2011 Annual Report
and Sustainability Report

"FUTURE GROWTH WILL BE DRIVEN BY OUR BROADER GLOBAL PRESENCE, EXPANDED TECHNICAL CAPABILITIES AND RENEWED FOCUS ON HIGH-VALUE PRODUCTS."

About Our Cover

Future growth will be driven by our broader global presence, expanded technical capabilities and renewed focus on high-value products. Our cover quote is taken from the Report of our President, Arthur R. Tan, which begins on page 7. Strategic diversification is key to creating new value for our shareholders. As we deepen our technical competencies and actively pursue opportunities in emerging applications of electronics like those in the automotive industry, we remain cautiously optimistic that we can maintain our growth momentum.

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- ISO 9001 (International Quality Standard)
- ISO 9706 (Age-resistant standard suitable for archives)
- Singapore Green Label (administered by the Singapore Environment Council on products which meet the eco standards specified by the Singapore Green Labeling Scheme)

The Financial Statements of this report are printed on Limited Woodfree Natural White, which is made off 70% post-consumer recycled pulp.

Financial Highlights

	2011	2010 (As restated)	Variance	%
Revenues	**575.5**	412.3	163.1	40%
EBITDA	**20.3**	30.2	(9.9)	-33%
Net income*	**3.3**	4.7	(1.4)	-31%
Total Assets	**444.7**	339.1	105.6	31%
Equity*	**190.3**	169.3	21.0	12%
BV per Share	**0.10**	0.10		
Current ratio	**1.51**	1.23		
DE ratio	**0.42**	0.33		
ROE	**2%**	3%		

*Attributable to equity holders of the Parent Company

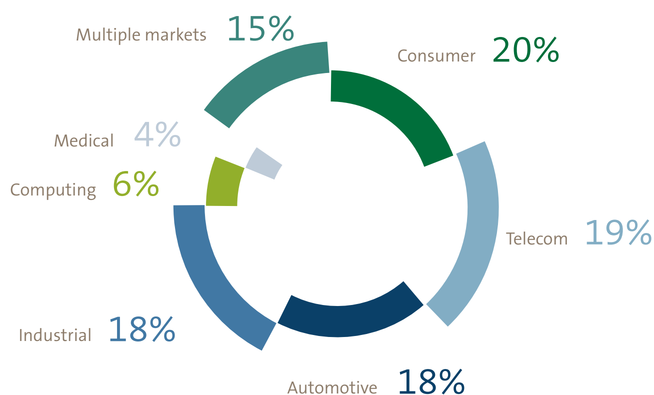
Annual Revenues

(in US$ Millions)

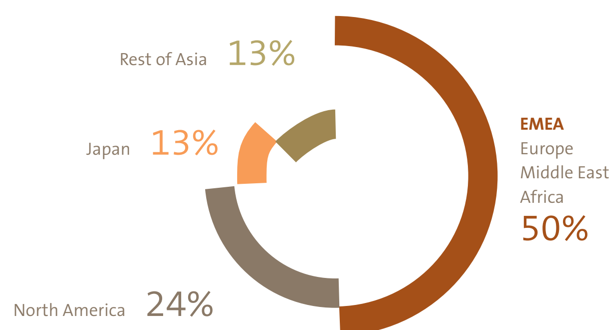
FROM 2007 - 2011

Revenue Drivers in 2011

- Increase in turnkey business in China
- Strong growth of automotive and industrial programs
- Additional revenues from PSi Technologies, Inc. and new entities in Europe and Mexico



2011 REVENUES BY BUSINESS SEGMENT



2011 REVENUES BY CUSTOMER NATIONALITY

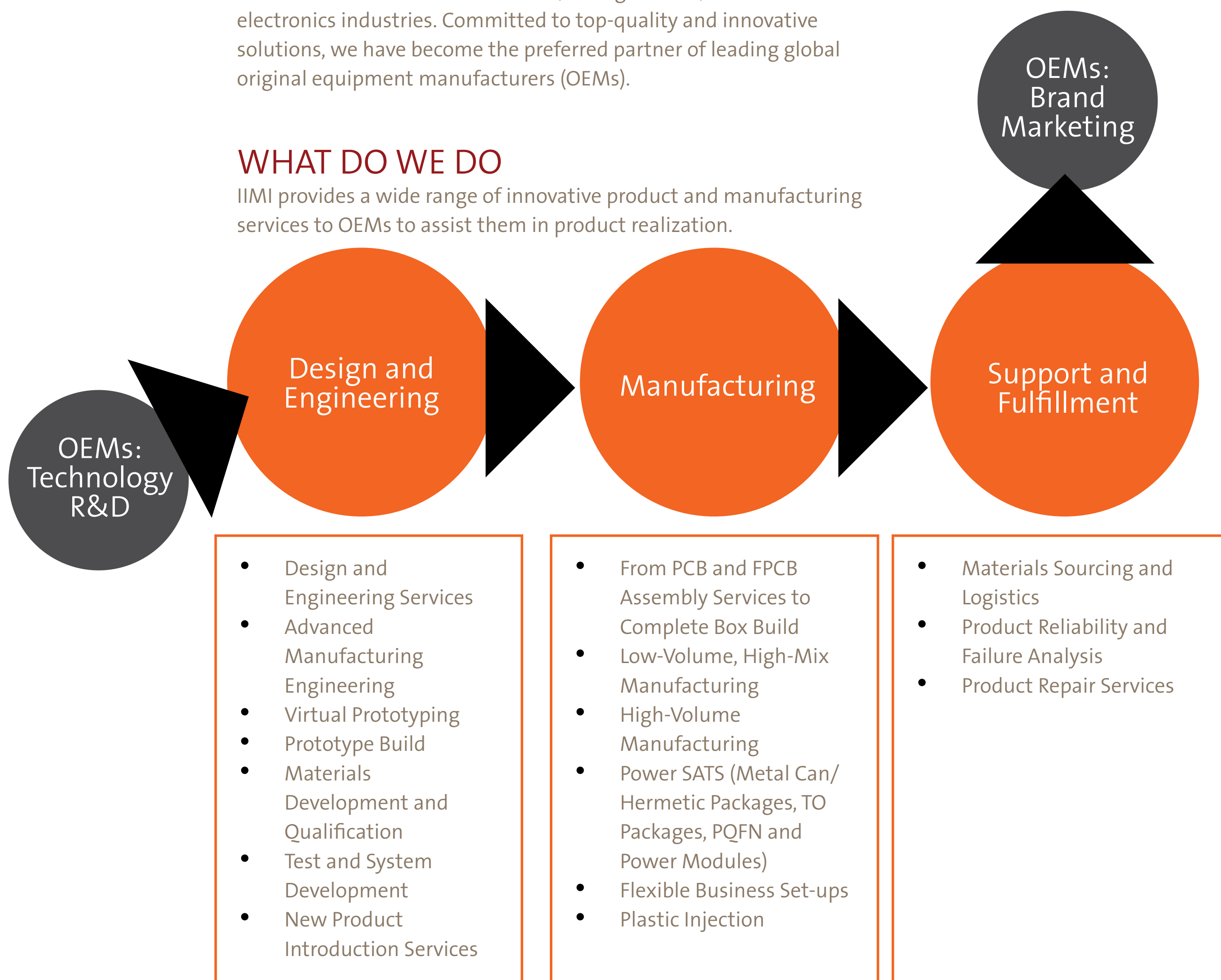
About IMI

WHO WE ARE

Integrated Micro-Electronics Inc. (IMI) is a leading provider of electronics manufacturing services (EMS) and power semiconductor assembly and test services (SATS). We serve diversified markets that include those in the automotive, industrial, medical, solar energy, telecommunications infrastructure, storage device, and consumer electronics industries. Committed to top-quality and innovative solutions, we have become the preferred partner of leading global original equipment manufacturers (OEMs).

WHAT DO WE DO

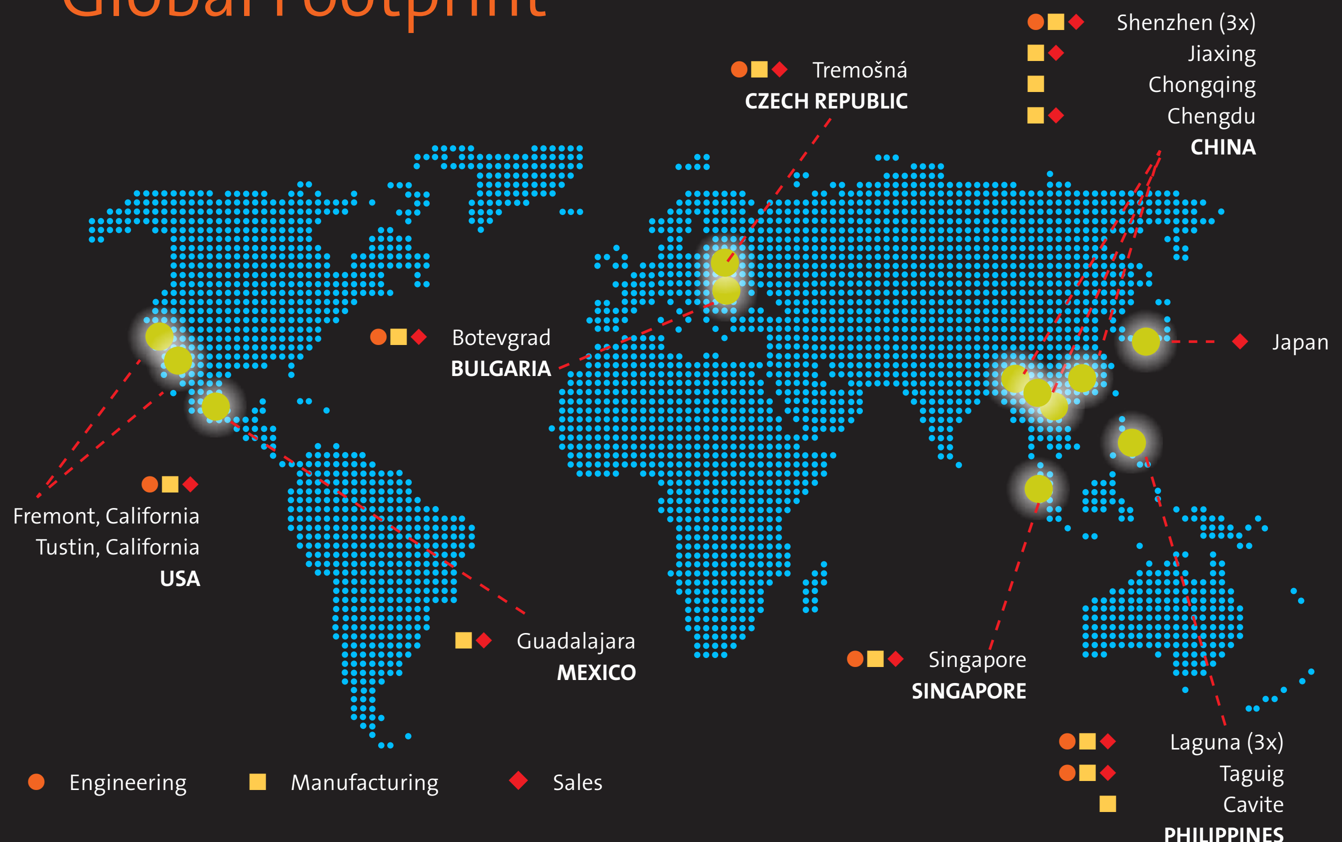
IIMI provides a wide range of innovative product and manufacturing services to OEMs to assist them in product realization.



Key Facts

IMI is **67%** effectively owned by Ayala Corporation, one of the biggest and most widely diversified conglomerates in the Philippines. Among the **Top 30** EMS providers in the world in terms of revenues based on the list of Manufacturing Market Insider. **Speedy-Tech Electronics, Ltd.,** a wholly-owned subsidiary of IMI, is a pioneer in China's EMS industry. **17** manufacturing sites around the world (the Philippines, China, Singapore, the United States, Mexico, Bulgaria, and the Czech Republic). About **245,000sqm** total manufacturing space. More than **140** SMT lines. Over **15,000** employees.

Global Footprint



Our Products

Here are some of the products IMI helped build

AUTOMOTIVE ELECTRONICS
- Automotive Camera
- Pressure Sensor for ABS / ESP Application
- Electronic Power Steering
- Power Semiconductor for HEV and EV

STORAGE DEVICES
- DVD Drive
- Blu-Ray Disc Drive
- Hard Disk Drive
- Solid State Drive

INDUSTRIAL ELECTRONICS
- Security System
- Smart Card System
- Main Power Supplies for LED Street Lighting
- Automated Meter Reading (AMR)

TELECOMMUNICATION INFRASTRUCTURE
- Fiber to the "X" (FFTx) System
- GPON (Gigabit Passive Optical Network) System
- Base Station Power Supply
- Digital Station Control Board

MEDICAL ELECTRONICS
- Flat Panel Imaging Equipment
- Defibrillator
- Centrifuge Control Board
- Dosimeter

RENEWABLE ENERGY
- Flat-plate Photovoltaic (PV) Module
- Concentrated Photovoltaic (CPV) Module
- Glass-on-glass PV Module
- PV Inverter

CONSUMER ELECTRONICS
- Bluetooth Headset
- Refrigerator and Range Hood Control Board
- Household Metering Device
- Main Power Supply for Flat-panel TV

The Chairman's Message

The past year was a challenging one for IMI as the effects of a volatile global economy continued to be felt across the world. While global growth seemed to be stabilizing, unforeseen events continued to provide uncertainty to manufacturers and consumers. These included the calamities that hit Japan, which caused disruptions in manufacturing supply chains and slowed industrial production, consumer confidence and ultimately took its toll on global spending. The United States economy also continued to struggle with its recovery with the advent of higher commodity prices, and the country's manufacturing sector was also affected by supply chain challenges stemming from the catastrophe in Japan. In Europe, investments in Germany and France stimulated marginal growth for EU economies but, in contrast, emerging economies grew faster than the advanced economies at 6.2 percent, albeit with substantial variations across regions.

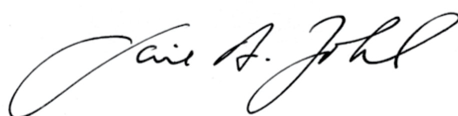
Despite expectations of lower growth for the world economy in the coming year, these emerging economies and Asia, in general, remained bright spots. China, in particular, where IMI maintains a significant presence, continued to grow significantly. The country anticipates an 8.2 percent growth in 2012, while growth for the whole of developing Asia is expected at 7.3 percent. We believe that demand for electronics devices in this part of the world will continue to grow and IMI will continue to play an active role in the supply chain of these electronic products and services. The company is well-positioned to take advantage of the growing requirements for electronic devices that power a broad range of applications in business, the sciences, medicine, and sustainable technologies.

Over the past decade, IMI has pursued a well-planned, strategic expansion that has allowed it to evolve into a complete, end-to-end EMS solutions provider with a capacity for power semiconductor assembly and test services for a widely diversified client base. Its manufacturing footprint in Asia, the United States and, most recently, in Europe and Mexico, has also enhanced its visibility among original equipment manufacturers (OEMs) that serve both regional and international markets.

The strategic expansion undertaken by IMI over these past ten years has built a solid manufacturing base and a global footprint that will enable the company to face the challenges posed by an uncertain global environment, while meeting the stringent demands of a competitive industry.

As we continue to build IMI's capabilities and engagement as a global EMS brand, we will focus on driving innovation and growth initiatives that are aligned with our desire to create value and service for our customers and stakeholders.

On behalf of the Board, I thank our shareholders for their support during these challenging times. I also thank the management team and staff across the IMI global group for their shared commitment in delivering sustained improvements in performance across all aspects of our group operations in the coming year.



JAIME AUGUSTO ZOBEL DE AYALA
Chairman

The President's Report

A Positive Story

Despite persisting uncertainties in the financial market brought about by a shaky global economy further upset by catastrophes in Asia and spots of political unrest elsewhere in the world, Integrated Micro-Electronics, Inc. (IMI) has remained financially stable. The company is ready to maintain financial stability amid a global economy projected to grow a mere 3.3 percent in 2012.[1] IMI closed 2011 with a positive cash balance of US$54.1 million, and a current ratio and debt-to-equity ratio at 1.51:1 and 0.42:1, respectively.

More figures bear out a positive story: IMI posted US$575.5 million in consolidated sales revenues in 2011, which translates to a 40 percent increase from US$412.3 million in 2010. Such above-industry average revenue growth is an accomplishment, considering the calamities in Japan and Thailand that affected component supply, the financial crisis that softened the demand for electronic products, and the bland global economic growth as well as the higher labor costs that dented IMI's margins, resulting in a consolidated net income of US$3.3 million, or 31 percent lower than 2010's.

The company's rise in revenue in the face of the global slump may largely be attributed to the increase in turnkey business in China, the strong growth in the automotive and industrial segments, and additional revenues from PSi Technologies, Inc. and IMI's new entities in Europe and Mexico.

Operations highlights

China and Singapore operations posted US$279.7 million in revenues in 2011, a 12 percent year-on-year growth due mainly to new turnkey programs for major clients. Improvements in Chengdu operations strengthened the expanded footprint in Western China. A solar panel assembly line has been established in Jiaxing.

Philippine operations generated US$154.2 million revenues, an 8 percent increase from 2010, due to strong programs in the automotive and industrial sectors. Toward the end of 2011, IMI's assembly operations for the storage device manufacturers also increased, as hard disk drive manufacturers in flood-stricken Thailand transferred production to the Philippines.

PSi Technologies contributed US$74.0 million revenues for the whole year. Important developments included the entry of Japanese clients, establishment of an R&D (research and development) manufacturing line focused mainly on complex power modules for automotive and industrial applications, expansion of its power QFN (Quad Flat No-Lead) line for a global leader in high performance analog semiconductors, expansion of its power module capacity for a key global manufacturer of products for power-related applications, and a patent on LED (light-emitting diode) lighting.

US$575.5 M revenues

China and Singapore: US$279.7 M
Philippines: US$154.2 M
PSi and new entities: US$140.2 M

[1] IMF World Economic Outlook (January 2012)

"IMI's automotive business saw the steadiest growth and contributed US$106.5 million in revenues."

The new IMI units in Bulgaria, the Czech Republic, and Mexico posted sales of US$66.2 million from August to December 2011. Their main assets—expertise in automotive electronics assembly, software and hardware PCBA (printed circuit board assembly) design, and plastic injection capabilities—bring added value to IMI performance and encourage long-term partnerships, in line with the company's goal to solidify collaborations.

In 2011 IMI USA focused on the development of solar modules and a power module, and completion of materials selection matrix for a MEMS (micro-electromechanical system) pressure sensor for oil exploration application, among others. The Advanced Manufacturing Engineering Group supported several automotive camera projects with development and prototyping activities, and established DFM (design for manufacturability) and equipment setup capabilities in China.

IMI's automotive business saw the steadiest growth and contributed US$106.5 million in revenues. IMI gained a preferred supplier status from a leading global automotive components company, proving its competitive superiority in terms of customer service, product quality, technology, and continuous improvement. Persistent efforts in the Jiaxing operations have prepared the site for a further increase in automotive business.

In keeping with the company's vision to promote innovation and sustainability, IMI Energy Solutions developed solar panels in 2011. Drawing from two decades of extensive experience in power electronics, IMI's Design and Development Group in Singapore also developed a solar inverter platform. IMI anticipates the mass production of solar panels in Jiaxing in 2012, and it plans to offer the PV (photovoltaic) inverter as well to a PV inverter OEM (original equipment manufacturer) or a PV system integrator.

IMI Design and Development Group developed in 2011 a low-cost current sensor solution for industrial applications, a rotor position sensor for automotive power steering applications, and a low-cost RF (radio frequency) module for machine-to-machine communications, among others. It is currently preparing for the mass production of some design-to-manufacturing programs in 2012, and developing new packaging concepts that will further set apart IMI's camera solutions.

IMI Test and Systems Development Group's partnerships with strategic clients resulted in innovative custom test solutions in 2011 for next generation automotive cameras, smart grid products, intrusion control security systems, and high-power devices and modules.

IMI Global Procurement Group's strength in the supplier alignment helped mitigate the adverse effects of national disasters in Asia and the debt crisis in Europe. This is constantly in the process of improvement through the direct engagement with component manufacturers. The full materials integration of IMI Europe/Mexico and IMI Asia will ensure a stronger spending leverage with the supply base, opening the door to cost-saving opportunities by means of a wider supply channel in Europe, North America, and Asia.

IMI's cost containment measures included process streamlining/LEAN manufacturing programs, indirect material cost reduction, waste management, and quality and productivity circles. In response to adverse economic changes, IMI further plans to supervise inventory levels and accounts receivables, and increase the utilization of resources.

imi

“The variety of locations leads to a diversity in markets and operations, and an increase in programs to accommodate the needs of a wider client base.”

Expansion on track

The acquisition of EPIQ subsidiaries in Bulgaria, the Czech Republic, and Mexico marks the culmination of the long-term plan in 2003 to expand IMI's global footprint and thus bring its services to various manufacturers across the globe.

IMI now operates in 17 manufacturing sites around the world, with over 140 SMT lines and 15,000 employees. Each entity sees the fulfillment of the strategy to enhance the company's capabilities and competencies—with a wider access to the world's finest talents—as well as to provide solutions to OEMs catering to regional and international markets. The variety of locations leads to a diversity in markets and operations, and an increase in programs to accommodate the needs of a wider client base. This will help ensure greater stability for IMI, as cultivating a broader, healthier mix of clients is certain to protect the company from the effects of market downturns.

The expansion's success may largely be attributed to the smooth post-acquisition integration. Formal and legal organizational structures have been set up. The alignment of the process for requests for material quotes (RFQ) and the rebranding into Integrated Micro-Electronics, Inc. were completed. The CSCM (Customer Supply Chain Management) function in Europe for achieving supply chain synergy targets is in the process of being established.

The different IMI teams will continue to incorporate best practices and shared strategic goals of leveraging the customer base, while maintaining effective local management. Multiple engagements with the European group have shown that the integration of strengths among the teams could build one of the leading EMS companies.

INTEGRATED MICRO-ELECTRONICS BULGARIA

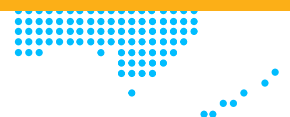
Site	Botevgrad, Bulgaria
Footprint	23,778 sq.m.
Headcount	1,218 employees
Markets Served	Automotive, Industrial, Consumer Electronics
Site Capabilities	PCBA, Plastic Injection, Embedded Toolshop, Overmoulding, Box Build (Mechanical Design and Assembly)
Certifications	ISO/TS 16949, ISO 9001, ISO 14001

INTEGRATED MICRO-ELECTRONICS CZECH REPUBLIC S.R.O.

Site	Třemošná, Plzeňská, Czech Republic
Footprint	7,740 sq.m.
Headcount	141 employees
Markets Served	Automotive, Industrial, Consumer Electronics
Site Capabilities	PCBA
Certifications	ISO/TS 16949, ISO 9001, ISO 14001

INTEGRATED MICRO-ELECTRONICS MANUFACTURA, S.A.P.I. DE C.V.

Site	El Salto, Guadalajara, Mexico
Footprint	18,000 sq.m.
Headcount	474 employees
Markets Served	Automotive, Industrial, Consumer Electronics
Site Capabilities	PCBA, Plastic Injection, Box Build
Certifications	ISO/TS 16949, ISO 9001, ISO 14001



Key Strategic Initiatives

- Drive an efficient supply chain management and achieve control of the BOM (bill of materials)
- Rationalize manufacturing processes to achieve the fastest cycle time and the industry's best overall equipment efficiency at the lowest cost
- Enhance innovation and align technology development with the requirements of IMI's existing and future customers to continuously improve profitability
- Cultivate a culture that will drive performance and innovation

Important opportunities

IMI will proceed to expand in Asia, particularly in China, as the latter is expected to grow by 8.2 percent in 2012.[2] It remains not only the largest consumption market but also the center of low-cost manufacturing. The company will likewise continue to tap into its larger global footprint and its growing client base, especially in the United States, Japan, Germany, and France. It is prepared to seize the opportunity to cross-sell services.

IMI will concentrate on significant emerging applications in electronics pursuant to its goal to grow as a company driving innovation, delivering the highest quality products, and obtaining zero customer product return.

- We anticipate to profit from increasing automotive electronic content through the development of driver assistance systems (including automotive cameras), safety-related control devices, electronic steering modules, and ignition modules. PSi's Power QFN enables better power management with reduced module size and space, and improved overall thermal performance. As automobiles head toward increased electrification, IMI is poised in the threshold of advanced power packaging, power modules, and next-generation inverters for hybrid and electric vehicles.
- As converging technologies continue to enhance communications, connectivity and mobility, IMI focuses on high-value niches, namely, power supply units, optical networks, satellite receivers, and barcode printers. It is also involved in the development of next-generation four-point touch screen displays.
- With the emergence of new applications of electronics for the industrial and medical fields, IMI will benefit from ventures with high-technology makers of accelerometers, smart meters, deep sea oil-drilling sensors, and medical camera pills.
- The emergence of green technologies in support of the world's transition to a low-carbon society encourages IMI to continue to engage in the prototype development, assembly, and manufacture of PV modules. Its PV inverter platform will be recognized and soon accepted by PV manufacturers and system integrators. IMI is working toward more sustainable solar markets in the future, such as Concentrated Photovoltaics (CPV), a type of solar technology that uses mirrors to focus and capture more energy from available sunlight in a given area. In clean technologies, IMI is developing electronic systems for urea sensors to reduce carbon emissions of vehicles, driven by government mandates in the United States, Europe, and Japan.
- Despite challenges in LED lighting, the market continues to grow; its potentials have been attracting many manufacturers in acquiring a considerable share of the pie. With the future in mind, IMI is working with a manufacturer of a liquid-cooled LED bulb. It is also engaged in the development of an LED prototype that will replace the incandescent bulb and drive down costs.

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[2] IMF World Economic Outlook (January 2012)

Cautious optimism, continuous innovation

IMI has evidently become a global company with a long-term vision poised for the higher margin. With our broader geographic presence, expanded technical capabilities, and renewed focus on higher-complexity products and services, we have learned to turn adverse conditions and daunting challenges into opportunities for innovation and sustainability.

IMI has evolved from mere product assembly to product realization in more than 30 years of operation. It has become an innovative and dynamic designer and developer amid emerging markets and technologies in a changing business environment. Constantly driven to create something new and fully equipped for volume manufacturing and test development, IMI is well positioned to ride the trends in energy, communications, evolving consumer preferences, and the movement of populations.

IMI stands to profit and create a greater impact in 2012 and beyond with its carefully considered expansion, along with its growing presence in more stable markets. The company is set to meet the world's demand for connectivity, miniaturization, and sophisticated technological applications. As it has shown in 2011, this can be achieved by continuing to adapt quickly to developments—the key to its survival and success in a highly volatile global economy. Part of the company's new vision is to generate a culture that encourages, nurtures, and enforces innovation, whether in relation to the development of products, process, technological advancements, or business models.

In the years to come, IMI will continue to employ proven successful methods of driving an efficient supply chain management, rationalizing manufacturing processes, enhancing developments in innovation and technology, and cultivating a corporate culture focused on continuous learning, performance, and innovation.

We have an outstanding vehicle—our company—to move toward creating value for the future. We have to make it work by rising to the challenges of the increasingly demanding and complex business environment. Our readiness to embrace change and innovation will ensure IMI's growth and sustainability, and secure the company's spot on the roster of preferred EMS partners and suppliers.

On behalf of the management and all employees, I would like to extend my gratitude to the stakeholders. Your continued interest and support, coupled with our commitment and determination, will reinforce the company's strength to weather the fiscal uncertainties and forge ahead—even expand—steadily and surely amid any global economic slowdown.

ARTHUR R. TAN
President and Chief Executive Officer

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.; Co-Vice Chairman, Mermac Inc. and the Ayala Foundation; Director, 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 Business Advisory Council; Chairman, Harvard Business School Asia-Pacific Advisory Board; Vice Chairman, Asia Business Council; Member, Harvard University Asia Center Advisory Committee; Member, Board of Trustees of the Eisenhower Fellowships and the Singapore Management University; Member, 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 Chair, Makati Business Club; and Member, Board of Trustees of Children's Hour Philippines Inc.

ARTHUR R. TAN
President and Chief Executive Officer

Member, Board of Directors of IMI (since 2001); President and Chief Executive Officer, IMI (since 2002); President and Chief Executive Officer, PSi Technologies Inc.; President, Speedy-Tech Electronics Ltd.; Chairman of the Board, Speedy-Tech Philippines Inc. Before joining IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts), from 1994 to 1998, of which he became the Managing Director–Asia Pacific Region/Japan from 1998 to 2001.

FERNANDO ZOBEL DE AYALA

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

DELFIN L. LAZARO

Director, Philwater Holdings Co. Inc.; Chairman and President, MPM Noodles Corp.; Director, AYC Holdings Ltd., Atlas Fertilizer & Chemicals; Chairman and Director, A.C.S. T. Business Holdings Inc.; Vice Chairman and President, Asiacom Philippines Inc.; Director, Ayala Corporation, Ayala Land Inc., Globe Telecom Inc., Manila Water Co. Inc., Integrated Micro-Electronics Inc., LiveIt Investments, AC International Finance, AC Energy Holdings (formerly Michigan Holdings), Azalea Intl. Ventures Partners, Ltd., 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. He is former President and CEO of Benguet Corporation and Secretary of the Department of Energy of the Philippine Government.

DELFIN C. GONZALEZ JR.

Chief Finance Officer, Ayala Corporation, which he joined in 2000 as Chief Finance Officer for Ayala Corp. 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

Managing Director, head of Corporate Strategy and Development Group, Ayala Corporation; Director, Manila Water Company, LiveIt Investments, Integreon, and Michigan Power; and Chairman, PhilNewEnergy. Before joining Ayala Corporation, he led Global Business Planning and Operations at the Monitor Group, a strategy-consulting firm based in Cambridge, MA.

JOSE IGNACIO A. CARLOS

President, Polymer Products (Phil) Inc. and AVC Chemical Corporation; Member, Board of Directors of Resins Inc., Riverbanks Development Corporation, Mindanao Energy Systems Inc., RI Chemical Corp, Pacific Resins Inc., and Philippine Iron Construction and Marine Works Inc.

RAFAEL MA. C. ROMUALDEZ

Director, Resins Inc., RI Chemical Corporation, and Claveria Tree Nursery Inc.; Chairman, 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

Independent Director of IMI since 1994. Founder and Managing Partner of Tallwood Venture Capital. He also co-founded three technology start-ups, namely, S3 (SBLU), Chips & Technologies (INTC), and Mostron. He has held positions at National Semiconductor, Seeq Technologies, Intersil, and Commodore International. 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.

ALELIE T. FUNCELL

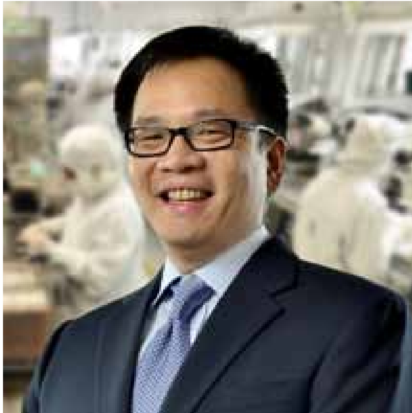
Independent Director of IMI since 2010. Founder, CEO, and President of Renewable Energy Test Center. She served as Chief Operating Officer and Senior Vice President of Quality at Solaria Inc., and Vice President of Supplier Management and Manufacturing Operations at Xilinx Inc. She has also worked in several semiconductor companies, including Intel, IDT, and Silicon Systems. She is credited with numerous patents in the semiconductor packaging and solar industries, and has twice received 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. She currently serves as Advisory Board Member of the International PV Module Quality Assurance and of the University of California Advanced Solar Technologies Institute (UC Solar).

HIROSHI N. NISHIMURA

Independent Director of IMI since 2010. President and Chairman, Linkwest International Consultancy Services; Director and Vice President, All Purpose Appliances & Multi Products Inc. He was President of Panasonic Communications Philippines Corporation from 2000 to 2007.

Management Committee

Arthur R. Tan



Jerome S. Tan
Shong Cheng Yeh

Gilles Bernard
Andrew C. Carreon

Linardo Z. Lopez
Olaf Gresens

Mary Ann S. Natividad

Timothy P. Patterson
Melita R. Tomelden

Phua Teo Chye

Monina S. Lasala
Lucrecio B. Mendoza

Customer-Focused Teams

Joseph Sze Chee Pheng
Eric Koh Chee Wee
Li Jianhua

Yang Gongxiao
Li Yong
Huang Dai Qiang

Guo Chang Zheng
Alex Kot Yu Kuen
Joselito S. Bantatua

Jawaharlal K. Milanes
Mario Bernardo N. Santos
Fernandel I. Evangelista

Reynaldo N. Torda
Geronimo B. Magsombol
Pascal Aubois

Romy P. Balmaceda
Anton P. Javier

Support Group

Jaime G. Sanchez
Jacky Yeung Hin Wai
Peter Zheng Xianlai

Richard D. Bell
Josef Pfister
Peter Lausen

Jeremy Cowx
Roque Felipe M. Granada
Thierry Martin (†)

Design and Development Group

Rafael Nestor V. Mantaring
Zhang Binbin
Zhou Wei Min

Philippe Marquet
Thomas Moershem

Report of the Audit Committee to the Board of Directors

The Audit Committee's roles and responsibilities are defined in the Audit Committee Charter approved by the Board of Directors. The Committee 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 one (1) special meeting during the year;
- We met separately with the external auditors in an executive session 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. We have also assessed the compatibility of non-audit services with the auditors' independence to ensure that such services will not impair their independence.

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, 2011 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 2012 based on the review of their performance and qualifications.

15 February 2012

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 the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011, 2010 and 2009, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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 in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors

ARTHUR R. TAN
President and Chief Executive Officer

JEROME S. TAN
Chief Finance Officer

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Integrated Micro-Electronics, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011 and 2010, 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, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

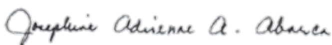
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Integrated Micro-Electronics, Inc. and Subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-1 (Group A),
February 11, 2010, valid until February 10, 2013
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174577, January 2, 2012, Makati City

March 1, 2012

Integrated Micro-Electronics, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	December 31	
	2011	2010 (As restated - see Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**$54,069,180**	$38,134,743
Loans and receivables - net (Note 6)	**133,676,580**	104,257,178
Inventories - net (Note 7)	**80,402,000**	54,694,413
Derivative assets (Note 32)	**2,798,912**	1,693,121
Other current assets (Note 8)	**8,854,602**	2,508,014
Total Current Assets	**279,801,274**	201,287,469
Noncurrent Assets		
Property, plant and equipment - net (Notes 9 and 29)	**97,505,460**	74,624,267
Goodwill (Notes 2 and 10)	**54,355,193**	56,422,231
Intangible assets - net (Notes 2 and 11)	**7,333,491**	923,002
Pension asset (Note 26)	**2,807,134**	2,765,675
Available-for-sale financial assets (Note 4)	**414,348**	382,527
Noncurrent receivables (Note 12)	**213,577**	184,179
Deferred income tax assets (Note 24)	**743,592**	996,490
Other noncurrent assets (Note 12)	**1,518,225**	1,497,268
Total Noncurrent Assets	**164,891,020**	137,795,639
	$444,692,294	$339,083,108
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 13)	**$143,992,965**	$101,153,798
Trust receipts and loans payable (Note 15)	**39,008,811**	17,921,638
Income tax payable (Note 24)	**1,686,735**	2,298,792
Provisions (Note 14)	**249,044**	–
Derivative liabilities (Note 32)	**34,562**	3,832,474
Current portion of long-term debt (Note 16)	**–**	38,000,000
Total Current Liabilities	**184,972,117**	163,206,702
Noncurrent Liabilities		
Long-term debt (Note 16)	**60,398,500**	–
Deferred income tax liabilities (Note 24)	**4,810,158**	881,322
Deferred revenue (Note 17)	**2,303,765**	2,564,594
Pension liabilities (Notes 13 and 26)	**1,329,257**	986,473
Accrued rent (Note 29)	**913,688**	894,088
Obligation under finance lease (Note 29)	**612,724**	118,313
Other long-term employee benefits (Note 2)	**230,704**	372,084
Total Noncurrent Liabilities	**70,598,796**	5,816,874
Total Liabilities	**255,570,913**	169,023,576

(Forward)

	December 31	
	2011	2010 (As restated - see Note 2)
Equity (Note 18)		
Equity attributable to equity holders of the Parent Company		
Capital stock - common	**$24,932,075**	$24,893,713
Capital stock - preferred	**26,601,155**	26,601,155
Subscribed capital stock	**6,506,970**	1,901,963
Additional paid-in capital	**59,085,110**	34,646,889
Subscriptions receivable	**(10,395,200)**	(11,411,994)
Retained earnings:		
Appropriated for expansion	**30,660,981**	60,660,981
Unappropriated	**59,671,124**	32,727,457
Treasury stock	**(1,012,585)**	(1,012,585)
Reserve for fluctuation on available-for-sale financial assets	**144,067**	111,959
Cumulative translation adjustment	**(6,042,819)**	–
Other reserves	**170,714**	170,714
	190,321,592	169,290,252
Equity attributable to noncontrolling interests in consolidated subsidiaries	**(1,200,211)**	769,280
Total Equity	**189,121,381**	170,059,532
	$444,692,294	$339,083,108

See accompanying Notes to Consolidated Financial Statements.

Integrated Micro-Electronics, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2011	2010	2009
REVENUES			
Sale of goods	**$482,388,266**	$328,697,578	$347,788,074
Sale of services	**93,065,642**	83,629,027	47,714,207
	575,453,908	412,326,605	395,502,281
COST OF SALES (Note 19)			
Cost of goods sold	**451,886,042**	294,328,303	317,585,492
Cost of services	**85,390,332**	73,523,710	33,326,158
	537,276,374	367,852,013	350,911,650
GROSS PROFIT	**38,177,534**	44,474,592	44,590,631
OPERATING EXPENSES (Note 20)	**(52,686,767)**	(40,224,016)	(35,171,319)
OTHERS - Net			
Gain from bargain purchase (Note 2)	**13,018,493**	–	–
Mark-to-market gains (loss) from put and call option	**5,355,873**	(207,555)	–
Foreign exchange gains - net	**4,480,815**	1,792,949	279,084
Impairment loss on goodwill (Note 10)	**(2,717,451)**	–	–
Interest expense and bank charges (Note 22)	**(2,499,998)**	(1,036,929)	(1,787,466)
Interest income (Note 23)	**315,520**	352,578	723,261
Miscellaneous income (Notes 6, 7, 9 and 32)	**2,501,580**	2,670,550	6,527,178
INCOME BEFORE INCOME TAX	**5,945,599**	7,822,169	15,161,369
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)			
Current	**4,177,862**	3,414,175	5,112,200
Deferred	**476,224**	(6,651)	(81,012)
	4,654,086	3,407,524	5,031,188
NET INCOME	**1,291,513**	4,414,645	10,130,181
OTHER COMPREHENSIVE INCOME (LOSS)			
Fair value changes on available-for-sale financial assets	**32,108**	55,080	32,900
Exchange differences arising from translation of foreign operations	**(6,042,819)**	–	–
Other comprehensive income (loss), net of tax	**(6,010,711)**	55,080	32,900
TOTAL COMPREHENSIVE INCOME (LOSS)	**($4,719,198)**	$4,469,725	$10,163,081
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$3,289,314**	$4,738,929	$10,065,517
Noncontrolling interests	**(1,997,801)**	(324,284)	64,664
	$1,291,513	$4,414,645	$10,130,181
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**($2,721,397)**	$4,794,009	$10,098,417
Noncontrolling interests	**(1,997,801)**	(324,284)	64,664
	($4,719,198)	$4,469,725	$10,163,081
Earnings Per Share (Note 25)			
Basic and Diluted	**$0.001**	$0.002	$0.006

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	Cumulative Translation Adjustment	Attributable to Noncontrolling Interests	Total
Balances at January 1, 2011,as restated	$24,893,713	$26,601,155	$1,901,963	$34,646,889	($11,411,994)	$60,660,981	$32,727,457	($1,012,585)	$111,959	$170,714	$–	$769,280	$170,059,532
Increase in noncontrolling interest due to the acquisition of a subsidiary during the year (Note 2)	–	–	–	–	–	–	–	–	–	–	–	48,092	48,092
Issued shares during the year (Note 18)	38,362	–	(38,362)	–	–	–	–	–	–	–	–	–	–
Subscriptions during the year (Notes 2 and 18)	–	–	4,746,084	24,062,649	–	–	–	–	–	–	–	–	28,808,733
Cost of share-based payments (Note 27)	–	–	–	673,762	–	–	–	–	–	–	–	–	673,762
Accretion of subscription receivable (Note 18)	–	–	–	427,535	(427,535)	–	–	–	–	–	–	–	–
Collections on subscriptions (Note 18)	–	–	–	–	615,889	–	–	–	–	–	–	–	615,889
Forfeitures during the year (Note 18)	–	–	(102,715)	(725,725)	828,440	–	–	–	–	–	–	–	–
Reversal of appropriation (Note 18)	–	–	–	–	–	(30,000,000)	30,000,000	–	–	–	–	–	–
Cash dividends (Note 18)	–	–	–	–	–	–	(6,345,647)	–	–	–	–	(19,782)	(6,365,429)
	24,932,075	26,601,155	6,506,970	59,085,110	(10,395,200)	30,660,981	56,381,810	(1,012,585)	111,959	170,714	–	797,590	193,840,579
Net income (loss)	–	–	–	–	–	–	3,289,314	–	–	–	–	(1,997,801)	1,291,513
Other comprehensive income (loss)	–	–	–	–	–	–	–	–	32,108	–	(6,042,819)	–	(6,010,711)
Total comprehensive income (loss)	–	–	–	–	–	–	3,289,314	–	32,108	–	(6,042,819)	(1,997,801)	(4,719,198)
Balances at December 31, 2011	$24,932,075	$26,601,155	$6,506,970	$59,085,110	($10,395,200)	$30,660,981	$59,671,124	($1,012,585)	$144,067	$170,714	($6,042,819)	($1,200,211)	$189,121,381

	Attributable to Equity Holders of the Parent Company											
	Capital Stock - Common (Note 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 (Note 2)	–	–	–	–	–	–	–	–	–	–	1,646,276	1,646,276
Issued shares during the year (Note 18)	508,916	–	(508,916)	–	–	–	–	17	–	–	–	17
Subscriptions during the year (Note 18)	–	–	668,506	2,722,308	(3,390,814)	–	–	–	–	–	–	–
Cost of share-based payments (Note 27)	–	–	–	1,933,185	–	–	–	–	–	–	–	1,933,185
Accretion of subscription receivable (Note 18)	–	–	–	1,913,073	(1,913,073)	–	–	–	–	–	–	–
Collections on subscriptions (Note 18)	–	–	–	–	1,215,793	–	–	–	–	–	–	1,215,793
Forfeitures during the year (Note 18)	–	–	(425,522)	(2,403,833)	2,829,355	–	–	–	–	–	–	–
Dilution of noncontrolling interest	–	–	–	–	–	–	–	–	–	9,163	(9,163)	–
Reacquired shares (Note 18)	–	–	–	–	–	–	–	(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
Net income (loss)	–	–	–	–	–	–	4,738,929	–	–	–	(324,284)	4,414,645
Other comprehensive income	–	–	–	–	–	–	–	–	55,080	–	–	55,080
Total comprehensive income (loss)	–	–	–	–	–	–	4,738,929	–	55,080	–	(324,284)	4,469,725
Balances at December 31, 2010, as previously stated	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
Adjustments (Note 2)	–	–	–	–	–	–	–	–	–	–	(784,393)	(784,393)
Balances at December 31, 2010, as restated	$24,893,713	$26,601,155	$1,901,963	$34,646,889	($11,411,994)	$60,660,981	$32,727,457	($1,012,585)	$111,959	$170,714	$769,280	$170,059,532

	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 27)	–	–	–	514,153	–	–	–	–	–	–	–	514,153
Collections on subscriptions	–	–	–	–	40,383	–	–	–	–	–	–	40,383
Net reversal of accretion of subscriptions receivable (Note 27)	–	–	–	(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
Other comprehensive income	–	–	–	–	–	–	–	–	32,900	–	–	32,900
Net income	–	–	–	–	–	–	10,065,517	–	–	–	64,664	10,130,181
Total comprehensive income (loss)	–	–	–	–	–	–	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

See accompanying Notes to Consolidated Financial Statements.

Integrated Micro-Electronics, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010 (As restated - see Note 2)	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**$5,945,599**	$7,822,169	$15,161,369
Adjustments for:			
Depreciation and amortization of property, plant and equipment (Note 9)	**24,615,286**	19,373,226	18,055,328
Gain on bargain purchase (Note 2)	**(13,018,493)**	–	–
Gains on derivative transactions (Note 32)	**(6,218,718)**	(1,874,546)	(160,198)
Impairment loss on goodwill (Note 10)	**2,717,451**	–	–
Interest expense (Note 22)	**2,344,807**	942,202	1,739,827
Provision for doubtful accounts (Note 6)	**1,977,541**	1,531,927	58,228
Unrealized foreign exchange loss (gain) - net	**(2,128,698)**	566,968	184,237
Net pension expense (income) (Note 26)	**1,851,764**	448,563	(412,790)
Amortization of intangible assets (Note 11)	**1,163,969**	2,645,461	2,744,304
Provision (reversal of provision) for inventory obsolescence (Note 7)	**1,029,155**	(1,734,481)	1,322,908
Provision (reversal of provision) for restructuring (Note 14)	**249,044**	246,382	(889,304)
Cost of share-based payments (Note 27)	**673,762**	1,933,185	514,153
Interest income (Note 23)	**(315,520)**	(352,578)	(723,261)
Amortization of deferred revenue	**(260,829)**	(358,359)	–
Gain on sale of property, plant and equipment (Note 9)	**(115,117)**	(186,476)	(97,969)
Dividend income	**(367)**	(61)	(466)
Gain on fire insurance claim (Note 6)	**–**	–	5,625,371
Loss on fire (Notes 7 and 9)	**–**	–	637,159
Provision (reversal of provision) for warranty (Note 14)	**–**	(18,481)	5,243
Operating income before working capital changes	**20,510,636**	30,985,101	43,764,139
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Loans and receivables	**(836,152)**	1,889,943	(26,767,336)
Inventories	**(400,171)**	(14,503,933)	1,731,187
Other current assets	**(6,346,587)**	(103,392)	1,770,559
Net pension asset	**(723,300)**	(1,148,215)	–
Noncurrent receivables	**(29,398)**	374,527	2,363,308
Increase (decrease) in:			
Accounts payable and accrued expenses	**9,689,461**	(15,028,486)	15,677,641
Provisions	**(582,674)**	(43,764)	(5,092,074)
Accrued rent	**19,600**	(27,918)	19,978
Other long-term employee benefits	**(141,380)**	–	–
Net cash generated from operations	**21,160,035**	2,393,863	33,467,402
Interest paid	**(1,729,864)**	(922,707)	(2,255,783)
Income tax paid	**(4,789,919)**	(4,377,137)	(3,325,362)
Interest received	**315,521**	333,798	676,847
Dividends received	**367**	61	466
Net cash provided by (used in) operating activities	**14,956,140**	(2,572,122)	28,563,570
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Note 9)	**(14,830,473)**	(22,039,260)	(7,740,314)
Intangible assets (Note 11)	**(411,344)**	(765,833)	(414,243)
Proceeds from sale of property, plant and equipment	**2,656,466**	2,594,526	3,059,183
Acquisition through business combination - net of cash acquired (Note 2)	**5,053,343**	2,202,930	–
Settlement of derivatives (Note 32)	**1,315,015**	1,601,406	160,198
Decrease (increase) in other noncurrent assets	**293,354**	1,900,973	(234,011)
Net cash used in investing activities	**(5,923,639)**	(14,505,258)	(5,169,187)

(Forward)

	Years Ended December 31		
	2011	2010 (As restated - see Note 2)	2009
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans	**$50,838,903**	$15,619,405	$–
Payments of:			
Loans payable	**(2,622,978)**	(2,347,609)	(14,807,874)
Long-term debt	**(38,000,000)**	(8,000,000)	(8,000,000)
Dividends paid to equity holders of the Parent Company (Note 18)	**(3,883,683)**	(5,351,906)	(4,260,357)
Collections of subscriptions receivable (Note 18)	**615,889**	1,215,793	40,383
Dividends paid to noncontrolling interest	**(19,782)**	(51,474)	(82,871)
Net cash provided by (used in) financing activities	**6,928,349**	1,084,209	(27,110,719)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**(26,413)**	196,147	43,568
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**15,934,437**	(15,797,024)	(3,672,768)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**38,134,743**	53,931,767	57,604,535
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**$54,069,180**	$38,134,743	$53,931,767

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

Integrated Micro-Electronics, Inc. ("the Parent Company"), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four subsidiaries, namely: IMI International (Singapore) Pte. Ltd. ("IMI Singapore"), IMI USA, Inc. ("IMI USA"), IMI Japan, Inc. ("IMI Japan") and PSi Technologies Inc. (PSi) (collectively referred to as the "Group"). IMI Singapore, IMI USA and IMI Japan are wholly owned subsidiaries while PSi is 55.78% owned. The Group's parent company is AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands. AYC is a subsidiary of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE). AC is 52.61% owned by Mermac, Inc., 10.93% owned by Mitsubishi Corporation and the rest by the public. The registered office address of the Parent Company is North Science Avenue, Laguna Technopark, Biñan, Laguna.

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

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assembly (PCBA), flip chip assembly, box build sub-assembly, enclosure system, and provider of electronics product design, research and development, product development outsourcing and other electronic parts, among others. The Parent Company is also engaged in the business of providing test development and systems integration services and distributing related products and equipment and related services. These PEZA registrations entitle the Parent Company to a four-year income tax holiday (ITH) and an option to apply for ITH extension for a maximum of three (3) years subject to various PEZA requirements. The Parent Company's entitlements to ITH under the current PEZA registrations had expirations beginning January 2010. As of December 31, 2011, there are two remaining project activities with ITH entitlement which will expire in 2013. 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 16, 2009, IMI Singapore established its Philippine Regional Operating Headquarters (also known as IMI International ROHQ or IMI ROHQ). It serves as a supervisory, communications and coordinating center for the affiliates and subsidiaries of IMI Singapore.

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

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.

On October 6, 2010, the Parent Company completed its acquisition of 55.78% of PSi Technology, Inc. (PSi) (see Note 2). PSi is a power semiconductor assembly and test services (SATS) company serving niche markets in the global power semiconductor market. It provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices. PSi wholly owns PSi Technologies Laguna, Inc. (PSi Laguna), which also provides SATS. In addition, PSi owns 40% of PSiTech Realty, Inc., the holding company of Pacsem Realty, which is a real estate company that acquires, holds, develops and disposes any real estate or interest acquired. Pacsem Realty is 40% and 60% directly owned by PSi and PSiTech Realty Inc., respectively.

The accompanying consolidated financial statements were authorized for issue by the Parent Company's Board of Directors (BOD) on March 1, 2012.

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.

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

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

In 2011, the Parent Company finalized the purchase price allocation, and the cost of acquisition has been allocated using proportionate share in the identifiable net assets at the date of acquisition as follows:

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

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

Cash on acquisition follows:

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

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

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

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

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

The Parent Company, Cooperatief and EPIQ NV agreed that the consideration for the EPIQ shares would include issuance of 200 million of the Parent Company's shares (the IMI Consideration Shares); deferred payment of €7,345,080 ($10,515,218) from 2013 to 2018 subject to an interest rate of 1.599% plus 1.5% (see Note 16); and assumption of liabilities of EPIQ NV to the EPIQ subsidiaries aggregating to €2,546,419 ($3,645,453).

The acquisition costs are allocated as follows:

	EPIQ EA	EPIQ CZ	EPIQ MX	TOTAL
Issuance of 200 million IMI Consideration Shares (Note 18)	$20,638,697	$524,970	$7,645,066	$28,808,733
Deferred payment	7,533,146	191,615	2,790,457	10,515,218
Assumed liabilities of EPIQ NV to the EPIQ subsidiaries	115,265	8,887	3,521,301	3,645,453
	$28,287,108	$725,472	$13,956,824	$42,969,404

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

Under the SPA, Cooperatief also purchased receivables of EPIQ NV from the EPIQ subsidiaries aggregating to €11,734,824 ($16,799,576). On July 29, 2011, €4,831,161 ($6,916,294) of this was settled through cash payment, while the rest will be settled through additional deferred payment from 2013 to 2018 subject to interest rate of 1.599% plus 1.5% (see Note 16).

The provisional fair values of the identifiable assets and liabilities acquired and goodwill (gain from bargain purchase) arising as at the date of acquisition follow:

	EPIQ EA		EPIQ CZ		EPIQ MX	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets						
Cash and cash equivalents	$1,152,558	$1,152,558	$515,223	$515,223	$3,385,562	$3,385,562
Receivables	26,485,891	26,485,891	3,333,944	3,333,944	10,508,102	10,508,102
Inventories	20,700,958	20,700,958	2,984,546	2,984,546	4,476,328	4,476,328
Property, plant and equipment	10,188,629	24,810,566	8,072,340	5,734,207	6,120,929	8,618,229
Computer software	158,818	158,818	–	–	299,735	299,735
Customer relationships	–	6,766,617	–	–	–	–
Deferred tax assets	–	–	–	444,245	–	–
Other assets	193,184	193,184	–	–	120,831	120,831
Total	58,880,038	80,268,592	14,906,053	13,012,165	24,911,487	27,408,787
Liabilities						
Accounts payable	17,650,612	17,650,612	2,444,865	2,444,865	6,409,754	6,409,754
Bank loans	12,871,248	12,871,248	–	–	–	–
Long-term debt	4,779,883	4,779,883	10,114,478	10,114,478	2,909,135	2,909,135
Provisions	1,319,762	1,319,762	–	–	–	–
Accrued charges and deferred income	1,158,777	1,158,778	377,763	377,763	–	–
Taxes payable	352,571	352,571	–	–	1,089,987	1,089,987
Deferred tax liabilities	–	2,138,855	–	–	937,087	1,686,277
Total	38,132,853	40,271,709	12,937,106	12,937,106	11,345,963	12,095,153
Net Assets	$20,747,185	$39,996,883	$1,968,947	$75,059	$13,565,524	$15,313,634
Cost of acquisition		$28,287,108		$725,472		$13,956,824
Less: Cooperatief's share in the fair value of net assets acquired		39,948,791		75,059		15,313,634
Goodwill (Gain from bargain purchase)		($11,661,683)		$650,413		($1,356,810)

The purchase price allocation for the acquisition of the EPIQ subsidiaries 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 property, plant and equipment, intangible assets, contingent liabilities and goodwill. The goodwill recognized on the acquisition of EPIQ CZ can be attributed to the acquisition of its automotive, industrial, and turnkey experience, platforms in Europe and China that serve global customers, access to suppliers and scale benefit in materials. The gain from bargain purchase recognized for EPIQ EA and EPIQ MX are attributable to the increase in fair value of property, plant and equipment and the intangible asset identified for EPIQ EA.

Philippine Financial Reporting Standards (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.

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

From the date of acquisition, the EPIQ subsidiaries have contributed $66.2 million and $2.42 million to the Group's total revenue and net income before tax, respectively. If the combination had taken place at the beginning of 2011, the Group's total revenue and net income before tax would have increased by $189.9 million and $10.45 million, respectively.

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 functional currency of the Parent Company, and are 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	Functional
	2011	2010	Incorporation	Currency
IMI USA	**100.00%**	100.00%	USA	USD
IMI Japan	**100.00%**	100.00%	Japan	USD
IMI Singapore	**100.00%**	100.00%	Singapore	USD
IMI International Regional Operating Headquarter ("IMI ROHQ")	**100.00%**	100.00%	Philippines	USD
Speedy-Tech Electronics Ltd. and Subsidiaries ("STEL and Subsidiaries")				
Speedy-Tech Technologies Pte. Ltd. ("STTS")	**100.00%**	100.00%	Singapore	USD
Speedy-Tech Electronics (HK) Limited ("STHK")	**100.00%**	100.00%	Hong Kong	USD
Speedy-Tech (Philippines), Inc. ("STPHIL")	**100.00%**	100.00%	Philippines	USD
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE")	**99.48%**	99.48%	China	USD
Speedy-Tech Electronics, Inc.	**100.00%**	100.00%	USA	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. ("STJX")	**100.00%**	100.00%	China	USD
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ")	**100.00%**	100.00%	China	USD
IMI (Chengdu) Ltd.	**100.00%**	100.00%	China	USD
Monarch	**100.00%**	−	Hong Kong	USD
Cooperatief	**100.00%**	−	Netherlands	Euro
EPIQ EA	**100.00%**	−	Bulgaria	Bulgarian Lev
Microenergia OOD	**70.00%**	−	Bulgaria	Bulgarian Lev
EPIQ CZ	**100.00%**	−	Czech Republic	Czech Koruna
EPIQ MX	**100.00%**	−	Mexico	Mexican Peso
EPIQ Manufactura S.A.P.I de C.V.	**100.00%**	−	Mexico	Mexican Peso
IMI France	**100.00%**	−	France	Euro
PSi	**55.78%**	55.78%	Philippines	USD
PSi Laguna*	**55.78%**	55.78%	Philippines	USD
PSiTech Realty, Inc.*	**22.31%**	22.31%	Philippines	USD
Pacsem Realty, Inc.*	**35.70%**	35.70%	Philippines	USD

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

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 such results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC) interpretations as of January 1, 2011. 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.

- PAS 24 (Amended), *Related Party Transactions*
  The amendments clarify the definition of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the new amendment introduces an exemption from the general related disclosure requirements for transactions with the government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

- PAS 32, *Financial Instruments: Presentation* (Amendment) - *Classification of Rights Issues*
  The amendment to PAS 32 amended the definition of a financial liability to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, 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*
  The amendment of the interpretation removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.

- Philippine Interpretation IFRIC19, *Extinguishing Financial Liabilities with Equity Instruments*
  The 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

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 2010

- 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*.

Standards issued but not yet effective

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

Effective in 2012

- PFRS 7, *Financial Instruments: Disclosures* – Enhanced Derecognition Disclosure Requirements (effective for annual periods beginning on or after July 1, 2011)
  This amendment requires additional disclosures about financial assets that have been transferred but not derecognized to enable the users of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the users to evaluate the nature of and the risks associated with the entity's continuing involvement in those derecognized assets.

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

- PAS 12, *Income Taxes* (Amendment) – Deferred Taxes: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012)
  The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment properties measured using the fair value model under PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on nondepreciable assets measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset.

Effective in 2013

- PFRS 7, *Financial instruments: Disclosures* – Offsetting Financial Assets and Financial Liabilities (retrospectively applied for annual periods beginning on or after January 1, 2013)
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

- PFRS 10, *Consolidated Financial Statements* (effective for annual periods beginning on or after January 1, 2013)
  PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that address the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidated – Special Purpose Entities*.

  PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

- PFRS 11, *Joint Arrangements* (effective for annual periods beginning on or after January 1, 2013)
  This standard replaces PAS 31, *Interest on Joint Ventures* and SIC-13 *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. The standard removes the option to account for jointly controlled entities (JCEs) using proportionate consolidated. Instead, JCEs that meet the definition of a joint control must be accounted for using the equity method.

- PFRS 12, *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after January 1, 2013)
  This standard includes all disclosures that were previously in PAS 27 related to the consolidated financial statements, as well as all the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- PFRS 13, *Fair Value Measurement* (effective for annual periods beginning on or after January 1, 2013)
  This standard establishes a single source of guidance under PFRS for all fair value measurements. The standard does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

- PAS 19, *Employee Benefits* (Amendment) (effective for annual periods beginning on or after January 1, 2013)
  The amendments focus on the following key areas: the elimination of the option to defer the recognition of gains and losses resulting from defined benefit plans (the corridor approach); the elimination of options for the presentation of gains and losses relating to those plans; and the improvement of disclosure requirements that will better show the characteristics of defined benefit plans and the risks arising from those plans. The amendments to the recognition, presentation and disclosure requirements will ensure that the financial statements provide investors and other users with a clear picture of an entity's commitments resulting from defined benefit plans.

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

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

Effective in 2014

- PAS 32, *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities (retrospectively applied for annual periods beginning on or after January 1, 2014)
  These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

Effective in 2015

- PFRS 9, *Financial Instruments: Classification and Measurement* (effective for annual periods beginning on or after January 1, 2015)
  PFRS 9 as issued reflects the first phase of the IASBs 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, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or in the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Parent Company's financial assets, but will potentially have no impact on classification and measurement of financial liabilities. The Parent Company will quantify the effect in conjunction with other phases, when issued, to present a comprehensive picture.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate* (effective for annual periods beginning on or after January 1, 2015)
  This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

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 to complete the required 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.

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

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, 2011 and 2010 consist of loans and receivables, financial asset at FVPL, AFS financial assets, financial liability at FVPL 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 from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 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 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. AFS financial assets are classified as current assets if management intends to sell these financial assets within 12 months from financial reporting. Otherwise, these are classified as noncurrent assets.

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 pertains 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 the liabilities are derecognized as well as through the amortization process. Financial liabilities are classified as current liabilities if maturity is within 12 months from financial reporting. Otherwise, these are classified as noncurrent liabilities.

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

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

<u>Impairment of Financial Assets</u>
The Group assesses at each 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.

<u>Property, Plant and Equipment</u>
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 operations 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:

	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 5 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.

Investments in Subsidiaries
Investments in subsidiaries in the Parent Company's separate financial statements are accounted for under cost method of accounting. Dividends received are reported as dividend income when the right to receive the payment is established.

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 an ITH is in effect, no deferred taxes are recognized in the consolidated financial statements as the ITH status of the Group neither results in a deductible temporary difference or 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 net 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 (except for EPIQ EA, EPIQ CZ, EPIQ MX, IMI France, and Cooperatief) is the U.S. Dollar. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The functional currencies of EPIQ EA, EPIQ CZ, and EPIQ MX, are the Bulgarian Lev (BGN), Czech Koruna (CZK) and Mexican Peso (MXN), respectively. The functional currency of IMI France and Cooperatief is the Euro (€). These subsidiaries mostly use their local currencies for their daily transactions. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the reporting date and their profit and loss accounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in the consolidated statement of comprehensive income and reported as a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

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.

EPIQ CZ

EPIQ CZ, under its Collective Agreement, is committed to pay contributions to life and pension insurance of its loyal employees. This is done on a monthly basis as part of payroll expenses and only over the employment period. EPIQ CZ is not obliged to any other payments if employment terminates.

Defined benefit plans

The Parent Company, PSi and EPIQ EA maintain separate defined benefit plans covering substantially all of their employees. The plans of the Parent Company and PSi are funded, noncontributory pension plans administered by their respective Boards of Trustees, while that of EPIQ EA is unfunded and noncontributory. Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur. Pension 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 have the most significant effect on the amounts recognized in the consolidated financial statements.

Functional currency

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

Operating lease - Group as lessor

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

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

The Parent Company has entered into finance lease agreements covering certain office equipment. EPIQ EA and EPIQ CZ have various finance lease contracts related to machineries and production equipment and transportation equipment. They have determined, based on the evaluation of the terms and conditions of the arrangement, that they bear substantially all the risks and rewards incidental to ownership of the said machineries and equipment and so account for the contracts as finance leases (see Note 29).

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 the 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 have been developed in consultation with outside counsels handling the defense in these matters and are 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 33).

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 impairment 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 $133.68 million and $104.26 million as of December 31, 2011 and 2010, respectively. Allowance for doubtful accounts amounted to $3.40 million and $1.37 million as of December 31, 2011 and 2010, 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 $51.61 million and $19.72 million as of December 31, 2011 and 2010, respectively. Inventories carried at NRV amounted to $28.80 million and $34.98 million as of December 31, 2011 and 2010, respectively. Allowance for inventory obsolescence amounted to $4.85 million and $3.73 million as of December 31, 2011 and 2010, respectively. Further details are given in Note 7.

Depreciation and amortization
The Group computes depreciation and amortization of property, plant and equipment 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 $97.51 million and $74.62 million as of December 31, 2011 and 2010, respectively. Depreciation and amortization expense on property, plant and equipment amounted to $24.62 million, $19.37 million and $18.06 million for the years ended December 31, 2011, 2010 and 2009 respectively. Further details are given in Notes 9, 19 and 20.

The Group computes amortization of intangible assets on a straight-line basis over the assets' EUL. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are 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 $7.33 million and $0.92 million as of December 31, 2011 and 2010, respectively. Amortization expense amounted to $1.16 million, $2.65 million and $2.74 million for the years ended December 31, 2011, 2010 and 2009, 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.

Property, plant and equipment, net of accumulated depreciation, amortization and impairment loss, amounted to $97.51 million and $74.62 million as of December 31, 2011 and 2010, respectively. No impairment loss was recognized in 2011, 2010, and 2009. Intangible assets, net of accumulated amortization, amounted to $7.33 million and $0.92 million as of December 31, 2011 and 2010, respectively. No impairment was recognized for the intangible assets in 2011, 2010 and 2009. Further details are given in Notes 9, 11, 19 and 20.

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, 2011 and 2010, the goodwill impairment determined by the Group amounted to $2.72 million and nil, respectively. Goodwill amounted to $54.36 million and $56.42 million as of December 31, 2011 and 2010, respectively. 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. In 2011, 2010, and 2009, no impairment losses have been recognized on AFS financial assets. The carrying amount of AFS financial assets of the Group amounted to $0.41 million and $0.38 million as of December 31, 2011 and 2010, 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, 2011 and 2010, the Group has deferred tax assets of $0.74 million and $1.0 million, respectively. Further details are given in Note 24.

Pension and other employee benefits
The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

As of December 31, 2011, 2010 and 2009, the Group has unrecognized actuarial gains (losses) of ($4.92) million, ($2.71) million and $2.84 million, respectively. Further details are given in Note 26.

The Group also estimates other employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the period. Current accrued leaves as of December 31, 2011 and 2010 amounting to $2.14 million and $2.47 million, respectively, are recognized under "Accounts payable and accrued expenses", while noncurrent accrued leaves as of December 31, 2011 and 2010 amounting to $0.23 million and $0.37 million are recognized under "Other long-term employee benefits" in the consolidated balance sheets. Cost of leaves in 2011, 2010 and 2009 amounted to $2.65 million, $1.94 million and $1.62 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, 2011, 2010 and 2009, the Group recognized cost of equity-settled share options amounting to $0.67 million, $1.93 million and $0.51 million, respectively. Further details are given in Note 27.

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, 2011, 2010 and 2009, the Group recognized (reversal of) provision for warranty amounting to nil, ($0.02) million and $0.01 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, 2011 and 2010 amounted to $1.69 million and $2.30 million, respectively.

Fair value of put and call options
The acquisition of PSi on October 6, 2010 gave rise to a long equity call option and written equity put option for the Parent Company. 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 of PSi as of the valuation date. As of December 31, 2011 and 2010, the call option has a positive value of $2.74 million and $1.21 million, respectively, while the put option has zero value and negative value of $3.83 million, respectively (see Note 31).

Fair value measurement of intangible assets resulting from business combination
Intangible assets resulting from business combinations are valued at fair value at the acquisition date as part of the business combination. Upon acquisition of EPIQ EA (see Note 2), the Parent Company identified an intangible asset (customer relationship) and determined its fair value based on discounted 5-year projected revenues from existing customers as of acquisition date after excluding projected returns contributed by working capital, workforce and fixed assets. The customer relationship amounted to $6.20 million as of December 31, 2011 (see Note 11).

5. Cash and Cash Equivalents

This account consists of:

	2011	2010
Cash on hand	**$103,983**	$113,367
Cash on hand and in banks	**36,403,020**	24,780,649
Short-term deposits	**17,562,177**	13,240,727
	$54,069,180	$38,134,743

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:

	2011	2010 (As restated - Note 2)
Trade	**$127,744,520**	$95,629,246
Nontrade	**4,292,680**	3,704,483
Receivable from insurance	**1,230,038**	1,859,984
Receivable from employees	**1,811,210**	707,172
Due from related parties (Note 30)	**211,103**	78,186
Short-term investments	**–**	2,000,000
Receivable from Meralco	**–**	549,923
Others	**1,790,216**	1,094,720
	137,079,767	105,623,714
Less allowance for doubtful accounts	**3,403,187**	1,366,536
	$133,676,580	$104,257,178

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

Trade receivables of PSi from certain customers totaling $5.40 million as of December 31, 2010, were assigned as collateral to Philippine Veterans Bank (PVB). Upon renewal of the credit facility in April 2011, security in the form of trade receivables was no longer required (see Note 15).

In 2011, trade receivables of EPIQ EA from certain customers totaling to €10.00 million ($12.94 million) and €2.13 million ($2.76 million) were pledged to UniCredit Bulbank and BNP Paribas, respectively (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
As of December 31, 2010, short-term investments pertain to 2-year time deposits due in May 2011 and bear fixed interest rate of 2.00% per annum.

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 $1.23 million and $1.86 million as of December 31, 2011 and 2010, respectively. The gain from the insurance claims amounting to $5.62 million 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"). All amounts due were fully collected in 2011.

The refunds due from Meralco were initially recognized at fair value. The rollforward of the day 1 discount on the Meralco refunds as of December 31, 2011 and 2010 follows:

	2011	2010
At beginning of year	**$15,671**	$34,451
Accretion	**(15,671)**	(18,780)
At end of year	**$–**	$15,671

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

Trade receivables, nontrade receivables, and receivable from insurance with nominal value of $3.40 million and $1.37 million were individually assessed to be impaired and fully provided with allowance for doubtful accounts as of December 31, 2011 and 2010, respectively.

Movements in the allowance for doubtful accounts follow:

2011

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

2010

	Trade	Nontrade	Receivable from Insurance	Total
At January 1, 2010	$223,355	$89,092	$–	$312,447
Provision during the year	281,323	48,469	1,202,135	1,531,927
Accounts written off	(388,591)	(89,247)	–	(477,838)
At December 31, 2010	$116,087	$48,314	$1,202,135	$1,366,536

Provisions during the year form part of "Operating expenses" and are included under "Facilities costs and others - Others" (see Note 21).

7. Inventories

This account consists of:

	2011	2010
At cost:		
Raw materials and supplies	**$39,239,263**	$6,813,778
Work-in-process	**6,134,662**	5,292,449
Finished goods	**6,231,243**	7,609,282
	51,605,168	19,715,509
At NRV:		
Raw materials and supplies	**22,553,457**	33,378,808
Work-in-process	**1,875,642**	1,342,050
Finished goods	**4,367,733**	258,046
	28,796,832	34,978,904
	$80,402,000	$54,694,413

The cost of the inventories carried at NRV amounted to $33.64 million and $38.80 million as of December 31, 2011 and 2010, respectively. The amount of inventories recognized as an expense amounted to $388.88 million, $265.48 million and $263.56 million in 2011, 2010 and 2009, respectively (see Note 19). Provision for inventory obsolescence recognized in 2011 and 2009 amounted to $1.03 million and $1.32 million, respectively (see Note 21). Reversal of provision for inventory obsolescence in 2010 amounted to $1.73 million (see Note 21).

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 claims are included under "Miscellaneous income" in the 2009 consolidated statement of comprehensive income.

For the years ended December 31, 2011, 2010 and 2009, gain from sale of scrapped packaging supplies amounting to $0.01 million, $0.23 million and $0.11 million, respectively, are included under "Miscellaneous income" in the consolidated statements of comprehensive income.

Inventories of EPIQ EA amounting to €8.00 million ($10.35 million) and €2.13 million ($2.76 million) were pledged to UniCredit Bulbank and BNP Paribas, respectively (see Note 15).

8. Other Current Assets

This account consists of:

	2011	2010
Tax credits	**$6,987,291**	$1,118,577
Advances to suppliers	**959,386**	941,878
Prepayments	**674,612**	380,369
Current portion of deferred licensing fee (Note 12)	**10,000**	10,000
Others	**223,313**	57,190
	$8,854,602	$2,508,014

Tax credits are mainly attributable to STEL, EPIQ MX and EPIQ EA.

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

9. Property, Plant and Equipment

This account consists of:

2011

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At January 1, 2011	$51,325,675	$119,640,340	$13,911,109	$971,441	$2,724,079	$96,435	$188,669,079
Additions	2,665,898	9,486,367	1,032,112	288,382	228,659	1,129,055	14,830,473
Additions through business combination (Note 2)	19,050,081	18,795,575	187,357	319,147	–	810,842	39,163,002
Disposals	(444,789)	(17,395,390)	(689,057)	(269,918)	(10,026)	–	(18,809,180)
Reclassifications	7,035	89,400	–	–	–	(96,435)	–
Foreign currency exchange difference	(1,664,392)	(2,036,889)	(103,010)	(24,985)	–	(126,370)	(3,955,646)
At December 31, 2011	70,939,508	128,579,403	14,338,511	1,284,067	2,942,712	1,813,527	219,897,728
Accumulated depreciation and amortization							
At January 1, 2011	31,519,105	69,965,946	9,110,181	237,442	1,710,438	–	112,543,112
Depreciation and amortization	2,984,521	18,463,462	2,308,112	439,127	420,064	–	24,615,286
Disposals	(234,594)	(15,106,887)	(671,015)	(247,184)	(8,150)	–	(16,267,830)
At December 31, 2011	34,269,032	73,322,521	10,747,278	429,385	2,122,352	–	120,890,568
Accumulated impairment loss	736,565	752,909	12,226	–	–	–	1,501,700
Net book value as of December 31, 2011	$35,933,911	$54,503,973	$3,579,007	$854,682	$820,360	$1,813,527	$97,505,460

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

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), and (b) a major supplier of PSi with a participation of $3.00 million each (see Notes 13 and 15). As of December 31, 2011 and 2010, mortgaged machinery and equipment have a net carrying amount of $2.78 million and $6.84 million, respectively.

As of December 31, 2011 and 2010, fully depreciated property, plant and equipment amounting to $34.90 million and $33.91 million, respectively, are still being used by the Group.

The carrying values of the equipment under finance lease amounted to $2.22 million and $1.87 million, as of December 31, 2011 and 2010, 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 2011, 2010 and 2009 by $0.39 million, $0.74 million and $2.07 million, respectively.

In 2009, the Parent Company retired machineries and equipment damaged by fire with a book value amounting to $0.08 million (see Note 6). The loss from the damaged facilities and gain from the insurance claims are included under "Miscellaneous income" in the 2009 consolidated statement of comprehensive income.

Depreciation and amortization expense included in cost of goods sold and services for the years ended December 31, 2011, 2010, and 2009 amounted to $21.70 million, $16.23 million and $15.68 million, respectively (see Note 19). Depreciation and amortization expense included in operating expenses for the years ended December 31, 2011, 2010 and 2009 amounted to $2.92 million, $3.14 million and $2.38 million, respectively (see Note 20).

In 2011, the Parent Company, IMI Singapore and PSi disposed certain machineries and equipment, furniture and fixtures, and tools and instruments, which resulted to gains amounting to $108,076, $1,464, and $5,577, respectively.

In 2010, the Parent Company, IMI Singapore and PSi disposed certain machineries and facilities equipment, furniture and fixtures, and tools and instruments, which resulted to gains amounting to $177,634, $3,707 and $5,135, respectively.

In 2009, the Parent Company and IMI Japan disposed certain machineries and facilities equipment, furniture and fixtures and tools and instruments, which resulted to gains amounting to $95,082, $1,508 and $1,379, respectively.

10. Goodwill

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

	2011	2010
STEL Group	**$45,128,024**	$45,128,024
PSi	**7,478,980**	10,196,431
IMI USA	**656,610**	656,610
EPIQ CZ	**650,413**	–
Parent Company	**441,166**	441,166
	$54,355,193	$56,422,231

STEL Group, PSi and IMI USA
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 11.12% and 10.16%, respectively, in 2011 and 12.35% and 11.02%, respectively, in 2010. The pretax discount rate applied to cash flow projections of PSi in 2011 is 12.60%.

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

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

- Budgeted gross margins - Gross margins are based on the mix of business model arrangements with the customers 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.

No impairment loss was assessed for STEL Group and IMI USA and Trixell. With regard to the assessment of value in use of STEL Group and IMI USA, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to exceed their recoverable amount.

The impairment test for PSi resulted to an impairment loss of $2.72 million.

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

The value in use methodology was used in determining the recoverable amount of the Parent Company in 2009. In 2011 and 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.

EPIQ CZ
Goodwill from the acquisition of EPIQ CZ is based on provisional purchase price allocation. As discussed in Note 2, provisional accounting has been adopted for the acquisition of the EPIQ subsidiaries. The goodwill recognized is still subject to finalization.

11. **Intangible Assets**

This account consists of:

2011

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

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

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

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

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

Computer software
This includes the Parent Company's acquisitions of computer applications and modules. EPIQ EA and EPIQ MX also have computer software with carrying value of $0.11 million and $0.24 million, respectively, as of December 31, 2011.

Amortization of intangible assets included in operating expenses for the years ended December 31, 2011, 2010 and 2009 amounted to $1.16 million, $2.65 million and $2.74 million, respectively (see Note 20).

12. Noncurrent Receivables and Other Noncurrent Assets

As of December 31, 2011 and 2010, noncurrent receivables amounting to $0.21 million and $0.18 million, respectively, pertain to advances to customers for equipment purchased by the Group that are reimbursable from the former.

Other noncurrent assets consist of:

	2011	2010
Miscellaneous deposits	**$1,498,225**	$1,467,268
Noncurrent portion of deferred licensing fee	**20,000**	30,000
	$1,518,225	$1,497,268

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 1.00% interest per month. The agreement is for a period of ten years, which started in 2004. The amortization expense and additional licensing fee amounting to $10,000 and $71,559, respectively in 2011 and $2,500 and $3,190, respectively in 2010 are included in “Cost of goods sold and services” under “Facilities costs and others - others”.

13. Accounts Payable and Accrued Expenses

This account consists of:

	2011	2010 (As restated - see Note 2)
Trade payables	**$99,199,121**	$71,090,278
Accrued expenses	**26,757,739**	17,584,882
Nontrade payables	**4,700,640**	980,520
Accrued payroll	**4,538,123**	3,563,987
Dividends payable (Note 18)	**2,538,556**	–
Customers’ deposits	**1,233,595**	681,259
Obligation under finance lease - current (Note 29)	**801,777**	1,209,960
Employee-related payables	**678,833**	687,935
Accrued interest payable (Notes 15 and 16)	**675,863**	60,919
Taxes payable	**485,924**	639,641
Deferred revenue - current (Note 17)	**260,829**	264,741
Due to related parties (Note 30)	**36,639**	73,346
Others	**2,085,326**	4,316,330
	$143,992,965	$101,153,798

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 $2.07 million and $3.39 million as of December 31, 2011 and 2010, respectively, which is covered by an MPC amounting to $3.00 million under PSi’s MTI with a local bank (see Notes 9 and 15). In addition, all overdue accounts from July 1, 2010 to December 31, 2010 with the supplier are subject to 1.00% interest per month from May 1, 2009 to June 30, 2010 and 0.50% interest per month from July 1 to December 31, 2010. There are no overdue accounts as of December 31, 2011.

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. In 2010, this also includes a separation pay amounting to $0.40 million of a retired officer of PSi, which was fully settled in 2011 (see Note 26).

Nontrade payables include provision for losses on purchase commitments of PSi amounting to $0.17 million and $0.16 million as of December 31, 2011 and 2010, respectively, which pertain to losses arising from price decline and expected termination of several firm and executory purchase commitments. Additional provisions of $0.01 million and nil were recorded in 2011 and 2010, respectively. In 2011, nontrade payables also include SZSTE’s liability for acquisition of fixed assets amounting to $3.00 million.

14. **Provisions**

This account consists of:

2011

	Restructuring
At January 1, 2011	**$–**
Provision during the year	**831,718**
Payment	**(582,674)**
At December 31, 2011	**$249,044**

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	$–	$–	$–

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 and in prior years. Consequently, no provision for warranty was recognized as of December 31, 2011 and 2010.

In 2011, PSi and IMI Singapore announced a restructuring of operations due to unfavorable economic and business situation. PSi made actual payout in September and November 2011 aggregating to $1.14 million. Part of this payout amounting to $0.58 million is not covered by its retirement plan. This was recognized as provision in 2011. In addition, IMI Singapore recognized provision amounting to $0.25 million (see Note 35).

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.

In 2009, the Parent Company completed a restructuring with actual payment of $5.08 million. Remaining separation pay amounting to $0.03 million was paid in 2010.

15. **Trust Receipts and Loans Payable**

This account consists borrowings of:

	2011	2010
Parent Company	**$16,460,500**	$10,000,000
EPIQ EA	**11,066,203**	–
PSi	**10,167,932**	6,625,249
STEL	**1,314,176**	1,296,389
	$39,008,811	$17,921,638

Parent Company
As of December 31, 2011 and 2010, the Parent Company has two (2) 90-day term loans amounting to $5.00 million each and are subject to fixed interest rates of 1.18% and 1.16%. In 2011, the Parent Company also availed of a 60-day term loan amounting to €5.00 million ($6.46 million), subject to a fixed interest rate of 2.27%.

Interest expense incurred on the short-term loans amounted to $0.16 million, $0.03 million and $0.37 million in 2011, 2010 and 2009, respectively.

EPIQ EA
EPIQ EA has short-term loans from the following banks:

UniCredit Bulbank	$10,351,817
BNP Paribas	714,386
	$11,066,203

The loans from UniCredit Bulbank and BNP Paribas are from existing revolving credit facilities with terms of one year and six months, respectively. The loans bear interest based on 1-month EURIBOR plus 3.00% and 3-month EURIBOR plus 2.50%, respectively. Interest expense recognized on the loans in 2011 amounted to $0.21 million.

The credit facility with UniCredit Bulbank is subject to the following collaterals:
- First ranking pledge on materials, ready made and unfinished production at balance sheet value, minimum of €10,000;
- first ranking pledge on receivables from a certain customer; and
- notary signed Strong Letter of Patronage from the Parent Company.

As of December 31, 2011, EPIQ EA's pledged inventories and receivables with UniCredit Bulbank amounted to €8.00 million ($10.35 million) and €10.00 million ($12.94 million), respectively. The Parent Company also provided a Soft Letter of Comfort to the creditor.

The credit facility with BNP Paribas is subject to the following collaterals:
- First rank pledge on receivables from selected customers of EPIQ EA, subject to pre-financing in the amount of 125% of the utilized portion of the facility but not more than €2,125,000; and
- first rank pledge on goods of EPIQ EA in the amount of 125% of the utilized portion of the facility but not more than €2,125,000.

As of December 31, 2011, EPIQ EA's pledged inventories and receivables, with BNP Paribas both amounted to €2.13 million ($2.76 million).

PSi

PSi has short-term loans and trust receipts payable to the following banks:

	2011	2010
Metropolitan Bank & Trust Co. (MBTC)	**$9,247,621**	$5,000,000
PVB	**920,311**	1,625,249
	$10,167,932	$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, and Foreign Bills Line and Domestic Bill Purchase Line, subject to interest rates ranging from 2.27% to 2.85% in 2011 and 2.56% in 2010. As of December 31, 2011 and 2010, the outstanding trust receipts payable amounted to $1.75 million and nil. The facility will expire on October 30, 2012.

PSi incurred interest expense on its short-term loan and trust receipts payable aggregating to $0.51 million in 2011.

The undrawn credit facility amounted to $0.75 million and $5.00 million as of December 31, 2011 and 2010, respectively.

PVB

In 2010, PSi had a Revolving Promissory Note Line (RPNL) of $3.00 million, including the availability of Letters of Credit (LC)/Trust Receipts (TR) up to $1.50 million. This short-term credit facility, which expired in April 2011, is secured by trade receivables from certain customers and MTI on machinery and equipment (see Notes 6 and 9). This was renewed on April 20, 2011, through an Omnibus Line Facility of $5.00 million, which includes unsecured RPNL of $3.00 million, which may be available for LC, and 5-year term loan of $2.00 million secured by the MTI on machineries and equipment. PSi has not yet availed of the 5-year term loan as of December 31, 2011, hence the MPC of PVB is temporarily not effective. The interest rates in 2011 and 2010 ranged from 2.36% to 2.71% and 3.16% to 3.72%, respectively. As of December 31, 2011 and 2010, there are no outstanding trust receipts payable under this facility.

PSi incurred interest expense for its short-term loan amounting to $0.10 million and $0.03 million in 2011 and 2010, respectively.

The undrawn credit facility amounted to $4.08 million and $1.37 million as of December 31, 2011 and 2010, respectively.

STEL

The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates ranging from 3.35% to 3.45%, 3.52% to 3.70%, and 1.94% to 3.86% in 2011, 2010 and 2009, respectively, and have maturities of 30 to 240 days from the date of issue with renewal options. STEL incurred interest expense for its short-term loans amounting to $0.07 million, $0.07 million and $0.25 million in 2011, 2010 and 2009, respectively.

16. **Long-Term Debt**

This account consists borrowings of:

	2011	2010
Parent Company	**$40,000,000**	$30,000,000
Cooperatief	**20,398,500**	–
IMI Singapore	**–**	8,000,000
	60,398,500	38,000,000
Less: Current portion	**–**	38,000,000
	$60,398,500	$–

The Parent Company loan as of December 31, 2010 is a five-year term clean loan from a Philippine bank obtained in 2006 with 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. In October 2011, the Parent Company fully paid the remaining balance of $30.00 million. On the same date, the Parent Company obtained another five-year clean loan with the same bank amounting to $40.00 million with the same terms as the previous loan. The Parent Company incurred interest expense for its long-term loans amounting to $0.53 million, $0.34 million and $0.42 million in 2011, 2010 and 2009, respectively.

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, 2011 and 2010, the Parent Company has complied with all the above-mentioned loan covenants.

Cooperatief's long-term debt relates to the acquisition of EPIQ shares and receivables of EPIQ NV from the EPIQ subsidiaries (see Note 2). This is subject to interest rate of 1.599% plus 1.5%. Below is the amortization schedule:

Due dates	Amounts in Euro	Amount in USD
2013	€2,000,000	$2,863,200
2014	2,000,000	2,863,200
2015	2,000,000	2,863,200
2016	2,000,000	2,863,200
2017	2,000,000	2,863,200
2018	4,248,743	6,082,500
Total	€14,248,743	$20,398,500

In 2011, Cooperatief incurred interest expense amounting to $0.26 million for its long-term debt.

The IMI Singapore loan as of December 31, 2010 is a five-year term clean loan from a Singapore bank obtained in 2006 with an original principal 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%. IMI Singapore incurred interest expense for its long-term loan amounting to $0.06 million, $0.15 million and $0.54 million in 2011, 2010 and 2009, respectively.

Loan covenants related to IMI Singapore'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.

The loan was paid in full in November 2011.

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 is effective until August 14, 2020, unless mutually terminated by both parties. 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, 2011 and 2010, the current and noncurrent portion of the advances from the local customer follow:

	2011	2010
Total outstanding advances from the local customers	**$2,564,594**	$2,829,335
Less current portion	**260,829**	264,741
Noncurrent portion	**$2,303,765**	$2,564,594

The current portion is included under “Accounts payable and accrued expenses” (see Note 13).

18. Equity

Capital Stock

This account consists of:

	2011		2010		2009	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized - ₱1 par value						
Common	**2,250,000,000**		2,250,000,000		1,500,000,000	
Preferred	**1,500,000,000**		1,500,000,000		1,500,000,000	
Issued - Common						
At beginning of year	**1,352,290,094**	**$24,893,713**	1,137,788,197	$20,267,538	1,137,020,302	$20,253,054
Issuances during the year through stock dividend	**–**	**–**	187,500,000	4,117,259	–	–
Issuances during the year through ESOWN	**1,940,646**	**38,362**	27,001,897	508,916	767,895	14,484
At end of year*	**1,354,230,740**	**$24,932,075**	1,352,290,094	$24,893,713	1,137,788,197	$20,267,538
Issued – Preferred						
At beginning of year	**1,300,000,000**	**$26,601,155**	1,300,000,000	$26,601,155	1,300,000,000	$26,601,155
Issuances during the year	**–**	**–**	–	–	–	–
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, 2011 and 2010 and 15,892,365 shares as of December 31, 2009 pertain to treasury shares.*

The preferred shares have certain features, rights and privileges, which include voting rights, quarterly dividends at a dividend rate of 8.25% 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 October 23, 2009, the SEC approved the registration of 1,268,497,252 common shares of the Parent Company with PhP1.00 par value. As of December 31, 2011, 2010 and 2009, there were 562, 112 and 143 registered common stockholders, respectively.

On April 8, 2010, the Parent Company's BOD approved the increase in its authorized capital stock from ₱3.00 billion to ₱3.75 billion, which shall consist of an additional 750 million common shares with par value of ₱1.00 per share, and the amendment of the Articles of Incorporation to reflect such increase. The Parent Company's BOD also approved the declaration of stock dividends equivalent to 187.5 million common shares to all the subscribed and outstanding common shares of the Parent Company as of the record date to be set by the 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 Philippine Stock Exchange (PSE) immediately prior to the record date.

On August 12, 2010, the SEC approved: (1) increase in the Parent Company's authorized capital stock from ₱3.00 billion to ₱3.75 billion and the amendment in its Articles of Incorporation to reflect the increase, and (2) its payment of 15% stock dividend equivalent to 187.5 million common shares to its stockholders of record as of August 31, 2010. The issuance of the stock dividends was made on September 24, 2010.

Subscribed Capital Stock

Details of this account follow:

	2011		2010		2009	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**90,587,000**	**$1,901,963**	107,898,420	$2,167,895	108,666,315	$2,182,379
Subscriptions during the year						
ESOWN (Note 27)	**–**	**–**	30,885,000	668,506	–	–
EPIQ NV (Note 2)	**200,000,000**	**4,746,084**	–	–	–	–
Issuances during the year						
ESOWN	**(1,940,646)**	**(38,362)**	(27,001,897)	(508,916)	(767,895)	(14,484)
Forfeitures during the year						
ESOWN	**(4,737,168)**	**(102,715)**	(21,194,523)	(425,522)	–	–
At end of year	**283,909,186**	**$6,506,970**	90,587,000	$1,901,963	107,898,420	$2,167,895

As mentioned in Note 2, the consideration for the acquisition of EPIQ shares includes issuance of 200 million of the Parent Company's shares to EPIQ NV. On July 29, 2011, the Parent Company and EPIQ NV executed a subscription agreement for the subscription of the said shares.

Subscriptions Receivable

Details of this account are as follows:

	2011		2010		2009	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**120,987,477**	**$11,411,994**	111,297,000	$10,153,255	111,297,000	$10,439,358
Subscriptions during the year						
(Note 27)	**–**	**–**	30,885,000	3,390,814	–	–
Collections	**–**	**(615,889)**	–	(1,215,793)	–	(40,383)
Accretion (Note 27)	**–**	**427,535**	–	1,913,073	–	(245,720)
Forfeitures	**(4,737,168)**	**(828,440)**	(21,194,523)	(2,829,355)	–	–
At end of year	**116,250,309**	**$10,395,200**	120,987,477	$11,411,994	111,297,000	$10,153,255

Dividends

2011

On February 14, 2011, the Finance Committee of the Parent Company approved the declaration and payment of the first quarter cash dividends of 8.25% per annum or equivalent of $0.61 million to all shareholders of the Parent Company's preferred shares as of record date of February 8, 2011. Payment date was on February 21, 2011. This was ratified by the BOD of the Parent Company on February 23, 2011.

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

	2nd Quarter	3rd Quarter	4th Quarter
Record date	May 9, 2011	August 17, 2011	November 9, 2011
Payment date	May 20, 2011	August 23, 2011	November 22, 2011
Amount	$605,658	$605,658	$605,658

On the same date, the BOD of the Parent Company approved the declaration of regular cash dividend of ₱0.044 per share (aggregating to $1.43 million) to all outstanding common shares as of record date March 9, 2011. This was paid on April 4, 2011.

On December 5, 2011, the BOD of the Parent Company also approved the declaration of the quarterly cash dividends of 8.25% per annum for 2012 on its outstanding preferred shares. The record and payment dates for the cash dividends are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Record date	February 8, 2012	May 9, 2012	August 10, 2012	November 9, 2012
Payment date	February 21, 2012	May 21, 2012	August 23, 2012	November 22, 2012
Amount	$621,229	$607,575	$641,709	$621,229

2010

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

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

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

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 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 dividends 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 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 shares of record as of August 10, 2009. The dividends were paid on August 21, 2009.

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 shares of record as of November 9, 2009. The dividends were paid on November 21, 2009.

Treasury Stock

The movements in the treasury stock follow:

	2011		2010		2009	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**15,892,109**	**$1,012,585**	15,892,365	$1,012,592	15,892,365	$1,012,592
Issuance during the year	**–**	**–**	(300)	(17)	–	–
Acquisition during the year	**–**	**–**	44	10	–	–
At end of year	**15,892,109**	**$1,012,585**	15,892,109	$1,012,585	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.

On February 23, 2011 and December 5, 2011, the BOD of the Parent Company approved the reclassification of appropriated retained earnings to unappropriated retained earnings amounting to $20.00 million and $10.00 million, respectively.

Accumulated net earnings of the subsidiaries amounting to $13.33 million and $9.03 million as of December 31, 2011 and 2010, respectively, are not available for dividend declaration. This accumulated equity in net earnings becomes available for dividend upon receipt of cash dividends from the investees.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2011 amounted to $4.10 million.

19. Cost of Goods Sold and Services

This account consists of:

	2011	2010	2009
Direct, indirect and other material-related costs (Note 7)	**$388,879,422**	$265,483,888	$263,560,759
Direct labor, salaries, wages and employee benefits (Note 26)	**90,847,467**	64,704,176	55,309,521
Depreciation and amortization (Note 9)	**21,698,353**	16,231,694	15,683,663
Facilities costs and others (Note 21)	**35,851,132**	21,432,255	16,357,707
	$537,276,374	$367,852,013	$350,911,650

20. Operating Expenses

This account consists of:

	2011	2010	2009
Salaries, wages and employee benefits (Note 26)	**$28,175,341**	$22,897,063	$16,388,199
Depreciation and amortization (Notes 9 and 11)	**4,080,902**	5,786,993	5,115,969
Facilities costs and others (Note 21)	**20,430,524**	11,539,960	13,667,151
	$52,686,767	$40,224,016	$35,171,319

21. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			**Operating Expenses**		
	2011	2010	2009	**2011**	2010	2009
Utilities	**$12,993,248**	$8,071,258	$6,092,725	**$913,419**	$649,768	$435,802
Repairs and maintenance	**6,189,964**	3,381,890	2,223,681	**974,965**	492,723	486,894
Outsourced activities (Note 29)	**6,008,519**	3,379,122	3,007,146	**6,828,361**	5,549,611	5,360,863
Variable overhead	**2,945,218**	3,616,274	3,682,733	**–**	–	–
Travel	**1,330,336**	192,176	107,774	**1,922,497**	1,496,090	1,423,523
Government-related	**1,262,184**	1,171,785	1,110,324	**1,605,101**	157,017	638,063
Technology-related	**184,563**	41,733	9,343	**1,408,556**	1,063,758	590,429
Provision for doubtful accounts (Note 6)	**–**	–	–	**1,977,541**	1,531,927	58,228
Provision (reversal of provision) for inventory obsolescence	**–**	–	–	**1,029,155**	(1,734,481)	1,322,908
Postal and communication				**869,266**	781,162	683,743
Sales commission	**–**	–	–	**835,092**	556,665	950,279
Insurance	**–**	–	–	**550,173**	262,678	198,652
Promotional materials, representation and entertainment	**–**	–	–	**492,746**	270,215	312,805
Staff house	**–**	–	–	**271,366**	25,844	51,161
Membership fee	**–**	–	–	**182,961**	69,929	99,461
Others	**4,937,100**	1,578,017	123,981	**569,325**	367,054	1,054,340
	$35,851,132	$21,432,255	$16,357,707	**$20,430,524**	$11,539,960	$13,667,151

"Others" include donations, small tools and instruments, spare parts, brokerage charges, freight out, test material and copying expenses.

22. Interest Expense and Bank Charges

This account consists of:

	2011	2010	2009
Interest expense (Notes 15 and 16)	**$2,344,807**	$942,202	$1,739,827
Bank charges	**155,191**	94,727	47,639
	$2,499,998	$1,036,929	$1,787,466

23. Interest Income

This account consists of:

	2011	2010	2009
Interest on bank balances and fixed deposits (Note 5)	**$299,849**	$333,798	$676,847
Accretion of Meralco receivable (Note 6)	**15,671**	18,780	46,414
	$315,520	$352,578	$723,261

24. 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. In 2011, there are two remaining project activities with ITH entitlement which will expire in 2013. Upon the expiration of the ITH, the Parent Company will be subject to a five percent (5%) final tax on gross income earned after certain allowable deductions in lieu of payment of national and local taxes.

PSi
PSi is 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 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.

On February 17, 2011, the BOD of PEZA approved, through Resolution No. 11-073, the application of the PSi for the registration of its new activity, particularly the manufacture of Power Modules semiconductor products (New Activity). The New Activity shall be entitled to incentives granted to non-pioneer projects under RA No. 7916, as amended, as indicated in the Supplemental Agreement between the Company and PEZA executed on April 6, 2011.

ITH incentives availed in 2011 amounted to $11,079.

STHK and Monarch
Hong Kong profits tax has been provided at the rate of 16.50% for the years ended December 31, 2011 and 2010, 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% for the years ended December 31, 2011 and 2010 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 seventh profitable year, and hence is subject to taxation at the rate of 25% in 2011 and 2010 on the taxable income as reported in the financial statements of STJX prepared in accordance with the accounting regulations in the PRC.

STCQ is entitled to full exemption from EIT for the first five (5) years, commencing from the first profitable year, that is after all tax losses have been fully offset in accordance with the "Income Tax 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.

Cooperatief
Taxation is calculated on the reported pre-tax result, at the prevailing tax rates, taking account of any losses carried forward from previous financial years (if applicable) and tax-exempt items and non-deductible expenses and using tax facilities.

IMI France
Income tax is computed based on the income earned by the corporation during the calendar year. Losses may be carried forward with no time limit. On certain conditions, losses may be carried back one year. The tax rate applicable is 33.33% based on net profits.

EPIQ EA
Income taxes are calculated in accordance with the Bulgarian legislation, and the effect of the current and deferred income taxes is reported. The current income tax is calculated based on the taxable income for tax purposes. The nominal tax rate is 10%.

EPIQ MX
EPIQ MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in the results of the year they are incurred. Income tax rate for 2011 is 30%. Business Flat Tax is calculated on a cash flow basis whereby the tax base is determined by reducing taxable income with certain deductions and credits. The applicable Business Flat Tax rate is 17.5%.

Income tax incurred will be the higher of Income Tax and Business Flat Tax.

EPIQ CZ
Income tax due is calculated by multiplication of the tax base and the rate as defined by the income tax law. The tax base comprises the book income from operations which is increased or decreased by permanently or temporarily tax-decreasing costs and tax-deductible revenues (e.g. creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate is 19%.

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

	2011	2010	2009
Income before income tax	**$5,945,599**	$7,822,169	$15,161,369
Tax on:			
Income from foreign subsidiaries	**3,431,467**	3,085,736	4,906,082
Income subject to 5% gross income tax	**741,540**	324,316	189,422
Income subject to regular tax	**3,939**	4,077	16,696
Others	**916**	46	–
Current income tax expense	**4,177,862**	3,414,175	5,112,200
Deferred income tax expense (benefit)	**476,224**	(6,651)	(81,012)
Effective income tax	**$4,654,086**	$3,407,524	$5,031,188

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

The reconciliation of the statutory income tax rate to the effective income tax rate of the Group follows:

	2011	2010	2009
Statutory income tax	**30.00%**	30.00%	30.00%
Tax effects of:			
Income subject to income tax holiday	**12.60%**	50.87%	(7.86%)
Income subject to gross income tax	**(28.54%)**	(14.07%)	(6.25%)
Interest income subjected to final tax	**(0.90%)**	(0.54%)	(1.22%)
Nondeductible expenses	**106.75%**	(13.75%)	7.31%
Difference in tax jurisdiction	**(41.63%)**	(8.95%)	11.20%
Provision for income tax	**78.28%**	43.56%	33.18%

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

	2011	2010
Deferred income tax assets:		
Allowance for inventory obsolescence	**$111,275**	$386,104
Revaluation of fixed assets of subsidiaries	**444,245**	–
Unutilized business losses	**–**	556,000
Others	**188,072**	54,386
	743,592	996,490
Deferred income tax liabilities:		
Revaluation of fixed assets of subsidiaries	**(3,966,754)**	(205,414)
Unrealized mark-to-market gains from put and call option	**(820,748)**	–
Excess of net book value over tax written-down value of fixed assets of subsidiaries	**(9,988)**	(672,988)
Others	**(12,668)**	(2,920)
	(4,810,158)	(881,322)
Net deferred tax assets (liabilities)	**($4,066,566)**	$115,168

As of December 31, 2011, deferred income tax assets on accrued retirement obligations, excess of cost over NRV of inventories, MCIT, and unrealized foreign exchange losses of PSi aggregating to $6.21 million have not been recognized due to uncertainty of its recoverability.

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

Details of PSi's NOLCO and MCIT follow:

Inception Year	Expiry Year	NOLCO	MCIT
2009	2012	$28,516	$870
2010	2013	402,265	46
2011	2014	342	–
		$431,123	$916

25. Earnings per Share

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

	2011	2010	2009
Net income	**$3,289,314**	$4,738,929	$10,065,517
Less dividends on preferred stock (Note 18)	**2,477,852**	2,360,119	2,251,226
	$811,462	$2,378,810	$7,814,291
Weighted average number of common shares outstanding	**1,526,590,221**	1,337,038,223	1,229,749,252
Basic and Diluted EPS	**$0.001**	$0.002	$0.006

As of December 31, 2011, 2010 and 2009, the Parent Company has no dilutive potential common shares.

26. Employee Benefits

The Parent Company, PSi and EPIQ EA have defined benefit pension plans covering substantially all of their employees, which require contributions to be made to administered funds. The plans are administered by local banks as trustees. The latest retirement valuation was made on December 31, 2011.

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

	2011	2010	2009
Current service cost	**$1,497,897**	$630,577	$535,987
Interest cost on benefit obligation	**1,095,671**	583,682	703,313
Curtailment loss	**160,619**	146,377	8,274,802
Settlement gain	**166,774**	136,079	(3,229,952)
Amortization of actuarial loss (gains)	**133,506**	(55,578)	(108,734)
Benefits paid due to settlement	**(23,837)**	–	(5,085,413)
Expected return on plan assets	**(1,178,866)**	(992,574)	(1,502,793)
Net defined benefit expense (income)	**$1,851,764**	$448,563	($412,790)

Net pension asset

	2011	2010
Plan assets	**$12,185,092**	$12,812,771
Benefit obligation	**(15,629,752)**	(14,145,445)
Underfunded	**(3,444,660)**	(1,332,674)
Unrecognized net actuarial losses	**4,922,537**	2,711,374
Foreign currency exchange difference	**–**	(6,020)
Net pension asset	**$1,477,877**	$1,372,680

These are presented in the consolidated balance sheets as follows:

	2011	2010
Pension asset		
Parent Company	**$2,807,134**	$2,765,675
Pension liabilities		
PSi	**$1,086,610**	$1,392,995
EPIQ EA	**242,647**	–
	$1,329,257	$1,392,995
Net pension asset	**$1,477,877**	$1,372,680

As of December 31, 2010, 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”. This was fully paid in 2011 (see Note 13).

The Group does not expect to contribute to the retirement fund in 2012, based on the assumption that the projected income from the outstanding plan assets will compensate the underfunded status of the retirement plan.

Movements in the net pension asset of the Parent Company for the years ended December 31, 2011 and 2010 follow:

	2011	2010
At beginning of year	**$2,765,675**	$2,866,220
Foreign currency exchange difference	**1,059,834**	–
Benefits paid due to settlement	**–**	246,382
Net benefit expense	**(1,018,375)**	(346,927)
At end of year	**$2,807,134**	$2,765,675

Movements in the net pension liability of PSi for the years ended December 31, 2011 and 2010 follow:

	2011	2010
At beginning of year	$1,392,995	$–
Benefits paid due to settlement	(1,111,767)	(141,237)
Net benefit expense	815,334	101,636
Foreign currency exchange difference	(9,952)	–
Additions through business combination	–	1,432,596
At end of year	$1,086,610	$1,392,995

Movements in the net pension liability of EPIQ EA for the five-month period ended December 31, 2011:

Balance upon acquisition	$220,123
Net benefit expense	18,055
Foreign currency exchange difference	4,469
At end of year	$242,647

The rollforward of the fair value of plan assets follows:

	2011	2010
At beginning of year	**$12,812,771**	$10,997,452
Expected return on plan assets	**1,178,866**	992,574
Benefits paid during the year	**(1,129,315)**	(351,715)
Actuarial gains (losses)	**(684,909)**	476,306
Foreign currency exchange difference	**7,679**	614,490
Additions through business combination	**–**	359,215
Settlements	**–**	(275,551)
At end of year	**$12,185,092**	$12,812,771
Actual return on plan assets	**$484,101**	$1,582,728

The rollforward of the present value of obligation follows:

	2011	2010
At beginning of year	**$14,145,445**	$5,294,481
Benefits paid during the year	**(1,513,280)**	(351,715)
Current service cost	**1,497,897**	630,577
Interest cost on benefit obligation	**1,095,671**	583,682
Settlements	**(555,234)**	(521,933)
Actuarial loss	**528,960**	5,499,387
Curtailments	**238,797**	198,001
Additions through business combination	**220,123**	2,509,270
Foreign currency exchange difference	**(28,627)**	439,176
Unpaid obligations	**–**	(135,481)
At end of year	**$15,629,752**	$14,145,445

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

	2011	2010	2009
At beginning of year	**($2,711,374)**	$2,836,751	$6,239,724
Foreign currency exchange difference	**(965,914)**	137,554	248,376
From plan assets	**(684,909)**	476,306	(24,130)
From pension obligation	**(528,960)**	(5,499,387)	(2,469,731)
Recognized actuarial gain due to settlement	**159,912**	136,079	(3,229,952)
Recognized actuarial loss due to curtailment	**(64,551)**	(51,624)	2,181,198
Amortization of actuarial gain	**(133,506)**	(55,578)	(108,734)
Additions through business combinations	**6,765**	(691,475)	–
At end of year	**($4,922,537)**	($2,711,374)	$2,836,751

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

	2011	2010
Government securities	**$7,560,086**	$7,184,652
Corporate bonds	**1,608,780**	1,120,172
Equities	**1,081,823**	2,011,537
Loans	**1,032,678**	907,199
Trust funds	**670,448**	435,834
Investment properties	**221,556**	293,072
Cash	**26**	263
Others	**47,574**	877,273
Liabilities	**(37,879)**	(17,231)
Total plan assets	**$12,185,092**	$12,812,771

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

As of December 31, 2011, the plan assets include shares of stock, corporate bonds and deposit instruments of related parties (primarily Ayala Corporation, Ayala Land Inc. and Bank of the Philippine Islands) with total fair value amounting to $0.64 million, $0.24 million and $0.21 million, respectively.

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.

The expected rates of return on the plan assets follow:

	2011	2010
Treasury bills	**5.09%**	3.88%
Equities	**1.61%-1.84%**	1.89%
Corporate bond	**2.08%**	3.37%-7.75%
Others	**0.00%**	1.29%

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, PSi and EPIQ EA are shown below:

	2011	2010
Discount rate	**6.20%-7.00%**	7.75%-8.00%
Expected rate of return on plan assets	**7.25%-9.00%**	7.75%-9.00%
Rate of salary increase	**5.00%-7.00%**	5.00%-7.00%

The deficit in the plan and the economic benefit available as a reduction in future contributions amounted to $3.44 million and nil, respectively, in 2011, and $1.33 million and $18.96 million, respectively, in 2010.

Amounts for the current and previous years follow:

	2011	2010	2009	2008	2007
Plan assets	**$12,185,092**	$12,812,771	$10,997,452	$13,282,258	$17,686,769
Defined benefit obligation	**15,629,752**	14,145,445	5,294,481	4,589,104	14,668,084
Surplus (Deficit)	**($3,444,660)**	($1,332,674)	$5,702,971	$8,693,154	$3,018,685
Experience adjustments on plan assets	**($684,909)**	($489,126)	$409,922	$2,721,023	$310,017
Experience adjustments on plan liabilities	**$1,919,560**	$461,141	$832,013	$4,720,473	$2,885,346

The Parent Company's subsidiaries, excluding PSi and EPIQ EA, participate in their respective national pension schemes which are considered as defined contribution plans. The retirement expenses of these subsidiaries are allocated as follows:

	2011	2010	2009
Cost of goods sold and services (Note 19)	**$1,072**	$1,127	$1,331
Operating expenses (Note 20)	**316,043**	284,843	203,971
	$317,115	$285,970	$205,302

The retirement expenses (income) of the Group are recorded under "Salaries, wages, and employee benefits." Salaries, wages, and employee benefits follow:

	2011	2010	2009
Wages and salaries	**$106,227,793**	$79,920,925	$61,858,084
Social security costs	**1,652,411**	1,392,817	1,396,967
Retirement expense (income) under defined benefit plans	**1,851,764**	448,563	(412,790)
Retirement expense under defined contribution plans	**317,115**	285,970	205,971
Others	**8,973,725**	5,552,964	8,649,488
	$119,022,808	$87,601,239	$71,697,720

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

Salaries, wages, and employee benefits are allocated as follows:

	2011	2010	2009
Cost of goods sold and services (Note 19)	**$90,847,467**	$64,704,176	$55,309,521
Operating expenses (Note 20)	**28,175,341**	22,897,063	16,388,199
	$119,022,808	$87,601,239	$71,697,720

27. 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 in an extension of the payment period from eight (8) to ten (10) years. This extension resulted in a net reversal of accretion amounting to $0.25 million in 2009. The outstanding shares under this grant have fully vested in September 2010.

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

Movements in the number of shares outstanding under ESOWN for the years ended December 31, 2011 and 2010 follow:

	2011		2010	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
At January 1	**120,987,477**	**₱6.59**	111,297,000	₱6.88
Granted	**–**	**–**	30,885,000	5.54
Forfeitures	**(4,737,168)**	**6.59**	(21,194,523)	6.59
At December 31	**116,250,309**	**₱6.59**	120,987,477	₱6.59

The employee benefit expense in 2011, 2010 and 2009 amounted to $0.67 million, $1.93 million and $0.51 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 2011, 2010 and 2009 amounted to $0.43 million, $1.91 million, and ($0.25) million, respectively (see Note 18).

28. 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.

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The following tables present revenue and profit information regarding the Group's geographical segments for the years ended December 31, 2011, 2010 and 2009.

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

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

December 31, 2009	Philippines	Singapore/ China	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 interest expense	$950,821	$834,650	$536	$1,459	$–	$1,787,466
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

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

For the year ended December 31, 2011, the operating income (loss) and profit (loss) before and after income tax for each operating segment includes net profit from inter-segment revenues aggregating to $8.03 million and inter-segment cost of sales and operating expenses aggregating to $0.08 million and $6.71 million, respectively.

For the year ended December 31, 2010, the operating income (loss) and profit (loss) before and after income tax for each operating segment includes 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 $5.88 million, respectively.

For the year ended December 31, 2009, the operating income (loss) and profit (loss) before and after tax for each operating segment includes 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 $3.02 million, respectively.

The following table presents segment assets of the Group's geographical segments as of December 31, 2011 and 2010.

	Philippines							
	Parent Company	**PSi**	**Singapore/China**	**Europe/Mexico**	**USA**	**Japan**	**Consolidation And Eliminations**	**Total**
December 31,2011	**$245,450,884**	**$28,859,573**	**$207,481,985**	**$113,564,811**	**$2,821,955**	**$889,596**	**($154,376,510)**	**$444,692,294**
December 31,2010, as restated (see Note 2)	$217,873,378	$36,518,323	$204,766,409	$–	$2,804,323	$1,778,955	($124,658,280)	$339,083,108

Segment assets as of December 31, 2011 do not include investments in subsidiaries amounting to $129.53 million and inter-segment loans and receivables amounting to $32.21 million which are eliminated on consolidation. Furthermore, goodwill arising from the acquisition of PSi and EPIQ CZ amounting to $7.48 million (net of impairment loss of $2.72 million) and $0.65 million are recognized at consolidated level.

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 $10.20 million is recognized at consolidated level.

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

	Revenues from External Customers			Noncurrent Assets	
	2011	2010	2009	**2011**	2010
Philippines	**$69,646,659**	$73,948,544	$132,958,167	**$45,366,664**	$54,298,943
Europe	**284,763,474**	153,701,402	106,543,852	**40,891,989**	–
USA	**139,314,874**	101,406,122	80,232,365	**1,200,195**	1,246,318
Asia	**72,609,453**	67,921,099	54,385,497	**71,656,878**	76,398,853
Japan	**9,119,448**	15,349,438	21,382,400	**78,418**	25,386
	$575,453,908	$412,326,605	$395,502,281	**$159,194,144**	$131,969,500

Revenues are attributed to countries on the basis of the customer's location. In 2011, no revenue of a specific customer reached 10% of the Group's total revenue. For the years ended December 31, 2011, 2010 and 2009, one customer from the Philippine segment accounts for $47.06 million or 8.18%, $42.74 million or 10.37% and 76.41 million or 19% of the Group's total revenues, respectively.

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

The following table presents revenues per product type:

	2011	2010	2009
Consumer	**$114,272,192**	$91,000,340	$80,821,637
Telecom	**109,859,417**	112,253,127	158,902,456
Automotive	**106,497,849**	36,604,125	23,536,006
Industrial	**102,569,175**	80,627,459	68,093,382
Multiple Market	**83,417,526**	26,423,871	6,019,939
Computer Peripherals	**32,627,483**	36,822,362	36,863,625
Medical	**22,451,137**	24,594,396	17,722,737
Others	**3,759,129**	4,000,926	3,542,500
Total	**$575,453,908**	$412,326,606	$395,502,282

29. Lease Commitments

Finance Lease Agreements - 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.

EPIQ EA has various finance lease contracts with Interlease AD related to its machinery and production equipment with terms of 3 to 5 years and final repayment dates between 2012 and 2016. The leases are subject to interest rates of 3-month Euribor plus 2% to 4%.

EPIQ CZ has various finance lease contracts related to its machinery and production equipment and transportation equipment with terms of 5 to 10 years and final repayment dates between 2013 and 2016. The leases of machinery and equipment are subject to interest rates ranging from 5.90% to 7.41% per annum. The lease of transportation equipment is subject to interest of 12.26% per annum.

Future minimum lease payments are as follows:

	2011	
	Minimum payments	**Present value of payments**
Within one year (Note 13)	**$787,247**	**$801,777**
After one year but not more than five years	**625,340**	**612,724**
Total minimum lease payments	**$1,412,587**	**$1,414,501**

	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

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. On January 2, 2012, the Parent Company again extended the lease contract for another three years commencing January 2, 2012 up to December 31, 2015. The lease contract is renewable at the option of 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 $1,642 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. The difference between the prepaid rental payments and straight line rental expenses resulted to prepayment of nil and $0.15 million as of December 31, 2011 and 2010, respectively, which is recorded as part of “Prepayments” under “Other current assets” in the consolidated balance sheets.

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 inclusive of tax and monthly maintenance fee of ¥35,070 inclusive of tax. The lease agreement provides for automatic renewal of the lease contract unless prior notice of termination is given to the lessor.

IMI USA

On July 17, 2008, IMI USA entered into 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.

PSi
PSi has a 15-year non-cancellable operating lease agreement with Food Terminal, Inc. (FTI) for its 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 $0.91 million and $0.89 million as of December 31, 2011 and 2010, respectively, which is recorded under “Accrued rent” in the consolidated balance sheets.

Moreover, PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna 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 and the contract was extended up to March 2013. 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, 2011 and 2010 follow:

	2011	2010
Within one year	**$2,113,206**	$2,419,772
After one year but not more than five years	**1,743,440**	5,220,618
More than five years	**3,081,319**	3,607,709
	$6,937,965	$11,248,099

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, 2011, 2010 and 2009 amounted to $1.00 million, $1.09 million and $1.88 million, respectively (see Note 21). Deposits made under these operating lease agreements are intended to be applied against the remaining lease payments.

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 Parent Company and the lessees for a period of one month from August 1 to 31, 2010. The monthly rental has been amended to ₱543.83 per square meter. In addition, the lessees have the option to renew the extended lease under the same terms and conditions, for a month-to-month tenancy basis for 12 months until August 31, 2011. The renewal option was exercised by the lessees for which the term of the lease has been extended to March 15, 2011. The lease income amounted to $1,899, $17,376 and $8,483 in 2011, 2010 and 2009, respectively, recognized under “Miscellaneous income” in the consolidated statements of comprehensive income.

30. Related Party Transactions

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

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		
			2011	2010	**2011**	2010	2009
Bank of the Philippine Islands (BPI)	Affiliate	Cash and cash equivalents	**$3,753,709**	$2,029,657	**$–**	$–	$–
		Nontrade receivable	**201,726**	70,504	**–**	–	–
		Nontrade payable	**33,262**	1,698	**–**	–	–
		Derivative asset	**1,317**	15,283	**–**	–	–
		Gains on derivatives	–	–	**241,968**	95,540	–
		Interest income	–	–	**10,402**	11,938	91,569
AG Counselors Corporation (AGCC)	Affiliate	Nontrade payable	–	718	–	–	–
		Professional and service fees	–	–	**110,786**	209,743	2,969
Technopark Land, Inc (TLI)	Affiliate	Nontrade receivable	**9,377**	7,682	–	–	–
Innove Communications, Inc. (ICI)	Affiliate	Nontrade payable	**446**	67,102	–	–	–
		Postal and communication	–	–	**161,624**	202,143	286,541
		Building rental	–	–	**42,327**	–	–
Globe Telecom, Inc. (GTI)	Affiliate	Nontrade payable	**2,931**	3,828	–	–	–
		Postal and communication	–	–	**88,248**	94,926	95,029

a. As of December 31, 2011, the Parent Company has savings and current accounts and short-term deposits with BPI amounting to $411,556 and $3,342,153, respectively. 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. Total interest income earned from investments with BPI amounted to $10,402, $11,938, and $91,569 in 2011, 2010 and 2009, respectively.

b. As of December 31, 2011 and 2010, 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 $33,262 and $1,698 as of December 31, 2011 and 2010, 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. The Parent Company has outstanding short-term foreign currency forwards with BPI amounting to $1,317 and $15,283 as of December 31, 2011 and 2010, respectively.

e. As of December 31, 2011 and 2010, certain plan assets of the Parent Company under its retirement fund with BPI are invested with its related parties (see Note 26).

f. The Parent Company engages AGCC, an affiliate, for corporate secretarial services subject to a monthly fee of ₱40,000. As of December 31, 2011 and 2010, payable to AGCC amounted to nil and $718, respectively. These are due and demandable.

g. The Parent Company has nontrade receivable from TLI, an affiliate, amounting to $9,377 and $7,682 as of December 31, 2011 and 2010, respectively, which pertains to advances by the Parent Company for various expenses incurred by TLI, primarily on real property taxes and corporate secretarial services.

h. The Parent Company has nontrade payables to Innove Communications, Inc., an affiliate, amounting to $446 and $67,102 as of December 31, 2011 and 2010, respectively, which pertains to billings on building rental, leased lines, internet connections and ATM connections. These are due and demandable. Related expense for 2011, 2010 and 2009, amounted to $203,951, $202,143 and $286,541, respectively.

i. As of December 31, 2011 and 2010, the Parent Company’s accounts payable to GTI, an affiliate, amounted to $2,931 and $3,828 for the purchase of Blackberry software and billings for cellphone charges and WiFi

connections. These are due and demandable. Related expense for 2011, 2010 and 2009, amounted to $88,248, $94,926 and $95,029, respectively.

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

	2011	2010
Short-term employee benefits	**$5,275,504**	$4,973,639
Post-employment benefits	**387,529**	447,949
Share-based payments	**208,877**	596,826
	$5,871,910	$6,018,414

31. **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, 2011 and 2010. There are no material unrecognized financial assets and liabilities as of December 31, 2011 and 2010.

	Carrying Value		**Fair Value**	
	2011	2010	**2011**	2010
Financial Assets				
Cash and cash equivalents	**$54,069,180**	$38,134,743	**$54,069,180**	$38,134,743
Loans and receivables				
Trade	**125,627,316**	95,513,159	**125,627,316**	95,513,159
Nontrade	**4,208,832**	3,656,169	**4,208,832**	3,656,169
Receivable from employees	**1,811,210**	707,172	**1,811,210**	707,172
Due from related parties	**211,103**	78,186	**211,103**	78,186
Receivable from insurance	**27,903**	657,849	**27,903**	657,849
Short-term investments	**–**	2,000,000	**–**	2,000,000
Receivable from Meralco	**–**	549,923	**–**	549,923
Others	**1,790,216**	1,094,720	**1,790,216**	1,094,720
Noncurrent receivables	**213,577**	184,179	**195,848**	176,034
Miscellaneous deposits	**1,498,225**	1,467,268	**1,498,225**	1,467,268
Loans and receivables	**189,457,562**	144,043,368	**189,439,833**	144,035,223
AFS financial assets	**414,348**	382,527	**414,348**	382,527
Derivative assets	**2,798,912**	1,693,121	**2,798,912**	1,693,121
Total Financial Assets	**$192,670,822**	$146,119,016	**$192,653,093**	$146,110,871
Financial Liabilities				
Derivative liabilities	**$34,562**	$3,832,474	**$34,562**	$3,832,474
Other financial liabilities				
Accounts payable and accrued expenses				
Trade payables	**99,199,121**	71,090,278	**99,199,121**	71,090,278
Accrued expenses	**25,648,519**	16,254,068	**25,648,519**	16,254,068
Nontrade payables	**4,700,640**	980,520	**4,700,640**	980,520
Accrued payroll	**4,538,123**	3,563,987	**4,538,123**	3,563,987
Dividends payable	**2,538,556**	–	**2,538,556**	–
Obligation under finance lease - current	**801,777**	1,209,960	**801,777**	1,209,960
Employee-related payables	**169,596**	131,265	**169,596**	131,265
Accrued interest payable	**675,863**	60,919	**675,863**	60,919
Due to related parties	**36,639**	73,346	**36,639**	73,346
Others	**2,085,326**	4,316,330	**2,085,326**	4,316,330
Trust receipts and loans payable	**39,008,811**	17,921,638	**39,008,811**	17,921,638
Provisions	**249,044**	–	**249,044**	–
Long-term debt	**60,398,500**	38,000,000	**60,917,515**	38,000,000
Accrued rent	**913,688**	894,088	**622,298**	534,738
Obligation under finance lease - noncurrent	**612,724**	118,313	**541,528**	110,202
Other long-term employee benefits	**230,704**	372,084	**230,704**	372,084
	241,807,631	154,986,796	**241,964,060**	154,619,335
Total Financial Liabilities	**$241,842,193**	$158,819,270	**$241,998,622**	$158,451,809

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 4.36% and 4.56% in 2011 and 2010, respectively.

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

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

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

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

Long-term debt - The fair value of long-term debt that is 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 ranged from 2.10% to 3.90% in 2011. 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.

Accrued rent - The fair value are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used range from 3.68% to 7.03% and 4.55% to 7.91% in 2011 and 2010, respectively.

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 2.00% to 12.26% in 2011.

Other long-term employee benefits - The fair value approximates the accrual that was discounted using the assumptions and method used in discounting the retirement benefits obligation.

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

Level 1: Quoted prices in active markets for identical assets or liabilities;
Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
Level 3: Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the Group's financial instruments carried at fair value as of December 31, 2011 and 2010, based on fair value hierarchy:

	Level 1	Level 2	Level 3
2011			
AFS financial assets	**$414,348**	**$–**	**$–**
Derivative assets			
Currency forwards	**–**	**63,087**	**–**
Call option	**–**	**–**	**2,735,825**
Derivative liabilities			
Currency forwards	**–**	**34,562**	**–**
Put option	**–**	**–**	**–**
	$414,348	**$97,649**	**$2,735,825**

(Forward)

	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

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%.

	2011	2010
	Increase (Decrease) in Net Income	Increase (Decrease) in Net Income
Estimated EBITDA is 5% higher		
Call option	**($271,472)**	($116,673)
Put option	**–**	(499,093)
Estimated EBITDA is 5% lower		
Call option	**161,879**	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%.

	2011	2010
	Increase (Decrease) in Net Income	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

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

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

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

The Group's risk management policies are summarized below:

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings) as of December 31, 2011 and 2010. 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	**2011**	2010
+100	**($510,662)**	($380,000)
-100	**510,662**	380,000

The following table shows the information about the Group's financial instruments as of December 31, 2011 and 2010 that are exposed to interest rate risk presented by maturity profile.

	Long-Term Debt	
	2011	2010
Within one year	**$11,066,203**	$38,000,000
1-2 years	**40,000,000**	–
	$51,066,203	$38,000,000

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.

2011

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial assets					
Cash and cash equivalents	**$36,507,003**	**$17,562,177**	**$–**	**$–**	**$54,069,180**
Financial liabilities					
Derivative liabilities	**–**	**34,562**	**–**	**–**	**34,562**
Accounts payable and accrued expenses					
Trade payables	**–**	**99,199,121**	**–**	**–**	**99,199,121**
Accrued expenses	**–**	**25,648,519**	**–**	**–**	**25,648,519**
Nontrade payables	**–**	**4,700,640**	**–**	**–**	**4,700,640**
Accrued payroll	**–**	**4,538,123**	**–**	**–**	**4,538,123**
Dividends payable	**–**	**–**	**2,538,556**	**–**	**2,538,556**
Obligation under finance lease - current	**–**	**–**	**801,777**	**–**	**801,777**
Employee-related payables	**–**	**169,596**	**–**	**–**	**169,596**
Accrued interest payable	**–**	**675,863**	**–**	**–**	**675,863**
Due to related parties	**–**	**36,639**	**–**	**–**	**36,639**
Others	**–**	**2,085,326**	**–**	**–**	**2,085,326**
Trust receipt and loans payable	**–**	**–**	**39,008,811**	**–**	**39,008,811**
Provisions	**–**	**249,044**	**–**	**–**	**249,044**
Long-term debt	**–**	**–**	**–**	**65,361,624**	**65,361,624**
Accrued rent	**–**	**–**	**–**	**913,688**	**913,688**
Obligation under finance lease - noncurrent	**–**	**–**	**–**	**621,393**	**621,393**
Other long-term employee benefit	**–**	**–**	**–**	**230,704**	**230,704**
	–	**137,337,433**	**42,349,144**	**67,127,409**	**246,813,986**
	$36,507,003	**($119,775,256)**	**($42,349,144)**	**($67,127,409)**	**($192,744,806)**

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					
Derivative liabilities	3,832,474	–	–	–	3,832,474
Accounts payable and accrued expenses					
Trade payables	–	71,090,278	–	–	71,090,278
Accrued expenses	–	16,254,068	–	–	16,254,068
Nontrade payables	–	980,520	–	–	980,520
Accrued payroll	–	3,563,987	–	–	3,563,987
Obligation under finance lease - current	–	–	1,219,430	–	1,219,430
Employee-related payables	–	131,265	–	–	131,265
Accrued interest payable	–	60,919	–	–	60,919
Due to related parties	–	73,346	–	–	73,346
Others	–	4,316,330	–	–	4,316,330
Trust receipts and loans payable	–	10,029,250	8,106,522	–	18,135,772
Long-term debt	–	–	38,427,318	–	38,427,318
Accrued rent	–	–	–	894,088	894,088
Obligation under finance lease - noncurrent	–	–	–	119,987	119,987
Other long-term employee benefit	–	–	–	372,084	372,084
	3,832,474	106,499,963	47,753,270	1,386,159	159,471,866
	$21,061,541	($93,529,235)	($45,753,270)	($1,386,159)	($119,337,123)

Credit Lines
The Group has credit lines with different financing institutions as at December 31, 2011 and 2010, as follows:

2011

Financial Institutions	**Credit Limit**	**Available Credit Line**
Local:		
U.S. Dollar	**36,000,000**	**36,000,000**
Philippine Peso	**1,060,000,000**	**1,060,000,000**
Singapore Dollar	**30,000,000**	**28,713,951**
Czech Koruna	**4,000,000**	**958,404**
Euro	**9,500,000**	**947,915**
Foreign:		
U.S. Dollar	**$8,500,000**	**7,296,486**
Singapore Dollar	**30,000,000**	**28,713,951**

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

Credit risk
Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's major credit risk exposure relates primarily to its holdings of cash and cash equivalents and short-term investments and receivables from customers and other third parties. Credit risk management involves dealing with institutions for which credit limits have been established. The treasury policy sets credit limits for each counterparty. The Group trades only with recognized, creditworthy third parties. The Group has a well-defined credit policy and established credit procedures. The Group extends credit to its customers consistent with sound credit practices and industry standards. The Group deals only with reputable, competent and reliable

customers who pass the Group's credit standards. The credit evaluation reflects the customer's overall credit strength based on key financial and credit characteristics such as financial stability, operations, focus market and trade references. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group's maximum exposure to credit risk for the components of the consolidated balance sheets as at December 31, 2011 and 2010 is the carrying amounts as illustrated in Note 31 except for cash and cash equivalents. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

The Group has 36% and 51% of trade receivables relating to three (3) major customers as of December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010, the aging analysis of loans and receivables, noncurrent receivables and miscellaneous deposits follows:

2011

		Neither past due nor	Past due but not impaired					Specifically
	Total	**impaired**	**<30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**	**Impaired**
Trade	**$127,744,520**	**$105,979,396**	**$11,232,980**	**$3,841,339**	**$1,212,561**	**$624,467**	**$2,736,573**	**$2,117,204**
Nontrade	**4,292,680**	**2,126,197**	**1,313,161**	**286,195**	**415,902**	**67,377**	**–**	**83,848**
Receivable from insurance	**1,230,038**	**–**	**–**	**–**	**–**	**–**	**27,903**	**1,202,135**
Receivable from employees	**1,811,210**	**967,651**	**607,422**	**107,833**	**23,555**	**2,640**	**102,109**	**–**
Due from related Parties	**211,103**	**211,103**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**1,790,216**	**–**	**1,318,465**	**68,271**	**167,642**	**110,462**	**125,376**	**–**
	$137,079,767	**$109,284,347**	**$14,472,028**	**$4,303,638**	**$1,819,660**	**$804,946**	**$2,991,961**	**$3,403,187**
Noncurrent receivables	**$213,577**	**$213,577**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**
Miscellaneous deposits	**$1,498,225**	**$1,498,225**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**

2010

		Neither past due nor	Past due but not impaired					Specifically
	Total	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	3,704,483	2,236,409	666,051	753,709	–	–	–	48,314
Receivable from insurance	1,859,984	657,849	–	–	–	–	–	1,202,135
Receivable from employees	707,172	333,154	250,293	72,911	12,191	30,291	8,332	–
Due from related parties	78,186	78,186	–	–	–	–	–	–
Short-terminvestments	2,000,000	2,000,000	–	–	–	–	–	–
Receivable from meralco	549,923	549,923	–	–	–	–	–	–
Others	1,094,720	174,530	841,477	52,281	22,191	–	4,241	–
	$105,623,714	$85,581,233	$7,777,872	$989,601	$321,228	$77,111	$9,510,133	$1,366,536
Noncurrent receivables	$184,179	$184,179	$–	$–	$–	$–	$–	$–
Miscellaneousdeposits	$1,467,268	$1,467,268	$–	$–	$–	$–	$–	$–

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2011 and 2010:

2011

	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	**Average Risk**	**Fairly High Risk**	**High Risk**	**Individually Impaired**	**Total**
Cash and cash equivalents	**$53,965,197**	**$–**	**$–**	**$–**	**$–**	**$53,965,197**
Loans and receivables						
Trade	**96,874,571**	**6,484,107**	**1,150,880**	**1,469,838**	**21,765,124**	**127,744,520**
Nontrade	**2,126,197**	**–**	**–**	**–**	**2,166,483**	**4,292,680**
Receivable from insurance	**–**	**–**	**–**	**–**	**1,230,038**	**1,230,038**
Receivable from employees	**967,651**	**–**	**–**	**–**	**843,559**	**1,811,210**
Due from related parties	**211,103**	**–**	**–**	**–**	**–**	**211,103**
Others	**–**	**–**	**–**	**–**	**1,790,216**	**1,790,216**
AFS financial assets	**414,348**	**–**	**–**	**–**	**–**	**414,348**
Noncurrent receivables	**213,577**	**–**	**–**	**–**	**–**	**213,577**
Miscellaneous deposits	**1,498,225**	**–**	**–**	**–**	**–**	**1,498,225**
	$156,270,869	**$6,484,107**	**$1,150,880**	**$1,469,838**	**$27,795,420**	**$193,171,114**

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	$38,021,376	$–	$–	$–	$–	$38,021,376
Loans and receivables						
Trade	54,682,891	20,951,727	2,974,036	942,528	16,078,064	95,629,246
Nontrade	2,236,409	–	–	–	1,468,074	3,704,483
Short-term investments	2,000,000	–	–	–	–	2,000,000
Receivable from insurance	657,849	–	–	–	1,202,135	1,859,984
Receivable from employees	333,154	–	–	–	374,018	707,172
Due from related parties	78,186	–	–	–	–	78,186
Receivable from Meralco	549,923	–	–	–	–	549,923
Others	174,530	–	–	–	920,190	1,094,720
AFS financial assets	382,527	–	–	–	–	382,527
Noncurrent receivables	184,179	–	–	–	–	184,179
Miscellaneous deposits	1,467,268	–	–	–	–	1,467,268
	$100,768,292	$20,951,727	$2,974,036	$942,528	$20,042,481	$145,679,064

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 2011 and 2010, 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 37% and 20% of the Group's sales for the years ended December 31, 2011 and 2010, respectively, and 51% and 31% of costs for the years ended December 31, 2011 and 2010, 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 (₱)

	2011		2010	
	In U.S. Dollar	**In Philippine Peso**	In U.S. Dollar	In Philippine Peso
Cash and cash equivalents	**$3,155,606**	**₱138,586,115**	$6,229,646	₱273,385,951
Loans and receivables	**682,449**	**29,971,390**	1,715,843	75,299,204
Miscellaneous deposits	**1,136,210**	**49,899,432**	1,350,975	59,287,083
Accounts payable and accrued expenses	**(18,685,121)**	**(820,602,594)**	(19,518,736)	(856,573,305)
Other current liabilities	**(345,891)**	**(15,190,659)**	(5,407,324)	(237,298,620)
Other noncurrent liabilities	**(2,227,069)**	**(97,807,142)**	–	–
Net foreign currency-denominated liabilities	**($16,283,816)**	**(₱715,143,458)**	($15,629,596)	(₱685,899,687)

Singapore Dollar (SGD)

	2011		2010	
	In U.S. Dollar	**In Singapore Dollar**	In U.S. Dollar	In Singapore Dollar
Cash and cash equivalents	**$1,182,114**	**SGD1,534,256**	$–	SGD–
Loans and receivables	**–**	**–**	155,000	200,384
Accounts payable and accrued expenses	**(1,063,060)**	**(1,379,738)**	(826,133)	(1,068,025)
Other current liabilities	**(977,220)**	**(1,268,326)**	(981,034)	(1,268,281)
Loans payable	**(1,258,190)**	**(1,632,995)**	(1,301,359)	(1,682,397)
Net foreign currency-denominated liabilities	**($2,116,356)**	**(SGD2,746,803)**	($2,953,526)	(SGD3,818,319)

Euro (€)

	2011		2010	
	In U.S. Dollar	**In Euro**	In U.S. Dollar	In Euro
Cash and cash equivalents	**$2,129,369**	**€1,645,571**	$662,782	€501,197
Loans and receivables	**528,889**	**408,724**	326,262	246,719
Accounts payable and accrued expenses	**(161,531)**	**(124,831)**	(439,873)	(332,632)
Loans payable	**(6,470,000)**	**(5,000,000)**	–	–
Net foreign currency-denominated assets (liabilities)	**($3,973,273)**	**(€3,070,536)**	$549,171	€415,284

Japanese Yen (¥)

	2011		2010	
	In U.S. Dollar	**In Japanese Yen**	In U.S. Dollar	In Japanese Yen
Cash and cash equivalents	**$318,454**	**¥24,801,744**	$819,333	¥66,906,179
Loans and receivables	**1,770,996**	**137,928,015**	2,687,836	219,486,880
Miscellaneous deposits	**30,712**	**2,391,931**	28,468	2,324,638
Accounts payable and accrued expenses	**(6,104,454)**	**(475,424,732)**	(6,434,075)	(525,402,184)
Other current liabilities	**(40,959)**	**(3,189,916)**	(16,424)	(1,341,175)
Net foreign currency-denominated liabilities	**($4,025,251)**	**(¥313,492,958)**	($2,914,862)	(¥238,025,662)

Renminbi (RMB)

	2011		2010	
	In U.S. Dollar	**In Renminbi**	In U.S. Dollar	In Renminbi
Cash and cash equivalents	**$6,725,654**	**RMB42,513,614**	$4,713,572	RMB31,209,508
Loans and receivables	**43,024,337**	**271,961,674**	38,570,596	255,383,674
Accounts payable and accrued expenses	**(29,528,588)**	**(186,653,530)**	(23,234,523)	(153,840,450)
Other current liabilities	**(5,982)**	**(37,813)**	–	–
Net foreign currency-denominated assets	**$20,215,421**	**RMB127,783,945**	$20,049,645	RMB132,752,732

Hong Kong Dollar (HKD)

	2011		2010	
	In U.S. Dollar	**In Hong Kong Dollar**	In U.S. Dollar	In Hong Kong Dollar
Cash and cash equivalents	**$43,089**	**HKD334,932**	$71,134	HKD553,550
Loans and receivables	**517,213**	**4,020,312**	201,670	1,569,358
Accounts payable and accrued expenses	**(417,235)**	**(3,243,178)**	(789,914)	(6,146,953)
Net foreign currency-denominated asset (liabilities)	**$143,067**	**HKD1,112,066**	($517,110)	(HKD4,024,045)

British Pound (£)

	2011		2010	
	In U.S. Dollar	**In UK Pound**	In U.S. Dollar	In UK Pound
Loans and receivables - net	**$742**	**£480**	$–	£–
Accounts payable and accrued expenses	**(151,974)**	**(98,346)**	(3,610)	(2,329)
Net foreign currency-denominated liabilities	**($151,232)**	**(£97,866)**	($3,610)	(£2,329)

Australian Dollar (AUD)

	2011		2010	
	In U.S. Dollar	**In Australian Dollar**	In U.S. Dollar	In Australian Dollar
Cash and cash equivalents	**$–**	**AUD–**	$458	AUD450
Accounts payable and accrued expenses	**–**	**–**	(179,748)	(176,709)
Net foreign currency-denominated liabilities	**$–**	**AUD–**	($179,290)	(AUD176,259)

Thai Baht (THB)

	2011		2010	
	In U.S. Dollar	**In Thai Baht**	In U.S. Dollar	In Thai Baht
Loans and receivables - net	**$803**	**THB25,318**	$–	THB–
Accounts payable and accrued expenses	**–**	**–**	(4,824)	(145,441)
Net foreign currency-denominated asset (liabilities)	**$803**	**THB25,318**	($4,824)	(THB145,441)

Bulgarian Lev (BGN)

	2011		2010	
	In U.S. Dollar	**In Bulgarian Lev**	In U.S. Dollar	In Bulgarian Lev
Cash and cash equivalents	**$1,294,206**	**BGN1,897,190**	$–	BGN–
Loans and receivables	**11,438,379**	**16,767,637**	–	–
Miscellaneous deposits	**127,921**	**187,520**	–	–
Accounts payable and accrued expenses	**(7,199,852)**	**(10,554,337)**	–	–
Other current liabilities	**(17,044,745)**	**(24,986,067)**	–	–
Loans payable	**(5,833,976)**	**(8,552,085)**	–	–
Long-term debt	**(10,289,247)**	**(15,083,113)**	–	–
Net foreign currency-denominated liabilities	**($27,507,314)**	**(BGN40,323,255)**	$–	BGN–

Czech Koruna (CZK)

	2011		2010	
	In U.S. Dollar	In Czech Koruna	In U.S. Dollar	In Czech Koruna
Cash and cash equivalents	$5,141	CZK98,956	$–	CZK–
Loans and receivables	115,990	2,232,727	–	–
Accounts payable and accrued expenses	(123,385)	(2,375,072)	–	–
Net foreign currency-denominated liabilities	($2,254)	(CZK43,389)	$–	CZK–

Mexican Peso (MXN)

	2011		2010	
	In U.S. Dollar	In Mexican Peso	In U.S. Dollar	In Mexican Peso
Cash and cash equivalents	$4,348	MXN60,917	$–	MXN–
Loans and receivables	75,890	1,063,330	–	–
Accounts payable and accrued expenses	(1,457,359)	(20,419,768)	–	–
Other current liabilities	(297,756)	(4,172,005)	–	–
Loans payable	(217,079)	(3,041,596)	–	–
Long-term debt	(375,137)	(5,256,231)	–	–
Net foreign currency-denominated liabilities	($2,267,093)	(MXN31,765,353)	$–	MXN–

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, 2011 and 2010. 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.

2011

Currency	Increase/decrease in U.S. Dollar rate	Effect on profit before tax
PHP	1%	($190,082)
	-1%	190,082
SGD	1%	(21,486)
	-1%	21,486
EUR	1%	(35,631)
	-1%	35,631
JPY	1%	(21,248)
	-1%	21,248
RMB	1%	165,933
	-1%	(165,933)
HKD	1%	1,484
	-1%	(1,484)
GBP	1%	(1,518)
	-1%	1,518
THB	1%	5
	-1%	(5)
BGN	1%	(289,656)
	-1%	289,656
CZK	2%	(45)
	-2%	45
MXN	3%	(63,408)
	-3%	63,408

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
THB	+1%	(48)
	-1%	48

Derivatives
In 2011 and 2010, the Parent Company entered into various short-term currency forwards with an aggregate notional amount of $71.70 million and $59.00 million, respectively. As of December 31, 2011 and 2010, the outstanding forward contracts have a net positive fair value of $0.03 million and $0.48 million, respectively. Net fair value gains recognized in 2011, 2010 and 2009 amounted to $0.86 million, $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, 2011 and 2010, the call option has a positive value of $2.74 million and $1.21 million, respectively, while the put option has a zero value and negative value of $3.83 million, respectively. Net fair value gain (loss) on the options amounted to $5.36 million and ($0.21) million in 2011 and 2010, respectively.

In 2008, the Parent Company entered into structured currency options. The weakening of the peso during the second quarter of 2008 resulted in an unfavorable position on the Parent Company's derivative transactions. In May 2008, the BOD approved the unwinding of four major derivative contracts and the Parent Company incurred unwinding cost amounting to $33.36 million. In 2010, the outstanding liability on unwinding cost amounting to $2.30 million was condoned by the counterparty. The gain from the condonation is included under "Miscellaneous income" in the consolidated statement of comprehensive income.

Fair Value Changes on Derivatives
The net movements in fair value of the Group's derivative instruments as of December 31, 2011 and 2010 follow:

	2011	2010
Derivative assets		
Balance at beginning of year	**$1,693,121**	$–
Net changes in fair value	**2,420,806**	1,890,536
Initial value of long call option	**–**	1,403,991
Fair value of settled instruments	**(1,315,015)**	(1,601,406)
	$2,798,912	$1,693,121
Derivative liabilities		
Balance at beginning of year	**$3,832,474**	$–
Initial value of written put option	**–**	3,816,484
Net changes in fair value	**(3,797,912)**	15,990
	$34,562	$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 income", 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, 2011 and 2010.

The Group is not subject to externally imposed capital requirements.

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

	2011	2010
Trust receipts and loans payable	**$39,008,811**	$17,921,638
Long-term debt	**40,000,000**	38,000,000
Total debt	**79,008,811**	55,921,638
Less cash and cash equivalents	**(54,069,180)**	(38,134,743)
Net debt	**24,939,631**	$17,786,895
Equity attributable to equity holders of the Parent Company	**$190,321,592**	$169,290,252
Debt to equity ratio	**42%**	33%
Net debt to equity ratio	**13%**	11%

33. 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.

34. Notes to Consolidated Statements of Cash Flows

The Group's noncash investing activities includes capitalization by the Parent Company of office equipment under finance lease amounting to $2.03 million and $0.58 million, in 2010 and 2009, respectively.

35. Events after the Reporting Period

As mentioned in Note 14, IMI Singapore announced restructuring of operations in 2011 and recognized provision for restructuring of $0.25 million as of December 31, 2011. IMI Singapore paid out $0.18 million of this on February 14, 2012. The balance will be paid in phases within 2012.

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