–	–	**(42,301)**	–	–	–	**(42,301)**
Dilution of minority interest	–	–	–	–	–	–	–	–	–	**19,362**	**(19,362)**	–
Dividends (Note 17)	–	–	–	–	–	–	**(11,297,386)**	–	–	–	**(12,500)**	**(11,309,886)**
	20,253,054	**26,601,155**	**2,182,379**	**30,213,723**	**(10,439,358)**	**60,660,981**	**47,921,895**	**(1,012,592)**	**116,147**	**55,803**	**368,532**	**176,921,719**
Fair value changes on available-for-sale financial assets	–	–	–	–	–	–	–	–	**(92,168)**	–	–	**(92,168)**
Net income (loss)	–	–	–	–	–	–	**(16,830,089)**	–	–	–	**47,741**	**(16,782,348)**
Total recognized income (loss)	–	–	–	–	–	–	**(16,830,089)**	–	**(92,168)**	–	**47,741**	**(16,874,516)**
Balances at December 31, 2008	**$20,253,054**	**$26,601,155**	**$2,182,379**	**$30,213,723**	**($10,439,358)**	**$60,660,981**	**$31,091,806**	**($1,012,592)**	**$23,979**	**$55,803**	**$416,273**	**$160,047,203**

	Attributable to Equity Holders of the Parent Company										
		Subscribed			Retained Earnings			Reserve for			
	Capital Stock - Common (Note 17)	Capital Stock (Note 17)	Additional Paid-in Capital	Subscriptions Receivable (Note 17)	Appropriated for Expansion (Note 17)	Retained Earnings Unappropriated	Treasury Stock (Note 17)	Fluctuation on Available-for-Sale Financial Assets	Other Reserves	Attributable to Minority Interest	Total
Balances at January 1, 2007, as previously stated	$20,203,502	$1,216,952	$18,153,801	($1,275,588)	$60,660,981	$33,010,237	($964,638)	$–	$–	$455,469	$131,460,716
Adjustments as a result of change in reporting period of subsidiary (Note 2)	–	–	–	–	–	952,788	–	–	3,114	6,609	962,511
Balances at January 1, 2007, as restated	20,203,502	1,216,952	18,153,801	(1,275,588)	60,660,981	33,963,025	(964,638)	–	3,114	462,078	132,423,227
Shares issued during the year	20,470	(20,470)	–	–	–	–	–	–	–	–	–
Subscriptions during the year	–	981,522	8,664,645	(9,646,167)	–	–	–	–	–	–	–
Cost of share-based payments (Note 26)	–	–	396,962	–	–	–	–	–	–	–	396,962
Collections on subscriptions	–	–	–	394,014	–	–	–	–	–	–	394,014
Accretion of subscriptions receivable (Note 26)	–	–	573,261	(573,261)	–	–	–	–	–	–	–
Acquisition of treasury stock	–	–	–	–	–	–	(5,653)	–	–	–	(5,653)
Dividends (Note 17)	–	–	–	–	–	(10,436,286)	–	–	–	(95,740)	(10,532,026)
Dilution of minority interest, as previously stated	–	–	–	–	–	–	–	–	–	(39,071)	(39,071)
Adjustments as a result of change in reporting period of subsidiary (Note 2)	–	–	–	–	–	–	–	–	33,327	5,744	39,071
Dilution of minority, as restated	–	–	–	–	–	–	–	–	33,327	(33,327)	–
	20,223,972	2,178,004	27,788,669	(11,101,002)	60,660,981	23,526,739	(970,291)	–	36,441	333,011	122,676,524
Fair value changes on available-for-sale financial assets	–	–	–	–	–	–	–	116,147	–	–	116,147
Net income, as previously stated	–	–	–	–	–	35,804,355	–	–	–	65,776	35,870,131
Adjustments as a result of change in reporting period of subsidiary (Note 2)	–	–	–	–	–	(111,813)	–	–	–	1,607	(110,206)
Net income, as restated	–	–	–	–	–	35,692,542	–	–	–	67,383	35,759,925
Total recognized income	–	–	–	–	–	35,692,542	–	116,147	–	67,383	35,876,072
Balances at December 31, 2007, as restated	$20,223,972	$2,178,004	$27,788,669	($11,101,002)	$60,660,981	$59,219,281	($970,291)	$116,147	$36,441	$400,394	$158,552,596

	Attributable to Equity Holders of the Parent Company									
					Retained Earnings					
	Capital Stock - Common (Note 17)	Subscribed Capital Stock (Note 17)	Additional Paid-in Capital	Subscriptions Receivable (Note 17)	Appropriated for Expansion (Note 17)	Retained Earnings Unappropriated	Treasury Stock (Note 17)	Other Reserves	Attributable to Minority Interest	Total
Balances at January 1, 2006, as previously stated	$20,203,502	$1,216,952	$18,195,305	($1,665,575)	$40,660,981	$26,150,407	($1,019,138)	$–	$407,401	$104,149,835
Adjustments as a result of change in reporting period of subsidiary (Note 2)	–	–	–	–	–	1,017,727	–	(27,026)	40,724	1,031,425
Balances at January 1, 2006, as restated	20,203,502	1,216,952	18,195,305	(1,665,575)	40,660,981	27,168,134	(1,019,138)	(27,026)	448,125	105,181,260
Collections on subscriptions	–	–	–	389,987	–	–	–	–	–	389,987
Acquisition of treasury stock	–	–	–	–	–	–	(58,183)	–	–	(58,183)
Reissuance of treasury stock	–	–	(41,504)	–	–	–	112,683	–	–	71,179
Appropriation for the year					20,000,000	(20,000,000)	–	–	–	–
Dividends (Note 17)	–	–	–	–	–	(7,880,090)	–	–	–	(7,880,090)
Dilution of minority interest, as previously stated	–	–	–	–	–	–	–	–	–	97,704,153
Adjustments as a result of change in reporting period of subsidiary (Note 2)	–	–	–	–	–	–	–	30,140	(30,140)	–
Dilution of minority, as restated	–	–	–	–	–	–	–	30,140	(30,140)	–
	20,203,502	1,216,952	$18,153,801	(1,275,588)	60,660,981	(711,956)	(964,638)	3,114	417,985	97,704,153
Net income, as previously stated	–	–	–	–	–	34,739,920	–	–	48,068	34,787,988
Adjustments as a result of change in reporting period of subsidiary (Note 2)	–	–	–	–	–	(64,939)	–	–	(3,975)	(68,914)
Net income, as restated	–	–	–	–	–	34,674,981	–	–	44,093	34,719,074
Total recognized income	–	–	–	–	–	34,674,981	–	–	44,093	34,719,074
Balances at December 31, 2006, as restated	$20,203,502	$1,216,952	$18,153,801	($1,275,588)	$60,660,981	$33,963,025	($964,638)	$3,114	$462,078	$132,423,227

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICROELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2008	2007 (As restated)	2006 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**($14,350,346)**	$38,461,923	$37,580,910
Adjustments for:			
Depreciation of property, plant and equipment and investment properties (Notes 8, 9, 19 and 20)	**18,624,973**	20,869,204	17,226,456
Provision for restructuring (Note 14)	**6,000,000**	–	–
Provision for inventory obsolescence - net of reversal (Note 6)	**5,514,988**	1,116,689	879,817
Losses (gains) on derivative assets (Note 31)	**4,337,519**	(2,042,019)	–
Interest and bank charges (Note 22)	**3,593,609**	5,059,686	6,143,402
Amortization of intangible assets (Notes 11 and 20)	**2,688,552**	2,645,296	2,683,333
Unrealized foreign exchange loss - net	**2,388,140**	581,222	213,778
Impairment loss (Notes 8 and 19)	**1,501,700**	–	–
Cost of share-based payments (Note 26)	**1,484,498**	396,962	–
Net benefit expense (Note 25)	**867,474**	682,842	204,759
Provisions for warranty (Note 14)	**510,139**	2,252,114	1,198,000
Provision for doubtful accounts (Note 5)	**166,726**	506,627	264,967
Dividend income	**(493)**	(491)	(1,184)
Gain on sale of property, plant and equipment	**(251,291)**	(42,057)	(53,837)
Interest income (Note 23)	**(1,141,601)**	(1,455,519)	(760,490)
Reversal of provision for warranty (Note 14)	**(2,189,015)**	(1,914,000)	(1,413,000)
Fair value gain on financial assets at fair value through profit or loss	**–**	–	(45,978)
Gain on sale of investment properties (Note 9)	**–**	(46,305)	–
Operating income before working capital changes	**29,745,572**	67,072,174	64,120,933
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Loans and receivables	**6,287,140**	(7,997,819)	(15,035,123)
Inventories	**2,666,450**	(12,489,690)	(2,990,386)
Other current assets	**(1,270,506)**	436,689	205,937
Noncurrent receivables	**2,408,106**	(5,067,716)	–
Increase (decrease) in accounts payable and accrued expenses	**(6,796,050)**	9,448,211	1,512,238
Net cash generated from operations	**33,040,712**	51,401,849	47,813,599
Interest received	**1,042,355**	1,292,360	760,490
Dividends received	**493**	491	1,184
Interest paid	**(3,662,052)**	(5,265,407)	(5,302,175)
Income taxes paid	**(2,394,505)**	(1,845,130)	(3,763,691)
Net cash provided by operating activities	**28,027,003**	45,584,163	39,509,407

(Forward)

	Years Ended December 31		
	2008	2007 (As restated)	2006 (As restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale/disposal of:			
Property, plant and equipment	**$2,370,921**	$139,343	$194,393
Investment properties	**–**	268,101	–
Acquisition of:			
Property, plant and equipment (Note 8)	**(14,559,324)**	(16,949,799)	(25,085,495)
Intangible assets (Note 11)	**(73,390)**	(209,816)	–
A business	**–**	–	(475,512)
Decrease (increase) in other noncurrent assets	**(1,491,260)**	61,326	(47,679)
Net cash used in investing activities	**($13,753,053)**	(16,690,845)	(25,414,293)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to equity holders of the Parent Company (Note 17)	**(10,736,659)**	(10,436,286)	(7,880,090)
Dividends paid to minority	**(12,500)**	(95,740)	–
Availments of loans	**28,248,662**	3,365,000	87,445,282
Payments of:			
Loans payable	**(20,068,074)**	(4,429,000)	(83,062,467)
Long-term debt	**(8,000,000)**	(18,149,799)	(552,519)
Collections of subscriptions receivable (Note 17)	**1,635,657**	394,014	389,987
Collections on preferred stock subscription (Note 17)	**26,601,155**	–	–
Acquisition of treasury stock (Note 17)	**(42,301)**	(5,653)	(58,183)
Reissuance of treasury stock (Note 17)	**–**	–	71,179
Net cash provided by (used in) financing activities	**17,625,940**	(29,357,464)	(3,646,811)
NET FOREIGN EXCHANGE DIFFERENCE IN CASH AND CASH EQUIVALENTS	**(2,584,185)**	404,201	(197,747)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**29,315,705**	(59,945)	10,250,556
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**28,288,830**	28,348,775	18,098,219
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**$57,604,535**	$28,288,830	$28,348,775

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

Integrated Microelectronics, Inc. (“the Parent Company”), a stock corporation organized under the laws of the Republic of the Philippines on August 8, 1980, has three wholly-owned subsidiaries, namely: IMI International (Singapore) Pte. Ltd. (“IMI Singapore”), IMI USA, Inc. (“IMI USA”) and IMI Japan, Inc. (“IMI Japan”) (collectively referred to as the “Group”). The Group’s parent company is AYC Holdings, Ltd. (AYC), a corporation incorporated in British Virgin Islands. AYC is a subsidiary of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange. AC is 50.92% owned by Mermac, Inc., 10.58% owned by Mitsubishi Corporation and the rest by the public. The registered office address of the Parent Company is North Science Avenue, Laguna Technopark, Biñan, Laguna.

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of Printed Circuit Board Assembly (PCBA), Flip chip assembly, Box build, Sub-assembly, Enclosure system and provider of electronics product design, research and development, product development outsourcing and other electronic parts. The Parent Company is also engaged in the business of providing test development and systems integration services and distributing related products and equipment. These PEZA registrations entitle the Parent Company to a four-year income tax holiday (ITH) and an option to apply for ITH extension for a maximum of three (3) years subject to various PEZA requirements wherein projects and activities are qualified. The Parent Company’s entitlements to ITH under the current PEZA registrations have expirations beginning July 2008, for which extension has been applied for, up to December 2012 for the different registered activities. Under its PEZA registrations, the Parent Company’s projects and activities are subject to certain requirements and are entitled to certain incentives, which include, but are not limited to, ITH and tax and duty free importation of inventories and capital equipment. Upon the expiration of the ITH on these projects and activities, the Parent Company will be subject to a five percent (5%) final tax on gross income earned after certain allowable deductions provided under the Republic Act (R.A.) No. 7916 (otherwise known as the “Special Economic Zone Act of 1995”) in lieu of payment of national and local taxes.

The Parent Company has entered into manufacturing agreements with various entities to provide electronics manufacturing services wherein the Parent Company reports income. In 2008, some of these entities ceased operations and the existing manufacturing agreements were pre-terminated (see Note 8).

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

IMI USA is at the forefront of technology with regard to precision assembly capabilities including Surface Mount Technology (SMT), Chip on Flex (COF), Chip on Board (COB) and Flip Chip on Flex. It specializes in prototyping low to medium PCBA and sub-assembly. It is also engaged in engineering, design for manufacturing (DFM) technology, advanced manufacturing process development, new product innovations (NPI), direct chip attach and small precision assemblies.

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

The accompanying consolidated financial statements as at December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 were authorized for issue by the Board of Directors (BOD) on March 26, 2009.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

The consolidated financial statements are presented in United States (U.S.) Dollar, the Group's functional and presentation currency.

Statement of Compliance

The accompanying consolidated financial statements, which are prepared for submission to the Philippine Securities and Exchange Commission and Philippine Stock Exchange in connection with the Parent Company's application for listing by way of introduction, have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

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

	Percentage of Ownership		Country of
	2008	2007	Incorporation
IMI USA	**100.00%**	100.00%	USA
IMI Japan	**100.00%**	100.00%	Japan
IMI Singapore	**100.00%**	100.00%	Singapore
Speedy-Tech Electronics Ltd. and Subsidiaries ("STEL and Subsidiaries")	**100.00%**	100.00%	Singapore
Vista Manufacturing Pte. Ltd. ("VISTA")	**100.00%**	100.00%	Singapore
Speedy-Tech Technologies Pte. Ltd. ("STTS")	**100.00%**	100.00%	Singapore
Speedy-Tech Electronics (HK) Limited ("STHK")	**100.00%**	100.00%	Hong Kong
Speedy-Tech (Philippines), Inc. ("STPHIL")	**100.00%**	100.00%	Philippines
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE")	**99.435%**	99.325%	China
Shenzhen Speedy-Tech Technologies Co., Ltd. ("SZSTT")	**100.00%**	100.00%	China
Speedy-Tech Electronics, Inc.	**100.00%**	100.00%	USA
Speedy-Tech Electronics (Jiaxing) Co., Ltd. ("STJX")	**100.00%**	100.00%	China
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ")	**100.00%**	100.00%	China

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.

Consolidated financial statements are prepared 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.

The financial statements of the subsidiaries are prepared for the same reporting period, except that the consolidated financial statements of STEL and Subsidiaries previously used for the consolidation up to 2007 were for the reporting periods ending November 30 of each year. In 2008, the financial statements of STEL and Subsidiaries used for the consolidation were for the reporting period ending December 31, the same as that of the Parent Company and other subsidiaries. The 2007 consolidated financial statements have been restated to reflect the changes in the reporting period of STEL and Subsidiaries.

The following table summarizes the restatements of the 2007 and 2006 consolidated financial statements as a result of the change in reporting period of STEL and Subsidiaries:

2007

	Total Assets	Total Liabilities	Equity	Retained Earnings Unappropriated, beginning	Minority Interest	Net Income
As previously stated	$300,999,411	$143,338,191	$157,661,220	$33,010,237	$386,434	$35,870,131
Adjustments as a result of the change in reporting period of subsidiary	4,761,050	3,869,674	891,376	952,788	13,960	(110,206)
As restated	**$305,760,461**	**$147,207,865**	**$158,552,596**	**$33,963,025**	**$400,394**	**$35,759,925**

2006

	Retained Earnings Unappropriated, beginning	Minority Interest	Net Income
As previously stated	$26,150,407	$455,469	$34,787,988
Adjustments as a result of the change in reporting period of subsidiary	1,017,727	6,609	(68,914)
As restated	$27,168,134	$462,078	$34,719,074

Minority 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 income and within equity in the consolidated balance sheet, separately from the equity holders of the Parent Company.

Adoption of Amended Accounting Standard

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2007, except for the adoption in 2008 of the amendments to Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, and PFRS 7, *Financial Instruments: Disclosures* (*effective for annual periods beginning July 1, 2008*). The Amendments to PAS 39 introduce the possibility of reclassification of securities out of the held for trading category in rare circumstances and reclassification to the loans and receivable category if there is an intent and ability to hold the securities for the foreseeable future, or to held-to-maturity (HTM) if there is an intent and ability to hold the securities until maturity. The Amendments to PFRS 7 introduce the disclosures relating to these reclassifications. These Amendments have no impact on the consolidated financial statements.

Future Changes in Accounting Policies

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

Effective in 2009

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (*effective for annual periods beginning on or after January 1, 2009*). The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: (a) cost determined in accordance with PAS 27; (b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or (c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- PFRS 2, *Share-based Payment - Vesting Condition and Cancellations* (*effective for annual periods beginning on or after January 1, 2009*). The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

- Amendment to PAS 1, *Presentation of Financial Statements*, (*effective for annual periods beginning on or after January 1, 2009*). The amendment introduces a new statement of comprehensive income that combines all items of income and expense recognized in the profit or loss together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. The amendment also requires additional requirements in the presentation of the consolidated balance sheet and owner's equity as well as additional disclosures to be included in the consolidated financial statements. The Group will assess the impact of this amendment on its current manner of reporting all items of income and expenses.

- Amendment to PAS 23, *Borrowing Costs* (*effective for annual periods beginning on or after January 1, 2009*). This amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The option of immediately expensing borrowing costs will be removed.

- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (*effective for annual periods beginning on or after July 1, 2009*). The amendments to PAS 27 has changes in respect of the holding companies separate financial statements including: (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss.

- Amendments to PAS 32, *Financial Instruments: Presentation and* PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*. These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items* (*effective for annual periods beginning on or after July 1, 2009).* It will address only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (*effective for annual periods beginning on or after January 1, 2009*). The interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (*effective for annual periods beginning on or after January 1, 2009*). The interpretation provides guidance on: (a) identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment; (b) where within the group the hedging instrument(s) can be held in the hedge of a net investment; and (c) how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard and will become effective January 1, 2009. Except as otherwise indicated, the Group does not expect the adoption of these improvements to PFRS to have significant impact on the consolidated financial statements.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements*. Assets and liabilities classified as held for trading are not automatically classified as current in the consolidated balance sheet.

- PAS 16, *Property, Plant and Equipment*. The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5 and PAS 36, *Impairment of Assets*.

  In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 19, *Employee Benefits*. It revises the definition of: (a) 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment; (b) 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation; and (c) 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled. Also, it deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*. Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

- PAS 23, *Borrowing Costs*. It revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

- PAS 28, *Investments in Associates*. If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

  An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*. It revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interests in Joint Ventures*. If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets*. When discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*. Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the services.

- PAS 39, *Financial Instruments: Recognition and Measurement*. Improvements to PAS 39 are: (a) changes in circumstances relating to derivatives, specifically derivatives designated or re-designated as hedging instruments after initial recognition are not reclassifications; (b) when financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification; (c) removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge; and (d) requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Property*. It revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

- PAS 41, *Agriculture*. It removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used. Also, it removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Effective in 2010

- Revised PFRS 3, *Business Combination*, and PAS 27, *Consolidated and Separate Financial Statements* (*effective for annual periods beginning January 1, 2010*). The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that: (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be re-measured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively, while changes introduced by the revised PAS 27 must be applied retrospectively with a few exceptions. The changes will affect future acquisitions and transactions with non-controlling interests.

Effective in 2012

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods
Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably which is at date of invoice. Revenue is measured at the fair value of the consideration received or receivable, net of any return and allowance.

Rendering of services
Revenue from sale of services is recognized when the related services have been rendered.

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

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 months or less and that are subject to an insignificant risk of change in value.

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

Financial instruments are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group follows the trade date accounting where an asset to be received and liability to be paid are recognized on the trade date and the derecognition of an asset that is sold and the recognition of a receivable from the buyer are likewise recognized on the trade date.

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

The financial instruments of the Group as at December 31, 2008 and 2007 consist of financial assets at FVPL, loans and receivables, AFS financial assets and other financial liabilities.

Determination of fair value
The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price 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 all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation methodologies. Valuation methodologies include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Day 1 profit
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

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

Financial instruments are classified as held for trading if they are entered into for the purpose of short-term profit-taking. Gains or losses on financial assets or liabilities at FVPL are recognized in the consolidated statement of income.

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

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

Financial instruments at FVPL are subsequently carried at fair value. Changes in fair value of such assets are accounted for in the consolidated statement of income. Interest is recorded as earned or incurred while dividend income is recorded when the right of payment has been established.

This accounting policy applies primarily to the Group's derivative financial instruments, particularly structured currency options.

The Group uses derivative financial instruments such as structured currency options to hedge its risks associated with foreign currency fluctuations. Such are accounted for as nonhedge derivatives. Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gain or loss arising from changes in fair value on derivative financial instruments is taken to the consolidated statement of income.

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

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on the acquisition and includes fees that are an integral part of the effective interest rates and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets when the Group expects to realize or collect the asset within twelve months from balance sheet date. Otherwise, these are classified as noncurrent assets.

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

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

After initial measurement, AFS financial assets are subsequently measured at fair value. Dividends earned on holding AFS financial assets are recognized in the consolidated statement of income as dividend income when the right to receive payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as 'Reserve for fluctuation on available-for-sale financial assets' in the equity section of the consolidated balance sheet. The losses arising from impairment of such investments are recognized as provisions for impairment losses in the consolidated statement of income. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as realized gains or losses in the consolidated statement of income.

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

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

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

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

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

<u>Impairment of Financial Assets</u>
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

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

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. Impaired assets are derecognized when they are assessed as uncollectible. The amount of the loss shall be recognized in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, payment history, past-due status and term. 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
In case of equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity.

The impairment losses for financial assets is inherently subjective because it requires material estimates, including the amounts and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information. In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows. Increases to the allowance for impairment losses are charged to provision for impairment losses in the consolidated statement of income. Loans deemed to be uncollectible are charged against the allowance for impairment losses. Recoveries of previously charged off amounts are credited to recoveries from impairment losses in the consolidated statement of income.

Derecognition of Financial Assets and Financial Liabilities

Financial asset

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

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

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

Financial liability

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

Inventories

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

Business Combination and Goodwill

Business combinations are accounted for using the acquisition accounting method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition.

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

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment based on either the Group's primary or secondary reporting format determined in accordance with PFRS 8.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities exceeds the costs of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

Property, Plant and Equipment

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

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

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

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives (EUL) of the respective assets. Leasehold improvements are amortized over the shorter of the related lease terms or their EUL.

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

Investment Properties

Investment properties are measured at cost, including transaction costs, less accumulated depreciation and any impairment loss. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day-to-day servicing of an investment property. Depreciation is calculated on a straight-line basis over the EUL of the assets.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property from property, plant and equipment classifications when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Interest and other finance costs incurred during the construction period on borrowings used to finance the construction of an asset are capitalized to the appropriate asset accounts. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. The capitalization of these borrowing costs ceases when substantially all the activities necessary to prepare the asset for sale or its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing costs are based on the applicable weighted average borrowing rate.

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 at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The EUL of intangible assets with finite life are assessed at the individual asset level. Intangible assets with finite life are amortized over their EUL. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

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

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

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

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

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

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

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

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

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

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

Income tax relating to items recognized directly in equity is recognized in the consolidated statement of changes in equity.

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

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

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

Foreign Currency Transactions
The functional and presentation currency of the Group is the U.S. Dollar. Transactions denominated in foreign currencies are recorded in U.S. Dollar at the transaction date based on a booking rate set each month. Foreign currency-denominated monetary assets and liabilities are translated to U.S. Dollar at the closing exchange rate prevailing at the balance sheet date. Foreign exchange differentials between rate at transaction date and rate at settlement date or balance sheet date of foreign currency-denominated monetary assets or liabilities are credited to or charged against current operations. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Pensions and Other Employee Benefits
Defined contribution plans
The Group's subsidiaries in Singapore, People's Republic of China (PRC) and Hong Kong participates in their respective national pension schemes which are considered as defined contribution plans. The required contributions to the national pension schemes are recognized as pension cost as accrued.

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

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

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

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

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

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

The net pension asset recognized in respect of the defined benefit pension plan is the lower of: (a) the fair value of the plan assets less the present value of the defined benefit obligation at the 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, an entity shall determine the economic benefit available as a reduction in future contributions as the lower of: (a) the surplus in the plan; and (b) the present value of the future service cost to the entity, excluding any part of the future cost that will be borne by employees, for each year over the shorter of the expected life of the plan and the expected life of the entity.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating to 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 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 employee stock ownership plan (ESOWN) which allows the grantees to purchase the Parent Company's shares at a discounted price. The Parent Company recognizes the difference between the market price at the time of subscription and the subscription price as employee benefit expense over the holding period.

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

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

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

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

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

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

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.

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

Functional currency
The Group determined its functional currency to be the U.S. Dollar being the currency in which the sales prices for its goods and services are denominated and settled.

Operating lease commitments - Group as lessee
The Group has entered into various lease agreements as lessee. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessor (see Note 28).

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

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 32).

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

Loans and receivables
The Group reduces the carrying amount of the receivables through the use of an allowance account if there is an objective evidence that an impairment loss on the receivables have been incurred based on the result of the individual and collective assessments. Factors considered are customer type, payment history, past due status and term. The carrying amounts of the loans and receivables, net of the allowance for doubtful accounts, amounted to $74,927,235 and $81,850,454 as at December 31, 2008 and 2007, respectively. Allowance for doubtful accounts amounted to $693,657 and $890,452 as at December 31, 2008 and 2007, respectively. Further details are given in Note 5.

Inventories
Inventories are valued at the lower of cost or NRV. This requires the Group to make an estimate of the inventories' estimated selling price in the ordinary course of business, costs of completion and costs necessary to make a sale to determine the NRV. In the event that NRV is lower than cost, the decline is recognized as an expense. Inventories carried at cost amounted to $13,141,372 and $11,513,414 as at December 31, 2008 and 2007, respectively. Inventories carried at NRV amounted to $22,343,622 and $32,153,018 as at December 31, 2008 and 2007, respectively. Allowance for inventory obsolescence amounted to $7,640,616 and $2,559,309 as at December 31, 2008 and 2007, respectively. Further details are given in Note 6.

Depreciation and amortization
The Group computes depreciation and amortization of property, plant and equipment and investment properties on a straight-line basis over the assets' EUL. The EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method are consistent with the expected pattern of the economic benefits from the assets. This requires the Group to make an estimate of the expected asset utilization from business plans and strategies, future technical developments and market behavior to determine the expected pattern of economic benefits from the assets. Property, plant and equipment, net of accumulated depreciation, amortization and impairment loss, amounted to $75,907,230 and $83,594,209 as at December 31, 2008 and 2007, respectively. Depreciation and amortization expense on property, plant and equipment and investment properties amounted to $18,624,973, $20,869,204 and $17,226,456 for the years ended December 31, 2008, 2007 and 2006, respectively. Further details are given in Notes 8, 9, 19 and 20.

The Group computes amortization of intangible assets on a straight-line basis over the assets' EUL. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset. Intangible assets, net of accumulated amortization, amounted to $5,132,691 and $7,747,853 as at December 31, 2008 and 2007, respectively. Amortization expense amounted to $2,688,552, $2,645,296 and $2,683,333 for the years ended December 31, 2008, 2007 and 2006, respectively. Further details are given in Notes 11 and 20.

Impairment of property, plant and equipment and intangible assets
The Group determines at each balance sheet date whether there is any indication that an item of property, plant and equipment and intangible assets may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior periods may no longer exist or may have decreased. If any such indication exists and when the carrying amount of an asset exceeds its estimated recoverable amount, the asset or the CGU to which the asset belongs is written down to its recoverable amount. As at December 31, 2008, the Group determined that there were indications that some of its production facilities were impaired.

Property, plant and equipment, net of accumulated depreciation, amortization and impairment loss, amounted to $75,907,230 and $83,594,209 as at December 31, 2008 and 2007, respectively. Impairment loss recognized in the consolidated statement of income for the years ended December 31, 2008 amounted to $1,501,700. Intangible assets, net of accumulated amortization, amounted to $5,132,691 and $7,747,853 as at December 31, 2008 and 2007, respectively. Further details are given in Notes 8, 11 and 19.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amounts which is the net selling price or value in use of the CGUs to which the goodwill is allocated. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. As at December 31, 2008 and 2007, the Group has determined that there are no indications that its goodwill may be impaired. Goodwill amounted to $46,225,800 as at December 31, 2008 and 2007. Further details are given in Note 10.

Impairment of AFS financial assets
The Group classifies certain assets as AFS and recognizes movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss. As at December 31, 2008 and 2007, no impairment losses have been recognized for AFS financial assets. The carrying amount of AFS financial assets of the Group amounted to $265,046 and $360,465 as at December 31, 2008 and 2007, respectively.

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

As at December 31, 2008 and 2007, the Group has deferred income tax assets of $27,505 and $53,175, respectively. Further details are given in Note 24.

Pensions and other employee benefits
The determination of the obligation and cost of pension under the Parent Company's defined benefit plan and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets, salary increase rates and the basis used to determine the amount of the economic benefit available. In accordance with PAS 19, actual results that differ from the Group's assumptions, subject to the 10% corridor test, are accumulated and amortized over future

periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. For the years ended December 31, 2008, 2007 and 2006, the Group has unrecognized actuarial gains (losses) of $6,239,724, ($302,219) and ($3,573,455), respectively. Further details are given in Note 25.

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

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

Share-based payment transactions
The Group also determines the cost of equity-settled share options using assumptions on the appropriate pricing model. Significant assumptions include, among others, share price, exercise price, option life, risk-free interest rate, expected dividend and expected volatility rate for the cost of share-based payments.

For the years ended December 31, 2008 and 2007, the Group recognized cost of equity-settled share options amounting to $1,484,498 and $396,962, respectively. Further details are given in Note 26.

Taxes
The Group has exposure to taxes in numerous jurisdictions. Significant judgment is involved in determining the group-wide provision for taxes including value added tax, consumption tax and customs duty. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected tax issues based on estimates of whether additional taxes are due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the profit and loss in the period in which such determination is made. The carrying amount of the Group's taxes payables as at December 31, 2008 and 2007 amounted to $1,555,130 and $1,891,379, respectively. Further details are given in Note 13.

4. **Cash and Cash Equivalents**

	2008	2007 (As restated)
Cash on hand and in banks (Notes 29, 30 and 31)	**$12,741,963**	$8,188,493
Short-term deposits (Notes 29, 30 and 31)	**44,862,572**	20,100,337
	$57,604,535	$28,288,830

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

5. Loans and Receivables

	2008	2007 (As restated)
Trade	**$66,295,146**	$74,692,341
Nontrade	**6,344,747**	3,899,306
Receivables from employees	**2,062,547**	1,467,486
Receivable from Meralco - current	**554,612**	1,018,286
Others	**363,840**	1,663,487
	75,620,892	82,740,906
Less allowance for doubtful accounts	**693,657**	890,452
	$74,927,235	$81,850,454

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 Meralco
As a customer of the Manila Electric Company (Meralco), the Parent Company will receive a refund for some of its previous billings under Phase IV of Meralco's refund scheme. The Parent Company will receive quarterly payments over 3 years, which started in February 2008 up to February 2011. The Parent Company recognized a receivable from Meralco amounting to $1,533,268, net of day 1 discount and accretion of $180,111, and income from the refund of $1,145,086 (included under "Miscellaneous income") as at and for the year ended December 31, 2007. The receivable was discounted using an effective interest rate of 11.41%. As at December 31, 2008 and 2007, current portion of the receivables amounted to $554,612 and $1,018,286, respectively. Receivables expected to be recovered beyond one year amounted to $147,775 and $514,982 as at December 31, 2008 and 2007, respectively (included under "Noncurrent receivables").

The rollforward of the day 1 discount on Meralco refund as at December 31, 2008 and 2007 follows:

	2008	2007
At beginning of year	**$180,111**	$–
Day 1 discount	**–**	343,270
Accretion (Note 23)	**(99,246)**	(163,159)
At end of year	**$80,865**	$180,111

The accretion of the day 1 discount is included under "Interest income" account in the consolidated statements of income (see Note 23).

Trade and nontrade receivables at nominal value of $693,657 and $890,452 were individually provided for with allowance for doubtful accounts as at December 31, 2008 and 2007, respectively.

Movements in the allowance for doubtful accounts follow:

2008

	Trade	**Nontrade**	**Total**
At January 1, 2008	**$795,558**	**$94,894**	**$890,452**
Provision during the year	**166,726**	**–**	**166,726**
Accounts written off	**(328,604)**	**(3,630)**	**(332,234)**
Reclassification	**(362,261)**	**362,261**	**–**
Adjustments	**(16,818)**	**(14,469)**	**(31,287)**
At December 31, 2008	**$254,601**	**$439,056**	**$693,657**

2007 (As restated)

	Trade	Nontrade	Total
At January 1, 2007	$726,091	$65,733	$791,824
Provision during the year	448,333	58,294	506,627
Accounts written off	(378,866)	(20,474)	(399,340)
Reversal of provision	–	(8,659)	(8,659)
At December 31, 2007	$795,558	$94,894	$890,452

6. **Inventories**

	2008	2007 (As restated)
At cost:		
Raw materials and supplies	**$4,030,994**	$2,818,913
Work-in-process	**4,975,809**	5,021,905
Finished goods	**4,134,569**	3,672,596
	13,141,372	11,513,414
At NRV:		
Raw materials and supplies	**19,762,841**	30,202,418
Work-in-process	**1,398,870**	189,128
Finished goods	**1,181,911**	1,761,472
	22,343,622	32,153,018
	$35,484,994	$43,666,432

The cost of the inventories carried at NRV amounted to $29,984,238 and $34,712,327 as at December 31, 2008 and 2007, respectively. The amount of inventories recognized as an expense amounted to $222,773,763, $199,605,005 and $200,447,592 for the years ended December 31, 2008, 2007 and 2006, respectively (see Note 19). Losses on inventory decline, net of reversal, recognized in the consolidated statements of income for the years ended December 31, 2008, 2007 and 2006 amounted to $5,514,988, $1,116,689 and $879,817, respectively.

7. Other Current Assets

	2008	2007 (As restated)
Advances to suppliers	**$868,041**	$756,230
Prepayments	**504,020**	416,326
Others	**2,040,645**	969,644
	$3,412,706	$2,142,200

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

"Others" account comprise sales tax recoverable and tax credits. In 2008, this account includes over remittance of withholding taxes on compensation to be applied on future tax liability of the Parent Company amounting to $1,069,036.

8. Property, Plant and Equipment

2008

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Projects in Progress	Total
Cost							
At January 1, 2008, as previously stated	$50,471,105	$90,830,801	$9,698,621	$1,388,855	$2,242,694	$90,045	$154,722,121
Restatement	(40,951)	1,859,825	(26,850)	(24,377)	(954,314)	–	813,333
At January 1, 2008, as restated	50,430,154	92,690,626	9,671,771	1,364,478	1,288,380	90,045	155,535,454
Additions	2,798,211	8,817,977	1,735,456	394,388	420,684	392,608	14,559,324
Disposals	(3,160,623)	(2,397,477)	(197,309)	(217,792)	(21,915)	–	(5,995,116)
Reclassifications	90,044	–	–	–	–	(90,044)	–
At December 31, 2008	50,157,786	99,111,126	11,209,918	1,541,074	1,687,149	392,609	164,099,662
Accumulated depreciation and amortization							
At January 1, 2008, as previously stated	20,079,516	43,543,454	5,246,512	560,614	1,292,716	–	70,722,812
Restatement	1,139,421	290,216	(25,176)	8,706	(194,734)	–	1,218,433
At January 1, 2008, as restated	21,218,937	43,833,670	5,221,336	569,320	1,097,982	–	71,941,245
Depreciation and amortization	4,948,471	11,148,788	2,054,804	320,034	152,876	–	18,624,973
Disposals	(1,260,484)	(856,771)	(1,009,969)	(702,702)	(45,560)	–	(3,875,486)
At December 31, 2008	24,906,924	54,125,687	6,266,171	186,652	1,205,298	–	86,690,732
Impairment loss	736,565	752,909	12,226	–	–	–	1,501,700
Net book value as at December 31, 2008	$24,514,297	$44,232,530	$4,931,521	$1,354,422	$481,851	$392,609	$75,907,230

2007 (As restated)

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Projects in Progress	Total
Cost							
At January 1, 2007, as previously stated	$49,968,606	$78,307,622	$8,188,678	$1,139,144	$2,244,798	$134,809	$139,983,657
Restatement	(833,984)	2,247,017	(98,387)	(45,076)	(960,994)	–	308,576
At January 1, 2007, as restated	49,134,622	80,554,639	8,090,291	1,094,068	1,283,804	134,809	140,292,233
Additions	1,749,978	12,364,888	2,304,765	372,762	68,354	89,052	16,949,799
Disposals	(402,985)	(414,178)	(723,285)	(102,352)	(63,778)	–	(1,706,578)
Reclassifications	(51,461)	185,277	–	–	–	(133,816)	–
At December 31, 2007	50,430,154	92,690,626	9,671,771	1,364,478	1,288,380	90,045	155,535,454
Accumulated depreciation and amortization							
At January 1, 2007, as previously stated	16,196,814	30,640,826	3,925,241	368,600	916,561	–	52,048,042
Restatement	716,396	(6,863)	(58,742)	(11,873)	7,026	–	645,944
At January 1, 2007, as restated	16,913,210	30,633,963	3,866,499	356,727	923,587	–	52,693,986
Depreciation and amortization	4,783,275	13,523,788	2,033,344	277,971	238,173	–	20,856,551
Disposals	(402,985)	(398,644)	(678,507)	(65,378)	(63,778)	–	(1,609,292)
Reclassifications	(74,563)	74,563	–	–	–	–	–
At December 31, 2007	21,218,937	43,833,670	5,221,336	569,320	1,097,982	–	71,941,245
Net book value as at December 31, 2007	$29,211,217	$48,856,956	$4,450,435	$795,158	$190,398	$90,045	$83,594,209

Depreciation and amortization expense included in cost of goods sold and services for the years ended December 31, 2008, 2007 and 2006 amounted to $15,175,848, $16,488,203 and $12,921,083, respectively (see Note 19). Depreciation and amortization expense included in operating expenses for the years ended December 31, 2008, 2007 and 2006 amounted to $3,449,125, $4,368,348 and $4,286,393, respectively (see Note 20).

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

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

In 2008, the Parent Company recognized an impairment loss of $1,501,700 included in cost of goods sold and services representing the carrying amount of the production assets dedicated to EPSON Imaging Devices (Phils.), Inc., Panasonic Communication of the Philippines and PANAC Co. Ltd., net of the reimbursements received, following the pre-termination of the existing manufacturing agreements with the said customers (see Note 19).

9. Investment Properties

On September 10, 2007, the investment properties were sold to the Integrated Microelectronics, Inc. Retirement Fund (IMI RTF), represented by Bank of the Philippine Islands (BPI), its trustee (see Note 25). The gain on sale of investment properties amounted to $46,305.

Movements of investment properties in 2007 are as follows:

	Land	Building	Total
Cost			
At January 1, 2007	$142,715	$185,277	$327,992
Disposals	(142,715)	(185,277)	(327,992)
At December 31, 2007	–	–	–
Accumulated depreciation			
At January 1, 2007	–	93,543	93,543
Depreciation for the year	–	12,653	12,653
Disposals	–	(106,196)	(106,196)
At December 31, 2007	–	–	–
Net book value as at December 31, 2007	$–	$–	$–

The EUL of the building is ten (10) years. Depreciation expense included in operating expenses for the years ended December 31, 2007 and 2006 amounted to $12,653 and $18,980 (see Note 20).

10. Goodwill

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

	2008	2007
STEL Group	**$45,128,024**	$45,128,024
Saturn	**656,610**	656,610
M. Hansson Consulting, Inc.	**441,166**	441,166
	$46,225,800	$46,225,800

The recoverable amounts of each of the CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 10% and 11% in 2008 and 2007, respectively, and cash flows beyond the 5-year period are extrapolated using a very conservative steady growth rate of 1% which does not exceed the compound annual growth rate for the global EMS industry.

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

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

With regard to the assessment of value in use of the three CGUs, management believes that a 200% increase in the discount rate during the 5-year period, with all other key assumptions held constant, would give a value in use equal to the carrying amount of the CGU.

11. **Intangible Assets**

2008

	Customer Relationship	**Unpatented Technology**	**Other Intangibles**	**Total**
Cost				
At January 1, 2008	**$12,900,000**	**$100,000**	**$209,816**	**$13,209,816**
Additions	**–**	**–**	**73,390**	**73,390**
At December 31, 2008	**12,900,000**	**100,000**	**283,206**	**13,283,206**
Accumulated amortization				
At January 1, 2008, as previously stated	**$5,160,000**	**$40,000**	**$45,296**	**$5,245,296**
Restatement	**215,000**	**1,667**	**–**	**216,667**
At January 1, 2008, as restated	**5,375,000**	**41,667**	**45,296**	**5,461,963**
Amortization for the year	**2,580,000**	**20,000**	**88,552**	**2,688,552**
At December 31, 2008	**7,955,000**	**61,667**	**133,848**	**8,150,515**
Net book value as at December 31, 2008	**$4,945,000**	**$38,333**	**$149,358**	**$5,132,691**

2007 (As restated)

	Customer Relationship	Unpatented Technology	Other Intangibles	Total
Cost				
At January 1, 2007	$12,900,000	$100,000	$–	$13,000,000
Additions	–	–	209,816	209,816
At December 31, 2007	12,900,000	100,000	209,816	13,209,816
Accumulated amortization				
At January 1, 2007, as previously stated	2,580,000	20,000	–	2,600,000
Restatement	215,000	1,667	–	216,667
At January 1, 2007, as restated	2,795,000	21,667	–	2,816,667
Amortization for the year	2,580,000	20,000	45,296	2,645,296
At December 31, 2007	5,375,000	41,667	45,296	5,461,963
Net book value as at December 31, 2007	$7,525,000	$58,333	$164,520	$7,747,853

Customer relationship
Customer relationship pertains to noncontractual master agreements with certain customers which lay out the principal terms upon which the parties agree to undertake business.

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

- Self Bias Double-Ended Switching Circuit; and
- A Zero Power Consumption Switch Circuit to Simplify the Energy Star Solution for External Power Adapter

Other intangibles
These pertain to acquisitions of various computer software and applications such as Navishere, Exchange Standard Cal2007 and Microsoft Office Standard in 2008 and 2007.

The EUL of intangibles follow:

	Years
Customer relationship	5
Unpatented technology	5
Other intangibles	3

Amortization of intangible assets included in operating expenses for the years ended December 31, 2008, 2007 and 2006 amounted to $2,688,552, $2,645,296 and $2,683,333, respectively (see Note 20).

The intangible assets relates to the following entities:

2008

	Customer Relationship	**Unpatented Technology**	**Other Intangibles**	**Total**
Parent Company	**$–**	**$–**	**$149,358**	**$149,358**
STEL Group	**4,945,000**	**38,333**	**–**	**4,983,333**
	$4,945,000	**$38,333**	**$149,358**	**$5,132,691**

2007 (As restated)

	Customer Relationship	Unpatented Technology	Other Intangibles	Total
Parent Company	$–	$–	$164,520	$164,520
STEL Group	7,525,000	58,333	–	7,583,333
	$7,525,000	$58,333	$164,520	$7,747,853

12. **Other Noncurrent Assets**

	2008	2007 (As restated)
Deferred acquisition costs	**$1,100,000**	$–
Miscellaneous deposits (Notes 29 and 30)	**924,564**	976,854
Others	**570,069**	260,391
	$2,594,633	$1,237,245

Deferred acquisition costs represent professional fees incurred in connection with an ongoing acquisition transaction. “Others” account include project development cost, sundry receivables and deposits.

13. **Accounts Payable and Accrued Expenses**

	2008	2007 (As restated)
Trade payables	**$40,906,065**	$43,114,571
Accrued expenses	**17,372,131**	16,664,168
Accrued payroll	**2,053,852**	2,330,382
Taxes payables	**1,555,130**	1,891,379
Customers' deposits	**1,073,187**	1,674,474
Employee-related payables (Note 29)	**698,262**	906,024
Accrued interest payable (Notes 15 and 16)	**567,063**	635,506
Dividends payable (Note 17)	**560,727**	–
Nontrade payables	**348,891**	4,868,922
Others	**4,651,964**	2,422,506
	$69,787,272	$74,507,932

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

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

In 2008, "Other payables" include outstanding liability on unwinding costs of derivative contracts amounting to $2,295,500 (see Note 31). "Other payables" are noninterest-bearing and are normally settled within one year.

14. **Provisions**

2008

	Warranty	**Restructuring**	**Total**
Balance at January 1, 2008	**$1,692,114**	**$–**	**$1,692,114**
Provisions for the year	**510,139**	**6,000,000**	**6,510,139**
Reversal of provision	**(2,189,015)**	**–**	**(2,189,015)**
Balance at December 31, 2008	**$13,238**	**$6,000,000**	**$6,013,238**

2007 (As restated)

	Warranty
Balance at January 1, 2007	$1,354,000
Provision for the year	2,252,114
Reversal of provision	(1,914,000)
Balance at December 31, 2007	$1,692,114

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

The provision for restructuring represents management's best estimate of benefits to be paid to employees of the Parent Company that will be separated as a result of a restructuring of its operations to respond to decline in business activities. The restructuring plan was drawn up in 2008 and the initial announcement was made in January 2009. The restructuring is expected to be completed by April 2009.

15. Loans Payable

	2008	2007 (As restated)
Parent Company	**$8,000,000**	$–
STEL	**9,110,107**	9,007,819
	$17,110,107	$9,007,819

The loan payable of the Parent Company is a clean loan obtained from a Philippine bank due in March 2009 and earns interest ranging from 3.38% to 5.75% a year.

The loans of STEL are clean loans from various Singapore banks, from existing revolving credit facilities. The loans payable bear interests ranging from 2.53% to 3.60% in 2008 and 2.73% to 4.10% in 2007 and have maturities of 30 days from the date of issue with renewal options.

16. Long-Term Debt

	2008	2007 (As restated)
Parent Company	**$30,000,000**	$30,000,000
STEL	**24,000,000**	32,000,000
	$54,000,000	$62,000,000

The Parent Company loan is a five-year term clean loan from a Philippine bank obtained in 2006 for the original amount of $40,000,000 and payable in a single balloon payment at the end of the loan term. The Parent Company may, at its option, prepay the loan in part or in full, together with the accrued interest without penalty. Interest on the loan is payable quarterly and re-priced quarterly at the rate of 3-month LIBOR plus margin of 0.80%. The Parent Company prepaid $10,000,000 of the loan principal in 2007.

The IMI Singapore loan is a five-year term clean loan from a Singapore bank obtained in 2006 for the original amount of $40,000,000. The loan is payable in ten (10) equal installments starting in May 2007 to mature in November 2011. Interest on the loan is payable semi-annually and is re-priced semi-annually at LIBOR rate plus 0.75% quoted by the bank.

Scheduled amortization of the long-term debt is as follows:

2008

	2008
2009	**$8,000,000**
2010 - 2011	**46,000,000**
	$54,000,000

2007

	2007
2008	$8,000,000
2009 - 2011	54,000,000
	$62,000,000

17. Equity

Capital Stock

	2008		2007		2006	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized - ₱1 par value						
Common	**1,500,000,000**		1,500,000,000		1,500,000,000	
Preferred	**1,500,000,000**		–		–	
Issued - Common						
At beginning of year	**1,135,476,364**	**$20,223,972**	1,134,389,617	$20,203,502	1,134,389,617	$20,203,502
Issuances during the year	**1,543,938**	**29,082**	1,086,747	20,470	–	–
At end of year *	**1,137,020,302**	**$20,253,054**	1,135,476,364	$20,223,972	1,134,389,617	$20,203,502
Issued - Preferred						
At beginning of year	**–**	**$–**	–	$–	–	$–
Issuances during the year	**1,300,000,000**	**26,601,155**	–	–	–	–
At end of year	**1,300,000,000**	**$26,601,155**	–	$–	–	$–

* *Out of the total issued shares, 15,892,365 and 15,745,302 shares as at December 31, 2008 and 2007, respectively, pertain to treasury shares.*

On June 4, 2008, the BOD of the Parent Company approved and authorized the increase in its authorized capital stock from ₱1,500,000,000 consisting of 1,500,000,000 common shares with a par value of ₱1.00 per share, to ₱3,000,000,000, consisting of 1,500,000,000 common shares and 1,500,000,000 preferred shares both with a par value of ₱1.00 per share and the amendment of the Articles of Incorporation to reflect such increase. The BOD also approved and authorized the offering of 1,300,000,000 preferred shares to all existing stockholders of the Parent Company on a pro-rata basis at the par value of ₱1.00 per share. The increase in authorized capital stock, amendment of the Articles of Incorporation and the preferred shares offering were subsequently ratified in the special stockholders' meeting held on June 30, 2008.

The increase in authorized capital stock of the Parent Company and the amended Articles of Incorporation was approved by the Philippine Securities and Exchange Commission on November 21, 2008 in accordance with the provisions of Section 38 of the Corporation Code of the Philippines.

The preferred shares have certain features, rights and privileges, which include voting rights, quarterly dividends, cumulative in payment of current dividends, non-participating in any other or further dividends beyond that specifically payable on the shares, non-convertibility to common shares, preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation and in the payment of the dividend at the rate specified, no pre-emptive rights, redeemable at the option of the issuer and certificated.

Subscribed Capital Stock

	2008		2007		2006	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**108,671,253**	**$2,178,004**	64,608,000	$1,216,952	64,608,000	$1,216,952
Subscriptions during the year						
ESOWN (Note 26)	**1,539,000**	**33,457**	45,150,000	981,522	–	–
Preferred stock	**1,300,000,000**	**26,601,155**	–	–	–	–
	1,301,539,000	**26,634,612**	45,150,000	981,522	–	–
Issuances during the year						
ESOWN	**(1,543,938)**	**(29,082)**	(1,086,747)	(20,470)	–	–
Preferred stock	**(1,300,000,000)**	**(26,601,155)**	–	–	–	–
	(1,301,543,938)	**(26,630,237)**	(1,086,747)	(20,470)	–	–
At end of year	**108,666,315**	**$2,182,379**	108,671,253	$2,178,004	64,608,000	$1,216,952

Subscriptions Receivable

	2008		2007		2006	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**109,758,000**	**$11,101,002**	64,608,000	$1,275,588	64,608,000	$1,665,575
Subscriptions during the year (Note 26)	**1,539,000**	**306,137**	45,150,000	9,646,167	–	–
Collections	**–**	**(1,635,657)**	–	(394,014)	–	(389,987)
Accretion (Note 26)	**–**	**667,876**	–	573,261	–	–
At end of year	**111,297,000**	**$10,439,358**	109,758,000	$11,101,002	64,608,000	$1,275,588

Dividends

On December 16, 2008, the BOD of the Parent Company approved and authorized the declaration of quarterly dividend of 8.25% p.a. or the equivalent of $560,727, out of the unrestricted retained earnings of the Parent Company as at December 31, 2007, to all stockholders of the Parent Company's Preferred Class "B" shares of record as at February 9, 2009. The dividend is payable on February 21, 2009 and the liability is presented as "Dividends payable" under "Accounts payable and accrued expenses" (see Note 13).

On May 7, 2008, the BOD of the Parent Company approved and authorized the declaration of cash dividends amounting to $0.00873 per share or the equivalent of $10,736,659, out of the unrestricted retained earnings of the Parent Company as at December 31, 2007, to all stockholders of record as at April 30, 2008.

On May 4, 2007, the BOD of the Parent Company approved and authorized the declaration of cash dividends amounting to $0.00882 per share or the equivalent of $10,436,286, out of the unrestricted retained earnings of the Parent Company as at December 31, 2006, to all stockholders of record as at April 30, 2007.

On May 11, 2006, the BOD approved and authorized the declaration of cash dividends amounting to $0.0066 per share or the equivalent of $7,880,090, out of the unappropriated retained earnings of the Parent Company as at December 31, 2005, to all stockholders of record as at April 30, 2006.

Treasury Stock

The movements in the treasury stock follow:

	2008		2007		2006	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**15,745,302**	**$970,291**	15,724,104	$964,638	16,181,216	$1,019,138
Acquisition during the year	**147,063**	**42,301**	21,198	5,653	233,180	58,183
Reissuance during the year	–	–	–	–	(690,292)	(112,683)
At end of year	**15,892,365**	**$1,012,592**	15,745,302	$970,291	15,724,104	$964,638

Retained Earnings

The appropriated retained earnings will be used to finance the Group's planned expansion and acquisition of other EMS companies.

A portion of the unappropriated retained earnings corresponding to undistributed earnings of subsidiaries, amounting to $16,960,371, $16,168,080 and $10,080,302 as at December 31, 2008, 2007 and 2006, respectively, and cost of treasury stock amounting to $1,012,592, $970,291 and $964,638 as at December 31, 2008, 2007 and 2006, respectively, is not available for dividend declaration.

18. Revenues from Sales and Services

	2008	2007 (As restated)	2006 (As restated)
Sale of goods	**$312,004,752**	$285,188,830	$279,546,314
Sale of services	**129,139,930**	136,918,526	115,455,616
	$441,144,682	$422,107,356	$395,001,930

19. Cost of Goods Sold and Services

	2008	2007 (As restated)	2006 (As restated)
Direct, indirect and other material-related costs (Note 6)	**$222,773,763**	$199,605,005	$200,447,592
Direct labor, salaries, wages and employee benefits (Note 25)	**97,895,700**	79,191,892	64,059,220
Depreciation and amortization (Note 8)	**15,175,848**	16,488,203	12,921,083
Impairment loss (Note 8)	**1,501,700**	–	–
Facilities costs and others (Note 21)	**33,021,059**	35,501,282	31,432,268
	$370,368,070	$330,786,382	$308,860,163

20. Operating Expenses

	2008	2007 (As restated)	2006 (As restated)
Salaries, wages and employee benefits (Note 25)	**$27,668,944**	$22,727,004	$20,921,786
Depreciation and amortization (Notes 8, 9 and 11)	**6,137,677**	7,026,297	6,988,706
Facilities costs and others (Note 21)	**20,292,654**	23,503,768	15,554,096
	$54,099,275	$53,257,069	$43,464,588

21. Facilities Costs and Others

	Cost of Goods Sold and Services			Operating Expenses		
	2008	2007 (As restated)	2006 (As restated)	**2008**	2007 (As restated)	2006 (As restated)
Variable overhead	**$12,347,007**	$14,474,437	$14,924,291	**$–**	$–	$–
Utilities	**9,035,267**	8,595,837	7,609,158	**662,805**	1,195,885	1,212,519
Outsourced activities (Note 28)	**4,896,894**	2,710,165	1,987,164	**5,069,310**	5,817,208	2,491,624
Repairs and maintenance	**3,998,284**	2,264,809	2,593,608	**915,777**	755,775	579,364
Government-related	**840,556**	275,855	259,448	**693,875**	880,596	1,015,970
Technology-related	**211,244**	101,645	101,687	**959,669**	1,303,055	1,769,831
Others	**1,691,807**	7,078,534	3,956,912	**11,991,218**	13,551,249	8,484,788
	$33,021,059	$35,501,282	$31,432,268	**$20,292,654**	$23,503,768	$15,554,096

22. Interest and Bank Charges

	2008	2007 (As restated)	2006 (As restated)
Bank loans (Notes 15 and 16)	**$3,027,546**	$4,853,689	$5,736,603
Interest on deposits from subscriptions	**93,085**	–	–
Bank and other financing charges	**472,978**	205,997	406,799
	$3,593,609	$5,059,686	$6,143,402

23. Interest Income

	2008	2007 (As restated)	2006 (As restated)
Bank balances and fixed deposits	**$1,042,355**	$1,292,360	$760,490
Accretion of Meralco receivable (Note 5)	**99,246**	163,159	–
	$1,141,601	$1,455,519	$760,490

24. **Income Taxes**

Parent Company
As discussed in Note 1, the Parent Company is registered with PEZA and is entitled to certain incentives, which include ITH. The Parent Company's entitlements to ITH under its current PEZA registrations have expirations beginning July 2008, for which extension has been applied for, up to December 2011 for the different registered activities. Upon the expiration of the ITH, the Parent Company will be subject to a five percent (5%) final tax on gross income earned after certain allowable deductions in lieu of payment of national and local taxes.

STHK
Hong Kong profits tax has been provided at the rate of 17.5% for the years ended December 31, 2008 and 2007 on the estimated assessable profit for the year.

SZSTE, SZSTT and STJX
In accordance with the "Income Tax Law of PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax (EIT) for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

SZSTE is subject to taxation at the statutory tax rate of 18% and 15% for the years ended December 31, 2008 and 2007, respectively, on its taxable income as reported in the financial statements of SZSTE prepared in accordance with the accounting regulations in the PRC.

SZSTT has been dormant for the financial year under review and thus there is no tax expense for SZSTT. Deferred income tax assets arising from the tax losses of SZSTT is not recognized in the consolidated financial statements due to uncertainty as to whether sufficient taxable income will be available against which the deferred income tax asset can be utilized.

STJX is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year, that is after all tax losses have been fully offset in accordance with the "Income Tax of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". SJTX is in its fourth profitable year, and hence is subject to taxation at the rate of 12.5% and 13.2% in 2008 and 2007, respectively, on the taxable income as reported in the financial statements of SJTX prepared in accordance with the accounting regulations in the PRC.

STPHIL
STPHIL is registered with the PEZA as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to 5% on gross income, as defined under R.A. No. 7916, in lieu of all local and national taxes.

The effective income tax of the Group is accounted for as follows:

	2008	2007 (As restated)	2006 (As restated)
Income (loss) before income tax	**($14,350,346)**	$38,461,923	$37,580,910
Tax on:			
Income from foreign subsidiaries	**$1,982,193**	$2,898,599	$2,712,065
Income subject to 5% gross income tax	**248,629**	243,122	302,860
Income subject to regular tax	**175,510**	23,591	23,333
Others	**–**	19,869	1,775
Deferred income tax expense (benefit)	**25,670**	(483,183)	(178,197)
Effective income tax	**$2,432,002**	$2,701,998	$2,861,836

The tax on income from foreign subsidiaries was derived by aggregating the effective income tax for each national jurisdiction.

Deferred income taxes of the Group relate to the tax effects of the following:

	2008	2007 (As restated)
Deferred income tax assets:		
Unutilized business loss	**$495,163**	$–
Allowance for inventory obsolescence	**215,342**	356,000
Capital allowance	**69,558**	–
Other general provisions	**29,874**	86,000
	809,937	442,000
Deferred income tax liabilities:		
Excess of net book value over tax written down value of fixed assets of subsidiaries	**(677,257)**	(118,000)
Revaluation of fixed assets of subsidiaries	**(104,172)**	(190,000)
Others	**(1,003)**	(80,825)
	(782,432)	(388,825)
Net deferred tax assets	**$27,505**	$53,175

Deferred income tax asset on the allowance for inventory obsolescence of VISTA and STJX amounting to $123,000 has not been recognized in 2008.

25. **Employee Benefits**

The Parent Company has a defined benefit pension plan covering substantially all of its employees, which requires contributions to be made to administered funds. The plan is administered by a local bank as trustee. The latest retirement valuation was made on December 31, 2008.

The following tables summarize the components of the net defined benefit expense recognized in the consolidated statement of income and the funded status and amounts recognized in the consolidated balance sheet for the plan:

Net defined benefit expense

	2008	2007	2006
Current service cost	**$922,933**	$819,824	$430,240
Interest cost on benefit obligation	**1,235,452**	954,227	821,430
Expected return on plan assets	**(1,290,911)**	(1,207,776)	(1,034,307)
Amortization of actuarial loss (gain)	–	116,567	(12,604)
Net defined benefit expense	**$867,474**	$682,842	$204,759

Net pension asset

	2008	2007
Plan assets	**$13,282,258**	$17,686,769
Benefit obligation	**4,589,104**	14,668,084
	8,693,154	3,018,685
Unrecognized net actuarial losses (gains)	**(6,239,724)**	302,219
Net pension asset	**$2,453,430**	$3,320,904

Movements in the net pension asset for the years ended December 31, 2008 and 2007 follow:

	2008	2007
At beginning of year	**$3,320,904**	$4,003,746
Net benefit expense	**(867,474)**	(682,842)
At end of year	**$2,453,430**	$3,320,904

The rollforward of the fair value of plan assets follows:

	2008	2007
At beginning of year	**$17,686,769**	$14,417,092
Expected return on plan assets	**1,290,911**	1,207,776
Benefits paid during the year	**(811,508)**	(480,515)
Actuarial gains (losses)	**(4,883,914)**	2,542,416
At end of year	**$13,282,258**	$17,686,769
Actual return on plan assets	**($3,593,003)**	$3,750,192

The Parent Company does not expect to contribute to the retirement fund in 2009 since the fair value of its plan assets exceeds the present value of its obligations.

The rollforward of the present value of obligation follows:

	2008	2007
At beginning of year	**$14,668,084**	$13,986,801
Interest cost on benefit obligation	**1,235,452**	954,227
Current service cost	**922,933**	819,824
Benefits paid during the year	**(811,508)**	(480,515)
Actuarial gain	**(11,425,857)**	(612,253)
At end of year	**$4,589,104**	$14,668,084

The rollforward of the unrecognized actuarial gains (losses) follows:

	2008	2007	2006
At beginning of year	**($302,219)**	($3,573,455)	$1,690,065
From plan assets	**(4,883,914)**	2,542,416	1,934,203
From pension obligation	**11,425,857**	612,253	(7,185,119)
Amortization of actuarial loss (gain)	**–**	116,567	(12,604)
At end of year	**$6,239,724**	($302,219)	($3,573,455)

The distribution of the plan assets at year-end follows:

	2008	2007
Government securities	**$4,027,857**	$5,409,658
Corporate bonds	**4,005,734**	3,368,025
Trust funds	**2,733,783**	3,301,810
Equities	**1,062,498**	2,868,675
Loans	**979,243**	1,007,325
Investment properties (Note 9)	**264,604**	304,603
Cash	**16,210**	126,902
Liabilities	**(37,710)**	(18,728)
Others	**230,039**	1,318,499
Total plan assets	**$13,282,258**	$17,686,769

The expected rates of return on the plan assets follow:

	2008	2007
Treasury bills	**10.10%**	6.00%
Equities	**11.00%**	22.00%
Corporate bonds	**8.90%**	8.00%
Others	**5.70%**	8.00%

The overall rates of return are based on the expected return within each asset category and on current asset allocations. The expected returns are developed in conjunction with external advisers and take into account both current market expectations of future returns, where available, and historical returns.

The principal assumptions used to determine pension benefits of the Parent Company are shown below:

	2008	2007
Discount rate	**14.90%**	8.24%
Expected rate of return on plan assets	**11.00%**	8.00%
Rate of salary increase	**4.00%-6.00%**	5.00%

The economic benefit available as a reduction in future contributions to the plan is assumed to be equal to the surplus in plan in 2008.

Amounts for the current and previous years follow:

	2008	2007	2006	2005
Plan assets	**$13,282,258**	$17,686,769	$14,417,092	$12,489,359
Defined benefit obligation	**4,589,104**	14,668,084	13,986,801	6,590,789
Surplus	**$8,693,154**	$3,018,685	$430,291	$5,898,570
Experience adjustments on plan assets	**$2,721,023**	$310,017	$927,046	$272,245
Experience adjustments on plan liabilities	**$4,720,473**	$2,885,346	$983,158	$684,778

Staff costs and other employee-related costs follow:

	2008	2007 (As restated)	2006 (As restated)
Wages and salaries	**$95,180,227**	$84,009,384	$65,857,744
Social security costs	**2,887,797**	2,881,419	1,902,929
Net defined benefit expense	**867,474**	682,842	204,759
Others	**26,629,146**	14,345,251	17,015,574
	$125,564,644	$101,918,896	$84,981,006

26. ESOWN

The Group has an ESOWN which is a privilege extended to its eligible managers and staff whereby the Parent Company allocates up to 10% of its authorized capital stock for subscription by said personnel under certain terms and conditions stipulated in the plan. Under the ESOWN, for as long as the Parent Company remains privately-owned, the subscription price of the shares granted shall be determined based on the multiples of net book value, earnings before income tax, depreciation and amortization and net income of 10 comparable Asian EMS companies as at the close of the calendar year prior to the grant. Once the Parent Company becomes publicly listed, the subscription price per share shall be based on market price with a discount to be determined by the Compensation Committee of the Board at the date of grant.

To subscribe, the grantee must be an eligible participant as defined in the plan. However, should the grantee cease to be employed by or connected with the Group before the full payment is made for the subscribed shares, the remaining balance becomes due and demandable upon separation, except for special circumstances as provided for by the ESOWN. In such instances, the grantee/heirs may be allowed to continue paying for the balance for the duration of the original payment period. If the grantee is separated for cause, shares not fully paid will be forfeited and whatever the amount the grantee has partially paid will be returned to him with no interest; if fully paid prior to separation, the shares shall be subject to the Right to Repurchase. If the grantee separates voluntarily, fully vested but not fully paid shares may be paid for in full upon separation subject to Right to Repurchase; and payments made for subscribed shares up to the time of separation, maybe converted into the equivalent number of shares based on the stipulated subscription price when the shares were availed of. If the grantee separates involuntarily, shares not fully paid for, whether fully vested or not, may be paid for in full within ninety (90) days from separation; and payments made for subscribed shares up to the time of separation may be converted into the equivalent number of shares based on the stipulated subscription price.

While the Parent Company remains privately-owned, it reserves the right to repurchase the shares at the original or stipulated subscription price.

A subscription is declared delinquent when the minimum payment required remains unpaid one month after the due date. Any cash dividend of a delinquent subscription will be applied to pay the subscription due. Stock dividends paid while the subscription is delinquent will only be released to the grantee when the delinquent account is paid. Sixty (60) days after the due date and account is still delinquent, the remaining shares are forfeited and the employee will not be eligible for future ESOWN grants.

On February 21, 2007, the Parent Company's BOD approved the granting of 45,150,000 shares of the Parent Company under the ESOWN at the subscription price of ₱12.50 to various employees of STEL and to the Parent Company's top performers and key personnel. In 2008, additional 1,539,000 were granted subject to the same terms as the shares subscribed in 2007. All the granted shares have been subscribed. The grantees will pay for the shares subscribed through installments over a period of 8 years, wherein an initial payment of 2.5% of the value of the subscribed shares is payable upon subscription. It shall serve as a down payment for the subscription. The subscribed shares have a holding period as follows: (a) 40% after one year from subscription date; (b) 30% after two years from subscription date; and (c) 30% after three years from subscription date. The actual grant date of the subscriptions was on October 15, 2007. The fair value, determined based on a private bank's valuation of the Parent Company to be used by a potential investor, was ₱14.98 per share. The difference between the fair value and the subscription price will be recognized as employee benefit expense over the required service period. In 2008, the management has approved a two-year moratorium on the scheduled payments due in 2008 and 2009 which resulted to an extension of the payment period from eight (8) to ten (10) years.

The employee benefit expense in 2008 and 2007 amounted to $1,484,498 and $396,962, respectively. The accretion recognized as increase in subscriptions receivable and additional paid-in capital presented in the consolidated statement of changes of equity in 2008 and 2007 amounted to $667,876 and $573,261, respectively (see Note 17).

27. **Segment Information**

The Group has only one reportable segment, with its strategic business units offering similar and related products and services and requiring the same technology and marketing strategies.

The following table presents revenues to external customers and certain noncurrent assets information regarding the Group's geographical segments:

	Revenues from External Customers			**Property, Plant and Equipment, Goodwill and Intangible Assets**	
	2008	2007 (As restated)	2006 (As restated)	**2008**	2007 (As restated)
Philippines	**$150,713,643**	$154,097,069	$123,273,648	**$30,259,839**	$36,759,758
USA	**102,342,473**	89,196,027	80,153,762	**781,319**	882,555
Europe	**92,802,896**	61,812,834	63,074,794	**–**	–
Asia	**75,344,593**	79,360,255	64,662,005	**96,196,528**	99,887,903
Japan	**19,941,077**	37,641,171	63,837,721	**28,035**	37,646
	$441,144,682	$422,107,356	$395,001,930	**$127,265,721**	$137,567,862

Revenues are attributed to countries on the basis of the customer's location. Revenues from one customer of the Group represent $73,077,114 or 17%, $78,314,695 or 19% and $64,083,950 or 16% of the Group's total revenues for the years ended December 31, 2008, 2007 and 2006, respectively.

28. **Lease Commitments**

The Group entered into operating lease agreements as follows:

Parent Company
The Parent Company leases its premises at Laguna International Industrial Park (LIIP). The lease agreement was renewed in April 30, 2008 and was for a one-year period up to March 31, 2009. The monthly rental on this operating lease agreements amounted to $34,865.

On December 13, 2005, the Parent Company entered into a lease contract with Technopark Land, Inc. (TLI), an affiliate, for the lease of parcels of land situated at Special Export Processing Zone, Laguna Technopark, Biñan, Laguna. The lease shall be for a three-year period commencing on December 31, 2005 up to December 31, 2008. On December 23, 2008, the Parent Company extended the lease contract for another three (3) years commencing from December 31, 2008 up to December 31, 2011. The lease contract is renewable at the option of TLI upon such terms and conditions and upon such rental rates as the parties may agree upon at the time of the renewal, taking into consideration comparable rental rates for similar properties prevailing at the time of renewal. The Parent Company shall advise TLI in writing at least sixty (60) days before the expiration of the term of its desire to renew the contract, which TLI may consider upon such terms and conditions as may be agreed upon between the parties. The Parent Company shall pay, as monthly rental for and in consideration of the use of the leased premises, the amount of $1,407, exclusive of value added tax.

On August 15, 2007, the Parent Company entered into an operating lease agreement with Panorama Property Ventures, Inc. (Panorama) for the lease of office and factory warehouse located at Special Export Processing Zone, Laguna Technopark, Biñan, Laguna. The lease shall be for a five-year period commencing on August 15, 2007 up to July 14, 2012 renewable at the option of the Parent Company subject to written conformity and consent of Panorama by giving notice at least sixty (60) days prior to the expiration of the contract. The Parent Company shall pay every six (6) months based on the due dates set forth in the contract without the necessity of any formal demand. On June 30, 2008, the Parent Company pre-terminated its operating lease agreement which comprised approximately 3,900 square meters of office and factory warehouse space with Panorama.

On March 22, 2006, the Parent Company entered into three-year lease agreement with IBM Philippines, Inc. for use of various computer equipment items commencing from August 2006 to August 2009. The lease includes a clause that will provide an option to the Parent Company to: (a) return the equipment to lessor; (b) extend the lease; or (c) purchase the equipment items from the lessor at fair market values. The lease agreement provides monthly rental payments of $17,141.

The Parent Company also leases condominium units for the occupancy of its officers and several managers. The terms are usually for two (2) to four (4) months and are normally renewable under conditions specified in separate lease contracts.

The Parent Company leases two office condominium units where some of its facilities are located under noncancellable operating leases with Cyberzone Properties Inc. The lease agreements are for a three-year period up to July 2008 and August 2008. On August 15, 2008, the lease agreement was extended for another three (3) years commencing September 1, 2008 to August 31, 2011. The lease contains provisions including but not limited to escalation rate of 7% per year and early termination penalties. The lease provides quarterly rental payments of $26,364 on first year of the lease term.

IMI Japan
On December 1, 2006, IMI Japan entered into two-year contract with Kaneshichi Administration for lease of its office premises commencing on December 1, 2006, whereby it is committed to pay a monthly rental of $6,406. The lease agreement provides for automatic renewal of the lease contract for another two (2) years unless prior notice of termination is given to the lessor.

IMI USA
On July 17, 2008, IMI USA entered into seven-year contract with Roy G.G. Harris and Patricia S. Harris for lease of its office premises commencing on August 2008 to November 2014. The lease contains provisions including but not limited to escalation rate of 3% per year and early termination penalties. The lease provides monthly rental payments of $13,464 on first year of the lease term.

IMI Singapore and STEL
IMI Singapore and STEL Group has various operating lease agreements in respect of office premises and land. These noncancellable leases have remaining noncancellable lease terms of between 1 to 50 years. Most leases contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

The aggregate rent expense of the Group included under "Outsourced activities" account recognized on these operating lease agreements for the years ended December 31, 2008, 2007 and 2006 amounted to $2,881,928, $2,530,890 and $1,761,351, respectively (see Note 21). Deposits made under these operating lease agreements are intended to be applied against the remaining lease payments.

These operating lease agreements include clauses to enable upward revision with the rental charges on the agreed dates. Future minimum rentals payable under noncancellable operating leases as at December 31, 2008 and 2007 follows:

	2008	2007 (As restated)
Within one year	**$1,062,746**	$1,399,836
After one year but not more than five years	**2,140,567**	2,583,589
More than five years	**316,800**	411,000
	$3,520,113	$4,394,425

29. Related Party Transactions

<u>BPI</u>
The Group has the following transactions with BPI and BPI Family Bank, affiliates through AC:

a. The Group maintains savings and current accounts and short-term deposits, the balances of which follow (see Note 4):

	2008	2007
Savings and current accounts	**$656,710**	$359,676
Short-term deposits	**22,925,589**	1,050,782
	$23,582,299	$1,410,458

b. The Group has outstanding housing and automobile financing loans amounting to $17,535 and $19,631, as at December 31, 2008 and 2007, respectively, included in “Employee-related payables” under “Accounts payable and accrued expenses” (see Note 13). The outstanding housing and automobile financing loan arises from the differences in the timing of remittances by the Parent Company to BPI and the period of withholding from employee salaries and wages.

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

	2008	2007 (As restated)	2006 (As restated)
Short-term employee benefits	**$3,754,539**	$3,203,563	$2,709,648
Post-employment benefits	**308,950**	293,371	322,552
Share-based payments	**482,301**	164,811	–
	$4,545,790	$3,661,745	$3,032,200

30. Financial Instruments

The following table sets forth the comparison by category of the carrying values and fair values of the Group’s financial assets and liabilities recognized as at December 31, 2008 and 2007. There are no material unrecognized financial assets and liabilities as at December 31, 2008 and 2007.

	Carrying Value		**Fair Value**	
	December 31, 2008	December 31, 2007 (As restated)	**December 31, 2008**	December 31, 2007 (As restated)
Financial Assets				
Financial assets at FVPL				
Derivative assets	**$–**	$2,042,019	**$–**	$2,042,019
Loans and receivables				
Cash and cash equivalents	**57,604,535**	28,288,830	**57,604,535**	28,288,830
Trade	**66,040,545**	73,896,783	**66,040,545**	73,896,783
Nontrade	**5,905,691**	3,804,412	**5,905,691**	3,804,412
Receivable from employees	**2,062,547**	1,467,486	**2,062,547**	1,467,486
Receivable from Meralco - current	**554,612**	1,018,286	**554,612**	1,018,286
Others	**363,840**	1,663,487	**363,840**	1,663,487
Noncurrent receivables	**2,922,015**	5,230,875	**3,016,221**	5,271,349
Miscellaneous deposits	**924,564**	976,854	**924,564**	976,854
	136,378,349	116,347,013	**136,472,555**	116,387,487
AFS financial assets	**265,046**	360,465	**265,046**	360,465
Total Financial Assets	**$136,643,395**	$118,749,497	**$136,737,601**	$118,789,971

(Forward)

	Carrying Value		Fair Value	
	December 31, 2008	December 31, 2007 (As restated)	**December 31, 2008**	December 31, 2007 (As restated)
Financial Liabilities				
Other financial liabilities				
Accounts payable and accrued expenses				
Trade	**$40,906,065**	$43,114,571	**$40,906,065**	$43,114,571
Accrued expenses	**17,372,131**	16,664,168	**17,372,131**	16,664,168
Accrued payroll	**2,053,852**	2,330,382	**2,053,852**	2,330,382
Employee-related payables	**698,262**	906,024	**698,262**	906,024
Accrued interest payable	**567,063**	635,506	**567,063**	635,506
Dividends payable	**560,727**	–	**560,727**	–
Nontrade	**348,891**	4,868,922	**348,891**	4,868,922
Others	**4,651,964**	2,422,506	**4,651,964**	2,422,506
Loans payable	**17,110,107**	9,007,819	**17,110,107**	9,007,819
Long-term debt	**54,000,000**	62,000,000	**54,131,099**	62,020,079
Total Financial Liabilities	**$138,269,062**	$141,949,898	**$138,400,161**	$141,969,977

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

All loans and receivables except noncurrent receivables and miscellaneous deposits - Carrying amounts approximate fair values due to the relative short-term maturities of these investments.

Derivative assets - The fair value was derived from the mark-to-market valuations as provided by the Group's counterparty banks.

Noncurrent receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used range from 9.68% to 10.06% in 2008 and 7.69% to 7.86% in 2007.

Miscellaneous deposits - Carrying amounts approximate fair values since the fair values of certain deposits cannot be reasonably and reliably estimated.

AFS financial assets - These pertain to investments in club shares. Fair value is based on quoted prices.

Accounts payable and accrued expenses and loans payable - The fair values of accounts payable and accrued expenses and short-term debt approximate the carrying amounts due to the short-term nature of these transactions.

Long-term debt - The fair value of long-term debt (fixed rate and variable rate loans repriced on a semi-annual basis) are estimated using the discounted cash flow methodology using the current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used are 2.50% and 5.35% in 2008 and 2007, respectively.

For variable rate loans that reprice every three months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

31. **Financial Risk Management Objectives and Policies**

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

The main purpose of the Group's financial instruments is to fund its operational and capital expenditures. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The Group also enters into derivative transactions including structured currency options 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 obtains additional financing through bank borrowings. 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 at December 31, 2008 and 2007. There is no other impact on the Group's equity other than those already affecting the income.

Increase/decrease in basis points	Effect on profit before tax	
	2008	2007
+100	**($540,000)**	($620,000)
-100	**540,000**	620,000

The following table shows the information about the Group's financial instruments as at December 31, 2008 and 2007 that are exposed to interest rate risks and presented by maturity profile.

	Long-Term Debt LIBOR Plus margin of 0.75% to 0.80%	
	2008	2007
Within one year	**$8,000,000**	$8,000,000
1-2 years	**8,000,000**	8,000,000
2-3 years	**8,000,000**	8,000,000
3-4 years	**30,000,000**	8,000,000
4-5 years	–	30,000,000
	$54,000,000	$62,000,000

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

Surplus funds are placed with reputable banks.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

2008

	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Accounts payable and accrued expenses					
Trade payables	**$40,906,065**	**$–**	**$–**	**$–**	**$40,906,065**
Accrued expenses	**17,372,131**	**–**	**–**	**–**	**17,372,131**
Accrued payroll	**2,053,852**	**–**	**–**	**–**	**2,053,852**
Employee-related payables	**698,262**	**–**	**–**	**–**	**698,262**
Accrued interest payable	**567,063**	**–**	**–**	**–**	**567,063**
Dividends payable	**560,727**	**–**	**–**	**–**	**560,727**
Nontrade payables	**348,891**	**–**	**–**	**–**	**348,891**
Others	**4,651,964**	**–**	**–**	**–**	**4,651,964**
Loans payable	**–**	**17,628,768**	**–**	**–**	**17,628,768**
Long-term debt	**–**	**–**	**10,106,069**	**49,757,862**	**59,863,931**
	$67,158,955	**$17,628,768**	**$10,106,069**	**$49,757,862**	**$144,651,654**

2007 (As restated)

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Accounts payable and accrued expenses					
Trade payables	$43,114,571	$–	$–	$–	$43,114,571
Accrued expenses	16,664,168	–	–	–	16,664,168
Accrued payroll	2,330,382	–	–	–	2,330,382
Employee-related payables	906,024	–	–	–	906,024
Accrued interest payable	635,506	–	–	–	635,506
Dividends payable	–	–	–	–	–
Nontrade payables	4,868,922	–	–	–	4,868,922
Others	2,422,506	–	–	–	2,422,506
Loans payable	–	9,491,206	–	–	9,491,206
Long-term debt	–	–	10,915,094	61,485,450	72,400,544
	$70,942,079	$9,491,206	$10,915,094	$61,485,450	$152,833,829

Credit Lines

The Group has credit lines with different financing institutions as at December 31, 2008 and 2007 as follow:

2008

Financial Institutions	**Credit Limit**	**Available Credit Line**
Local:		
U.S. Dollar	**$36,000,000**	**$28,000,000**
Philippine Peso	**₱1,060,000,000**	**₱1,060,000,000**
Foreign:		
U.S. Dollar	**$33,900,000**	**$33,199,721**
Singapore Dollar	**SGD31,183,827**	**SGD17,167,417**
Hong Kong Dollar	**HKD38,152,443**	**HKD38,152,443**

2007

Financial Institutions	Credit Limit	Available Credit Line
Local:		
U.S. Dollar	$16,000,000	$16,000,000
Philippine Peso	₱1,160,000,000	₱1,160,000,000
Foreign:		
U.S. Dollar	$39,071,297	$35,507,241
Singapore Dollar	SGD33,911,150	SGD21,606,586

Credit risk

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

Cash terms, advance payments and letters of credit are required for customers of lower credit standing.

With respect to credit risk arising from other financial assets of the Group, which comprises cash and cash equivalents and AFS financial assets, the Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of the instruments.

The table below shows the maximum exposure to credit risk for the components of the consolidated balance sheets.

	2008	2007 (As restated)
Cash and cash equivalents	**$57,604,535**	$28,288,830
Derivative assets	**–**	2,042,019
Loans and receivables		
Trade	**66,040,545**	73,896,783
Nontrade	**5,905,691**	3,804,412
Receivables from employees	**2,062,547**	1,467,486
Receivable from Meralco - current	**554,612**	1,018,286
Others	**363,840**	1,663,487
Noncurrent receivables	**2,922,015**	5,230,875
Miscellaneous deposits	**924,564**	976,854
AFS financial assets	**265,046**	360,465
Total credit risk exposure	**$136,643,395**	$118,749,497

The Group has 30% and 27% of trade receivables relating to three (3) major customers as at December 31, 2008 and 2007, respectively.

As at December 31, 2008 and 2007, the analysis of loans and receivables, noncurrent receivables and miscellaneous deposit follow:

2008

	Total	**Neither past due nor impaired**	**Past due but not impaired**					**Specifically impaired**
			<30 days	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**	
Trade	**$66,295,146**	**$61,711,292**	**$2,872,671**	**$1,012,534**	**$5,126**	**$–**	**$438,923**	**$254,600**
Nontrade	**6,344,747**	**4,188,218**	**427,040**	**69,264**	**8,312**	**579,345**	**633,511**	**439,057**
Receivables from employees	**2,062,547**	**2,062,547**	**–**	**–**	**–**	**–**	**–**	**–**
Receivable from Meralco	**554,612**	**554,612**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**363,840**	**42,261**	**81,019**	**88,163**	**48,023**	**35,122**	**69,252**	**–**
	$75,620,892	**$68,558,930**	**$3,380,730**	**$1,169,961**	**$61,461**	**$614,467**	**$1,141,686**	**$693,657**
Noncurrent receivables	**$2,922,015**	**$2,922,015**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**
Miscellaneous deposits	**$924,564**	**$924,564**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**

2007 (As restated)

	Total	Neither past due nor impaired	Past due but not impaired					Specifically impaired
			<30 days	30-60 days	60-90 days	90-120 days	>120 days	
Trade	$74,692,341	$26,507,249	$40,051,087	$141,077	$5,368,239	$1,804,010	$25,121	$795,558
Nontrade	3,899,306	582,220	124,303	141,325	323,502	2,384,067	248,995	94,894
Receivables from employees	1,467,486	1,090,451	7,559	68,955	52,936	72,537	175,048	–
Receivable from Meralco	1,018,286	1,018,286	–	–	–	–	–	–
Others	1,663,487	52,212	1,341,098	30,004	42,234	71,504	126,435	–
	$82,740,906	$29,250,418	$41,524,047	$381,361	$5,786,911	$4,332,118	$575,599	$890,452
Noncurrent receivables	$5,230,875	$5,230,875	$–	$–	$–	$–	$–	$–
Miscellaneous deposits	$976,854	$976,854	$–	$–	$–	$–	$–	$–

The following table summarizes the credit quality of the Group's financial assets as at December 31, 2008 and 2007:

2008

	Neither past due nor impaired				Past due or individually impaired	Total
	Minimal risk	**Average risk**	**Fairly high risk**	**High risk**		
Cash and cash equivalents	**$57,604,535**	**$–**	**$–**	**$–**	**$–**	**$57,604,535**
Loans and receivables						
Trade	**18,008,808**	**27,465,969**	**16,167,232**	**69,283**	**4,583,854**	**66,295,146**
Nontrade	**365,742**	**3,810,589**	**11,887**	**–**	**2,156,529**	**6,344,747**
Receivable from employees	**2,062,547**	**–**	**–**	**–**	**–**	**2,062,547**
Receivable from Meralco	**554,612**	**–**	**–**	**–**	**–**	**554,612**
Others	**42,261**	**–**	**–**	**–**	**321,579**	**363,840**
Noncurrent receivables	**2,922,015**	**–**	**–**	**–**	**–**	**2,922,015**
Miscellaneous deposits	**924,564**	**–**	**–**	**–**	**–**	**924,564**
AFS financial assets	**265,046**	**–**	**–**	**–**	**–**	**265,046**
	$82,750,130	**$31,276,558**	**$16,179,119**	**$69,283**	**$7,061,962**	**$137,337,052**

2007 (As restated)

	Neither past due nor impaired				Past due or individually impaired	Total
	Minimal risk	Average risk	Fairly high risk	High risk		
Cash and cash equivalents	$28,288,830	$–	$–	$–	$–	$28,288,830
Derivative assets	2,042,019	–	–	–	–	2,042,019
Loans and receivables						
Trade	14,451,172	11,755,441	300,636	–	48,185,092	74,692,341
Nontrade	89,628	443,207	43,223	6,162	3,317,086	3,899,306
Receivable from employees	–	1,090,451	–	–	377,035	1,467,486
Receivable from Meralco	1,018,286	–	–	–	–	1,018,286
Others	3,434		–	48,778	1,611,275	1,663,487
Noncurrent receivables	5,230,875	–	–	–	–	5,230,875
Miscellaneous deposits	976,854	–	–	–	–	976,854
AFS financial assets	360,465	–	–	–	–	360,465
	$52,461,563	$13,289,099	$343,859	$54,940	$53,490,488	$119,639,949

The Group classifies credit quality as follows:

Minimal Risk - credit can proceed with favorable credit terms; can offer term of 15 to maximum of 45 days.

Average Risk - credit can proceed normally; can extend term of 15 to maximum of 30 days.

Fairly High Risk - credit could be extended under a confirmed and irrevocable Letters of Credit at sight or usance, and subject to semi-annual review for possible upgrade.

High Risk - transaction should be under advance payment or confirmed and irrevocable Stand-By Letters of credit; subject to quarterly review for possible upgrade after one year.

Foreign currency risk
The Group's foreign exchange risk results primarily from movements of U.S. Dollar against other currencies. As a result of significant operating expenses in Philippine Peso, the Group's consolidated statement of income can be affected significantly by movements in the U.S. Dollar. The Group entered into structured currency options to hedge its risks associated with foreign currency fluctuations.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases other than the Group's functional currency. Approximately 19% and 12% of the Group's sales for the years ended December 31, 2008 and 2007, respectively, and 73% and 72% of costs for the years ended December 31, 2008 and 2007, respectively, are denominated in other than the Group's functional currency.

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

Information on Group's foreign currency-denominated monetary assets and liabilities and their U.S. Dollar equivalents follows:

Philippine Peso (₱)

	2008		2007 (As restated)	
	In U.S. Dollar	**In Philippine Peso**	In U.S. Dollar	In Philippine Peso
Cash and cash equivalents	**$16,469,632**	**₱782,636,910**	$4,646,155	₱191,793,278
Loans and receivables	**2,058,033**	**97,797,742**	844,650	34,867,152
AFS financial assets	**265,046**	**12,594,986**	360,465	14,879,995
Noncurrent receivables	**2,922,015**	**138,854,153**	5,230,875	215,930,520
Miscellaneous deposits	**924,564**	**43,935,281**	976,854	40,324,533
Accounts payable and accrued expenses	**(11,221,693)**	**(533,254,828)**	(11,538,539)	(476,310,890)
Net foreign currency-denominated assets	**$11,417,597**	**₱542,564,244**	$520,460	₱21,484,588

Singapore Dollar (SGD)

	2008		2007 (As restated)	
	In U.S. Dollar	**In Singapore Dollar**	In U.S. Dollar	In Singapore Dollar
Cash and cash equivalents	**$838,489**	**SGD1,216,480**	$53,622	SGD77,725
Loans and receivables	**41,610**	**60,367**	256,107	371,227
Accounts payable and accrued expenses	**(680,295)**	**(986,972)**	(2,456,148)	(3,560,186)
Loans payable	**(4,790,107)**	**(6,949,487)**	(9,007,819)	(13,056,834)
Net foreign currency-denominated liabilities	**($4,590,303)**	**(SGD6,659,612)**	($11,154,238)	(SGD16,168,068)

Euro (€)

	2008		2007 (As restated)	
	In U.S. Dollar	**In Euro**	In U.S. Dollar	In Euro
Cash and cash equivalents	**$116,310**	**€83,370**	$1,538,591	€1,051,884
Loans and receivables	**116,887**	**83,784**	25,816	17,650
Accounts payable and accrued expenses	**(1,004,949)**	**(720,342)**	(1,015,607)	(694,337)
Net foreign currency-denominated assets (liabilities)	**($771,752)**	**(€553,188)**	$548,800	€375,197

Japanese Yen (¥)

	2008		2007 (As restated)	
	In U.S. Dollar	**In Japanese Yen**	In U.S. Dollar	In Japanese Yen
Cash and cash equivalents	**$492,884**	**¥44,823,969**	$1,199,640	¥136,384,755
Loans and receivables	**1,016,232**	**92,418,322**	385,830	43,864,310
Accounts payable and accrued expenses	**(881,616)**	**(80,176,042)**	(3,469,302)	(394,418,117)
Net foreign currency-denominated assets (liabilities)	**$627,500**	**¥57,066,249**	($1,883,832)	(¥214,169,052)

Renminbi (RMB)

	2008		2007 (As restated)	
	In U.S. Dollar	**In Renminbi**	In U.S. Dollar	In Renminbi
Cash and cash equivalents	**$2,410,383**	**RMB16,507,549**	$2,766,209	RMB20,241,690
Loans and receivables	**19,402,943**	**132,881,407**	17,169,509	125,637,607
Accounts payable and accrued expenses	**(15,053,845)**	**(103,096,530)**	(13,246,534)	(96,931,301)
Net foreign currency-denominated assets	**$6,759,481**	**RMB46,292,426**	$6,689,184	RMB48,947,996

Hong Kong Dollar (HK$)

	2008		2007 (As restated)	
	In U.S. Dollar	**In Hong Kong Dollar**	In U.S. Dollar	In Hong Kong Dollar
Cash and cash equivalents	**$56,847**	**HK$440,544**	$–	HK$–
Loans and receivables	**167,825**	**1,300,593**	–	–
Accounts payable and accrued expenses	**(1,556,222)**	**(12,060,279)**	–	–
Net foreign currency-denominated liabilities	**($1,331,550)**	**(HK$10,319,142)**	$–	HK$–

Swiss Franc (₣)

	2008		2007 (As restated)	
	In U.S. Dollar	**In Swiss Franc**	In U.S. Dollar	In Swiss Franc
Accounts payable and accrued expenses	**($11,494)**	**(₣12,500)**	$–	₣–

UK Pound (£)

	2008		2007 (As restated)	
	In U.S. Dollar	**In UK Pound**	In U.S. Dollar	In UK Pound
Loans and receivables	**$213**	**£144**	$–	£–

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 at December 31, 2008 and 2007. There is no other impact on the Group's equity other than those already affecting the 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.

2008

Currency	**Increase/decrease in U.S. Dollar rate**	**Effect on profit before tax**
PHP	**+3%**	**(342,528)**
	-3%	**342,528**
SGD	**+2%**	**91,806**
	-2%	**(91,806)**
JPY	**+4%**	**(25,100)**
	-4%	**25,100**
EUR	**+3%**	**23,153**
	-3%	**(23,153)**
RMB	**+1%**	**(67,595)**
	-1%	**67,595**
CHF	**+4%**	**460**
	-4%	**(460)**
GBP	**+3%**	**(6)**
	-3%	**6**

2007 (As restated)

Currency	Increase/decrease in U.S. Dollar rate	Effect on profit before tax
PHP	+2%	($10,409)
	-2%	10,409
SGD	+1%	111,542
	-1%	(111,542)
JPY	+2%	37,677
	-2%	(37,677)
EUR	+2%	(10,976)
	-2%	10,976
RMB	+1%	(66,892)
	-1%	66,892

Freestanding derivatives
The Group entered into structured currency options that are not designated as accounting hedges. Changes in the fair values of derivative instruments not designated as hedges are recognized immediately in the consolidated statement of income under "Foreign exchange gains (losses)". As at December 31, 2007, the outstanding notional amount of the structured currency options amounted to $11,115,675 with mark-to-market gains recognized in the consolidated statement of income and presented as derivative assets in the consolidated balance sheet amounting to $2,042,019 arising from transactions with the following banks:

Banks	Fair values
Citibank	$1,179,166
Deutsche Bank	612,853
Goldman Sachs	250,000
	$2,042,019

In 2008, the Group entered into additional structured currency options. The weakening of the peso during the second quarter of 2008 resulted to an unfavorable position on the Group's derivative transactions. In May 2008, the BOD approved the unwinding of four major derivative contracts and the Group incurred unwinding cost amounting to $33,360,500. Outstanding liability on unwinding cost amounted to $2,295,500 shown as part of "Other accounts payable and accrued expenses" (see Note 13).

The remaining outstanding structured currency options after the unwinding program have maturity dates of up to November 2008.

Fair Value Changes on Derivatives

The net movements in fair value changes of the Group's derivative instruments as at December 31, 2008 and 2007 follow:

	2008	2007
Balance at beginning of year	**$2,042,019**	$–
Net changes in fair value of derivatives not designated as accounting hedges	**(33,999,544)**	3,880,781
	(31,957,525)	3,880,781
Fair value of settled instruments	**31,957,525**	(1,838,762)
	$–	$2,042,019

The net changes in fair value of settled derivative instruments not designated as accounting hedges are recognized in the consolidated statements of income as "Foreign exchange gains (losses)". The fair value of settled instruments includes the unwinding cost of $33,360,500 for the year ended December 31, 2008.

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.

The Group is not subject to externally imposed capital requirements.

The Group monitors capital using a gearing ratio of debt to equity and net debt to equity. Debt consists of loans payable and long-term debt. Net debt includes loans payable and long-term debt less cash equivalents. The Group considers as capital the equity attributable to the equity holders of the Parent Company.

	2008	2007 (As restated)
Loans payable	**$17,110,107**	$9,007,819
Long-term debt	**54,000,000**	62,000,000
Total debt	**71,110,107**	71,007,819
Less: Cash and cash equivalents	**(57,604,535)**	(28,288,830)
Net debt	**$13,505,572**	$42,718,989
Equity attributable to equity holders of the Parent Company	**$159,630,930**	$158,152,202
Debt to equity ratio	**45%**	45%
Net debt to equity ratio	**8%**	27%

32. **Contingencies**

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable.

In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37 is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

Under certain consignment contracts with certain customers, the Group receives materials and machineries deemed necessary to enable the Group to schedule production efficiently. These, however, are not included in the inventory and property, plant and equipment accounts.