Unaudited Interim Condensed Consolidated Financial Statements As of June 30, 2009

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Ernst & Young

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SEC Accreditation No. 0012-FR-1

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

We have reviewed the accompanying unaudited interim consolidated balance sheet of Integrated Microelectronics, Inc. and Subsidiaries as of June 30, 2009 and the related unaudited interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month periods ended June 30, 2009 and 2008 and explanatory notes. Management is responsible for the preparation and fair presentation of these unaudited interim condensed consolidated financial statements in accordance with Philippine Accounting Standards 34, "Interim Financial Reporting" (PAS 34). Our responsibility is to express a conclusion on these unaudited interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with PAS 34.

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We have audited the December 31, 2008 consolidated balance sheet, presented for comparative purposes, in accordance with Philippine Standards on Auditing, on which we expressed an unqualified opinion in our report dated March 26, 2009.

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PTR No. 1566401, January 5, 2009, Makati City

September 24, 2009

INTEGRATED MICROELECTRONICS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET

AS OF JUNE 30, 2009

(With Comparative Audited Figures as of December 31, 2008)

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 20)	**$65,873,471**	$57,604,535
Loans and receivables - net (Notes 5 and 20)	**74,354,324**	74,927,235
Inventories (Note 6)	**26,485,318**	35,484,994
Other current assets	**2,866,687**	3,412,706
Total Current Assets	**169,579,800**	171,429,470
Noncurrent Assets		
Noncurrent receivables (Notes 5 and 20)	**2,159,874**	2,922,015
Property, plant and equipment - net (Note 7)	**67,160,226**	75,907,230
Goodwill (Note 8)	**46,225,800**	46,225,800
Intangible assets (Note 9)	**3,785,692**	5,132,691
Net pension asset	**2,505,655**	2,453,430
Available-for-sale financial assets (Notes 19 and 20)	**266,466**	265,046
Deferred income tax assets (Note 15)	**108,517**	27,505
Other noncurrent assets	**2,227,255**	2,594,633
Total Noncurrent Assets	**124,439,485**	135,528,350
	$294,019,285	$306,957,820
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 10, 18 and 20)	**$64,599,207**	$69,787,272
Provisions (Notes 11 and 20)	**138,206**	6,013,238
Loans payable (Notes 12 and 20)	**15,336,180**	17,110,107
Current portion of long-term debt (Notes 13 and 20)	**8,000,000**	8,000,000
Total Current Liabilities	**88,073,593**	100,910,617
Noncurrent Liabilities		
Long-term debt (Notes 13 and 20)	**42,000,000**	46,000,000
Total Liabilities	**130,073,593**	146,910,617

(Forward)

	2009	2008
Equity (Note 14)		
Equity attributable to equity holders of the Parent Company		
Capital stock - common	**$20,259,637**	$20,253,054
Capital stock - preferred	**26,601,155**	26,601,155
Subscribed capital stock	**2,175,796**	2,182,379
Additional paid-in capital	**30,145,986**	30,213,723
Subscriptions receivable	**(9,941,685)**	(10,439,358)
Retained earnings:		
Appropriated for expansion	**60,660,981**	60,660,981
Unappropriated	**34,523,849**	31,091,806
Treasury stock	**(1,012,592)**	(1,012,592)
Reserve for fluctuation on available-for-sale financial assets	**28,729**	23,979
Other reserves	**65,051**	55,803
	163,506,907	159,630,930
Minority interests in a consolidated subsidiary	**438,785**	416,273
Total Equity	**163,945,692**	160,047,203
	$294,019,285	$306,957,820

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

INTEGRATED MICROELECTRONICS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008

	2009	2008
REVENUES FROM SALES AND SERVICES (Note 17)	**$169,369,602**	$230,132,949
COST OF GOODS SOLD AND SERVICES	**151,561,286**	189,853,828
GROSS PROFIT	**17,808,316**	40,279,121
OPERATING EXPENSES	**(17,378,860)**	(23,218,707)
OTHERS - Net		
Interest and bank charges	**(1,120,501)**	(1,964,111)
Interest income	**382,300**	568,765
Foreign exchange gains (losses)	**165,831**	(32,230,878)
Miscellaneous (Notes 5, 6 and 7)	**7,519,149**	728,658
INCOME (LOSS) BEFORE INCOME TAX	**7,376,235**	(15,837,152)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 15)		
Current	**1,439,196**	1,356,820
Deferred	**(81,012)**	(86,977)
	1,358,184	1,269,843
NET INCOME (LOSS)	**6,018,051**	(17,106,995)
OTHER COMPREHENSIVE INCOME (LOSS)		
Fair value changes on available-for-sale financial assets	**4,750**	(21,269)
TOTAL COMPREHENSIVE INCOME (LOSS)	**$6,022,801**	($17,128,264)
Attributable to:		
Equity holders of the Parent Company	**$5,991,041**	($17,161,838)
Minority interest	**31,760**	33,574
Net income (loss)	**$6,022,801**	($17,128,264)

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

INTEGRATED MICROELECTRONICS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008

	Attributable to Equity Holders of the Parent Company											
	Capital Stock - Common (Note 14)	**Capital Stock - Preferred** (Note 14)	**Subscribed Capital Stock** (Note 14)	**Additional Paid-in Capital**	**Subscriptions Receivable** (Note 14)	**Retained Earnings Appropriated for Expansion** (Note 14)	**Retained Earnings Unappropriated** (Note 14)	**Treasury Stock** (Note 14)	**Reserve for Fluctuation on Available-for-Sale Financial Assets**	**Other Reserves**	**Attributable to Minority Interest**	**Total**
Balances at January 1, 2009	**$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**
Shares issued during the period	**6,583**	–	**(6,583)**	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 16)	–	–	–	**301,616**	–	–	–	–	–	–	–	**301,616**
Collection on subscriptions	–	–	–	–	**128,320**	–	–	–	–	–	–	**128,320**
Accretion of subscription receivable	–	–	–	**(369,353)**	**369,353**	–	–	–	–	–	–	–
Dilution of minority	–	–	–	–	–	–	–	–	–	**9,248**	**(9,248)**	–
Dividends (Note 14)	–	–	–	–	–	–	**(2,554,248)**	–	–	–	–	**(2,554,248)**
	20,259,637	**26,601,155**	**2,175,796**	**30,145,986**	**(9,941,685)**	**60,660,981**	**28,537,558**	**(1,012,592)**	**23,979**	**65,051**	**407,025**	**157,922,891**
Net income	–	–	–	–	–	–	**5,986,291**	–	–	–	**31,760**	**6,018,051**
Other comprehensive income	–	–	–	–	–	–	–	–	**4,750**	–	–	**4,750**
Total comprehensive income	–	–	–	–	–	–	**5,986,291**	–	**4,750**	–	**31,760**	**6,022,801**
Balances at June 30, 2009	**$20,259,637**	**$26,601,155**	**$2,175,796**	**$30,145,986**	**($9,941,685)**	**$60,660,981**	**$34,523,849**	**($1,012,592)**	**$28,729**	**$65,051**	**$438,785**	**$163,945,692**

	Attributable to Equity Holders of the Parent Company											
	Capital Stock - Common (Note 14)	Capital Stock - Preferred (Note 14)	Subscribed Capital Stock (Note 14)	Additional Paid-in Capital	Subscriptions Receivable (Note 14)	Retained Earnings Appropriated for Expansion (Note 14)	Retained Earnings Unappropriated (Note 14)	Treasury Stock (Note 14)	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	–	–	–	–	–	–	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	4,521	–	(4,521)	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 16)	–	–	–	872,261	–	–	–	–	–	–	–	872,261
Collections on subscriptions	–	–	–	–	507,441	–	–	–	–	–	–	507,441
Accretion of subscription receivable	–	–	–	285,428	(285,428)	–	–	–	–	–	–	–
Acquisition of treasury stock	–	–	–	–	–	–	–	(24,175)	–	–	–	(24,175)
Dividends (Note 14)	–	–	–	–	–	–	(10,736,659)	–	–	–	–	(10,736,659)
	20,228,493	–	2,173,483	28,946,358	(10,878,989)	60,660,981	48,482,622	(994,466)	116,147	36,441	400,394	149,171,464
Net income (loss)	–	–	–	–	–	–	(17,140,569)	–	–	–	33,574	(17,106,995)
Other comprehensive loss	–	–	–	–	–	–	–	–	(21,269)	–	–	(21,269)
Total comprehensive income (loss)	–	–	–	–	–	–	(17,140,569)	–	($21,269)	–	33,574	(17,128,264)
Balances at June 30, 2008	$20,228,493	$–	$2,173,483	$28,946,358	($10,878,989)	$60,660,981	$31,342,053	($994,466)	$94,878	$36,441	$433,968	$132,043,200

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

INTEGRATED MICROELECTRONICS, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**$7,376,235**	($15,837,152)
Adjustments for:		
Depreciation of property, plant and equipment and investment properties (Note 7)	**9,175,007**	9,428,693
Amortization of intangible assets (Note 9)	**1,346,999**	1,336,980
Interest and bank charges	**1,120,501**	1,964,111
Provision for restructuring (Note 11)	**782,692**	–
Loss on fire (Notes 6 and 7)	**511,972**	–
Cost of share-based payments (Note 16)	**301,616**	872,261
Provision for inventory obsolescence - net of reversal (Note 6)	**259,442**	353,056
Unrealized foreign exchange loss - net	**172,101**	4,091,096
Provision for doubtful accounts (Note 5)	**37,683**	75,714
Provisions for warranty (Note 11)	**11,904**	358,968
Gain (loss) on sale of property, plant and equipment (Note 7)	**6,016**	(10,861)
Dividend income	**(445)**	(459)
Interest income	**(382,300)**	(568,765)
Gain on fire insurance claim (Note 5)	**(6,951,303)**	–
Losses on derivative assets (Note 20)	–	4,449,857
Operating income before working capital changes	**13,768,120**	6,513,499
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Loans and receivables	**6,994,176**	(5,628,049)
Inventories	**8,309,535**	(4,957,046)
Other current assets	**546,019**	(629,376)
Noncurrent receivables	**762,141**	535,415
Net pension asset	**(52,226)**	673,077
Increase (decrease) in:		
Accounts payable and accrued expenses	**(4,376,841)**	14,896,703
Provisions	**(6,669,628)**	(430,472)
Net cash generated from operations	**19,281,296**	10,973,751
Interest received	**382,300**	568,765
Dividends received	**445**	459
Interest paid	**(1,493,742)**	(2,515,631)
Income tax paid	**(944,403)**	(1,674,725)
Net cash provided by operating activities	**17,225,896**	7,352,619

(Forward)

	2009	2008
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	**$1,318,189**	$177,212
Acquisition of:		
Property, plant and equipment (Note 7)	**(1,833,481)**	(7,085,279)
Intangible assets (Note 9)	**–**	(54,506)
Increase in other noncurrent assets	**375,407**	(5,331,020)
Net cash used in investing activities	**(139,885)**	(12,293,593)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to equity holders of the Parent Company (Note 14)	**(3,131,023)**	(6,444,455)
Payments of:		
Loans payable	**(1,773,927)**	(4,833,217)
Long-term debt (Note 13)	**(4,000,000)**	(4,000,000)
Collections of subscriptions receivable (Note 14)	**128,320**	507,441
Acquisition of treasury stock (Note 14)	**–**	(24,175)
Availments of loans	**–**	28,372,798
Net cash provided by (used in) financing activities	**(8,776,630)**	13,578,392
NET FOREIGN EXCHANGE DIFFERENCE IN CASH AND CASH EQUIVALENTS	**(40,445)**	50,882
NET INCREASE IN CASH AND CASH EQUIVALENTS	**8,268,936**	8,688,300
CASH AND CASH EQUIVALENTS AT JANUARY 1	**57,604,535**	28,288,830
CASH AND CASH EQUIVALENTS AT JUNE 30 (Note 4)	**$65,873,471**	$36,977,130

See accompanying Notes to Unaudited Interim Condensed 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 (PSE). AC is 50.74% owned by Mermac, Inc., 10.54% 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 from January 2010 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 Republic Act (R.A.) No. 7916 (otherwise known as the "Special Economic Zone Act of 1995") in lieu of payment of national and local taxes.

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

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

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 unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors (BOD) on September 24, 2009.

2. **Basis of Preparation**

The unaudited interim condensed consolidated financial statements have been prepared in compliance with Philippine Accounting Standards (PAS) 34, "Interim Financial Reporting". The unaudited interim condensed consolidated financial statements have been prepared under the historical cost method, except for available-for-sale (AFS) financial assets that have been measured at fair value. The unaudited interim condensed consolidated financial statements are presented in United States (U.S.) Dollar, which is the Parent Company's and its subsidiaries' functional and presentation currency. All amounts are rounded to the nearest dollar unless otherwise indicated.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of and for the year ended December 31, 2008.

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

	Percentage of Ownership		Country of
	2009	2008	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
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")	**99.443%**	99.435%	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

3. **Changes in Accounting Policies and Disclosures**

The accounting policies and methods of computation adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements as of and for the year ended December 31, 2008, except for the adoption of the following new and amended standards and interpretations as of January 1, 2009:

- PAS 1, *Presentation of Financial Statements (Revised)*
  The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present the unaudited interim consolidated statement of comprehensive income in one single statement.

- PFRS 7, *Financial Instruments: Disclosures*
  The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instruments. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures are presented in Note 19, and the liquidity risk disclosures are not significantly affected by the amendments.

- PFRS 8, *Operating Segments*
  This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. It requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes.

  Additional disclosures were provided regarding the Group's segment information, consistent with the internal reporting provided to the chief operating decision maker (see Note 17).

The following new standards, amendments to standards and interpretations are mandatory for the financial year beginning January 1, 2009, but the adoption of these changes did not have any effect on the Group's unaudited interim condensed consolidated financial statements.

- PAS 23, *Borrowing Costs (Revised)*
  The standard has been revised to require capitalization of borrowing costs on qualifying assets.

- 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.

- PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
  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.

- Philippine Interpretation IFRIC 9*, Reassessment of Embedded Derivatives*, and PAS 39, *Financial Instruments: Recognition and Measurement*
  Amendments to this interpretation require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. PAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This 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*
  This interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

<u>Improvements to PFRS</u>
In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view of removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- 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, *Noncurrent Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Assets*. The Group amended its accounting policy accordingly, which did not result to any change in its financial position.

- 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. As the Group does not have such kind of property, plant and equipment, this improvement has no impact to the financial position of the Group.

- PAS 23, *Borrowing Costs*
  - 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. The Group amended its accounting policy accordingly, which did not result to any change in its financial position.

- PAS 36, *Impairment of Assets*
  - When discounted cash flows are used to estimate 'fair value less costs 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'. The measurement disclosures are presented in Note 8 of the unaudited interim condensed consolidated financial statements.

- 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. Advertising and promotional activities now specifically include mail order catalogues.

  - Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method. As the Group uses straight-line method in amortizing its intangible assets, this improvement has no impact on the financial position or performance of the Group.

- PAS 40, *Investment Properties*
  - 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. The Group amended its accounting policy accordingly, which did not result to any change in its financial position.

The improvements to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

- PAS 1, *Presentation of Financial Statements*
- PAS 19, *Employee Benefits*
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
- PAS 28, *Investment in Associates*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*

- PAS 31, *Interest in Joint Ventures*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- PAS 41, *Agriculture*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

4. Cash and Cash Equivalents

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Cash on hand and in banks	**$21,407,414**	$12,741,963
Short-term deposits	**44,466,057**	44,862,572
	$65,873,471	$57,604,535

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

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Trade	**$61,189,922**	$66,295,146
Nontrade	**4,819,050**	6,344,747
Receivable from Meralco - current	**843,321**	554,612
Receivables from employees	**413,157**	2,062,547
Others	**7,281,645**	363,840
	74,547,095	75,620,892
Less allowance for doubtful accounts	**192,771**	693,657
	$74,354,324	$74,927,235

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. As of December 31, 2008, receivable from Meralco amounted to $702,387. For the six months ended June 30, 2009, additional receivable amounting to $371,685 was booked by

the Parent Company. Such amount is expected to be collected in 2009. As of June 30, 2009 and December 31, 2008, current portion of the receivables amounted to $843,321 and $554,612, respectively. Receivables expected to be recovered beyond one year amounted to $38,524 and $147,775 as of June 30, 2009 and December 31, 2008, respectively (included under “Noncurrent receivables”).

The rollforward of the day 1 discount on the Meralco refund for the six months ended June 30, 2009 and year ended December 31, 2008 follows:

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
At beginning of period	**$80,865**	$180,111
Accretion	**(26,791)**	(99,246)
At end of period	**$54,074**	$80,865

The accretion of the day 1 discount is included under “Interest income” account in the unaudited interim consolidated statement of comprehensive income.

Others
Other receivables include an insurance claim amounting to $6,951,303 for damages to equipment and inventories caused by a fire incident in the Parent Company’s plant in Cebu, Philippines in May 2009. The gain from the insurance claim is included under “Miscellaneous income” in the unaudited interim consolidated statements of comprehensive income.

Allowance for doubtful accounts
Trade and nontrade receivables at nominal value of $192,771 and $693,657 were individually provided for with allowance for doubtful accounts as of June 30, 2009 and December 31, 2008, respectively.

Movements in the allowance for doubtful accounts follow:

2009 (Unaudited)

	Trade	**Nontrade**	**Total**
At January 1, 2009	**$254,601**	**$439,056**	**$693,657**
Provision during the period	**12,467**	**25,216**	**37,683**
Accounts written off	**(150,205)**	**(388,364)**	**(538,569)**
At June 30, 2009	**$116,863**	**$75,908**	**$192,771**

2008 (Audited)

	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

6. Inventories

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
At cost:		
Raw materials and supplies	**$2,781,137**	$4,030,994
Work-in-process	**3,214,651**	4,975,809
Finished goods	**2,258,701**	4,134,569
	8,254,489	13,141,372
At NRV:		
Raw materials and supplies	**17,216,547**	19,762,841
Work-in-process	**612,186**	1,398,870
Finished goods	**402,096**	1,181,911
	18,230,829	22,343,622
	$26,485,318	$35,484,994

The cost of the inventories carried at net realizable value (NRV) amounted to $24,439,553 and $29,984,238 as of June 30, 2009 and December 31, 2008, respectively. The amount of inventories recognized as an expense amounted to $107,236,015 and $109,355,376 for the six months ended June 30, 2009 and 2008, respectively. Loss on inventory decline, net of reversal, recognized in the unaudited interim consolidated statements of comprehensive income amounted to $259,442 and $353,056 for the six months ended June 30, 2009 and 2008, respectively.

In May 2009, the Parent Company lost inventories amounting to $430,699, due to a fire incident in its plant in Cebu, Philippines (see Note 5). The loss is included under "Miscellaneous expense" in the unaudited interim consolidated statements of comprehensive income.

7. Property, Plant and Equipment

During the six months ended June 30, 2009, the Group acquired machinery and facilities equipment amounting to $1,032,908, furniture, fixtures and office equipment amounting to $603,866, transportation equipment amounting to $23,131, tools and instruments amounting to $35,454 and incurred capitalizable expenses on projects in progress amounting to $79,772. Additions to building improvements amounted to $58,350.

During the six months ended June 30, 2009, the Group also disposed property, plant and equipment with total book value of $1,405,478. This pertains to machinery and facilities equipment amounting to $1,225,008, furniture, fixtures and office equipment amounting to $91,000, transportation equipment amounting to $19,040, and tools and instruments amounting to $70,430. Part of the property, plant and equipment derecognized by the Parent Company pertains to facilities damaged by fire with book value amounting to $81,273 (see Note 5). The loss from the damaged facilities is included under "Miscellaneous expense" in the unaudited interim consolidated statements of comprehensive income.

Starting January 2009, the Parent Company extended the estimated useful life of Surface Mount Technology equipment and other production equipment from five to seven years due to factors which demonstrated that the equipment can be used for more than five years. The change in estimated useful life reduced depreciation expense for the six months ended June 30, 2009 by $1,204,753.

Depreciation and amortization expense included in cost of goods sold and services for the six months ended June 30, 2009 and 2008 amounted to $7,586,295 and $7,797,655, respectively. Depreciation and amortization expense included in operating expenses for the six months ended June 30, 2009 and 2008 amounted to $1,588,712 and $1,631,038, respectively.

8. **Goodwill**

Goodwill acquired through business combinations that have been allocated to three individual cash-generating units (CGUs) as of June 30, 2009 and December 31, 2008 are as follow:

STEL Group	$45,128,024
Saturn	656,610
M. Hansson Consulting, Inc.	441,166
	$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 9% in 2009 and 2008, 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 the global EMS industry.
- Pre-tax discount rates - Discount rates reflect management's estimate of the risks specific to each CGU. This is the benchmark used by management to assess operating performance.

With regard to the assessment of value-in-use of the three CGUs, management believes that a 130% 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.

9. **Intangible Assets**

The Group did not acquire additional intangible assets during the six months ended June 30, 2009.

Amortization of intangible assets included in operating expenses for the six months ended June 30, 2009 and 2008 amounted to $1,346,999 and $1,336,980, respectively. Amortization of intangible assets included in cost of sales for the six months ended June 30, 2009 amounted to $646.

10. **Accounts Payable and Accrued Expenses**

	June 30 2009 (Unaudited)	December 31, 2008 (Audited)
Trade payables	**$39,389,446**	$40,906,065
Accrued expenses	**14,327,839**	17,372,131
Accrued payroll	**2,968,919**	2,053,852
Taxes payables	**2,539,828**	1,555,130
Customers' deposits	**508,097**	1,073,187
Employee-related payables	**505,087**	698,262
Accrued interest payable (Notes 12 and 13)	**193,822**	567,063
Nontrade payables	**98,566**	348,891
Dividends payable (Note 15)	**–**	560,727
Others	**4,067,603**	4,651,964
	$64,599,207	$69,787,272

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, the Group entered into additional structured currency options (see Note 20). 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. As of June 30, 2009 and December 31, 2008, outstanding liability on unwinding cost amounted to $2,295,500 shown as part of "Other accounts payable and accrued expenses". "Other payables" are noninterest-bearing and are normally settled within one year.

11. **Provisions**

2009 (Unaudited)

	Warranty	**Restructuring**	**Total**
Balance at January 1, 2009	**$13,238**	**$6,000,000**	**$6,013,238**
Provisions for the period	**11,904**	**782,692**	**794,596**
Reversal of provision/payment	**(6,661)**	**(6,662,967)**	**(6,669,628)**
Balance at June 30, 2009	**$18,481**	**$119,725**	**$138,206**

2008 (Audited)

	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/payment	(2,189,015)	–	(2,189,015)
Balance at December 31, 2008	$13,238	$6,000,000	$6,013,238

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.

12. **Loans Payable**

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Parent Company	**$8,000,000**	$8,000,000
STEL	**7,336,180**	9,110,107
	$15,336,180	$17,110,107

The loan payable of the Parent Company is a clean 30-day loan obtained from a Philippine bank that is being extended monthly. Interest rates for the six months ended June 30, 2009 range from 4.75% to 5.75%, and 3.38% to 5.75% for the year ended December 31, 2008.

The loans of STEL are clean loans from various Singapore banks, from existing revolving credit facilities. The loans payable bear interests ranging from 1.81% to 4.10% in 2009 and 2.53% to 3.60% in 2008 and have maturities of 30 days from the date of issue with renewal options.

13. **Long-Term Debt**

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Parent Company	**$30,000,000**	$30,000,000
STEL	**20,000,000**	24,000,000
	$50,000,000	$54,000,000

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 until 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:

2009 (Unaudited)

2009	$8,000,000
2010 - 2011	42,000,000
	$50,000,000

2008 (Audited)

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

14. **Equity**

Capital Stock

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	Shares	**Amount**	Shares	Amount
Authorized - ₱1 par value				
Common	**1,500,000,000**		1,500,000,000	
Preferred	**1,500,000,000**		1,500,000,000	
Issued - Common				
At beginning of year	**1,137,020,302**	**$20,253,054**	1,135,476,364	$20,223,972
Issuance of shares	**348,455**	**6,583**	1,543,938	29,082
At end of year *	**1,137,368,757**	**$20,259,637**	1,137,020,302	$20,253,054
Issued - Preferred				
At beginning of year	**1,300,000,000**	**$26,601,155**	–	$–
Issuance of shares	–	–	1,300,000,000	26,601,155
At end of year	**1,300,000,000**	**$26,601,155**	1,300,000,000	$26,601,155

* *Out of the total issued shares, 15,892,365 shares as of June 30, 2009 and December 31, 2008, pertain to treasury shares.*

On June 4, 2008, the BOD of the Parent Company approved and authorized the increase in its authorized capital stock from ₱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 (SEC) on November 21, 2008 in accordance with the provisions of Section 38 of the Corporation Code of the Philippines.

The preferred shares have certain features, rights and privileges, which include voting rights, quarterly dividends, 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

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	Shares	**Amount**	Shares	Amount
At beginning of period	**108,666,315**	**$2,182,379**	108,671,253	$2,178,004
Subscriptions during the period				
ESOWN	–	–	1,539,000	33,457
Preferred stock	–	–	1,300,000,000	26,601,155
	–	–	1,301,539,000	26,634,612
Issuances during the period				
ESOWN	**(348,455)**	**(6,583)**	(1,543,938)	(29,082)
Preferred stock	–	–	(1,300,000,000)	(26,601,155)
	(348,455)	**(6,583)**	(1,301,543,938)	(26,630,237)
At end of period	**108,317,860**	**$2,175,796**	108,666,315	$2,182,379

Subscriptions Receivable

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	Shares	**Amount**	Shares	Amount
At beginning of period	**111,297,000**	**$10,439,358**	109,758,000	$11,101,002
Subscriptions during the period (Note 16)	–	–	1,539,000	306,137
Collections	–	**(128,320)**	–	(1,635,657)
Accretion (Note 16)	–	**(369,353)**	–	667,876
At end of period	**111,297,000**	**$9,941,685**	111,297,000	$10,439,358

Dividends

On March 26, 2009, the BOD of the Parent Company approved and authorized the declaration and payment of quarterly dividend of 8.25% p.a. or the equivalent of $549,684, out of the unrestricted retained earnings of the Parent Company as of December 31, 2008, to all stockholders of the Parent Company's Preferred Class shares of record as of May 8, 2009. The dividends were paid on May 11, 2009.

Likewise, on March 26, 2009, the BOD of the Parent Company approved and authorized the declaration and payment of cash dividend amounting to $0.00163 per share or the equivalent of $2,004,564, out of the unrestricted retained earnings of the Parent Company as of December 31, 2008, to all common stockholders of the Parent Company as of record date March 26, 2009. Payment was made on June 6, 2009.

On December 16, 2008, the BOD of the Parent Company approved and authorized the declaration and payment 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 of December 31, 2007, to all stockholders of the Parent Company's Preferred Class "B" shares of record as of February 9, 2009. Payment was made on February 14, 2009.

On May 7, 2008, the BOD of the Parent Company approved and authorized the declaration of cash 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 of December 31, 2007, to all stockholders of record as of April 30, 2008. Payments were made in June and November 2008 amounting to $6,444,455 and $4,292,204, respectively.

Treasury Stock
The movements in the treasury stock follow:

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	Shares	**Amount**	Shares	Amount
At beginning of period	**15,892,365**	**$1,012,592**	15,745,302	$970,291
Acquisition during the period	–	–	147,063	42,301
At end of period	**15,892,365**	**$1,012,592**	15,892,365	$1,012,592

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 $19,339,142 and $16,970,321 as of June 30, 2009 and December 31, 2008, respectively, and cost of treasury stock amounting to $1,012,592 as of June 30, 2009 and December 31, 2008, is not available for dividend declaration.

15. **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 from January 2010 to December 2012 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 16.5% and 17.5% for the six-months period ended June 30, 2009 and 2008, respectively, on the estimated assessable profit for the period.

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 20% and 18% for the six-months period ended June 30, 2009 and 2008, 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 period 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 unaudited interim condensed 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 fifth profitable year, and hence is subject to taxation at the rate of 25% and 13.2% for the six months ended June 30, 2009 and 2008, 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:

	Six Months Ended June 30	
	2009	2008
	(Unaudited)	
Income (loss) before income tax	**$7,376,235**	($15,837,152)
Tax on:		
Income from foreign subsidiaries	**1,342,257**	1,092,674
Income subject to 5% gross income tax	**91,120**	84,406
Income subject to regular tax	**5,819**	179,740
Deferred income tax expense (benefit)	**(81,012)**	(86,977)
Effective income tax	**$1,358,184**	$1,269,843

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:

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Deferred income tax assets		
Unutilized business loss	**$556,000**	$495,163
Allowance for inventory obsolescence	**386,104**	215,342
Capital allowance	**–**	69,558
Other general provisions	**54,386**	29,874
	996,490	809,937
Deferred income tax liabilities		
Excess of net book value over tax written down value of fixed assets of subsidiaries	**(672,988)**	(677,257)
Revaluation of fixed assets of subsidiaries	**(205,414)**	(104,172)
Others	**(9,571)**	(1,003)
	(887,973)	(782,432)
Net deferred tax assets	**$108,517**	$27,505

16. **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 BOD at the date of grant.

To subscribe, the grantee must be an eligible participant as defined in the plan. However, should the grantee cease to be employed by or connected with the Group before the full payment is made for the subscribed shares, the remaining balance becomes due and demandable upon separation, except for special circumstances as provided for by the ESOWN. In such instances, the grantee/heirs may be allowed to continue paying for the balance for the duration of the original payment period. If the grantee is separated for cause, shares not fully paid will be forfeited and whatever the amount the grantee has partially paid will be returned to him with no interest; if fully paid prior to separation, the shares shall be subject to the Right to Repurchase. If the grantee separates voluntarily, fully vested but not fully paid shares may be paid for in full upon separation subject to Right to Repurchase; and payments made for subscribed shares up to the time of separation, 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 November 2008 and 2009 which resulted to an extension of the payment period from eight (8) to ten (10) years. This extension resulted to a net reversal of accretion for the six months ended June 30, 2009.

The employee benefit expense in June 30, 2009 and 2008 amounted to $301,616 and $872,261, respectively. The accretion (reversal of accretion) recognized as increase (decrease) in subscriptions receivable and additional paid-in capital presented in the consolidated statement of changes of equity in June 30, 2009 and December 31, 2008 amounted to ($369,353) and $667,876, respectively (see Note 14).

17. **Segment Information**

Management monitors operating results per geographical area for the purpose of making decisions about resource allocation and performance assessment. It evaluates the segment performance based on gross revenue, gross profit, operating income, and net income before and after tax.

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

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

The following tables present revenue and profit information regarding the Group's geographical segments for the six months ended June 30, 2009 and 2008.

June 30, 2009 (Unaudited)	**Philippines**	**Singapore**	**USA**	**Japan**	**Eliminations**	**Total**
Revenue						
Third party	**$71,138,817**	**$98,035,371**	**$26,118**	**$169,296**	**$–**	**$169,369,602**
Inter-segment	**–**	**15**	**1,019,985**	**265,196**	**(1,285,196)**	**–**
Total revenue	**$71,138,817**	**$98,035,386**	**$1,046,103**	**$434,492**	**($1,285,196)**	**$169,369,602**
Segment gross profit	**$6,551,410**	**$11,209,894**	**$949,385**	**$233,863**	**($1,136,236)**	**$17,808,316**
Segment operating income (loss)	**($3,183,587)**	**$3,837,038**	**($4,770)**	**($219,225)**	**$–**	**$429,456**
Segment interest income	**$362,059**	**$20,135**	**$–**	**$106**	**$–**	**$382,300**
Segment profit (loss) before income tax	**$3,724,409**	**$3,881,074**	**($4,991)**	**($214,257)**	**$–**	**$7,386,235**
Segment provision for income tax	**(96,938)**	**(1,261,225)**	**–**	**(21)**	**–**	**(1,358,184)**
Segment profit (loss) after income tax	**$3,627,471**	**$2,619,849**	**($4,991)**	**($214,278)**	**$–**	**$6,028,051**

June 30, 2008 (Unaudited)	Philippines	Singapore	USA	Japan	Eliminations	Total
Revenue						
Third party	$122,846,401	$ 107,044,509	$ 205,943	$36,096	$–	$230,132,949
Inter-segment	100,561	–	1,151,551	92,786	(1,344,898)	–
Total revenue	$122,946,962	$107,044,509	$1,357,494	$128,882	($1,344,898)	$230,132,949
Segment gross profit	$25,690,757	$14,514,826	$1,224,025	$3,446	($1,153,933)	$40,279,121
Segment operating Income (loss)	$13,424,820	$3,700,409	$145,874	($210,691)	$–	$17,060,412
Segment interest income	$513,795	$54,895	$75	$–	$–	$568,765
Segment profit (loss) before tax	($18,040,457)	$2,265,074	$145,842	($207,611)	$–	($15,837,152)
Segment provision for income tax	(264,147)	(1,005,681)	–	(15)	–	(1,269,843)
Segment profit (loss) after income tax	($18,304,604)	$1,259,393	$145,842	($207,626)	$–	($17,106,995)

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

For the six months ended June 30, 2009, the operating income (loss) and profit (loss) before and after tax for each operating segment include net profit from inter-segment revenues aggregating to $1,285,196 and inter-segment cost of sales and operating expenses aggregating to $148,960 and $1,136,236, respectively.

For the six months ended June 30, 2008, the operating income (loss) and profit (loss) before and after tax for each operating segment include net profit from inter-segment revenues aggregating to $1,344,898 and inter-segment cost of sales and operating expenses aggregating to $190,965 and $1,153,933, respectively.

The following table presents segment assets of the Group's geographical segments as of June 30, 2009 and December 31, 2008.

	Philippines	**Singapore**	**USA**	**Japan**	**Eliminations**	**Total**
Segment assets						
June 30, 2009	**$212,895,257**	**$178,077,259**	**$2,574,675**	**$725,485**	**($100,243,391)**	**$294,029,285**
December 31, 2008	$216,258,910	$186,873,755	$2,597,630	$497,835	($99,270,310)	$306,957,820

Segment assets as of June 30, 2009 do not include investments in subsidiaries amounting to $3,978,389 and inter-segment loans and receivables amounting to $96,265,001 which are eliminated on consolidation.

The following table presents revenues to external customers:

	Revenues from External Customers		Noncurrent Assets	
	June 30, 2009 (Unaudited)	June 30, 2008 (Unaudited)	**June 30, 2009 (Unaudited)**	December 31, 2008 (Audited)
Philippines	**$42,439,627**	$86,230,634	**27,657,080**	$30,259,839
USA	**40,242,744**	52,166,353	**752,356**	781,319
Europe	**49,700,060**	47,667,460	**–**	–
Asia	**27,770,609**	33,927,462	**88,735,117**	96,196,528
Japan	**9,216,562**	10,141,040	**27,165**	28,035
	$169,369,602	$230,132,949	**$117,171,718**	$127,265,721

Revenues are attributed to countries on the basis of the customer's location. Revenues from one customer from Philippine segment represent $16,914,000 or 10% of the Group's total revenues for the six months ended June 30, 2009. For the six months ended June 30, 2008, another customer from the Philippine segment account for $45,415,000 or 20% of the Group's total revenues.

Non-current assets, which include property, plant and equipment, goodwill, and intangible assets, are disclosed according to its physical location.

18. Related Party Transactions

BPI

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:

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Savings and current accounts	**$545,097**	$656,710
Short-term deposits	**6,407,771**	22,925,589
	$6,952,868	$23,582,299

b. The Group has outstanding housing and automobile financing loans amounting to $15,936 and $17,535, as of June 30, 2009 and December 31, 2008, respectively, included in "Accounts payable and accrued expenses" account. The outstanding housing and automobile financing loans arise from the differences in the timing of remittances by the Parent Company to BPI and the period of withholding from employee salaries and wages.

19. Fair Value of Financial Instruments

As of June 30, 2009 and December 31, 2008, the financial instruments carried at fair value only pertain to the Group's available-for-sale financial assets, which consist of investments in club shares. The fair values of these club shares are based on quoted prices (Level 1). There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

20. Financial Risk Management Objectives and Policies

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

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

The Group's risk management policies are summarized below:

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to its 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 of floating rate borrowings) as of June 30, 2009 and December 31, 2008. There is no other impact on the Group's equity other than those already affecting income.

	Effect on profit before tax	
Increase/decrease in basis points	**2009 (Unaudited)**	2008 (Audited)
+100	**($250,000)**	($540,000)
-100	**250,000**	540,000

The following table shows the information about the Group's financial instruments as of June 30, 2009 and December 31, 2008 that are exposed to interest rate risks and presented by maturity profile.

	Long-Term Debt LIBOR Plus margin of 0.75% to 0.80%	
	2009 **(Unaudited)**	2008 (Audited)
Within one year	**$8,000,000**	$8,000,000
1-2 years	**8,000,000**	8,000,000
2-3 years	**4,000,000**	8,000,000
3-4 years	**30,000,000**	30,000,000
	$50,000,000	$54,000,000

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.

July 30, 2009 (Unaudited)

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Accounts payable and accrued expenses					
Trade payables	**$39,389,446**	**$–**	**$–**	**$–**	**$39,389,446**
Accrued expenses	**14,327,839**	**–**	**–**	**–**	**14,327,839**
Accrued payroll	**2,968,919**	**–**	**–**	**–**	**2,968,919**
Customers' deposits	**508,097**	**–**	**–**	**–**	**508,097**
Employee-related payables	**505,087**	**–**	**–**	**–**	**505,087**
Accrued interest payable	**193,822**	**–**	**–**	**–**	**193,822**
Nontrade payables	**98,566**	**–**	**–**	**–**	**98,566**
Others	**9,427,592**	**–**	**–**	**–**	**9,427,592**
Loans payable	**–**	**16,335,032**	**–**	**–**	**16,335,032**
Long-term debt	**–**	**–**	**10,523,343**	**43,798,245**	**54,321,588**
	$67,419,368	**$16,335,032**	**$10,523,343**	**$43,798,245**	**$138,075,988**

December 31, 2008 (Audited)

	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
Customers' deposits	1,073,187	–	–	–	1,073,187
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
	$68,232,142	$17,628,768	$10,106,069	$49,757,862	$145,724,841

Credit Lines
The Group has credit lines with different financing institutions as of June 30, 2009 and December 31, 2008 as follow:

June 30, 2009 (Unaudited)

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	**$26,200,000**	**$25,704,388**
Singapore Dollar	**SGD1,700,000**	**SGD293,454**

December 31, 2008 (Audited)

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

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 in bank, 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 condensed consolidated balance sheet.

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Cash and cash equivalents (excluding cash on hand)	**$65,802,377**	$57,548,564
Loans and receivables		
Trade	**61,073,059**	66,040,545
Nontrade	**4,743,142**	5,905,691
Receivable from Meralco – current	**843,321**	554,612
Receivables from employees	**413,157**	2,062,547
Others	**7,281,645**	363,840
Noncurrent receivables	**2,159,874**	2,922,015
Miscellaneous deposits	**829,103**	924,564
AFS financial assets	**266,466**	265,046
Total credit risk exposure	**$143,412,144**	$136,587,424

The Group has 33% and 30% of trade receivables relating to three (3) major customers as of June 30, 2009 and December 31, 2008, respectively.

The analysis of loans and receivables, noncurrent receivables and miscellaneous deposits as of June 30, 2009 and December 31, 2008, follow:

June 30, 2009 (Unaudited)

	Total	Neither past due nor impaired	Past due but not impaired <30 days	30-60 days	60-90 days	90-120 days	>120 days	Specifically impaired
Trade	**$61,148,381**	**$58,008,690**	**$1,741,323**	**$834,873**	**$23,761**	**$318,621**	**$104,250**	**$116,863**
Nontrade	**4,819,050**	**4,496,541**	**109,065**	**8,251**	**2,823**	**381**	**126,081**	**75,908**
Receivable from Meralco	**843,321**	**843,321**	–	–	–	–	–	–
Receivables from employees	**413,157**	**412,693**	–	**464**	–	–	–	–
Others	**7,281,645**	**7,227,130**	**22,141**	**21,930**	**4,519**	**2,730**	**3,195**	–
	$74,505,554	**$70,988,375**	**$1,872,529**	**$865,518**	**$31,103**	**$321,732**	**$233,526**	**$192,771**
Noncurrent receivables	**$2,159,874**	**$2,159,874**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**
Miscellaneous deposits	**$829,103**	**$829,103**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**

December 31, 2008 (Audited)

	Total	Neither past due nor impaired	Past due but not impaired <30 days	30-60 days	60-90 days	90-120 days	>120 days	Specifically impaired
Trade	$66,295,146	$61,711,292	$2,872,671	$1,012,534	$5,126	$–	$438,922	$254,601
Nontrade	6,344,747	4,188,218	427,040	69,264	8,312	579,345	633,512	439,056
Receivable from Meralco	554,612	554,612	–	–	–	–	–	–
Receivables from employees	2,062,547	2,062,547	–	–	–	–	–	–
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	$–	$–	$–	$–	$–	$–

The following tables summarize the credit quality of the Group's financial assets as of June 30, 2009 and December 31, 2008:

June 30, 2009 (Unaudited)

	Neither past due nor impaired: Minimal risk	Average risk	Fairly high risk	High risk	Past due or individually impaired	Total
Cash and cash equivalents	**$65,802,377**	**$–**	**$–**	**$–**	**$–**	**$65,802,377**
Loans and receivables						
Trade	**18,302,139**	**15,342,874**	**23,362,212**	**1,001,465**	**3,181,232**	**61,189,922**
Nontrade	**3,231,552**	**1,171,681**	**39,433**	**53,875**	**322,509**	**4,819,050**
Receivable from employees	**3,352**	**290,943**	**118,398**	–	**464**	**413,157**
Receivable from Meralco	**471,636**	**371,685**	–	–	–	**843,321**
Others	**169,211**	**6,960,296**	**97,623**	–	**54,515**	**7,281,645**
Noncurrent receivables	**2,159,874**	–	–	–	–	**2,159,874**
Miscellaneous deposits	**829,103**	–	–	–	–	**829,103**
AFS financial assets	**266,466**	–	–	–	–	**266,466**
	$91,235,710	**$24,137,479**	**$23,617,666**	**$1,055,340**	**$3,558,720**	**$143,604,915**

December 31, 2008 (Audited)

	Neither past due nor impaired				Past due or individually impaired	Total
	Minimal risk	Average risk	Fairly high risk	High risk		
Cash and cash equivalents	$57,548,564	$–	$–	$–	$–	$57,548,564
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
	$82,694,159	$31,276,558	$16,179,119	$69,283	$7,061,962	$137,281,081

The Group classifies credit quality as follows:

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

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

Fairly High Risk - credit could be extended under a confirmed and irrevocable Letter 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 Letter 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 income can be affected significantly by movements in the Philippine Peso/U.S. Dollar exchange rate.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases other than the Group's functional currency. Approximately 25% and 14% of the Group's sales for the six months ended June 30, 2009 and 2008, respectively, and 41% and 68% of costs for the six months ended June 30, 2009 and 2008, 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 (₱)

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	In U.S. Dollar	**In Philippine Peso**	In U.S. Dollar	In Philippine Peso
Cash and cash equivalents	**$3,240,709**	**₱155,975,324**	$16,469,632	₱782,636,910
Loans and receivables	**1,842,702**	**88,689,227**	2,058,033	97,797,742
AFS financial assets	**276,647**	**13,315,000**	265,046	12,594,986
Noncurrent receivables	**101,286**	**4,874,899**	2,922,015	138,854,153
Miscellaneous deposits	**766,155**	**36,875,064**	924,564	43,935,281
Accounts payable and accrued expenses	**(9,704,094)**	**(467,058,038)**	(11,221,693)	(533,254,828)
Net foreign currency-denominated assets (liabilities)	**($3,476,595)**	**($167,328,524)**	$11,417,597	₱542,564,244

Singapore Dollar (SGD)

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	In U.S. Dollar	**In Singapore Dollar**	In U.S. Dollar	In Singapore Dollar
Cash and cash equivalents	**$43,667**	**SGD63,317**	$838,489	SGD1,216,480
Loans and receivables	**96,533**	**139,974**	41,610	60,367
Accounts payable and accrued expenses	**(1,369,204)**	**(1,985,346)**	(680,295)	(986,972)
Loans payable	**–**	**–**	(4,790,107)	(6,949,487)
Net foreign currency-denominated liabilities	**($1,229,004)**	**(SGD1,782,055)**	($4,590,303)	(SGD6,659,612)

Euro (€)

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	In U.S. Dollar	**In Euro**	In U.S. Dollar	In Euro
Cash and cash equivalents	**$831,884**	**€590,659**	$116,310	€83,370
Loans and receivables	**1,059,622**	**752,359**	116,887	83,784
Accounts payable and accrued expenses	**(118,348)**	**(84,030)**	(1,004,949)	(720,342)
Net foreign currency-denominated assets (liabilities)	**$1,773,158**	**€1,258,988**	($771,752)	(€553,188)

Japanese Yen (¥)

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	In U.S. Dollar	**In Japanese Yen**	In U.S. Dollar	In Japanese Yen
Cash and cash equivalents	**$407,340**	**¥39,107,190**	$492,884	¥44,823,969
Loans and receivables	**1,699,086**	**163,122,700**	1,016,232	92,418,322
Accounts payable and accrued expenses	**(1,533,392)**	**(147,215,023)**	(881,616)	(80,176,042)
Net foreign currency-denominated assets	**$573,034**	**¥55,014,867**	$627,500	¥57,066,249

Renminbi (RMB)

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	In U.S. Dollar	**In Renminbi**	In U.S. Dollar	In Renminbi
Cash and cash equivalents	**$7,949,537**	**RMB54,325,717**	$2,410,383	RMB16,507,549
Loans and receivables	**17,749,527**	**121,297,110**	19,402,943	132,881,407
Accounts payable and accrued expenses	**(34,093,656)**	**(232,989,976)**	(15,053,845)	(103,096,530)
Net foreign currency-denominated assets (liabilities)	**($8,394,592)**	**(RMB57,367,149)**	$6,759,481	RMB46,292,426

Hong Kong Dollar (HK$)

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	In U.S. Dollar	**In Hong Kong Dollar**	In U.S. Dollar	In Hong Kong Dollar
Cash and cash equivalents	**$ 5,734**	**HK$ 44,435**	$56,847	HK$440,544
Loans and receivables	**109,715**	**850,297**	167,825	1,300,593
Accounts payable and accrued expenses	**(862,615)**	**(6,685,280)**	(1,556,222)	(12,060,279)
Net foreign currency-denominated liabilities	**(HK$747,166)**	**(HK$5,790,548)**	($1,331,550)	(HK$10,319,142)

Swiss Franc (₣)

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	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 (£)

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	In U.S. Dollar	**In UK Pound**	In U.S. Dollar	In UK Pound
Loans and receivables	**$213**	**£144**	$213	£144

Australian Dollar (AUD)

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	In U.S. Dollar	**In Australian Dollar**	In U.S. Dollar	In Australian Dollar
Accounts payable and accrued expenses	**($45,309)**	**(AUD56,138)**	$–	AUD–

South Korean Won (KRW)

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	In U.S. Dollar	**In Australian Dollar**	In U.S. Dollar	In Australian Dollar
Accounts payable and accrued expenses	**($52,785)**	**(KRW67,500,000)**	$–	KRW–

Sensitivity analysis
The following table demonstrates sensitivity to a reasonably possible change in the U.S. Dollar exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of June 30, 2009 and December 31, 2008. 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.

June 30, 2009 (Unaudited)

Currency	**Increase/decrease in U.S. Dollar rate**	**Effect on profit before tax**
PHP	**+1%**	**($48,642)**
	-1%	**48,642**
SGD	**+2%**	**(24,570)**
	-2%	**24,570**
JPY	**+3%**	**16,038**
	-3%	**(16,038)**
EUR	**+4%**	**65,133**
	-4%	**(65,133)**
RMB	**+1%**	**(101,314)**
	-1%	**101,314**
HKD	**+1%**	**(7,979)**
	-1%	**7,979**
GBP	**+4%**	**9**
	-4%	**(9)**
AUD	**+5%**	**(2,261)**
	-5%	**2,261**
KRW	**+2%**	**(1,280)**
	-2%	**1,280**

December 31, 2008 (Audited)

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)

Derivative Instruments
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 statements of comprehensive income under “Foreign exchange gains (losses)”.

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 as of June 30, 2009 amounted to $2,295,500 shown as part of “Other accounts payable and accrued expenses”.

The remaining outstanding structured currency options after the unwinding program matured up to November 2008. There are no outstanding structured currency options as of June 30, 2009.

Fair Value Changes
The net movement in fair value changes of the Group’s derivative instruments as of June 30, 2009 and 2008 follows:

	2009	2008
	(Unaudited)	
Balance at beginning of year	**$–**	$ 2,042,019
Net changes in fair value of derivatives not designated as accounting hedges	–	(31,892,018)
	–	(29,849,999)
Fair value of settled instruments	–	29,737,661
Balance at June 30	**$–**	($112,338)

The net changes in fair value of derivative instruments not designated as accounting hedges are recognized in the unaudited interim condensed consolidated statements of comprehensive income as part of “Foreign exchange gains (losses)”.

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

The Group is not subject to externally imposed capital requirements.

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

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Loans payable	**$15,336,180**	$17,110,107
Long-term debt	**50,000,000**	54,000,000
Total debt	**65,336,180**	71,110,107
Less: Cash and cash equivalents	**(65,873,471)**	(57,604,535)
Net debt	**($537,291)**	$13,505,572
Equity attributable to equity holders of the Parent Company	**$163,516,907**	$159,630,930
Debt to equity ratio	**40%**	45%
Net debt to equity ratio	**0%**	8%

21. 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, "*Provisions, Contingent Liabilities and Contingent Assets*", is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

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.

22. Subsequent Events

On August 8, 2007, the BOD unanimously passed and approved a resolution authorizing the Parent Company to undertake a Listing by Way of Introduction of its 1,268,497,252 common shares with a par value of ₱1.00 with the PSE to provide a liquidity mechanism for the existing stockholders of the Parent Company.

The same Board Resolution mentioned above authorizes any two of the Attorneys-in-Fact of the Parent Company to perform such acts and deeds and to sign, execute and file with the PSE and the SEC the required and appropriate application and other papers and documents related thereto.

On September 15, 2009, the Parent Company initially filed the Registration Statement together with the prospectus with the SEC.

As of September 24, 2009, the SEC filing is expected to be included in the agenda for the Commission En Banc on October 1, 2009. Listing with the PSE is anticipated to be completed before the end of the year.