COVER SHEET

94419

INTEGRATED MICRO-ELECTRONICS, INC.

(Company's Full Name)

NORTH SCIENCE AVE., LAGUNA TECHNOPARK, BINAN, LAGUNA

(Business Address: No. Street City / Town / Province)

ATTY. SOLOMON M. HERMOSURA	841-5346
Contact Person	Company Telephone Number

12	31	SEC FORM 17-A	04	13
Month	*Day*	FORM TYPE	*Month*	*Day*
Fiscal Year			Annual Meeting	

Secondary License Type, if Applicable

CFD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. Of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes

SEC Number: 94419
File Number: ______

INTEGRATED MICRO-ELECTRONICS, INC.

(Company's Full Name)

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

(Company Address)

(632) 756-6840

(Telephone Number)

December 31, 2011

(Fiscal Year Ending)
(Month & Day)

SEC Form 17-A

(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: **December 31, 2011**

2. SEC Identification Number: **94419**

3. BIR Tax Identification No. **000-409-747-000**

4. Exact name of issuer as specified in its charter: **INTEGRATED MICRO-ELECTRONICS, INC.**

5. Province, Country or other jurisdiction of incorporation or organization: **Philippines**

6. Industry Classification Code: __________ (SEC Use Only)

7. Address of principal office: **33rd Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City**
   Postal Code: **1226**

8. Registrant's telephone number: **(632) 756-6840**

9. Former name, former address, and former fiscal year: **Not applicable**

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares Issued and Outstanding
Common *	1,434,078,088

* Net of 15,892,109 treasury shares

11. Are any or all of these securities listed on a Stock Exchange? Yes [**x**] No [ ]

    1,350,476,697 common shares are listed with the Philippine Stock Exchange as of March 31, 2012.

12. Check whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports): Yes [x] No [ ]

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

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be

made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in “Annex B”). **The aggregate market value of the voting stock held by non-affiliates of the Company is about ₱2.6 billion (based on closing stock price of IMI common shares as of December 31, 2011 and issue value of IMI preferred shares.**

Please see discussion below and in succeeding pages on the following:

PART I – BUSINESS AND GENERAL INFORMATION
PART II – OPERATIONAL AND FINANCIAL INFORMATION
PART III – CONTROL AND COMPENSATION INFORMATION
PART IV – CORPORATE GOVERNANCE
PART V – EXHIBITS AND SCHEDULES

Unless otherwise expressly indicated, the information provided herein is as of December 31, 2010.

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Integrated Micro-Electronics, Inc. (IMI), 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.

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

IMI 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. IMI 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 IMI 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. IMI’s entitlements to ITH under the current PEZA registrations had expirations beginning January 2010.

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.

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

In 2011, IMI infused additional capital to IMI Singapore in exchange for newly issued shares of the latter. This was used by IMI Singapore to set up Monarch Elite Ltd. and Cooperatief IMI Europe U.A. as holding companies and 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.

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.

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.

Operations

Design and Engineering Services

Partnering with IMI allows a complete and successful product development. This is made possible by IMI's capability to design and develop complete products and subsystems, analyze product design and materials for costs reduction through value and profit engineering, and develop solutions for cost-effective production and fast time-to-market while safeguarding intellectual property. IMI's product development and engineering service offerings include Custom Design Manufacturing (CDM) Solutions, Advanced Manufacturing Technology (AMT) Services, Engineering and Test Development, and Reliability/Failure Analysis and Calibration Quality Test solutions.

Manufacturing Solutions

IMI's comprehensive manufacturing experience allows a prospective client to leverage its strength in RoHS-compliant and cleanroom manufacturing process, complex manufacturing using consigned equipment and materials, complete turnkey manufacturing with multiple materials sourcing sites, ERP-based planning, purchasing, and manufacturing process, and strategic partnerships with leading materials distributors and manufacturers. IMI has the essential infrastructure equipment, manpower and quality systems to assure quick start of operations and turnaround time. These include: materials management, PCBA and FCPA Assembly, Automated Through-Hole Assembly, Complete Box build Solutions, Sub Assembly services, Component Assembly and Manufacture of Enclosure Systems.

Business Models

IMI recognizes the uniqueness of each customer's requirements. To satisfy specific requests, IMI offers flexible business models that allow it to build the perfect assembly for its client's manufacturing requirements.

The "Standard" and "Semi-custom" business models pertain to IMI's Printed Circuit Board Assembly (PCBA) processes. IMI invests in Surface Mount Technology (SMT) lines which support multiple customer requirements. Back-end and box build processes are also set-up depending on customer requirements.

The "Custom" Business Model gives the client a free hand in designing the systems by offering a dedicated facility manned by an independent and exclusive organization that will build the system from ground up. With quality structures and operational procedures compatible with the client's systems, IMI's line serves as the client's extension plant, assuring that all the parts and processes are customized to the client's particular needs.

Capabilities and Solutions

IMI's capabilities allow it to take on the specific outsourcing needs of its customers, providing them with flexible solutions that encompass design, manufacturing, and order fulfilment. It develops platforms to customize solutions in response to its customers' unique requirements. Its platforms in areas like short-range wireless systems, embedded systems, and sensors and imaging technology represent capabilities to manufacture products. New manufacturing capabilities are developed by IMI's Advanced Manufacturing Engineering (AME) group. Its expertise includes immersion silver process, pre-flow underfill process, thermally enhanced flip chip technology, traceless flip chip technology, and flip chip on flex assembly, among others. IMI has a complete range of manufacturing solutions-- from printed circuit board assembly to complete box build. Through its flexible, efficient, and cost–effective end-to-end EMS solutions, IMI gives OEMs the luxury of focusing on their core competencies of technology R&D and brand marketing.

Subsidiary in Power Semiconductor Assembly and Test

IMI through its subsidiary PSi Technologies Inc provides outsourced power semiconductor assembly and test services for legacy packages, power QFNs, and power modules.

Global Materials and Supply Chain Management

IMI's mission is to offer strategic and competitive Supply Chain Management for complete order fulfillment of its Customers. IMI's turnkey capabilities involve major commodities for direct/indirect materials: passive/active/mechanical/electro-mechanical components, existing vendor base for over 36,000 line items, and Global sourcing in Asia, US and Europe of over 200 major and strategic suppliers from over 2,000 suppliers listed in our database. IMI is not or is not expected to be dependent upon one supplier for raw materials or other items.

IMI's warehousing capabilities include housing all direct and indirect materials, outsourcing to a third party logistics provider, satellite warehouses in other IMI plants and under the mySAP™ ERP System.

IMI also has Vendor Partnership Programs to leverage for the most competitive cost and engaged the supply base on vendor qualification, certification and development. With regard to inbound and outbound logistics, IMI are partners with the best in the industry. The major lines inbound are Singapore, Japan, Hong Kong, Taiwan, Malaysia, Thailand, Germany and the US. Major lines outbound are US, Germany, Malaysia, Hong Kong, Israel, Switzerland, Vietnam, UK, Japan, Singapore and France.

Product Capabilities

IMI has experience in working with some of the world's leading companies in the following products:

Automotive Electronics	• Automotive Camera • PCBA for Electronic Stability Program (ESP) • Tire Pressure Sensor PCBA • Car Windshield Temperature and Humidity Sensor • Electronic Power Steering (EPS) Rotor Position Sensor (RPS) • PCBA for Headlight • Switch Controller for Main Light • Communication Power PCBA • Body Control Module (BCM) • Antenna Receiver / DAB Tuner
Industrial Electronics	• Automatic Meter Reader (AMR) • Security Device • Electronic Door Access System • Smart Card • Point of Sales System • Printer Control Board • Power Amplifier • DC-DC Power Converter • Engine Controllers • Welding Machine Inverter • Motor Drivers for Conveyor • Fan Motor Control Board • Computer Numerical Control (CNC) Control Board • Main power supplies for LED street lighting • Modules for renewable energy generation, transmission and conversion
Medical Electronics	• Imaging Equipment Flat Panel FPCA • PCBA for Auto Body Contouring Imaging Equipment • Dental Imaging System • Defibrillator Component • Concealed Hearing Aid • Biomedical and Laboratory Equipment • Centrifuge Control Board • Fitness Equipment Control Board
Telecommunications	• Back Panel for Telecommunication Board • Fiber to the "X" (FFTx) systems • Booster Amplifier • GPON (Gigabit Passive Optical Network) Systems • Wireless Security System • Base Station Power Supply • Digital Station Control Board • Power Transistors for amplifiers in cellular base stations • Power Conversion ICs in adapters and chargers for cell Phones and cordless phones • DC Port and USB Port protection for cell phones and satellite radio peripherals

Computing and Storage Devices	• CD/Combo Drive • DVD Drive • Blu-Ray Disc Drive • Hard Disk Drive • Solid State Drives • Printer Sensor • Printer Control Board • Multi-Function Copier Machine • DVD Recorder Power Supply • Power Supplies for Servers, PCs, Notebooks, and Netbooks • Over-voltage protection for HDD and DC port protection for keyboard mouse
Consumer Electronics	• Ultrasonic Toothbrush • Hybrid IC • Gas Ignitor and Re-Ignitor • Air-Conditioning (HVAC) Controller • Power Management and Home Appliance for Lighting Control • Refrigerator and Cooker Hood Control Board • Projector Lamp Drivers • Household Metering Device • Bluetooth Headset • Electric Drive Control for home appliances • Main Power Supply for Flat-panel TV • Power Supply for game consoles and entertainment electronics • High Voltage Power Conversion ICs in adapters and chargers for personal electronics • Garage Door Control • Programmable Timer • Pressure Cooker Modules • Steamer Controller Modules • Washing Machine controllers Coffee Machine
Power Semiconductor	• Low-Medium Power Packages: - TO 220 Fpak 2/3L; TO 220 2/3/5/7L, SOT 82 - PowerFlex 2/3/5/7L, TO252 / TO251, TO 263 3L; - 3 x 3 mm QFN, 3.3 x 3.3mm QFN ; 5x6mm QFN • Medium-High Power Packages: - SOT 93 3L, TO 247 3L, TO 264 3/5L, SOT 227 - Standard Packages - SP3, SP4, SP6 - DRF, ARF • Small Signal Packages - SOT 223 3L, TO 220 2/3/5/7L

Renewable Energy	•	PV Panel Assembly
	•	PV Co-Design & Development
	•	PV Panel High Volume Manufacturing
	•	PV Panel Platform
	•	PV Inverter Platform
	•	Inverter Electronics

With regard to emerging product capabilities, IMI is pursuing OEMs in the Photovoltaic (PV) or Solar Energy and Sensor and Imaging fields.

Human Resources

The Company has a total workforce of 15,375 employees as of December 31, 2011, shown in the following table:

Job Groups	Total	Philippines	China/ Singapore	USA	Japan	Europe
Managers	**384**	163	161	6	3	51
Supervisors	**1,413**	539	636	5	-	233
Rank-and-File	**1,826**	972	596	4	1	253
Technicians	**807**	334	414	-	-	59
Operators	**10,945**	5,367	4,336	3	-	1,239
TOTAL	**15,375**	7,375	6,143	18	4	1,835

The relationship between management and employees has always been of solidarity and collaboration from the beginning of its operations up to the present. The rank and file employees and the supervisory employees of the Company are not unionized. Hence, there is no existing Collective Bargaining Agreement (CBA) between the Company and its employees.

At present, the Company does not intend or anticipate hiring any number of employees within the ensuing twelve (12) months because the current workforce can still cope up with the volume of expected customer orders within that period.

IMI has existing supplemental benefits for its employees such as transportation and meal subsidy, Group Hospitalization insurance coverage and non-contributory retirement plan.

The Company has or will have no supplemental benefits or incentive arrangements with its employees other than those mentioned above.

Strategic Partnerships

An active strategic partnership is that with Renewable Energy Test Center, a California-based engineering services, test and certification provider for photovoltaic (PV) and renewable energy products. This partnership was forged in 2009. With IMI Energy Solutions, the partnership aims to offer PV services including PV panel development, panel prototyping, certification, and mass production. IMI Energy Solutions focuses on solar panel development and prototyping, while RETC handles product testing and certification. RETC is right next door to IMI Energy Solutions to ensure fast turnaround time from prototyping to product certification.

Competition

IMI is an electronics manufacturing services (EMS) provider to original equipment manufacturers (OEMs) in the computing, communications, consumer, automotive, industrial, and medical electronics segments as well as emerging industries like renewable energy. In 2011, the global economy managed an Asian-led growth at 3.8 percent despite struggling from the ravages of natural calamities in Japan and Thailand. A continuing European crisis may lead to a recession in 2012 and may exacerbate difficulties in the US economy as well as the rest of the world.

The growth of electronics end-markets are mostly in the area of consumer electronics -- primarily tablets and smartphones. Non-traditional markets continue to have average growth banking on increasing applications in new technologies that hinge on automation, portability, size and space reduction, higher power and clean technology. The EMS industry grew by only 3.9 percent in 2011, quite far from the double-digit growth rates it used to enjoy in previous years. The industry is expected to increase in 2012 but may experience more challenges as market uncertainties continue to cloud visibility into the near future.

IMI competes worldwide, with focus on Asia (including Japan and China), North America, and Europe.

There are two methods of competition: a) price competitiveness, b) robustness of total solution (service, price, quality, special capabilities or technology). IMI competes with EMS companies and original design manufacturers (ODMs) all over the world. Some of its fierce EMS provider competitors include Hon Hai, Flextronics, and Hana.

Hon Hai is a Taiwanese company with annual revenues of US$92 billion, best known as the vertically integrated outsourcing partner of Apple for tablets and smartphones. Hon Hai is a competitor of IMI in the computing and telecommunication infrastructure markets. Flextronics is a Singapore-headquartered company with annual revenues of US$30 billion; its cost structure is very competitive it is vertically integrated as well. Flextronics poses competition to IMI in the automotive space. Hana is a Thai company with annual revenues of US$500 million; it has a semiconductor manufacturing arm. Hana competes with IMI in industrial market.

IMI is focused on delivering customized solutions of highest quality at reasonable prices. It collaborates with the customers in finding the right solutions to their problems. IMI even challenges its own systems and processes if needed. It has a distinct advantage in serving customers who value quality over price and require complex non-standard solutions. Living up to the flexible expertise brand, IMI is adaptable to the needs and conditions of its customers. This expertise has propelled IMI onto the current list of the top 30 EMS providers in the world and earned for IMI several accolades from its customers.

Risk Factors

The Company's business, financial condition and results of operation could be materially and adversely affected by risks relating to the Company and the Philippines.

IMI's operating results may significantly fluctuate from period to period

There is a risk that IMI's operating results may fluctuate significantly. Some of the principal factors affecting its operating results include:

(1) changes in demand for its products and services;
(2) customers' sales outlook, purchasing patterns, and inventory adjustments;

(3) the mix of the types of services provided to its customers such as: volume of products, complexity of services, and product maturity;
(4) the extent to which it can provide vertically integrated services for a product;
(5) its effectiveness in managing its manufacturing processes, controlling costs, and integrating any potential future acquisitions;
(6) its ability to make optimal use of its available manufacturing capacity;
(7) changes in the cost and availability of labor, raw materials and components, which affect its margins and its ability to meet delivery schedules;
(8) its ability to manage the timing of its component purchases so that components are available when needed for production while avoiding the risks of accumulating inventory in excess of immediate production needs;
(9) timing of new technology development and the qualification of its technology by its customers; and
(10) local conditions and events that may affect its production volumes, such as labor conditions, political instability, and local holidays.

Due to the factors enumerated above and other risks discussed in this Section, many of which are beyond the Company's control, its operating results may vary from time to time.

Furthermore, IMI may not be able to effectively sustain its growth due to restraining factors concerning corporate competencies, competition, global economies, and market and customer requirements. To meet the needs of its customers, IMI has expanded its operations in recent years and, in conjunction with the execution of its strategic plans, the Company expects to continue expanding in terms of geographical reach, customers served, products, and services. To manage its growth, IMI must continue to enhance its managerial, technical, operational, and other resources.

IMI's ongoing operations and future growth may also require funding either through internal or external sources. There can also be no assurance that any future expansion plans will not adversely affect IMI's existing operations since execution of said plans often involves challenges. For instance, IMI may be required to manage relationships with new or a greater number of suppliers, customers, equipment vendors, and other third parties. IMI may further be confronted with such issues as shortages of production equipment and raw materials or components, capacity constraints, construction delays, difficulties in ramping up production at new facilities or upgrading or expanding existing facilities, and training an increasing number of personnel to manage and operate those facilities. Compounding these issues are other restraining factors such as competitors' more aggressive efforts in expanding business and volatility in global economies and market and customer requirements. All these challenges could make it difficult for IMI to implement any expansion plans successfully and in a timely manner.

In response to a very dynamic operating environment and intense industry competition, IMI focuses on high-growth/high-margin specialized product niches, diversifies its markets and products, engages in higher value add services, improves its cost structure, and pursues strategies to grow existing accounts.

Moreover, IMI has established a structure that promotes a transparent corporate governance system. It has an Audit Committee that reviews quarterly and audited annual results of operations. It also has a Finance Committee that reviews and approves significant financial policies and performs oversight function over the risk management process of the organization. The Company's financial statements are certified by a reputable accounting firm.

IMI is highly dependent on an industry that is characterized by rapid technological changes

The demand for the Company's solutions is derived from the demand of end customers for electronic products. IMI's solutions have end-use applications in the computing, communications, consumer automotive, industrial and medical electronics industries.

These industries have historically been characterized by rapid technological change, evolving industry standards, and changing customer needs. There can be no assurance that IMI will be successful in responding to these industry demands. New services or technologies may render IMI's existing services or technologies less competitive. If IMI does not promptly make measures to respond to technological developments and industry standard changes, the eventual integration of new technology or industry standards or the eventual upgrading of its facilities and production capabilities may require substantial time, effort, and capital investment.

IMI is keeping abreast of current trends and technology in the electronics industry and is continuously conducting studies to enhance its capabilities and value proposition to its customers. It defines and executes technology road maps that are aligned with market and customer requirements.

IMI may not be able to mitigate the effects of price declines over the life cycles of its products or as a result of changes in its mix of new and mature products, mix of turnkey and consignment business arrangements, and lower competitors' prices

The price of IMI's products tends to decline over the product life cycle, reflecting obsolescence, decreased costs of input components, decreased demand, and increased competition as more manufacturers are able to produce similar products in large numbers as such products become standardized. Furthermore, the gross margin for manufacturing services is highest when a product is first developed. As products mature, market pressures push average selling prices down and cause gross margin erosion. IMI may be forced to reduce the price of its service for more mature products in order to remain competitive against other manufacturing services providers. IMI's gross margin may further decline if competitors lower their prices as a result of decreased costs or to absorb excess capacity, liquidate excess inventories, or restructure or attempt to gain market share.

IMI is also moving to a higher proportion of its products on turnkey production (with IMI providing labor, materials and overhead support), as compared to those under the consignment model. The margins on these turnkey businesses are generally lower than those done on consignment basis.

To mitigate the effects of price declines in IMI's existing products and to sustain margins, IMI continues to improve its production efficiency by reducing its input component costs, reducing inventory costs, and lowering operating costs. IMI must continually drive its costs down. More importantly, IMI is intensifying its effort in capturing customers with products in high-margin product niches most of which involve emerging technologies or complex manufacturing processes.

IMI generally does not obtain firm volume purchase commitments from its customers

IMI generally does not obtain firm volume purchase commitments from its customers. Customers may place lower-than-expected orders, cancel existing or future orders or change production quantities. Although IMI's customers may be contractually obligated to purchase products, IMI may be unable to or, for other business reasons, choose not to enforce its contractual rights. Cancellations, reductions, or instructions to delay production by a significant customer could also harm IMI's operating results.

In addition, IMI makes significant decisions, including determining the levels of business that it will seek and accept, production schedules, component procurement commitments, personnel needs, and other resource requirements. These key decisions are ultimately based on estimates of customer requirements. The rapid changes in demand for its products reduce its ability to estimate accurately future customer requirements. Thus in facing these rapid changes in demand, production scheduling difficulty and the limited ability to maximize manufacturing capacity utilization are encountered.

To the extent possible, IMI negotiates for guaranteed volume and/or volume break pricing, and materials buy-back to taper the impact of sudden cancellations, reductions, delays in customer requirements.

IMI's success depends on attracting, engaging and retaining key talents, including skilled research and development engineers

IMI believes that its people are its most valuable asset and an engaged workforce is an essential element to the continued success of its organization. IMI is committed to build a workforce with purpose, excitement, and mutual alignment in order to retain its highly-skilled workers, support and technical staff and management team. It is an organization that keeps abreast of latest trends and developments to fulfill customer needs to remain in business.

IMI believes that in order to meet customer requirements it has to have highly-skilled workforce possessing the critical skills, competence and attributes to satisfactory perform and exceed the requirements of the job. To remain one of the top electronics manufacturing solutions providers, IMI must have dedicated and passionate workforce with global skills and ethical standards committed to its vision, mission and values. IMI continuously identifies top-caliber candidates and keep the pipeline full always ready to assume new roles and fuel growth.

The unending war for talent has always been a challenge in the industry. IMI believes that employee attrition has an unfavorable impact to the organization. It can interrupt operation processes that could affect the quality of its products and services that may put the business at risk.

The Company recognizes that its competitiveness is dependent on its key talent pipeline, including leadership, talent and skill pool, and succession plan. Thus, it has implemented proactive measures to retain employees through sound retention programs, encouraging work-life balance among its employees, and providing structured career development paths to promote career growth within the organization and loyalty to the Company. The Company also believes that in order to sustain IMI's growth, it will have to continuously attract, develop, engage and retain skilled workforce highly capable to achieve business goals.

IMI may encounter difficulties with acquisitions it may make in the future

IMI's globalization strategy has transformed IMI from a Philippines-centric company into a global network with manufacturing and engineering facilities in the Philippines, China, Singapore, Bulgaria, Czech Republic, Mexico and the United States; and sales offices in Asia, Europe and North America.

IMI's further growth may depend in part on future acquisitions, which may expose IMI to potential difficulties that include:

(1) Diversion of management's attention from the normal operations of IMI's business;

(2) Potential loss of key employees and customers of the acquired companies;

(3) Difficulties in managing and integrating operations in geographically dispersed locations;

(4) Lack of experience operating in the geographic market of the acquired business;

(5) Reduction in cash balance and increases in expenses and working capital requirements, which may reduce return on invested capital;

(6) Potential increases in debt, which may increase operating costs as a result of higher interest payments;

(7) Difficulties in integrating acquired businesses into existing operations, which may prevent it from achieving, or may reduce the anticipated synergy.

Mergers and acquisitions (M&As) may have an immediate financial impact to IMI due to:

(1) Dilution of the percentage of ownership of current stockholders;

(2) Periodic impairment of goodwill and other intangible assets; and,

(3) Liabilities, litigations, and/or unanticipated contingent liabilities assumed from the acquired companies.

If IMI is not able to successfully manage these potential difficulties, any such acquisitions may not result in any material revenues or other anticipated benefits.

To limit its exposure to these potential difficulties, IMI performs a thorough assessment of the upside and downside of any M&As. IMI creates a team from Business Development, Business Units, Finance, Legal, Engineering, and Advisers who examines the vision, long-term strategy, compatibility with IMI's culture, customer relationship, technology, and financial stability of the Company to be acquired. All M&As have to be reviewed by the Executive Committee, Finance Committee, and approved by the Board.

IMI's production capacity may not correspond precisely to its production demand

IMI's customers may require it to have a certain percentage of excess capacity that would allow it to meet unexpected increases in purchase orders. On occasion, however, customers may require rapid increases in production beyond IMI's production capacity, and IMI may not have sufficient capacity at any given time to meet sharp increases in these requirements. To soften the impact of this, IMI closely coordinates with customers which provides them regular capacity reports and action plan/s for common reference and future capacity utilizations.

IMI may be subject to reputation and financial risks due to product quality and liability issues, respectively; and may be involved in intellectual property disputes

The contracts the Company entered into with its customers, especially customers from the automotive and medical industry, typically include warranties that its products will be free from defects and will perform in accordance with agreed specifications. To the extent that products delivered by IMI to its customers do not, or are not deemed to, satisfy such warranties, IMI could be responsible for repairing or replacing any defective products, or, in certain circumstances, for the cost of effecting a recall of all products which might contain a similar defect, as well as for consequential damages.

There can be no assurance that IMI will be able to recover any losses incurred as a result of product liability in the future from any third party, or that defects in the products sold by IMI, regardless of whether or not it is responsible for such defects, would not adversely affect its customer relations, standing and reputation in the marketplace, result in monetary losses, and have a material adverse effect on its business, financial condition, and results of operations.

Furthermore, IMI's business depends in part on its ability to provide customers with technologically sophisticated products. IMI's failure to protect its intellectual property or the intellectual property of its customers could hurt customer relationships and affect its ability to obtain future business. There is also a risk that IMI may infringe on the intellectual property rights of others. IMI could incur costs in either defending or settling any intellectual property disputes alleging infringement. In addition, customers typically require that IMI indemnify them against claims of intellectual property infringement. If any claims are brought against IMI's customers for such infringement, whether these have merit or not, IMI could be required to expend significant resources in defending such claims. In the event IMI is subjected to any infringement claims, IMI may be required to spend a significant amount of money to develop non-infringing alternatives or obtain licenses. IMI may not be successful in developing such alternatives or in obtaining such licenses on reasonable terms or at all, which could disrupt manufacturing processes, damage IMI's reputation, and affect its profitability.

IMI is not positioned as an original design manufacturer (ODM) so the risk of infringing upon product-related intellectual property is significantly reduced. IMI's designs and intellectual properties are used to attract customers but ultimately, the designs that IMI produces will be owned by the customer. When IMI helps its customers design their products, IMI exercises proper caution in ensuring that no intellectual property infringements are committed. It is highly unlikely IMI will enter into any such disputes.

IMI provides appropriate controls to ensure that quality is maintained and continuously improved; and would not result to losses for the customers and the Company. In addition, IMI and some of its customers maintain projects that are covered by product recall insurance.

Among others, IMI is certified on ISO 9001:2000 quality management systems and TS 16949:2002, a quality management system for automotive products. It also received several recognitions from its customers for its commitment to quality.

Possible failure to comply with environmental regulations could harm IMI's business

IMI is subject to various national and local environmental laws and regulations in the areas where it operates, including those governing the use, storage, discharge, and disposal of hazardous substances in the ordinary course of its manufacturing processes. If more stringent compliance or cleanup standards under environmental laws or regulations are imposed, or the results of future testing and analyses at IMI's manufacturing plants indicate that it is responsible for the release of hazardous substances, IMI may be exposed to liability. Further, additional environmental matters may arise in the future at sites where no problem is currently known or at sites that IMI may acquire in the future.

IMI closely coordinates with various government agencies and customers to comply with existing regulations and continuously looks for ways to improve its environmental and safety standards.

IMI operates in a highly competitive industry

Some of IMI's competitors in the industry may have greater design, engineering, manufacturing, financial, or other resources than IMI. Customers evaluate EMS and ODMs based on, among other things, global manufacturing capabilities, speed, quality, engineering services, flexibility, and costs. In outsourcing, OEMs seek, among other things, to reduce cost. In addition, major OEMs typically outsource the same type of products to at least two or three outsourcing partners in order to diversify their supply risks. The competitive nature of the industry has resulted in substantial price competition. IMI faces increasing challenges from competitors who are able to put in place a competitive cost structure by consolidating with or acquiring other competitors, relocating to lower cost areas, strengthening supply chain partnerships, or enhancing solutions through vertical integration, among others. IMI may lose its customers to its competitors if it fails to keep its total costs at competitive levels for comparable products.

IMI may also lose customers if it fails to develop and provide the technology and skills required by its customers at a rate comparable to its competitors. There can be no assurance that IMI will be able to competitively develop the higher value add solutions necessary to retain business or attract new customers. There can also be no assurance that IMI will be able to establish a compelling advantage over its competitors.

The industry could become even more competitive if OEMs fail to significantly increase their overall levels of outsourcing. Increased competition could result in significant price competition, reduced revenues, lower profit margins, or loss of market share, any of which would have a material adverse effect on IMI's business, financial condition, and results of operations.

IMI regularly assesses the appropriate pricing model (strategic/value based, demand based, etc.) to be applied on its quotation to existing or prospective customers. The Company is also strengthening its risk management capabilities to be able to turn some of the risks (e.g., credit risks) into opportunities to gain or maintain new or existing customers, respectively.

IMI's industry is dependent on the continuous growth of outsourcing by the original equipment manufacturers

IMI belongs to an industry that is dependent on the strong and continuous growth of outsourcing in the computing, communications, consumer automotive, industrial, and medical electronics industries. IMI's industry exists because customers choose to outsource certain functions in the production process of certain machines and equipments in these industries. A customer's decision to outsource is affected by its ability and capacity for internal manufacturing and the competitive advantages of outsourcing.

IMI's industry depends on the continuing trend of increased outsourcing by its customers. Future growth in IMI's revenue depends on new outsourcing opportunities in which IMI assumes additional manufacturing and supply chain management responsibilities from its customers. To the extent that these opportunities do not materialize, either because the customers decide to perform these functions internally or because they use other providers of these services, IMI's future growth could be limited.

IMI believes that its manufacturing operations in Singapore, Philippines, and several parts of China and its enhanced supply chain systems and capabilities will continue to provide strategic advantages for customers to outsource certain functions of their manufacturing processes to IMI.

Demand for services in the EMS industry depends on the performance and business of the industry's customers as well as the demand from end consumers of electronic products

The profitability of companies in the same industry as IMI depends on the performance and business of the industry's customers, driven by the demand for electronic products by end consumers. If the end-user demand is low for the industry's customers' products, companies in IMI's industry may see significant changes in orders from customers and may experience greater pricing pressures. Therefore, risks that could seriously harm the customers of IMI's industry could, as a result, adversely affect IMI as well. These risks include:

(1) Their inability to manage their operations efficiently and effectively;
(2) Reduced consumer spending in key customers' markets;
(3) Seasonal demand for their products; and,
(4) Failure of their products to gain widespread commercial acceptance.

The impact of this risk has been very evident with the global financial crisis resulting in global reduction of demand for electronics products by end customers. IMI mitigates the impact of industry downturns on demand by rationalizing excess labor and capacity to geographical areas most optimal, and by initiating cost containment programs. There have been recent indications that the crisis has bottomed out and the Company was able to re-hire some of its employees. However, IMI remains cautious and is continuously monitoring improvements resulting from its cost containment programs.

IMI's industry may experience shortages in, or rises in the prices of components, which may adversely affect business

There is a risk that IMI will be unable to acquire necessary components for its business as a result of strong demand in the industry for those components or if suppliers experience any problems with production or delivery.

IMI is often required by its customers to source certain key components from suppliers on approved vendor lists who have been qualified by its customers, and IMI may not be able to obtain alternative sources of supply should such qualified suppliers be unable to meet the supply in the future. Shortages of components could limit IMI's production capabilities or cause delays in production, which could prevent it from making scheduled shipments to customers.

If IMI is unable to make scheduled shipments, it may experience a reduction in its sales, an increase in costs, and adverse effects on its business. Component shortages may also increase costs of goods sold because IMI may be required to pay higher prices for components in short supply and redesign or reconfigure products to accommodate substitute components.

To the extent possible, IMI works closely with customers to ensure that there is at least one back up supplier or manufacturer for customer-supplied components or components supplied by customer-nominated suppliers. In addition, IMI has established supplier certification and development programs designed to assess and improve suppliers' capability in ensuring uninterrupted supply of components to IMI.

IMI may be exposed to risk of inventory obsolescence and working capital tied up in inventories

Like other EMS and ODMs, IMI may be exposed to a risk of inventory obsolescence because of rapidly changing technology and customer requirements. Inventory obsolescence may require IMI to make adjustments to write down inventory to the lower of cost or net realizable value, and its operating results could be adversely affected. IMI realizes these risks and as a result, IMI exercises due diligence in materials planning and provides provision in its inventory systems and planning. IMI is working with key suppliers to establish supplier-managed inventory arrangements that will make the supplier responsible for carrying inventory.

IMI's international operations expose it to various business, economic, political, regulatory, and legal risks

IMI has operations in Singapore, Hong Kong, China, Bulgaria, Czech Republic, Mexico and United States of America. These international operations expose IMI to numerous risks and challenges, including:

(1) managing operations that require coordination of communications, directions for the manufacture and delivery of products, coordination regarding procurement and delivery of components and raw materials, and other activities and decisions of different management teams;

(2) coordinating the activities of senior management who are spread out internationally;

(3) reversal of currently favorable policies encouraging foreign investment or foreign trade by host countries could lead to the imposition of government controls, changes in tariffs or trade restrictions on component or assembled products;

(4) the burden of complying with a variety of foreign laws, including delays or difficulties in obtaining import and export licenses, and regulations and unexpected changes in legal and regulatory environments, including changes to import and export regulations and duties;

(5) lower levels of protection for intellectual property rights in some countries;

(6) potentially adverse tax consequences, including tax consequences which may arise in connection with inter-company pricing for transactions between separate legal entities within a group operating in different tax jurisdictions, and overall increases in duties and taxation;

(7) potential foreign exchange and repatriation controls on foreign earnings, exchange rate fluctuations, and currency conversion restrictions;

(8) lack of developed local infrastructure, transportation and water supply, and difficult and costly local staffing and sourcing of raw materials or components in some countries;

(9) actions which may be taken by foreign governments pursuant to any trade restrictions; and

(10) possible labor unrest and political economic instability.

A substantial portion of IMI's manufacturing operations is located in China, which has regulated financial and foreign exchange regime. The Company continuously evaluates the options available to the organization to ensure maximum usage of excess liquidity. Among others, excess liquidity may be repatriated out of China through dividend payments, payment of management service or royalty fees, use of leading and lagging payment, and transfer pricing.

IMI applies conservative financial and operational controls in the management of its business risks. Organizationally, it is the lead director/company president/chief risk officer who has ultimate accountability and responsibility to ensure risk management initiatives at subsidiaries operating in various countries all over the world are aligned with IMI and are responsible for submission of risk reports to ensure key risks are well understood, assessed/measured and reported. Providing support is the internal audit unit who regularly process audits and process improvements.

The Audit Committee of the Board meets regularly and performs its oversight role in managing the risks involved in the operations of IMI. The Board appointed a Chief Risk Officer who oversees the entire risk management function and is responsible for overall continuity. Moreover, SGV has been engaged as a risk management consultant which is overseen by the Finance Committee of the Board.

In terms of internal control risks, control mechanisms, systems and policies had been put in place in order to address any control lapses. The Audit Committee sees to it that these internal control risks are properly addressed through strict compliance with these system controls, policies and procedures. Moreover, IMI has a culture and systems for transparency, corporate governance, disclosure and checks-and-balances between various decision-making personnel that minimize the risks described above.

IMI has adopted various Risk Management Policies like hedging policy that will protect company's position on different currencies against movements of the US dollars. Limits on business transactions have been set with different sites following the Company guidelines on limit of authorities granted to Company officers and executives. The Company has also introduced and adopted Enterprise Wide Risk Management program that will identify all risks related to the business and also identify risk mitigating factors to manage the risk.

While the Company tries to keep its local expertise, it also established global functions to ensure that there is adequate coordination of activities. In addition, the availability and use of cell phones, e-mails, and internet based communication tools by the Company resulted in more efficient and timely coordination of activities and decision making by Management from different sites and countries. Moreover, on a need be basis, the Company seeks the help of consultants and subject matter experts for changes in laws and regulations that may have a significant impact in the Company's business operations. It also maintains good relationship with local government, customs, and tax authorities through business transparency and compliance and/or payment of all government related dues on time.

IMI's subsidiary in China has created a full-time tax management function to ensure compliance with tax rules and regulations. It also aggressively pursued hiring of experienced logistics managers and staff from global electronics companies operating in China. This enables the Company to ensure that it has sufficient manpower complement possessed with the required skills and experience to find vendors in and out of China for its global materials requirements.

The Company signs unilateral and bilateral agreements with customers, vendors, and partners to restrict or limit the use of the recipient of confidential information.

With respect to legal proceedings involving the Company, Ayala Corporation's General Counsel and Corporate Governance & Legal Affairs group analyze its transactions and activities to ensure compliance with law, regulation, and contractual obligations. In the event that material litigation against it does arise, IMI assesses the merits of the case and its impact on company operations. IMI refers the case to Ayala

Corporation's General Counsel and Corporate Governance & Legal Affairs and if needed, the Company retains external counsel to help in the analysis or handle the actual litigation of the case.

IMI has a Business Continuity Plan composed of, among other components, the ICT Systems Continuity Plan and the Disaster Recovery Plan. The Company backs-up data in its servers on a daily basis. Data is backed-up on tape drives for critical and non-critical applications. For SAP-R3 Financials, data is replicated to a back-up site every hour. Critical systems are recoverable within four to eight hours; regular systems can be recovered within 24 hours. IMI continually invests in business continuity technology in order to reduce the recovery time of servers at the back-up site, maximize the reliability, efficiency and manageability of the back-up system. All these are designed for the recovery of IMI's critical production systems in its principal office in the event said office becomes unavailable due to disaster.

IMI's HR ensures that the Company is able to inspire all its employees from different sites through a common vision, that employees find greater meaning in the work they do, and more importantly, employees are convinced that rewards and recognition are linked to contribution and performance. As part of the Company's succession planning initiatives, it has instituted various employee development programs, including cross-posting, foreign immersions, educational assistance, mentoring and leadership development training. These programs equip the middle-managers with the right tools needed not only for their present responsibilities, but also those required for them to assume higher positions in the organization. These programs minimize the risks associated with the turn-over of experienced management, as IMI would be able to find competent people to take their place.

The Company has been able to overcome major crises brought about by economic and political factors affecting the country where it operates. The strong corporate governance structure of the Company and its prudent management team are the foundations for its continued success. IMI also constantly monitors its macroeconomic risk exposure, identifies unwanted risk concentration, and modifies its business policies and activities to navigate such risks. Severe macroeconomic contractions may conceivably lead IMI to tweak or modify its investment decisions to meet the downturn. As a holding company, IMI will affirm the principles of fiscal prudence and efficiency in operations to its subsidiaries operating in various countries.

IMI faces risks related to foreign currency exchange rates

Because IMI does business in various countries, IMI is exposed to foreign currency fluctuations, which IMI may not be able to control by matching currencies for its assets and liabilities, and forward foreign currency exchange rate arrangements. IMI also faces the risk that foreign exchange policies in countries where it operates may change in ways that could adversely affect its business. IMI regularly performs cash flow analysis from each site to determine amount of foreign currency exposure to be hedged. IMI's Finance Committee of the Board regularly reviews IMI's foreign currency strategies for guidance and proper execution.

IMI may suffer business interruptions resulting from "Acts of God" and global events

"Acts of God" and global events like health pandemics may disrupt production activities, transportation, and distribution. In addition, external factors such as potential terrorist attacks, acts of war, or geopolitical and social turmoil in parts of the world where IMI operates or that serve as markets for its products could significantly and adversely affect its business and operating results in ways that cannot presently be predicted. These uncertainties could limit the capabilities of IMI to accurately plan future business activities.

IMI continues to look for opportunities to expand its operations to other location or countries that will provide competitive advantages through its location, products, labor skills, and costs. While these expansions may bring in new risks, it also reduces the risk that the Company may be adversely affected by political and regulatory risks specific to each location or country.

In addition, IMI has well established business contingency plans to reduce the impact of these events to our operations. IMI is also adequately covered with insurance against possible losses resulting from these disasters.

Risks relating to the Philippines or other country where IMI operates

The financial performance of the Company and its subsidiaries, as well as their business prospects, may be influenced by the general political and peace and order situation in the Philippines or the country in which it operates and the state of the country's economy, all of which are beyond the Company's control. Any actual or perceived political and economic instability may adversely affect, directly or indirectly, the Company's business and ultimately, its financial performance. Any potential investor in, and buyer of, the Subject Shares should pay particular attention to the fact that the Company and its subsidiaries are governed in the Philippines or in the country in which they respectively operate by a legal and regulatory system which, in some respects, may differ from that obtaining in other countries.

The contribution of each segment of the business to the consolidated revenues of the Company is as follows:

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

December 31, 2011	Philippines		Singapore/China	Europe/Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
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 Eliminations	
	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.

Please refer also to Note 28 ("Segment Information") of the Notes to Consolidated Financial Statements of the 2011 Audited Consolidated Financial Statements which is incorporated herein as Exhibit 1.

Item 2. Properties

IMI has production facilities in the Philippines (Laguna, Cavite and Taguig), China (Shenzhen, Jiaxing, Chongqing and Chengdu), Singapore, Bulgaria, Czech Republic, and Mexico. It also has a prototyping and NPI facility located in Tustin, California. Engineering and design centers, on the other hand, are located in the Philippines, Singapore, China, United States, Bulgaria and Czech Republic. IMI also has a global network of sales and logistics offices in Asia, North America, and Europe.

The Parent Company does not own land. As a result, it leases the land on which its manufacturing plants, office buildings and sales offices are located. The head office and main plant of IMI are located at North Science Avenue, Laguna Technopark, Biñan, 4024, Laguna,Philippines. The premises are leased from Technopark Land, Inc. On December 23, 2008, IMI renewed the lease for 3 years, which expired on 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 the lessor 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. IMI is liable to pay a monthly rent specified in the lease contract, exclusive of value added tax, which increases over the years. In the event of sale, transfer or disposition of the leased premises, the lessor shall ensure that the lease will be honored by the buyer.

IMI's subsidiaries, except for IMI-USA, IMI-Japan and Speedy-Tech Electronics (HK) Limited in Hong Kong, lease the land on which their respective manufacturing and office buildings are located. While the newly-acquired subsidiaries in Bulgaria, Czech Republic and Mexico own the land wherein their respective manufacturing and office premises are located.

The Company's global facilities and capabilities of each location as of December 31, 2011 are shown below:

Location	Floor Area (in square meters)	Capabilities

Philippines-Laguna	96,182	DFM, NPI, Test & System Dev't, SMT (inc. In-line SP-AOI, Post-Reflow AOI, X-ray), ICT, FCT, PCBA & Box-Build Assembly, COB (inc. DA of Imager Die), COF, Al Wirebonding , Robotic & selective wave soldering, ACF & Hotbar (Flex to rigid board), Heat stake & ultrasonic weld for plastic enclosure Class 10k Facility w/ Class 100 Laminar Flow Hood, LVHM and HVLM
Philippines-Cavite	2,350	SMT & PTH Lines, BGA, X-ray, ICT, Functional Testing, PCBA Assembly & Full System Box Build, NPI Center, LVHM
Singapore	8,048.22	SMT & PTH Lines, BGA, AOI, X-ray, ICT, Functional Testing, Test Development, H/W & S/W, PCBA Assembly & Full System Box Build, Central Warehouse, Logistics Services, HMLV
China-Liantang	18,600	Turnkey & Consignment, HMLV & LMHV, SMT & PTH Lines, BGA & COB, X-ray, AOI, ICT, Functional Testing, Test Development, H/W & S/W, PCBA Assembly & Full System Box Build, New Product Introduction (NPI) Center, Central Warehouse, Logistics Services, D&D Center
China-Fuyong	12,000	Turnkey & Consignment, HMLV & LMHV, SMT & PTH Lines, BGA & COB, X-ray, AOI, ICT, Functional Testing, Test Development, H/W & S/W, PCBA Assembly & Full System Box Build, New Product Introduction (NPI) Center, Central Warehouse, Logistics Services
China-Kiuchong	18,000	
China-Jiaxing	13,000	
China-Chengdu	7,500	
China-Chongqing	2,243	Consignment, HMLV, SMT & PTH Lines, BGA & COB, X-ray, AOI, PCBA Assembly & Full System Box Build, New Product Introduction (NPI) Center, Central Warehouse, Logistics Services
Hong Kong*	300	Procurement, marketing and supply chain facility
Philippines-PSi Taguig	8,607	Customer Specific Quality Requirements, e.g., Critical Part Monitoring (CPM), Reject Profile Analysis (RPA), Parts Average Test (PAT), and Statistical Bin Analysis; Medium to High Power Discrete Packages and Process including Large Diameter Wirebonding; Miniaturized Power Packaging – Power QFN, PowermiteTM and Process – Cu Clip and Au Wire/Al Wire Bond; High Reliability Hermetic Packages – Metal Cans and Ceramic Packages
Philippines-PSi Laguna	6,968	Power Management (IC) Discrete Packaging, e.g., 5 – 7L TO-220, Diversified Packaging – from Low to High Power and Small to Large Outline
Japan*	110	Offers technical, quality assurance, sales and commercial support in a broad range of industries for Japan-based clients

USA-Tustin, CA*	1,184	Engineering Development and Prototype Manufacturing Center, Full Range of Assembly Capabilities with focus on Precision Assembly; SMT; COB FCOF; Process Development
USA-Fremont, CA*	1,143	PV Module or Panel Design/co-Development (Material Qualification, Process Development), Solar Panel Testing and Certification, Solar Panel Prototyping Development, Low-Volume Manufacturing, Inverter Platform, EMS and Test Services for Control Electronics of Solar Systems
Botevgrad, Bulgaria	23,778	PCBA: SMT, COB/COF/ IC Encapsulation, Pin Through Hole, Automatic Pin Insertion, Wave Soldering, Selective Soldering System, BGA, X-ray, Nitrogen Equipment, Protective Coating, ICT/ FCT Test, Thermopaste Dispensing, AOI, Plastic Injection, Embedded Toolshop, Overmoulding, Box build: Mechanical Design and Assembly,
El Salto, Guadalajara, Mexico	18,000	PCBA: (Pb & LF): SMT, AOI, Pin Through Hole (Pin Insertion, Radial/Axial), Wave Soldering (Hot Bar and Selective), Protective Coating, ICT/ FCT Test, Plastic Injection : from 50 to 850T + Vertical Bi-injection (220T)/Individual Dryers for every Machine, supported by Embedded Toolshop (CNC, EDM,...) and 3D Inspection CMM Box built : Customized Operations for PCBA and Plastic Box assembly
Třemošná, Plzeňská, Czech Republic	7,740	PCBA: SMT; Pin Through Hole, Automatic Pin Insertion, Wave Soldering, UltraSonic Welding, Selective Soldering System, BGA, Protective Coating, RF Testing, ICT/ FCT Test, AOI, Mechanical Assembly
Total	245,753.57	

Intellectual Property

The table below summarizes the intellectual properties registered with the United States Patent and Trademark Office out of the Company's California and Singapore facilities, competency centers for Advanced Manufacturing Technology:

Name	Filing Date	Expiration
Anisotropic Bonding System and Method Using Dynamic Feedback	27 November 2000	26 November 2020
Traceless Flip Chip assembly and method	26 February 2001	25 February 2021
Manufacturing Method for Attaching Components to a Substrate	05 March 2001	04 March 2021

Passive circuitry for harmonic current regulation in a power supply by energy efficient input current shaping	16 September 2001	17 September 2020
Energy efficient method and apparatus for shaping input waveform (Singapore)	20 April 2000	19 April 2020
Self-coupled driver used in dual-switch forward power converter (Singapore)	27 February 2007	26 February 2027
Self-coupled driver used in dual-switch forward power converter (US)	9 January 2008	8 January 2028

Item 3. Legal Proceedings

There are no material pending legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years and the preceding years until January 31, 2012 to which the Company or any of its subsidiaries or its directors or executive officers is a party or of which any of its material properties are subject in any court or administrative government agency. In any event, below is the legal proceeding involving the Company that may be significant.

IMI filed a civil case on April 11, 2011 against Standard Insurance ("Standard") seeking to collect Standard's share in the loss incurred by IMI consisting in damage to production equipment and machineries as a result of the May 24, 2009 fire at IMI's Cebu facility which IMI claims to be covered by Standard's "Industrial All Risks Material Damage with Machinery Breakdown and Business Interruption" policy. The share of Standard in the loss is 22% or US $1,117,056.84 after its co-insurers all paid.

IMI had to resort to court action after Standard denied its claim on the ground that this is an excepted peril.

Standard filed a motion to dismiss on various grounds, such as lack of cause of action and of prescription. The RTC denied the motion to dismiss but Standard filed a Motion for Reconsideration, which is pending resolution.

Item 4. Submission of Matters to a Vote of Security Holders

Except for matters taken up during the annual meeting of stockholders, there was no other matter submitted to a vote of security holders during the period covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

The Company's common shares are listed in the Philippine Stock Exchange only on January 21, 2010. The market capitalization of the Company's common shares as of December 31, 2011, based on the closing price of ₱4.99/share, was approximately ₱7.2 billion. The price information of IMI's common shares as of the close of the latest practicable trading date, March 15, 2012, is ₱5.00 per share.

Holders

There are approximately 560 and 42 registered holders of common and preferred shares as of January 31, 2012. The following are the top 20 registered holders of the common shares of the Company:

	Stockholder Name	**No. of Common Shares**	**Percentage of Common Shares**
1.	AYC Holdings, Ltd.	957,537,373	66.7702%
2.	PCD Nominee Corporation (Filipino)	279,174,296	19.4672%
3.	POMS Investment Pte Ltd.	57,339,671	3.9983%
4.	2007 ESOWN Subscriptions	44,988,446	3.1370%
5.	2009 ESOWN Subscription	30,509,154	2.1274%
6.	2004 ESOWN Subscription	21,177,748	1.4767%
7.	Mitsubishi Corporation	12,079,323	0.8423%
8.	SIIX Corporation	6,581,622	0.4589%
9.	PCD Nominee Corporation (Non-Filipino)	5,894,108	0.4110%
10.	Chow Phui Kheong	3,164,906	0.2206%
11.	Arthur R. Tan	1,955,451	0.1363%
12.	Kwok Kai Ming	1,698,768	0.1184%
13.	Rafael Nestor Velez Mantaring	1,057,930	0.0737%
14.	Kot Yiu Kuen	490,244	0.0341%
15.	Masaharu Nishii	414,148	0.0288%
16.	Josef Pfister	315,860	0.0220%
17.	Transtechnology Pte. Ltd.	304,836	0.0212%
18.	Timothy Patterson	255,696	0.0178%
19.	Shong Cheng Yeh	225,617	0.0157%
20.	Andrew C. Carreon	210,573	0.0146%

Dividends

Stock Dividend		
PERCENT	RECORD DATE	PAYMENT DATE
15%	Aug. 31, 2010	Sept. 24, 2010

Cash Dividends			
CLASS	PAYMENT DATE	RATE	TERM / RECORD DATE
Common shares	June 6, 2009	n/a*	March 26, 2009
Common shares	May 27, 2010	USD0.0024/PhP0.11	April 30, 2010
Common shares	April 4, 2011	USD0.00099/ PhP0.044	March 9, 2011

* *The Board declared a special cash dividend in 2009 amounting to $2.0M apportioned to all the common shareholders.*

Dividend policy

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors.

Cash dividends are subject to approval by the Company's Board but no stockholder approval is required. Property dividends which may come in the form of additional shares of stock are subject to approval by both the Company's Board of Directors and the Company's stockholders. In addition, the payment of stock dividends is likewise subject to the approval of the SEC and PSE.

Item 6. Management's Discussion and Analysis or Plan of Operation.

Results of Operations

Revenues, gross profit, net income, and the related computed EBITDA and basic earnings per share, for years ended 2011, 2010 and 2009 are shown on the following table:

	For the years ended 31 December		
	2011	**2010**	**2009**
	(in US$ thousands, except Basic EPS)		
Revenues from sales and services	575,454	412,327	395,502
Cost of goods sold and services	537,276	367,852	350,912
Gross profit	38,178	44,475	44,591
Net income attributable to equity holders of the Parent Company	3,289	4,739	10,066
EBITDA	20,309	30,242	30,123
Basic Earnings per Share (EPS)	0.001	0.002	0.006

2011 vs. 2010

Revenues from Sales and Services

The Company recorded US$575.5 million consolidated revenues from sales and services in 2011, a 40% increase from last year's $412.3 million. The Company's operations in China and Singapore posted US$279.7 million in combined revenues in 2011, a 12% year-on-year growth due mainly to new turnkey programs for major customers. The 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 the year, IMI's assembly operations for the storage device manufacturers also increased, as hard disk drive manufacturers in flood-plagued Thailand transferred production to the Philippines. The increase can also be attributed to full year revenue contribution of PSi Technologies, Inc. (PSi) acquired in 2010 which posted revenue of US$74.0 million and newly-acquired entities in Europe and Mexico (EPIQ subsidiaries) which contributed 5-month revenue amounting to $US66.2 million.

Cost of Goods Sold and Services

The increase in cost of goods sold and services in absolute amount by 46% was driven mainly by higher revenues from existing businesses and revenue contribution of entities acquired in 2010 and 2011. Significant increase, however, can be attributed to material-related costs as a result of higher revenues from turnkey businesses. Direct labor, on the other hand, increased as a result of mandated wage increases particularly in China. The under-utilized facility specifically in it's PSi subsidiary also caused overhead to increase.

Gross Profit and Gross Profit Margin

Consolidated gross profit, in absolute amount, declined by US$6.3 million or 14%. Gross profit margin went down from 10.8% to 6.6% due to higher direct material and labor costs particularly in China.

Operating Expenses

Operating expenses grew by 31% from US$40.2 million in 2010 to US$52.7 million in 2011. This resulted from various provisions made during the end of the year (e.g., provisions for bad debts, allowance for obsolescence, etc.) and one-time expenses related to key acquisition.

Net Income

Against a backdrop of weak global economic growth, higher material and direct labor costs and lower factory utilization rate caused IMI's margins to decline. This resulted to consolidated net income of US$3.3 million (inclusive of non-recurring items), which was 31% lower than previous year's net income of US4.7 million. Without the income resulting from the acquisition of EPIQ subsidiaries, mark-to-market gains on derivatives and one-time expenses, the consolidated bottomline would be at US$0.2 million.

EBITDA

Decrease in EBITDA by US$9.9 million was mainly driven by decline in gross profit of US$6.3 million and various provisions made during the year.

Financial Condition

The Company continued to maintain financial stability, ending the year with a positive cash balance of US$54.1 million, an increase of US$15.9 million from last year's US$38.1 million.

The Company's current ratio and debt-to-equity ratio are 1.5:1 and 0.42:1, respectively.

Prospects for the future

The Company is cautiously optimistic in the face of market uncertainty. It banks on its expanded reach and capability, and growing presence in high-margin and less volatile markets such as the automotive and industrial sectors.

Key Performance Indicators of the Company

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

		As of end	
	31 Dec 2011	**31 Dec 2010 (as Restated)**	**31 Dec 2009**
Performance indicators			
Liquidity:			
Current ratio	1.51x	1.23x	1.89x
Solvency:			
Debt-to-equity ratio	0.42x	0.33x	0.29x

For the years ended
31 December

	2011	2010	2009
Operating efficiency:			
Revenue growth	40%	4%	(10%)
Profitability:			
Return on equity	2%	3%	6%
Return on assets	1%	1%	3%
[1]EBITDA margin	4%	7%	8%

In the above:

(i) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.

(ii) There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

(iii) Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

(iv) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

Causes for any material changes
(Increase or decrease of 5% or more in the financial statements)

Income Statement items - YTD December 31, 2011 versus YTD December 31, 2010

40% increase in Revenues from sale of goods and services (US$412.3M to US$575.5M)
Increase was mainly driven by five-month revenue contribution of newly acquired entities in Europe and Mexico of $66.2m and full year revenue contribution of PSi in 2011 of $74.0 million as against last year's three month contribution of $19.3 million on the year of acquisition. On the other hand, the Company's China and Singapore operations increased revenues by US$30.9 million or 12% mainly due to new turnkey programs for major customers. The Philippine operations also increased by $10.8 million or an 8% increase year-on-year due to strong programs in the automotive and industrial sectors.

46% increase in Cost of goods sold and services (US$367.9M to US$537.3M)
Primarily due to increase in turnkey businesses that resulted to higher direct material cost, mandated wage increase particularly in China and higher manufacturing overhead due to unutilized capacity of facilities and machineries in some of its Philippine plants.

31% increase in Operating expenses (US$40.2M to US$52.7M)
Brought about by various provisions made towards the end of the year and one-time expenses related to the acquisition of EPIQ subsidiaries.

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

473% increase in Net finance and other income (US$3.6M to US$20.5M)
Increase pertains mainly to the gain on bargain purchase from the newly acquired entities in Europe and Mexico of US$13.0 million and mark-to-market gains on derivatives of US$6.2 million. These were offset by impairment loss recognized on goodwill of US$2.7 million and increase in interest expense pertaining to additional bank loans availed during the year and existing loans of acquired entities.

37% increase in Provision for income tax (US$3.4M to US$4.7M)
Increase was caused by expiration of some the Parent Company's entitlements to Income Tax Holidays and additional provision for taxes from EPIQ subsidiaries. The increase can be attributed also to deferred tax liabilities recognized from transactions related to acquisition of subsidiaries and derivative transactions.

110% decrease in Other comprehensive income (US$0.06M to US$6.01M loss)
Comprehensive loss recognized resulted from cumulative translation adjustments arising from translation of subsidiaries' functional currency to US$ reporting currency.

516% increase in Noncontrolling interests in net loss (US$0.32M to US$2.0M)
Increase can be attributed to full-year profit and loss of PSi which was acquired during the last quarter of 2010.

Balance Sheet items - December 31, 2011 versus December 31, 2010 (As Restated)

42% increase in Cash and cash equivalents (US$38.1M to US$54.1M)
Increase can be attributable to the Company's financing activities to support planned expansions.

29% increase in Loans and receivables (US$104.3M to US$134.7M)
Arose from increase in revenues and trade receivables from the new subsidiaries which implement longer credit terms for their customers.

47% increase in Inventories-net (US$54.7M to US$80.4M)
Due to increase in turnkey businesses for which the Company is responsible in providing materials and acquisition of EPIQ subsidiaries which also have turnkey arrangements with customers.

65% increase in Derivative assets (US$1.7M to US$2.8M)
Arising from mark-to-market valuations of put and call options related to the acquisition of PSi in 2010.

213% increase in Other current assets (US$2.5M to US$8.8M)
Increase is mainly due to tax credits from the newly acquired subsidiary in Mexico.

31% increase in Property, plant and equipment – net (US$74.6M to US$97.5M)
Arising mainly from the fair value of existing property, plant and equipment of EPIQ subsidiaries at the time of acquisition amounting to US$39.2M. Capital expenditures to set-up new production lines for new projects amounted to US$14.8 million. These were offset by depreciation recognized during the year amounting to US$24.6 million, disposals of assets with a net book value of US$2.5 million and foreign exchange differences arising from subsidiaries with functional currencies other than US$ amounting to $4.0 million.

695% increase in Intangible assets – net (US$0.9M to US$7.3M)
Increase pertains to valuation of customer relationship in one of the newly acquired entities in Europe amounting to US$6.8 million.

8% increase in Available-for-sale financial assets (US$0.38M to US$0.41M)
Represents increase in fair value of club shares classified as available-for-sale financial assets.

16% increase in Noncurrent receivables (US$0.18M to US$0.21M)
Increase in advances to customers for equipment purchased by the Company that are reimbursable from the former.

25% decrease in Deferred income tax assets (US$1.0M to US$0.7M)
Due to reversals of allowance for inventory obsolescence.

42% increase in Accounts payable and accrued expenses (US$101.2M to US$144.0M)
Increase pertains substantially to trade payables and accruals of EPIQ subsidiaries.

118% increase in Trust receipts and notes payable (US$17.9M to US$39.0M)
Increase represents existing loans of the newly acquired subsidiary in Bulgaria of US$11.1M, increase in loans payable of the Parent Company by US$6.5M and increase in PSi of US$3.5M.

27% decrease in Iincome tax payable (US$2.3M to US$1.7M)
Pertains to decrease in taxes payable in its China and Singapore sites.

100% increase in Provisions (US$nil to US$0.2M)
Relates to provision for restructuring recognized in its Singapore entity during the year.

99% decrease in Derivative liabilities (US$3.8M to US$0.03M)
Decrease is attributable to the exercise of the put option related to the acquisition of its PSi subsidiary in 2010.

100% decrease in Current portion of long-term debt (US$38M to US$nil)
Pertains to repayment of the Parent Company's long-term debt of US$30.0 million and remaining installment payment for the five-year term clean loan of its Singapore subsidiary amounting to US$8.0M.

100% increase in Long-term debt (US$nil to US$60.4M)
Relates to availment of a US$40.0 million loan of the Parent Company with the same terms as the previous loan and deferred payment to the seller arising from the acquisition of the subsidiaries in Europe and Mexico of US$20.4 million.

446% increase in Deferred tax liabilities (US$0.9M to US$4.8M)
Attributable to the recognition of deferred tax liability on the increase in fair value of property, plant and equipment and valuation of intangible assets related to acquisition of Europe and Mexico entities and valuation of call options.

10% decrease in Deferred revenue (US$2.6M to 2.3M)
Pertains to amortization of cash advances made by a customer of PSi related to a subcontracting service agreement for the facilities support services that will be rendered.

35% increase in Pension liability (US$1.0M to US$1.3M)
Due to retirement fund pension liability of newly acquired subsidiary in Europe.

418% increase in Obligation under finance lease (US$0.1M to 0.6M)
Represents increase in lease obligations of the newly acquired entities in Europe related to machineries, production equipments and transportation equipment.

38% decrease in Other long-term employee benefits (US$0.4M to US$0.2M)

Decline in other long-term benefits in its PSi subsidiary.

242% increase in Subscribed capital stock (US$1.9M to US$6.5M)
Primarily attributable to the subscription agreement entered in relation with the acquisition of EPIQ subsidiaries as part of the purchase price consideration equivalent to 200 million shares of the Parent Company.

71% increase in Additional paid-in capital (US$34.6M to US$59.1M)
Relates also to the subscription agreement in relation to the acquisition of EPIQ subsidiaries which pertains to the fair value of the shares at the time of acquisition in excess of par.

9% decrease in Subscriptions receivable (US$11.4M to US$10.4M)
Mainly represents forfeitures of ESOWN and collections of subscriptions, net of accretion of receivables.

49% decrease in Retained earnings appropriated (US$60.7M to US$30.7M)
Due to reversals of appropriations amounting to US$30.0 million.

82% increase in Retained earnings unappropriated (US$32.7M to US$59.7M)
Increase was caused by reclassification from appropriated to unappropriated of US$30.0 million, and net income attributable to parent company of US$3.3 million. The increase was offset by dividend declaration amounting to US$6.3 million.

29% increase in Reserve for fluctuation on available-for-sale financial assets (US$0.11M to US$0.14M)
Represents changes in the fair values of the Company's investments in club shares.

100% increase in Cumulative translation adjustment (US$nil to US$6.0M)
Exchange differences arising from translation of newly acquired entities to the Company's reporting currency.

256% decrease in Noncontrolling interests in consolidated subsidiaries (US$0.8M to US$-1.2M)
Attributed to full-year profit and loss of PSi which was acquired during the last quarter of 2010.

2010 vs. 2009

Revenues from Sales and Services

The Company posted consolidated revenues from sales and services of US$412.3 million in 2010, 4 percent higher than previous year's revenues of US$395.5 million. The increase was brought about by the steadfast performance of the Singapore/China operation whose sales increased by 25% from $198.8 million the previous year to $248.8 million this year and which now accounted for 60% of consolidated revenues from the 50% share in 2009. The growing business in Singapore/China more than offset the decline in the top line result of the Philippine operation. Philippine revenues this year slipped 27% to $143.4 million because of loss of major turnkey customer.

Overall, sales from telecommunication and consumer segments made up the bulk of consolidated sales at 27% and 24%, respectively, followed by automotive, industrial, computer peripherals and medical markets. The Company is currently building on the automotive business as a major growth driver and is now continuously strengthening its capability in this area. The automotive business has posted the highest increase this year at 52% among the Company's business segments.

Since the start of the year, Europe remains to be the biggest market of the Company's product, getting 37% of the total revenue, while US and Asia are showing steady growth.

Cost of Goods Sold and Services

Cost of Goods Sold and Services grew 5% in absolute amount because of higher revenue. The continued shift towards turnkey business arrangement has pulled cost upward, particularly direct materials and direct labor cost of Singapore/China. Under turnkey arrangement, the Company owns the materials in addition to the labor and facility whereas under a consignment arrangement, the materials are provided by the customer. The unutilized capacity of Philippines also contributes to the increase in manufacturing overhead.

Gross Profit and Gross Profit Margin

The Company's operations produced Gross Profit of US$44.5 million which, in absolute terms, slightly lower than last year. The continuous conversion of turnkey businesses results a slim decline in gross profit rate of 10.2 percent from the 11.2 percent margin reported last year.

Operating Expenses

Company's Operating Expense amounted to US$40.2 million, 14% higher than last year. Excluding the one time expenses, (3rd tranche esown expense, provision for unsettled insurance claim and accruals for expenses related to due diligence) operating expense should only be 1%, slightly higher compared to last year.

Net Income

Net Income closed at US$4.7 million, 53% lower than the US$10.1 million reported for the same period last year. Without the last year's one-time gains from insurance recovery of US$4.5 million (net of expenses) and this year's reversal on the fx gain from prior year provisions of $2.3 million and one-time expenses of US$4.6 million, this year income would be US$7.0 million, 23% better than last year. The improvement was largely attributable to the sustained strong contribution of the Singapore/China operation.

EBITDA

EBITDA (Operating income, depreciation, amortization and esown expenses) decreased by 5%, US$28.4 million against last year of US$29.8 million brought about by higher operating expenses.

Financial Condition

The Company ended the year with cash balance of US$38.1 million, 29% lower than the US$53.9 million as of December 31, 2010, and net debt of US$17.8 million, a reverse of the zero net debt position of last year. This decrease in cash was attributable to the increased spending on operating and capital expenditures requirements necessitated by the pick-up in business activity levels following the improvement in the general economic environment. Current and debt-to-equity ratios have remained healthy at 1.24:1 and 0.33:1 respectively, from the 1.89:1 and 0.29:1 as of December 31, 2009.

Prospects for the future

The Company ensures it has sufficient resources to cover operating requirements and debt obligation as well as fund ongoing growth initiatives. It maintains adequate loan facilities to complement cash flows from operations. In addition, it has laid out financial strategies and controls to ensure continued liquidity and stable financial position.

Key performance indicators of the Company

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

	As of end		
	31 Dec 2010	**31 Dec 2009**	**31 Dec 2008**
Performance indicators			
Liquidity:			
Current ratio	1.24x	1.89x	1.70x
Solvency:			
Debt-to-equity ratio	0.33x	0.29x	0.44x

	For the years ended 31 December		
	2010	**2009**	**2008**
Operating efficiency:			
Revenue growth	4%	(10%)	5%
Profitability:			
Return on equity	3%	6%	(11%)
Return on assets	1%	3%	(5%)
[2]EBITDA margin	7%	8%	11%

In the above:

(v) There are no known trends, events or uncertainties that will result in the Company's liquidity increasing or decreasing in a material way.

(vi) There were no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

(vii) Likewise, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

(viii) There are no seasonal aspects that may have a material effect on the financial condition of the Company.

Causes for any material changes
(Increase or decrease of 5% or more in the financial statements)

Income Statement items - YTD December 31, 2010 versus YTD December 31, 2009

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

5% increase in cost of goods sold and services ($350.9m to $367.9m)
Primarily due to increase in turnkey business that resulted to higher direct material cost, increase salary wage of direct labor of Singapore/China and higher manufacturing overhead due to unutilized capacity of both facility and machinery in Philippine plant.

14% increase in operating expenses ($35.2m to $40.2m)
Brought about by the one-time expenses of the 3rd ESOWN tranche, provision for unsettled insurance claim and accruals for expenses related to due diligence.

38% decrease in net finance and other Income ($5.7m to $3.6m)
Attributable to the significant one-time gain from insurance recovery recognized in 2009.

32% Decrease in provision for income tax ($5.0m to $3.4m)
Attributable to the transfer pricing scheme made between China, Singapore and Hong Kong related transactions.

67% increase in other comprehensive income ($32.9m to $55.1m)
Came from increase in the fair value of club shares classified as available-for-sale financial assets.

601% decrease in Minority Interest ($64.7k to $-324.3k)
Due to last quarter net loss of PSi Technologies Inc. a newly acquired company

Balance Sheet items - December 31, 2010 versus December 31, 2009)

29% decrease in Cash and cash equivalents ($53.9m to $38.1m)
Represents spending for working capital requirements, capital expenditure (set up of new production lines for new projects and replacement of equipment damaged in Cebu fire), release of dividends to stockholders, and payment of loans.

15% increase in Loans and receivables-net ($95.8m to $109.9m)
Due to higher sales from Singapore/China operation and from newly acquired company

72% increase in Inventories-net ($31.9m to $54.7m)
Due to the increase in volume and materials lead time requirement of China turnkey businesses.

100% increase in Derivative assets ($0 to $1.7m)
Mainly due to market to market of derivative instruments on call/put option of acquired company and simple forward contracts.

53% increase in other current assets ($1.6m to $2.5m)
Represents prepayments made by Philippine site and tax credits of China sites.

18% increase in Property, plant and equipment ($63.1m to $74.6m)
Substantially represents acquisition of machinery and facilities equipment related to the set up of new production lines for new projects, replacement of equipment destroyed in Cebu fire in 2009 and additional machinery and equipment from newly acquired company.

21% increase in Goodwill ($46.2m to $55.7m)
Additional goodwill derived from newly acquired company.

67% decrease in Intangible assets ($2.9m to $0.9m)
Amortization during the period of intangible asset accounts.

24% increase in Available-for-sale financial assets ($309k to $383k)
Represents increase in fair value of club shares classified as available-for-sale financial assets.

67% decrease in Noncurrent receivables ($559k to $184k)
Largely due to payment of monthly accounts receivable billable items and the balance reclassed to current portion of receivable maturing within one year.

6% increase in Deferred income tax assets ($109k to $115k)
Refers to unutilized business losses and capital allowances of Singapore/China subsidiaries that can be deductible in the future for tax purposes.

47% decrease in Other noncurrent assets ($2.8m to $1.5m)
Due to reclassification to cash and cash equivalents of two-year time deposits maturing within the next twelve months.

27% increase in Accounts payable and accrued expenses ($83.2m to $76,512)
Mainly due to the additional accounts payables from new acquisition.

100% increase in Current portion of long-term debt ($8.0m to $38.0m)
Represents reclassification of long-term debt maturing within one year

678% increase in Loans payable ($3.3m to $17.9)
Mainly due to availment of additional $15 million loans of Philippine site

100% increase in Derivative liabilities ($0 to $3.8m)
Mainly due to market to market of derivative instruments on call/put option of acquired company.

30% decrease in Income tax payable ($3.3m to $2.3m)
Largely due to payment of taxes by China sites.

100% decrease in Provisions ($44k to $0)
Reversal of provisions made for warranty and restructuring.

100% increase in Deferred Revenue ($0 to $2.6m)
Represents advance payment on the subcontracting services to be rendered by our newly acquired company to one of its major customer

100% increase in Pension liability ($0 to $986k)
Due to retirement fund pension liability of newly acquired company

4,375% increase in Accrued rent ($2,302 to $6,262)
Operating lease on acquired company with escalating rental payments

99% decrease in Long-term debt ($38.0m to $0.4m)
Reclassification of long-term debt to current portion of long-term debt maturing within one year.

62% decrease in Obligation under finance lease ($315k to $118k)
Payment of regular monthly rentals of lease agreement classified as finance lease.

23% increase in Capital stock - common ($20.3m to $24.8m)
From declaration of stock dividends.

12% decrease in Subscribed capital stock ($2.2m to $1.9m)
Largely due to payment made on subscriptions

14% increase in Additional paid-in capital ($30.5m to $34.6m)
Primarily due to issuance of ESOWN third tranche and accretion of subscriptions receivable.

12% increase in Subscriptions Receivable ($10,153 to $11,767)
Due mainly from issuance of ESOWN third tranche and accretion of subscriptions receivable.

33% decrease in Retained earnings: Appropriated ($60.7m to $40.7m)
Reclassification of Appropriated Retaining Earnings of $20M to Unappropriated Retained Earnings

41% increase in Retained earnings: Unappropriated ($37.5m to $52.7m)
Declaration of cash and stock dividends and reversal of Appropriated to Unappropriated Retained Earnings

97% increase in Reserve for fluctuation on available-for-sale financial assets ($57k to $112k)
Represents changes in the fair values of the Company's investments in club shares.

432% increase in Non-controlling interest in a consolidated subsidiary ($292k to $1,554k)
Due to net loss in fourth quarter of the newly acquired company with ownership of 55.78%

Item 7. Financial Statements and Supplementary Schedules

Please see attached Exhibit 1.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year except for the adoption of the following new and amended standards and interpretations as of January 1, 2011:

- 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 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 Requirements*

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.

Information on Independent Public Accountant

a. The principal accountants and external auditors of the Company is the accounting firm of SyCip, Gorres, Velayo & Company (SGV & Co.). The same accounting firm is being recommended for re-election at the scheduled annual stockholders' meeting.

b. Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor of the Company, and Ms. Josephine Adrienne A. Abarca has been the Partner In-Charge effective audit year 2009.

c. *Changes in and disagreements with accountants on accounting and financial disclosure.*

   The Company has engaged the services of SGV & Co. during the two most recent fiscal years. There are no disagreements with SGV & Co. on accounting and financial disclosure.

External Audit Fees and Services

The Company paid or accrued the following fees, including VAT, to its external auditors in the past two years:

	Audit & Audit-related Fees	Tax Fees	Other Fees
2011	₱ 3.05M	-	₱ 0.22M
2010	₱ 3.7M	-	₱ 6.2M

SGV & Co. was engaged by the Company to audit its annual financial statements.

Tax fees

No tax consultancy services were secured from SGV & Co.

All other fees

In 2011, SGV & Co. billed the Company for an aggregate fee of ₱0.22M for the review of the Company's interim condensed consolidated financial statements for the period March 31, June 30 and September 30, 2011 in connection with the Company's compliance to SEC Form 17-Q.

In 2010, SGV & Co. billed the Company for an aggregate fee of ₱6.2M for the following services:

i.) Financial and Tax due diligence review services for the acquisition of PSi Technologies Inc.

ii) Assist in the development and implementation of an Enterprise Risk Management Program.

iii) Preparation of Long Form Report and review of financial statements translated to peso related to the Company's increase in authorized capital stock and application of stock dividend.

The Company's Audit Committee (composed of Hiroshi Nishimura, Chairman, Rafael Ma. C. Romualdez and Jaime P. Villegas) recommended to the Board the appointment of SGV & Co. as its external auditor and the fixing of the audit fees. Likewise, the other services rendered by SGV & Co. were approved by the Board upon the recommendation of the Audit Committee. The Board then recommends to the stockholders, for their approval, the said recommendation.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

The write-ups below include positions held by the directors and executive officers currently and during the past five years and their personal circumstances as of December 31, 2011.

Board of Directors

Jaime Augusto Zobel de Ayala	Chairman of the Board of Directors
Fernando Zobel de Ayala	Director
Arthur R. Tan	Director, President & Chief Executive Officer
Diosdado P. Banatao	Independent Director
Jose Ignacio A. Carlos	Director
John Eric T. Francia	Director
Alelie T. Funcell	Independent Director
Delfin C. Gonzalez, Jr.	Director
Delfin L. Lazaro	Director
Hiroshi Nishimura	Independent Director
Rafael Ma. C. Romualdez	Director

Jaime Augusto Zobel de Ayala, Filipino, 52, has served as Chairman of the Board of Directors of IMI since 1995. He also holds the following positions: Chairman and CEO of Ayala Corporation; Chairman of Globe Telecom, Inc. and Bank of the Philippine Islands; Co-Vice Chairman of Mermac, Inc., and Ayala Foundation, Inc.; Director of Ayala Land, Inc., Manila Water Company, Inc., BPI PHILAM Life Assurance Corp., Alabang Commercial Corporation, and Ayala International Pte Ltd.; Chairman of Harvard Business School Asia-Pacific Advisory Board, World Wildlife Fund Philippine Advisory Council and Children's Hour Philippines, Inc.; Vice Chairman of the Asia Business Council; Co-Vice Chair of the Makati Business Club; Member of Harvard University Asia Center Advisory Committee; Member of the Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, The Asia Society, International Business Council of the World Economic Forum, Pacific Basin Economic Council, Philippine Economic Society and Toshiba International Advisory Group; and Member of the Board of Trustees of the Eisenhower Fellowships, and the Singapore Management University.

Fernando Zobel de Ayala, Filipino, 51, has served as a director of IMI since 1995. He also holds the following positions: President and Chief Operating Officer of Ayala Corporation; Chairman of Ayala Land, Inc., Manila Water Company, Inc., Alabang Commercial Corp., Ayala DBS Holdings, Inc., AC International Finance Limited and Ayala International Pte, Ltd.; Co-Vice Chairman of Ayala Foundation, Inc. and Mermac, Inc.; Board Member of Globe Telecom, Inc., Bank of the Philippine Islands, Asiacom Philippines, Inc.; Member of The Asia Society, World Economic Forum, INSEAD East Asia Council and World

Presidents' Organization; Vice Chairman of Habitat for Humanity International and the chairman of the steering committee of Habitat for Humanity's Asia Pacific Capital Campaign; a member of the Board of Directors of Caritas Manila, Kapit Bisig para sa Ilog Pasig Advisory Board, Pilipinas Shell Corporation and Pilipinas Shell Foundation.

Arthur R. Tan, Filipino, 52, is a member of the Board of Directors of IMI since 2001. He has been the President and Chief Executive Officer of IMI since 23 April 2002. Concurrently, he is the President and Chief Executive Officer of PSi Technologies Inc., the President of Speedy-Tech Electronics Ltd., and Chairman of the Board of Speedy-Tech Philippines, Inc.

Diosdado P. Banatao, American, 65, has been an independent director of IMI since 31 January 1994 up to the present. He has been a Managing Partner of Tallwood Venture Capital, a venture capital firm, since July 2000. Prior to forming Tallwood, he was a venture partner at Mayfield Fund from January 1998 to May 2000. He co-founded three technology start-ups: S3 Incorporated (SBLU), Chips and Technologies (INTC) and Mostron. He also held positions in engineering and general management at National Semiconductor Corporation, Seeq Technologies and Intersil Corporation. He currently serves on the board of directors at Ikanos Communications. He previously served as Chairman and led investments in SiRF Technology, acquired by CSR (CSR); Marvell Technology Group (MRVL), Acclaim Communications, acquired by Level One (INTC); Newport Communications, acquired by Broadcom (BRCM), Cyras Systems, acquired by Ciena (CIEN), and Stream Machine, acquired by Cirrus Logic (CRUS). He has also served on the board of directors of various privately held companies in the semiconductor industry.

Jose Ignacio A. Carlos, Filipino, 42, has been a Director of IMI since 2007 up to the present. Concurrently, he is the President of Polymer Products Philippines, Inc. and AVC Chemical Corporation. He is also a member of the Board of Directors of Resins, Inc., Riverbanks Development Corporation and Mindanao Energy Systems, Inc.

John Eric T. Francia, Filipino, 40, is a Director of IMI since July 2010. He is a Managing Director and a member of the Management Committee of Ayala Corporation since January 2009. He is the Head of Ayala's Corporate Strategy and Development Group, which is responsible for overseeing Ayala's portfolio strategy and new business development. He is also holds the following positions: President of AC Energy Holdings, Inc., which is Ayala's holding company for its investments in the power sector; Director of Manila Water Company, LiveIt Investments Ltd., Integreon Managed Solutions (Philippines), Inc., and AC Energy Holdings, Inc. Prior to joining Ayala, Mr. Francia was a senior consultant and member of the management team of Monitor Group, a strategy consulting firm based in Cambridge, Massachusetts, USA. Prior to consulting, he spent a few years in the field of academe and media.

Alelie T. Funcell, Filipino, 55, has been an independent director of IMI since April 2010 up to the present. She is the Founder, CEO, and President of Renewable Energy Test Center. She served as Chief Operating Officer and Senior Vice President of Quality at Solaria, Inc., a manufacturer of Concentrator Photovoltaic products and Vice President of Supplier Management and Manufacturing Operations of Xilinx, Inc., a billion dollar semiconductor company. Prior to Xilinx, she also worked in several semiconductor companies, including Intel, IDT and Silicon Systems. She is credited with numerous patents in the Semiconductor Packaging and Solar Industry. She is twice a recipient of the prestigious S.C. Valley YWCA "Tribute to Woman in the Industry" (TWIN) Award in 1994 while at IDT and in 2000 while at Xilinx. She was President of the Filipino-American Association of Milpitas, California in 1994 to 1996, a very active Bay area Filipino organization. Recently, she received an award from the FWN, as one of the 100 Most Influential Filipina Women in the United States in 2009.

Delfin C. Gonzalez, Jr., Filipino, 62, joined the IMI board in July 2010 and became a member of the IMI's Finance Committee. He is the Chief Financial Officer of Ayala Corporation and is also a member of its Management Committee and Finance Committee. He joined Ayala Corporation in late 2000, assigned as Chief Finance Officer for its subsidiary, Globe Telecom, Inc. until early 2010. He also holds the following positions in various companies of the Ayala Group: Chairman and President of Water Capital Works, Inc., and Azalea Technology Investments, Inc.; Chairman of Darong Agricultural Development Corporation and AYC Finance Ltd.; and Director of A.C.S.T Business Holdings, Inc., AC International Finance, Ltd., Asiacom Philippines, Inc., Ayala Aviation Corporation, AYC Holdings Ltd., Michigan Holdings, Inc., AC Energy Holdings, Inc., MPM Noodles Corporation, LiveIt Investments, Ltd., Azalea International Venture Partners Ltd., Ayala Automotive Holdings Corp., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., and various Ayala international companies.

Delfin L. Lazaro, Filipino, 65, has been a director of IMI since 02 May 2000. He holds the following positions: Chairman of Philwater Holdings Company, Inc., Atlas Fertilizer & Chemicals, Inc., Chairman and President of Purefoods International, Ltd. and A.C.S.T. Business Holdings, Inc.; Director of Ayala Corporation, Globe Telecom, Inc., Ayala Land, Inc., Manila Water Co., Inc., Ayala DBS Holdings, Inc., AC Energy Holdings, Inc., Ayala International Holdings, Ltd., Bestfull Holdings Limited, AG Holdings, AI North America, Inc., Probe Productions, Inc. and Empire Insurance Company; and Trustee of Insular Life Assurance Co., Ltd.

Hiroshi Nishimura, Japanese, 59, has been an independent director of IMI since April 2010 up to the present. He is the Chairman and President of Linkwest International Consultancy Services, Inc. He also serves as a Consultant to the Jesus V. Del Rosario Foundation, Inc. and a Senior Adviser of Device Dynamics Asia Philippines, Inc. He served as President of Panasonic Communications Philippines Corporation (PCP), formerly known as Kyushu Matsushita Electronics Philippines (PKME) from 2000-2007.

Rafael Ma. C. Romualdez, Filipino, 48, has been a Director of IMI since 1997 up to the present. He is presently a Director of Resins, Incorporated, RI Chemical Corporation and Claveria Tree Nursery, Inc.; and Chairman of the Philippine Iron Construction and Marine Works, Inc., Pigmentex Incorporated, Pacific Resins, Inc., and MC Shipping Corp.

Nominees to the Board of Directors for election at the stockholders' meeting:

All the above incumbent directors.

Management Committee Members / Key Executive Officers

*	Jaime Augusto Zobel de Ayala	Chairman of the Board
*	Arthur R. Tan	President & Chief Executive Officer
**	Jerome S. Tan	Chief Financial Officer
**	Linardo Z. Lopez	Senior Managing Director, Global Head of Materials and Supply Chain
**	Shong Cheng Yeh	Senior Managing Director- COO Asia
**	Andrew C. Carreon	Managing Director, Chief Information Officer and COO of PSi Technologies, Inc.
	Jeremy G. Cowx	Managing Director, Sales Director
**	Michael R. Hansson	Managing Director, Chief Technology Architect for Test & Systems Development
	Lucrecio B. Mendoza	Managing Director, Head of Test and Systems Development and Value Engineering
	Mary Ann S. Natividad	Managing Director- Global Head of Key Accounts Management
**	Timothy Patterson	Managing Director – USA and Global Head of Advanced Manufacturing Engineering
**	Melita R. Tomelden	Managing Director, Global Head of Quality & Reliability
	Reynaldo N. Torda	Managing Director – Head of Operations – PSi Technologies, Inc.
	Monina S. Lasala	Vice President, Global Head of Human Resources
	Rafael Nestor V. Mantaring	Vice President, Head of Design and Development
	Jaime G. Sanchez	Vice President, Deputy CFO and Group Controller
**	Olaf Gresens	Global Head of Sales and Marketing
	Joselito B. Bantatua	Assistant Vice President, General Manager- Jiaxing
	Fernandel I. Evangelista	Assistant Vice President, Energy Solutions
	Dominador P. Leonida III	Assistant Vice President, Deputy Head of Test and Development System

Geronimo B. Magsombol	Assistant Vice President, Plant Engineering Head
Jawaharlal K. Milanes	Assistant Vice President, General Manager-Laguna 1
Anthony Raymond P. Rodriguez	Assistant Vice President, Head – Treasury & Credit
Mario Bernardo N. Santos	Assistant Vice President, General Manager-Laguna 2
Sheila Marie U. Tan	Corporate Secretary
Christian Gerard P. Castillo	Assistant Corporate Secretary

** Members of the Board of Directors*

*** Management Committee members*

Jerome S. Tan, Singaporean, 50, is the Chief Financial Officer of IMI. He oversees Finance, Treasury, Credit, Controllership and ICT functions of the IMI global operation. He brings more than 20 years of broad-based experience and various achievements in finance, strategic planning, business development and acquisition/integration. He has assumed regional leadership roles in multinational Banking and Finance companies, and Food and Beverage industry located in different regions in the Asia Pacific. Prior to joining IMI, he was connected with NBC Universal, the media unit of General Electric Corporation by serving as the CFO of the TV Group and was responsible for the overall Finance function in Asia Pacific for CNBC and Universal Network. He was also a key member of the management team of San Miguel Brewing International Ltd., managing Treasury and Financial Planning, and Regional Business Planning and Development. Before his exposure in the food and beverage industry, he was an Assistant Director in First Pacific Bank Asia, Ltd., in Hong Kong. He started his career as an Associate in Robert Fleming, Inc., in New York City, USA.

Linardo Z. Lopez, Filipino, 54, joined IMI as Senior Managing Director and Global Head of Materials and Supply Chain in March 2008 and has served as such up to the present. He spent a significant part of his career in OEM and contract manufacturing industries, notably with industry leaders such as Solectron and Flextronics in China.

Shong Cheng Yeh, Malaysian, 42, is currently Senior Managing Director, COO Asia of IMI. He brings with him over 14 years of experience in electronics manufacturing. Prior to IMI, he was the General Manager for Asian Operations in the Infrastructure Global Manufacturing business of Flextronics overseeing China, Malaysia and India.

Andrew C. Carreon, Filipino, 48, has been the Chief Information Officer of the IMI Group since 2003 up to the present and brings extensive experience in business process improvement and re-engineering as well as design and implementation of corporate management information systems. Concurrently, he is the Chief Operating Officer of PSi Technologies Inc. Prior to joining IMI, he was a Director of ICT at American Microsystems Philippines with global responsibility for back-end manufacturing systems. He also worked as a Systems Integration Consultant for Digital Equipment Corporation. He has been the Chairman of the Association of SEIPI IT Executives and Professionals (ASITEP) for two consecutive terms.

Jeremy G. Cowx, Canadian, 40, Managing Director and Sales Director of IMI. He is responsible for overseeing the IMI-Japan office and all sales activities for IMI in Japan. He is a certified Six Sigma Champion. His professional background is in Business Development, Sales and Marketing and Account Management for plastics, semiconductor and technology companies.

Michael R. Hansson, Swedish, 43, has been the Managing Director, Chief Technology Architect for Test & Systems Development of IMI since August 2006. He successfully built a technical consulting business providing customized function testers, handlers and automated optical inspection machines to the electronics and semiconductor industry in the Philippines. He has gained over 20 years of experience in developing hardware and software products, including 5 years with Timex where he co-designed products like the Timex/Microsoft Datalink watch.

Lucrecio B. Mendoza, Filipino, 55, is a Managing Director and Head of Test & Systems Development and Value Engineering of IMI. He has set up Eazix, Inc. for IMI in 1998 and has led its product design services until he moved to IMI with the acquisition of Electronic Assemblies, Inc. He was then the Head of Engineering for 8 years covering Process Engineering, Equipment Engineering and Test Engineering. He held the positions of Head of Quality and ICT in concurrent capacity.

Mary Ann S. Natividad, Filipino, 44, is Managing Director and currently the Global Head of Key Accounts Management in Singapore. Previous to this, she was the Country Business Unit Director in charge of Singapore Philippine's turnkey business operations. She has over 21 years experience in the electronics industry. She was Business Unit Head for Turnkey Operations since 2004. She moved to IMI with the absorption of Electronics Assemblies, Inc. (EAI) and joined IMI's Program Management Group in 2002. She has handled different functions including Materials Management and Production Planning and Control. Her work stint includes being a Production Manager at Pricon Microelectronics Inc.

Timothy Patterson, American, 59, is the Country Managing Director in USA and the Global Managing Director for Advanced Manufacturing Engineering. He brings more than 20 years experience in semiconductor assembly including hybrid and integrated circuit packaging, chip on board, flip chip on flex and stacked chips. He was responsible for the first SMT production line in the United States while working for Western Digital, and the first production flip chip on organic substrates line in the world while working for Smartflex Systems. He holds 12 patents and has published over a dozen articles in trade magazines, conferences and seminars.

Melita R. Tomelden, Filipino, 55, is currently the Managing Director, Global Head for Quality & Reliability of IMI. She is responsible for developing and institutionalizing quality and reliability standards and processes for IMI's contract manufacturing and turnkey manufacturing operations. She brings over 25 years in manufacturing operations, 22 years of which were spent in quality management in leading semiconductor and electronics companies like Philips Semiconductors, Telefunken-Temic, Fastech, Stanford Microsystems and Deltron-Sprague Electronics. She is a certified assessor of the European Foundation for Quality Management and a corporate member of the American Society for Quality Control.

Reynaldo N. Torda, Filipino, 56, is currently the Country Managing Director in the Philippines and Head of Operations of Psi Technologies, Inc. He has 30 years of professional experience from leading companies in the semiconductor and EMS industries such as Amkor Anam, American Microsystems Inc, AME and 3-5 Systems. He rose from the ranks and held progressively responsible positions in Manufacturing and Engineering, including Technical Director, Vice President for Operations and General Manager. Prior to IMI, he was the Philippine General Manager of 3-5 Systems Pacific, Inc., a publicly listed company in Displays and Electronics Manufacturing Services. He was responsible for securing the company's ISO 9002, EMS 14000, QS9000, TS16949 and ISO 9000-2000 certifications.

Monina S. Lasala, Filipino, 45, is the Global Head for Human Resources. Prior to joining IMI in 2011, she was the head of HR of the three core businesses of the SM Group including its subsidiaries (SM Property, SM Investments and SM Hotels) as Vice-President for Human Resources and Administration where she was responsible for setting-up the organizational structure of all three core businesses. She brings with her more than 20 years of HR experience and has played strategic and tactical roles in Training & Development, Labor Relations, Talent Acquisition, Employee Engagement & Communications, Employee Relations & Welfare, and Compensation & Benefits. Her career in HR started in PHINMA Group of Companies where she rose from the ranks and eventually became the Assistant Human Resources Director of Union Cement (now HOLCIM). She joined The Peninsula Manila for five (5) years as Director for Human Resources after holding HR Head positions from multi-national hotel establishments in the country.

Rafael Nestor V. Mantaring, Filipino, 55, is the Vice President for Design and Development in the Philippines. He heads the Research and Development Group in the Design and Engineering Services group of IMI. He has over 27 years of combined experience in the academe and in the industry. Prior to joining IMI, he was the President and General Manager of Rohm LSI Design Philippines, a Japanese-owned technology company involved in design and development of integrated circuits.

Jaime G. Sanchez, Filipino, 56, is currently the Deputy CFO and Group Controller of IMI. He has worked with different Ayala companies for more than thirty (30) years including twelve (12) years at IMI. He was also assigned as OIC – Chief Financial Officer of IMI starting August 2010 up to early part of 2011. He brings with him solid professional experience from his stints in FGU, BPI-MS and Universal Reinsurance.

Olaf Gresens, German, 43, has been the Global Head of Sales and Marketing IMI since July 2009. He is responsible for overseeing the Sales function in all locations where IMI has presence including the office in Japan which is now officially designated as IMI's Satellite Sales Office. He brings with him over 15 years of experience in the areas of design engineering, field applications engineering and sales. Prior to joining IMI, he spent six years at AMI Semiconductor as Field Applications Engineering Manager.

Joselito S. Bantatua, Filipino, 41, is the General Manager for Jiaxing. Prior to his assignment as Automotive GM, he was assigned in China to oversee Engineering operations in Shenzhen sites for more than a year. He started his career in IMI as an Equipment Engineer in 1995. From then on, he has assumed various roles and rank that made him become a Senior Division Manager. His exposure was mostly on defining and resolving issues involving machine maintenance/operation, technical manpower and financial concerns for effective cost management.

Fernandel I. Evangelista, Filipino, 48, is the General Manager for Energy Solution. He joined IMI in 1991 as a Production Supervisor and has since handled and been appointed to various positions in Manufacturing such as Manufacturing Supervisor, Production Manager, Division Manager, Manufacturing Engineering Head and BU Group Head. He is currently assigned as the Site General Manager of our Fremont operations in the US. Prior to joining IMI, Knoll worked with Printed Circuit International Philippines. He also worked with Mabuhay Electronics.

Dominador P. Leonida III, Filipino, 49, is currently the Assistant Vice President and Deputy Head for Test and Development Systems. He handles business process improvements, organizational development, expansion plans and various innovation initiatives. He has a solid track record in technology transfer, the incubation of new products, and delivery of high value-add engineering services. With over ten years' experience in managing research and development and engineering organizations, he has assumed various positions in operations and engineering including test engineering, test hardware development, test process engineering and equipment engineering for the Flash semiconductor memory group at Intel. Before joining IMI, he was with Intel Corporation (and its subsidiary Numonyx B.V.) as Senior Design Engineering Manager handling the operations of the Cavite Design Center. He was also responsible for the start-up and expansion of the VLSI design engineering operations in the Philippines.

Geronimo B. Magsombol, Filipino, 53, is currently an Assistant Vice President and Plant Engineering Head of IMI. He started at IMI in 1997 and has been with the Company for more than thirteen (13) years. Prior to IMI, he worked for Amerton Inc. as Facilities Manager and for Cypress Semi-Conductor as Facilities Director.

Jawaharlal K. Milanes, Filipino, 41, is the General Manager for Laguna 1 Operations. He was the Business Unit (Philippines) for Turnkey Business. Prior to this assignment, he was assigned in Jiaxing. China for one year to oversee all the Business Operations function for Strategic Accounts while concurrently overseeing the same function for the 3Cs group also in the Philippines. He joined IMI in 1997 as a Production Manager and has since appointed to different positions such as Quality and Training Manager, Business Unit Manager and Marketing Manager. Prior joining IMI, He worked with Temic (Telefunken) Microelectronics, Inc as a Production Section Manager.

Anthony Raymond P. Rodriguez, Filipino, 44, is an Assistant Vice President and Head of Treasury and Credit of IMI since 2009. Prior to IMI, he has gained nineteen (19) years of extensive professional experience from Banco de Oro – EPCI Bank as Senior Dealer –FX and Derivatives Desk and from Far East Bank & Trust Co. as International Desk Head for Treasury Marketing.

Mario Bernardo N. Santos, Filipino, 44, is the General Manager for Laguna 2 Operations. Prior to this assignment, he was the Business Unit Group Head in charge of the Business Operations function for Custom Business. He joined IMI in 1992 as a Product Development Engineer under the Marketing Department. He later on handled different positions such as Marketing Specialist, Marketing Manager and Corporate Sales Manager. He was also assigned as Director for IMI Japan in 2007 and was recalled to the Philippines and was appointed Business Group Head for Custom Group. Prior joining IMI, he worked with RG Meditron Inc. as a Research and Development Engineer.

Sheila Marie U. Tan, Filipino, 44, is the Corporate Secretary of Integrated Micro-Electronics, Inc since June 2011. Currently, she also holds the Position of Corporate Secretary of Cebu Holdings, Inc., Cebu Property Ventures & Development Corp., Ayala Theatres Management, Inc. Avida Land Corporation, Alabang Commercial Corporation, North Triangle Depot Commercial Corporation, Laguna Technopark, Inc, Makati Development Corporation and Ayala Property Management Corporation. She is also the Assistant Corporate Secretary of Ayala Corporation and Ayala Land, Inc. She was the former head of the Legal Department of Ayala Land, Inc. She transferred to Ayala Corporation as Associate Director effective January 1, 2009.

Christian Gerard P. Castillo, Filipino, 32, has served as Assistant Corporate Secretary of Integrated Micro-Electronics, Inc. since June 2011. He is a Senior Counsel of Ayala Group Legal and Division Manager of Ayala Land, Inc. (ALI) He handles various corporate secretarial functions for affiliates of Integrated Micro-Electronics, Inc., international holding companies of Ayala Corporation, and leisure, residential and leasing companies of ALI. Prior to joining ALI in 2008, he was associated at SyCip, Salazar, Hernandez & Gatmaitan Law Offices.

Significant Employees

The Company considers as significant its entire work force. Everyone is expected to work together as a team to achieve the Company's goals and objectives.

Family Relationships

Jaime Augusto Zobel de Ayala, Chairman of the Board, and Fernando Zobel de Ayala, a director of the Company, are brothers.

There are no known family relationships between the current members of the Board and key officers other than the above.

Involvement in Legal Proceedings

There are no material pending legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years and the preceding years until January 31, 2012 to which the Company or any of its subsidiaries or its directors or executive officers is a party or of which any of its material properties are subject in any court or administrative government agency. In any event, below is the legal proceeding involving the Company that may be significant:

IMI filed a civil case on April 11, 2011 against Standard Insurance ("Standard") seeking to collect Standard's share in the loss incurred by IMI consisting in damage to production equipment and machineries as a result of the May 24, 2009 fire at IMI's Cebu facility which IMI claims to be covered by Standard's "Industrial All Risks Material Damage with Machinery Breakdown and Business Interruption" policy. The share of Standard in the loss is 22% or US $1,117,056.84 after its co-insurers all paid.

IMI had to resort to court action after Standard denied its claim on the ground that this is an excepted peril.

Standard filed a motion to dismiss on various grounds, such as lack of cause of action and of prescription. The RTC denied the motion to dismiss but Standard filed a Motion for Reconsideration, which is pending resolution.

Item 10. Executive Compensation

Name and Principal Position	Year	Salary	Other Income
Arthur R. Tan President & Chief Executive Officer			
Jerome S. Tan Global Chief Financial Officer			
Linardo Z. Lopez Senior Managing Director, Global Materials and Supply Chain			
Shong Cheng Yeh Senior Managing Director, COO Asia			
Andrew C. Carreon Managing Director, Chief Information Officer and COO of PSi Technologies, Inc.			
Jeremy G. Cowx, Managing Director, Sales Director			
Michael R. Hansson Managing Director, Chief Technology Architect for Test & Systems Development			
Lucrecio B. Mendoza Managing Director, Head of Test and Systems Development and Value Engineering			
Mary Ann S. Natividad Managing Director, Global Head of Key Accounts Management			
Timothy Patterson Managing Director, USA and Global Head of Advanced Manufacturing Engineering			
Melita R. Tomelden Managing Director, Global Head of Quality & Reliability			
Reynaldo N. Torda Managing Director, Head of Operations of PSi Technologies, Inc.			
Monina S. Lasala Vice President, Global Head of Human Resources			
Rafael Nestor V. Mantaring Vice President, Head of Designs and Development			
Jaime G. Sanchez Vice President, Deputy CFO and Group Controller			

Olaf Gresens Global Head of Sales and Marketing			
Joselito B. Bantatua Assistant Vice President, General Manager-Jiaxing			
Fernandel I. Evangelista Assistant Vice President, Energy Solutions			
Dominador P. Leonida, III Assistant Vice President, Deputy Head of Test and Systems Development			
Geronimo B. Magsombol Assistant Vice President, Plant Engineering Head			
Jawaharlal K. Milanes Assistant Vice President, Plant Engineering Head			
Anthony Raymond P. Rodriguez Assistant Vice President, Head of Treasury & Credit			
Mario Bernardo N. Santos Assistant Vice President, General Manager-Laguna 2			
CEO & Other Named Executive Officers	Actual 2010	₱ 95.90 M	₱ 47.37 M
	Actual 2011	₱ 98.62 M	₱ 31.50 M
	Projected 2012	₱ 104.93 M	₱ 36.30 M
All officers as a group unnamed	Actual 2010	₱ 187.25 M	₱ 65.72 M
	Actual 2011	₱ 191.71 M	₱ 46.89 M
	Projected 2012	₱ 202.67 M	₱ 51.69 M

The Company has no other arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein stated.

Compensation of Directors

Section 9 of Article IV of the By-laws provides:

"Section 9 - Each director shall be entitled to receive from the Corporation, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of directors exceed five percent (5%) of the net income before income tax of the Corporation during the preceding year. (as amended on February 23, 2011.)

x x x

The Chairman of the Board shall receive such remuneration as may be fixed by the Board of Directors each year, in addition to the per diem and compensation that each Director may be entitled to receive. (as amended on February 23, 2011.)"

i. Standard arrangement

During the 2008 annual stockholders' meeting, the stockholders ratified the resolution fixing the remuneration of non-executive directors which the Board approved at its meeting on April 30, 2008, as follows:

a. For each Director – ₱100,000.00 per diem per Board meeting actually attended;

b. For each Board Committee member – ₱20,000.00 per diem per Committee meeting actually attended.

The executives who are members of the Board of the Company do not receive per diem. Their compensation, as executives of the Company, is included in the compensation table indicated above.

ii. Other arrangement

None of the directors, in their personal capacity, has been contracted and compensated by the Company for services other than those provided as a director.

The Company has no other arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein stated.

Item 11. Security Ownership of Certain Beneficial Owners and Management

1) Security ownership of certain record and beneficial owners (of more than 5%) as of January 31, 2012.

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of outstanding Shares
Common	AYC Holdings, Ltd.[3] 33/F Tower One Ayala Triangle, Ayala Ave., Makati City	AYC Holdings, Ltd.[4]	BVI	957,537,373	35.02%
Preferred	Ayala Corporation[5] 34/F Tower One Ayala Triangle Ayala Ave., Makati City	Ayala Corporation[6]	Filipino	596,043,238	21.80%
Preferred	Asiacom Philippines, Inc.[7] 34/F Tower One Ayala Triangle Ayala Ave., Makati City	Asiacom Philippines, Inc.[8]	Filipino	460,000,000	16.82%

[3] AYC Holdings, Ltd. (AYC) is a stockholder of the Company.
[4] The Board of Directors of AYC has the power to decide how AYC's shares in IMI are to be voted.
[5] The Chairman of Ayala Corporation (AC), Jaime Augusto Zobel de Ayala, is the Chairman of the Company.
[6] The Board of Directors of AC has the power to decide how AC's shares in IMI are to be voted.
[7] The Chairman of Asiacom Philippines, Inc. (Asiacom), Jaime Augusto Zobel de Ayala, is the Chairman of the Company.
[8] The Board of Directors of Asiacom has the power to decide how Asiacom shares in IMI are to be voted.

Common	PCD Nominee Corporation (Filipino)[9] 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City	Resins, Inc.[10]	Filipino	239,412,304	8.76%
Preferred	Resins, Inc.[11] E. Rodriguez Ave., Pasig City	Resins, Inc.[12]	Filipino	219,979,398	8.05%

2) Security ownership of directors and management as of January 31, 2012.

Title of Class	*Name of Beneficial Owner*	**Amount and Nature of Beneficial Ownership**	*Citizenship*	**Percent of All Class**
Directors				
Common	Jaime Augusto Zobel de Ayala	100 (direct)	Filipino	0.0000%
Common	Fernando Zobel de Ayala	100 (direct)	Filipino	0.0000%
Common	Delfin L. Lazaro	100 (direct)	Filipino	0.0000%
Common	Arthur R. Tan	15,279,252 (direct & indirect)	Filipino	0.5588%
Common	Rafael Ma. C. Romualdez	115 (direct)	Filipino	0.0000%
Common	Jose Ignacio A. Carlos	115 (direct)	Filipino	0.0000%
Common	Diosdado P. Banatao	115 (direct)	American	0.0000%
Common	Delfin C. Gonzalez, Jr.	100 (direct)	Filipino	0.0000%
Common	Hiroshi Nishimura	115 (direct)	Japanese	0.0000%
Common	Alelie T. Funcell	115 (direct)	Filipino	0.0000%
Common	John Eric T. Francia	100 (direct)	Filipino	0.0000%
CEO and Most Highly Compensated Officers				
Common	Arthur R. Tan	15,279,252 (direct & indirect)	Filipino	0.5588%
Common	Jerome S. Tan	0	Singaporean	0.0000%
Common	Linardo Z. Lopez	2,817,583 (indirect)	Filipino	0.1031%
Common	Shong Cheng Yeh	1,725,617 (indirect)	Malaysian	0.0631%
Common	Andrew C. Carreon	2,409,060 (indirect)	Filipino	0.0881%
Preferred		1,043,400 (direct)		0.0382%
Common	Jeremy G. Cowx	287,602 (indirect)	Canadian	0.0105%
Common	Michael R. Hansson	1.919.772 (indirect)	Swedish	0.0702%
Common	Lucrecio B. Mendoza	1,072,722 (indirect)	Filipino	0.0392%
Common	Mary Ann S. Natividad	1,606,592 (indirect)	Filipino	0.0588%
Preferred		200,000 (direct)		0.0073%
Common	Timothy Patterson	1,955,698 (indirect)	American	0.0715%
Common	Melita R. Tomelden	305,695 (indirect)	Filipino	0.0112%
Common	Reynaldo N. Torda	690,247 (indirect)	Filipino	0.0252%
Preferred		100,000 (direct)		0.0037%
Common	Monina S. Lasala	0	Filipino	0.0000%

[9] The PCD is not related to the Company.
[10] Resins, Inc. (Resins) is a customer of a participant of PCD. The Board of Directors of Resins has the power to decide how Resins shares in IMI are to be voted.
[11] Resins is not related to the Company.
[12] The Board of Directors of Resins has the power to decide how Resins shares in IMI are to be voted.

Common	Rafael Nestor V. Mantaring	1,207,931	(indirect)	Filipino	0.0442%
Common	Jaime G. Sanchez	343,006	(indirect)	Filipino	0.0125%
Common	Olaf Gresens	1,150,411	(indirect)	German	0.0421%
Common	Joselito B. Bantatua	0		Filipino	0.0000%
Common	Fernandel I. Evangelista	620,340	(indirect)	Filipino	0.0227%
Common	Dominador P. Leonida III	0		Filipino	0.0000%
Common	Geronimo B. Magsombol	681,887	(indirect)	Filipino	0.0249%
Common	Jawaharlal K. Milanes	468,124	(indirect)		0.0171%
Common	Anthony Raymond P. Rodriguez	172,561	(indirect)	Filipino	0.0063%
Common	Mario Bernardo N. Santos	0		Filipino	0.0000%
Other Executive Officers					
Common	Sheila Marie U. Tan	0		Filipino	0.0000%
Common	Christian Gerard P. Castillo	0		Filipino	0.0000%
All Directors and Officers as a group		**36,058,575**			**1.3189%**

None of the members of the Company's directors and management owns 2.0% or more of the outstanding capital stock of the Company.

The Company knows of no person holding more than 5% of common shares under a voting trust or similar agreement.

No change of control in the Company has occurred since the beginning of its last fiscal year.

Item 12. Certain Relationships and Related Transactions

As used herein and in other sections of this report, unless the context otherwise requires, IMI Group or the Group refers to the Company and its subsidiaries where the Company has a control pursuant to SRC Rule 68, Par. 6 (Consolidated Financial Statements).

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 P=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.

No other transaction was undertaken by the Company in which any Director or Executive Officer was involved or had a direct or indirect material interest.

To date, there are no complaints received by the Company regarding related-party transactions.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Good Governance at IMI. IMI is committed to the highest level of good governance throughout the organization, as well as to fostering a corporate culture of integrity and empowering leadership.

This governance is anchored on the belief in a strong link between quality governance and the creation of shareholder value and long-term growth.

In compliance with Securities and Exchange Commission (SEC) Memorandum Circular No.6, Series of 2009 (Revised Code of Corporate Governance), IMI submitted its revised Corporate Governance Manual to the SEC in March 2011.

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

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

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

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

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

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

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

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

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

Directors' Compensation. Non-executive directors, defined as members of the Board of Directors who are neither officers nor consultants of the Company, receive per diem of Php 100,000 for each Board meeting attended, and Php 20,000 per Committee meeting attended. This remuneration scheme for non-executive directors was ratified at the 2008 annual stockholders meeting.

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

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

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

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

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

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

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

Financial Reporting. IMI's financial statements are prepared and presented in accordance with Philippine Accounting Standards and Philippine Financial Reporting Standards, which comply with International Accounting Standards. Speedy-Tech Electronics Ltd. and its subsidiaries' financial statements are audited by Ernst & Young Singapore.

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

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

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

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

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

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

The company strictly enforces compliance with these trading blackout periods, no reported violation in 2011.

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

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

PART V - EXHIBITS AND SCHEDULES

Item 14. List of Exhibits/Schedules

2011 Audited Consolidated Financial Statements, Integrated Micro-Electronics, Inc. and Subsidiaries – Exhibit 1

Statement of Management's Responsibility for the Financial Statements
Report of Independent Auditors
Consolidated Balance Sheets as of December 31, 2011 and 2010
Consolidated Statements of Income for the Years ended December 31, 2011, 2010 and 2009
Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2011, 2010 and 2009
Consolidated Statements of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009
Notes to Consolidated Financial Statements

Supplementary Schedules – Exhibit 2

Report of Independent Public Accountant on Supplementary Schedules

A. Financial Assets
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)

C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
D. Intangible Assets – Other Assets
E. Long-Term Debt
F. Indebtedness to Related Parties (Long-term Loans from Related Companies)
G. Guarantees of Securities of Other Issuers
H. Capital Stock

Reconciliation of Retained Earnings Available For Dividend Declaration

Schedule of Financial Ratios

Map Showing the Relationships between and Among the Companies in the Group, its Ultimate Parent Company and Co-Subsidiaries

Schedule of All Effective Standards and Interpretations under Philippine Financial Reporting Standards as Of December 31, 2011

Reports on SEC Form 17-C

Reports on SEC Form 17-C were filed during the last six month period covered by this report and are listed below:

Date	Particulars
July 28, 2011	IMI Receives Bosch Supplier Award
August 1, 2011	IMI Completes Acquisition of EPIQ Subsidiaries in Europe and Mexico
August 11, 2011	IMI Revenue Up 39% in First 6 Months of 2011
November 10, 2011	IMI posts 43% Revenue Rise in First 9 Months

2011 Audited Annual Financial Statements, IMI International (Singapore) Pte Ltd and its subsidiary – Exhibit 3

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 12, 2012.

By:

Jaime Augusto Zobel de Ayala
Chairman of the Board

Arthur R. Tan
President and Chief Executive Officer

Jerome S. Tan
Chief Finance Officer

Sheila Marie U. Tan
Corporate Secretary

Jaime G. Sanchez
Deputy CFO and Group Controller

SUBSCRIBED AND SWORN to before me this APR 12 2012 day of April 2012, affiants exhibiting to me their respective passports as follows:

	Passport No.	Date Of Issue	Place of Issue
Jaime Augusto Zobel de Ayala	XX2623993	Dec. 8, 2008	Manila City
Arthur R. Tan	EA0025242	Jan. 29, 2010	Manila City
Jerome S. Tan	E2068508C	Sep. 21, 2010	Singapore
Sheila Marie U. Tan	EB4803423	Feb. 27, 2012	Manila City
Jaime G. Sanchez	EB4408073	Jan. 10, 2012	Batangas City

Doc. No. 204
Page No. 43
Book No. VIII
Series of 2012.

Atty. Sta. Cecilia M. Santillan-Visto
Notary Public
Until Dec. 31, 2013
6760 Ayala Ave., Makati City
PTR No. 3174364 1/2/2012 Makati City
IBP No. 868697 11/8/2011 PPLM
Roll No. 49231

EXHIBIT 1

2011 Audited Consolidated Financial Statements, Integrated Micro-Electronics, Inc. and Subsidiaries

Integrated Microelectronics, Inc.
North Science Avenue
Special Export Processing Zone, Laguna Technopark
Biñan Laguna 4024 Philippines

Tel (63 49) 541-1015 to 20
Fax (63 49) 541 0013
www.global-imi.com

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

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 & Chief Executive Officer

JEROME S. TAN
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this MAR 01 2012 MAKATI CITY, affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.	Date & Place of Issue
Jaime Augusto Zobel de Ayala	XX2623993	08 December 2008 – Manila
Arthur R. Tan	EA0025242	29 January 2010 - Manila
Jerome S. Tan	E2068508C	21 September 2010 - Singapore

RICARDO VICTOR K. RAMOS
NOTARY PUBLIC
ROLL NO. 55345
MAKATI CITY, PHILIPPINES

RICARDO VICTOR K. RAMOS
Notary Public - Makati City
Appt. No. M122 until December 31, 2013
Attorney's Roll No. 52062
PTR No. 3178176mb; 01-03-2012; Makati City
IBP Lifetime Roll No. 010326
MCLE Compliance No. III - 0011705; 4/12/2010
33rd Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

Doc. No. 62 ;
Page No. 14 ;
Book No. I ;
Series of 2012.

Notarial DST pursuant to Sec. 188 of the Tax Code affixed on Notary Public's copy.

COVER SHEET

9 4 4 1 9

SEC Registration Number

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

(Company's Full Name)

North Science Avenue, Laguna Technopark, Biñan, Laguna

(Business Address: No. Street City/Town/Province)

Mr. Jerome S. Tan

(Contact Person)

756 - 6840

(Company Telephone Number)

1 2	3 1		AAFS			
Month	*Day*		(Form Type)		*Month*	*Day*
(Fiscal Year)					(Annual Meeting)	

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Integrated Micro-Electronics, Inc. and Subsidiaries, which comprise the consolidated balance sheets as 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

(Forward)

	Years Ended December 31		
	2011	2010 (As restated - see Note 2)	2009
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)
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.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES
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

(Forward)

	Percentage of Ownership		Country of	Functional
	2011	2010	Incorporation	Currency
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.

<u>Changes in Accounting Policies</u>
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.

<u>Offsetting</u>
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.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
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.

<u>Equity</u>
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% 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% interest per month from May 1, 2009 to June 30, 2010 and 0.5% 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's liability for acquisition of fixed assets amounting to $3.00 million.

Dividends payable as of December 31, 2011 amounted to $2.54 million net of foreign exchange loss of $0.05 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 $0.02 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’s long term debt 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% rate p.a., cumulative in payment of current dividends, nonparticipating in any other or further dividends beyond those that are specifically payable on the shares, nonconvertibility to common shares, preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation and in the payment of the dividend at the rate specified, no pre-emptive rights, redeemable at the option of the issuer and certificated.

On 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 the (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	**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(Note 27)	**(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

(Forward)

	Cost of Goods Sold and Services			Operating Expenses		
	2011	2010	2009	**2011**	2010	2009
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

Interest expenses also include interest on finance lease and employees' car and housing loan.

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 Elite
Hong Kong profits tax has been provided at the rate of 16.5% 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 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)
Unrealize 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	**(1,226,161)**	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	**(126,741)**	(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 the 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 bonds	**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.

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

December 31, 2011	**Philippines**		**Singapore/China**	**Europe/Mexico**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**						
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 income 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		**Singapore/ China**	**Europe/Mexico**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**						
Segment assets								
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**
Segment assets 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.

On March 31, 2010, the Parent Company entered into another lease contract with IBM for the lease of additional server for a one-year period starting on May 1, 2010. The Parent Company has a bargain option to purchase the servers after the lease term at ₱50.09. The lease provides rental payments of $1,013,729 each in the first and last months of the lease. At the end of the lease term, the Parent Company exercised its bargain option to purchase the servers at a nominal of ₱45.45.

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. In 2011, all operating lease contracts for the Condominium units expired.

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 $15,878 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.

<u>Operating Lease Agreements - as Lessor</u>
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

(Forward)

	Carrying Value		Fair Value	
	2011	2010	**2011**	2010
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 payables	**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 benefit	**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**
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**

(Forward)

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
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	**$79,700,000**	**62,035,986**
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

	Total	Neither past due nor impaired	Past due but not impaired					Specifically Impaired
			<30 days	30-60 days	60-90 days	90-120 days	>120 days	
Trade	$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 Individually Impaired**	**Total**
	Minimal Risk	**Average Risk**	**Fairly High Risk**	**High Risk**		
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 Individually Impaired	Total
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		
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 currencies 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 tables demonstrate 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.

EXHIBIT 2

Supplementary Schedules

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Integrated Micro-Electronics, Inc. and its subsidiaries (the Group) as at December 31, 2011 and 2010 and for the three years in the period ended December 31, 2011, included in this Form 17-A, and have issued our report thereon dated March 1, 2012. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules, are the responsibility of the Group's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca

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
Schedule A. Financial Assets
December 31, 2011

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
NOT APPLICABLE				
Total		0	0	0

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2011
(in U.S. Dollars)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
Receivables from Employees:							
Various Officers and Employees*	707,172	7,446,728.17	(6,342,690.48)	-	1,811,210*	-	1,811,210*
Total	**707,172**	**7,446,728**	**(6,342,690)**	**-**	**0**	**-**	**0**

* Consist of receivables from approximately more than 2,300 Officers and Employees.

Integrated Microelectronics, Inc. and Subsidiaries
Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
December 31, 2011
(in U.S. Dollars)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
Accounts receivable -trade							
Speedy-Tech Electronics	427	2,278			2,705		2,705
PSi Technologies Laguna, Inc.	-	6,650			6,650		6,650
PSi Technologies Inc.	-	13,910			13,910		13,910
IMI Japan	177,308		177,308		-		-
Accounts receivable -nontrade							
Speedy-Tech Electronics Ltd.	20,611,533	219,496			20,831,029		20,831,029
IMI International (Singapore) Pte Ltd.	1,006,080	3,708			1,009,788		1,009,788
Vista Manufaturing Pte. Ltd.	18,145	-			18,145		18,145
IMI Japan Inc.	2,046,846		1,071,587		975,258		975,258
Speedy-Tech (Philippines) Inc.	241,262	29,061			270,323		270,323
Shenzhen Speedy -Tech Elec. Co.	287,649	105,012			392,661		392,661
Speedy-Tech Electronics (Jiaxing)	93,320	122,538			215,858		215,858
Speedy-Tech Electronics (HK) Ltd.	26,341	-			26,341		26,341
Speedy-Tech Electronics (Chong Qing)	78	-			78		78
PSI Technologies, Inc.	-	88,622			88,622		88,622
IMI USA	251,724	3,816	1,724		253,816		253,816
IMI International ROHQ	5,064,248	50,702	5,064,248		50,702		50,702
EPIQ CZ s.r.o.	-	501,358	-	-	501,358		501,358
Cooperatief IMI Europe U.A.	-	14,191	-	-	14,191		14,191
EPIQ MX, S.A.P.I de C.V.	-	4,004,932	-	-	4,004,932		4,004,932
IMI France	-	152,989	-	-	152,989		152,989
Total	**29,824,962**	**5,319,264**	**6,314,868**	**-**	**28,829,358**	**-**	**28,829,358**

These related party receivables are collectible on demand.

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule D. Intangible Assets
December 31, 2011
(in U.S. Dollars)

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance	Remarks
Customer relationships	-		(563,885)		6,766,617	6,202,732	Other changes represent acquisition through business combination
Unpatented technology	-	-	-		-	-	
Computer software	923,002	411,344	(600,084)		396,497	1,130,759	Other changes represent acquisition through business combination and foreign currency exchange difference
	923,002	**411,344**	**(1,163,969)**	**-**	**7,163,114**	**7,333,491**	

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule E. Long-Term Debt
December 31, 2011
(in U.S. Dollars)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet
5-year clean loan (Parent Company)	40,000,000	-	40,000,000
			principal payable in October 2016; interest payable and repriced quarterly at the rate of 3-month LIBOR plus margin of 0.80%
Deferred payment to EPIQ NV (Cooperatief)	20,398,500	-	20,398,500
			periodic payment of $2,863,200 for the first 5 years from 2013 to 2017 and $6,082,500 in 2018; subject to interest rate of 1.5999% plus 1.5%
Total	**60,398,500**		**60,398,500**

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule F. Indebtedness to Related Parties
December 31, 2011
(in U.S. Dollars)

Indebtedness to Related Parties (Long-term Loans from Related Companies)

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
NOT APPLICABLE		

Related party payables eliminated during consolidation:

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
Trade payables		
IMI USA, Inc.	20,292	51,149
IMI Singapore	506	45,956
Speedy-Tech Electronics (HK) Ltd.	-	14,213
Speedy-Tech Electronics (Jiaxing)	-	43,430
Speedy-Tech (Philippines) Inc.	-	6,632
Nontrade payables		
IMI USA, Inc.	893,305	1,152,933
IMI Singapore	-	1,669
Speedy-Tech (Philippines) Inc.	262,032	464,520
Speedy-Tech Electronics (HK) Ltd.	26,341	12,128
IMI Japan	1,415,794	171,417
Vista Manufaturing Pte. Ltd.	1,962	1,962
Speedy-Tech Electronics (Jiaxing)	72,876	61,264
Speedy-Tech Electronics (Shenzen)	372,040	1,034,512
IMI International ROHQ	5,396,999	520,141
PSi Technologies, Inc.	832,537	546,135
Total	**9,294,685**	**4,128,058**

These related party liabilities are payable on demand.

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule G. Guarantees of Securities of Other Issuers
December 31, 2011
(in U.S. Dollars)

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which this statement if filed	Nature of Guarantee
NOT APPLICABLE				
Total		0	0	0

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule H. Capital Stock
December 31, 2011

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Stocks	2,250,000,000	1,354,230,740				
Less: Treasury Shares		(15,892,109)				
Common shares	**2,250,000,000**	**1,338,338,631**	150,000,000		97,554,868	
Preferred Shares	**1,500,000,000**	**1,300,000,000**			1,343,400	

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2011

Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning		**($2,290,113)**
Add: Net income actually earned/realized during the period		
Net income during the period closed to retained earnings	(9,900,934)	
Less: Non- actual/unrealized income net of tax	–	
Equity in net income of associate/joint venture	–	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	–	
Unrealized actuarial gain	(981,647)	
Fair value adjustment (M2M)	(5,355,873)	
Fair value adjustment in investment property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP – gain	–	
Accretion of Meralco receivable	(15,671)	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	–	
Sub-total	(16,254,125)	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS/GAAP - loss Unrealized foreign exchange loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
Net income actually earned during the period		**(16,254,125)**
Add (less):		
Dividend declarations during the period	(6,345,647)	
Appropriations of retained earnings during the period		
Reversals of appropriations	30,000,000	
Effects of prior period adjustments		
Treasury shares	(1,012,585)	
		22,641,768
TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, END		**$4,097,530**

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

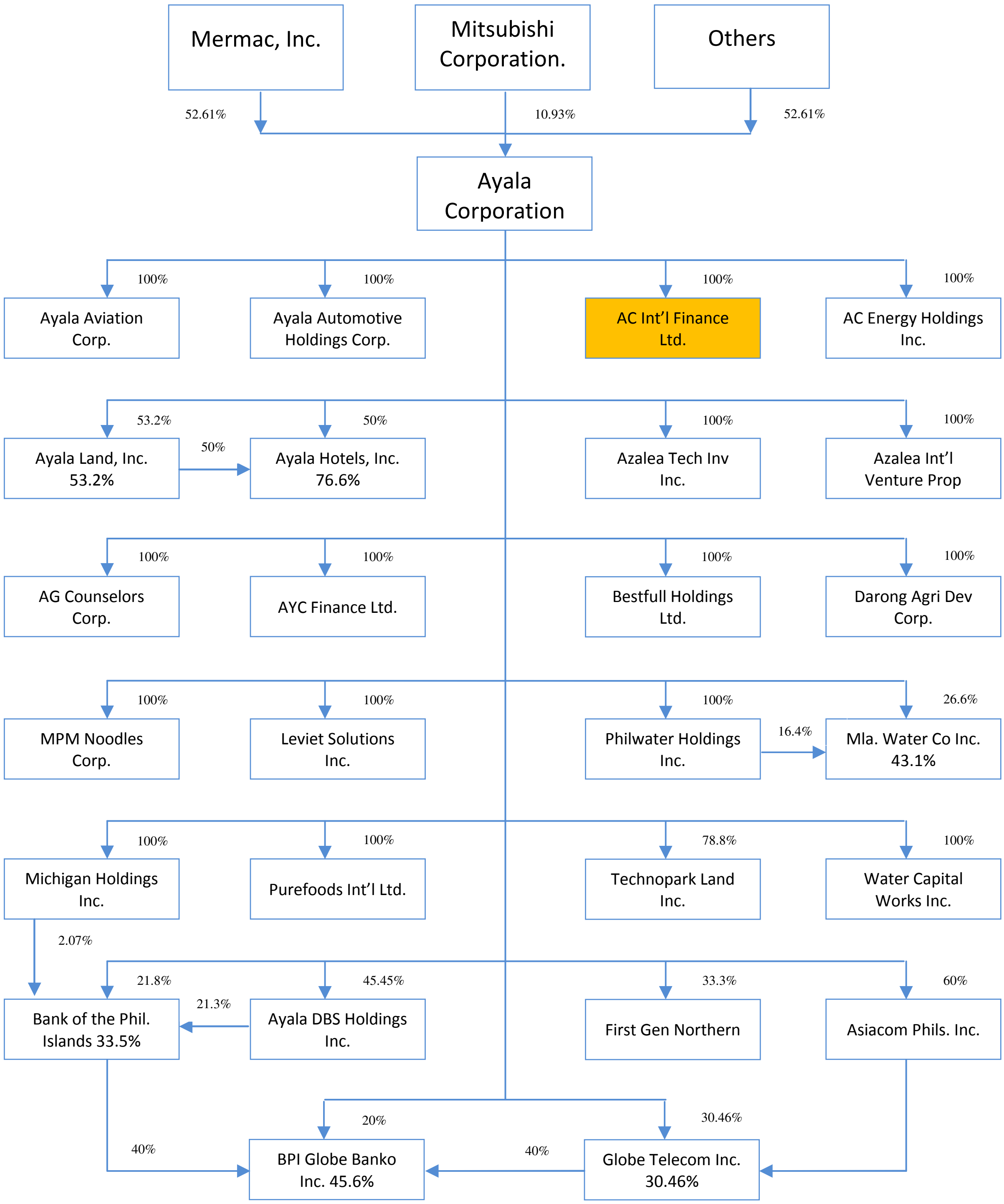
FINANCIAL RATIOS
DECEMBER 31, 2011 AND 2010

Ratios	Formula	As of December 31, 2011	As of December 31, 2010
(i) Current ratio	Current assets / Current Liabilities	**1.51**	1.23
(ii) Debt/Equity ratio	Bank debts / Equity attributable to parent	**0.42**	0.33
(iii) Asset to Equity ratio	Total Assets / Equity attributable to parent	**2.34**	2.00
(iv) Interest rate coverage ratio	EBIT / Interest Expense	**2.54**	8.30
(v) Profitability ratios			
GP margin	Gross Profit / Revenues	**7%**	11%
Net profit margin	Net Income after Tax / Revenues	**1%**	1%
EBITDA margin	EBITDA / Revenues	**4%**	7%
Return on assets	Net Income after Tax / Total Asset	**1%**	1%
Return on equity	Net Income after Tax / Average equity attributable to parent	**2%**	3%

	2011	**2010**
Current Assets	279,801,274	201,287,469
Current Liabilities	184,972,117	163,206,702
Bank Debts	79,008,811	55,921,638
Equity attributable to parent	190,321,592	169,290,252
Total Assets	444,692,294	339,083,108
EBIT	5,945,599	7,822,169
Interest expense	2,344,807	942,202
Gross Profit	38,177,534	44,474,592
Revenues	575,453,908	412,326,605
Net Income after Tax	3,289,314	4,738,929
EBITDA	20,308,771	30,241,779
Average equity attributable to parent	179,805,922	167,990,127

INTEGRATED MICRO-ELECTRONICS. AND SUBSIDIARIES

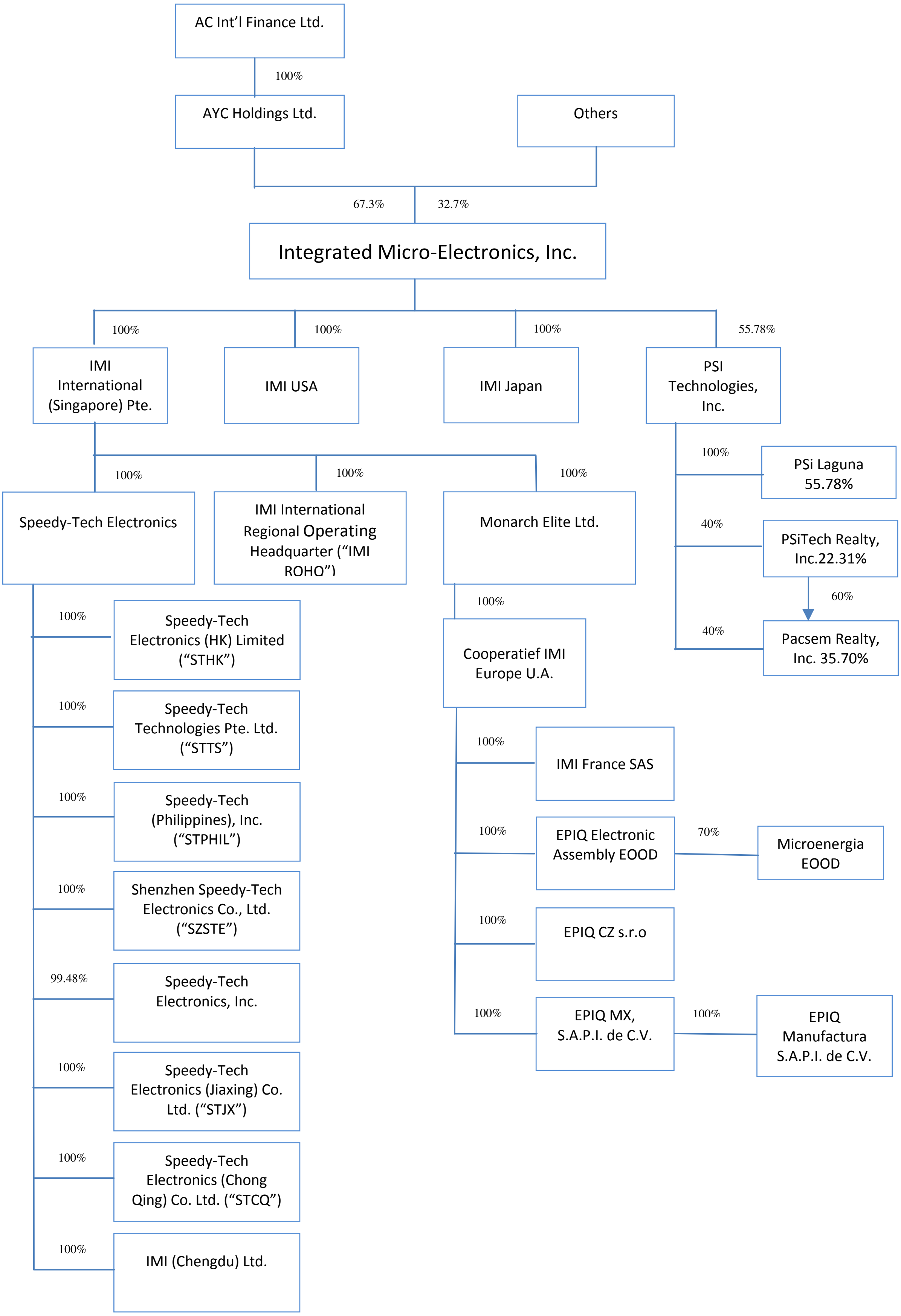
MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES



Legend:

% of ownership appearing on top of the box – direct % of ownership

% of ownership appearing inside the box – effective % of ownership


AC Int'l Finance Ltd.
100%
AYC Holdings Ltd.
Others
67.3%
32.7%
Integrated Micro-Electronics, Inc.
100%
100%
100%
55.78%
IMI International (Singapore) Pte.
IMI USA
IMI Japan
PSI Technologies, Inc.
100%
PSi Laguna 55.78%
40%
PSiTech Realty, Inc.22.31%
60%
40%
Pacsem Realty, Inc. 35.70%
100%
100%
100%
Speedy-Tech Electronics
IMI International Regional Operating Headquarter ("IMI ROHQ")
Monarch Elite Ltd.
100%
Speedy-Tech Electronics (HK) Limited ("STHK")
100%
Speedy-Tech Technologies Pte. Ltd. ("STTS")
100%
Speedy-Tech (Philippines), Inc. ("STPHIL")
100%
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE")
99.48%
Speedy-Tech Electronics, Inc.
100%
Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX")
100%
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ")
100%
IMI (Chengdu) Ltd.
100%
Cooperatief IMI Europe U.A.
100%
IMI France SAS
100%
EPIQ Electronic Assembly EOOD
70%
Microenergia EOOD
100%
EPIQ CZ s.r.o
100%
EPIQ MX, S.A.P.I. de C.V.
100%
EPIQ Manufactura S.A.P.I. de C.V.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

SCHEDULE OF ALL PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRSs) [WHICH CONSISTS OF PFRSs, PHILIPPINE ACCOUNTING STANDARDS (PASs) AND PHILIPPINE INTERPRETATIONS] EFFECTIVE AS OF DECEMBER 31, 2011

PFRSs and PIC Q&As	Adopted/Not adopted/Not applicable
PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*	Adopted
PFRS 2, *Share-based Payment*	Adopted
PFRS 3, *Business Combinations*	Adopted
PFRS 4, *Insurance Contracts*	Not applicable
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*	Not applicable
PFRS 6, *Exploration for and Evaluation of Mineral Resources*	Not applicable
PFRS 7, *Financial Instruments: Disclosures*	Adopted
PFRS 8, *Operating Segments*	Adopted
PAS 1, *Presentation of Financial Statements*	Adopted
PAS 2, *Inventories*	Adopted
PAS 7, *Statement of Cash Flows*	Adopted
PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*	Adopted
PAS 10, *Events after the Reporting Period*	Adopted
PAS 11, *Construction Contracts*	Not applicable
PAS 12, *Income Taxes*	Adopted
PAS 16, *Property, Plant and Equipment*	Adopted
PAS 17, *Leases*	Adopted
PAS 18, *Revenue*	Adopted
PAS 19, *Employee Benefits*	Adopted
PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*	Not applicable
PAS 21, *The Effects of Changes in Foreign Exchange Rates*	Adopted
PAS 23, *Borrowing Costs*	Adopted
PAS 24, *Related Party Disclosures*	Adopted
PAS 26, *Accounting and Reporting by Retirement Benefit Plans*	Adopted
PAS 27, *Consolidated and Separate Financial Statements*	Adopted
PAS 28, *Investments in Associates*	Not applicable
PAS 29, *Financial Reporting in Hyperinflationary Economies*	Not applicable
PAS 31, *Interests in Joint Ventures*	Not applicable
PAS 32, *Financial Instruments: Presentation*	Adopted
PAS 33, *Earnings per Share*	Adopted
PAS 34, *Interim Financial Reporting*	Not applicable
PAS 36, *Impairment of Assets*	Adopted
PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*	Adopted
PAS 38, *Intangible Assets*	Adopted
PAS 39, *Financial Instruments: Recognition and Measurement*	Adopted

PFRSs and PIC Q&As	Adopted/Not adopted/Not applicable
PAS 40, *Investment Property*	Not applicable
PAS 41, *Agriculture*	Not applicable
Philippine Interpretation IFRIC–1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Not applicable
Philippine Interpretation IFRIC–2, *Members' Shares in Co-operative Entities and Similar Instruments*	Not applicable
Philippine Interpretation IFRIC–4, *Determining whether an Arrangement contains a Lease*	Adopted
Philippine Interpretation IFRIC–5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Not applicable
Philippine Interpretation IFRIC–6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*	Not applicable
Philippine Interpretation IFRIC–7, *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*	Not applicable
Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*	Adopted
Philippine Interpretation IFRIC–10, *Interim Financial Reporting and Impairment*	Not applicable
Philippine Interpretation IFRIC–12, *Service Concession Arrangements*	Not applicable
Philippine Interpretation IFRIC–13, *Customer Loyalty Programmes*	Not applicable
Philippine Interpretation IFRIC–14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Adopted
Philippine Interpretation IFRIC–16, *Hedges of a Net Investment in a Foreign Operation*	Not applicable
Philippine Interpretation IFRIC–17, *Distributions of Non-cash Assets to Owners*	Not applicable
Philippine Interpretation IFRIC–18, *Transfers of Assets from Customers*	Not applicable
Philippine Interpretation IFRIC–19, *Extinguishing Financial Liabilities with Equity Instruments*	Adopted
Philippine Interpretation SIC–7, *Introduction of the Euro*	Not applicable
Philippine Interpretation SIC–10, *Government Assistance - No Specific Relation to Operating Activities*	Not applicable
Philippine Interpretation SIC–12, *Consolidation - Special Purpose Entities*	Not applicable
Philippine Interpretation SIC–13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*	Not applicable
Philippine Interpretation SIC–15, *Operating Leases – Incentives*	Not applicable
Philippine Interpretation SIC–21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*	Not applicable
Philippine Interpretation SIC–25, *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*	Not applicable
Philippine Interpretation SIC–27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	Not Applicable

PFRSs and PIC Q&As	Adopted/Not adopted/Not applicable
Philippine Interpretation SIC–29, *Service Concession Arrangements: Disclosures*	Not Applicable
Philippine Interpretation SIC–31, *Revenue - Barter Transactions Involving Advertising Services*	Not Applicable
Philippine Interpretation SIC–32, *Intangible Assets - Web Site Costs*	Not Applicable
PIC Q&A No. 2006-01: PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts	Not Applicable
PIC Q&A No. 2006-02: PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements	Not Applicable
PIC Q&A No. 2007-03: PAS 40.27 – Valuation of bank real and other properties acquired (ROPA)	Not Applicable
PIC Q&A No. 2008-01 (Revised): PAS 19.78 – Rate used in discounting post-employment benefit obligations	Adopted
PIC Q&A No. 2008-02: PAS 20.43 – Accounting for government loans with low interest rates under the amendments to PAS 20	Adopted
PIC Q&A No. 2009-01: Framework.23 and PAS 1.23 – Financial statements prepared on a basis other than going concern	Not Applicable
PIC Q&A No. 2010-01: PAS 39.AG71-72 – Rate used in determining the fair value of government securities in the Philippines	Adopted
PIC Q&A No. 2010-02: PAS 1R.16 – Basis of preparation of financial statements	Adopted
PIC Q&A No. 2011-01: PAS 1.10(f) – Requirements for a Third Statement of Financial Position	Not Applicable

Important: If an entity has early adopted any of the following pronouncements, please take note of the: (1) additional disclosures the entity has to make for the early adoption of the said pronouncements and (2) the existing pronouncements that the entity may have to mark as "**Not applicable**":

Pronouncements issued but not yet effective	Applicable to annual period beginning on or after	Early application allowed	Remarks
Amendments to PFRS 7: *Disclosures—Transfers of Financial Assets*	July 1, 2011	Yes	To be adopted when effective
Amendments to PFRS 7: *Disclosures—Offsetting Financial Assets and Financial Liabilities*	January 1, 2013	Not mentioned	To be adopted when effective
PFRS 9, *Financial Instruments*	January 1, 2015	Yes	To be adopted when effective
PFRS 10, *Consolidated Financial Statements*	January 1, 2013	Yes	To be adopted when effective
PFRS 11, *Joint Arrangements*	January 1, 2013	Yes	To be adopted when effective
PFRS 12, *Disclosure of Interests in Other Entities*	January 1, 2013	Yes	To be adopted when effective

Pronouncements issued but not yet effective	Applicable to annual period beginning on or after	Early application allowed	Remarks
PFRS 13, *Fair Value Measurement*	January 1, 2013	Yes	To be adopted when effective
Amendments to PAS 1: *Presentation of Items of Other Comprehensive Income*	July 1, 2012	Yes	To be adopted when effective
Amendments to PAS 12–*Deferred Tax: Recovery of Underlying Assets*	January 1, 2012	Yes	To be adopted when effective
PAS 19, *Employee Benefits* (Revised)	January 1, 2013	Yes	To be adopted when effective
PAS 27, *Separate Financial Statements*	January 1, 2013	Yes	To be adopted when effective
PAS 28, *Investments in Associates and Joint Ventures*	January 1, 2013	Yes	To be adopted when effective
Amendments to PAS 32, *Offsetting Financial Assets and Financial Liabilities*	January 1, 2014	Yes	To be adopted when effective
Philippine Interpretation IFRIC–15, *Agreements for the Construction of Real Estate*	Deferred by SEC and FRSC	No	To be adopted when effective
Philippine Interpretation IFRIC–20, *Stripping Costs in the Production Phase of a Surface Mine*	January 1, 2013	Yes	To be adopted when effective
PIC Q&A No. 2011-02: PFRS 3.2 – Common Control Business Combinations	January 1, 2012	Yes	To be adopted when effective
PIC Q&A No. 2011-03: Accounting for Inter-company Loans	January 1, 2012	Yes	To be adopted when effective
PIC Q&A No. 2011-04: PAS 32.37-38 – Costs of Public Offering of Shares	January 1, 2012	Yes	To be adopted when effective
PIC Q&A No. 2011-05: PFRS 1.D1-D8 – Fair Value or Revaluation as Deemed Cost	January 25, 2012	Not mentioned	To be adopted when effective

EXHIBIT 3

2011 Audited Annual Financial Statements,
IMI International (Singapore) Pte Ltd and subsidiaries

Co. Reg. No. 200502337G

IMI International (Singapore) Pte Ltd and its Subsidiaries

Annual Financial Statements
31 December 2011

IMI International (Singapore) Pte Ltd and its Subsidiaries

General Information

Directors

Arthur R. Tan	
Chng Poh Guan	
Jerome Su Tan	(appointed on 4 January 2012)
Sherisa P. Nuesa	(resigned on 29 April 2011)

Company Secretary

Chang Ai Ling	(appointed on 27 December 2011)
Lynn Wan Tiew Leng	(resigned on 27 December 2011)

Registered Office

50 Raffles Place
Singapore Land Tower, #32-01
Singapore 048623

Bankers

BNP Paribas
Bank of the Philippine Islands
Citibank
DBS Bank Ltd
KBC Bank N.V.
OCBC Bank Ltd
Scotiabank Inverlat
Standard Chartered Bank
UniCredit Bulbank

Auditors

Ernst & Young LLP

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The directors are pleased to present their report to the member together with the audited consolidated financial statements of IMI International (Singapore) Pte Ltd (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2011.

Directors

The directors of the Company in office at the date of this report are:

Arthur R. Tan
Chng Poh Guan
Jerome Su Tan (appointed on 4 January 2012)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Cap. 50, an interest in shares of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

	Direct interest	
	At the beginning of financial year	**At the end of financial year**
Ultimate holding company		
Ayala Corporation		
Ordinary shares of 1 Peso each		
Arthur R. Tan	243,360	243,360
Immediate holding company		
Integrated Micro-Electronics, Inc.		
Ordinary shares of 1 Peso each		
Arthur R. Tan	14,955,352	14,955,352
Chng Poh Guan	1,376,248	352,000

Except as disclosed in this report, no other director who held office at the end of the financial year had an interest in any shares, share options or debentures of the Company, or of related corporations, either at the beginning of the financial year or at the end of the financial year.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit (other than a benefit or any fixed salary of a full-time employee of the Company included in the aggregate amount of emoluments shown in the financial statements) by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Auditors

Ernst & Young LLP have expressed their willingness to accept reappointment as auditors.

On behalf of the board of directors,

Arthur R. Tan
Director

Jerome Su Tan
Director

Singapore
10 April 2012

IMI International (Singapore) Pte Ltd and its Subsidiaries

Statement by Directors

We, Arthur R. Tan and Jerome Su Tan, being two of the directors of IMI International (Singapore) Pte Ltd, do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, consolidated statement of comprehensive income, statements of changes in equity and consolidated cash flows statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2011 and the results of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due as the immediate holding company has given an undertaking in terms of the Company's obligations as a going concern.

On behalf of the board of directors,

Arthur R. Tan
Director

Jerome Su Tan
Director

Singapore
10 April 2012

Report on the financial statements

We have audited the accompanying financial statements of IMI International (Singapore) Pte Ltd (the "Company") and its subsidiaries (collectively, the Group), set out on pages 6 to 68, which comprise the balance sheets of the Group and the Company as at 31 December 2011, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2011 and the results and cash flows of the Group and changes in equity of the Group and of the Company for the year ended on that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by the subsidiary incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

ERNST & YOUNG LLP
Public Accountants and
Certified Public Accountants
Singapore
10 April 2012

IMI International (Singapore) Pte Ltd and its Subsidiaries

Consolidated Statement of Comprehensive Income for the financial year ended 31 December 2011

(Amounts expressed in United States Dollars)

	Note	Group 2011 $'000	2010 $'000
Revenue	4	350,256	252,805
Cost of sales		(320,648)	(220,748)
Gross profit		29,608	32,057
Gain on bargain purchase option	2	13,019	–
Other operating income	5	1,994	1,249
Distribution and selling expenses		(106)	(58)
Administrative expenses		(22,477)	(20,617)
Finance costs	8	(1,484)	(498)
Profit before taxation	6	20,554	12,133
Taxation	9	(2,892)	(2,166)
Profit for the year		17,662	9,967
Other comprehensive income:			
Foreign currency translation loss		(6,043)	–
Other comprehensive income for the year, net of tax		(6,043)	–
Total comprehensive income for the year		11,619	9,967
Profit for the year attributable to :			
Owner of the Company		17,655	9,941
Non-controlling interests		7	26
		17,662	9,967
Total comprehensive income attributable to :			
Owner of the Company		11,617	9,941
Non-controlling interests		2	26
		11,619	9,967

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

IMI International (Singapore) Pte Ltd and its Subsidiaries

Balance Sheets as at 31 December 2011

(Amounts expressed in United States Dollars)

	Note	Group 2011 $'000	Group 2010 $'000	Company 2011 $'000	Company 2010 $'000
Non-current assets					
Property, plant and equipment	10	70,889	39,978	277	276
Deferred tax assets	25	921	658	–	–
Investment in subsidiaries	11	–	–	121,637	121,354
Intangible assets	12	52,545	45,337	–	–
Current assets					
Inventories	13	59,129	33,553	–	–
Trade receivables	14	103,458	69,126	–	–
Other receivables, deposits and prepayments	15	8,536	2,563	41	52
Due from immediate holding company	16	1,006	5,566	865	5,396
Due from subsidiary	16	–	–	35,835	–
Cash and short-term deposits	17	32,157	17,526	969	815
		204,286	128,334	37,710	6,263
Current liabilities					
Bank overdrafts	17	153	586	–	–
Trade payables	18	60,099	41,700	–	–
Other payables and accruals	19	29,702	9,767	1,321	803
Provision for taxation		1,090	1,317	37	29
Short-term bank loans	20	12,380	1,296	–	–
Long-term bank loan, current portion	21	–	8,000	–	8,000
Finance lease payables	29	666	–	–	–
Due to immediate holding company	24	105,878	105,872	80,129	85,195
Due to subsidiary	24	–	–	19,122	11,080
		209,968	168,538	100,609	105,107
Net current liabilities		(5,682)	(40,204)	(62,899)	(98,844)
Non-current liabilities					
Deferred payment	22	20,398	–	–	–
Deferred tax liabilities	25	4,279	543	–	–
Finance lease payables	29	613	–	–	–
Pension liability	23	243	–	–	–
		25,533	543	–	–
Net assets		93,140	45,226	59,015	22,786
Equity attributable to owner of the Company					
Share capital	26	35,958	123	35,958	123
Reserves	27	56,889	44,840	23,057	22,663
		92,847	44,963	59,015	22,786
Non-controlling interests		293	263	–	–
Total equity		93,140	45,226	59,015	22,786

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity for the year ended 31 December 2011

(Amounts expressed in United States Dollars)

Group	Attributable to owner of the Company							
	Share capital (Note 26) $'000	Capital reserve (Note 27a) $'000	Capital contribution reserves (Note 27b) $'000	Revenue reserves (Note 27c) $'000	Foreign currency translation reserve (Note 27d) $'000	Total $'000	Non-controlling interests $'000	Total Equity $'000
Balance at 1 January 2011	123	198	2,684	41,958	–	44,963	263	45,226
Profit for the year	–	–	–	17,655	–	17,655	7	17,662
Other comprehensive income								
Foreign currency translation	–	–	–	–	(6,038)	(6,038)	(5)	(6,043)
Total comprehensive income for the year	–	–	–	17,655	(6,038)	11,617	2	11,619
Contributions by and distributions to owners								
Issuance of ordinary shares	35,835	–	–	–	–	35,835	–	35,835
Grant of equity settled share options in immediate holding company to employees	–	–	432	–	–	432	–	432
Dividend paid to non-controlling interest	–	–	–	–	–	–	(20)	(20)
Total contributions by and distributions to owners	35,835	–	432	–	–	36,267	(20)	36,247
Changes in ownership interests in subsidiaries								
Acquisition of subsidiary	–	–	–	–	–	–	48	48
Total changes in ownership interests in subsidiaries	–	–	–	–	–	–	48	48
Total transactions with owners in their capacity as owners	35,835	–	432	–	–	36,267	28	36,295
Balance at 31 December 2011	35,958	198	3,116	59,613	(6,038)	92,847	293	93,140

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity for the year ended 31 December 2011

(Amounts expressed in United States Dollars)

	Attributable to owner of the Company						
Group	**Share capital (Note 26)** $'000	**Capital reserve (Note 27a)** $'000	**Capital contribution reserves (Note 27b)** $'000	**Revenue reserves (Note 27c)** $'000	**Total** $'000	**Non-controlling interests** $'000	**Total equity** $'000
Balance at 1 January 2010	123	189	1,409	32,017	33,738	298	34,036
Profit for the year	–	–	–	9,941	9,941	26	9,967
Total comprehensive income for the year	–	–	–	9,941	9,941	26	9,967
Contributions by and distributions to owners							
Grant of equity-settled share options in immediate holding company to employees	–	–	1,275	–	1,275	–	1,275
Dividend paid to non-controlling interest	–	–	–	–	–	(52)	(52)
Total contributions by and distributions to owners	–	–	1,275	–	1,275	(52)	1,223
Changes in ownership interests in subsidiaries							
Arising from dilution of non-controlling interest as a result of additional investment in a subsidiary of Speedy-Tech Electronics Ltd	–	9	–	–	9	(9)	–
Total changes in ownership interests in subsidiaries	–	9	–	–	9	(9)	–
Total transactions with owners in their capacity as owners	–	9	1,275	–	1,284	(61)	1,223
Balance at 31 December 2010	123	198	2,684	41,958	44,963	263	45,226

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity for the year ended 31 December 2011

(Amounts expressed in United States Dollars)

Company	Share capital (Note 26) $'000	Capital contribution reserves (Note 27b) $'000	Revenue reserves (Note 27c) $'000	Total $'000
Balance at 1 January 2011	123	2,684	19,979	22,786
Loss for the year	–	–	(38)	(38)
Total comprehensive income for the year	–	–	(38)	(38)
Contributions by and distributions to owner				
Issuance of ordinary shares	35,835	–	–	35,835
Grant of equity-settled share options in immediate holding company to employees	–	432	–	432
Total transactions with owner in their capacity as owner	35,835	432	–	36,267
At 31 December 2011	35,958	3,116	19,941	59,015
Balance at 1 January 2010	123	1,409	5,695	7,227
Profit for the year	–	–	14,284	14,284
Total comprehensive income for the year	–	–	14,284	14,284
Contributions by and distributions to owners				
Grant of equity-settled share options in immediate holding company to employees	–	1,275	–	1,275
Total transactions with owner in their capacity as owner	–	1,275	–	1,275
Balance at 31 December 2010	123	2,684	19,979	22,786

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

IMI International (Singapore) Pte Ltd and its Subsidiaries

Consolidated Cash Flow Statement for the year ended 31 December 2011

(Amounts expressed in United States Dollars)

	Group 2011 $'000	Group 2010 $'000
Cash flows from operating activities		
Profit before taxation	20,554	12,133
Adjustments for:		
Gain on disposal of property, plant and equipment	(64)	(158)
Depreciation of property, plant and equipment	12,369	8,413
Allowance for doubtful debts	46	–
Allowance/(write back of allowance) for inventories obsolescence, net	398	(908)
Interest expense	1,484	498
Interest income	(127)	(78)
Amortisation of intangible assets	668	2,600
Share option expenses	432	1,275
Net benefits expense	18	–
Gain on bargain purchase	(13,019)	–
Operating profit before working capital changes	22,759	23,775
Increase in inventories	(5,923)	(14,450)
Decrease/(increase) in trade receivables	6,224	(21,122)
Increase in other receivables, deposits and prepayments	(5,659)	(1,093)
Decrease/(increase) in amount due from immediate holding company	4,560	(4,174)
(Decrease)/increase in trade payables	(4,356)	15,688
Increase in other payables and accruals	9,016	2,196
Cash generated from operations	26,621	820
Interest paid	(1,484)	(498)
Income taxes paid	(4,470)	(4,257)
Net cash generated from/(used in) operating activities	20,667	(3,935)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	986	794
Purchase of property, plant and equipment	(8,994)	(8,528)
Net cash inflow on acquisition of subsidiaries	5,053	–
Interest received	127	78
Net cash used in investing activities	(2,828)	(7,656)
Cash flows from financing activities		
Dividend paid to non-controlling interest	(20)	(52)
Issuance of ordinary shares	7,026	–
Repayment of short-term bank loans	(1,787)	(1,006)
Repayment of long-term bank loans	(8,000)	(8,000)
Increase in amount due to immediate holding company	6	11,744
Net cash (used in)/generated from financing activities	(2,775)	2,686
Net increase/(decrease) in cash and cash equivalents	15,064	(8,905)
Cash and cash equivalents at beginning of year (Note 17)	16,940	25,845
Cash and cash equivalents at end of year (Note 17)	32,004	16,940

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

(Amounts expressed in United States Dollars unless otherwise stated)

1. Corporate information

IMI International (Singapore) Pte Ltd (the "Company") is a private limited company incorporated and domiciled in Singapore. The Company has a wholly-owned subsidiary incorporated and domiciled also in Singapore which is Speedy-Tech Electronics Ltd. ("STEL") (collectively referred to as the "Group").

The immediate holding company is Integrated Micro-Electronics Inc. which is incorporated in the Philippines and is a subsidiary of AYC Holdings, Ltd. ("AYC"). AYC is a corporation incorporated in British Virgin Islands and a subsidiary of Ayala Corporation ("AC"), a corporation incorporated in the Republic of the Philippines and listed on the Philippine Stock Exchange. On 21 January 2010, the immediate holding company was listed by way of introduction on the Philippines Stock Exchange.

On 16 April 2009, the Company established its Philippine Regional Operating Headquarters also known as IMI International ROHQ (the "Headquarters"), under Executive Order No.226, otherwise known as the Omnibus Investments Code of 1987, as amended by Republic Act No. 8756. The Headquarters started its commercial operations on 1 July 2009. The Headquarters serves as a supervisory, communications and coordinating centre for the affiliates and subsidiaries of the Company.

The registered office of the Company is located at 50 Raffles Place, Singapore Land Tower, #32-01, Singapore 048623 and its principal place of business is located at Speedy-Tech Industrial Building, 20 Kian Teck Lane, Singapore 627854.

The principal activities of the Company are the procurement of raw materials, suppliers and provision of customer services.

The principal activities of the subsidiaries are disclosed in Note 11 to the financial statements.

(Amounts expressed in United States Dollars unless otherwise stated)

2. Business combination

On 28 April 2011, the immediate holding company infused additional capital to the Company consisting of $7,026,000 cash and 200,000,000 of the immediate holding company's own shares in exchange for 43,077,144 newly issued ordinary shares of the latter amounting to $35,835,000. This was used by the Company to set up Monarch Elite Ltd. (Monarch) and Cooperatief IMI Europe U.A. (Cooperatief) as holding companies 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.

On 4 May 2011, the immediate holding 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 acquisition of the EPIQ subsidiaries was to extend the Group's platforms in Europe, North America and China that serve global customers, improve its automotive, industrial and turnkey experience and to have access to suppliers and scale benefits in materials.

The immediate holding company, Cooperatief and EPIQ NV agreed that the consideration for the EPIQ shares would include issuance of 200,000,000 of the immediate holding company's shares (the IMI Consideration Shares); deferred payment of €7,345,000 ($10,515,000) from 2013 to 2018 subject to an interest rate of 1.599% plus 1.5% (see Note 21); and assumption of liabilities of EPIQ NV to the EPIQ subsidiaries aggregating to €2,546,000 ($3,645,000).

The acquisition costs are allocated as follows:

(in $'000)	EPIQ EA	EPIQ CZ	EPIQ MX	TOTAL
Issuance of 200,000,000 immediate holding company's consideration Shares	20,639	525	7,645	28,809
Deferred payment	7,533	191	2,791	10,515
Assumed liabilities of EPIQ NV to the EPIQ subsidiaries	115	9	3,521	3,645
	28,287	725	13,957	42,969

On 29 July 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 €11,735,000 ($16,800,000). On 29 July 2011, €4,831,000 ($6,917,000) 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 21).

(Amounts expressed in United States Dollars unless otherwise stated)

2. Business Combination (cont'd)

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

	EPIQ EA		EPIQ CZ		EPIQ MX	
	Carrying Value ($'000)	Fair Value ($'000)	Carrying Value ($'000)	Fair Value ($'000)	Carrying Value ($'000)	Fair Value ($'000)
Assets						
Cash and cash equivalents	1,152	1,152	515	515	3,386	3,386
Receivables	26,486	26,486	3,334	3,334	10,508	10,508
Inventories	20,701	20,701	2,985	2,985	4,476	4,476
Property, plant and equipment	10,189	24,811	8,072	5,734	6,121	8,618
Computer software	159	159	–	–	300	300
Customer relationship	–	6,767	–	–	–	–
Deferred tax assets	–	–	–	444	–	–
Other assets	193	193	–	–	121	121
Total	58,880	80,269	14,906	13,012	24,912	27,409
Liabilities						
Accounts payable	17,651	17,651	2,445	2,445	6,410	6,410
Bank loans	12,871	12,871	–	–	–	–
Long-term debt	4,780	4,780	10,114	10,114	2,909	2,909
Provisions	1,320	1,320	–	–	–	–
Accrued charges and deferred income	1,159	1,159	378	378	–	–
Taxes payable	352	352	–	–	1,090	1,090
Deferred tax liabilities	–	2,139	–	–	937	1,686
Total	38,133	40,272	12,937	12,937	11,346	12,095
Net Assets	20,747	39,997	1,969	75	13,566	15,314
Cost of acquisition		28,287		725		13,957
Less: Cooperatief's share in the fair value of net assets acquired		39,949[1]		75		15,314
Goodwill/(gain from bargain purchase)		(11,662)		650		(1,357)

[1] Net of non-controlling interests of $48,000.

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.

Acquisition related costs, which consist of professional fees, representation and travel expenses amounting to $2,141,000 were recognised as expense in 2011.

(Amounts expressed in United States Dollars unless otherwise stated)

2. Business Combination (cont'd)

From the date of acquisition, the EPIQ subsidiaries have contributed $66,239,000 and $2,417,000 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 $189,909,000 and $10,446,000, respectively.

Trade and other receivables acquired comprise interest-free customer receivables, none of the which are deemed uncollectible.

3. Summary of significant accounting policies

3.1 *Basis of preparation*

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in United States Dollars (USD or $) and all values in the tables are rounded to the nearest thousand ($'000) as indicated.

3.2 *Changes in accounting polices*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 January 2011. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company.

3.3 *Standards issued but not yet effective*

The Group has not adopted the following relevant standards and interpretations that have been issued but not yet effective:

Description	*Effective for annual periods beginning on or after*
Amendments to FRS 107 *Disclosures – Transfers of Financial Assets*	1 July 2011
Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income*	1 July 2012
Revised FRS 19 *Employee Benefits*	1 January 2013
Revised FRS 27 *Separate Financial Statements*	1 January 2013
FRS 110 *Consolidated Financial Statements*	1 January 2013
FRS 112 *Disclosure of Interests in Other Entities*	1 January 2013
FRS 113 *Fair Value Measurements*	1 January 2013

Except for the Amendments to FRS 1 and FRS 112, the directors expect that the adoption of the standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the Amendments to FRS 1 and FRS 112 are described below.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.3 *Standards issued but not yet effective (cont'd)*

Amendments to FRS 1 *Presentation of Items of Other Comprehensive Income*

The Amendments to FRS 1 Presentation of Items of Other Comprehensive Income (OCI) is effective for financial periods beginning on or after 1 July 2012.

The Amendments to FRS 1 changes the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. As the Amendments only affect the presentations of items that are already recognised in OCI, the Group does not expect any impact on its financial position or performance upon adoption of this standard.

FRS 112 *Disclosure of Interests in Other Entities*

FRS 112 is effective for financial periods beginning on or after 1 January 2013.

FRS 112 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. FRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. The Group is currently determining the impact of the disclosure requirements. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in 2013.

3.4 *Foreign currency*

The Group's consolidated financial statements are presented in United States Dollars, which is also the Company's functional currency. 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.

(a) ***Transactions and balances***

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.4 *Foreign currency (cont'd)*

(b) ***Consolidated financial statements***

For consolidation purpose, the assets and liabilities of foreign operations are translated into USD at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the average exchange rates for the year. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

3.5 *Basis of consolidation and business combinations*

(a) ***Basis of consolidation***

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when controls is lost;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.5 ***Basis of consolidation and business combinations (cont'd)***

(a) ***Basis of consolidation (cont'd)***

Basis of consolidation prior to 1 January 2010

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

- Acquisition of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further losses were attributed to the Group, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the owners of the Company.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments as at 1 January 2010 have not been restated.

(b) ***Business combinations***

Business combinations from 1 January 2010

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

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.

Any contingent consideration to be transferred by the acquirer will be recognised 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 recognised in accordance with FRS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not be remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.5 *Basis of consolidation and business combinations (cont'd)*

(b) *Business combinations (cont'd)*

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations are accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling 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. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity. 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 would otherwise have been required under the contract.

Contingent consideration was recognised 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 recognised as part of goodwill.

3.6 *Subsidiaries*

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment losses.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.7 *Transactions with non-controlling interests*

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3.8 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 3.18. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, all items of property, plant and equipment except leasehold land and building are measured at cost less accumulated depreciation and accumulated impairment losses. Leasehold land and buildings are measured at fair value less accumulated depreciation and impairment losses recognised after the date of the revaluation.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.8 *Property, plant and equipment (cont'd)*

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis with a residual value of 0% to 10% over the estimated useful life of the asset as follows:

Leasehold land and building	30 years (over the tenure period)
Land use rights	30 years (over the tenure period of the land)
Plant and machinery	3 - 10 years
Furniture and fittings	3 - 5 years
Office equipment	3 - 10 years
Renovation	3 - 5 years
Motor vehicles	5 years
Tools and equipment	5 years
Electronics equipment	3 - 5 years
EMC testing facility	3 - 10 years
Leasehold building and improvements	5 - 30 years (over the term of lease)

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

3.9 *Intangible assets*

(a) *Goodwill*

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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 that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating 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 this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.9 *Intangible assets (cont'd)*

(a) *Goodwill (cont'd)*

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 3.4.

Goodwill and fair value adjustments which arose on acquisitions of foreign operation before 1 January 2005 are deemed to be assets and liabilities of the Company and are recorded in USD at the rates prevailing at the date of acquisition.

(b) *Other intangible assets – customer relationships, unpatented technology, computer software and club membership*

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Amortisation of intangible assets is computed on a straight-line basis over the estimated useful life of the intangible assets as follows:

Customer relationships	5 years
Unpatented technology	5 years
Computer software	3 years

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.10 *Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

3.11 *Financial assets*

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.11 *Financial assets (cont'd)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) ***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by FRS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Group has not designated any financial assets upon initial recognition at fair value through profit or loss.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(b) ***Loans and receivables***

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.12 *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

Cash and short-term deposits carried on the balance sheets are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 3.11.

3.13 *Trade and other receivables*

Trade and other receivables, including amounts due from intermediate holding company, immediate holding company and subsidiaries are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 3.11.

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 3.14 below.

3.14 *Impairment of financial assets*

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired.

(a) *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised 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 discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.14 *Impairment of financial assets (cont'd)*

(a) *Financial assets carried at amortised cost (cont'd)*

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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 recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(b) *Financial assets carried at cost*

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at 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 discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

3.15 *Inventories*

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- Raw materials – purchase costs on a weighted average basis;
- Finished goods and work-in-progress – costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned as a first-in first-out basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3.16 *Trade and other payables*

Liabilities for trade and other amounts payable, which are normally settled on 30-60 days terms, and payables to related parties are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.17 *Interest bearing loans and borrowings*

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

3.18 *Borrowings costs*

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. 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.

3.19 *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

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 economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.20 *Employee benefits*

Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

<u>Singapore</u>

The Singapore companies in the Group make contributions to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.20 *Employee benefits (cont'd)*

Defined contribution plans (cont'd)

PRC

The subsidiaries incorporated and operating in the People's Republic of China ("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.

The Philippines

Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

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

EPIQ EA

EPIQ EA maintains unfunded and non-contributory defined benefit plan covering substantially all of their employees. 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.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.20 *Employee benefits (cont'd)*

Defined benefit plans (cont'd)

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 recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to the end of the reporting period.

Equity-settled transactions

The cost of equity-settled transactions with employees was measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account was taken of any performance conditions, other than conditions linked to the price of the shares of the company ('market conditions'), if applicable.

The cost of equity-settled transactions was recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date').

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Since the scheme was cancelled after the vesting period, share option reserves representing the cumulative share option expense recognised was retained as part of equity.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.21 *Revenue*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(a) ***Sale of goods***

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) ***Interest income***

Interest income is recognised using the effective interest method.

(c) ***Rental income***

Rental income is recognised on a straight-line basis. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

(d) ***Dividend income***

Dividend income is recognised when the Group's right to receive payment is established.

3.22 *Taxes*

(a) ***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.22 *Taxes (cont'd)*

(b) ***Deferred tax***

Deferred tax is provided using the liability method on 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 recognised for all temporary differences, except:

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

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.22 *Taxes (cont'd)*

(b) ***Deferred tax (cont'd)***

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

(c) ***Sales tax***

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

3.23 *Derivative financial instruments*

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

Any gain or losses arising from changes in fair value on derivative financial instruments that do not qualify for hedge accounting are taken to profit or loss for the year.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.24 *Financial liabilities*

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(a) ***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

The Group has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

(b) ***Other financial liabilities***

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

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

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.25 *Leases*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of INT FRS 104.

(a) ***As lessee***

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. 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 to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(b) ***As lessor***

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.21(c). Contingent rents are recognised as revenue in the period in which they are earned.

3.26 *Share capital and share issuance expenses*

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.27 *Related parties*

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

(i) Has control or joint control over the Company;

(ii) Has significant influence over the Company; or

(iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.28 ***Significant accounting estimates and judgements***

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

(a) ***Key sources of estimation uncertainty***

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) ***Impairment of investment in subsidiaries***

The Company assesses at each reporting date whether there is an indication that the investment in subsidiaries may be impaired. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Company's investment in subsidiaries at 31 December 2011 was $121,637,000 (2010: $121,354,000).

(ii) ***Depreciation of plant and equipment***

The cost of plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these property, plant and equipment as discussed in Note 2.8. These are common life expectancies applied in the electronics and telecommunication manufacturing industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's property, plant and equipment at 31 December 2011 was $70,889,000 (2010: $39,978,000).

(iii) ***Income taxes***

The Group has exposure to taxes in numerous jurisdictions. Significant judgement 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 recognises 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 recognised, such differences will impact the profit and loss in the period in which such determination is made. The carrying amounts of the Group's tax payables, deferred tax liabilities and deferred tax assets at 31 December 2011 were $1,090,000 (2010: $1,317,000), $4,279,000 (2010: $543,000) and $921,000 (2010: $658,000) respectively.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.28 ***Significant accounting estimates and judgements (cont'd)***

(a) ***Key sources of estimation uncertainty (cont'd)***

(iv) ***Impairment of non-financial assets***

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Further details of the key assumptions applied in the impairment assessment of goodwill, are given in Note 12 to the financial statements.

(v) ***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 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 $6,203,000 as of 31 December 2011.

(b) ***Critical judgements made in applying accounting policies***

In the process of applying the Group's accounting policies, management has made the following critical accounting judgements that will have a significant effect on the amounts recognised in the consolidated financial statements.

(i) ***Impairment of property, plant and equipment***

The carrying values of property, plant and equipment are reviewed for impairment when there are indicators of impairment. As at 31 December 2011, there are no indications of impairment.

(Amounts expressed in United States Dollars unless otherwise stated)

3. Summary of significant accounting policies (cont'd)

3.28 *Significant accounting estimates and judgements (cont'd)*

(b) ***Critical judgements made in applying accounting policies (cont'd)***

(ii) ***Determination of functional currency***

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

4. Revenue

	Group	
	2011	**2010**
	$'000	$'000
Sale of goods	345,955	248,808
Service fees	4,301	3,997
	350,256	252,805

Service fees relate to fees from services provided to the immediate holding company.

5. Other operating income

	Group	
	2011	**2010**
	$'000	$'000
Gain on sale of materials	779	–
Rental income	430	220
Interest income from loans and receivables	127	78
Gain on disposal of property, plant and equipment	64	158
Write back of provision of sales commission	–	321
Sundry income*	594	472
	1,994	1,249

* This mainly relates to commission and engineering fees from product development activities and income earned from purchases on behalf of customers.

(Amounts expressed in United States Dollars unless otherwise stated)

6. Profit before taxation

Profit before taxation is stated after charging/(crediting) the following:

	Group 2011 $'000	Group 2010 $'000
Employee benefits expense (Note 7)	61,516	44,796
Depreciation of property, plant and equipment (Note 10)	12,369	8,413
Exchange gain, net	(1,757)	(341)
Operating lease expenses	1,364	1,270
Transactions costs incurred in business combination	2,141	–
Amortisation of intangible assets	668	2,600
Allowance for inventory obsolescence	889	165
Write back of allowance for inventory obsolescence	(491)	(1,073)
Loss on sale of materials	–	1,392
Research costs	193	199
Allowance for doubtful debts		
- Trade receivables	46	–

7. Employee benefits expense

	Group 2011 $'000	Group 2010 $'000
Wages, salaries and bonuses	53,878	36,941
Central Provident Fund/pension contributions	2,414	2,141
Other personnel benefits	3,510	3,216
Share option expenses (not including directors of Company)	432	1,198
Directors' remuneration – directors of the Company	1,282	1,300
	61,516	44,796

Share options expenses relate to the difference between the fair value and the subscription price of the share of the immediate holding company's Employee Stock Ownership Plan ("ESOWN") granted to employees of the Group. Details of the ESOWN are disclosed in the financial statement of the immediate holding company.

8. Finance costs

	Group 2011 $'000	Group 2010 $'000
Interest expense		
- bank loans	1,472	220
- bank overdrafts/bank charges	12	278
	1,484	498

(Amounts expressed in United States Dollars unless otherwise stated)

9. Income tax

Major components of taxation

The major components of taxation for the year ended 31 December 2011 and 2010 are:

	Group	
	2011 $'000	**2010** $'000
Current taxation		
Singapore		
Current year	–	–
Over provision in respect of prior years	–	(629)
Foreign		
Current year	2,604	2,941
Under/(over) provision in respect of prior years	86	(139)
	2,690	2,173
Deferred taxation		
Foreign		
Origination and reversal of temporary differences	89	(7)
Under-provision of deferred tax in respect of previous year	113	–
	202	(7)
Tax expense recognised in the statement of comprehensive income.	2,892	2,166

Relationship between taxation and accounting profit

A reconciliation between the taxation and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December 2011 and 2010 are as follows:

Accounting profit before income taxes	20,554	12,133
Tax at the domestic rates applicable to profits in the countries concerned *	2,362	3,128
Adjustments:		
Tax effect of expenses not deductible for tax purposes	304	630
Under/(over) provision of current tax in respect of prior years	86	(768)
Under-provision of deferred tax in respect of previous year	113	-
Benefits of previously unrecognised tax losses	(67)	(335)
Deferred tax assets not recognised	66	46
Income not subject to tax	(24)	(302)
Others	52	(233)
Tax expense recognised in the statement of comprehensive income.	2,892	2,166

* The reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

(Amounts expressed in United States Dollars unless otherwise stated)

9. Income tax (cont'd)

Speedy Tech Electronics (HK) Limited ("STHK")

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year.

Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE"), Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX"), Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ") and IMI (Cheng Du) Ltd. ("IMICD")

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five (5) years.

SZSTE is subject to taxation at the statutory tax rate of 24% (2010: 22%) on its taxable income as reported in the financial statements of SZSTE prepared in accordance with the accounting regulations in the PRC.

STJX is entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year, ie. after all tax losses have been fully offset in accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STJX is in its sixth profitable year, and hence is subject to taxation at the rate of 28% (2010: 25%) 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 Enterprise Income Tax ("EIT") for the first five years, commencing from the first profitable year, ie. after all tax losses have been fully offset in accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STCQ is in its first 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.

IMICD is subject to taxation at the statutory tax rate of 25% on their taxable income as reported in the financial statement. With effect from year 2008, the China tax authority ceased the incentive of preferential tax treatment for enterprises with foreign investment and foreign enterprises.

Speedy-Tech (Philippines) Inc. ("STPHIL")

Speedy-Tech (Philippines) Inc. is registered with the Philippine Economic Zone Authority ("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 Republic Act No. 7916, in lieu of all local and national taxes.

(Amounts expressed in United States Dollars unless otherwise stated)

9. Income tax (cont'd)

EPIQ EA

Income taxes are calculated in accordance with the Bulgarian legislation, and the effect of the current and deferred 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%.

(Amounts expressed in United States Dollars unless otherwise stated)

10. Property, plant and equipment

Group	Leasehold land and building $'000	Land Use rights $'000	Plant and machinery $'000	Furniture and fittings $'000	Office equipment $'000	Reno-vation $'000	Motor vehicles $'000	Tools and equipment $'000	Electronics equipment $'000	Leasehold building and improve-ments $'000	EMC testing facility $'000	Total $'000
	At cost											
Cost												
At 1 January 2010	6,492	517	66,543	1,075	1,661	7,714	807	445	7,845	5,455	2,179	100,733
Additions	–	–	7,330	4	108	313	304	173	296	–	–	8,528
Disposals/written off	–	–	(2,378)	(13)	(467)	–	(139)	–	(214)	–	–	(3,211)
At 31 December 2010 and 1 January 2011	6,492	517	71,495	1,066	1,302	8,027	972	618	7,927	5,455	2,179	106,050
Additions	1,020	–	5,092	219	113	1,719	329	118	376	8	–	8,994
Additions through business combination	19,050	–	18,796	187	–	811	319	–	–	–	–	39,163
Disposals/written off	–	–	(2,688)	(16)	(75)	–	(108)	(2)	(476)	–	–	(3,365)
Exchange differences	(1,941)	–	(2,728)	(137)	–	(177)	(33)	–	–	–	–	(5,016)
At 31 December 2011	24,621	517	89,967	1,319	1,340	10,380	1,479	734	7,827	5,463	2,179	145,826
Accumulated depreciation and impairment loss												
At 1 January 2010	4,446	475	37,604	643	1,349	5,678	435	340	6,372	1,638	1,254	60,234
Charge for the year	276	30	5,613	41	176	881	188	90	719	198	201	8,413
Disposals/written off	–	–	(1,822)	(13)	(421)	–	(109)	–	(210)	–	–	(2,575)
At 31 December 2010 and 1 January 2011	4,722	505	41,395	671	1,104	6,559	514	430	6,881	1,836	1,455	66,072
Charge for the year	587	5	9,408	85	155	730	323	134	564	181	197	12,369
Disposals/written off	–	–	(1,787)	(16)	(75)	–	(108)	–	(457)	–	–	(2,443)
Exchange differences	(277)	–	(691)	(34)	–	(51)	(8)	–	–	–	–	(1,061)
At 31 December 2011	5,032	510	48,325	706	1,184	7,238	721	564	6,988	2,017	1,652	74,937
Net carrying amount												
At 31 December 2010	1,770	12	30,100	395	198	1,468	458	188	1,046	3,619	724	39,978
At 31 December 2011	19,589	7	41,642	613	156	3,142	758	170	839	3,446	527	70,889

(Amounts expressed in United States Dollars unless otherwise stated)

10. Property, plant and equipment (cont'd)

Company	Computer equipment $'000	Motor vehicles $'000	Total $'000
Cost			
At 1 January 2010	7	175	182
Additions	–	251	251
Disposals/written off	–	(22)	(22)
At 31 December 2010 and 1 January 2011	7	404	411
Additions	–	154	154
Disposals/written off	–	(37)	(37)
At 31 December 2011	7	521	528
Accumulated depreciation			
At 1 January 2010	7	32	39
Charge for the year	–	105	105
Disposal/written off	–	(9)	(9)
At 31 December 2010 and 1 January 2011	7	128	135
Charge for the year	–	138	138
Disposal/written off	–	(22)	(22)
At 31 December 2011	7	244	251
Net carrying amount			
At 31 December 2010	–	276	276
At 31 December 2011	–	277	277

The carrying value of the equipment held under finance lease at the end of the reporting period was $2,120,000 (2010: $Nil).

11. Investment in subsidiaries

	Company 2011 $'000	Company 2010 $'000
Unquoted equity shares, at cost	121,637	121,354

(Amounts expressed in United States Dollars unless otherwise stated)

11. Investment in subsidiaries (cont'd)

Details of the subsidiary are as follows:

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group 2011 %	2010 %
Held by the Company				
Speedy-Tech Electronics Ltd *	Singapore	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
Monarch Elite Ltd #	Hong Kong	Investment holding	100	–
Held by Speedy-Tech Electronics Ltd				
Vista Manufacturing Pte Ltd @@ ("VISTA")	Singapore	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
Speedy-Tech Technologies Pte Ltd @@ ("STTS")	Singapore	Manufacture and trading of electrical discharge machines and electronic components (dormant)	100	100
Speedy-Tech Electronics (HK) Limited * ("STHK")	Hong Kong	Procurement, marketing and supply chain services	100	100
Speedy-Tech (Philippines) Inc. # ("STPHIL")	Philippines	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	99.99	99.99
Shenzhen Speedy-Tech Electronics Co., Ltd. * ("SZSTE")	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing, procurement and research and development	99.48	99.48
Speedy-Tech Electronics Inc. **	United States of America	Marketing, liaison and support services (dormant)	100	100

(Amounts expressed in United States Dollars unless otherwise stated)

11. Investment in subsidiaries (cont'd)

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group 2011 %	2010 %
Held by Speedy-Tech Electronics Ltd (cont'd)				
Speedy-Tech Electronics (Jiaxing) Co. Ltd. * ("STJX")	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ") ##	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
IMI (Cheng Du) Ltd. ("IMICD") &	People's Republic of China	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	100	100
Held by Monarch Elite Ltd				
Cooperatief IMI Europe U.A.**	Netherlands	Provision of material needs of its members, pursuant to agreements concluded with its members in respect of the business that it carries on or procures to be carried on for the benefit of its members	100	–
Held by Cooperatief IMI Europe U.A.				
EPIQ Electronic Assembly EOOD (EPIQ EA) #	Bulgaria	Production of electronic modules for domestic goods and automobile manufacturing	100	–
Microenergia OOD #	Bulgaria	Supply of water, refurbishment and infrastructure maintenance activities	70	–

(Amounts expressed in United States Dollars unless otherwise stated)

11. Investment in subsidiaries (cont'd)

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group 2011	2010
Held by Cooperatief IMI Europe U.A. (cont'd)				
EPIQ CZ s.r.o (EPIQ CZ) #	Czech Republic	Installation and repairs of products and equipment of consumer electronics; purchase of goods for the purpose of resale thereof, and sale of goods; leasing of real property, residential and non-residential premises without provision of other than basic services ensuring proper operation of the real property, residential and non-residential premises	100	–
EPIQ MX, S.A.P.I de C.V. (EPIQ MX) #	Mexico	Manufacture and sale of electronic components and plastic injection moulding primarily for the automotive and household industries	100	–
EPIQ Manufactura S.A.P.I de C.V. #	Mexico	Provides operation and management services	100	–
IMI France @	France	Employer of executives in EPIQ subsidiaries	100	–

* Audited by Ernst & Young LLP, Singapore.

\# Audited by member firms of Ernst & Young Global in the respective countries.

** No audit is required by the law of its country of incorporation.

\## Audited by Jiaxing Hengxin Certified Public Accountants Co., Ltd, Certified Public Accountants in the PRC.

& Audited by Sichuan Junyi Accounting Firm Co., Ltd, Certified Public Accountants in the PRC.

@ Audited by SEGEC in France.

@@ Under the application to strike off.

(Amounts expressed in United States Dollars unless otherwise stated)

12. Intangible assets

Group	Goodwill $'000	Customer relationship $'000	Unpatented technology $'000	Computer software $'000	Club membership $'000	Total $'000
Cost :						
Balance at 1 January 2010, 31 December 2010 and 1 January 2011	45,337	12,900	100	–	13	58,350
Additions through business combination	650	6,767	–	459	–	7,876
Balance at 31 December 2011	45,987	19,667	100	459	13	66,226
Accumulated amortisation :						
Balance at 1 January 2010	–	10,320	80	–	13	10,413
Amortisation	–	2,580	20	–	–	2,600
Balance at 31 December 2010 and 1 January 2011	–	12,900	100	–	13	13,013
Amortisation	–	564	–	104	–	668
Balance at 31 December 2011	–	13,464	100	104	13	13,681
Net carrying amount :						
At 31 December 2010	45,337	–	–	–	–	45,337
At 31 December 2011	45,987	6,203	–	355	–	52,545
Average remaining amortisation period (years) – 2010		–	–	–	–	
Average remaining amortisation period (years) – 2011		4.5	–	2.5	–	

Customer relationship

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

Unpatented technology

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

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

(Amounts expressed in United States Dollars unless otherwise stated)

12. Intangible assets (cont'd)

Computer software

These pertain to computer software of EPIQ EA and EPIQ MX.

Amortisation expense

The amortisation of the intangible assets is included in the 'Administrative expenses' line item in the consolidated income statement.

Impairment testing of goodwill

The Group has identified the cash generating unit ("CGU") to be Speedy-Tech Electronics Ltd and subsidiaries ("STEL").

The recoverable amounts of the CGU have been determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections are 11.1% and 12.4% in 2011 and 2010 respectively and cash flows beyond the 5-year period are extrapolated using a very conservative steady growth rate of 1% (2010: 1%) which does not exceed the compound annual growth rate for the global EMS industry.

Key assumptions used in value in use calculations

The calculations of value in use for the CGU are most sensitive to the following assumptions:

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

With regard to the assessment of value in use, 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. No impairment loss was assessed for STEL Group.

<u>EPIQ CZ</u>
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 recognised is still subject to finalisation.

(Amounts expressed in United States Dollars unless otherwise stated)

13. Inventories

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Finished goods	7,903	5,712	–	–
Work-in-progress	5,552	3,494	–	–
Raw materials	42,242	24,216	–	–
Goods-in-transit	3,342	11	–	–
Tools	90	120	–	–
Total inventories at lower of cost and net realisable value	59,129	33,553	–	–

Inventories of EPIQ EA amounting to €8,000,000 ($10,352,000) and €2,125,000 ($2,750,000) were pledged to UniCredit Bulbank and BNP Paribas, respectively (see Note 20).

14. Trade receivables

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Trade receivables	103,515	69,242	–	–
Less : Allowance for doubtful trade debts	(57)	(116)	–	–
Trade receivables, net	103,458	69,126	–	–
Add:				
Other receivables (Note 15)	2,679	2,177	10	34
Tax credits (Note 15)	4,776	–	8	–
Deposits (Note 15)	547	123	–	–
Sales tax recoverable (Note 15)	14	26	–	–
Due from immediate holding company	1,006	5,566	865	5,396
Due from subsidiary	–	–	35,835	–
Cash and short-term deposits (Note 17)	32,157	17,526	969	815
Total loans and receivables	144,637	94,544	37,687	6,245

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

In 2011, trade receivables of EPIQ EA from certain customers totalling €10,000,000 ($12,940,000) and €2,125,000 ($2,750,000) were pledged to UniCredit Bulbank and BNP Paribas, respectively (see Note 20).

(Amounts expressed in United States Dollars unless otherwise stated)

14. Trade receivables (cont'd)

Included in trade receivables are the following amounts denominated in foreign currencies at 31 December:

	Group		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Singapore Dollar	–	1	–	–
Renminbi	40,296	38,478	–	–
Philippines Peso	–	–	–	–
Euro	20,333	–	–	–
Bulgarian Lev	1,440	–	–	–
Czech Koruna	52	–	–	–

Receivables that are past due but not impaired

The Group has trade receivables amounting to $16,349,000 (2010: $5,376,000) that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group	
	2011	2010
	$'000	$'000
Trade receivables past due:		
Lesser than 30 days	7,678	3,647
30-60 days	3,719	1,198
61-90 days	721	139
More than 90 days	4,231	392
	16,349	5,376

Receivables that are impaired

The Group's trade receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group	
	2011	2010
	$	$
Trade receivables – nominal amounts	57	116
Less: Allowance for doubtful trade debts	(57)	(116)
	–	–
Movements in allowance account:		
At 1 January	116	210
Charge for the year	46	–
Written off	(105)	(94)
At 31 December	57	116

Trade receivables that are determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

(Amounts expressed in United States Dollars unless otherwise stated)

15. Other receivables, deposits and prepayments

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Other receivables	2,681	2,179	10	34
Less : Allowance for doubtful debts	(2)	(2)	–	–
	2,679	2,177	10	34
Tax credits	4,776	–	8	–
Deposits	547	123	–	–
Prepayments	520	237	23	18
Sales tax recoverable	14	26	–	–
	8,536	2,563	41	52

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

Included in other receivables are the following amounts denominated in foreign currencies at 31 December:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Singapore Dollar	6	133	–	–
Renminbi	1,612	92	–	–
Philippine Peso	10	–	–	–
Euro	1,364	–	–	–
Bulgarian Lev	37	–	–	–
Czech Koruna	52	–	–	–

<u>Receivables that are past due but not impaired</u>

The Group has other receivables amounting to $665,000 (2010: $760,000) that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group	
	2011	**2010**
	$'000	$'000
Other receivables past due:		
Lesser than 30 days	501	342
30-60 days	164	418
	665	760

(Amounts expressed in United States Dollars unless otherwise stated)

15. Other receivables, deposits and prepayments (cont'd)

Receivables that are impaired

The Group's other receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group	
	2011	**2010**
	$'000	$'000
Other receivables – nominal amounts	2	2
Less: Allowance for doubtful debts	(2)	(2)
	–	–
Movements in allowance account:		
At 1 January	2	2
Charge for the year	–	–
At 31 December	2	2

Other receivables that are determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

16. Due from immediate holding company and subsidiary

Amount due from immediate holding company is trade related, unsecured, interest-free, repayable on demand and to be settled in cash.

Amount due from subsidiary is non-trade related, unsecured, interest-free, repayable on demand and to be settled in cash.

17. Cash and short-term deposits

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at the balance sheet date:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Fixed deposits	4,206	–	–	–
Cash and bank balances [1]	27,951	17,526	969	815
Cash and short-term deposits	32,157	17,526	969	815
Bank overdrafts [2]	(153)	(586)	–	–
Cash and cash equivalents	32,004	16,940	969	815

(Amounts expressed in United States Dollars unless otherwise stated)

17. Cash and short-term deposits (cont'd)

(1) Cash at banks earns interest at floating rates based on daily bank deposit rates. Fixed deposits are mainly short term deposits made for varying periods of approximately one to two months depending on the immediate cash requirements of the Group and bears interest ranging from 0.05% to 0.19% (2010: 0.05% to 0.19%) per annum during the year.

(2) Bank overdrafts of the Group bear interest ranging from 4.25% to 6.00% (2010: 4.25% to 6.00%) per annum.

Cash and short-term deposits denominated in foreign currencies at 31 December are as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Renminbi	8,715	4,706	–	–
Euro	3,372	–	–	–
Singapore Dollar	1,133	(40)	492	511
Philippines Peso	247	43	214	–
Mexican Peso	162	–	–	–
Bulgarian Lev	65	–	–	–
Japanese Yen	53	–	–	–
Czech Koruna	3	–	–	–
Hong Kong Dollar	2	–	–	–

18. Trade payables

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Trade payables	60,099	41,700	–	–
Add:				
Other payables (Note 19)	15,501	1,839	49	243
Accrued operating expenses (Note 19)	13,286	7,499	1,272	560
Deposits received (Note 19)	915	429	–	–
Due to subsidiary	–	–	19,122	11,080
Due to immediate holding company	105,878	105,872	80,129	85,195
Short-term bank loan (Note 20)	12,380	1,296	–	–
Long-term bank loan (Note 21)	–	8,000	–	8,000
Finance lease payables (Note 29)	1,279	–	–	–
Deferred payment	20,398	–	–	–
Bank overdrafts (Note 17)	153	586	–	–
Total financial liabilities carried at amortised cost	229,889	167,221	100,572	105,078

(Amounts expressed in United States Dollars unless otherwise stated)

18. Trade payables (cont'd)

Trade payables are non-interest bearing and are generally on 30 to 60 days' terms.

Included in trade payables are the following amounts denominated in foreign currencies at 31 December:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Euros	2,258	35	–	–
Singapore Dollar	33	55	–	–
Hong Kong Dollar	460	971	–	–
Renminbi	22,737	17,740	–	–
Philippines Peso	7	3	–	–
Japanese Yen	1,478	–	–	–
Australian Dollars	351	–	–	–
Mexican Peso	475	–	–	–

19. Other payables and accruals

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Accrued operating expenses	13,286	7,499	1,272	560
Deposits received	915	429	–	–
Other payables	15,501	1,839	49	243
	29,702	9,767	1,321	803

Accrued expenses pertain to payroll, light and water, rental and transportation expenses.

Other payables include accounts payable to non-affiliates, finance lease payable, provision for restructuring and customers' deposits.

Included in other payables are the following amounts denominated in foreign currencies at 31 December:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Singapore Dollar	11,157	481	22	243
Renminbi	2,294	1,240	–	–
Philippine Peso	1,299	–	1,299	–
Japanese Yen	599	–	–	–
Hong Kong Dollar	60	79	–	–

20. Short term bank loan

Short-term banks loans consist borrowings of:

	Group 2011 $'000	Group 2010 $'000
EPIQ EA	11,066	–
STEL Group	1,314	1,296
	12,380	1,296

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

	Group 2011 $'000
UniCredit Bulbank	10,352
BNP Paribas	714
	11,066

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.

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; and
- First ranking pledge on receivables from a certain customer;

As of 31 December 2011, EPIQ EA's pledged inventories and receivables with UniCredit Bulbank amounted to €8,000,000 ($10,352,000) and €10,000,000 ($12,940,000), respectively.

The credit facility with BNP Paribas is subject to the following collaterals:

- First rank pledge on receivables from selected customers of EPIQ EA, subject to pre-financing in the amount of 125% of the utilized portion of the facility but not more than €2,125,000; and
- First rank pledge on goods of EPIQ EA in the amount of 125% of the utilised portion of the facility but not more than €2,125,000.

As of 31 December 2011, EPIQ EA's pledged inventories and receivables, with BNP Paribas both amounted to €2,125,000 ($2,750,000).

The unsecured Singapore Dollar denominated short term bank loan of the Group is revolving in nature and bears interest at rates ranging from 3.35% to $3.45% (2010: 3.52% to 3.70%) per annum.

(Amounts expressed in United States Dollars unless otherwise stated)

21. Long-term bank loan

	Group 2011 $'000	Group 2010 $'000	Company 2011 $'000	Company 2010 $'000
Current:				
- Company's bank loan	–	8,000	–	8,000

The loan of the Company from a bank is denominated in United States Dollar. This variable rate loan which is repayable in 10 equal semi-annual instalments of $4,000,000, commencing on 29 May 2007 and maturing on 29 November 2011. Interest is payable at LIBOR plus 0.75% quoted by the bank. Interest rates ranged from 3.6% to 5.6% (2010: 3.6% to 5.6%). The loan was paid in full in November 2011.

22. Deferred payment

	Group 2011 $'000	Group 2010 $'000	Company 2011 $'000	Company 2010 $'000
Noncurrent:				
- Cooperatief	20,398	–	–	–

Cooperatief's deferred payment relates to the acquisition of EPIQ shares and receivables of EPIQ NV from the EPIQ subsidiaries (Note 2). This is subject to interest rate of 1.599% plus 1.5%.

23. Pension liability

EPIQ EA has defined benefit obligation plan covering substantially all of their employees, which require contributions to be made to administered funds.

Net pension expense

	Group 2011 $'000
Current service cost	34
Interest cost	15
Benefits paid	(24)
Net actuarial gain	(7)
	18

(Amounts expressed in United States Dollars unless otherwise stated)

23. Pension liability (cont'd)

Pension liability

	Group 2011 $'000
Present value of benefit obligation	265
Unrecognised net actuarial losses	(22)
	243

Movements in net pension liability

	2011 $'000
Balance upon acquisition	220
Net benefit expense	18
Foreign currency exchange difference	5
	243

Movements in present value of obligation

	2011 $'000
Balance upon acquisition	220
Interest cost	15
Current service cost	34
Benefits paid	(24)
Actuarial loss	20
	265

Movements in unrecognised net actuarial losses

	2011 $'000
Balance upon acquisition	7
From benefit obligation	(20)
Amortisation of actuarial gain	(7)
Foreign currency exchange difference	(2)
	(22)

The principal assumptions used to determine benefit obligations of EPIQ EA follows:

	2011
Discount rate	6.2%
Future pay increases	5.0%
Staff turnover	0.62%

(Amounts expressed in United States Dollars unless otherwise stated)

24. Amounts due to immediate holding company and subsidiary

Amount due to immediate holding company of the Group and the Company and amount due to subsidiary of the Company are non-trade in nature, unsecured, interest-free, repayable on demand and are to be settled in cash, subject to the approval of the Company's lenders.

25. Deferred tax liabilities/(assets)

	Group	
	2011 $'000	**2010** $'000
Deferred tax liabilities		
Excess of net book value over tax written down value of property, plant and equipment	2,792	359
Tax losses on previous years	1,226	
Fair value adjustments on acquisition of subsidiary	213	183
Others	48	1
	4,279	543
Deferred tax assets		
Revaluation of fixed assets of subsidiaries	(444)	–
Unutilised tax losses	(274)	(324)
General provisions	(29)	(313)
Others	(174)	(21)
	(921)	(658)
Net deferred tax liabilities/(assets)	3,358	(115)

Deferred tax asset not recognised

At the end of the reporting period, the Group has tax losses of approximately $3,429,000 (2010: $3,825,000) that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

At the end of the reporting period, the Group has allowance for inventory obsolescence of approximately $1,353,000 (2010: $931,000) that are available for offset against future taxable profits of the companies in which the provision of inventory arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability.

Unrecognised temporary differences relating to investments in subsidiaries

At the balance sheet date, no deferred tax liability (2010: Nil) has been recognised for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries as the Group has determined that undistributed earnings of its subsidiaries will not be distributed in the foreseeable future.

(Amounts expressed in United States Dollars unless otherwise stated)

26. Share capital

	Group and Company			
	No. of Shares 2011 '000	**2011** $'000	**No. of Shares 2010** '000	**2010** $'000
Issued and fully paid				
At 1 January	200	123	200	123
Issuance of ordinary shares	43,077	35,835	–	–
At 31 December	43,277	35,958	200	123

As mentioned in Note 2, the acquisition of EPIQ involves additional capital infusion by the immediate holding company to the Company equivalent to $35,835,000.

The holder of ordinary shares is entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

27. Reserves

(a) ***Capital reserve***

Capital reserve represents premium paid or discount on acquisition of non-controlling interests and it is not available for distribution.

(b) ***Capital contribution reserves***

Capital contribution reserves are made up of the difference between the fair value and the subscription price of the share of the immediate holding company's Employee Stock Ownership Plan ("ESOWN") granted to employees of the Group.

(c) ***Revenue reserves***

Revenue reserves of the Company are available for distribution as dividends.

(d) ***Foreign currency translation reserve***

Foreign currency translation reserve pertains to exchange differences arising on the translation of each subsidiary's functional currency to the Group's presentation currency.

(Amounts expressed in United States Dollars unless otherwise stated)

28. Related party transactions

(a) *Sale and purchase of goods and services*

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

	Group 2011 $'000	Group 2010 $'000
Service fees from:		
Immediate holding company	4,301	3,997
Share option expenses from:		
Immediate holding company	432	1,275

(b) *Compensation of key management personnel*

	Group 2011 $'000	Group 2010 $'000
Short-term employee benefits	4,683	3,386
Pension and post-employment medical benefits	378	270
Share option expenses	189	419
Total compensation entitled to key management personnel	5,250	4,075
Comprise amounts entitled to :		
• Directors of the Company	1,282	1,300
• Other key management personnel	3,968	2,775
	5,250	4,075

(Amounts expressed in United States Dollars unless otherwise stated)

29. Commitments

Finance Lease Agreements

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 $'000	
	Minimum lease payments	**Present value of payments**
Not later than one year	690	666
Later than one year but not later than five years	665	613
Total minimum lease payments	1,355	1,279
Less: Amounts representing finance charges	(76)	-
	1,279	1,279

Non-cancellable operating leases

The Group has various operating lease agreements in respect of office premises, machinery and production equipment, transportation equipment and land. These non-cancellable leases have remaining non-cancellable lease terms of between 1 and 39 years. Most leases contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases are as follows as at 31 December:

	Group	
	2011 $'000	**2010** $'000
Not later than one year	1,808	1,260
Later than one year but not later than five years	728	1,888
Later than 5 years	2,531	1,973
	5,067	5,121

(Amounts expressed in United States Dollars unless otherwise stated)

30. Financial risk management objectives and policies

The Group principal financial instruments, other than derivative financial instruments, comprise bank loans, overdrafts, cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's debt obligations. The Group obtains additional financing through bank borrowings. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Surplus funds are placed with reputable banks.

<u>Sensitivity analysis for interest rate risk</u>

As at 31 December 2011, it is estimated that a general increase/decrease of 75 (2010: 75) basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit net of tax by approximately $92,000 (2010: decrease/increase the Group's profit net of tax by approximately $73,000).

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 75 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

(Amounts expressed in United States Dollars unless otherwise stated)

30. Financial risk management objectives and policies (cont'd)

Foreign currency risk

The Group is exposed to foreign currency risk from revenues generated and cost incurred in foreign currencies, principally in Chinese RMB ("RMB"), Hong Kong Dollar ("HKD"), Singapore Dollar ("SGD"), Bulgarian Lev (BGN) and Mexican Peso (MXN). The Group does not enter into forward foreign exchange contracts to hedge against its foreign exchange risk resulting from sale and purchase transactions denominated in foreign currencies.

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.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in RMB, HKD, SGD, BGN and MXN exchange rates (against USD), with all other variables held constant, of the Group's profit net of tax.

	Group	
	2011 $'000 Profit net of tax Increase/(decrease)	**2010** $'000 Profit net of tax Increase/(decrease)
RMB – strengthened 4% (2010: 4%)	1,066	953
– weakened 4% (2010: 4%)	(984)	(880)
HKD – strengthened 4% (2010: 4%)	(22)	(15)
– weakened 4% (2010: 4%)	20	14
SGD – strengthened 4% (2010: 4%)	20	(132)
– weakened 4% (2010: 4%)	(19)	122
BGN – strengthened 4% (2010: 4%)	(1,100)	–
– weakened 4% (2010: 4%)	1,100	–
MXN – strengthened 4% (2010: 4%)	(91)	–
– weakened 4% (2010: 4%)	91	–

(Amounts expressed in United States Dollars unless otherwise stated)

30. Financial risk management objectives and policies (cont'd)

Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the balance sheet date based on the contractual undiscounted payments.

	2011			**2010**		
	1 year or less $'000	**2 to 5 years** $'000	**Total** $'000	**1 year or less** $'000	**2 to 5 years** $'000	**Total** $'000
Group						
Financial assets:						
Trade receivables	103,458	–	103,458	69,126	–	69,126
Other receivables and deposits	8,016	–	8,016	2,326	–	2,326
Due from immediate holding company	–	1,006	1,006	5,566	–	5,566
Cash and short-term deposits	32,157	–	32,157	17,526	–	17,526
Total undiscounted financial assets	143,631	1,006	144,637	94,544	–	94,544
Financial liabilities:						
Trade payables	60,099	–	60,099	41,700	–	41,700
Other payables and accruals	29,702	–	29,702	9,767	–	9,767
Due to immediate holding company	–	105,878	105,878	105,872	–	105,872
Short-term bank loan (unsecured)	12,380	–	12,380	1,300	–	1,300
Long-term bank loan	–	–	–	8,083	–	8,083
Deferred payment	–	23,203	23,203	–	–	–
Finance lease payables	690	665	1,355	–	–	–
Bank overdraft	153	–	153	588	–	588
Total undiscounted financial liabilities	103,024	129,746	232,770	167,310	–	167,310
Total net undiscounted financial assets/(liabilities)	40,607	(128,740)	(88,133)	(72,766)	–	(72,766)

(Amounts expressed in United States Dollars unless otherwise stated)

30. Financial risk management objectives and policies (cont'd)

Liquidity risk (cont'd)

	2011			2010		
	1 year or less $'000	2 to 5 years $'000	Total $'000	1 year or less $'000	2 to 5 years $'000	Total $'000
Company						
Financial assets:						
Other receivables and deposits	18	–	18	34	–	34
Due from immediate holding company	–	865	865	5,396	–	5,396
Due from subsidiary	–	35,835	35,835	–	–	–
Cash and short-term deposits	969	–	969	815	–	815
Total undiscounted financial assets	987	36,700	37,687	6,245	–	6,245
Financial liabilities:						
Other payables and accruals	1,321	–	1,321	803	–	803
Due to immediate holding company	–	80,129	80,129	85,195	–	85,195
Due to subsidiary	–	19,122	19,122	11,080	–	11,080
Long-term bank loan	–	–	–	8,083	–	8,083
Total undiscounted financial liabilities	1,321	99,251	100,572	105,161	–	105,161
Total net undiscounted financial (liabilities)/assets	(334)	(62,551)	(62,885)	(98,916)	–	(98,916)

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Credit risk, or the risk of counterparties defaulting, is managed through the application of credit approvals, credit limits and monitoring procedures. Where appropriate, the Company and its subsidiaries obtain collateral from the customer or arrange master netting agreements. Cash terms, advance payments, and letters of credit are required for customers of lower credit standing.

Exposure to credit risk

At the balance sheet date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

(Amounts expressed in United States Dollars unless otherwise stated)

30. Financial risk management objectives and policies (cont'd)

Credit risk (cont'd)

Credit risk concentration profile

At balance sheet date, approximately:

- 29% (2010: 34%) of the Group's trade receivables were due from 3 major customers of the Group.

Financial assets that are neither past due nor impaired

Trade receivables and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 14 (Trade receivables) and Note 15 (Other receivables, deposits and prepayments).

31. Fair value of financial instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models where practical.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Bank balances, other liquid funds and short-term receivables

The carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.

Short term borrowings and other current liabilities

The carrying amounts approximate fair values because of the short period to maturity of these instruments.

Finance lease payables

The fair value of finance lease payables approximate its carrying amount.

Deferred payment

The fair value of the deferred consideration is estimated using the discounted cash flow methodology using a fixed interest rate of 3.099% plus risk-free rate.

Disclosure of the nature of financial instruments and their significant terms and conditions that could affect the amount, timing and certainty of future cash flow is presented in the respective notes to the financial statements, where applicable.

(Amounts expressed in United States Dollars unless otherwise stated)

32. 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 maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

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 consists of loans payable and long-term loans. Net debt is equivalent to the total bank borrowings less cash and bank balances and fixed deposits. The Group considers as capital the equity attributable to the equity holder of the Company and the amount due to immediate holding company used for the acquisition of STEL.

	Group	
	2011	**2010**
	$'000	$'000
Short term bank loan	12,380	1,296
Long term bank loan (Note 21)	–	8,000
	12,380	9,296
Less:		
Cash and cash equivalents (Note 17)	(32,004)	(16,940)
Net cash	(19,624)	(7,644)
Equity attributable to equity holder of the Company,	92,847	44,963
Add: Due to immediate holding company	79,119	79,119
Capital	171,966	124,082
Debt to equity ratio	7%	7%
Net cash to equity ratio	(11%)	(6%)

33. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 10 April 2012.