IMI

We are committed to enhancing our people's global competitiveness and growth potential through relevant human resources programs and new skills training.

Integrated Micro-Electronics, Inc.
2010 Annual Report and Sustainability Report

COMMITMENT TO OUR PEOPLE

Our greatest assets are the thousands of men and women who work for us. They represent the frontline of our global strategy to become a top ranked electronic manufacturing services provider. We firmly believe that we can enhance our global competitiveness and growth potential through relevant human resource programs and new skills training. As professionals, our commitment has always been to deliver quality to our customers, and by empowering our organization, we truly become flexible experts able to adapt to the ever shifting requirements of our target markets.

CONTENTS

ANNUAL REPORT

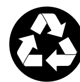
Financial Highlights 1
About IMI 2
Chairman's Message 5
President's Report 7
Board of Directors 12
Management Committee 14
Management Team 18

SUSTAINABILITY REPORT

President's Statement 24
Sustainability Report 25
GRI Indicators 34

FINANCIAL REPORT

Report of the Audit and Risk Commitee to the Board 38
Statement of Management's Responsibility for the Financial Statements 39
Consolidated Financial Statements 40

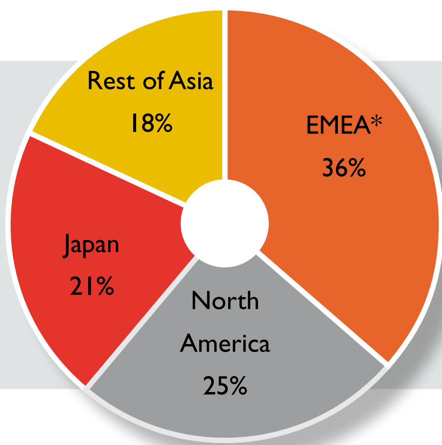


This Integrated Micro-Electronics, Inc. 2010 Annual Report and Sustainability Report cover is printed on FSC®-certified Mohawk Options 100% PC, which is made of 100% process chlorine-free post-consumer recycled fiber with the balance comprised of elemental chlorine-free virgin fiber. This paper is made carbon neutral with Mohawk's production processes by offsetting thermal manufacturing emissions with Verified Emission Reduction Credits (VERs), and by purchasing enough Green-e certified Renewable Energy Certificates (RECs) to match 100% of the electricity used in our operations. This paper is certified by Green Seal.

The Financial Statements of this report are printed on Econobond, which is 100% recycled uncoated paper made from post-consumer collected waste.

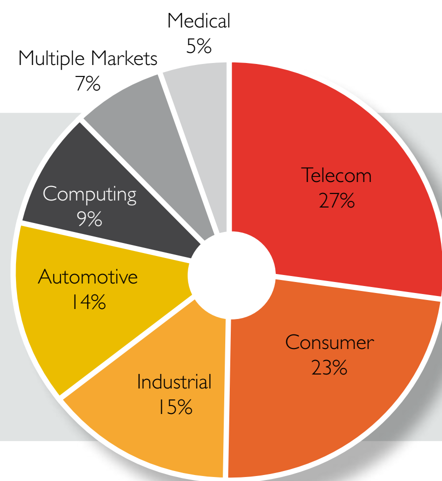
In million US$, except per share amounts and ratios	2010	2009	Variance	%
Revenues	412.3	395.5	16.8	4%
EBITDA	28.4	29.8	(1.4)	-5%
Net Income	4.7	10.1	(5.3)	-53%
Total assets	343.2	302.1	41.1	14%
Stockholders' Equity	170.8	167.0	3.9	2%
BV per share	0.10	0.11		
Current ratio	1.24	1.89		
DE ratio	0.33	0.29		
ROE	3%	6%		

Revenues By Customer Nationality

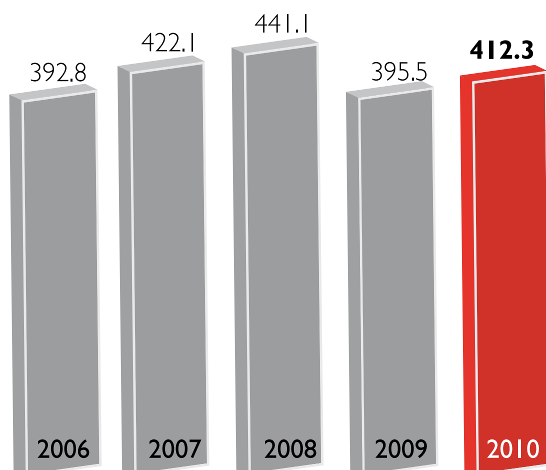


*EMEA: Europe, Middle East and Africa

Revenues By Business Segment



Annual Revenues (in US$ Millions)



US$ 412.3M
REVENUES

US$ 28.4M
EBITDA

30 Years of Flexible Expertise

Thirty years of strategic synergy, cutting-edge innovation, and dynamic evolution have engineered Integrated Micro-Electronics Inc. (IMI) into what it is today: a leading provider of electronics manufacturing services (EMS) and power semiconductor assembly and test services (SATS). IMI thrives in the competitive global EMS market, backed by a strong multicultural workforce, and a brand trusted by market leaders in the electronics industry.

Bold, yet strategic.

IMI was a leap of faith – a bold partnership between Ayala Corporation and Resins Inc. that strategically placed IMI on the electronics map in 1980. Boldly, and with keen market insight, the local IC assembly company launched into the EMS industry in the mid-1980s.

By the end of the 1990s, with new capabilities in design and product development, IMI had transformed into a complete, end-to-end EMS company.

Global, yet Filipino.

With the new millennium came the digital age, sparking a surge in the electronics market. With instinctive foresight, IMI focused on going global, and has since transitioned from a Philippines-centric company to a global corporation, with 14 manufacturing sites across China, the Philippines, Singapore, and the United States, and sales offices in the same countries and in Japan and Germany.

In 2010, the Chengdu plant in southwestern China was established to better serve original equipment manufacturers requiring greater capacity in China to supply the domestic and export markets. In the same year IMI established its solar panel development and prototyping center in Fremont, California, U.S.A., as part of the company's commitment to embed its sustainability initiative in its business strategy. IMI is also committed to a judicious expansion of its global footprint, mindful of the need to move closer to some of its customers in the interest of cost and time-to-market considerations.

The company's comprehensive capabilities, broad geographic reach, and strong Asian manufacturing presence allow it to take on specific outsourcing needs, giving customers cost-effective, quality, and customized solutions that encompass design, manufacturing, and order fulfillment. Its acquisition of a majority stake in PSi Technologies Inc. in 2010 has enhanced its capabilities, particularly in multichip modules and power semiconductors.

IMI is consistently ranked among the top 30 EMS providers in the world, according to *Manufacturing Market Insider's* annual top 50 list. As the only Philippines-headquartered electronics company on the top 50 list, IMI projects good news from the Philippines of a Filipino-owned multinational company that offers customer-focused electronics manufacturing solutions, and puts the Philippines squarely on the world industry map.

Solid, yet flexible.

In 2007, IMI launched a fresh brand that promises customer collaboration, flexibility, and precision. Banking on the solid expertise honed through the years, IMI has leveraged its mastery of the industry to turn flexibility into a key advantage.

IMI prides itself on customer intimacy, which achieves customized solutions out of its platforms in advanced manufacturing engineering, sensors and imaging technology, short-range wireless systems, embedded systems, power supplies, and power semiconductors.

Enterprising, yet sustainable.

As IMI looks to a promising future, it continues to search for productive solutions to the global puzzle of sustainability, striking a delicate balance between business sense and the imperative of corporate responsibility.

When IMI was introduced to the Philippines Stock Exchange in 2010, doors opened to exciting prospects in diversified markets that include those in the automotive, industrial, medical, solar energy, telecommunications infrastructure, storage device, and power semiconductor industries.

IMI is positioned to broaden its horizon and extend its reach in a dynamic market, energized by optimism, driven by innovation, and inspired by the spirit of celebration.

1980	IMI was established by Ayala Corporation and Resins, Inc.
1982	Expanded IC assembly business into contract manufacturing
1998	Started offering design and product development services
2001	Obtained the Philippine Quality Award level III for mastery in quality management
2005	Established global footprint through acquisition of the EMS assets of Saturn Electronics and Engineering Inc. and then Speedy-Tech Electronics Ltd.
2006	Made it to list of the top 50 EMS providers of *Manufacturing Market Insider*
2007	Received *Circuits Assembly's* Service Excellence Award for Highest Overall Customer Ranking
2010	Listed by way of introduction on the Philippine Stock Exchange, opened 6th manufacturing facility in China (the first registered as IMI legal entity), established IMI Energy Solutions, and acquired a majority stake in power semiconductor company PSi Technologies Inc.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman

CHAIRMAN'S MESSAGE

The past decade was marked by a series of strategic acquisitions for IMI that have enabled the company to respond, in a timely manner, to the rapidly changing global electronics manufacturing services (EMS) landscape. These acquisitions allowed IMI to differentiate itself in several ways. First, the company has evolved into a complete, end-to-end electronic manufacturing solutions provider. Second, the company now has a truly global manufacturing footprint with a significant presence in China. Finally, from a customer coverage perspective, IMI now has a diversified client base across the United States, Europe, Japan, China, and the rest of Asia.

These acquisitions have enabled IMI to achieve greater scale, and helped its revenue base expand from US$110 million in 2004 to US$412 million by the end of 2010; resulting in a compounded annual growth of 24.6 percent over the past six years. In 2010, IMI continued to make strategic acquisitions, with a focus on building on its existing capabilities and capturing opportunities in emerging technologies. On this front, IMI acquired 56 percent of PSi Technologies Inc. as part of its efforts to develop next-generation processes and modules to address the growing trend in convergent technology.

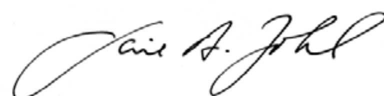
We believe that these significant steps have made IMI more revenue resilient in the face of an increasingly volatile global environment. This was particularly evident during the recent global downturn. Its diversification strategy into China helped buffer the weaknesses it faced in other markets. Revenues from China, which grew by about 25 percent in 2010, now account for roughly 60 percent of total revenues.

While pursuing growth strategies across the Philippines, Singapore, Japan, China, and the United States, the company has reengineered its systems and business processes in order to better address opportunities in these markets. IMI has retooled the organization by utilizing customer-focused teams to make each region, division, section, and individual more responsive to varied customer requirements. Even as IMI continues to engage in complex high-volume manufacturing, it is strengthening its capability to serve low-volume, high-mix, high-margin programs prevalent in the automotive, industrial, and medical electronics markets.

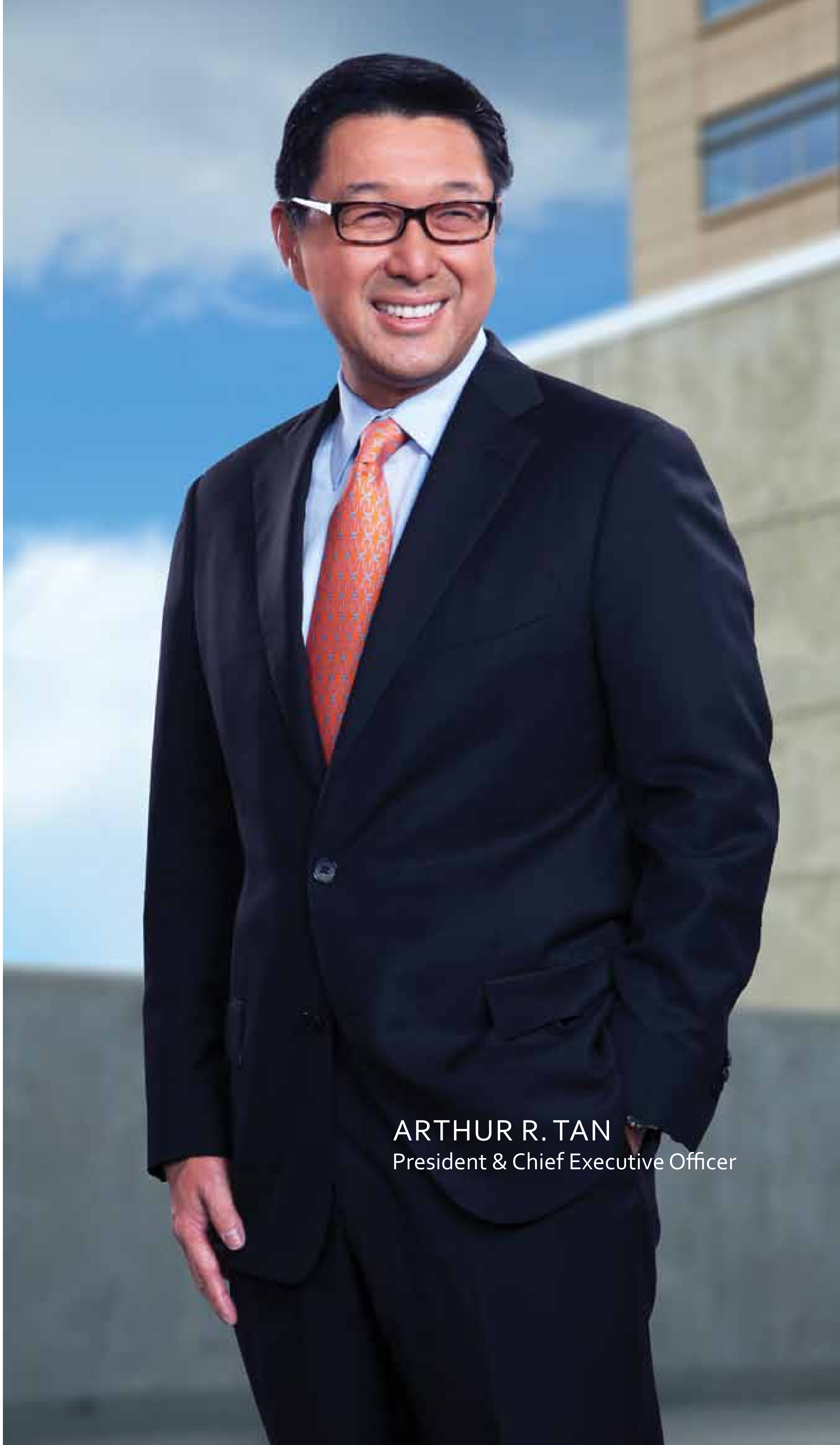
IMI has also continued to build the financial credibility and flexibility to access the capital markets. This will support the company's plans to expand its operations and enhance its design and engineering capabilities. IMI listed its shares by way of introduction in the Philippine Stock Exchange in January 2010 and continues to pursue plans for an eventual initial offering at the appropriate time.

The electronics manufacturing services industry can only expand as electronic devices become increasingly pervasive in all aspects of our life—in business, the science and medical fields, sustainable technologies, and in many aspects of our consumer lifestyle choices. The outsourcing market, particularly in Asia, will also be a significant part of the supply chain in delivering these products and services. I remain confident that as the global economy continues to stabilize and move towards full recovery, IMI will be well equipped to serve this broad range of markets with its progressive and flexible product and service capabilities.

As we commemorate IMI's 30th anniversary this year, I congratulate and thank the board, the management team, our many customer groups and the entire IMI workforce for their continued support in the pursuit of our global aspirations.



Jaime Augusto Zobel de Ayala


ARTHUR R. TAN
President & Chief Executive Officer

Setting Up for Growth

The year 2010 continued to present several regional business challenges for IMI. As we struggled to deal with a severe business environment, we have started to make structural reforms to transform our company into a more responsive organization that could ride out the volatile weather and prepare for a renewed growth phase. I would like to take this opportunity to discuss our current position and prospects for the future.

Into Recovery

Last year was marked by unusual levels of uncertainty in supply and demand situations either for raw materials or end products. Instability in the global economy may have dragged the market demand for electronic products in the first half of 2010, but the situation took a turn for the better in the latter half of the year, as production volumes rose to meet the growing confidence in consumer spending on electronic devices.

The mild economic resurgence at the close of 2010 finally saw the electronics manufacturing services (EMS) industry rebounding from a negative growth in 2009. IMI, in particular, posted US$412.3 million in consolidated revenues, or a 4 percent year-on-year growth. This revenue boost was generated by the strong performance of our China operations and augmented by the incremental revenues from our acquisition of PSi Technologies Inc. Our acquisition of 56 percent shares of PSi Technologies in October 2010 generated additional sales of US$19.3 million in the fourth quarter of the year. This put IMI at the forefront of the growing convergence of power semiconductor assembly and test services (SATS) and EMS, allowing us to offer our customers optimized power solutions in multichip modules and serve emerging markets in electric vehicle, smart power, and smart sensor technologies.

The combined China and Singapore operations generated US$248.8 million in revenues, accounting for 60.4 percent of total IMI revenues. This represents a 25 percent year-on-year growth due mainly to larger orders from major customers in the telecommunication infrastructure, industrial, and consumer electronics markets.

2010 At-A-Glance

- Revenues up 4 percent to US$412.3 million
- China operations sustained its strong performance
- Listed on the Philippine Stock Exchange
- Acquired majority shares of PSi Technologies
- Opened 6th manufacturing facility in China
- Established IMI Energy Solutions

A leading Chinese original equipment manufacturer (OEM) in telecommunications kept increasing its orders for infrastructure devices from IMI, as it retained its dominant position in the Chinese market and amplified its market share outside China. Similarly, a customer in smart grid products dramatically raised its volume requirement, as its proprietary technology gained accelerated market acceptance.

The revenue growth of IMI was also impacted by the increased revenues generated from a key European OEM (with manufacturing lines in China and the Philippines), resulting from a steady improvement in demand in the automotive and consumer electronics industries.

While diversification across regions and market segments shielded our revenues from the impact of isolated business downturns in 2010, our net income after taxes declined to US$4.7 million from the previous year's US$10.1 million. However, we did well on the basis of net income at an operating level. IMI delivered US$7 million net income at an operating level (excluding non-recurring items), representing about 27 percent growth over the 2009 level of US$5.5 million. This growth was driven by our China operations, which ended 2010 at US$14.8 million versus US$12.6 million in 2009.

Our Philippine operations continued to suffer from declining consignment or captive business with Japanese OEMs, resulting in lower factory and equipment utilization. IMI Laguna experienced the closure of the liquid crystal display assembly operations for a Japanese customer after the latter sold its interest to another company with its own international manufacturing operations. Another Japanese customer, a leader in the storage device market, remained affected by the sluggish demand for Blu-Ray drives. However, increased revenues generated from a Japanese EMS provider and additional returns from the assembly of solid state drives for a Japanese OEM somehow tempered the situation.

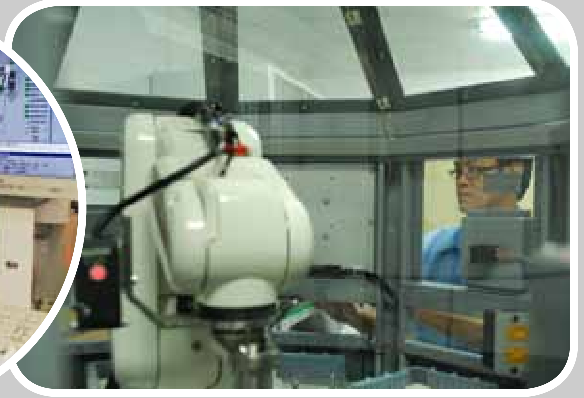
More pressures such as the rising costs of materials, the upsurge in China wages, and the appreciation of the Philippine peso adversely affected our bottom line. But we confronted such stresses head-on by intensifying our company-wide initiatives in controlling costs and streamlining operations. Moreover, we entered into a simple dollar forward hedging.

Despite a challenging environment, we posted a positive net income after taxes with a return on equity of 3 percent and an EBITDA of US$28.4 million or an EBITDA margin of 7 percent. Thus we ended the year with a cash balance of US$38 million. Our debt-to-equity ratio has remained at a healthy level of 0.33:1.0. We have adequate credit facilities to fund our ongoing expansion program.

Seeding the Future

IMI started 2010 with its listing by way of introduction on the Philippine Stock Exchange on January 21, 2010, which introduced IMI to a wider public, making it known how a Filipino technology firm has made its mark in the international market. The listing also introduced IMI and its capabilities to the equity markets, as it gears up for future acquisition and expansion plans. But most important, perhaps, going public strengthens our commitment to good governance.

The fact of market instability remains a major industry concern in 2011. Tight supply chains are expected to continue to affect the activities of both OEMs and EMS providers. We have created a Demand Management Team to consolidate several front-end materials activities (order loading, planning, and production control) to allow us to streamline the entire demand management process into a seamless activity, thus affording us speed and velocity in our purchasing and buying execution. We continue to strengthen and expand our direct manufacturer relationships to improve our cost competitiveness and assure the supply of materials while benefiting on the commercial terms through the Distributor Alignment Program. Further, we implemented the Broker Alignment Program for the main purpose of mitigating the risk of counterfeit components prevalent during tight supply conditions.



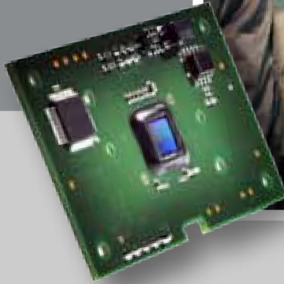
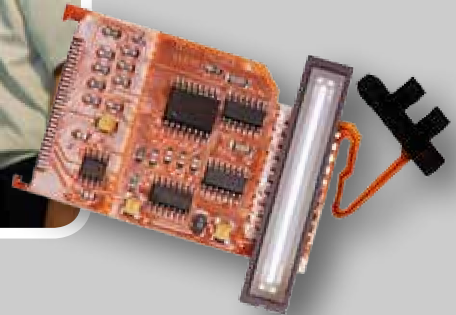
IMI is looking at the bright spot of hope in the growth of emerging markets—renewable energy, automotive, industrial, and medical electronics. Already we have encountered strong opportunities for these target markets. Here are some of the things we can leverage on to make significant inroads in these markets:

- IMI Energy Solutions was established in Fremont, California, in June 2010, to engage in the development, prototyping, and low-volume manufacture of solar panels. In 2011, we plan to expand this venture into mass production of solar panels.
- The Singapore Design and Development Group developed in 2010 a grid-connected solar panel inverter platform. Built for high reliability and high efficiency, the inverter is suitable for homes and small establishments.
- The Philippine Design and Development Group developed its second-generation rear-view and front-view automotive cameras for driver assistance. Capitalizing on our expertise in bare-die mount and optical test development, these platforms allow us to deliver a complete and cost-effective camera solution to automotive OEMs.
- The acquisition of a majority stake in PSi Technologies Inc. has enhanced our capabilities to serve the automotive, industrial, and medical markets.

The following encouraging developments will help grow our business in both the traditional and emerging EMS markets:

- Speedy-Tech obtained in August 2010 a US patent for "Self-Coupled Driver Used in Dual-Switch Forward Power Converter." A self-coupled driver results in power converters with higher efficiency, lower part-count, and lower component cost.
- The Global Test and Systems Development Group delivered in 2010 customized test equipment to virtually all of IMI's strategic customers. Moving forward, IMI plans to leverage the engineering capabilities of the group and combine it with a low-volume, high-mix manufacturing team to form a new business unit to provide manufacturing solutions for OEMs with large and complex products such as semiconductor manufacturing and test equipment.
- IMI U.S.A. in Tustin, California has expanded its development and prototyping capabilities, specifically in MCM (Multichip Module) packaging and MEMS (Micro-Electro-Mechanical Systems) technology. Both MCM and MEMS are important facets of modern electronic product miniaturization. The Tustin team will be working with the different design groups of IMI and PSi to come up with leading edge platform solutions for diverse markets.
- IMI Japan moved its office from Tokyo to Nagoya to be closer to the OEM factories while allowing us to continue to deepen relations with the OEM R&D centers headquartered throughout Japan.

China remains a manufacturing hub for the export as well as the domestic market. While it now feels the pressure of rising wages, it is also experiencing its growing middle class' purchasing power. Manufacturers must constantly remember that China represents a huge consumer market whose middle class has outstripped the entire population of the United States.

In 2010, we expanded to Chengdu in southwestern China as part of our strategy to bring our services closer to OEMs requiring greater capacity in China. The Chengdu factory, the first in China to be registered under IMI's name, brings the number of IMI's manufacturing sites in China to six. An advantage of moving to southwestern China is that its manufacturing costs are more competitive compared to those in the coastal cities; the region also has a large pool of workers. Before Chengdu, we pioneered EMS business in southwest China through our Chongqing facility. To ensure consistently efficient operations in China, we will focus on operational excellence, finding customers in China targeting the local market, and strengthening supplier networks for our Chengdu and Chongqing facilities.

But by no means are we limiting our operations to where we are today. As regional manufacturing picks up steam, we seriously consider expanding our operations to locations near our customers in Europe and the United States for cost and responsiveness advantages.

Reengineer, Retool

We look ahead to a decade of hope. In 2011, IMI will enter a growth year as we reengineer our operations and build up our human resource capacity. As a global company with an international management team, IMI will deepen its corporate culture by continuing to do what's right. By this we mean to reiterate our sworn duty to uphold the values IMI stands for: integrity, excellence, commitment, diversity, empowerment, team spirit, and customer service.

In 2011, we will be counting more closely on one another, as we hunker down and enter a transition period during which we must reengineer and retool our competencies and processes toward greater customer focus. We must apply ourselves to understanding more deeply how important our products are to our customers and, in the process, make these products our very own. As we fortify our strengths and deal with our weaknesses, we expect to keep our sights on improving the business of our customers, which will ultimately mean improving ours.

Toward the goal of capturing and sustaining high-value and high-margin businesses, we will strengthen our capability to serve low-volume, high-mix, and high-margin programs prevalent in the emerging markets. At the same time we will establish a robust Program Management (PM)-centric organization that utilizes cross-functional and customer-focused teams to make each region, division, section, and individual accountable and empowered to create a customer experience that makes IMI unique compared to our peers.

At the deepest level, all these changes imply the creation of a corporate culture that empowers people and encourages teamwork. This culture will transform IMI's Human Resources

Visit of the Philippines' President Benigno Aquino III to IMI Energy Solutions

Key Strategic Initiatives

- Conduct business process reengineering and organizational retooling
- Create a corporate culture that empowers people and encourages teamwork
- Build leadership bench strength and enhance technical competence
- Establish a robust process and management system for emerging business opportunities

division into a strategic partner of the organization, and make IMI an employer of choice. We are committed to design and execute corporate culture enhancement programs, as well as ensuring a performance-driven compensation system.

We are also establishing the IMI University to create a corporate culture that stimulates or facilitates business process reengineering and organizational adaptability to better serve our target markets. Its core and functional courses will enhance the competencies of our workforce and build a strong leadership bench that is highly capable of undertaking work improvements to ensure robust productivity.

To guarantee a steady revenue stream, we are setting up a robust process and management system for emerging business opportunities (EBO), and are committed as well to designing and implementing an EBO process and structure.

Finally, we are publishing a Sustainability Report for the first time in our 30-year corporate history. As a global company, IMI understands that becoming an EMS partner of choice and achieving lasting shareholder value are enhanced by embedding sustainability into our long-term strategy and by fully disclosing our progress. We hope to create value from our corporate responsibility via our Sustainability Program, for which we are prepared to put in place processes aimed at improving our assessment of risks and opportunities on all levels of business, our ability to allocate resources and set appropriate performance goals, and our capacity to enhance trust and promote value with key stakeholders.

As IMI marches into its fourth decade of operations, it does so with a refreshed sense of perspective, vigor, and maturity. It looks back in appreciation to its founding visionaries' foresight and the foundation they laid for all that followed. I am confident that any one of them beholding IMI today would be proud about the progress we have made, and the global ground we have covered.

Our gratitude will always go out to our customers, shareholders, suppliers, bankers, and employees, whose faith and abiding support have made IMI what it is at 30—a global Filipino company with boundless potential.

Arthur R. Tan

BOARD OF DIRECTORS

Jaime Augusto Zobel de Ayala
CHAIRMAN

Director, Ayala Corporation (since 1987). Chairman and CEO, Ayala Corporation; Chairman, Globe Telecom Inc., Bank of the Philippine Islands, and Integrated Micro-Electronics Inc.; Vice Chairman, Ayala Land Inc. and Manila Water Co. Inc.; Co-Vice Chairman, Mermac Inc., and the Ayala Foundation. Director, BPI PHILAM Life Assurance Corp., Alabang Commercial Corporation, Ayala International Pte Ltd., and Ayala Hotels Inc.; Member, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, and Toshiba International Advisory Group. Philippine Representative to the Asia Pacific Economic Council; Chairman, Harvard Business School Asia-Pacific Advisory Board; Vice Chairman, Asia Business Council; Member, Harvard University Asia Center Advisory Committee, Board of Trustees of the Eisenhower Fellowships, the Singapore Management University, Asian Institute of Management, The Asia Society, and the International Business Council of the World Economic Forum; Chairman, World Wildlife Fund Philippine Advisory Council; Vice Chairman, The Asia Society Philippines Foundation Inc.; Co-Vice Chairman, Makati Business Club; and Member of the Board of Trustees, Children's Hour Philippines Inc.

Fernando Zobel de Ayala
DIRECTOR

Director, Ayala Corporation (since 1994). Vice Chairman, President, and COO, Ayala Corporation; Chairman, Ayala Land Inc., Manila Water Company Inc., Ayala DBS Holdings Inc., and Alabang Commercial Corporation; Vice Chairman, Azalea Technology Investments Inc.; Co-Vice Chairman, Ayala Foundation Inc. and Mermac Inc.; Director, Bank of the Philippine Islands, Globe Telecom Inc., Integrated Micro-Electronics Inc., Asiacom Philippines Inc., Ayala Hotels Inc., AC International Finance Limited, and Ayala International Pte, Ltd.; Member, Asia Society, World Economic Forum, INSEAD East Asia Council, and the World Presidents' Organization; Director, Board of Habitat for Humanity International, and Chairman, Habitat for Humanity's Asia-Pacific Steering Committee; Trustee, International Council of Shopping Centers; Member, Board of Directors of Caritas Manila, Kapit Bisig para sa Ilog Pasig Advisory Board, Pilipinas Shell Corporation, and Pilipinas Shell Foundation.

Arthur R. Tan

PRESIDENT & CHIEF EXECUTIVE OFFICER

Arthur R. Tan has been a member of the Board of Directors of IMI since 2001. He has been the President and Chief Executive Officer of IMI since April 2002. Concurrently, he is the Chairman and President of Speedy-Tech Electronics Ltd. and PSi Technologies Inc. Prior to joining IMI, Mr. Tan was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts) from 1994 to 1998, after which he became the Managing Director – Asia Pacific Region/Japan of the same company, from 1998 to 2001.

Delfin L. Lazaro

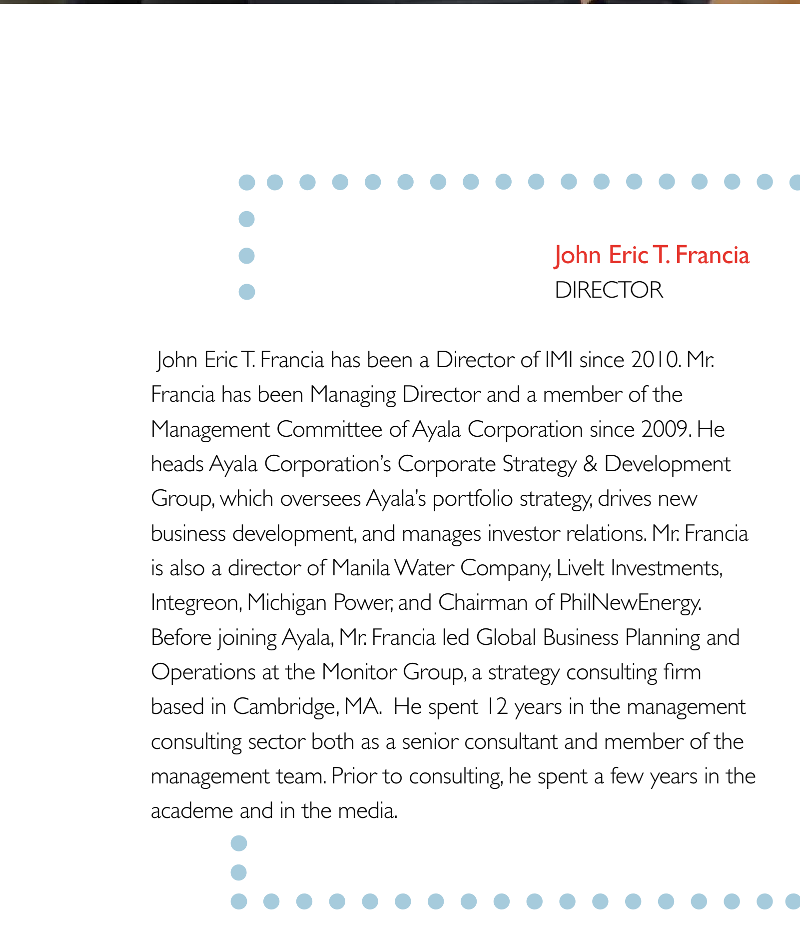
DIRECTOR

Delfin L. Lazaro has been a Director of IMI since 2000. Mr. Lazaro holds the following positions: Chairman, Philwater Holdings Co. Inc. and MPM Noodles Corp., AYC Holdings Ltd., and Atlas Fertilizer & Chemicals; Chairman and President, A.C.S. T. Business Holdings Inc., Vice Chairman and President, Asiacom Philippines Inc.; President, Azalea Technology Investments Inc.; Director, Ayala Corporation, Ayala Land Inc., Globe Telecom Inc., Manila Water Co. Inc., AI North America Inc., Ayala International Holdings Ltd., Ayala DBS Holdings Inc. Bestfull Holdings Limited, Probe Productions, and Empire Insurance Company. He is also a member of the Board of Trustees of The Insular Life Assurance Co., Ltd. and Managing Director of Lazaro, Bernardo, Tiu & Associates. Mr. Lazaro was formerly the President and CEO of Benguet Corporation and Secretary of the Department of Energy of the Philippine Government. He was named Management Man of the Year in 1999 by the Management Association of the Philippines for his contribution to the conceptualization and implementation of the Philippine Energy Development Plan and to the passage of the law creating the Department of Energy.

BOARD OF DIRECTORS

Delfin C. Gonzalez, Jr.
DIRECTOR

Delfin C. Gonzalez, Jr. joined the IMI Board in 2010 and became a member of the IMI's Finance Committee. He is the Chief Finance Officer of Ayala Corporation and is also a member of its Management Committee and Finance Committee. He joined Ayala Corporation in late 2000, assigned as Chief Finance Officer for its subsidiary, Globe Telecom Inc. until early 2010. Before joining Ayala Corporation, he was with San Miguel Corporation for 24 years in the Strategic Planning and Finance groups, ending his stint there as Executive Vice President, Chief Finance Officer, and Treasurer.



John Eric T. Francia
DIRECTOR

John Eric T. Francia has been a Director of IMI since 2010. Mr. Francia has been Managing Director and a member of the Management Committee of Ayala Corporation since 2009. He heads Ayala Corporation's Corporate Strategy & Development Group, which oversees Ayala's portfolio strategy, drives new business development, and manages investor relations. Mr. Francia is also a director of Manila Water Company, LiveIt Investments, Integreon, Michigan Power, and Chairman of PhilNewEnergy. Before joining Ayala, Mr. Francia led Global Business Planning and Operations at the Monitor Group, a strategy consulting firm based in Cambridge, MA. He spent 12 years in the management consulting sector both as a senior consultant and member of the management team. Prior to consulting, he spent a few years in the academe and in the media.

Jose Ignacio A. Carlos
DIRECTOR

Jose Ignacio A. Carlos has been a Director of IMI since 2007. Concurrently, he is the President of Polymer Products (Phil) Inc. and AVC Chemical Corporation. He is also a member of the Board of Directors of Resins Inc., Riverbanks Development Corporation, and Mindanao Energy Systems Inc.

Rafael Ma. C. Romualdez
DIRECTOR

Rafael Ma. C. Romualdez has been a Director of IMI since 1997. He is also currently a Director of Resins Inc., RI Chemical Corporation, and Claveria Tree Nursery Inc.; Chairman of the Philippine Iron Construction and Marine Works, Inc.; and Chairman of the Board of Pigmentex Inc., Pacific Resins Inc., and MC Shipping Corporation.

Diosdado P. Banatao

DIRECTOR

Diosdado P. Banatao has been an independent Director of IMI since 1994 . He is the Founder and Managing Partner of Tallwood Venture Capital, before which he was a venture partner at the MayfieldFund. Mr. Banatao co-founded three technology start-ups, namely, S3 (SBLU), Chips & Technologies (INTC), and Mostron. He also held positions at National Semiconductor, Seeq Technologies, Intersil, and Commodore International. In 1997, he was given the prestigious Master Entrepreneur of the Year Award sponsored by Ernst & Young Inc. magazine and Merrill Lynch Business Financial Services. He is currently Chairman of the Board of InPhi Corporation, Ikanos, and Quintic Corporation, and also sits on the Boards of Alphion Corporation, Wave, Pixim, and Wilocity. He was previously the Executive Chairman, Interim President, and CEO of SiRF and Ikanos. He also served as Chairman of and led investments in Marvell Technology Group (MRVL); Acclaim Communications, which was acquired by Level One (INTC); Newport Communications, which was acquired by Broadcom (BRCM); Cyras Systems, which was acquired by Ciena (CIEN); and Stream Machine, which was acquired by Cirrus Logic (CRUS).

Alelie T. Funcell

DIRECTOR

Alelie Funcell has been an independent Director of IMI since 2010. She is the Founder, CEO, and President of Renewable Energy Test Center. She served as Chief Operating Officer and Senior Vice President of Quality at Solaria Inc., a manufacturer of Concentrator Photovoltaic products, and Vice President of Supplier Management and Manufacturing Operations of Xilinx Inc., a billion-dollar semiconductor company. Prior to Xilinx, she also worked in several semiconductor companies, including Intel, IDT, and Silicon Systems. She is credited with numerous patents in the Semiconductor Packaging and Solar Industry. She was twice a recipient of the prestigious S.C. Valley YWCA "Tribute to Woman in the Industry" (TWIN) Award in 1994 while at IDT, and in 2000 while at Xilinx.

Hiroshi N. Nishimura
DIRECTOR

Hiroshi N. Nishimura has been an independent Director of IMI since 2010. He is currently the President and Chairman of Linkwest International Consultancy Services. He is a management and technical consultant to various businesses and projects in the Philippines. Since 2009, Mr. Nishimura has been with All Purpose Appliances & Multi Products Inc. as Director and Vice President. He was President of Panasonic Communications Philippines Corporation from 2000 to 2007. He has been employed in Japan for almost 26 years since 1973 up to 1999 at Kyushu Matsushita Electric Co. Ltd. (Panasonic Japan). At present, he is affiliated with the Jesus V. Del Rosario Foundation Inc. as consultant.

MANAGEMENT COMMITTEE

Arthur R. Tan

Shong Cheng Yeh

Sherisa P. Nuesa*

Andrew C. Carreon

Emmanuel V. Barcelon

*Replaced by Jerome S. Tan as Chief Finance Officer in January 2011

Olaf Gresens

Phua Teo Chye

Linardo Z. Lopez

Melita R. Tomelden

Timothy P. Patterson

Michael R. Hansson

MANAGEMENT TEAM

CUSTOMER-FOCUSED TEAMS

Mary Ann S. Natividad

Reynaldo N. Torda

Joseph Sze Chee Pheng

Eric Koh Chee Wee

Guo Chang Zheng

Yang Gongxiao

Li Yong

Huang Dai Qiang

Li Jianhua

Wee Aik Koon

Joselito S. Bantatua

Jawaharlal K. Milanes

Mario Bernardo N. Santos

Fernandel I. Evangelista

Lucrecio B. Mendoza

Victor M. Rodriguez

Ramil C. dela Cruz

Geronimo B. Magsombol

SUPPORT GROUP

Jaime G. Sanchez

Jacky Yeung Hin Wai

Peter Zheng Xianlai

Emelita R. Ubarra

Richard D. Bell

Josef Pfister

Peter Lausen

Jeremy Cowx

Alex Kot Yu Kuen

Roque Felipe M. Granada

DESIGN AND DEVELOPMENT GROUP

Rafael Nestor V. Mantaring

Zhang Binbin

Zhou Wei Min

Thomas Moersheim

Sustainability Report

We

believe in
sustainable
stewardship.
We are committed to doing business
in a manner that protects our employees,
uplifts the communities
and preserves our environment
we operate in
for future
generations.

PRESIDENT'S STATEMENT

IMI is deeply committed to sustainability as it strives to be a great company, one that keeps a balance between profitability and responsibility toward its stakeholders and the environment. Doing business today has gone beyond mere profit making. A business, to enhance its relevance, must become a productive force for change through sustainability initiatives. Doing business is beyond good governance. We want to make an impact on society and the environment, hence, our paramount concern for the Ps – people (our stakeholders and the community), profit, and the planet.

For the first time in its long corporate history, IMI is releasing a Sustainability Report, which we hope to do on a regular basis. The report seeks to provide stronger connections between IMI's overall business strategy and our sustainability approach. In the medium to long run we also hope to measure the impact of IMI's sustainability initiatives on both the company and the community, and thus more formally incorporate stakeholder feedback so as to demonstrate our commitment to sustainability.

Admittedly, IMI still has a long way to go in its sustainability journey. But we are proud that we have taken steps in the right direction, which we now must judiciously monitor via a set of Global Reporting Initiative (GRI) indicators. For the last several years, IMI has had in place programs in support of its Environment, Health and Safety policy, as well as a Corporate Social Responsibility agenda. Moreover, in the last few years, IMI has ventured into renewable energy through its solar panel product development and prototyping business. We continue to engage in green manufacturing technologies, and are dedicated to the pursuit of such technologies wherever applicable.

We are looking to bring together these initiatives in an integrated IMI Sustainability Program, which we will do for the rest of the year following the release of the Sustainability Report.

To this end, we will strive to improve our Sustainability Program every year. In 2011, we will establish a Sustainability Council, which will craft our IMI Sustainability Policy and identify our flagship programs. We will put in place a system for data collection, calculation, and validation to better assess risks and opportunities that will impact our business. We will provide the allocation of resources and set appropriate performance targets.

In the long term, a sustainability mindset will be good for IMI in a global business regime that increasingly puts a premium on sustainable corporate policies and practices. Nurturing and enhancing such mindset will make our company more appealing to tier-one customers that value sustainability and socially responsible business policies and practices. Ultimately, IMI will become their EMS partner of choice.

Arthur R. Tan

Sustainability: The Only Way Going Forward

Sustainability is about meeting human needs and requirements while staying within the environment's limits. Through the Sustainability Report, IMI hopes to track the ways in which its employees and manufacturing processes adhere to the standards of sustainability with a view to living meaningful lives and doing business with utmost consideration for the environment to ensure a future that is more or less secure. The report is patterned after a method developed by the Global Reporting Initiative (GRI), a network-based organization that pioneered the world's most widely used sustainability reporting framework. Among GRI's core goals are the mainstreaming of disclosure on environmental, social, and governance performance.

Good Governance at IMI

IMI is committed to the highest level of good governance throughout the organization, as well as to fostering a corporate culture of integrity and empowering leadership. This governance is anchored on the belief in a strong link between quality governance and the creation of shareholder value and long-term growth.

In compliance with Securities and Exchange Commission (SEC) Memorandum Circular No.6, Series of 2009, IMI submitted its revised Corporate Governance Manual to the SEC in April 2010.

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

IMI has three independent directors. For this purpose, the company defines an independent director as one having no interest or relationship with the company that may hinder his or her independence from the company or management, which would interfere with the exercise of impartial judgment in carrying out the director's responsibilities.

The Board represents a mix of competencies, with each director capable of adding value and exercising independent judgment. Meetings are held at least quarterly, or as often as necessary for the Board to fulfill its role.

The Board has established committees to assist in exercising its authority, including monitoring the performance of the business. Five committees support the Board in the performance of specific functions and to aid in good governance: Executive, Compensation, Audit, Finance, and Nomination.

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

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

The Audit Committee oversees IMI's internal control and financial reporting on behalf of the Board of Directors.

The Finance Committee supervises the implementation of an enterprise-wide risk management program and oversees major financial policies.

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

Directors' Compensation. Non-executive directors, defined as members of the Board of Directors who are neither officers nor consultants of the company, receive per diem of Php100,000 for each Board meeting attended, and Php20,000 per committee meeting attended. This remuneration scheme for non-executive directors was ratified at the 2008 annual stockholders meeting.

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

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

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

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

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

A separate Internal Audit Charter approved by the Audit Committee governs the internal audit function.

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

Financial Reporting. IMI's financial statements are prepared and presented in accordance with Philippine Accounting Standards and Philippine Financial Reporting Standards, which comply with International Accounting Standards.

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

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

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

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

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

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

The company strictly enforces compliance with these trading blackout periods, reporting only one violation in 2010.

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

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

Caring for its People

IMI employs more than 15,000 people in all its manufacturing and engineering facilities in different locations in the world. IMI recognizes the value of human capital especially in recessionary times, which call for a stronger employer-employee alliance. IMI cares for its employees through several programs because it knows that its good-natured and well-trained employees are taking care of the company.

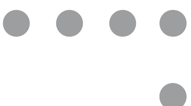
People Empowerment. IMI has embedded people empowerment in its organizational structure, which seeks to transform the entire team into one that is performance driven, directionally aligned, and highly motivated. In this new structure, each region, division, section, and individual is accountable and empowered to create a customer experience that makes IMI unique compared to its peers. Customer-focused teams with representatives from different functional groups play a crucial role in carrying out IMI's mission. Employees are also given a chance to take lead roles in the company's continuous improvement activities through small-group activities (quality and productivity circles).

Manpower Training and Development. IMI's training and development programs, which are based on needs analyses, aim to develop competencies to ensure optimum job performance and customer satisfaction. As IMI takes a holistic approach in its training and development interventions, employees are trained and nurtured to enable them to effectively contribute to the attainment of the company's strategic and tactical goals. These programs provide employees with the basic competencies needed to be more effective on the job, to enhance current skills, and acquire new competencies in preparation for future jobs.

Career Development. IMI provides two career development paths—(1) the professional/managerial career development track, and (2) the technical career development track. Corresponding training and development programs based on assessed gaps, business needs, and the company's strategic and tactical goals and objectives are provided to employees under both development tracks.

Continuous Education Program (CEP). IMI offers scholarship grants to qualified employees who wish to obtain an engineering degree. Under the ETEEAP (Expanded Tertiary Education Equivalency and Accreditation Program), the Commission on Higher Education program could give IMI workers in a technical field a chance to have their work experience credited into equivalent tertiary level engineering units. With a minimum of 5 years' working experience, after passing required assessments and upon completion of all the requirements of a formal year (2 semesters) of classroom training held on Saturdays, the employee is given a Bachelor of Science Degree in Engineering.

Formal Employee Education Program (FEED). Employees under the FEED program are not company scholars. IMI, however, enters into a partnership agreement with the school on their behalf in order to provide the following: (1) school fees payment through regular salary deductions; (2) whenever possible, formal instructions held inside company premises; (3) employees are kept on regular-shift schedule to facilitate their class attendance.



Corporate Social Responsibility

IMI's Corporate Social Responsibility (CSR) policy reiterates its commitment to improving social conditions in the countries and communities it operates in. It believes that good business means doing good through all means possible, and that CSR is an organic extension of doing business the right way.

Education. IMI is committed to making education a right rather than a privilege especially for the less fortunate. Believing that charity should start at home, IMI assists qualified employees and their dependents who want to pursue Engineering degrees.

In 2010, IMI raised Php500,000 in donations from employees and the company for the Children's Hour, a foundation that helps underprivileged Filipino schoolchildren. IMI also distributed storybooks for young children to public schools in the communities it operates in to encourage schoolchildren to take up reading as a hobby at an early age.

Environment. IMI regularly joins CSR projects for the improvement of the environment. In 2010, some 58 employees participated in the Ayala Group tree planting in January at Ayala Land's Nuvali Estate in Laguna. Eleven volunteers from IMI joined the other employee-volunteers of the Ayala Group during the Earth Day celebration in April, during which the volunteers painted the walls in the underpass at the corner of Ayala Avenue and Paseo de Roxas in Makati City using environment-friendly paint that claims to remove eight cars' worth of emissions per square meter of painted space.

Entrepreneurship. IMI equips its employees with the trade skills not only for income augmentation but also to promote an entrepreneurial mindset. In 2010, around 24 employees graduated from the Basic Cosmetology livelihood program. To give back to the community they offered free haircuts to residents of Barangay Timbao in Biñan, Laguna.

Volunteerism. Physical and spiritual fitness are also an important aspect of employee development. Fun runs, usually for good causes, have been providing IMI employees opportunities to accomplish these twin objectives of wellness. In March 2010, some 30 employees joined the Ayala Run for Home for the benefit of the Habitat for Humanity Foundation, which builds houses for the poor. In April, IMI hosted its in-company Fun Run for A Cause for the benefit of the IMI Children's Fund, a fund-raising activity for children of IMI employees in need of financial assistance. This fun run generated more than Php2 million in proceeds from donations from more than 2,700 employees. In October, 189 employees joined the 10.10.10 Run for Pasig marathon, which aimed at helping the Calauan-Habitat project. In December, 31 employees joined the ING marathon also for the benefit of the Habitat for Humanity Foundation.

Some 117 employees (led by Management Committee members of IMI) volunteered to build houses for the Habitat Build by the Ayala Group at the Bayan ni Juan in Calauan, Laguna.

A medical outreach in Barangay Timbao was held in May, in which 32 volunteers helped attend to 924 residents' medical needs. In August, IMI also sponsored a Family Health Day in which employees' dependents were given free medical, dental, optical, and other specialized services. Some 40 employees volunteered for this cause and served 861 beneficiaries.

In July, 84 employees participated and volunteered in the Blood Donation conducted by St. Luke's Global Medical Center.

Building-to-Building Linkage

IMI's energy management program has realized a reduction in power consumption by 4.64 percent in 2009, or 3,037,043 KWH; and 4.91 percent or 2,264,867 KWH in 2010 through basic Quality Circle problem-solving tools developed through deep collaboration between the facilities and manufacturing groups. The initiatives included the optimization of chiller utilization through the installation of building-to-building linkages, the application of the variable frequency-drive concept, and the optimization of the demand-to-capacity ratio.

Beyond Traditional CSR

Over and above traditional CSR activities, IMI has stepped up its engagement with sustainability through its Environment, Health, and Safety Program; green manufacturing technologies; and a business venture into the renewable energy field. Remarkably, these programs have the effect of embedding sustainability in IMI's business model, in which sustainability becomes a business strategy in itself. IMI is committed to invest in this direction in an effort to be part of the worldwide solution by facilitating the manufacture of products that improve the quality of life in the planet.

Environment, Health, and Safety Program

IMI strives to minimize the impact of its operations on its people and the environment through the implementation of an integrated Environment, Health, and Safety (EHS) program.

IMI complies with all applicable laws, regulations, and other safety and environment standards to which it subscribes. IMI's EHS Organization was formed to keep track of the interrelationship of various functions for developing, managing, and implementing the different components of all applicable systems. Various teams are in charge of implementing the programs developed to achieve the organization's EHS objectives and targets.

IMI takes pride in an integrated EHS management system that consists of programs in energy management, water conservation, health and safety management, and chemical and waste management.

Fire Drill

The water conservation program generated savings of 2.69 percent, or 17,757 m^3, in domestic and industrial water consumption in 2009, and 5.99 percent, or 39,686 m^3 in 2010, for the same. Some of the methods employed were water recycling, efficient optimization of deionized water, and using, where applicable, air-cooled chillers instead of water-cooled chillers.

IMI also conducts health and safety-awareness training seminars such as those for basic first aid, life support, chemical handling, and fire and earthquake drills.

In 2010, as a result of its safety management program, IMI obtained Zero Disabling Accident for its Laguna facilities. In 2009, IMI was awarded by the Department of Labor and Employment's Bureau of Working Conditions the Safety

Award for having attained 26,822,680 safe man-hours at the Laguna Technopark Site 1, and 4,433,240 safe man-hours at the Laguna Technopark Site 2.

IMI excels as well in chemical and waste management. It complies with the Philippine government's Department of Environment and Natural Resources (DENR) Toxic and Hazardous Republic Act 6969 and the Ecological Solid Waste Management Act 9003. IMI judiciously implements the 3R (Reduce-Reuse-Recycle) program in the disposition of its chemicals for manufacturing processes, waste segregation, and waste composting.

In 2010, IMI turned over its hazardous recyclable waste (e.g., used lead battery, oil, and solvent chemical)—a total of 3,398 kg—to ABS-CBN Foundation's Bantay Kalikasan. The corresponding monetary proceeds in the amount of Php78,590 was donated to Tahanang Walang Hagdanan Inc., a foundation that provides employment for persons with disabilities and a venue for the holistic development of their physical, mental, economic, social and spiritual well-being.

Applicable legal and other requirements have also been identified, reviewed, and evaluated with regard to IMI's compliance to associated environmental aspects and occupational safety and health hazards.

Periodic conformance audit and safety inspections have also been regularly conducted to check IMI's compliance to procedures, standards, and legal requirements. A regular Management Review is in place to assess IMI's overall Environment, Health, and Safety performance against its EHS Policy, EHS Objectives, Targets and Programs for identifying opportunities for improvement.

IMI is ISO 14001:2004 certified, and remains continuously compliant to OHSAS 18001, the international standard for certification of Occupational Health and Safety Management Systems.

Green Manufacturing

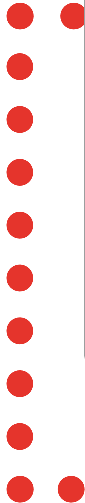
IMI adheres to responsible manufacturing for the protection of the environment. It promotes the practice of Hazardous Substance Process Management System (HSPM), complying with all applicable environmental laws and regulations, including the European Union's (EU) Waste Electrical and Electronic Equipment (WEEE) and Restriction of Hazardous Substances (RoHS) directives.

The RoHS Directive, passed into law by the EU, affects manufacturers, sellers, distributors, and recyclers of electrical and electronic equipment containing six hazardous substances, namely lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl,and polybrominated diphenyl ether. As of July 2006, the use of these materials has been restricted in new products for the European market. This EU direction created a domino effect on other countries, leading to the creation of their own respective versions of the environmental regulation. Most of IMI's equipment, materials, and processes have since been modified and transformed to be RoHS-ready.

In addition to the prohibited six hazardous substances specified by RoHS, there are other hazardous substances IMI is managing as specified on its list of controlled substances, which is governed by international environmental directives and specific customer requirements such as the Kyoto Protocol (greenhouse gases), Montreal Protocol (ozone-depleting substances), battery directive, packaging directive, Japan Green Purchasing Law, Global Automotive Declaration Substance List, and End-of-Life Vehicle.

IMI has also taken a bold step in promoting green procurement in cooperation with its supply-chain partners. IMI has identified the priority projects and selected materials that have the least negative impact to our environment. It uses its newly developed Hazardous Substance-free Program in order to check and validate the content of hazardous chemicals and choose the best and fully compliant items for IMI products. It has also created its Hazardous Substance Process Management Database to store all the information necessary to analyze raw materials in compliance with its HSPM.

The Philippines' President Benigno Aguino III's visit to IMI Energy Solutions



IMI has established a system for compliance to Europe's REACH (Registration, Evaluation, Authorization and Restriction of Chemical Substances). While RoHS restricts six substances in electrical and electronic equipment that fall within the scope of eight broad categories of products, REACH affects all chemicals including those used to make the equipment (e.g., alloys, solvents, and paint) and chemicals present in finished products of all types.

REACH aims to improve the protection of human health and the environment through better and earlier identification of the intrinsic properties of chemical substances. At the same time, it seeks to innovate on the capability and competitiveness of the EU chemicals industry. The benefits of the REACH system will come gradually, as more and more substances are phased into REACH. The HSPM database will also accommodate the need to store REACH information.

To date, 19 OEM customers out of 61 customers of IMI Laguna (or 31 percent) require REACH-compliant lines.

New Business in Renewable Energy

As businesses become increasingly concerned about sustainability in an era of increasing oil prices and the rapid depletion of limited oil reserves in the earth, IMI is committed to find or create concrete solutions by pursuing opportunities in the renewable energy market. It is a noteworthy initiative, as this market is a growth industry in the worldwide shift toward clean and renewable energy sources.

Solar power is one such source of renewable energy. The rising use of photovoltaic (PV) cells will decrease dependence on fossil fuels, and hence on foreign oil and coal imports, thus helping cut back greenhouse gas emissions.

EMS companies like IMI have a golden opportunity to capture value in the solar market by applying existing expertise to PV module or panel assembly. Clearly, the future of solar will involve electronics manufacturers.

In 2009 IMI forged a strategic partnership with RETC (Renewable Energy Test Center), a California-based engineering services, test and certification provider for PV and renewable energy products. The partnership with RETC aims to offer PV services including PV panel development, panel prototyping, certification, and mass production.

Capabilities of IMI Energy Solutions

- PV Module or Panel Design/ Co-Development
- Materials Qualification
- Process Development
- Prototyping
- Panel Testing and Certification (with RETC*)
- Low-Volume Manufacturing of Engineering or Marketing Samples
- Development of Solar Inverters (in Singapore)

* RETC is an engineering services, test, and certification provider for PV products; it shares the building with IMI Energy Solutions to ensure fast turnaround time from prototyping to product certification

The IMI Energy Solutions, a division of IMI USA, was established in June 2010 in Fremont, California, to engage in the manufacture of solar panels and other related technologies. It is composed of an experienced solar module development team with engineering experience in the field of solar energy. Its engineers are experienced in the design and manufacture of PV products that passed both UL1703 and IEC 61215 standards.

So far, IMI Energy Solutions offers its clients PV module NPI (new-product introduction), and the capability to build different PV panel sizes and PV panel coupons for new product-technology validation. It is also capable of building standard and non-standard modules.

In 2010 IMI Energy Solutions embarked on a PV module prototyping project for the co-generation of power and water heater. It also started co-development of solar panel using single busbar cell for higher efficiency, large-size solar panel (4' x 8') with lightweight materials intended for installation on industrial and commercial buildings, and two-glass superstrate solar panel to eliminate moisture.

This, however, is just the start of something of immeasurable value. IMI hopes to venture into the mass manufacture of solar modules and panels by 2011.

With IMI's active involvement in the renewable energy market, it makes a sincere pledge to business sustainability, interweaving the goal of planet protection with its business objectives. IMI is confident that its solid grounding will allow it to see the road ahead with greater clarity. This means continuing to invest in sustainability especially in tough times and have faith that, in this instance, the means is the end: the rewards of better customer relationships and economic returns redound to a healthier planet for all.

GRI INDICATORS

The coverage for this set of indicators is IMI Laguna in the Philippines, comprising IMI's main manufacturing site on North Science Avenue at the Laguna Technopark and its manufacturing facility located on the corner of Trade Avenue and Technology Avenue, also at the Laguna Technopark.

INDICATOR	2009	2010	REMARKS
Environment Indicators			
EN 3: Direct energy consumption by primary energy source	Not applicable	Not applicable	
EN 4: Indirect energy consumption by primary source	53,769, 994 KWH	49,700, 000 KWH	Primary source means purchased electricity; the decrease was due to lower volume of IMI Laguna in 2010
EN 5: Energy saved due to conservation and efficiency improvements	3, 037, 043 KWH	2,264,867 KWH	Savings were due to IMI's Energy Management Program; the decrease was due to lower volume of IMI Laguna in 2010
EN 10: Percentage and total volume of water recycled and reused	2.69 % of total water consumption or 17,757 m^3	5.99 % of total water consumption or 39,686 m^3	
EN 16 :Total indirect greenhouse gas emissions by weight	26,626.18 MT	24,608.93 MT	
EN 22:Total weight of waste by type	735.20 tons 1. Common Residual Waste: 16.29 tons 2. Hazardous Waste: 76.70 tons 3. Recyclable Waste: 642.21 tons	781.63 tons 1. Common Residual Waste: 15.55 tons 2. Hazardous Waste: 71.66 tons 3. Recyclable Waste: 694.42 tons	Waste includes solid and liquid wastes
EN 26 : Initiatives to mitigate environmental impacts of products and services	Energy Management, Water Management, Waste Management, Chemical Management, and Health and Safety Management	Energy Management, Water Management, Waste Management, Chemical Management, Health and Safety Management, and Hazardous Substance Process Management	
EN 28: Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	None (no fine)	None (no fine)	
Human Rights Indicators			
HR 4:Total number of incidents of discrimination and actions taken	None	None	
HR 6: Operations identified as having significant risk for incidents of child labor, and measures taken to contribute the elimination of child labor	None	None	
HR 7: Operations identified as having significant risk for incidents of forced or compulsory labor and measures to contribute to the elimination of forced or compulsory labor	None	None	
Labor Indicators			
LA 1 :Total workforce by employment type, gender, and age	Total Workforce: 6,868 Employment Type Permanent: 6,383 Contractual: 464 Probationary: 21 Gender Male: 905 Female: 5,963 Age Over 50 years old: 15 30-50 years old: 2,661 Under 30 years old: 4,192	Total Workforce: 5,814 Employment Type Permanent: 5,748 Contractual:14 Probationary: 52 Gender Male: 798 Female: 5,016 Age Over 50 years old: 23 30-50 years old: 2,690 Under 30 years old: 3,101	Figures are as of end-2009 and end-2010; figures refer to IMI Laguna and IMI Alabang

INDICATOR	2009	2010	REMARKS
LA 2 :Total number and rate of employee turnover by age group, gender	Employee Turnover: 5,837 Turnover by Age Group Over 50 years old: 18 30-50 years old: 2,009 Under 30: 3,810 Gender Male: 359 Female: 5,478	Employee Turnover: 1,751 Turnover by Age Group Over 50 years old: 3 30-50 years old: 612 Under 30: 1,136 Gender Male: 193 Female : 1,558	Figures are for the period Jan-Dec 2009 and Jan-Dec 2010; figures refer to IMI Laguna and IMI Alabang; figures include employees affected by the Redundancy Program and End of Contract
LA 3: Benefits provided to full-time employees that are not provided to temporary or part-time employees by major operations	1. Life Insurance – 24x Monthly Basic Salary; double indemnity for Accidental Death & Dismemberment 2. Medical Insurance – group hospitalization with inner limits (depending on rank) per illness per confinement 3. Outpatient Benefit – unlimited consultation with general physician and specialists and discounted laboratory tests 4. Annual Physical Exam – routine medical examination every year 5. Vacation leave – 12 days per year; paid leave starts after 1 year of continuous service 6. Sick Leave – 12 days per year; paid leave starts after 6 months of continuous service. All unused sick leave credits will be converted at the end of each year. 7. Emergency Leave – 3 days per year; paid leave starts after 1 year of continuous service 8. Computer Loan – up to max of 50K at zero interest 9. Emergency Loan – up to max of 5K at zero interest 10. Multipurpose loan – eligibility starts after 5 years of continuous service	1. Life Insurance – 24x Monthly Basic Salary; double indemnity for Accidental Death & Dismemberment 2. Medical Insurance – group hospitalization with inner limits (depending on rank) per illness per confinement 3. Outpatient Benefit – unlimited consultation with general physician and specialists and discounted laboratory tests 4. Annual Physical Exam – routine medical examination every year 5. Vacation leave – 12 days per year; paid leave starts after 1 year of continuous service 6. Sick Leave – 12 days per year; paid leave starts after 6 months of continuous service. All unused sick leave credits will be converted at the end of each year. 7. Emergency Leave – 3 days per year; paid leave starts after 1 year of continuous service 8. Computer Loan – up to max of 50K at zero interest 9. Emergency Loan – up to max of 5K at zero interest 10. Multipurpose loan – eligibility starts after 5 years of continuous service	
LA 4: Percentage of employees covered by collective bargaining agreements	0	0	No union in IMI; there is open communication between employees and management to resolve workplace issues; there are also communication and engagement programs to strengthen relations (e.g. President's Update, Council Meetings, and Townhall Meetings)
LA 8: Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Interim Guidelines for pandemic outbreaks specifically SARS, Avian Flu, and H1N1 are all in place. Although the main objective is to prevent an outbreak in the company and maintain business continuity, the extent of assistance to the family is reflected on the awareness of the disease and its prevention within the family and community, and whom to contact (government agencies) during suspected outbreak at home. Dengue awareness is done yearly during the rainy season. We have been implementing Immunization Programs for Seasonal Influenza, Cervical Cancer, and Hepatitis B for employees and their dependents. Smoke Cessation Program is actually Lung Cancer prevention program. This is done yearly through EICs (education and information campaigns).	Interim Guidelines for pandemic outbreaks specifically SARS, Avian Flu, and H1N1 are all in place. Although the main objective is to prevent an outbreak in the company and maintain business continuity, the extent of assistance to the family is reflected on the awareness of the disease and its prevention within the family and community, and whom to contact (government agencies) during suspected outbreak at home. Dengue awareness is done yearly during the rainy season. We have been implementing Immunization Programs for Seasonal Influenza, Cervical Cancer, and Hepatitis B for employees and their dependents. Smoke Cessation Program is actually Lung Cancer prevention program. This is done yearly through EICs (education and information campaigns).	
LA 10 : Average hours of training per year per employee by employee category	Senior Management Behavioral: 0 Hour Technical: 0 Hour Middle Management Behavioral: 14.79 Hours Technical: 0.82 Hour Rank & File Behavioral: 0.06 Hour Technical: 0.7 Hour	Senior Management Behavioral: 33 Hours Technical: 1 Hour Middle Management Behavioral: 12.23 Hours Technical: 4.35 Hours Rank & File Behavioral: 0.58 Hour Technical: 0.53 Hour	

INDICATOR	2009	2010	REMARKS
LA 11: Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	MANAGERS Essentials of Leadership Building Business Acumen Coaching for Improvement Problem Analysis and Decision Making Employee Engagement Marketing/Business Plan VMV Deployment Workshop SUPERVISORS / ENGINEERS Basic QC Tools Bearings/Pulley/V-Belts Training Coaching for Improvement(B-2) Compressed Air Purification DI/IWWT Seminar-Workshop Employee Engagement Seminar Essentials of Leadership Seminar-workshop Finance for Non-Finance High Voltage Switch Gear Training Influential Leadership Labview Seminar Learning Session on 7 Qualities of Effective Administrator/Assistant Marketing/Bussiness Planning Workshop Problem Analysis & Decicion Making Project Management Seminar Samsung Technical Presentation Service Plus Seminar SPC Refresher Course Supply Chain Simulation Team Building Seminar-Workshop Team Development Session Thermoforming Seminar Time Management Trainers Training Refresher Course TS 16949 Awareness Values Enhancement Program VMV Deployment Champions' Training Refresher Basic Life Support ISO 17025 Auditing Training ISO13485 Training Cross Sectioning Sample Preparation PFMEA & QBR Training Basic Occupational Safety & Health Training Basic Measurement APQP & QBR APQR & PPAP Statistical Process Control PPAP Deployment CHATS Training 8 Step Model Problem Solving Workshop	MANAGERS Building Business Acumen Coaching for Improvement Coaching for Success Employee Engagement Essentials of Leadership Problem Solving and Analysis Seminar-Workshop Project Management Seminar-Workshop AYALA Leap Training SUPERVISORS / ENGINEERS Adhesive Use on Solar Application Chiller Operational Efficiency and Maintenance Effective Presentation Skills Seminar Fun Brainstorming Session on IMI's Custom Employee Engagement Essentials of Leadership Problem Solving and Analysis Seminar-Workshop Project Management Seminar-Workshop	Production operators undergo training for skills needed in the production lines. Employees affected by the Redundancy Program were given entrepreneurship and livelihood training.
LA 13: Composition of governance bodies and breakdown of employees per category according to gender and age group	BOD Total Number of Members: 11 Gender Male: 11; Female: 0 Age Group Over 50 years old: 5 30-50 years old: 6	BOD Total Number of Members: 11 Gender Male: 10; Female: 1 Age Group Over 50 years old: 5 30-50 years old: 6	
Economic Indicators			
EC 1 : Economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, and payments to capital providers and government	Economic Value (in Million Php) Revenues : 9,399 Net Income :167 Distributions Suppliers /contractors: 11,310 Employees (salaries and benefits): 1,683 Government (taxes): 26 Stockholders (dividends): 178 Charitable Contributions: 2 Total Distributions: 13,199 Investments Equity Investment: 3,845 Capex: 197 Total Investment: 4,042	Economic Value (in Million Php) Revenues : 6,488 Net Income :(185) Distributions Suppliers /contractors: 10,643 Employees (salaries and benefits): 1,744 Government (taxes): 27 Stockholders (dividends): 434 Charitable Contributions: 9 Total Distributions: 12,857 Investments Equity Investment: 4,218 Capex: 527 Total Investment: 4,744	
EC 2: Financial implications and other risks and opportunities for the organization's activities due to climate change	We have not tracked the financial implications for the organization's activities due to climate change. But IMI has established IMI Energy Solutions to offer EMS solutions for the renewable energy sector. IMI continues to engage in green manufacturing wherever applicable. It has a Business Continuity Plan to manage the continuity of business in times of disasters.	We have not tracked the financial implications for the organization's activities due to climate change. But IMI has established IMI Energy Solutions to offer EMS solutions for the renewable energy sector. IMI continues to engage in green manufacturing wherever applicable. It has a Business Continuity Plan to manage the continuity of business in times of disasters.	

INDICATOR	2009	2010	REMARKS
EC 3: Coverage of the organization's defined benefit plan obligations	Tenure / Separation Benefit 5<10: 25% of monthly basic pay per yr of service 10<15: 50% of mbp per yr of service 15<20: 75% of mbp per yr of service 20 <25: 100% of mbp per yr of service 25 years and above: 125% of mbp per yr of service	Tenure / Separation Benefit 5<10: 25% of monthly basic pay per yr of service 10<15: 50% of mbp per yr of service 15<20: 75% of mbp per yr of service 20 <25: 100% of mbp per yr of service 25 years and above: 25% of mbp per yr of service	All regular employees of the company are covered under the separation and retirement policy. The plan will provide a lump-sum benefit in the event of retirement and voluntary/involuntary separation as prescribed by law. The plan also considers the full compliance to the statutory obligation under RA 7641, or the retirement law
EC 5: Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Minimum Wage for Region IV-A is P320 per day; IMI complies to this	Minimum Wage for Region IV-A is P320 per day; IMI complies to this	IMI complies with the mandated minimum wage orders
Social Indicators			
SO 7: Total number of legal actions for anticompetitive behavior, antitrust, and monopoly practices and their outcomes	0	0	
SO 8: Monetary value of signficant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	None	None	
Product Responsibility Indicators			
PR 5 - Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	IMI Laguna conducts Customer Satisfaction Survey on a regular basis; Overall Rating in 2009: Custom or Captive Group (CG) at 4.75; Standard or Semi-Standard Custom Group (SSCG) at 4.47	IMI Laguna conducts Customer Satisfaction Survey on a regular basis; Overall Rating in 2010: Custom or Captive Group (CG) at 4.67; Standard or Semi-Standard Custom Group (SSCG) at 4.24	Customer Satisfaction Survey is conducted monthly for CG and quarterly for SSCG; the highest possible rating is 5, and 3 means fair
PR 6 – Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Our policy on advertising or production of marketing collaterals states that IMI adheres to truth in advertising and production of marketing collaterals, and that it does not engage in any unethical practices.	Our policy on advertising or production of marketing collaterals states that IMI adheres to truth in advertising and production of marketing collaterals, and that it does not engage in any unethical practices.	
PR 7: Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	0	0	

REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS

FOR THE YEAR ENDED DECEMBER 31, 2010

The Audit Committee's roles and responsibilities are defined in the Audit Committee Charter approved by the Board of Directors. It provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders relating to: (a) the integrity of the Company's financial statements, the financial reporting process and the systems of internal controls; (b) the performance of the Company's internal audit function and independent auditors; and (c) the compliance with legal and regulatory matters and other reporting standards.

In compliance with the Audit Committee Charter, we confirm that:

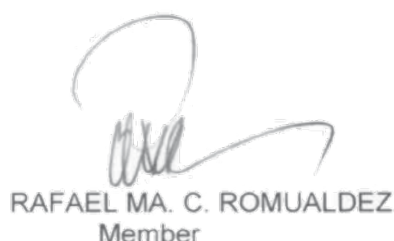
- An independent director chairs the Committee;
- We had four (4) regular meetings and two (2) special meetings during the year;
- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of Integrated Micro-Electronics, Inc. and subsidiaries ("IMI") with management, the internal auditors, as well as SGV & Co. as the independent auditor of IMI, and that these activities were performed in the following context:
  - Management has the primary responsibility for the financial statements and the financial reporting process; and
  - SGV & Co. is responsible for expressing an opinion on the conformity of IMI's audited consolidated financial statements with Philippine Financial Reporting Standards;
- We have discussed and approved the overall scope and plans for the respective audit reviews of the internal auditors and SGV & Co.;
- We have discussed the audit results of SGV & Co. and their assessment of the overall quality of IMI's financial reporting process, mainly on financial statements and compliance to financial reporting standards, and their management letter of comments on internal control weaknesses observed during the audit;
- We have discussed the audit results and reports of the internal auditors and their follow-ups on the implementation of audit recommendations, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues; and
- We have reviewed and recommended for the approval by the Board of Directors the audit services of SGV & Co. and approved all audit-related and permitted non-audit services provided by SGV & Co. to IMI including the related fees for such services, in any case in accordance with existing policies, standards, and regulatory requirements.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit Committee recommends to the Board of Directors that the audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2010 for filing with the Securities and Exchange Commission and the Philippine Stock Exchange.

The Audit Committee is also recommending to the Board of Directors the re-appointment of SGV & Co. as IMI's independent auditor for 2011 based on the review of their performance and qualifications.

14 February 2011

HIROSHI NISHIMURA
Chairman



RAFAEL MA. C. ROMUALDEZ
Member

JAIME P. VILLEGAS
Member

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of Integrated Micro-Electronics, Inc. and its subsidiaries (the Group) is responsible for all information and representations contained in the consolidated financial statements for the year ended December 31, 2010 and 2009. The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Parent Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Parent Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing and has expressed their opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors and stockholders.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman

ARTHUR R. TAN
President and Chief Executive Officer

JEROME S. TAN
Chief Finance Officer

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

We have audited the accompanying consolidated financial statements of Integrated Micro-Electronics, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2010 and 2009, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Integrated Micro-Electronics, Inc. and Subsidiaries as of December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-A
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641501, January 3, 2011, Makati City

February 23, 2011

CONSOLIDATED BALANCE SHEETS

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**$38,134,743**	$53,931,767
Loans and receivables - net (Note 6)	**109,936,439**	95,806,849
Inventories - net (Note 7)	**54,694,413**	31,875,012
Derivative assets (Note 33)	**1,693,121**	–
Other current assets (Note 8)	**2,508,014**	1,642,147
Total Current Assets	**206,966,730**	183,255,775
Noncurrent Assets		
Property, plant and equipment - net (Notes 9 and 30)	**74,624,267**	63,128,439
Goodwill (Notes 2 and 10)	**55,719,185**	46,225,800
Pension asset (Note 27)	**2,765,675**	2,866,220
Intangible assets - net (Note 11)	**923,002**	2,802,630
Available-for-sale financial assets (Note 4)	**382,527**	309,448
Noncurrent receivables (Note 12)	**184,179**	558,707
Deferred income tax assets (Note 25)	**115,168**	108,517
Other noncurrent assets (Note 12)	**1,497,268**	2,826,514
Total Noncurrent Assets	**136,211,271**	118,826,275
	$343,178,001	$302,082,050
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 13)	**$105,345,620**	$83,157,458
Current portion of long-term debt (Note 16)	**38,000,000**	8,000,000
Loans payable (Note 15)	**17,921,638**	2,302,233
Derivative liabilities (Note 33)	**3,832,474**	–
Income tax payable (Note 25)	**2,298,792**	3,261,753
Provisions (Note 14)	**–**	43,764
Total Current Liabilities	**167,398,524**	96,765,208
Noncurrent Liabilities		
Deferred revenue (Note 17)	**2,564,594**	–
Pension liability (Notes 13 and 27)	**986,473**	–
Accrued rent (Note 30)	**894,088**	19,978
Long-term debt (Note 16)	**372,084**	38,000,000
Obligation under finance lease (Note 30)	**118,313**	314,545
Total Noncurrent Liabilities	**4,935,552**	38,334,523
Total Liabilities	**172,334,076**	135,099,731

(Forward)

	December 31	
	2010	2009
Equity (Note 18)		
Equity attributable to equity holders of the Parent Company		
Capital stock - common	**$24,893,713**	$20,267,538
Capital stock - preferred	**26,601,155**	26,601,155
Subscribed capital stock	**1,901,963**	2,167,895
Additional paid-in capital	**34,646,889**	30,482,156
Subscriptions receivable	**(11,411,994)**	(10,153,255)
Retained earnings:		
Appropriated for expansion	**60,660,981**	60,660,981
Unappropriated	**32,727,457**	37,457,693
Treasury stock	**(1,012,585)**	(1,012,592)
Reserve for fluctuation on available-for-sale financial assets	**111,959**	56,879
Other reserves	**170,714**	161,551
	169,290,252	166,690,001
Noncontrolling interests in a consolidated subsidiary	**1,553,673**	292,318
Total Equity	**170,843,925**	166,982,319
	$343,178,001	$302,082,050

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2010	2009	2008
REVENUES FROM SALES AND SERVICES (Notes 19 and 29)	**$412,326,605**	$395,502,281	$441,144,682
COST OF GOODS SOLD AND SERVICES (Note 20)	**367,852,013**	350,911,650	370,368,070
GROSS PROFIT	**44,474,592**	44,590,631	70,776,612
OPERATING EXPENSES (Note 21)	**(40,224,016)**	(35,171,319)	(54,099,275)
OTHERS - Net			
Foreign exchange gains (losses) (Note 33)	**1,792,949**	279,084	(30,458,199)
Interest expense and bank charges (Note 23)	**(1,036,929)**	(1,787,466)	(3,593,609)
Interest income (Note 24)	**352,578**	723,261	1,141,601
Miscellaneous income (Notes 6, 7, 9 and 33)	**2,462,995**	6,527,178	1,882,524
INCOME (LOSS) BEFORE INCOME TAX	**7,822,169**	15,161,369	(14,350,346)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)			
Current	**3,414,175**	5,112,200	2,406,332
Deferred	**(6,651)**	(81,012)	25,670
	3,407,524	5,031,188	2,432,002
NET INCOME (LOSS)	**4,414,645**	10,130,181	(16,782,348)
OTHER COMPREHENSIVE INCOME (LOSS)			
Fair value changes on available-for-sale financial assets	**55,080**	32,900	(92,168)
TOTAL COMPREHENSIVE INCOME (LOSS)	**$4,469,725**	$10,163,081	($16,874,516)
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$4,738,929**	$10,065,517	($16,830,089)
Noncontrolling interests	**(324,284)**	64,664	47,741
	$4,414,645	$10,130,181	($16,782,348)
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$4,794,009**	$10,098,417	($16,922,257)
Noncontrolling interests	**(324,284)**	64,664	47,741
	$4,469,725	$10,163,081	($16,874,516)
Earnings (Loss) Per Share (Note 26)			
Basic and Diluted	**$0.002**	$0.006	($0.014)

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Equity Holders of the Parent Company											
	Capital Stock-Common (Note 18)	Capital Stock-Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital	Subscriptions Receivable (Note 18)	Retained Earnings Appropriated for Expansion (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock (Note 18)	Reserve for Fluctuation on Available-for-Sale Financial Assets	Other Reserves	Attributable to Noncontrolling Interests	Total
Balances at January 1, 2010	**$20,267,538**	**$26,601,155**	**$2,167,895**	**$30,482,156**	**($10,153,255)**	**$60,660,981**	**$37,457,693**	**($1,012,592)**	**$56,879**	**$161,551**	**$292,318**	**$166,982,319**
Increase in non-controlling interest due to the acquisition of a subsidiary during the year	–	–	–	–	–	–	–	–	–	–	1,646,276	1,646,276
Issued shares during the year (Note 18)	508,916	–	(508,916)	–	–	–	–	17	–	–	–	17
Subscriptions during the year	–	–	668,506	2,722,308	(3,390,814)	–	–	–	–	–	–	–
Cost of share-based payments (Note 28)	–	–	–	1,933,185	–	–	–	–	–	–	–	1,933,185
Accretion of subscription receivable	–	–	–	1,913,073	(1,913,073)	–	–	–	–	–	–	–
Collections on subscriptions	–	–	–	–	1,215,793	–	–	–	–	–	–	1,215,793
Forfeitures during the year	–	–	(425,522)	(2,403,833)	2,829,355	–	–	–	–	–	–	–
Dilution of noncontrolling interest	–	–	–	–	–	–	–	–	–	9,163	(9,163)	–
Reacquired shares	–	–	–	–	–	–	–	(10)	–	–	–	(10)
Cash dividends (Note 18)	–	–	–	–	–	–	(5,351,906)	–	–	–	(51,474)	(5,403,380)
Stock dividends (Note 18)	4,117,259	–	–	–	–	–	(4,117,259)	–	–	–	–	–
	24,893,713	26,601,155	1,901,963	34,646,889	(11,411,994)	60,660,981	27,988,528	(1,012,585)	56,879	170,714	1,877,957	166,374,200
Fair value changes on available for-sale financial assets	–	–	–	–	–	–	–	–	55,080	–	–	55,080
Net income (loss)	–	–	–	–	–	–	4,738,929	–	–	–	(324,284)	4,414,645
Total comprehensive income (loss)	–	–	–	–	–	–	4,738,929	–	55,080	–	(324,284)	4,469,725
Balances at December 31, 2010	**$24,893,713**	**$26,601,155**	**$1,901,963**	**$34,646,889**	**($11,411,994)**	**$60,660,981**	**$32,727,457**	**($1,012,585)**	**$111,959**	**$170,714**	**$1,553,673**	**$170,843,925**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Equity Holders of the Parent Company											
	Capital Stock - Common (Note 18)	Capital Stock - Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital	Subscriptions Receivable (Note 18)	Retained Earnings Appropriated for Expansion (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock (Note 18)	Reserve for Fluctuation on Available-for-Sale Financial Assets	Other Reserves	Attributable to Noncontrolling Interests	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 year	14,484	–	(14,484)	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 28)	–	–	–	514,153	–	–	–	–	–	–	–	514,153
Collections on subscriptions	–	–	–	–	40,383	–	–	–	–	–	–	40,383
Net reversal of accretion of subscriptions receivable (Note 28)	–	–	–	(245,720)	245,720	–	–	–	–	–	–	–
Dilution of noncontrolling interest	–	–	–	–	–	–	–	–	–	105,748	(105,748)	–
Cash dividends (Note 18)	–	–	–	–	–	–	(3,699,630)	–	–	–	(82,871)	(3,782,501)
	20,267,538	26,601,155	2,167,895	30,482,156	(10,153,255)	60,660,981	27,392,176	(1,012,592)	23,979	161,551	227,654	156,819,238
Fair value changes on available-for-sale financial assets	–	–	–	–	–	–	–	–	32,900	–	–	32,900
Net income	–	–	–	–	–	–	10,065,517	–	–	–	64,664	10,130,181
Total comprehensive income	–	–	–	–	–	–	10,065,517	–	32,900	–	64,664	10,163,081
Balances at December 31, 2009	$20,267,538	$26,601,155	$2,167,895	$30,482,156	($10,153,255)	$60,660,981	$37,457,693	($1,012,592)	$56,879	$161,551	$292,318	$166,982,319

	Attributable to Equity Holders of the Parent Company										
	Capital Stock - Common (Note 18)	Capital Stock - Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital	Subscriptions Receivable (Note 18)	Retained Earnings Appropriated for Expansion (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock (Note 18)	Reserve for Fluctuation on Available-for-Sale Financial Assets	Other Reserves	Attributable to Noncontrolling Interests	Total
Balances at January 1, 2008	$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 28)	–	–	–	1,484,498	–	–	–	–	–	–	–	1,484,498
Collections on subscriptions	–	–	–	–	1,635,657	–	–	–	–	–	–	1,635,657
Accretion of subscriptions receivable (Note 28)	–	–	–	667,876	(667,876)	–	–	–	–	–	–	–
Acquisition of treasury stock	–	–	–	–	–	–	–	(42,301)	–	–	–	(42,301)
Dilution of noncontrolling interest	–	–	–	–	–	–	–	–	–	19,362	(19,362)	–
Cash dividends (Note 18)	–	–	–	–	–	–	(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 comprehensive 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

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**$7,822,169**	$15,161,369	($14,350,346)
Adjustments for:			
Depreciation and amortization of property, plant and equipment and investment properties (Note 9)	**19,373,226**	18,055,328	18,624,973
Amortization of intangible assets (Note 11)	**2,645,461**	2,744,304	2,688,552
Cost of share-based payments (Note 28)	**1,933,185**	514,153	1,484,498
Provision for doubtful accounts (Note 6)	**1,531,927**	118,629	166,726
Losses (gains) on derivative (Note 33)	**(1,874,546)**	(160,198)	33,999,544
Interest expense and bank charges (Note 23)	**1,036,929**	1,787,466	3,593,609
Unrealized foreign exchange loss - net	**566,968**	184,237	2,388,140
Net pension expense (income) (Note 27)	**448,563**	(412,790)	867,474
Provision for restructuring (Note 14)	**246,382**	929,000	6,000,000
Dividend income	**(61)**	(466)	(493)
Reversal of provision for warranty (Note 14)	**(18,481)**	(6,661)	(2,189,015)
Loss (gain) on sale of property, plant and equipment	**(186,476)**	97,969	(251,291)
Interest income (Note 24)	**(352,578)**	(723,261)	(1,141,601)
Net provision (reversal of provision) for inventory obsolescence (Note 7)	**(1,734,481)**	1,322,908	5,514,988
Gain on fire insurance claim (Note 6)	**–**	5,625,371	–
Loss on fire (Notes 7 and 9)	**–**	637,159	–
Provision for warranty (Note 14)	**–**	11,904	510,139
Reversal of provision for restructuring (Note 14)	**–**	(1,818,304)	–
Reversal of provision for doubtful accounts (Note 6)	**–**	(60,401)	–
Impairment loss (Note 9)	**–**	–	1,501,700
Operating income before working capital changes	**31,438,187**	44,007,716	59,407,597
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Loans and receivables	**1,889,943**	(26,767,336)	6,287,140
Inventories	**(14,503,933)**	1,731,187	2,666,450
Other current assets	**(103,392)**	1,770,559	(1,270,506)
Noncurrent receivables	**374,527**	2,363,308	2,408,106
Net pension asset	**(1,148,215)**	–	–
Increase (decrease) in:			
Provisions	**(43,764)**	(5,092,074)	–
Accounts payable and accrued expenses	**(15,028,486)**	15,677,641	(4,500,550)
Deferred revenue	**(358,359)**	–	–
Accrued rent	**(27,918)**	19,978	–
Net cash generated from operations	**2,488,590**	33,710,979	64,998,237
Interest paid	**(1,017,434)**	(2,303,422)	(3,662,052)
Income tax paid	**(4,377,137)**	(3,325,362)	(2,394,505)
Interest received	**333,798**	676,847	1,042,355
Dividends received	**61**	466	493
Net cash provided by (used in) operating activities	**(2,572,122)**	28,759,508	59,984,528

(Forward)

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Property, plant and equipment (Note 9)	**($22,039,260)**	($7,740,314)	($14,559,324)
Intangible assets (Note 11)	**(765,833)**	(414,243)	(73,390)
Proceeds from sale of property, plant and equipment	**2,594,526**	2,863,245	2,370,921
Acquisition through business combination - net of cash acquired (Note 2)	**2,202,930**	–	–
Settlement of derivatives (Note 33)	**1,601,406**	160,198	(31,957,525)
Decrease (increase) in other noncurrent assets	**1,900,973**	(234,011)	(1,491,260)
Net cash used in investing activities	**(14,505,258)**	(5,365,125)	(45,710,578)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans	**15,619,405**	–	28,248,662
Payments of:			
Loans payable	**(2,347,609)**	(14,807,874)	(20,068,074)
Long-term debt	**(8,000,000)**	(8,000,000)	(8,000,000)
Dividends paid to equity holders of the Parent Company (Note 18)	**(5,351,906)**	(4,260,357)	(10,736,659)
Collections of subscriptions receivable (Note 18)	**1,215,793**	40,383	1,635,657
Dividends paid to noncontrolling interest	**(51,474)**	(82,871)	(12,500)
Acquisition of treasury stock (Note 18)	**–**	–	(42,301)
Collections on preferred stock subscriptions (Note 18)	**–**	–	26,601,155
Net cash provided by (used in) financing activities	**1,084,209**	(27,110,719)	17,625,940
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**196,147**	43,568	(2,584,185)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(15,797,024)**	(3,672,768)	29,315,705
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**53,931,767**	57,604,535	28,288,830
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**$38,134,743**	$53,931,767	$57,604,535

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Integrated Micro-Electronics, Inc. (“the Parent Company”), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four subsidiaries, namely: IMI International (Singapore) Pte. Ltd. (“IMI Singapore”), IMI USA, Inc. (“IMI USA”), IMI Japan, Inc. (“IMI Japan”) and PSi Technologies Inc. (PSi) (collectively referred to as the “Group”). IMI Singapore, IMI USA and IMI Japan are wholly owned subsidiaries while PSi is 55.78% owned by the Parent Company. The Group’s parent company is AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands. AYC is a subsidiary of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE). AC is 52.11% owned by Mermac, Inc., 10.82% owned by Mitsubishi Corporation and the rest by the public. The registered office address of the Parent Company is North Science Avenue, Laguna Technopark, Biñan, Laguna.

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

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assembly (PCBA), flip chip assembly, box build sub-assembly, enclosure system, and provider of electronics product design, research and development, product development outsourcing and other electronic parts. 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 January 2010, for which extension has been applied for, up to July 2013 for the different registered activities. The Parent Company’s application for extension of its ITH is still pending PEZA approval. 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. It is engaged in the procurement of raw materials, supplies and provision of customer services. Its wholly-owned subsidiary, Speedy-Tech Electronics Ltd. (STEL), was incorporated and is domiciled also in Singapore. STEL on its own has subsidiaries located in Hong Kong, People’s Republic of China (PRC), Singapore and the Philippines. STEL and its subsidiaries are principally engaged in the provision of Electronic Manufacturing Services (EMS) and Power Electronics solutions to original equipment manufacturing customers in the consumer electronics, computer peripherals/information technology, industrial equipment, telecommunications and medical device sectors.

On April 9, 2010, STEL officially opened a new manufacturing facility in Chengdu, China. This offers a wide variety of electronics manufacturing solutions from printed circuit board assembly to full product assembly for Original Equipment Manufacturers (OEMs) in various markets such as those in the industrial, automotive, medical and telecommunications infrastructure industries.

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

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

IMI Japan was registered and is domiciled in Japan. IMI Japan's primary purpose is to transact business with Japanese customers in the following areas: (a) turnkey EMS; (b) engineering and design services; and (c) original design manufacturing (ODM) solutions. IMI Japan also functions as program management center for new business in coordination with the Parent Company (wireless), STEL and 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.

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

The accompanying consolidated financial statements were authorized for issue by the Parent Company's Board of Directors (BOD) on February 23, 2011.

2. Business Combination

Acquisition of PSi

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

Under the Agreement, the Parent Company subscribed to 13,249,702,469 common shares or 55.78% of PSi's outstanding common shares in exchange for a cash consideration of $8,325,000.

The Agreement also provided for the following:

1) The grant of Put and Call Options as follows:

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

2) The assumption of the Old Investors of certain pre-completion liabilities of PSi. However, payment of such liabilities would come from and is limited to any proceeds from the exercise of either the Put Option or the Call Option.

3) The New Investors agreed to proportionately assume one-third (1/3) of the initial $3.00 million of the pre-completion liabilities assumed by the Old Investors.

The equity subscription of the New Investors was finalized on October 6, 2010. On that date, the Parent Company paid the $8,325,000 subscription price and four (4) of its officers were appointed as members of PSi's BOD. As of this date, the Parent Company effectively obtained control of PSi.

The fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition follow:

	Carrying Value	Fair Value
Assets		
Cash	$10,527,930	$10,527,930
Accounts receivable - net	12,683,494	18,419,853
Inventories - net	6,580,987	6,580,987
Property, plant and equipment - net	9,210,386	9,210,386
Other assets	1,311,932	1,311,932
Total	40,314,729	46,051,088
Liabilities		
Accounts payable and accrued expenses	30,047,133	35,783,492
Loans payable	2,347,609	2,347,609
Deferred revenue	2,922,953	2,922,953
Accrued rental non-current	902,028	902,028
Other long-term benefits	372,084	372,084
Total	36,591,807	42,328,166
Net assets	$3,722,922	$3,722,922

Cost of acquisition	$11,570,031
Less: Parent Company's share in the fair value of net assets acquired (55.78%)	2,076,646
Goodwill	$9,493,385

The cost of acquisition is determined as follows:

Cash paid	$8,325,000
Parent Company's share in acquisition date - fair value of Put Option granted to Old Investors	3,816,485
Parent Company's share in acquisition date - fair value of Call Option granted to New Investors	(1,403,991)
Parent Company's share in pre-completion liabilities assumed from the Old Investors	832,537
Cost of acquisition	$11,570,031

Accounting for the Business Combination

The purchase price allocation has been prepared on a preliminary basis due to unavailability of certain information to facilitate fair valuation computation, and reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are accounts receivable, property, plant and equipment, accounts payable and accrued expenses, and goodwill. The goodwill recognized can be attributed to the acquisition of PSi's technology on SATS and increase in customer base due to additional network from PSi.

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

Cash on acquisition follows:

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

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

From the date of acquisition, the Parent Company's share in PSi's revenue and net loss amounted to $10.79 million and $0.46 million, respectively. If the combination had taken place at the beginning of the year, the Group's total revenue would have increased by $27.23 million, while the Group's net income before tax would have decreased by $1.04 million.

3. 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, which is the Parent Company's and its subsidiaries' functional and presentation currency, and rounded off to the nearest dollar unless otherwise indicated.

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with 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
	2010	2009	Incorporation
IMI USA	**100.00%**	100.00%	USA
IMI Japan	**100.00%**	100.00%	Japan
IMI Singapore	**100.00%**	100.00%	Singapore
IMI International Regional Operating Headquarter (“IMI ROHQ”)	**100.00%**	100.00%	Philippines
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”)	**99.47%**	99.45%	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
IMI (Chengdu) Ltd.	**100.00%**	–	China
PSi	**55.78%**	–	Philippines
PSi Laguna	**55.78%**	–	Philippines
Pacsem Realty, Inc.	**22.31%**	–	Philippines
PSiTech Realty, Inc.	**22.31%**	–	Philippines

Basis of consolidation from January 1, 2010

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

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

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

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

Basis of consolidation prior to January 1, 2010
Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of noncontrolling interests, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the noncontrolling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the noncontrolling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between noncontrolling and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at January 1, 2010 have not been restated.

Changes in Accounting Policies
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the adoption of the following new and amended standards and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC) interpretations as of January 1, 2010. Except as otherwise indicated, the adoption of the new and amended standards as well as the Philippine Interpretations did not have significant impact on the consolidated financial statements.

- Revised PFRS 3, *Business Combination*, and amended PAS 27, *Consolidated and Separate Financial Statements*
  The revised PFRS 3 introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of noncontrolling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

  The amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The revised PFRS 3 was applied in accounting for the acquisition of PSi (see Note 2).

- Amendments to PFRS 2, *Share-based Payment: Group Cash-settled Transactions*
  These amendments clarify the scope and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. It supersedes Philippine Interpretation IFRIC 8, Scope of PFRS 2 and Philippine Interpretation IFRIC 11, IFRIC 2 - *Group and Treasury Share Transactions.*

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement Eligible Hedged Items*
  This 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. This also covers the designation of inflation as a hedged risk or portion in particular situations.

- Philippine Interpretation IFRIC 17, *Distributions of Noncash Assets to Owners*
  This interpretation provides guidance on how to account for noncash distributions to owners. It clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

Improvements to PFRSs
Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. 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.

Improvements to PFRSs 2008
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a noncontrolling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or the financial performance of the Group, unless otherwise stated.

Improvements to PFRSs 2009
- PFRS 8, *Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 29.

- PAS 7, *Statement of Cash Flows*, states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities. This amendment impacted, among others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

- PAS 36, *Impairment of Assets,* amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from the 2009 Improvements to PFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group.

- PFRS 2, *Share-based Payment*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC–16, *Hedge of a Net Investment in a Foreign Operation*

Future Changes in Accounting Policies

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

Effective in 2011

- PAS 24 (Amended), *Related Party Disclosures* (effective for annual periods beginning on or after January 1, 2011)
  It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- PAS 32, Financial *Instruments: Presentation (Amendment) - Classification of Rights Issues* (effective for annual periods beginning on or after February 1, 2010)
  The amendment to PAS 32 amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Philippine Interpretation IFRIC 14 (Amendment) *Prepayments of a Minimum Funding Requirement* (effective for annual periods beginning on or after January 1, 2011, with retrospective application)
  The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after July 1, 2010)
  This Philippine Interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRSs 2010
Improvements to PFRSs is an omnibus of amendments to PFRSs. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

- PFRS 3, *Business Combinations (Revised)*;
- PFRS 7, *Financial Instruments: Disclosures*;
- PAS 1, *Presentation of Financial Statements*;
- PAS 27, *Consolidated and Separate Financial Statements*; and
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*.

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)
  This Philippine 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.

Effective in 2013
- PFRS 9, *Financial Instruments: Classification and Measurement* (effective for annual periods beginning on or after January 1, 2013)
  PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods
Revenue from sale of goods is recognized when goods are shipped or goods are received by the customer depending on the corresponding agreement with the customers, title and risk of ownership have passed, the price to the buyer is fixed or determinable and recoverability is reasonably assured.

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

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

Dividends
Dividend income is recorded when the right of payment has been established.

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

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

Financial instruments are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, are done using trade date accounting. The Group follows the trade date accounting where an asset to be received and liability to be paid are recognized on the trade date and the derecognition of an asset that is sold and the recognition of a receivable from the buyer are likewise recognized on the trade date.

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

The financial instruments of the Group as of December 31, 2010 consist of loans and receivables, financial asset at FVPL, AFS financial assets, financial liability at FVPL and other financial liabilities. The financial instruments of the Group as of December 31, 2009 consist of loans and receivables, AFS financial assets, and other financial liabilities.

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

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

Day 1 profit
Where the transaction price in a non-active market is different 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 an observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statement of comprehensive income unless it qualifies for recognition as some other type of asset or liability.

In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the

Group determines the appropriate method of recognizing the ‘Day 1’ profit amount.

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

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

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

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

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

The Group uses derivative financial instruments such as structured currency options and currency forwards to hedge its risks associated with foreign currency fluctuations. Such are accounted for as nonhedge derivatives.

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

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

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

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

After initial measurement, AFS financial assets are subsequently measured at fair value. Dividends earned on holding AFS financial assets are recognized in the consolidated statement of comprehensive income as dividend income when the right to receive payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported under other comprehensive income. The losses arising from impairment of such investments are recognized as impairment losses in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized under other comprehensive income is recognized as realized gains or losses in profit or loss.

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

This accounting policy 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 comprehensive 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, statutory payables and taxes payable), loans payable, lease liability and long-term debt.

Offsetting
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.

Impairment of Financial Assets
The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is

experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is charged to profit or loss. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as payment history and past-due status. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

AFS financial assets
For the Group's equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously charged to income - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

Derecognition of Financial Assets and Financial Liabilities

Financial asset

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

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

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

Financial liability

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

Inventories

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

Business Combination and Goodwill

Business combinations from January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8.

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

Business combinations prior to January 1, 2010
In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The noncontrolling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill. Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition.

Property, Plant and Equipment

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

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

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

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives (EUL) of the respective assets as follows:

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

	Years
Buildings	25 - 30
Building improvements	5
Machinery and facilities equipment	7 - 10
Furniture, fixtures and office equipment	3 - 5
Transportation equipment	3 - 5
Tools and instruments	2 - 5

Leasehold improvements are amortized over the shorter of the related lease terms or their EUL of 30 years.

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

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The EUL of intangible assets with finite life are assessed at the individual asset level. Intangible assets with finite life are amortized over their EUL using the straight line method. The amortization periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

The EUL of intangible assets are as follows:

	Years
Customer relationships	5
Unpatented technology	5
Computer software	3

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

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

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

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

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

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

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

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

- Where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

Income tax relating to items recognized in other comprehensive income is recognized in the consolidated statement of comprehensive income under other comprehensive income.

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

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

Equity

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

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

Retained earnings represent accumulated earnings of the Group less dividends declared. Appropriated retained earnings are set aside for future expansion.

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

Foreign Currency Transactions

The functional and presentation currency of the Parent Company and its subsidiaries 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, which is the closing rate at the end of the previous month. Foreign currency-denominated monetary assets and liabilities are translated to U.S. Dollar at the closing exchange rate prevailing at the end of the reporting period. Foreign exchange differentials between the rate at transaction date and the rate at settlement date or rate at the end of the reporting period 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 rate as at the date of the initial transaction.

Pensions and Other Employee Benefits

Defined contribution plans

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

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

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

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

Defined benefit plans
The Parent Company and PSi maintain separate defined benefit plan covering substantially all of their employees. The plans are funded, noncontributory pension plans administered by their respective Boards 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 comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

The net pension asset recognized in respect of the defined benefit pension plan is the lower of: (a) the fair value of the plan assets less the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods; or (b) the total of any cumulative unrecognized net actuarial loss and past service cost and the present value of any economic benefit available in the form of refunds from the plan or reductions in future contributions to the plan. If there is no minimum funding requirement, an entity shall determine the economic benefit available as a reduction in future contributions as the lower of: (a) the surplus in the plan; and (b) the present value of the future service cost to the entity, excluding any part of the future cost that will be borne by employees, for each year over the shorter of the expected life of the plan and the expected life of the entity.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related pension liability or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they accrue to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to the reporting date.

Share-based Payment Transactions
Certain employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (“equity-settled transactions”).

The Group has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Parent Company’s shares at a discounted price. The Group recognizes the difference between the market price at the time of subscription and the subscription price as employee benefit expense over the holding period.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding and adjusted to give retroactive effect to any stock dividends declared during the period. Diluted EPS is computed by dividing net income attributable to common equity holders by the weighted average number of common shares outstanding plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares. The calculation of diluted earnings per share does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on earnings per share.

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

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

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

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in the "Property, plant and equipment" account with the corresponding liability to the lessor included in the "Accounts payable and accrued expenses" account for the current portion and "Obligation under finance lease - noncurrent" account for the noncurrent portion in the consolidated balance sheet. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly as "Interest expense" in the consolidated statement of comprehensive income.

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

Expenses

Expenses of the Group include cost of goods sold, cost of services, and operating expenses. Cost of goods sold and services pertain to the direct expenses incurred by the Group related to the products and services offered. Operating expenses pertain to the general and administrative expenses. Cost of goods sold and services are recognized when the related goods are sold and when services are rendered. Operating expenses are recognized when incurred except for rent expense which is computed on a straight line basis over the lease term.

Provisions

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

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Where the Group expects some or all of a provision to be reimbursed, for example an insurance claim, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Events after the Reporting Period

Post year-end events that provide additional information about the Group's position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the consolidated financial statements when material.

4. **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 Parent Company and its subsidiaries determined their 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 - Group as lessor

The Parent Company subleased the property it occupies and determined based on the evaluation of the terms and conditions of the arrangement (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of the property which is leased out as operating lease.

Operating and finance lease commitments - Group as lessee

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

The Parent Company has entered into a finance lease agreement covering certain office equipment. The Parent Company has determined, based on the evaluation of the terms and conditions of the arrangement, that it bears substantially all the risks and rewards incidental to ownership of the said equipment and so accounts for the contract as a finance lease (see Note 30).

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 cost of these investments 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.

Contingent liabilities

The Group is currently involved in various legal proceedings and tax assessments. The estimate of the probable costs of the resolutions and assessments of these claims 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 and tax assessments will have a material effect on the Group's financial position. It is possible, however, that future results of operations

could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 34).

Receivable from insurance
On May 24, 2009, a fire incident occurred in the Parent Company's plant in Cebu, Philippines. The plant was covered by insurance and the Parent Company believes that the collection of the insurance proceeds is virtually certain. As of December 31, 2009, the Parent Company recognized receivable and gain from the insurance claim amounting to $5.62 million for damages to equipment and inventories caused by the fire incident (see Note 6).

Estimates and Assumptions
The key assumptions concerning the future and other sources of estimation uncertainty at the end of the reporting period 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.

Impairment of loans and receivables
The Group reduces the carrying amount of its loans and receivables through the use of an allowance account if there is objective evidence that an impairment loss on the loans and receivables have been incurred, based on the result of the individual and collective assessments. Factors considered are payment history and past due status. The carrying amounts of the loans and receivables, net of the allowance for doubtful accounts, amounted to $109.94 million and $95.81 million as of December 31, 2010 and 2009, respectively. Allowance for doubtful accounts amounted to $1.37 million and $0.31 million as of December 31, 2010 and 2009, respectively. Further details are given in Note 6.

Estimating NRV of 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 $19.72 million and $11.02 million as of December 31, 2010 and 2009, respectively. Inventories carried at NRV amounted to $34.98 million and $20.86 million as of December 31, 2010 and 2009, respectively. Allowance for inventory obsolescence amounted to $3.73 million and $6.26 million as of December 31, 2010 and 2009, respectively. Further details are given in Note 7.

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 these are consistent with the expected pattern of the economic benefits from the assets. This requires the Group to make an estimate of the expected asset utilization from business plans and strategies, future technical developments and market behavior to determine the expected pattern of economic benefits from the assets. Property, plant and equipment, net of accumulated depreciation, amortization and impairment loss, amounted to $74.62 million and $63.13 million as of December 31, 2010 and 2009, respectively. Depreciation and amortization expense on property, plant and equipment amounted to $19.37 million, $18.06 million and $18.62 million for the years ended December 31, 2010, 2009 and 2008 respectively. Further details are given in Notes 9, 20 and 21.

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 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 statements of comprehensive income in the expense category consistent with the function of the intangible asset. Intangible assets, net of accumulated amortization, amounted to $0.92 million and $2.80 million as of December 31, 2010 and 2009, respectively. Amortization expense amounted to $2.65 million, $2.74 million and $2.69 million for the years ended December 31, 2010, 2009 and 2008, respectively. Further details are given in Note 11.

Impairment of property, plant and equipment and intangible assets
The Group determines at the end of each reporting period whether there is any indication that an item of property, plant and equipment and intangible assets with finite useful lives may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior periods may no longer exist or 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. In 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 $74.62 million and $63.13 million as of December 31, 2010 and 2009, respectively. Impairment loss recognized in the consolidated statements of comprehensive income for the year ended December 31, 2008 amounted to $1.50 million. No impairment loss was determined in 2010 and 2009. Intangible assets, net of accumulated amortization, amounted to $0.92 million and $2.80 million as of December 31, 2010 and 2009, respectively. No impairment was recognized for the intangible assets in 2010, 2009 and 2008. Further details are given in Notes 9, 11, 20 and 21.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount which is the net selling price or value in use of the CGUs to which the goodwill is allocated. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows. As of December 31, 2010 and 2009, the Group has determined that there are no indications that its goodwill may be impaired. Goodwill amounted to $55.72 million and $46.23 million as of December 31, 2010 and 2009. 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 other comprehensive income. 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 of December 31, 2010 and 2009, no impairment losses have been recognized for AFS financial assets. The carrying amount of AFS financial assets of the Group amounted to $0.38 million and $0.31 million as of December 31, 2010 and 2009, respectively.

Deferred tax assets
The Group reviews the carrying amounts of its deferred tax assets at the end of each reporting period and reduces the deferred 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 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 tax assets to be utilized.

As of December 31, 2010 and 2009, the Group has deferred tax assets of $0.12 million and $0.11 million, respectively. Further details are given in Note 25.

Pension and other employee benefits
The determination of the obligation and cost of pension under the Parent Company and PSi'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 benefits 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. As of December 31, 2010, 2009 and 2008, the Group has unrecognized actuarial gains (losses) of ($2.71) million, $2.84 million and $6.24 million, respectively. Further details are given in Note 27.

The Group also estimates other employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the period. Accrued leaves as of December 31, 2010 and 2009 amounted to $2.47 million and $0.94 million, respectively, recognized under "Accounts payable and accrued expenses" in the consolidated balance sheets. Cost of leaves in 2010, 2009 and 2008 amounted to $1.94 million, $1.62 million and $3.12 million, respectively, recognized under "Direct labor, salaries, wages and employee benefits" under "Cost of goods sold and services" and "Operating expenses" in the consolidated statements of comprehensive income.

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

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

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

For the years ended December 31, 2010, 2009 and 2008, the Group recognized cost of equity-settled share options amounting to $1.93 million, $0.51 million and $1.48 million, respectively. Further details are given in Note 28.

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

For the years ended December 31, 2010, 2009 and 2008, the Group recognized (reversed) provision for warranty amounting to ($0.02) million, $0.01 million and ($1.68) million, respectively. Further details are given in Note 14.

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

The carrying amount of the Group's income taxes payable as of December 31, 2010 and 2009 amounted to $2.30 million and $3.26 million, respectively.

5. Cash and Cash Equivalents

This account consists of:

	2010	2009
Cash on hand and in banks	**$24,894,016**	$28,773,426
Short-term deposits	**13,240,727**	25,158,341
	$38,134,743	$53,931,767

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

6. Loans and Receivables

This account consists of:

	2010	2009
Trade	**$95,629,246**	$84,013,831
Nontrade	**9,461,930**	4,822,828
Short-term investments	**2,000,000**	–
Receivable from insurance	**1,859,984**	5,625,707
Receivable from employees	**707,172**	426,884
Receivable from Meralco	**549,923**	793,768
Others	**1,094,720**	436,278
	111,302,975	96,119,296
Less allowance for doubtful accounts	**1,366,536**	312,447
	$109,936,439	$95,806,849

Trade

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

Trade receivables of PS1 from certain customers totaling $5.40 million as of December 31, 2010, were assigned as collateral to Philippine Veterans Bank (PVB). The collection of these receivables will be remitted directly to PSi's bank account with PVB (see Note 15).

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.

Short-term investments

Short-term investments are 2-year time deposits due in May 2011 subject to fixed interest rate of 2.00% per annum. These investments were included under "Other noncurrent assets" in 2009 (see Note 12).

Receivable from insurance

Insurance claims for damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu, Philippines in May 2009 amount to $1.86 million and $5.62 million as of December 31, 2010 and 2009, respectively. The gain from the insurance claims is included under "Miscellaneous income" in the 2009 consolidated statement of comprehensive income.

Receivable from Meralco

As a customer of Manila Electric Company (Meralco), the Parent Company is entitled to a refund for some of its previous billings under Phase IV of Meralco's refund scheme. In 2009, additional receivable from Meralco amounting to $0.37 million was booked by the Parent Company (included under "Miscellaneous income").

The rollforward of the day 1 discount on the Meralco refund as of December 31, 2010 and 2009 follows:

	2010	2009
At beginning of year	**$34,451**	$80,865
Accretion	**(18,780)**	(46,414)
At end of year	**$15,671**	$34,451

The accretion of the day 1 discount is included under "Interest income" in the consolidated statements of comprehensive income (see Note 24).

Trade and nontrade receivables with nominal value of $1.37 million and $0.31 million were individually assessed to be impaired and fully provided with allowance for doubtful accounts as of December 31, 2010 and 2009, respectively.

Movements in the allowance for doubtful accounts follow:

2010

	Trade	**Nontrade**	**Total**
At January 1, 2010	**$223,355**	**$89,092**	**$312,447**
Provision during the year	**281,323**	**1,250,604**	**1,531,927**
Accounts written off	**(388,591)**	**(89,247)**	**(477,838)**
At December 31, 2010	**$116,087**	**$1,250,449**	**$1,366,536**

2009

	Trade	Nontrade	Total
At January 1, 2009	$254,601	$439,056	$693,657
Provision during the year	120,890	46,645	167,535
Accounts written off	(152,136)	(396,609)	(548,745)
At December 31, 2009	$223,355	$89,092	$312,447

Provisions during the year form part of “Operating expenses” and are included under “Facilities costs and others - Others” (see Note 22).

7. Inventories

This account consists of:

	2010	2009
At cost:		
Raw materials and supplies	**$6,813,778**	$2,998,336
Work-in-process	**5,292,449**	4,209,464
Finished goods	**7,609,282**	3,808,746
	19,715,509	11,016,546
At NRV:		
Raw materials and supplies	**33,378,808**	19,293,518
Work-in-process	**1,342,050**	622,282
Finished goods	**258,046**	942,666
	34,978,904	20,858,466
	$54,694,413	$31,875,012

The cost of the inventories carried at NRV amounted to $38.71 million and $27.12 million as of December 31, 2010 and 2009, respectively. The amount of inventories recognized as an expense amounted to $265.48 million, $263.56 million and $222.77 in 2010, 2009 and 2008, respectively (see Note 20). Losses on decline in value of inventory, net of reversal, recognized in 2010, 2009 and 2008 amounted to ($1.73) million, $1.32 million and $5.51 million, respectively, (see Note 22).

In May 2009, the Parent Company lost inventories amounting to $0.56 million due to a fire incident in its plant in Cebu, Philippines (see Note 6). The loss from the fire and gain from the insurance claim amounting to $4.98 million are included net under “Miscellaneous income” in the consolidated statements of comprehensive income.

For the years ended December 31, 2010, 2009 and 2008, gain from sale of scrapped packaging supplies amounting to $0.23 million, $0.11 million and $0.34 million, respectively, are included under "Miscellaneous income" in the consolidated statements of comprehensive income.

8. Other Current Assets

This account consists of:

	2010	2009
Input tax	**$1,118,577**	$1,008,824
Advances to suppliers	**941,878**	160,613
Prepayments	**380,369**	412,764
Current portion of deferred licensing fee (Note 12)	**10,000**	–
Others	**57,190**	59,946
	$2,508,014	$1,642,147

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

9. Property, Plant and Equipment

2010

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At January 1, 2010	$50,321,661	$97,732,248	$12,241,416	$1,229,558	$1,500,626	$1,626,621	$164,652,130
Additions	921,877	17,786,055	3,518,838	498,877	1,244,636	96,435	24,066,718
Additions through business combination (Note 2)	219,482	8,812,625	149,303	28,976	–	–	9,210,386
Disposals	(291,838)	(6,162,716)	(1,998,448)	(785,970)	(21,183)	–	(9,260,155)
Reclassifications	154,493	1,472,128	–	–	–	(1,626,621)	–
At December 31, 2010	51,325,675	119,640,340	13,911,109	971,441	2,724,079	96,435	188,669,079
Accumulated depreciation and amortization							
At January 1, 2010	28,711,998	61,614,950	8,207,147	147,696	1,340,200	–	100,021,991
Depreciation and amortization	3,089,224	13,528,910	2,062,520	301,151	391,421	–	19,373,226
Disposals	(282,117)	(5,177,914)	(1,159,486)	(211,405)	(21,183)	–	(6,852,105)
At December 31, 2010	31,519,105	69,965,946	9,110,181	237,442	1,710,438	–	112,543,112
Accumulated impairment loss	736,565	752,909	12,226	–	–	–	1,501,700
Net book value as of December 31, 2010	$19,070,005	$48,921,485	$4,788,702	$733,999	$1,013,641	$96,435	$74,624,267

2009

	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, 2009	$50,157,786	$99,111,126	$11,209,918	$1,541,074	$1,687,149	$392,609	$164,099,662
Additions	244,020	4,774,607	1,271,791	201,087	200,899	1,626,620	8,319,024
Disposals	(82,250)	(5,384,913)	(240,293)	(512,603)	(376,338)	–	(6,596,397)
Retirement	–	(1,156,217)	–	–	(13,942)	–	(1,170,159)
Reclassifications	2,105	387,645	–	–	2,858	(392,608)	–
At December 31, 2009	50,321,661	97,732,248	12,241,416	1,229,558	1,500,626	1,626,621	164,652,130
Accumulated depreciation and amortization							
At January 1, 2009	24,906,924	54,125,687	6,266,171	186,652	1,205,298	–	86,690,732
Depreciation and amortization	3,887,322	11,301,636	2,044,840	296,490	525,040	–	18,055,328
Disposals	(82,248)	(2,737,429)	(103,864)	(335,446)	(376,196)	–	(3,635,183)
Retirement	–	(1,074,944)	–	–	(13,942)	–	(1,088,886)
At December 31, 2009	28,711,998	61,614,950	8,207,147	147,696	1,340,200	–	100,021,991
Accumulated impairment loss	736,565	752,909	12,226	–	–	–	1,501,700
Net book value as of December 31, 2009	$20,873,098	$35,364,389	$4,022,043	$1,081,862	$160,426	$1,626,621	$63,128,439

PSi has a Mortgage Trust Indenture (MTI) with the Trust and Investment Division of a local bank, as Trustee. The mortgaged properties securing the Mortgage Obligations under the MTI are composed of machinery and equipment. The holders of the Mortgage Participation Certificates (MPC) under the MTI are: (a) Philippine Veterans Bank (PVB), a creditor bank (see Note 15) and (b) a major supplier of PSi (see Note 13), with a participation of $3.00 million each. As of December 31, 2010, mortgaged machinery and equipment has a net carrying amount of $2.68 million.

As of December 31, 2010 and 2009, fully depreciated property, plant and equipment amounting to $33.91 million, are still being used by the Group.

The carrying values of office equipment classified under finance lease amounted to $1.87 million and $0.48 million, as of December 31, 2010 and 2009, respectively.

Starting January 2009, the Parent Company extended the estimated useful life of SMT and other production equipment from five (5) to seven (7) years due to factors which demonstrate that the equipment can be used for more than five (5) years. The change in estimated useful life reduced depreciation expense for 2010 and 2009 by $0.74 million and $2.07 million, respectively.

Property, plant and equipment retired by the Parent Company in 2009 pertains to facilities damaged by fire with book value amounting to $0.08 million (see Note 6). The loss from the damaged facilities and gain from the insurance claim amounting to $4.98 million, are included net under “Miscellaneous income” in the consolidated statements of comprehensive income.

Depreciation and amortization expense included in cost of goods sold and services for the years ended December 31, 2010, 2009 and 2008 amounted to $16.23 million, $15.68 million and $15.18 million, respectively (see Note 20). Depreciation and amortization expense included in operating expenses for the years ended December 31, 2010, 2009 and 2008 amounted to $3.14 million, $2.38 million and $3.45 million, respectively (see Note 21).

In 2008, the Parent Company recognized an impairment loss of $1.50 million, included under 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 20).

10. Goodwill

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

	2010	2009
STEL Group	**$45,128,024**	$45,128,024
PSi	**9,493,385**	–
IMI USA and Trixell	**656,610**	656,610
IMI Philippines	**441,166**	441,166
	$55,719,185	$46,225,800

STEL Group and IMI USA and Trixell

The recoverable amounts of these CGUs have been based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections for STEL Group and IMI USA are 12.35% and 11.02%, respectively, in 2010 and 12% in 2009. Cash flows beyond the five-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate for the global EMS industry.

Key assumptions used in 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 consigned or turnkey.
- Growth rate - The forecasted growth rate is based on a very conservative steady growth rate that does not exceed the compounded annual growth rate for the global EMS industry.
- Pre-tax discount rates - Discount rates reflect management's estimate of the risks specific to each CGU. This is the benchmark used by management to assess operating performance.

With regard to the assessment of value in use of these two CGUs, management believes that a 72.05% and 45.28% increase in the discount rate during the 5-year period, for STEL Group and IMI USA, respectively, with all other key assumptions held constant, would give a value in use equal to the carrying amount of the CGU.

IMI Philippines

The value in use methodology was used in determining the recoverable amount of IMI Philippines in 2009. In 2010, the recoverable amount was based on the market price of its shares at valuation date less estimated costs to sell. The comparison of the recoverable amount and the carrying amount resulted in no impairment.

PSi
As discussed in Note 2, provisional accounting has been adopted for the acquisition of PSi. As a result, the goodwill recognized is still subject to finalization.

11. Intangible Assets

This account consists of:

2010

	Customer Relationships	Unpatented Technology	Computer Software	Total
Cost				
At January 1, 2010	**$12,900,000**	**$100,000**	**$697,449**	**$13,697,449**
Additions	**–**	**–**	**765,833**	**765,833**
At December 31, 2010	**12,900,000**	**100,000**	**1,463,282**	**14,463,282**
Accumulated amortization				
At January 1, 2010	**10,535,000**	**81,667**	**278,152**	**10,894,819**
Amortization	**2,365,000**	**18,333**	**262,128**	**2,645,461**
At December 31, 2010	**12,900,000**	**100,000**	**540,280**	**13,540,280**
Net book value as of December 31, 2010	**$–**	**$–**	**$923,002**	**$923,002**

2009

	Customer Relationships	Unpatented Technology	Computer Software	Total
Cost				
At January 1, 2009	$12,900,000	$100,000	$283,206	$13,283,206
Additions	–	–	414,243	414,243
At December 31, 2009	12,900,000	100,000	697,449	13,697,449
Accumulated amortization				
At January 1, 2009	7,955,000	61,667	133,848	8,150,515
Amortization	2,580,000	20,000	144,304	2,744,304
At December 31, 2009	10,535,000	81,667	278,152	10,894,819
Net book value as of December 31, 2009	$2,365,000	$18,333	$419,297	$2,802,630

Customer relationships
Customer relationships pertain to STEL Group's 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 STEL Group's patents were applied for the following technologies, both of which are unique, difficult to design around and which meet the separability criteria:

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

Computer Software
These pertain to the Parent Company's acquisitions of various computer software and applications such as APIS IQ - FMEA Pro, Microsoft Visio and MS Project v6 in 2010 and Acrobat Pro 9, Quest DBA Module, and Toad Oracle Professional in 2009.

Amortization of intangible assets included in operating expenses for the years ended December 31, 2010, 2009 and 2008 amounted to $2.65 million, $2.74 million and $2.69 million, respectively (see Note 21).

12. Noncurrent Receivables and Other Noncurrent Assets

As of December 31, 2010 and 2009, noncurrent receivables amounting to $0.18 million and $0.56 million, respectively, pertain to advances to customers for equipment purchased by the Group that are reimbursable from the former.

Other noncurrent assets consist of:

	2010	2009
Miscellaneous deposits	**$1,467,268**	$826,514
Noncurrent portion of deferred licensing fee	**30,000**	–
Long-term investments (Note 8)	**–**	2,000,000
	$1,497,268	$2,826,514

Miscellaneous deposits include electric and water meter deposits.

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

13. **Accounts Payable and Accrued Expenses**

This account consists of:

	2010	2009
Trade payables	**$71,090,278**	$60,666,337
Accrued expenses	**21,776,704**	11,200,102
Accrued payroll	**3,563,987**	4,319,142
Obligation under finance lease - current (Note 30)	**1,209,960**	188,142
Nontrade payables	**1,053,866**	423,604
Employee-related payables	**687,935**	484,391
Customers' deposits	**681,259**	1,327,825
Taxes payable	**639,641**	172,131
Accrued interest payable (Notes 15 and 16)	**60,919**	41,424
Unwinding cost payable	**–**	2,295,500
Others (Note 17)	**4,581,071**	2,038,860
	$105,345,620	$83,157,458

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

Trade payables include PSi's liability to a certain supplier amounting to $3.39 million as of December 31, 2010, which is covered by an MPC amounting to $3.00 million under PSi's MTI with a local bank (see Note 15). In addition, all overdue accounts from July 1, 2010 to December 31, 2010 with the supplier are subject to 0.50% interest per month.

Accrued expenses consist mainly of accruals for light and water, taxes, repairs and maintenance, professional fees, transportation and travel, subcontractual costs, security, insurance and representation. This also includes a separation pay amounting to $0.40 million payable in 2011 to a retired officer of PSi (see Note 27).

Nontrade payables includes provision for losses on purchase commitments of PSi amounting to $0.25 million as of December 31, 2010, which pertains to losses arising from price decline and expected termination of several firm and executory purchase commitments. No additional provisions were recorded in 2010.

Unwinding cost payable in 2009 pertains to the Parent Company's outstanding liability for the unwinding costs of the derivative contracts it entered in 2008 (see Note 33).

14. Provisions

This account consists of:

2010

	Warranty	**Restructuring**	**Total**
At January 1, 2010	**$18,481**	**$25,283**	**$43,764**
Provision (reversal of provision) during the year	**(18,481)**	**246,382**	**227,901**
Payment	**–**	**(271,665)**	**(271,665)**
At December 31, 2010	**$–**	**$–**	**$–**

2009

	Warranty	Restructuring	Total
At January 1, 2009	$13,238	$6,000,000	$6,013,238
Provision (reversal of provision) during the year	5,243	(889,304)	(884,061)
Payment	–	(5,085,413)	(5,085,413)
At December 31, 2009	$18,481	$25,283	$43,764

A provision for warranty is recognized for all products under warranty at the reporting date based on the Group's estimate of possible repairs or returns. No significant repairs or returns are expected in the future related to the sales made during the year. Consequently, no provision for warranty was recognized as of December 31, 2010.

In 2010, the Parent Company announced a restructuring of operations due to closure of two business activities. The restructuring was completed in July 2010 with actual payout of $0.25 million (see Note 27).

In 2008, the Parent Company provided for its estimate of benefits to be paid to employees that will be separated as a result of a restructuring of its operations to respond to decline in business activities. The Parent Company drew a restructuring plan and estimated costs amounting to $6.00 million to be incurred. The restructuring was completed in September 2009. The remaining provision for restructuring as of December 31, 2009 pertains to unclaimed separation pay. Total actual payout as of December 31, 2009 amounted to $5.08 million (see Note 27).

The provisions (reversal of provisions) for restructuring and warranty costs form part of "Operating expenses" and are included under "Salaries, wages and employee benefits" and "Facilities costs and others", respectively.

15. **Loans Payable**

This account consists of:

	2010	2009
Parent Company	**$10,000,000**	$–
PSi	**6,625,249**	–
STEL	**1,296,389**	2,302,233
	$17,921,638	$2,302,233

The Parent Company has two (2) 90-day term loans amounting to $5.00 million each, and subject to fixed interest rates of 1.18% and 1.16%.

PSi has short-term loans from the following banks:

Metropolitan Bank & Trust Co. (MBTC)	$5,000,000
PVB	1,625,249
	$6,625,249

MBTC

PSi has an unsecured Omnibus Line Credit Facility of $10.00 million granted on November 24, 2010, which includes 30 to 360 days Promissory Notes, maybe denominated in USD or Philippine peso (PHP), Letter of Credit/Trust Receipt (LC/TR) Line, Export Packing Credit Line, FX Forward Cover, Foreign Bills Line and Domestic Bill Purchase Line. The credit facility will expire on October 30, 2011. The undrawn credit facility amounted to $5.00 million as of December 31, 2010. The interest rate in 2010 is 2.56%.

PVB

The existing short-term credit facility with PVB, which will expire in April 2011, is secured by trade receivables from certain customers and MTI on machinery and equipment (see Note 9). The interest rates in 2010 ranged from 3.16% to 3.72%.

Under the terms of the Credit Facility Agreement with PVB, PSi shall ensure that the collection of eligible receivables under the Borrowing Base (equivalent to 95% of the value of the outstanding eligible receivables) will be deposited with its PVB bank account. Furthermore, PSi shall maintain a Borrowing Base to cover the outstanding principal drawn under the Credit Facility Agreement at all times. The undrawn credit facility amounted to $1.37 million as of December 31, 2010.

The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates ranging from 3.52% to 3.70% and 1.94% to 3.86% in 2010 and 2009, respectively, and have maturities of 30 to 240 days from the date of issue with renewal options.

16. **Long-Term Debt**

This account consists of:

	2010	2009
Parent Company	**$30,000,000**	$30,000,000
STEL	**8,000,000**	16,000,000
PSi	**372,084**	–
	$38,372,084	$46,000,000

As of December 31, 2010 and 2009, current portion of long-term debt amounts to $38.00 million and $46.00 million, respectively.

The Parent Company loan is a five-year term clean loan from a Philippine bank obtained in 2006 for the original amount of $40.00 million 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 $10.00 million of the loan principal in 2007.

Loan covenants related to the Parent Company's loan are as follows:

- The ratio of debt to earnings before income tax, depreciation and amortization (EBITDA) shall not exceed 3:1 at all times with reference to the borrower's consolidated financial statements;
- maintenance of debt service coverage ratio (DSCR) of at least 1.5:1;
- maintenance at all times of a current ratio of at least 1:1; and
- maintenance of a debt to equity ratio, computed with reference to the borrower's consolidated financial statements, of not greater than 1.75:1.

As of December 31, 2010, the Parent Company has complied with all the above-mentioned loan covenants.

The STEL loan is a five-year term clean loan from a Singapore bank obtained in 2006 for the original amount of $40.00 million. The loan is payable in ten (10) equal semi-annual installments starting in May 2007 until November 2011. Interest on the loan is payable semi-annually and is re-priced semi-annually at LIBOR quoted by the bank plus 0.75%.

Loan covenants related to STEL's loan are as follows:

- The ratio of borrower's consolidated debt to borrower's consolidated net worth for each test period will not exceed 1.5:1;
- Guarantor's consolidated net worth for each test period will not be less than $50.00 million;
- The ratio of guarantor's consolidated debt to guarantor consolidated net worth for each test period will not exceed 1.5:1; and
- The ratio of guarantor's EBITDA to guarantor's consolidated current debt for each test period will not be less than 1.25:1.

As of December 31, 2010, STEL has complied with all the above-mentioned loan covenants.

The long term debt of PSi pertains to employee vacation leave benefits that are to be settled at retirement date. The accrual was discounted using the assumptions and method used in discounting the retirement benefits obligation.

17. Deferred Revenue

On June 28, 2010, PSi and a local customer entered into a Subcontracting Services Agreement (SSA) for PSi to provide subcontracted services. In consideration, the local customer shall pay PSi service fees as provided for in the SSA.

The SSA shall take effect upon the execution thereof and effective until August 14, 2020, unless mutually terminated by both parties. However, the subcontracted services shall be effective starting from July 15, 2010 and ending February 29, 2020, renewable upon mutual agreement by both parties.

In September 2009, PSi received noninterest-bearing cash advances amounting to $3.00 million from a foreign customer, an affiliate of the local customer.

On July 15, 2010, the foreign customer assigned all of its rights with respect to the cash advances, including payments thereof, to the local customer. The local customer and PSi agree that the full cash advances amounting to $3.00 million will be applied to pre-pay and cover any, and all of the fees payable under Annex B of the SSA for the facilities support services that will be rendered by PSi to the local customer. Moreover, PSi shall return to the local customer, upon termination of the SSA, for any reason, the cash advances less any amount applied to pay the fees as detailed in the SSA.

As of December 31, 2010, the current and noncurrent portion of the advances from Microsemi is as follows:

Total outstanding advances from Microsemi	$2,829,335
Less current portion	264,741
Noncurrent portion	$2,564,594

The current portion is included under “Account payable and accrued expense - others” (see Note 13).

18. Equity

Capital Stock
This account consists of:

	2010		2009		2008	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized - ₱1 par value						
Common	**2,250,000,000**		1,500,000,000		1,500,000,000	
Preferred	**1,500,000,000**		1,500,000,000		1,500,000,000	
Issued – Common						
At beginning of year	**1,137,788,197**	**$20,267,538**	1,137,020,302	$20,253,054	1,135,476,364	$20,223,972
Issuances during the year through stock dividend	**187,500,000**	**4,117,259**	–	–	–	–
Issuances during the year through ESOWN	**27,001,897**	**508,916**	767,895	14,484	1,543,938	29,082
At end of year*	**1,352,290,094**	**$24,893,713**	1,137,788,197	$20,267,538	1,137,020,302	$20,253,054
Issued - Preferred						
At beginning of year	**1,300,000,000**	**$26,601,155**	1,300,000,000	$26,601,155	–	$–
Issuances during the year	**–**	**–**	–	–	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	1,300,000,000	$26,601,155

**Out of the total issued shares, 15,892,109 shares as of December 31, 2010 and 15,892,365 shares as of December 31, 2009 and 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 ₱1.50 billion consisting of 1.50 billion common shares with a par value of ₱1.00 per share, to ₱3.00 billion, consisting of 1.50 billion common shares and 1.50 billion 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 1.30 billion 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 were 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 at dividend rate of 8.25% rate p.a., cumulative in payment of current dividends, nonparticipating in any other or further dividends beyond those that are specifically payable on the shares, nonconvertibility to common shares, preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation and in the payment of the dividend at the rate specified, no pre-emptive rights, redeemable at the option of the issuer and certificated.

On April 8, 2010, the Parent Company's BOD approved the increase in its authorized capital stock from ₱3.00 billion to ₱3.75 billion, which shall consist of an additional 750 million common shares with a par value of ₱1.00 per share, and the amendment of the articles of incorporation to reflect such increase. The Parent Company's BOD also approved the declaration of stock dividends equivalent to

187.5 million common shares to all the subscribed and outstanding common shares of the Parent Company as of the record date to be set by the SEC in connection with its approval of the Parent Company's application for increase in authorized capital stock.

The BOD of the Parent Company further resolved to consolidate into whole shares, the fractional shares resulting from the declaration of stock dividend and the Parent Company to redeem it as treasury stock, at a price equal to the last closing price at the PSE, immediately prior to the record date.

On August 12, 2010 the SEC approved the (1) increase in the Parent Company's authorized capital stock from ₱3.00 billion to ₱3.75 billion and the amendments in its Articles of Incorporation to reflect the increase, and (2) its payment of 15% stock dividend equivalent to 187.50 million common shares to its stockholders of record as of August 31, 2010. The issuance of the stock dividends was made on September 24, 2010.

Subscribed Capital Stock

Details of this account are as follows:

	2010		2009		2008	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**107,898,420**	**$2,167,895**	108,666,315	$2,182,379	108,671,253	$2,178,004
Subscriptions during the year						
ESOWN (Note 28)	**30,885,000**	**668,506**	–	–	1,539,000	33,457
Preferred stock	**–**	**–**	–	–	1,300,000,000	26,601,155
	30,885,000	**668,506**	–	–	1,301,539,000	26,634,612
Issuances during the year						
ESOWN	**(27,001,897)**	**(508,916)**	(767,895)	(14,484)	(1,543,938)	(29,082)
Preferred stock	–	–	–	–	(1,300,000,000)	(26,601,155)
	(27,001,897)	**(508,916)**	(767,895)	(14,484)	(1,301,543,938)	(26,630,237)
Forfeitures during the year						
ESOWN	**(21,194,523)**	**(425,522)**	–	–	–	–
At end of year	**90,587,000**	**$1,901,963**	107,898,420	$2,167,895	108,666,315	$2,182,379

Subscriptions Receivable

Details of this account are as follows:

	2010		2009		2008	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**111,297,000**	**$10,153,255**	111,297,000	$10,439,358	109,758,000	$11,101,002
Subscriptions during the year (Note 28)	**30,885,000**	**3,390,814**	–	–	1,539,000	306,137
Collections	**–**	**(1,215,793)**	–	(40,383)	–	(1,635,657)
Accretion (Note 28)	**–**	**1,913,073**	–	(245,720)	–	667,876
Forfeitures	**(21,194,523)**	**(2,829,355)**	–	–	–	–
At end of year	**120,987,477**	**$11,411,994**	111,297,000	$10,153,255	111,297,000	$10,439,358

Dividends

On April 8, 2010, the BOD of the Parent Company approved and authorized the declaration and payment of cash dividend in the amount of $0.0024 or ₱0.11 per common share or the equivalent of $2.99 million, out of the unrestricted retained earnings of the Parent Company as of December 31, 2009, to all common stockholders of the Parent Company as of record date April 30, 2010. The dividends were paid on May 27, 2010.

On January 21, 2010, the Parent Company's BOD approved and authorized the declaration and payment of quarterly dividend of 8.25% p.a. from the unappropriated retained earnings as of December 31, 2008, to all shareholders of the Parent Company's Preferred Class shares. Other details follow:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Covering period	November 21, 2009 to February 22, 2010	February 22, 2010 to May 21, 2010	May 21, 2010 to August 24, 2010	August 24, 2010 to November 22, 2010
Record date	February 8, 2010	May 10, 2010	August 9, 2010	November 8, 2010
Payment date	February 22, 2010	May 21, 2010	August 24, 2010	November 22, 2010
Amount	$599,703	$567,460	$612,599	$580,357

On November 4, 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 $0.58 million, 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 November 9, 2009. The dividends were paid on November 21, 2009.

On July 21, 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 $0.57 million, 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 August 10, 2009. The dividends were paid on August 21, 2009.

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 $0.55 million, 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 $2.00 million, 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 of quarterly dividend of 8.25% p.a. or the equivalent of $0.56 million, 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 dividend amounting to $0.00873 per share or the equivalent of $10.74 million, 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 $6.45 million and $4.29 million, respectively.

Treasury Stock

The movements in the treasury stock follow:

	2010		2009		2008	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Beginning of year	**15,892,365**	**$1,012,592**	15,892,365	$1,012,592	15,745,302	$970,291
Issuance during the year	**(300)**	**(17)**	–	–	–	–
Acquisition during the year	**44**	**10**	–	–	147,063	42,301
End of year	**15,892,109**	**$1,012,585**	15,892,365	$1,012,592	15,892,365	$1,012,592

On April 8, 2010, the Management of the Parent Company approved to assign 100 qualifying shares to each of its three (3) independent directors. The qualifying shares were pulled out from the treasury shares of the Parent Company.

On September 24, 2010, the Parent Company redeemed the fractional shares aggregating to 44 shares resulting from the stock dividend declared on April 8, 2010.

Retained Earnings

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

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company has no retained earnings available for dividend declaration as of December 31, 2010. However, on February 23, 2011, the BOD of the Parent Company approved the reclassification of appropriated retained earnings amounting to $20.00 million to unappropriated retained earnings as of December 31, 2010 (see Note 35).

19. Revenues from Sales and Services

This account consists of:

	2010	2009	2008
Sale of goods	**$328,697,578**	$347,788,074	$312,004,752
Sale of services	**83,629,027**	47,714,207	129,139,930
	$412,326,605	$395,502,281	$441,144,682

20. Cost of Goods Sold and Services

This account consists of:

	2010	2009	2008
Direct, indirect and other material-related costs (Note 7)	**$265,483,888**	$263,560,759	$222,773,763
Direct labor, salaries, wages and employee benefits (Note 27)	**64,704,176**	55,309,521	97,895,700
Depreciation and amortization (Note 9)	**16,231,694**	15,683,663	15,175,848
Impairment loss (Note 9)	**–**	–	1,501,700
Facilities costs and others (Note 22)	**21,432,255**	16,357,707	33,021,059
	$367,852,013	$350,911,650	$370,368,070

21. Operating Expenses

This account consists of:

	2010	2009	2008
Salaries, wages and employee benefits (Note 27)	**$22,897,063**	$16,388,199	$27,668,944
Depreciation and amortization (Notes 9 and 11)	**5,786,993**	5,115,969	6,137,677
Facilities costs and others (Note 22)	**11,539,960**	13,667,151	20,292,654
	$40,224,016	$35,171,319	$54,099,275

22. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			**Operating Expenses**		
	2010	2009	2008	**2010**	2009	2008
Utilities	**$8,071,258**	$6,092,725	$9,035,267	**$649,768**	$435,802	$662,805
Variable overhead	**3,616,274**	3,682,733	12,347,007	**–**	–	–
Repairs and maintenance	**3,381,890**	2,223,681	3,998,284	**492,723**	486,894	915,777
Outsourced activities (Note 30)	**3,379,122**	3,007,146	4,896,894	**5,549,611**	5,360,863	5,069,310
Government-related	**1,171,785**	1,110,324	840,556	**157,017**	638,063	693,875
Technology-related	**41,733**	9,343	211,244	**1,063,758**	590,429	959,669
Provision (reversal of provision) for inventory obsolescence	**–**	–	–	**(1,734,481)**	1,322,908	5,514,988
Others	**1,770,193**	231,755	1,691,807	**5,361,564**	4,832,192	6,476,230
	$21,432,255	$16,357,707	$33,021,059	**$11,539,960**	$13,667,151	$20,292,654

“Others” include provision for doubtful accounts, transportation, travel, sales commission, postage and communication. In 2009, “Others” also includes reversal of previously deferred professional fees incurred in 2008 amounting to $1.10 million in relation to a business acquisition that the Parent Company was pursuing. The acquisition did not push through and the deferred costs were expensed in 2009.

23. **Interest Expense and Bank Charges**

This account consists of:

	2010	2009	2008
Interest on bank loans (Notes 15 and 16)	**$942,202**	$1,739,827	$3,027,546
Bank and other financing charges	**94,727**	47,639	566,063
	$1,036,929	$1,787,466	$3,593,609

24. **Interest Income**

This account consists of:

	2010	2009	2008
Interest on bank balances and fixed deposits (Notes 5 and 12)	**$333,798**	$676,847	$1,042,355
Accretion of Meralco receivable (Note 6)	**18,780**	46,414	99,246
	$352,578	$723,261	$1,141,601

25. **Income Tax**

Parent Company

As discussed in Note 1, the Parent Company is registered with PEZA and is entitled to certain incentives, which include ITH. The Parent Company's entitlements to ITH under the current PEZA registrations have expirations beginning January 2010, for which extension has been applied for, up to July 2013 for the different registered activities. The Parent Company's application for extension of its ITH is still pending PEZA approval. 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. As of December 31, 2010, application for extension for PEZA registration is still on-going, for which the Parent Company expects approval in 2011.

PSi

PSi is a PEZA-registered entity, and is subject to a 5% tax on gross income less allowable deductions, as defined in RA No. 7916, as amended by RA No. 8748, in lieu of all national and local taxes, except real property tax on land being leased by the Parent Company in FTI-SEZ. The 5% tax on gross income shall be paid and remitted as follows: (a) three percent (3%) to the National Government; and (b) two percent (2%) to the treasurer's office of the municipality or city where the enterprise is located.

PSi registered its subcontracted services with PEZA on July 9, 2010. Under the Supplemental Agreement, the subcontracted services are entitled to incentives granted to non-pioneer projects under RA No. 7916, as amended. PSi started rendering subcontracted services on July 15, 2010.

On August 9, 2010, PSi was registered by PEZA as an Ecozone Logistics Service Enterprise to provide warehousing logistics support services.

No ITH incentives were availed in 2010.

STHK
Hong Kong profits tax has been provided at the rate of 16.5% for the years ended December 31, 2010 and 2009, on the assessable profit for the year.

SZSTE, SZSTT, STJX and STCQ
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 (2) years and a 50% reduction in EIT for the next three (3) years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five (5) years.

SZSTE is subject to taxation at the statutory tax rate of 25% and 20% for the years ended December 31, 2010 and 2009, 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 audit and thus there is no current tax expense for SZSTT. Deferred income tax assets arising from the tax losses of SZSTT are 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 assets 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". STJX is in its sixth profitable year, and hence is subject to taxation at the rate of 25% in 2010 and 2009 on the taxable income as reported in the financial statements of STJX prepared in accordance with the accounting regulations in the PRC.

STCQ is entitled to full exemption from EIT for the first five (5) years, commencing from the first profitable year, that is after all tax losses have been fully offset in accordance with the "Income Tax of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STCQ is in its second profitable year, and hence is not subject to taxation on the taxable income as reported in the financial statements of STCQ prepared in accordance with the accounting regulations in the PRC.

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:

	2010	2009	2008
Income (loss) before income tax	**$7,822,169**	$15,161,368	($14,350,346)
Tax on:			
Income from foreign subsidiaries	**3,085,736**	4,906,082	1,982,193
Income subject to 5% gross income tax	**324,316**	189,422	248,629
Income subject to regular tax	**4,077**	16,696	175,510
Others	**46**	–	–
Deferred income tax expense (benefit)	**(6,651)**	(81,012)	25,670
Effective income tax	**$3,407,524**	$5,031,188	$2,432,002

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

The reconciliation of the statutory income tax to the provision for income tax of the Group follows:

	2010	2009	2008
Statutory income tax	**30%**	30.00%	35.00%
Tax effects of:			
Income subject to income tax holiday	**50.87%**	(7.86%)	10.24%
Income subject to gross income tax	**(14.07%)**	(6.25%)	12.13%
Interest income subjected to final tax	**(0.54%)**	(1.22%)	2.19%
Nondeductible expenses	**(13.75%)**	7.31%	(69.49%)
Difference in tax jurisdiction	**(8.95%)**	11.20%	(7.02%)
Provision for income tax	**43.56%**	33.18%	(16.95%)

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

	2010	2009
Deferred income tax assets:		
Unutilized business losses	**$556,000**	$556,000
Allowance for inventory obsolescence	**386,104**	386,104
Others	**54,386**	54,386
	996,490	996,490
Deferred income tax liabilities:		
Excess of net book value over tax written down value of fixed assets of subsidiaries	**(672,988)**	(672,988)
Revaluation of fixed assets of subsidiaries	**(205,414)**	(205,414)
Others	**(2,920)**	(9,571)
	(881,322)	(887,973)
Net deferred tax assets	**$115,168**	$108,517

As of December 31, 2010, deferred tax asset on accrued retirement obligations, excess of cost over NRV of inventories, MCIT and NOLCO of PSi aggregating to $7.34 million has not been recognized due to uncertainty of its recoverability.

As of December 31, 2009, deferred tax asset on unutilized business losses and capital allowances of STEL amounting to $0.76 million has not been recognized due to uncertainty of its recoverability.

Details of PSi's NOLCO and MCIT follow:

Inception Year	Expiry Year	NOLCO	MCIT
2008	2011	$22,848	$2,321
2009	2012	28,516	870
2010	2013	24,127	46
		$75,491	$3,237

26. Earnings (Loss) per Share

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

	2010	2009	2008
Net income (loss)	**$4,738,929**	$10,065,517	($16,830,089)
Less dividends on preferred stock (Note 18)	**2,360,119**	2,251,226	267,946
	$2,378,810	$7,814,291	($17,098,035)
Weighted average number of common shares Outstanding	**1,337,038,223**	1,229,749,252	1,229,202,023
Basic and Diluted EPS	**$0.002**	$0.006	($0.014)

As of December 31, 2010, 2009 and 2008, the Parent Company has no dilutive potential common shares.

27. Employee Benefits

The Parent Company and PSi have defined benefit pension plans covering substantially all of their employees, which require contributions to be made to administered funds. The plans are administered by local banks as trustees. The latest retirement valuation was made on December 31, 2010.

The following tables summarize the components of the net defined benefit expense (income) recognized in the consolidated statements of comprehensive income and the funded status and amounts recognized in the consolidated balance sheets for the plan:

Net defined benefit expense

	2010	2009	2008
Current service cost	**$630,577**	$535,987	$922,933
Interest cost on benefit obligation	**583,682**	703,313	1,235,452
Curtailment loss	**146,377**	8,274,802	–
Settlement gain	**136,079**	(3,229,952)	–
Expected return on plan assets	**(992,574)**	(1,502,793)	(1,290,911)
Amortization of actuarial gain	**(55,578)**	(108,734)	–
Benefits paid due to settlement	**–**	(5,085,413)	–
Net defined benefit expense (income)	**$448,563**	($412,790)	$867,474

Net pension asset

	2010	2009
Plan assets	**$12,812,771**	$10,997,452
Benefit obligation	**(14,145,445)**	(5,294,481)
Over (under) funded	**(1,332,674)**	5,702,971
Unrecognized net actuarial losses (gains)	**2,711,374**	(2,836,751)
Foreign currency exchange difference	**(6,020)**	–
Net pension asset	**$1,372,680**	$2,866,220

Movements in the net pension asset of the Parent Company for the years ended December 31, 2010 and 2009 follow:

	2010	2009
At beginning of year	**$2,866,220**	$2,453,430
Benefits paid due to settlement	**246,382**	–
Net benefit income (expense)	**(346,927)**	412,790
At end of year	**$2,765,675**	$2,866,220

Movements in the net pension liability of PSi for the year ended December 31, 2010 follow:

	2010
Additions through business combination	**$1,432,596**
Benefits paid due to settlement	**(141,237)**
Net benefit expense	**101,636**
At end of year	**$1,392,995**

The retirement liability of PSi to its retired officer amounting to $0.40 million is due within a year and is recorded under “Accounts payable and accrued expenses” (see Note 13).

The rollforward of the fair value of plan assets follows:

	2010	2009
At beginning of year	**$10,997,452**	$13,282,258
Additions through business combination	**359,215**	–
Expected return on plan assets	**992,574**	1,502,793
Foreign currency exchange gain	**614,490**	379,493
Benefits paid during the year	**(351,715)**	(204,870)
Settlements	**(275,551)**	(3,938,092)
Actuarial gains (losses)	**476,306**	(24,130)
At end of year	**$12,812,771**	$10,997,452
Actual return on plan assets	**$1,582,728**	$1,858,156

The Parent Company does not expect to contribute to the retirement fund in 2011 since the fair value of its plan assets exceeds the present value of its obligations.

The rollforward of the present value of obligation follows:

	2010	2009
At beginning of year	**$5,294,481**	$4,589,104
Additions through business combination	**2,509,270**	–
Interest cost on benefit obligation	**583,682**	703,313
Current service cost	**630,577**	535,987
Foreign currency exchange loss	**439,176**	131,117
Curtailments	**198,001**	6,093,604
Benefits paid during the year	**(351,715)**	(204,870)
Settlements	**(521,933)**	(9,023,505)
Actuarial loss	**5,499,387**	2,469,731
Unpaid obligations	**(135,481)**	–
At end of year	**$14,145,445**	$5,294,481

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

	2010	2009	2008
At beginning of year	**$2,836,751**	$6,239,724	($302,219)
Additions through business combinations	**(691,475)**	–	–
Foreign currency exchange difference	**137,554**	248,376	(396,393)
From plan assets	**476,306**	(24,130)	(2,561,408)
From pension obligation	**(5,499,387)**	(2,469,731)	9,499,744
Amortization of actuarial gain	**(55,578)**	(108,734)	–
Recognized actuarial loss due to curtailment	**(51,624)**	2,181,198	–
Recognized actuarial gain due to settlement	**136,079**	(3,229,952)	–
At end of year	**($2,711,374)**	$2,836,751	$6,239,724

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

	2010	2009
Government securities	**$7,184,652**	$6,046,038
Equities	**2,011,537**	1,549,558
Corporate bonds	**1,120,172**	1,191,017
Loans	**907,199**	1,129,217
Trust funds	**435,834**	367,445
Investment properties	**293,072**	272,165
Cash	**263**	2,192
Others	**877,273**	450,844
Liabilities	**(17,231)**	(11,024)
Total plan assets	**$12,812,771**	$10,997,452

Others include receivables from sale of shares of stock, deposit instruments, and mutual funds.

As of December 31, 2010, the plan assets include shares of stock, corporate bonds and deposit instruments of related parties (primarily Ayala Corporation, Ayala Land Inc. and Bank of Philippine Islands) with total fair value amounting to $1.16 million, $0.07 million and $0.07 million, respectively.

As of December 31, 2009, the plan assets include shares of stock, corporate bonds and deposit instruments of related parties (primarily Ayala Corporation, Ayala Land Inc., Bank of Philippine Islands and Globe Telecom) with total fair value amounting to $0.92 million, $0.39 million and $0.16 million, respectively.

The expected rates of return on the plan assets follow:

	2010	2009
Treasury bills	**3.88%**	5.50%
Equities	**1.89%**	11.50%
Corporate bonds	**3.37%-7.75%**	8.25%
Others	**1.29%**	3.50%

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 and PSi are shown below:

	2010	2009
Discount rate	**7.75%-8.00%**	10.50%
Expected rate of return on plan assets	**7.75%-9.00%**	9.00%
Rate of salary increase	**5.00%-7.00%**	4.00%-6.00%

In 2010, the deficit in the plan and the economic benefits available as a reduction in future contributions amounted to $1.33 million and $18.96 million, respectively.

In 2009, the surplus in the plan and the economic benefit available as a reduction in future contributions amounted to $5.70 million and $7.16 million, respectively.

Amounts for the current and previous years follow:

	2010	2009	2008	2007	2006
Plan assets	**$12,812,771**	$10,997,452	$13,282,258	$17,686,769	$14,417,092
Defined benefit obligation	**14,145,445**	5,294,481	4,589,104	14,668,084	13,986,801
Surplus (Deficit)	**($1,332,674)**	$5,702,971	$8,693,154	$3,018,685	$430,291
Experience adjustments on plan assets	**($489,126)**	$409,922	$2,721,023	$310,017	$927,046
Experience adjustments on plan liabilities	**$461,141**	$832,013	$4,720,473	$2,885,346	$983,158

The Parent Company's subsidiaries excluding PSi, participate in their respective national pension schemes which are considered as defined contribution plans. The total retirement expense of the subsidiaries amounted to $0.30 million included under "Salaries, wages and employee benefits" under "Cost of goods sold and services" and "Operating expenses" in the consolidated statements of comprehensive income.

Salaries, wages, and employee benefits follow:

	2010	2009	2008
Wages and salaries	**$79,920,925**	$61,858,084	$95,180,227
Social security costs	**1,392,817**	1,396,967	2,887,797
Net defined benefit expense (income)	**448,563**	(412,790)	867,474
Others	**5,838,934**	8,855,459	26,629,146
	$87,601,239	$71,697,720	$125,564,644

Others include retirement expense of subsidiaries, expense for leave benefits, training and seminars, employee social and recreation, bonuses, Pag-ibig premium, health premium, and employee insurance expense.

28. ESOWN

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

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

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

On February 21, 2007, the Parent Company's BOD approved the granting of 45,150,000 shares of the Parent Company under the ESOWN at the subscription price of ₱12.50 to various employees of STEL and to the Parent Company's top performers and key personnel. In 2008, additional 1,539,000 shares were granted to STEL and to the Parent Company's top performers and key personnel subject to the same terms as the shares subscribed in 2007. All the granted shares have been subscribed. The grantees will pay for the shares subscribed through installments over a period of 8 years, wherein an initial payment of 2.5% of the value of the subscribed shares is payable upon subscription. It shall serve as a down payment for the subscription. The subscribed shares have a holding period as follows: (a) 40% after one year from subscription date; (b) 30% after two years from subscription date; and (c) 30% after three years from subscription date. The actual grant date of the above two grants was on October 15, 2007. The fair value, determined based on a private bank's valuation of the Parent Company to be used by a potential investor, was ₱14.98 per share. The difference between the fair value and the subscription price will be recognized as employee benefit expense over the required service period. In 2008, the management has approved a two-year moratorium on the scheduled payments due in 2008 and 2009 which resulted to an extension of the payment period from eight (8) to ten (10) years. This extension resulted to a net reversal of accretion amounting to $0.25 million in 2009. The outstanding shares under this grant have fully vested in September 2010.

On December 14, 2009, the Chairman of the Parent Company's BOD approved the terms for granting 30,885,000 shares of the Parent Company under ESOWN at the subscription price of ₱5.54 per share to various employees of the Group. The grant date was on January 21, 2010. The payment scheme and holding period for this grant are similar to the grant in 2007. The fair value per share used in valuing the grant is ₱9.30, which is the closing price of the Parent Company's stock at the PSE at the date of grant.

Movements in the number of shares outstanding under ESOWN for the years ended December 31, 2010 and 2009 follow:

	2010		2009	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
At January 1	**111,297,000**	**₱6.88**	111,297,000	₱6.88
Granted	**30,885,000**	**5.54**	–	–
Forfeitures	**(21,194,523)**	**6.59**	–	–
At December 31	**120,987,477**	**₱6.59**	111,297,000	₱6.88

The employee benefit expense in 2010, 2009 and 2008 amounted to $1.93 million, $0.51 million and $1.48 million, respectively. The accretion, net of reversal, recognized as increase (decrease) in subscriptions receivable and additional paid-in capital presented in the consolidated statements of changes of equity in 2010, 2009 and 2008 amounted to $1.91 million, ($0.25 million) and $0.67 million, respectively (see Note 18).

29. Segment Information

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

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

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

The following tables present revenue and profit information regarding the Group's geographical segments for the years ended December 31, 2010, 2009 and 2008.

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

December 31, 2009	Philippines	Singapore	USA	Japan	Eliminations	Total
Revenue						
Third party	$196,295,400	$198,837,576	$63,332	$305,973	$–	$395,502,281
Inter-segment	–	1,392,234	2,083,085	566,118	(4,041,437)	–
Total revenue	$196,295,400	$200,229,810	$2,146,417	$872,091	($4,041,437)	$395,502,281
Segment gross profit	$17,395,603	$28,443,194	$1,963,998	$414,707	($3,626,871)	$44,590,631
Segment operating income (loss)	($585,141)	$10,377,426	$4,135	($377,108)	$–	$9,419,312
Segment interest income	$655,397	$67,730	$–	$134	$–	$723,261
Segment profit (loss) before income tax	$4,739,424	$10,790,688	$3,599	($372,342)	$–	$15,161,369
Segment provision for income tax	(206,118)	(4,824,263)	–	(807)	–	(5,031,188)
Segment profit (loss) after income tax	$4,533,306	$5,966,425	$3,599	($373,149)	$–	$10,130,181

December 31, 2008	Philippines	Singapore	USA	Japan	Eliminations	Total
Revenue						
Third party	$219,524,947	$221,032,633	$314,265	$272,837	$–	$441,144,682
Inter-segment	–	7,415	2,349,294	476,789	(2,833,498)	–
Total revenue	$219,524,947	$221,040,048	$2,663,559	$749,626	($2,833,498)	$441,144,682
Segment gross profit	$42,945,284	$27,551,363	$2,384,692	$285,681	($2,390,408)	$70,776,612
Segment operating income (loss)	$13,095,569	$3,639,771	$212,101	($270,104)	$–	$16,677,337
Segment interest income	$1,042,942	$98,452	$–	$207	$–	$1,141,601
Segment profit (loss) before tax	($17,208,190)	$2,878,859	$211,949	($232,964)	$–	($14,350,346)
Segment provision for income tax	(424,139)	(2,007,835)	–	(28)	–	($2,432,002)
Segment profit (loss) after income tax	($17,632,329)	$871,024	$211,949	($232,992)	$–	($16,782,348)

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

For the year ended December 31, 2010, the operating income (loss) and profit (loss) before and after tax for each operating segment include net profit from inter-segment revenues aggregating to $7.32 million and inter-segment cost of sales and operating expenses aggregating to $0.75 million and $6.57 million, respectively.

For the year ended December 31, 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 $4.04 million and inter-segment cost of sales and operating expenses aggregating to $0.41 million and $3.63 million, respectively.

For the year ended December 31, 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 $2.83 million and inter-segment cost of sales and operating expenses aggregating to $0.44 million and $2.39 million, respectively.

The following table presents segment assets of the Group's geographical segments as of December 31, 2010 and 2009.

	Philippines		**Singapore**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**					
Segment assets December 31, 2010	**$217,586,975**	**$36,518,323**	**$203,885,087**	**$2,804,323**	**$1,778,955**	**($119,395,662)**	**$343,178,001**
Segment assets December 31, 2009	$221,586,980	$–	$180,793,634	$2,594,078	$777,859	($103,670,501)	$302,082,050

Segment assets as of December 31, 2010 do not include investments in subsidiaries amounting to $96.21 million and inter-segment loans and receivables amounting to $32.68 million which are eliminated on consolidation. Furthermore, goodwill arising from the acquisition of PSi amounting to $9.49 million is recognized at consolidated level.

Segment assets as of December 31, 2009 do not include investments in subsidiaries amounting to $83.22 million and inter-segment loans and receivables amounting to $20.45 million which are eliminated on consolidation.

The following table presents revenues from external customers and noncurrent assets:

	Revenues from External Customers			**Noncurrent Assets**	
	2010	2009	2008	**2010**	2009
Philippines	**$73,948,544**	$132,958,167	$150,713,643	**$53,595,897**	$28,940,942
Europe	**153,701,402**	106,543,852	92,802,896	**–**	–
USA	**101,406,122**	80,232,365	102,342,473	**1,246,318**	898,314
Asia	**67,921,099**	54,385,497	75,344,593	**76,398,853**	82,296,822
Japan	**15,349,438**	21,382,400	19,941,077	**25,386**	20,791
	$412,326,605	$395,502,281	$441,144,682	**$131,266,454**	$112,156,869

Revenues are attributed to countries on the basis of the customer's location. Revenues from one customer from the Philippine segment represent $42.74 million or 10.37% of the Group's total revenues for the year ended December 31, 2010. For the years ended December 31, 2009 and 2008, another customer from the Philippine segment accounts for $76.41 million or 19% and $73.01 million or 17% of the Group's total revenues, respectively.

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

30. **Lease Commitments**

Finance Lease Agreement - as Lessee

On June 30, 2009, the Parent Company entered into a lease contract with IBM for the lease of servers for a three-year period starting on the same date. The Parent Company has a bargain option to purchase the servers after the lease term at ₱50.09. The lease provides for monthly rental payments of $17,141.

On March 31, 2010, the Parent Company entered into another lease contract with IBM for the lease of additional servers for a one-year period starting on May 1, 2010. The Parent Company has a bargain option to purchase the servers after the lease term at ₱50.09. The lease provides rental payments of $1,013,729 each in the first and last months of the lease.

Future minimum lease payments are as follows:

	2010	
	Minimum payments	**Present value of payments**
Within one year (Note 13)	**$1,219,420**	**$1,209,960**
After one year but not more than five years	**119,987**	**118,313**
Total minimum lease payments	**$1,339,407**	**$1,328,273**

	2009	
	Minimum payments	Present value of payments
Within one year (Note 13)	$205,692	$188,142
After one year but not more than five years	325,679	314,545
Total minimum lease payments	$531,371	$502,687

Operating Lease Agreements - as Lessee

Parent Company

On December 13, 2005, the Parent Company entered into a lease contract with Technopark Land, Inc. (TLI), an affiliate, for the lease of parcels of land situated at the Special Export Processing Zone, Laguna Technopark, Biñan, Laguna. The lease shall be for a 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 on 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.

The Parent Company also leases condominium units for the use of its officers and certain 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 three-year periods up to July 2008 and August 2008. On August 15, 2008, the lease agreements were extended for another three (3) years commencing September 1, 2008 up to August 31, 2011. The leases contain provisions including, but not limited to, an escalation rate of 7% per year and early termination penalties. The leases provide for quarterly rental payments of $26,364 during the first year of the lease term.

IMI Japan
On December 1, 2006, IMI Japan entered into a two-year contract with Kaneshichi Administration for lease of 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. This was terminated on April 21, 2010.

On February 15, 2010, IMI Japan entered into a two-year contract with Kabushikigaisha Tokyu Community for lease of office premises located in Nagoya whereby it is committed to pay a monthly rental of 245,490 Yen inclusive of tax and monthly maintenance fee of 35,070 Yen inclusive of tax. The lease agreement provides for automatic renewal of the lease contract unless prior notice of termination is given to the lessor.

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

On January 28, 2010, IMI USA entered into a six-year lease agreement with Fremont Ventures, LLC commencing two months from issuance of building permit or maximum of three months if Fremont caused the delay. The base monthly rental rate is $3,687 on the first 6 months with escalation every 11 months as listed in the lease contract. Average monthly rental rate amounts to $9,523.

IMI Singapore and STEL
IMI Singapore and STEL Group have various operating lease agreements in respect of office premises and land. These noncancellable leases have remaining noncancellable lease terms of between 1 to 50 years commencing on January 1, 1992 to April 1, 2011 and ending on February 28, 2010 to April 30, 2050. Most leases contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

The aggregate rent expense of the Group included under “Outsourced activities” account included under “Operating expenses” in the consolidated statements of comprehensive income, recognized on these operating lease agreements for the years ended December 31, 2010, 2009 and 2008 amounted to $1.09 million, $1.88 million and $2.88 million, respectively (see Note 22). Deposits made under these operating lease agreements are intended to be applied against the remaining lease payments.

PSi
PSi has a 15-year non-cancellable operating lease agreement with Food Terminal, Inc. (FTI) forits plant facilities, office spaces, and other facilities commencing on August 15, 2004 up to August 14, 2020. The lease agreement with FTI provides for increase in rental per year starting on the second year and annually thereafter until the end of the lease term. The lease agreement provides a late payment penalty of 2% per month for the monthly rental not paid on time. The difference between the actual rental payments of PSi and the straight-lined rental expense resulted to an accrued expense of

$0.89 million as of December 31, 2010 which is recorded under “Accrued rent” in the consolidated balance sheets.

Moreover, PSi leases its plant facilities, office spaces and other facilities from RBF Development Corporation for 36 months until March 31, 2011. PSi has the option to extend the term of the lease for another two (2) years. The lease agreement with RBF provides for increase in rental at varying rates over the term of the lease. The lease agreement provides penalty interest of 3% per month compounded for the late payment of monthly rental.

Other operating lease agreements for machinery and equipment and storage space entered into by PSi are for one (1) year, subject to renewal options.

These operating lease agreements of the Group include clauses to enable upward revision of the rental charges on agreed dates. Future minimum rentals payable under noncancellable operating leases as of December 31, 2010 and 2009 follow:

	2010	2009
Within one year	**$2,419,772**	$500,831
After one year but not more than five years	**5,220,618**	1,784,559
More than five years	**3,607,709**	415,740
	$11,248,099	$2,701,130

Operating Lease Agreements - as Lessor

On August 1, 2009, the Parent Company subleased the unused portion of its two leased office condominium units from Cyberzone Properties Inc., with the consent of the latter. 102.52 square meters and 32.80 square meters were leased to Stratpoint Technologies Inc. and Xepto Computing Inc., respectively, at the rate of ₱475.00 per square meter in the first month and ₱502.25 per square meter on the subsequent months. The lease contract is for a term of one (1) year, renewable upon mutual agreement of both parties.

On June 8, 2010, an extension of the lease contract was executed by the the Parent Company and the lessees for a period of one month from August 1 to 31, 2010. The monthly rental has been amended to ₱543.83 per square meter. In addition, the lessees have the option to renew the extended lease under the same terms and conditions, for a month-to-month tenancy basis for 12 months until August 31, 2011. The renewal option was exercised by the lessees for which the term of the lease has been extended to February 15, 2011.

31. Related Party Transactions

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

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

Related Party	Relationship	Nature of Transaction	Balance Sheets		Statements of Comprehensive Income		
			2010	2009	**2010**	2009	2008
Bank of the Philippine Islands (BPI)	Affiliate	Cash and cash equivalents	**$2,029,657**	$976,019	**$–**	$–	$–
		Nontrade receivable	**70,504**	132,323	**–**	–	–
		Nontrade payable	**1,698**	12,857	**–**	–	–
		Derivative asset	**480,695**	–	**–**	–	–
		Gains on derivatives	**–**	–	**95,540**	–	–
		Interest income	**–**	–	**11,938**	91,569	324,192
AG Counselors Corporation (AGCC)	Affiliate	Nontrade payable	**718**	103,721	**–**	–	–
		Professional and service fees	**–**	–	**209,743**	2,969	7,161
Technopark Land, Inc. (TLI)	Affiliate	Nontrade receivable	**7,682**	11,420	**–**	–	–
Innove Communications, Inc. (ICI)	Affiliate	Nontrade payable	**67,102**	17,006	**–**	–	–
		Postal and communication	**–**	–	**202,143**	286,541	393,414
Globe Telecom, Inc. (GTI)	Affiliate	Nontrade payable	**3,828**	3,617	**–**	–	–
		Postal and communication	**–**	–	**94,926**	95,029	219,198

a. As of December 31, 2010, the Parent Company has savings and current accounts and short-term deposits with BPI amounting to $546,993 and $1,482,664, respectively. As of December 31, 2009, the Parent Company has savings and current accounts and short-term deposits with BPI amounting to $560,358 and $415,661, respectively. Total interest income earned from investments with BPI amounted to $11,938 in 2010, $91,569 in 2009 and $324,192 in 2008.

b. As of December 31, 2010 and 2009, nontrade receivables from BPI pertain to retirement and separation pay advanced by the Parent Company but is reimbursable from the trust fund with BPI.

c. The Parent Company has outstanding housing and automobile financing loans from BPI amounting to $1,698 and $12,857 as of December 31, 2010 and 2009, respectively, included in "Employee-related payables" under "Accounts payable and accrued expenses". The outstanding housing and automobile financing loans arise from the differences in the timing of remittances by the Parent Company to BPI and the period of withholding from employee salaries and wages.

d. As of December 31, 2010 and 2009, certain plan assets of the Parent Company under its retirement fund with BPI are invested with its related parties (see Note 27).

e. The Parent Company engages AGCC, an affiliate, for corporate secretarial services subject to a monthly fee of ₱40,000. As of December 31, 2010 and 2009, payable to AGCC amounted to $718 and $103,721, respectively.

f. The Parent Company has nontrade receivable from TLI, an affiliate, amounting to $7,682 and $11,420 as of December 31, 2010 and 2009, which pertains to advances by the Parent Company

for various expenses incurred by TLI, primarily on real property taxes and corporate secretarial services.

g. The Parent Company has nontrade payables to Innove Communications, Inc., an affiliate, amounting to $67,102 and $17,006 as of December 31, 2010 and 2009, respectively, which pertains to billing on leased lines, internet connections and ATM connections. Related expense for 2010, 2009 and 2008, amounted to $202,143, $286,541 and $393,414, respectively.

h. As of December 31, 2010 and 2009, the Parent Company's accounts payable to GTI, an affiliate, amounted to $3,828 and $3,617 for the purchase of Blackberry software and billings for cellphone charges and WiFi connections. Related expense for 2010, 2009 and 2008, amounted to $94,926, $95,029 and $219,198, respectively.

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

	2010	2009
Short-term employee benefits	**$4,973,639**	$4,522,006
Post-employment benefits	**447,949**	335,977
Share-based payments	**596,826**	151,203
	$6,018,414	$5,009,186

32. Fair Value of Financial Instruments

The following table sets forth the comparison of the carrying values and fair values of the Group's financial assets and liabilities recognized as of December 31, 2010 and 2009. There are no material unrecognized financial assets and liabilities as of December 31, 2010 and 2009.

	Carrying Value		**Fair Value**	
	2010	2009	**2010**	2009
Financial Assets				
Cash and cash equivalents	**$38,134,743**	$53,931,767	**$38,134,743**	$53,931,767
Loans and receivables				
Trade	**95,513,159**	83,790,476	**95,513,159**	83,790,476
Nontrade	**8,211,481**	4,733,736	**8,211,481**	4,733,736
Short-term investments	**2,000,000**	–	**2,000,000**	–
Receivable from insurance	**1,859,984**	5,625,707	**1,859,984**	5,625,707
Receivable from employees	**707,172**	426,884	**707,172**	426,884
Receivable from Meralco	**549,923**	793,768	**549,923**	793,768
Others	**1,094,720**	436,278	**1,094,720**	436,278
Noncurrent receivables	**184,179**	558,707	**176,034**	534,270
Miscellaneous deposits	**1,467,268**	826,514	**1,467,268**	826,514
Long-term investments	**–**	2,000,000	**–**	2,000,019
	149,722,629	153,123,837	**149,714,484**	153,099,419
AFS financial assets	**382,527**	309,448	**382,527**	309,448
Derivative Asset	**1,693,121**	–	**1,693,121**	–
Total Financial Assets	**$151,798,277**	$153,433,285	**$151,790,132**	$153,408,867

(Forward)

	Carrying Value		Fair Value	
	2010	2009	**2010**	2009
Financial Liabilities				
Other financial liabilities				
Accounts payable and accrued expenses				
Trade payables	**$71,090,278**	$60,666,337	**$71,090,278**	$60,666,337
Accrued expenses	**20,445,890**	10,205,181	**20,445,890**	10,205,181
Accrued payroll	**3,563,987**	4,319,142	**3,563,987**	4,319,142
Obligation under finance lease - current	**1,209,960**	188,142	**1,209,960**	188,142
Nontrade payables	**1,053,866**	423,604	**1,053,866**	423,604
Employee-related payables	**131,265**	120,984	**131,265**	120,984
Accrued interest payable	**60,919**	41,424	**60,919**	41,424
Unwinding cost payable	**–**	2,295,500	**–**	2,295,500
Others	**4,581,071**	2,038,860	**4,581,071**	2,038,860
Long-term debt	**38,372,084**	46,000,000	**38,372,084**	45,330,826
Loans payable	**17,921,638**	2,302,233	**17,921,638**	2,302,233
Derivative liabilities	**3,832,474**	–	**3,832,474**	–
Accrued rent	**894,088**	19,978	**894,088**	19,978
Obligation under finance lease - noncurrent	**118,313**	314,545	**110,202**	321,037
Total Financial Liabilities	**$163,275,833**	$128,935,930	**$163,267,722**	$128,273,248

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

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

Noncurrent receivables - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used are 4.56% in 2010 and 7.06% to 7.08% in 2009.

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

Long-term investments - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used range from 2.74% to 2.75% in 2009.

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

Derivative instruments - The fair value of freestanding currency forwards is based on counterparty valuation. The call and put options were valued using binomial model. This valuation technique considers the probability of PSi's share price based on a five-year discounted cash flow to move up or down depending on the volatility, risk free rate and exercise price based or a 12-month trailing EBITDA as of the valuation date.

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

Long-term debt - The fair value of long-term debt that is repriced on a semi-annual basis is 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 range from 1.91% to 1.96% in 2009. For variable rate loans that reprice every three (3) months, the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

The long term debt amounting to $0.37 million pertains to PSi's employee vacation leave benefits that are to be settled at retirement date. Fair value approximates the accrual that was discounted using the assumptions and method used in discounting the retirement benefits obligation.

Obligation under finance lease - noncurrent - 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 0.14% to 3.06% in 2010 and 1.36% to 2.29% in 2009.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and,

Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the Group's financial instruments carried at fair value as of December 31, 2010 and 2009, based on fair value hierarchy:

	Level 1	**Level 2**	**Level 3**
2010			
AFS financial assets	**$382,527**	**$–**	**$–**
Derivative assets			
Currency forwards	**–**	**480,696**	**–**
Call option	**–**	**–**	**1,212,425**
Derivative liabilities			
Put option	**–**	**–**	**3,832,474**
	$382,527	**$480,696**	**$5,044,899**
2009			
AFS financial assets	$309,448	$–	$–

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.

The fair value of the call and put options are highly sensitive to the estimated 12-month trailing EBITDA of PSi during the option period and PSi's cost of equity as of valuation date.

The following are the estimated changes in the fair values of the call and put options assuming the estimated EBITDA used in the fair value calculation would vary by 5%.

	Increase (Decrease) in Net Income
Estimated EBITDA is 5% higher	
Call option	($116,673)
Put option	(499,093)
Estimated EBITDA is 5% lower	
Call option	130,204
Put option	489,184

The following are the estimated changes in the fair values of the call and put options assuming the cost of equity will change by 5%.

	Increase (Decrease) in Net Income
Cost of equity is 5% higher	
Call option	($283,328)
Put option	(462,008)
Cost of equity is 5% lower	
Call option	391,032
Put option	501,489

33. 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, loans and receivables and accounts payable and accrued expenses which arise directly from its operations.

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

The Group's risk management policies are summarized below:

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings) as of December 31, 2010 and 2009. 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	**2010**	2009
+100	**($380,000)**	($460,000)
-100	**$380,000**	$460,000

The following table shows the information about the Group's financial instruments as of December 31, 2010 and 2009 that are exposed to interest rate risk presented by maturity profile.

	Long-Term Debt LIBOR Plus margin of 0.75% to 0.80%	
	2010	2009
Within one year	**$38,000,000**	$8,000,000
1-2 years	**–**	38,000,000
	$38,000,000	$46,000,000

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 projected and actual cash flows. To cover financing requirements, the Group intends to use internally-generated funds and loan facilities with local and foreign banks. Surplus funds are placed with reputable banks.

The table below summarizes the maturity profile of the Group's financial assets held for liquidity purposes and financial liabilities based on contractual undiscounted payments.

2010

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial assets					
Cash and cash equivalents	$24,894,015	$13,240,728	$–	$–	$38,134,743
Short-term investments	–	–	2,000,000	–	2,000,000
	24,894,015	13,240,728	2,000,000	–	40,134,743
Financial liabilities					
Accounts payable and accrued expenses					
Trade payables	–	71,090,278	–	–	71,090,278
Accrued expenses	–	20,445,890	–	–	20,445,890
Accrued payroll	–	3,563,987	–	–	3,563,987
Employee-related payables	–	131,265	–	–	131,265
Nontrade payables	–	1,053,866	–	–	1,053,866
Accrued interest payable	–	60,919	–	–	60,919
Obligation under finance lease - current	–	–	1,219,430	–	1,219,430
Others	–	4,581,071	–	–	4,581,071

(Forward)

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Loans payable	$–	$10,029,250	$8,106,522	$–	$18,135,772
Derivative liabilities	3,832,474	–	–	–	3,832,474
Accrued rent	–	–	–	894,088	894,088
Long-term debt	–	–	38,427,318	372,084	38,799,402
Obligation under finance lease - noncurrent	–	–	–	119,987	119,987
	3,832,474	110,956,526	47,753,270	1,386,159	163,928,429
	$21,061,541	($97,715,798)	($45,753,270)	($1,386,159)	($123,793,686)

2009

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial assets					
Cash and cash equivalents	$28,773,426	$25,158,341	$–	$–	$53,931,767
Long-term investments	–	–	–	2,000,000	2,000,000
	28,773,426	25,158,341	–	2,000,000	55,931,767
Financial liabilities					
Accounts payable and accrued expenses					
Trade payables	–	60,666,337	–	–	60,666,337
Accrued expenses	–	10,205,181	–	–	10,205,181
Accrued payroll	–	4,319,142	–	–	4,319,142
Unwinding cost payable	2,295,500	–	–	–	2,295,500
Employee-related payables	–	120,984	–	–	120,984
Accrued interest payable	–	41,424	–	–	41,424
Nontrade payables	–	423,604	–	–	423,604
Obligation under finance lease - current	–	51,423	154,269	–	205,692
Others	–	2,038,860	–	–	2,038,860
Loans payable	–	2,314,000	–	–	2,314,000
Accrued rent	–	–	–	19,978	19,978
Long-term debt	–	–	8,474,054	38,395,878	46,869,932
Obligation under finance lease - noncurrent	–	–	–	325,679	325,679
	2,295,500	80,180,955	8,628,323	38,741,535	129,846,313
	$26,477,926	($55,022,614)	($8,628,323)	($36,741,535)	($73,914,546)

Credit Lines

The Group has credit lines with different financing institutions as at December 31, 2010 and 2009, as follows:

2010

Financial Institutions	Credit Limit	Available Credit Line
Local:		
U.S. Dollar	**$36,000,000**	**$36,000,000**
Philippine Peso	**₱1,060,000,000**	**₱1,060,000,000**
Foreign:		
U.S. Dollar	**$87,700,000**	**$76,771,639**
Singapore Dollar	**SGD30,000,000**	**SGD28,852,908**

2009

Financial Institutions	Credit Limit	Available Credit Line
Local:		
U.S. Dollar	$26,000,000	$26,000,000
Philippine Peso	₱1,060,000,000	₱1,060,000,000
Foreign:		
U.S. Dollar	$34,700,000	$33,846,029
Singapore Dollar	SGD30,000,000	SGD27,912,000

Credit risk

Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's major credit risk exposure relates primarily to its holdings of cash and 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 comprise cash and cash equivalents, 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. The maximum exposure is shown net of impairment losses.

	2010	2009
Cash and cash equivalents (excluding cash on hand)	**$37,891,794**	$53,866,106
Loans and receivables		
Trade	**95,513,159**	83,790,476
Nontrade	**8,211,481**	4,733,736
Short-term investments	**2,000,000**	–
Receivable from insurance	**1,859,984**	5,625,707
Receivable from employees	**707,172**	426,884
Receivable from Meralco	**549,923**	793,768
Others	**1,094,720**	436,278
AFS financial assets	**382,527**	309,448
Noncurrent receivables	**184,179**	558,707
Miscellaneous deposits	**1,467,268**	826,514
Long-term investments	**–**	2,000,000
Total credit risk exposure	**$149,862,207**	$153,367,624

The Group has 51% and 46% of trade receivables relating to three (3) major customers as of December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009, the aging analysis of loans and receivables, noncurrent receivables and miscellaneous deposits follows:

2010

		Neither past due	**Past due but not impaired**					**Specifically**
	Total	**nor impaired**	**<30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**	**Impaired**
Trade	**$95,629,246**	**$79,551,182**	**$6,020,051**	**$110,700**	**$286,846**	**$46,820**	**$9,497,560**	**$116,087**
Nontrade	**9,461,930**	**2,314,595**	**666,051**	**1,146,554**	**570,767**	**289,132**	**3,224,382**	**1,250,449**
Receivable from insurance	**1,859,984**	**1,859,984**	**–**	**–**	**–**	**–**	**–**	**–**
Short-term investments	**2,000,000**	**2,000,000**	**–**	**–**	**–**	**–**	**–**	**–**
Receivable from employees	**707,172**	**333,154**	**250,293**	**72,911**	**12,191**	**30,291**	**8,332**	**–**
Receivable from Meralco	**549,923**	**549,923**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**1,094,720**	**174,530**	**841,477**	**52,281**	**22,191**	**–**	**4,241**	**–**
	$111,302,975	**$86,783,368**	**$7,777,872**	**$1,382,446**	**$891,995**	**$366,243**	**$12,734,515**	**$1,366,536**
Noncurrent receivables	**$184,179**	**$184,179**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**
Miscellaneous deposits	**$1,467,268**	**$1,467,268**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**

2009

		Neither past due	Past due but not impaired					Specifically
	Total	nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days	Impaired
Trade	$84,013,831	$77,245,901	$3,433,456	$1,419,458	$393,946	$345,569	$952,146	$223,355
Nontrade	4,822,828	3,162,194	358,311	248,888	237,267	1,821	725,255	89,092
Receivable from insurance	5,625,707	5,294,677	146,893	81,809	54,331	3,449	44,548	–
Receivable from employees	426,884	308,549	82,079	6,721	279	24	29,232	–
Receivable from Meralco	793,768	793,768	–	–	–	–	–	–
Others	436,278	436,278	–	–	–	–	–	–
	$96,119,296	$87,241,367	$4,020,739	$1,756,876	$685,823	$350,863	$1,751,181	$312,447
Noncurrent receivables	$558,707	$558,707	$–	$–	$–	$–	$–	$–
Miscellaneous deposits	$826,514	$826,514	$–	$–	$–	$–	$–	$–

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2010 and 2009:

2010

	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	Average Risk	Fairly High Risk	High Risk	Individually Impaired	Total
Cash and cash equivalents	**$37,891,794**	**$–**	**$–**	**$–**	**$–**	**$37,891,794**
Loans and receivables						
Trade	**54,682,891**	**20,951,727**	**2,974,036**	**942,528**	**16,078,064**	**95,629,246**
Nontrade	**2,314,595**	**–**	**–**	**–**	**7,147,335**	**9,461,930**
Short-term investments	**2,000,000**	**–**	**–**	**–**	**–**	**2,000,000**
Receivable from insurance	**1,859,984**	**–**	**–**	**–**	**–**	**1,859,984**
Receivable from employees	**333,154**	**–**	**–**	**–**	**374,018**	**707,172**
Receivable from Meralco	**549,923**	**–**	**–**	**–**	**–**	**549,923**
Others	**174,530**	**–**	**–**	**–**	**920,190**	**1,094,720**
AFS financial assets	**382,527**	**–**	**–**	**–**	**–**	**382,527**
Noncurrent receivables	**118,480**	**–**	**–**	**–**	**–**	**118,480**
Miscellaneous deposits	**1,467,268**	**–**	**–**	**–**	**–**	**1,467,268**
	$101,775,146	**$20,951,727**	**$2,974,036**	**$942,528**	**$24,519,607**	**$151,163,044**

2009

	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	Average Risk	Fairly High Risk	High Risk	Individually Impaired	Total
Cash and cash equivalents	$53,866,106	$–	$–	$–	$–	$53,866,106
Loans and receivables						
Trade	66,898,093	5,562,767	307,940	4,477,101	6,767,930	84,013,831
Nontrade	2,294,574	838,152	15,575	13,893	1,660,634	4,822,828
Receivable from insurance	5,625,707	–	–	–	–	5,625,707
Receivable from employees	308,549	–	–	–	118,335	426,884
Receivable from Meralco	793,768	–	–	–	–	793,768
Others	105,248	–	–	–	331,030	436,278
AFS financial assets	309,448	–	–	–	–	309,448
Noncurrent receivables	558,707	–	–	–	–	558,707
Miscellaneous deposits	826,514	–	–	–	–	826,514
Long-term investments	2,000,000	–	–	–	–	2,000,000
	$133,586,714	$6,400,919	$323,515	$4,490,994	$8,877,929	$153,680,071

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 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 the U.S. Dollar against other currencies. As a result of significant operating expenses in Philippine Peso, the Group's consolidated statements of comprehensive income can be affected significantly by movements in the U.S. Dollar versus the Philippine Peso. In 2010 and 2009, the Group entered into currency forward contracts and structured currency options, respectively, to hedge its risks associated with foreign currency fluctuations.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases denominated in other than the Group's functional currency. Approximately 20% and 23% of the Group's sales for the years ended December 31, 2010 and 2009, respectively, and 31% and 22% of costs for the years ended December 31, 2010 and 2009, 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 the Group's foreign currency-denominated monetary assets and liabilities and their U.S. Dollar equivalent follows:

Philippine Peso (₱)

	2010		2009	
	In U.S Dollar	**In Philippine Peso**	In U.S. Dollar	In Philippine Peso
Cash and cash equivalents	**$6,229,646**	**₱273,385,951**	$9,183,581	₱424,281,464
Loans and receivables	**1,715,843**	**75,299,204**	2,306,843	106,576,132
Miscellaneous deposits	**1,350,975**	**59,287,083**	688,619	36,051,800
Accounts payable and accrued expenses	**(19,518,736)**	**(856,573,305)**	(11,541,759)	(533,229,285)
Other current liabilities	**(5,407,324)**	**(237,298,620)**	–	–
Net foreign currency-denominated assets (liabilities)	**($15,629,596)**	**(₱685,899,687)**	$637,284	₱33,680,111

Singapore Dollar (SGD)

	2010		2009	
	In U.S Dollar	**In Singapore Dollar**	In U.S. Dollar	In Singapore Dollar
Cash and cash equivalents	**$–**	**SGD–**	$619,248	SGD869,920
Loans and receivables	**155,000**	**200,384**	100,294	140,894
Accounts payable and accrued expenses	**(826,133)**	**(1,068,025)**	(4,022,763)	(5,651,178)
Other current liabilities	**(981,034)**	**(1,268,281)**	–	–
Loans payable	**(1,301,359)**	**(1,682,397)**	–	–
Net foreign currency-denominated liabilities	**($2,953,526)**	**(SGD3,818,319)**	($3,303,221)	(SGD4,640,364)

Euro (€)

	2010		2009	
	In U.S. Dollar	**In Euro**	In U.S. Dollar	In Euro
Cash and cash equivalents	**$662,782**	**€501,197**	$544,798	€378,832
Loans and receivables	**326,262**	**246,719**	108,895	75,722
Accounts payable and accrued expenses	**(439,873)**	**(332,632)**	(409,536)	(284,776)
Net foreign currency-denominated assets	**$549,171**	**€415,284**	$244,157	€169,778

Japanese Yen (¥)

	2010		2009	
	In U.S. Dollar	**In Japanese Yen**	In U.S. Dollar	In Japanese Yen
Cash and cash equivalents	**$819,333**	**¥66,906,179**	$210,119	¥19,253,973
Loans and receivables	**2,687,836**	**219,486,880**	1,654,226	151,583,035
Miscellaneous deposits	**28,468**	**2,324,638**	–	–
Accounts payable and accrued expenses	**(6,434,075)**	**(525,402,184)**	(3,528,547)	(323,334,264)
Other current liabilities	**(16,424)**	**(1,341,175)**	–	–
Net foreign currency-denominated liabilities	**($2,914,862)**	**(¥238,025,662)**	($1,664,202)	(¥152,497,256)

Renminbi (RMB)

	2010		2009	
	In U.S. Dollar	**In Renminbi**	In U.S. Dollar	In Renminbi
Cash and cash equivalents	**$4,713,572**	**RMB31,209,508**	$6,330,118	RMB43,234,669
Loans and receivables	**38,570,596**	**255,383,674**	23,506,933	160,552,225
Accounts payable and accrued expenses	**(23,234,523)**	**(153,840,450)**	(34,314,738)	(234,369,477)
Net foreign currency-denominated assets (liabilities)	**$20,049,645**	**RMB132,752,732**	($4,477,687)	(RMB30,582,583)

Hong Kong Dollar (HKD)

	2010		2009	
	In U.S. Dollar	**In Hong Kong Dollar**	In U.S. Dollar	In Hong Kong Dollar
Cash and cash equivalents	**$71,134**	**HKD553,550**	$46,365	HKD359,577
Loans and receivables	**201,670**	**1,569,358**	125,399	972,521
Accounts payable and accrued expenses	**(789,914)**	**(6,146,953)**	(595,742)	(4,620,229)
Net foreign currency-denominated liabilities	**($517,110)**	**(HKD4,024,045)**	($423,978)	(HKD3,288,131)

UK Pound (£)

	2010		2009	
	In U.S. Dollar	**In UK Pound**	In U.S. Dollar	In UK Pound
Loans and receivables	**$–**	**£–**	$230	£144
Accounts payable and accrued expenses	**(3,610)**	**(2,329)**	(1,355)	(847)
Net foreign currency-denominated liabilities	**($3,610)**	**(£2,329)**	($1,125)	(£703)

Australia Dollar (AUD)

	2010		2009	
	In U.S. Dollar	**In Australia Dollar**	In U.S. Dollar	In Australia Dollar
Cash and cash equivalents	**$458**	**AUD450**	$–	AUD–
Accounts payable and accrued expenses	**(179,748)**	**(176,709)**	(54,467)	(61,373)
Net foreign currency-denominated liabilities	**($179,290)**	**(AUD176,259)**	($54,467)	(AUD61,373)

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 December 31, 2010 and 2009. The reasonably possible change was computed based on one year average historical movement of exchange rates between the U.S Dollar and other currencies.

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

2010

Currency	**Increase/decrease in U.S. Dollar rate**	**Effect on profit before tax**
PHP	**+2%**	**($257,639)**
	-2%	**257,639**
SGD	**+2%**	**(44,365)**
	-2%	**44,365**
EUR	**+3%**	**15,496**
	-3%	**(15,496)**
JPY	**+3%**	**(73,740)**
	-3%	**73,740**
RMB	**+1%**	**253,450**
	-1%	**(253,450)**
HKD	**+1%**	**(6,015)**
	-1%	**6,015**
GBP	**+2%**	**(88)**
	-2%	**88**
AUD	**+4%**	**(7,085)**
	-4%	**7,085**

2009

Currency	Increase/decrease in U.S. Dollar rate	Effect on profit before tax
PHP	+1%	$15,025
	-1%	(15,025)
SGD	+2%	(55,865)
	-2%	55,865
EUR	+3%	7,166
	-3%	(7,166)
JPY	+3%	(46,892)
	-3%	46,892
RMB	+1%	(47,252)
	-1%	47,252
HKD	+1%	(4,325)
	-1%	4,325
GBP	+3%	(29)
	-3%	29
AUD	+3%	(1,862)
	-3%	1,862

Derivatives
In 2010 and 2009, the Parent entered into various short-term currency forwards with aggregate nominal amount of $59.00 million and $27.64 million, respectively. As of December 31, 2010, the outstanding forward contracts have a net positive fair value of $0.48 million. There are no outstanding contracts as of December 31, 2009. Net fair value gain recognized in 2010 and 2009 amounted to $2.08 million and $0.16 million, respectively.

As discussed in Note 2, the acquisition of PSi gave rise to a long equity call option and written equity put option for the Parent Company. As of December 31, 2010, the call option has a positive value of $1.21 million, while the put option has a negative value of $3.83 million. Net fair value loss on the options amounted to $0.21 million in 2010.

In 2008, the Parent Company entered into structured currency options. The weakening of the peso during the second quarter of 2008 resulted to an unfavorable position on the Parent Company's derivative transactions. In May 2008, the BOD approved the unwinding of four major derivative contracts and the Parent Company incurred unwinding cost amounting to $33.36 million. As of December 31, 2009, outstanding liability on unwinding cost amounted to $2.30 million, which is included under "Other accounts payable and accrued expenses" (see Note 13). In 2010, such liability was condoned by the counterparty. The gain from the condonation is included under "Miscellaneous income" in the consolidated statements of comprehensive income.

Fair Value Changes on Derivatives
The net movements in fair value changes of the Group's derivative instruments as of December 31, 2010 and 2009 follow:

	2010	2009
Derivative assets		
Balance at beginning of year	**$–**	$–
Initial value of long call option	**1,403,991**	–
Net changes in fair value	**1,890,536**	160,198
Fair value of settled instruments	**(1,601,406)**	(160,198)
	$1,693,121	$–
Derivative liabilities		
Balance at beginning of year	**$–**	$–
Initial value of written put option	**3,816,484**	–
Net changes in fair value	**15,990**	–
	$3,832,474	$–

The net changes in fair value of currency forwards and options are recognized in the consolidated statements of comprehensive income under "Foreign exchange gains (losses)" and "Miscellaneous expense", respectively.

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

No changes were made in the objectives, policies and processes during the years ended December 31, 2010 and 2009.

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.

	2010	2009
Loans payable	**$17,921,638**	$2,302,233
Long-term debt	**38,000,000**	46,000,000
Total debt	**55,921,638**	48,302,233
Less cash and cash equivalents	**(38,134,743)**	(53,931,767)
Net debt (assets)	**$17,786,895**	($5,629,534)
Equity attributable to equity holders of the Parent Company	**$169,290,252**	$166,690,001
Debt to equity ratio	**33%**	29%
Net debt to equity ratio	**11%**	(3%)

34. Contingencies

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

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

35. Events after the Reporting Period

On February 23, 2011, the BOD of the Parent Company approved the reclassification of appropriated retained earnings amounting to $20.00 million to unappropriated retained earnings as of December 31, 2010.

Dividends declaration

On February 14, 2011, the Finance Committee of the Parent Company approved the declaration and payment of the first quarter cash dividends of 8.25% per annum to all shareholders of the Parent Company's preferred shares as of record date of February 8, 2011. Payment date is February 21, 2011. This was ratified by the BOD of the Parent Company on February 23, 2011.

Likewise, on February 23, 2011, the BOD of the Parent Company approved the declaration of the quarterly cash dividends of 8.25% per annum for the second to fourth quarters of 2011 on its outstanding preferred shares. The record and payment dates for the cash dividends are as follows:

	2nd Quarter	3rd Quarter	4th Quarter
Record date	May 9, 2011	August 17, 2011	November 9, 2011
Payment date	May 20, 2011	August 23, 2011	November 22, 2011

On the same date, the BOD of the Parent Company approved the declaration of regular cash dividend of ₱0.044 per share to all outstanding common shares as of record date March 9, 2011, payable on April 4, 2011.

DIRECTORY

Integrated Micro-Electronics, Inc.
North Science Avenue
Special Export Processing Zone
Laguna Technopark, Biñan 4024
Laguna, Philippines
Tel (63 2) 756 6840
Fax (63 49) 544 0311
Email sales@global-imi.com
www.global-imi.com

Speedy-Tech Technologies Pte. Ltd.
Speedy-Tech Industrial Building
20 Kian Teck Lane
Singapore 627854
Tel (65) 6262 1118
Fax (65) 6262 6668

Shenzhen Speedy-Tech Electronics Co., Ltd.
Speedy-Tech Industrial Building
Area 7, Liantang Industrial Zone
Luo Ho, Shenzhen
People's Republic of China 518004
Tel (86) 755 2570 8382
Fax (86) 755 2570 8019

Shenzhen Speedy-Tech Electronics Co., Ltd.
Speedy-Tech Industrial Building
Building A-3 & 4, Bengkang Industrial Zone,
Jinye Road, Kuichong Town, Longgang District
Shenzhen, People's Republic of China
Tel (86) 755 8977 3788
Fax (86) 755 8977 3068

Shenzhen Speedy-Tech Electronics Co., Ltd.
Speedy-Tech Industrial Building
Building No. 1 Technological Park,
Tang Wei, FuYong Town, Bao'an District
Shenzhen, People's Republic of China
Tel (86) 755 8977 3788
Fax (86) 755 8977 3068

Speedy-Tech Electronics (Jiaxing) Co., Ltd.
Building 1-3, No. 358, Blk 3 He Ping Road
Hi-Tech Development Industrial Zone
Jiaxing City, Zhejiang
People's Republic of China 314001
Tel (86) 573 82224 999
Fax (86) 573 82210 558

Speedy-Tech Electronics (Chong Qing) Co. Ltd.
2/F, Venus Science and Technology Mansion,
No 60, Venus Building, Starlight Avenue, Hi-Tech Development Park of Chong Qing
Northern New District, 401121,
People's Republic of China
Tel (86) 023 6788 9878
Fax (86) 023 6788 9879

IMI (Chengdu) Ltd.
Muwei Industrial Park, Huanghe Road, Xindu
District Industrial East, Chengdu City,
Sichuan People's Republic of China
Tel (86) 028 8395 8350
Fax (86) 028 8395 8566

IMI Japan, Inc.
461-0005 Aichi-ken,
Nagoya-shi, Higashi-ku,
Higashisakura 2-5-11
Shoener Building 4th Floor
Tel (81 5) 2932 1001
Fax (81 5) 2932 2002

IMI USA, Inc.
14312 Franklin Avenue
Suite A, Tustin, CA 92780, USA
Tel (1 714) 734 7043
Fax (1 714) 838 8787

IMI Energy Solutions
46453 Landing Parkway
Fremont, CA 94538
Tel (1 510) 770 9825
Fax (1 510) 770 9937

IMI Europe & Middle East
(Representative Office)
Plockinger Str. 23
D-85 298 Sheyern
Munich, Germany
Tel (49 844) 180 3840
Fax (49 844) 180 3916

PSi Technologies, Inc.
Food Terminal Inc. Special Economic Zone
Electronics Avenue, Taguig City 1633
Philippines
Tel (63 2) 838 4966
Fax (63 2) 838 4648
Email: rmgranada@psitechnologies.com.ph
www.psitechnologies.com

PSi Technologies Laguna, Inc.
Lot No. B2-5, Carmelray Industrial Park II
Brgy Tulo, Calamba, Laguna 4027 Philippines
Tel (63 49) 508 0010
Fax (63 49) 508 0194

Cover Concept: IMI and K2 Interactive (Asia), Inc.
Design Layout: K2 Interactive (Asia), Inc.
Photography: Wig Tysmans (Portraits)
Ernesto Enrique (Portraits and Operational)
Erik Liongoren (Portraits and Operational)

INTEGRATED MICRO-ELECTRONICS, INC.
North Science Avenue, Special Export Processing Zone
Laguna Technopark, Binan 4024
Laguna, Philippines
www.global-imi.com