# WIDE

2012 ANNUAL REPORT AND SUSTAINABILITY REPORT


# Contents



# About the Cover

Today's IMI isn't just about broader geographic footprint. Creating long-term value requires a much wider perspective given today's competitive environment. We offer superior technical capabilities and access to shared technologies worldwide to deliver customer-focused solutions. We provide leading-edge design and engineering expertise enhanced through a collaborative process across continents. We continually innovate to stay ahead and ensure that new opportunities are pursued and aggressively integrated into our core platform. Most important, we now rely on a global team of experts to execute our growth strategy and drive IMI toward sustained profitability and leadership in key markets.

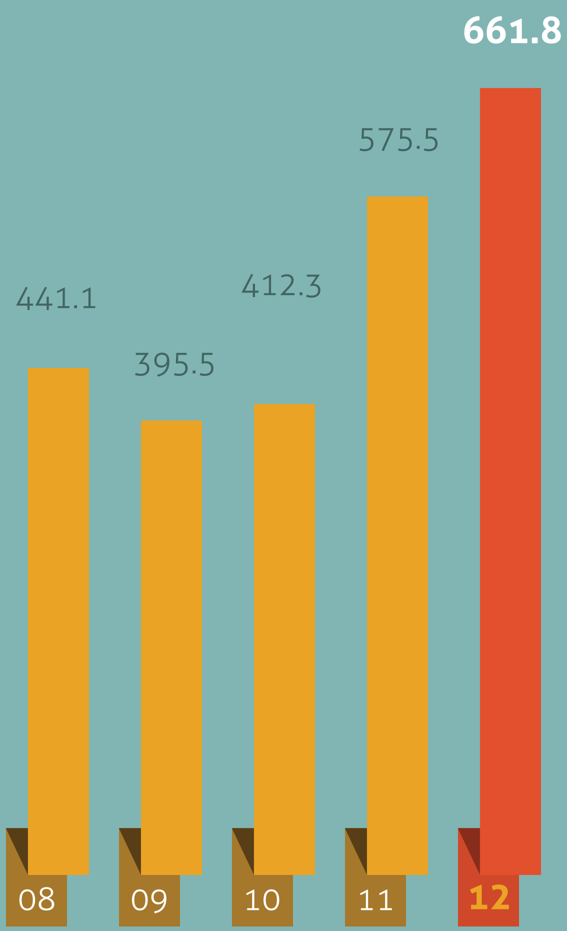

CHIP MOUNTER
IC PLACER
RoHS

# Financial Highlights

| In million US$, except book value per share and ratios | 2012 | 2011 | VARIANCE | % |
|---|---|---|---|---|
| Revenues | **661.8** | 575.5 | 86.3 | 15% |
| EBITDA | **32.6** | 19.6 | 13.0 | 67% |
| Net Income* | **5.4** | 3.3 | 2.1 | 65% |
| Total Assets | **455.3** | 444.7 | 10.6 | 2% |
| Equity* | **197.0** | 190.3 | 6.7 | 3% |
| Book Value per Share | **0.10** | 0.10 | | |
| Current Ratio | **1.56** | 1.51 | | |
| Debt-to-Equity Ratio | **0.46** | 0.42 | | |
| Return on Equity | **3%** | 2% | | |

**Attributable to equity holders of the Parent Company*

# Annual Revenues (in US$ Million)




## REVENUES UP 15% Y-O-Y

to US$661.8M on additional revenues from acquired entities and new programs from existing and new customers

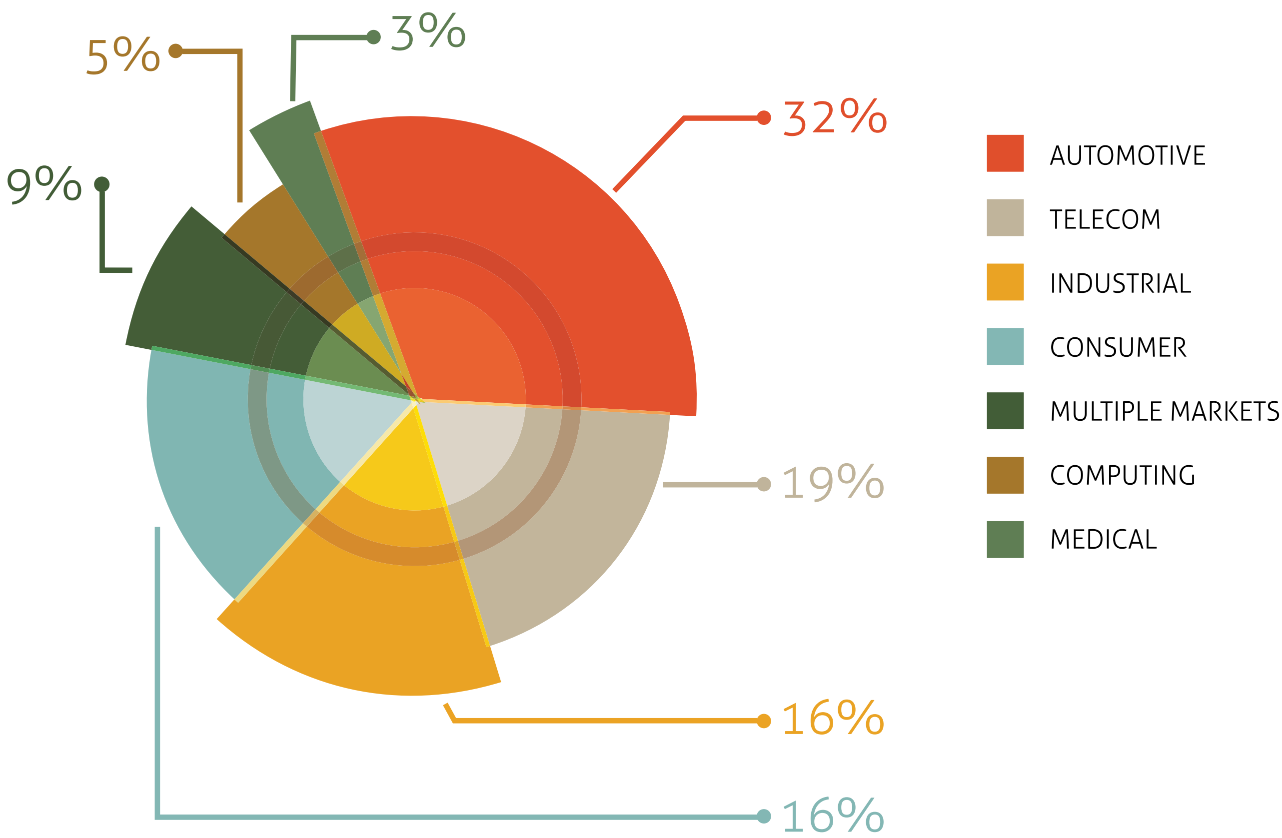
## NET INCOME UP 65% Y-O-Y

despite lower capacity utilization

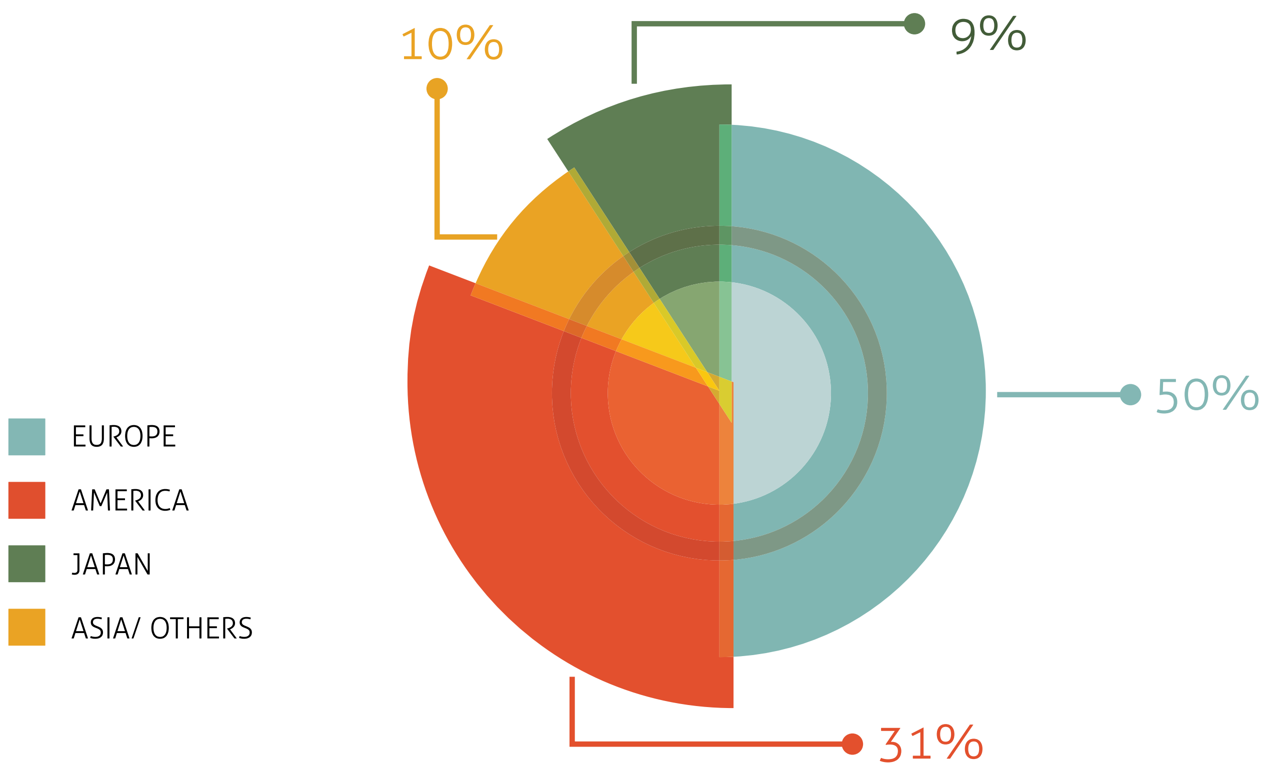
## US$56.2M CASH BALANCE

as of end-December 2012

# Revenues by Market Segment




# Revenues by Customer Nationality



# About IMI

## Our Story

Integrated Micro-Electronics Inc. (IMI) is a leading global provider of electronics manufacturing services (EMS) and power semiconductor assembly and test services (SATS).

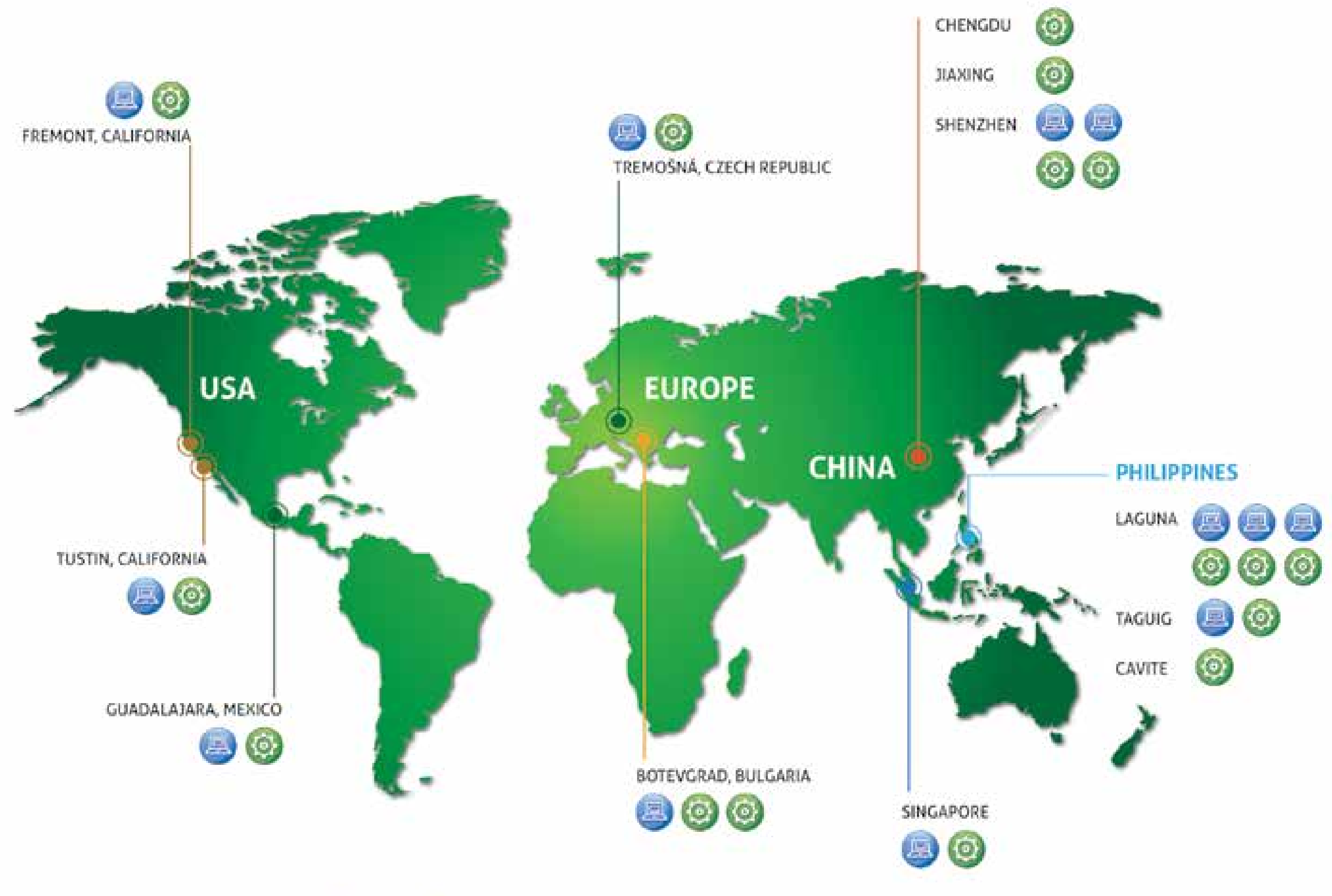
We cater to diversified markets that include those in the automotive, industrial, medical, telecommunications infrastructure, storage device, renewable energy, and consumer electronics industries. Dedicated to top-quality and innovative solutions, we are the preferred partner of important global original equipment manufacturers (OEMs).

Our company is 58 percent effectively owned by the Ayala Corporation, one of the biggest and most widely diversified conglomerates in the Philippines. We are among the top 30 EMS providers in the world in terms of revenues based on the list of *Manufacturing Market Insider*. Our global manufacturing presence (in the Philippines, China, Singapore, the United States, Mexico, Bulgaria, and the Czech Republic) assures us wide access to the world's finest talents and allows us to provide solutions to OEMs catering to regional and international markets.

## Our Expertise

IMI's comprehensive range of pioneering product and manufacturing services assist OEMs in product realization.

# Our Locations




Engineering Manufacturing

# Our Markets

Below are some of the market segments that we serve.

| AUTOMOTIVE ELECTRONICS | INDUSTRIAL ELECTRONICS | MEDICAL ELECTRONICS | TELECOMMUNICATIONS INFRASTRUCTURE | STORAGE DEVICES |
|---|---|---|---|---|
| Safety | Security Systems | Diagnostics | Telecommunications Equipment and Devices | Solid State Drives |
| Advanced Driver Assistance Systems | Automation | Dental | | CD/DVD Drives |
| Sensors | Smart Grid | Hearing Aids | | Hard Disk Drives |
| | Controls and Sensors | | | Power Supplies |
| | Laboratory Instrumentation | | | |

# Chairman's Message

IMI continued to excel despite the challenging business conditions. Its automotive segment surged forward while its industrial segment gained ground as well.

The world economy remained weak in 2012 and averaged 3.2 percent. China, which is typically a bright spot in the global economic arena and influential in the market for electronic products, suffered a slowdown. Only the emerging economies in Asia experienced substantial growth. This broad economic slowdown impacted the production of global electronic equipment, which contracted slightly in 2012, following declining rates in Western Europe, the United States, and Japan, and a slowdown in China's production.

As we face a continuing volatile business environment, we move forward with the comfort that IMI has proven itself to be resilient when faced with periods of soft global demand. This has been evident since the start of this decade when the company weathered adverse trends in the global operating environment and consistently showed positive year on year growth rates in its revenues.

Last year showed that IMI could continue to excel despite the challenging business conditions. Its automotive segment surged forward while its industrial segment gained significantly as well. Remarkably, while EMS companies across the globe experienced a decline in revenues, IMI achieved a 15 percent growth on the back of acquisitions and business expansions of its key customers.

IMI's dedicated teams fulfilled varied customer requirements while constantly upholding its standards. Consistent results in manufacturing demonstrated a focused application of IMI's strengths with its core client base. We were able to deal with shortages by aligning supplier requirements and sustaining positive business relations.

Across IMI's international teams, the company excelled across the various industry programs it was engaged in. Assisted by the development of various automotive and industrial programs, we are encouraged by our successes and took these recognitions as an indicator that we are increasingly becoming a more competitive end-to-end provider.

In 2012, we also increased our market visibility by showcasing outstanding IMI design and engineering capabilities. This was demonstrated through the creation of a variety of applications, using advanced technologies which include imagers, sensors, and power modules.

The early trends indicate that we can reasonably expect the electronics market to recover in 2013. While we are anticipating a tight supply chain, we will continue to aggressively mitigate the shortages through greater efficiency in all our processes. We also look forward to continually improving productivity through higher levels of automation in our operations.

IMI continues to progress and improve across all areas of management and operations and we are confident that this will allow us to continue to weather periods of economic adjustment. We count on IMI's outstanding teamwork and strong internal management to operate efficiently at a time like this. We will also continue to tap our capacity to recognize and quickly transform new opportunities into business revenues.

In closing, I want to extend my deep appreciation to our customers and stakeholders for their continued support and confidence in IMI. I also extend my gratitude to the members of the board, the management, and our workforce for their dedication and cooperation. It is through all their combined efforts that IMI has continued to succeed and thrive despite the challenges of an ever-changing global environment.

**JAIME AUGUSTO ZOBEL DE AYALA**
Chairman

# President’s Report

Integrated Micro-Electronics Inc. (IMI) today can lay claim to a truly much broadened horizon, having realized a wider geographic footprint, fuller technical capabilities, and an extensive customer range. Our steady progress has been such that we are now looking at greater possibilities as we strive to elevate the company's position under less-than-ideal business conditions, and perhaps serve as a model of resilience and agility in the process. We are confident this will inspire even more trust and confidence in IMI's deepening expertise.

## 2012 IN REVIEW

Last year's global economic slowdown enervated businesses across industries. Worldwide electronic equipment production declined, weighed down by an economic contraction in the Eurozone and weak economic growth rates in the United States and Japan.

However, IMI managed the impacts of these challenging factors with revenues from acquired entities and increased demand from some major customers.

We started to realize the effects of synergy derived from our recent acquisitions via new programs in the automotive, industrial, and consumer electronics markets.

IMI performed significantly better than the previous year, registering a total sales revenue of US$661.8 million, an increase of 15 percent from US$575.5 million in 2011.

Subsidiaries in Europe and Mexico posted US$182.2 million in combined revenues in 2012, while another subsidiary, PSi Technologies Inc., contributed US$45.6 million.

The company's operations in China and Singapore posted US$276.7 million in combined revenues in 2012, a decline of 1 percent due to delays in transition to new models.

The Philippine operations generated US$159.1 million in revenues, a 3 percent increase from 2011 on the back of strong programs in the automotive, industrial and storage device sectors.

Headwinds born by lower capacity utilization buffeted IMI's margins. But we implemented a number of cost-saving measures, which included strengthening our Lean Manufacturing initiative and the consolidation of plants and systems, especially in IMI China and PSi Technologies Inc.

We started to realize the effects of synergy derived from our recent acquisitions via new programs in the automotive, industrial, and consumer electronics markets.

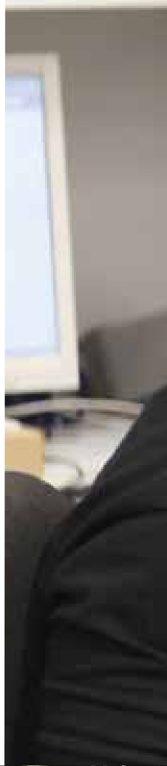
The resulting consolidated net income of US$5.4 million in 2012 represents a vast improvement from US$3.3 million in 2011.

The company's balance sheet remains robust with a cash balance as of end-December 2012 of US$56.2 million. Current ratio and debt-to-equity ratio are 1.56:1 and 0.46:1, respectively.

## ATTENTION TO INNOVATION

IMI is vigorously responding to every challenge with innovation.

Our Global Advanced Manufacturing Engineering (AME) group headquartered in Tustin, California, which has long excelled in fine precision assembly technologies, continued to apply its capabilities for solid modeling, thermal and mechanical stress analysis, schematic capture and layout, design for manufacturing, and NPI (new product introduction) to automotive and medical products in a variety of sensors like MEMs (microelectromechanical systems) and imagers.



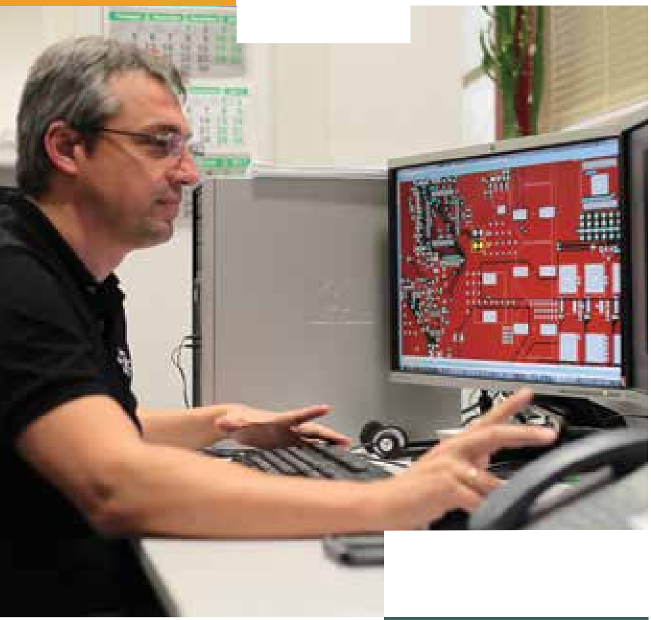
In 2012 the Tustin group engaged with eight new customers on small precision assembly products. Instrumental in the production launch of a power module, the group also coordinated the design and prototyping of imagers for original automotive electronics manufacturers. IMI Energy Solutions in Fremont, California, has worked with nine new customers on their leading-edge solar technologies.

The Test and System Development (TSD) group developed innovative test solutions in 2012 for IMI's strategic customers. These include developments in next-generation optical sensors and automotive electronics control systems. The group engaged heavily in redesign and replication of test equipment to support major product conversions and volume ramp-ups. The transition in 2012 to mass production of a complex equipment assembly project smoothed the way for prototype development and qualification of similar projects.

In Europe, TSD introduced a custom-built fully automated high-speed rotary backend machine with precision press-fit assembly, 3D optical inspection, and functional test and laser marking for an automotive product.

In 2012 PSi Technologies Inc. established a research and development (R&D) facility for power module—from software-aided design and simulation to prototyping. PSi also developed a low-cost, high-

IMI is vigorously responding to every challenge with innovation.



performance LED (light-emitting diode) engine specifically for high-lumens applications in the automotive and industrial sectors.

The European Design and Development (D&D) group launched its motor drive platform for automotive applications for better component integration to reduce the global cost at board level. Its integration of new standards—the Automotive Spice and the automotive safety standard under the ISO 26262 reference—also brings competitive advantage.

The Philippine D&D developed a camera platform with superior thermal management properties. The completed tabletop 5-axis optical alignment machine enables IMI to deliver camera prototypes with superior image quality, and whose major by-product—a camera module for gaze tracking—will allow PC or tablet users to visually control cursor position.

The China D&D focused on developing digital controller boards and intelligent front panels for heating, ventilation, and air-conditioning applications. Controller units for heating management, a remote control system for premium-brand water heaters, and front panels for satellite receivers will enter production shortly.

## OUR GLOBAL JOURNEY: 2002 - 2012

**2002**
IMI established its first overseas sales office in Europe. Recorded US$79.2 million in sales revenues.

**2003**
Amended its vision to: "Be the best electronics manufacturing solutions provider for our global partners." Formulated the strategic direction: "To become a global EMS company with annual revenues of more than US$500 million by 2008." Aimed to establish a much broader geographic footprint in terms of physical production capacity, and manufacturing and engineering competencies.

**2004** - Obtained ISO/TS 16949 certification for the automotive industry.

**2005** – Established its global manufacturing footprint. Acquired the EMS assets of U.S.-based Saturn Electronics and Engineering Inc., giving IMI an Advanced Manufacturing Engineering (AME) center as well as prototyping and new product introduction facility in North America. Also acquired Singapore-based EMS company Speedy-Tech Electronics, gaining access to its manufacturing facilities in China, Singapore, and Cavite in the Philippines.

**2006** – Made it to the list of the top 50 EMS providers in the world of the *Manufacturing Market Insider* based on the combined 2005 revenues of IMI and Speedy-Tech. Acquired M. Hansson Consulting Inc., an engineering-oriented test systems integrator based in the Philippines.

**2007** – Honored by *Circuits Assembly* with the Service Excellence Award for Highest Overall Customer Rating for the category of medium-sized EMS providers.

## TEAM IMI: KEEP THE FAITH

With a less optimistic growth forecast for the world economy in 2013 due to slowdown in the United States and Japan, and a decline in Eurozone, consumer spending on electronic devices and equipment will continue to be challenged.

We will look more aggressively for pockets of growth in every region, even as we continue to leverage our presence in China, whose economy is expected to continue growing at a fast rate of more than 8 percent in 2013. We will also capitalize on the trend of return to regionalization as original equipment manufacturers in North America and Europe aim to lower their total cost of production.

We must never lose sight of the irreversible trend of increasing electronic content in vehicles; emerging applications of electronics in industrial and medical industries; advances in LED lighting; convergence of EMS and power SATS; and the rise of even more sophisticated connectivity devices.

There is no room for complacency in IMI. To ensure our readiness for all eventualities we will continue to make our supply chain

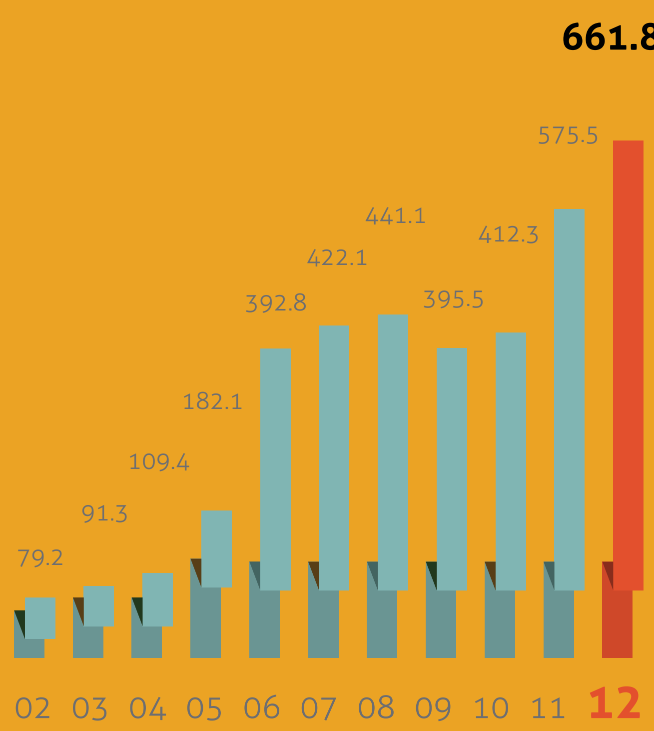

**2008** – Reported US$441.1 million in combined revenues, close to its target of US$500 million, which was set in 2003.

**2010** – Listed by way of introduction on the Philippine Stock Exchange. Acquired PSi Technologies Inc., a power semiconductor assembly and test services provider. Established its manufacturing site in southwestern China in Chengdu.

**2011** – Acquired from EPIQ NV facilities in Bulgaria, Czech Republic, and Mexico, making IMI a truly global company with the capability to serve customers catering for both regional and international markets.

**2012** – Posted US$661.8 million in sales revenues. With its wider geographic footprint, technical capability, experience, and customer base, IMI can and will be creating more value for its customers.

## IMI Revenue History
(in US$ Millions)




It is a crucial moment to maintain confidence and trust in the company's concerted efforts as it rides out precarious global times. Believe that the values of excellence, diversity, steadfast commitment, and integrity will triumph over volatility.

management more efficient, rationalize manufacturing systems and processes, enhance design and engineering capabilities, and cultivate a corporate culture anchored on innovation and performance.

All these efforts are not only for us to further grow IMI, but also to safeguard its sustainability against prevalent instability.

Thus the importance of teamwork cannot be overemphasized in these uncertain times. Good teamwork commands a solid workforce. In order to achieve our goals, we must continuously fortify our human resource capacity while ensuring the alignment of our goals—one of which is to uphold IMI values.

Let us keep in mind what we have become and what lies ahead. On its fourth decade, IMI has built a global company equipped with expert international management teams that thrive on constant evolution and innovation. To further realize our long-term goals, it is a crucial moment to maintain confidence and trust in the company's concerted efforts as it rides out precarious global times. Believe that the values of excellence, diversity, steadfast commitment, and integrity will triumph over volatility.

We have good reason to keep the faith: we are moving forward. We have grown more than eight times from US$79 million in 2002 to today's almost US$700 million. IMI is sustaining and widening its network. It consistently delivers on its promises to expand both regionally and globally, to diversify the market base, as well as to further enhance competencies in increasingly nuanced manufacturing trends. Rest assured that we will not renege in the years ahead.

On behalf of the team, I thank once more our customers, shareholders, suppliers, and bankers for their steadfast commitment and faith in the company. I thank our employees, as always, for their abiding support, which has made it possible for IMI to continue to aspire and achieve.

## Key Strategic Initiatives

- Continue to make our supply chain management more efficient
- Intensify initiative on manufacturing excellence
- Enhance innovation and technology development
- Cultivate a corporate culture anchored on innovation and performance

**ARTHUR R. TAN**
President and
Chief Executive Officer

# Board of Directors



**JAIME AUGUSTO ZOBEL DE AYALA**, Filipino, 53, has served as Chairman of the Board of Directors of IMI since January 1995. He also holds the following positions: Chairman and Chief Executive Officer of Ayala Corporation, Chairman of Globe Telecom Inc., and Bank of the Philippine Islands; Co-Chairman of Ayala Foundation Inc.; Vice Chairman of Manila Water Company Inc.; Co-Vice Chairman of Mermac Inc.; Vice Chairman of Ayala Land Inc.; Director of Alabang Commercial Corporation, Ayala International Pte Ltd., and AC Energy Holdings Inc.; Chairman of Harvard Business School Asia-Pacific Advisory Board, Children's Hour Philippines Inc.; Vice Chairman of the Asia Business Council, Makati Business Club, and Asia Society Philippine Foundation Inc.; Member of The Asia Society, Eisenhower Fellowships, Harvard University Asia Advisory Committee, Harvard Business School Social Enterprises Initiative Advisory Board, Harvard Global Advisory Council, Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, International Business Council of the World Economic Forum, Asia Pacific Basin Economic Council, Philippine Economic Society, World Wildlife Fund Philippine Advisory Council, Pacific Basin Economic Council, and Toshiba International Advisory Group; and Philippine Representative to APEC Business Advisory Council.

**FERNANDO ZOBEL DE AYALA**, Filipino, 52, has served as a director of IMI since January 1995. He is the Vice Chairman, President, and Chief Operating Officer of Ayala Corporation. He is also the Chairman of Ayala Land Inc., Manila Water Company Inc., AC International Finance Ltd., Ayala International Pte Ltd., Ayala DBS Holdings Inc., Alabang Commercial Corporation, AC Energy Holdings Inc., and Hero Foundation Inc.; Co-Chairman of Ayala Foundation Inc.; Co-Vice Chairman of Mermac Inc.; Director of Bank of The Philippine Islands, Globe Telecom Inc., Integrated Micro-Electronics Inc., LiveIt Investments Ltd., Asiacom Philippines Inc., AG Holdings Limited, Ayala International Holdings Limited, AI North America Inc., Vesta Property Holdings Inc., Honda Cars Philippines Inc., Isuzu Philippines Corporation, Pilipinas Shell Petroleum Corporation, and Manila Peninsula; Member of The Asia Society, World Economic Forum, INSEAD East Asia Council, and World Presidents' Organization; Chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; Vice Chairman of Habitat for Humanity International; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, Kapit Bisig para sa Ilog Pasig Advisory Board, and the National Museum.

**ARTHUR R. TAN**, Filipino, 53, has been a member of the Board of Directors of IMI since July 2001, and President and Chief Executive Officer of IMI since 23 April 2002. Concurrently, he is the President and Chief Executive Officer of PSi Technologies Inc., President of Speedy-Tech Electronics Ltd., and Chairman of the Board of Speedy-Tech Philippines Inc. Before joining IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts), from 1994 to 1998, of which he became the Managing Director–Asia Pacific Region/Japan from 1998 to 2001.

**DIOSDADO P. BANATAO**, American, 66, has been an independent director of IMI since 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, Inphi, Wave Semiconductor, and Wilocity. 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).

**JOSE IGNACIO A. CARLOS**, Filipino, 43, has been a Director of IMI since December 2006. 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, Mindanao Energy Systems Inc., Cagayan Electric Power and Light Co., and Philippine Iron Construction and Marine Works Inc.

**JOHN ERIC T. FRANCIA**, Filipino, 41, has been a Director of IMI since July 2010, and Managing Director and member of the Management Committee of Ayala Corporation since January 2009. He is the Head of Ayala's Corporate Strategy and Development Group, which oversees Ayala's portfolio strategy and new business development. He also holds the following positions: Chairman and President of PhilNewEnergy Inc., President of AC Energy Holdings Inc., and AC Infrastructure Holdings Corp.; Director of Manila Water Company, LiveIt Investments Ltd., and Integreon Managed Solutions (Philippines) Inc. Prior to joining Ayala, he was a senior consultant and member of the management team of Monitor Group, a strategy consulting firm based in Cambridge, Massachusetts.

**ALELIE T. FUNCELL**, Filipino, 57, has been an independent director of IMI since April 2010. She is the Founder, CEO, and President of Renewable Energy Test Center. She served as Chief Operating Officer and Senior Vice President of Quality at Solaria Inc., a manufacturer of Concentrator Photovoltaic products, and Vice President of Supplier Management and Manufacturing Operations of Xilinx Inc., a billion- dollar semiconductor company. She has also worked in several semiconductor companies, including Intel, IDT, and Silicon Systems. She is credited with numerous patents in the semiconductor packaging and solar industry. She is twice a recipient of the S.C. Valley YWCA Tribute to Woman in the Industry (TWIN) Award: In 1994 while at IDT, and in 2000 while at Xilinx.

**DELFIN C. GONZALEZ JR.**, Filipino, 63, 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, and was the 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., and various Ayala international companies.

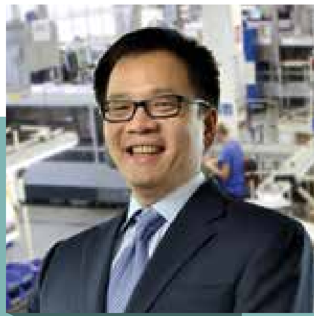
**DELFIN L. LAZARO**, Filipino, 66, has been a director of IMI since May 2000. He also holds the following positions: Director of Ayala Corporation since 2007; Chairman of Philwater Holdings Company Inc., Atlas Fertilizer & Chemicals Inc., and AYC Holdings Inc.; Chairman and President of Purefoods International Ltd. and A.C.S.T. Business Holdings Inc.; Director of Ayala Land Inc., Globe Telecom Inc., Manila Water Company 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.

**HIROSHI NISHIMURA**, Japanese, 60, has been an independent director of IMI since April 2010. 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 he served as President of Panasonic Communications Philippines Corporation (PCP), formerly Kyushu Matsushita Electronics Philippines (PKME), from 2000–2007.

**RAFAEL MA. C. ROMUALDEZ**, Filipino, 49, has been a Director of IMI since May 1997. He is currently a Director of Resins Inc., RI Chemical Corporation, and Claveria Tree Nursery Inc. He is also the Chairman of the Philippine Iron Construction and Marine Works Inc., Pigmentex Incorporated, Pacific Resins Inc., and MC Shipping Corp.

# Management Committee

Arthur R. Tan



Jerome S. Tan

Gilles Bernard

Shong Cheng Yeh (CY)

Linardo Z. Lopez

Timothy Patterson

Mary Ann S. Natividad

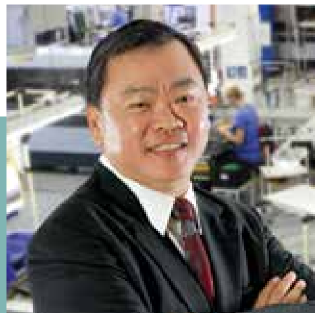
Olaf Gresens

Melita R. Tomelden

Lucrecio B. Mendoza

Andrew  C. Carreon

Monina S. Lasala



Phua Teo Chye *

** Resigned on August 2012*

# Management Team

| | | |
|---|---|---|
| **TECHNOLOGY & INNOVATION GROUP** | | Rafael Nestor V. Mantaring |
| | | Philippe Marquet |
| | | Michael R. Hansson |
| | | Dominador P. Leonida III |
| **OPERATIONS GROUP** | PHILIPPINES | Jawaharlal K. Milanes |
| | | Mario Bernardo N. Santos |
| | CHINA | Sze Chee Pheng (Joseph) |
| | | Joselito S. Bantatua |
| | | Yang Gong Xiao (Jack) |
| | | Li Yong |
| | | Li Jian Hua |
| | BULGARIA | Eric De Candido |
| | CZECH REPUBLIC | Jean-Marie Penven |
| | MEXICO | Arnaud Bozonnet |
| | SINGAPORE | Kot Yui Kuen (Alex) |
| | US | Conrad J. Eisenman |
| | | Sinkim Chew (SK) |
| **SUPPORT GROUP** | FINANCE | Jaime G. Sanchez |
| | | Anthony Raymond P. Rodriguez |
| | SALES | Jeremy Cowx |
| | | Thibaut de Vaureix |
| | | Richard Bell |
| | | Josef Pfister |
| | | Leong Wai Bun (Arthur) |
| | SUPPLY CHAIN | Ling Miaw Jiz |
| | | Fraser Clydesdale |
| | | Zheng Xianlai (Peter) |
| | | Yeung Hin Wai (Jacky) |
| | | Philippe Antunez |
| | FACILITIES | Geronimo B. Magsombol |
| | INDUSTRIAL EXCELLENCE | Pascal Aubois |
| **PSI TECHNOLOGIES, INC.** | | Thomas Moersheim |
| | | Maria Rosa L. Santos |
| | | Reynaldo N. Torda |
| | | Anton P. Javier |
| | | Romeo P. Balmaceda |

## 2012 SUSTAINABILITY REPORT

# IMI on Track with Sustainability

With sustainability as among IMI's values, we have been providing sustainable and pioneering solutions to our customers. While challenges persist, we are encouraged by our progress and remain committed to continuously improving our performance. Our cost-efficient, regulatory-compliant solutions are based on technological expertise, experienced professionals, and effective customer relationships.

### Upholding Good Governance

IMI is dedicated to transparency with regard to our priorities, goals, initiatives, and performance relating to our global business. These efforts represent a continuing investment in our future that enhances stockholder value by making our business more sustainable from an economic, environmental, and social perspective.

**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 each of whom has no interest or relationship with the company that may hinder his or her independence from the company, and which could interfere in the exercise of impartial judgment in carrying out the director's responsibilities.

Board meetings are scheduled at the beginning of the year and held at least quarterly, or as often as necessary, for the board to fulfill its role. The board had five meetings for the year 2012.

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 as may occasionally be delegated to the ExCom 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, 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 corporation's culture, strategy, and control environment.

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

The Finance Committee supervises the implementation of an enterprise-wide risk management program and oversees major financial policies. IMI's risk management program involves risk identification, formulation of risk mitigation strategies, and execution of such strategies.

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

**Directors and Senior Executive Compensation.** Non-executive directors, defined as members of the board who are neither officers nor consultants of the company, receive per diem of PHP100,000 for each board meeting attended, and PHP20,000 per committee meeting attended. This remuneration scheme for non-executive directors was ratified at the 2008 annual stockholders' meeting.


The total compensation paid to non-executive directors and officers is disclosed yearly in the Definitive Information Statement sent to shareholders before the annual stockholders' meeting.

**Management.** Management is primarily accountable to the board for the operations of IMI. It concretizes IMI's targets and formulates the strategies to achieve these. A review of strategy implementation is held at least quarterly.

**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. The company paid SGV PHP3.2 million in audit fees for the year 2012.

A separate Internal Audit Charter approved by the Audit Committee governs the internal audit function. The internal audit head reports directly to the Audit Committee.

The board-designated Compliance Officer ensures adherence to the provisions and requirements of IMI's Corporate Governance Manual. The compliance officer is also responsible for identifying, monitoring, and controlling compliance risks.

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

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

**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.

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

## Workplace Initiatives

IMI acknowledges its human capital as its most valued asset. The company relies on its employees to steer innovation and bring improved business to its various customers.

**Inspiring People.** IMI has embedded people empowerment in its organizational structure, which seeks to continuously inspire the entire team into one that is performance driven, directionally aligned, and highly motivated. Each region, division, section, and individual is accountable and empowered to create a customer experience that makes IMI unique. Customer-focused teams with representatives from different functional groups play a crucial role in carrying out IMI's mission.

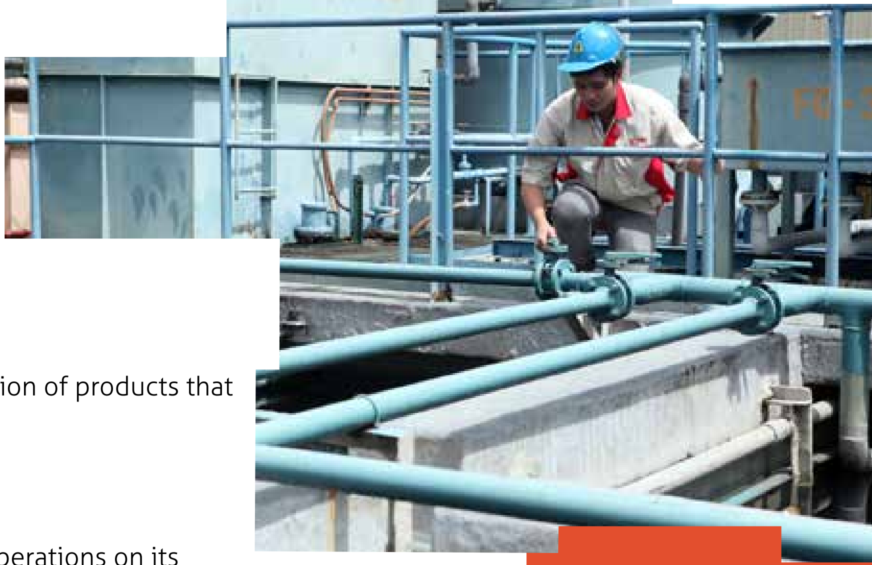

**Manpower Training and Development.** IMI's training and development programs, which are based on training and development needs analyses, aim to develop competencies to ensure optimum job performance and customer satisfaction. Employees are trained and nurtured to enable them to effectively contribute to the company's strategic and tactical goals.

In 2012, the Human Resource Division commenced IMI University, a consolidation of all the training and human resource development programs of IMI. Around 127 training programs were conducted by the IMI University in 2012;  67 percent of these programs were facilitated by in-house experts.  Flagship training programs of the IMI University include the Program Managers' Certification Training and Business Planning Program, which both aim to enhance the skills of the company's program managers.

**Career Development.** IMI provides two career development paths—(1) the professional/managerial career development track, and (2) the technical career development track. Corresponding training and development programs based on assessed gaps, business needs, and the company's strategic and tactical goals and objectives are provided to employees under both development tracks. The Technical Ladder Program was relaunched in 2012, which aims to provide a career path for technical and nonmanagement personnel.

## Beyond Social Responsibility

IMI continues to take part in social responsibility projects such as blood donation drive; medical outreach; and donation to Children's Hour, a foundation that helps underprivileged Filipino schoolchildren.  The company has also stepped up its engagement with sustainability through its Environment, Health, and Safety Program; green manufacturing technologies; and clean technology business ventures. These programs embed sustainability in IMI's business model, which seeks to keep up worldwide efforts to



facilitate solutions through the design and creation of products that improve the quality of life.

### Environment, Health, and Safety Program

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

The EHS Organization keeps track of the interrelationship of various functions for developing, managing, and implementing the different components of all applicable systems. Teams are in charge of implementing the programs developed to achieve the organization's EHS objectives and targets.

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

In 2012 IMI Laguna's energy management program has realized energy savings of 339,216.62 KW-hr through measures such as:

- Efficient use of cooling towers through heat load-demand balancing
- Chiller temperature of 44°F from the previous level of 43°F, between 10 p.m. and 6 a.m.
- Efficient Heating, Ventilation, and Air Conditioning (HVAC) system through heat load balance and load reduction
- Conversion of the Centralized Air Conditioning system to a localized, Package Air Conditioning Unit (PACU) in selected areas
- Economical Compressed Dry Air (CDA) utilization
- Optimized use of exhaust blower through the installation of variable frequency drive (VFD)

Also in the same year, IMI started using energy-efficient lighting system. LED tube lights were used to replace the mercurial fluorescent lighting to save energy. Around 4,940 LEDs were installed, realizing a 50 percent reduction from current lighting power consumption, or projected energy savings of 588,543 KW-hr for 2013.

Periodic conformance audits and safety inspections are regularly conducted to check IMI's compliance to procedures, standards, and legal requirements.

The water management program generated savings of 3.56 percent, or 21,561m$^3$, in 2012 through:

- Efficient use of Deionized Water System
- Increased life cycle and reduced regeneration frequency for mixed-bed units
- Use of treated water for gardening

IMI also conducts health and safety-awareness training seminars such as those for First Aid, life support, chemical handling, and fire and earthquake drills. In 2012 IMI Laguna Site 1 achieved 3,110,184 safe man-hours, while the IMI Laguna Site 2 achieved 10,283,064 safe man-hours.

IMI is fully compliant with the Philippine government's Department of Environment and Natural Resources (DENR) Toxic and Hazardous Republic Act 6969 and the Ecological Solid Waste Management Act 9003. IMI judiciously implements the 3R (Reduce-Reuse-Recycle) program in the disposition of its chemicals for manufacturing processes, waste segregation, and waste composting. In 2012 IMI Laguna attained 97.8 percent recycling recovery of all wastes generated.

In 2012 IMI Laguna turned over its hazardous recyclable wastes (e.g., used oil and solvent chemical)—a total of 6,767 kg—to the ABS-CBN Foundation's Bantay Kalikasan.

In 2012 IMI Laguna renewed its membership in the Environmental Multi-Partite Monitoring Team initiated by the Laguna Technopark Inc. in coordination with the Department of Environment and Natural Resources (DENR) Laguna Provincial Office. A team led by the Provincial Environment and Natural Resources Officer conducted a compliance assessment audit on the IMI Laguna facility and certified it compliant.

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

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

### United Nations Global Compact

IMI submitted a "Communication of Progress" in November 2012 to demonstrate its continuous support of and active membership in the United Nations Global Compact (UNGC) and promote public accountability and transparency. Together with this, a "recommitment letter" addressed to the UN Secretary General and signed by IMI's President and CEO was also submitted. It states that "IMI is committed to making the Global Compact and its ten principles part of the strategy, culture and day-to-day operations of the company and engaging in collaborative projects which advance the broader development goals of the United Nations."

IMI has been a member of the UNGC since 2011. UNGC is considered the world's largest corporate citizenship that encourages businesses to adopt sustainable and socially responsible policies, and commit to report its implementation.

IMI team uses the following international standards toward a socially responsible operation:

- Electronic Industry Citizenship Coalition (EICC)
- Social Responsibility (ISO 26000: 2010)
- Global Reporting Initiative
- SA8000 Social Certification Standard

## Green Manufacturing

IMI continuously supports and implements responsible manufacturing to protect the environment and people. Its Hazardous Substance Process Management (HSPM) continuously evolves to support product compliance to customer requirements and compliance to different environmental directives and regulations.

IMI is implementing the following initiatives:

- Modification of internal HSPM support database to improve compliance verification of materials
- Improved support module to communicate IMI requirements to suppliers
- Support system to comply with specific customer requirements such as IMDS and CAMDS for Automotive customers, BOMCHECK, and material declaration

In 2012 IMI issued 106 certificates of compliance (CoC) to customer environmental requirements.

## Clean Technology Ventures

IMI remains steadfast in its duty to create concrete solutions by pursuing opportunities in clean technology.

**Solar Power Business.** In 2009 IMI forged a strategic partnership with RETC (Renewable Energy Test Center), a California-based engineering services, test, and certification provider for photovoltaics (PV) and renewable energy products. In 2010 the IMI Energy Solutions, a division of IMI USA, was established in Fremont, California, to develop and manufacture solar panels and other related technologies. RETC is right next door to IMI Energy Solutions to ensure fast turnaround time from prototyping to product certification.

IMI Energy Solutions offers its clients PV module NPI (new product introduction), and the capability to build different PV panel sizes and PV panel coupons for new product-technology validation. It works with top solar panel development companies, and is currently collaborating with nine companies on their leading edge solar technologies.

In 2012 IMI ventured into mass production of solar panels in its facility in Jiaxing, China.

**Clean Lighting Solutions.** In 2012 IMI launched its low-cost, high-performance LED (light-emitting diode) engine at the Electronica 2012 trade show in November at the Munich Trade Fair Center, Germany. This LED engine was developed by its subsidiary, PSi Technologies Inc.

PSi designed the LED engine specifically for high-lumens applications for the lighting requirements of the automotive and industrial sectors. This may, however, also serve the low-cost incandescent replacement market requirements.

The LED engine uses copper as its sole base material for conducting heat and electrical energy. The advantage of using copper compared to ceramic is the former's higher thermal conductivity and its ability to withstand higher thermo-mechanical stresses. PSi also used a proprietary lead frame design and standard semiconductor assembly processes. All these double the current LED lifespan without increasing the cost.

IMI remains steadfast in its duty to create concrete solutions by pursuing opportunities in clean technology.

# GRI Indicators

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

| INDICATOR | 2012 | 2011 | Remarks |
|---|---|---|---|
| ENVIRONMENT | | | |
| EN 3: Direct energy consumption by primary energy source | 409.9 MT (Combined Gas and Diesel) | Diesel - 82 MT | $CO_2$ emission computed from fuel used in generator sets and fleet (company cars) for the period of 1 year |
| EN 4: Indirect energy consumption by primary source | 40, 705,000 KW-hr | 42,756,000 KW-hr | Based on Meralco billing |
| EN 5: Energy saved due to conservation and efficiency improvements | 422,753 KW-hr | 1,937,492 KW-hr | |
| EN 10: Percentage and total volume of water recycled and reused | 3.56 % or 21,561 $m^3$ | 6.6 % or 2,810 $m^3$ | |
| EN 16: Total indirect greenhouse gas emissions by weight | 20,155.06 MT | 14,758.7 MT | $CO_2$ emission computed from power consumption |
| EN 22: Total weight of waste by type and disposal method | **1,206.5 tons**<br>1. Common residual waste -25.94 tons<br>2. Hazardous waste- 161.49 tons<br>3. Recyclable waste - 1,019.12 tons | **561.90 tons**<br>1. Common residual waste - 10.70 tons<br>2. Hazardous waste- 58.50 tons<br>3. Recyclable waste - 492.70 tons | |
| EN 26: Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation | Energy Management, Water Management, Waste Management, Chemical Management, and Hazardous Substance Process Management | Energy Management, Water Management, Waste Management, Chemical Management, and Hazardous Substance Process Management | |
| EN 28: Monetary value of significant fines and total number of nonmonetary sanctions for noncompliance with environmental laws and regulations | 0 | 0 | Zero means no fine |
| HUMAN RIGHTS | | | |
| HR 4: Total number of incidents of discrimination and actions taken | 0 | 0 | Zero means no case |
| HR 6: Operations identified as having significant risk for incidents of child labor, and measures taken to contribute the elimination of child labor | None | None | |
| HR 7: Operations identified as having significant risk for incidents of forced or compulsory labor and measures to contribute to the elimination of forced or compulsory labor | None | None | |

| INDICATOR | 2012 | 2011 | Remarks |
|---|---|---|---|
| LABOR | | | |
| LA 1: Total workforce by employment type, gender, and age | **Total Workforce: 4,520**<br>**Employment Type:**<br>Permanent - 4,397<br>Contractual - 34<br>Probationary - 89<br>**Gender:**<br>Male - 687<br>Female - 3,833<br>**Age:**<br>over 50 years old - 24<br>30-50 years old - 2,852<br>under 30 years old - 1,644 | **Total Workforce: 5,403**<br>**Employment Type:**<br>Permanent - 5,294<br>Contractual - 36<br>Probationary - 73<br>**Gender:**<br>Male - 795<br>Female - 4,608<br>**Age:**<br>over 50 years old - 35<br>30-50 years old - 2,869<br>under 30 years old - 2,499 | |
| LA 2: Total number and rate of employee turnover by age group and gender | **Employee Turnover: 944**<br>**Turnover by age group:**<br>over 50 years old - 3<br>30-50 years old - 504<br>under 30 - 437<br>**Gender:**<br>Male - 125<br>Female - 819 | **Employee Turnover: 771**<br>**Turnover by age group:**<br>over 50 years old - 3<br>30-50 years old - 347<br>under 30 - 421<br>**Gender:**<br>Male - 100<br>Female - 671 | |
| LA 3: Benefits provided to full-time employees that are not provided to temporary or part-time employees by major operations | 1. Life Insurance – 24x Monthly Basic Salary; double indemnity for Accidental Death & Dismemberment<br>2. Medical Insurance – group hospitalization with inner limits (depending on rank) per illness per confinement<br>3. Outpatient Benefit – unlimited consultation with general physician and discounted laboratory tests<br>4. Annual Physical Exam – routine medical examination every year<br>5. Vacation leave – 12 days per year; paid leave starts after 1 year of continuous service<br>6. Sick Leave – 12 days per year; paid leave starts after 6 months of continuous service. All unused sick leave credits will be converted at the end of each year.<br>7. Emergency Leave – 3 days per year; paid leave starts after 1 year of continuous service<br>8. Computer Loan – up to max of 50K at zero interest<br>9. Emergency Loan – up to max of 5K at zero interest<br>10. Multipurpose loan – eligibility starts after 5 years of continuous service | 1. Life Insurance – 24x Monthly Basic Salary; double indemnity for Accidental Death & Dismemberment<br>2. Medical Insurance – group hospitalization with inner limits (depending on rank) per illness per confinement<br>3. Outpatient Benefit – unlimited consultation with general physician and specialists and discounted laboratory tests<br>4. Annual Physical Exam – routine medical examination every year<br>5. Vacation leave – 12 days per year; paid leave starts after 1 year of continuous service<br>6. Sick Leave – 12 days per year; paid leave starts after 6 months of continuous service. All unused sick leave credits will be converted at the end of each year.<br>7. Emergency Leave – 3 days per year; paid leave starts after 1 year of continuous service<br>8. Computer Loan – up to max of 50K at zero interest<br>9. Emergency Loan – up to max of 5K at zero interest<br>10. Multipurpose loan – eligibility starts after 5 years of continuous service | |
| LA 4: Percentage of employees covered by collective bargaining agreements | 0 | 0 | No union. However, IMI believes in open communication between employees and management to resolve workplace issues. Communication and engagement programs are in place to strengthen relationships (e.g, President's Update, Council Meetings, and Townhall Meetings) |

| INDICATOR | 2012 | 2011 | Remarks |
|---|---|---|---|
| LA 8: Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases | • Health information campaign on goiter, dengue, HIV, hepatitis-B, tuberculosis, influenza, etc.<br><br>• Immunization program for employees and their dependents<br>- H1N1 & Seasonal Flu<br>- Hepatitis B<br><br>• Hypertension Prevention Program<br>- identification and monitoring of hypertensive employees | - Continuous health information campaign on dengue, HIV, hepatitis-B, tuberculosis, etc.<br><br>- Immunization program for employees and dependents against influenza and cervical cancer | |
| LA 11: Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings | **Technology**<br>Sharepoint Training; Agile Training; Labview Training<br><br>**Behavioral**<br>Building An Environment of Trust; Values Training (WOWCP); Facilitation Skills Training; Team Building; GL Leadership Training; Transition Leadership Training; Negotiation Skills Training; Influential Leadership; Essentials of Leadership ; Settings Clear Goals; Financial Management; Becoming an Effective Supervisor Training (BEST)<br><br>**Technical**<br>Agile Training; Agile PLM User Training; AOI-Automated Optical Inspection Fundamentals Training; A/P Related Process Workshop; Corporate General Orientation; Conformal Coating Fundamentals Training; Design Failure Mode & Effect Analysis; DOE-Design of Experiment (TAGUCHI ) TRAINING; DFM Training; EMC-Electro Mechanical Compatibility Training; ESD Training; FMEA APIS TRAINING; Flipchip Fundamentals Training; ISO/IEC 17025; IPQ Internal Audit Training; IPC-A-610E Training; Incoterms Training; Jigs & Fixture Buy-off Fundamentals; Lean Manufacturing Training; Labview Core 3 Training; Labview-Basic 1 & 2 Training; MS Excel 2010 Training; MS Powerpoint Training; MSA Overview; Mechanical Fabrication Training; NI Labview-Advanced Architecture Training; Project Management Overview; PCB Design for Manufacturing Training; Programmable Logic Circuit Training; Poka Yoke Mistake Proofing Training; Pneumatics Fundamentals Training; Quality Customer Service; Robotic Soldering Training; Soldering Theory and Application Training; Refresher Course on Escalation Process; Tape and Reel training; Screw and Fastening Solution; Statistical Process Control Training; Technical Report Writing Training; Time Standard Fundamentals Training; Wire Bonding Fundamentals & Principles; Wire Bonding Machine Programming; 8 Bits Micro-controller Programming Training ; HSPM Awareness; 8 Step Model of Problem Solving Techniques Workshop; SGA Presentation Skills Training; SGA Supplementary Tools Training; Process Failure Mode & Effect Analysis & Apis IQ Software Training; ISO9001:2008 Training; ISO/TS 16949:2009 Quality Audit Orientation; EHS Training Programs | **Technology**<br>12 Lecture Series In Optics, Machine vision and Optical Testing,<br>Silicones Overview<br>Solar Panel Process Development Training & Application<br>Infrared Sensor Manufacturing Process Seminar<br><br>**Behavioral**<br>Effective Presentation Skills Seminar<br>Trainers Coaching Session<br>Training the Trainers Seminar<br><br>**Technical**<br>Understanding Reawards Philosophy,<br>Job Analysis, Job Evaluation, and Salary Structure Development<br>Agile Training<br>LabView Basics 1 & 2<br>Problem Solving Techniques Seminar<br>Lean Manufacturing Training<br>Advanced Statistical Process Control WorkShop<br>Copper Wirebonding<br>Failure Mode and Effect Analysis Seminar<br>Fuji Laser Trimmer Machine Training<br>Koh Young SPI Machine Training<br>Royce Wire Pull Machine Training<br>QMS Lead Auditor Training Course<br>ISO 14001:2004 Internal Audit Course<br>ISO/IEC 17025: 2005 Requirements<br>ISO/TS 16949:2009 Internal Audit Course | |

| INDICATOR | 2012 | 2011 | Remarks |
|---|---|---|---|
| LA 13: Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity | **BOD Total Number of Members: 11**<br>**Gender:**<br>Male, 10; Female, 1<br>**Age Group:**<br>over 50 years old, 8;<br>30-50 years old, 3 | **BOD Total Number of Members: 11**<br>**Gender:**<br>Male, 10; Female, 1<br>**Age Group:**<br>over 50 years old, 8;<br>30-50 years old, 3 | Limited to Board of Directors |
| ECONOMIC | | | |
| EC 1: Economic value generated and distributed, included revenues, operating costs, employee compensation, donations and other community investments, and payments to capital providers and government | Economic Value ( in Million Pesos)<br>Revenues: 6,727<br>Net Income: (122)<br>**Distribution:**<br>Suppliers/contractors - 9,508<br>Employees (salaries and benefits) - 1,065<br>Government (taxes) - 40<br>Stockholders (dividends) - 109<br>Charitable Contributions - 0.5<br>**Total Distribution - 10.722**<br>**Investments**<br>Equity Investment - 5,318<br>Capex - 144<br>**Total Investment - 5,463** | Economic Value ( in Million Pesos)<br>Revenues: 6,659<br>Net Income: (431)<br>**Distribution:**<br>Suppliers/contractors - 10,557<br>Employees ( salaries and benefits) - 1,717<br>Government (taxes) - 43<br>Stockholders (dividends) - 279<br>Charitable Contributions - 5<br>**Total Distribution - 12,601**<br>**Investments**<br>Equity Investment - 5,679<br>Capex - 146<br>**Total Investment - 5,825** | |
| EC 2: Financial implications and other risks and opportunities for the organization's activities due to climate change | We have not tracked the financial implications of activities due to climate change. IMI has established IMI Energy Solutions to offer EMS solutions for the renewable energy sector. IMI continues to engage in green manufacturing wherever applicable. It has a Business Continuity Plan to manage the business in times of disasters. | We have not tracked the financial implications of activities due to climate change. IMI has established IMI Energy Solutions to offer EMS solutions for the renewable energy sector. IMI continues to engage in green manufacturing wherever applicable. It has a Business Continuity Plan to manage the business in times of disasters. | |
| EC 3: Coverage of the organization's defined benefit plan obligations | **Tenure** **Separation Benefit**<br>5<10 25% of monthly basic pay per yr of service<br>10<15 50% of mbp per yr of service<br>15<20 75% of mbp per yr of service<br>20 <25 100% of mbp per yr of service<br>25 years 125% of mbp per yr of and above service | **Tenure** **Separation Benefit**<br>5<10 25% of monthly basic pay per yr of service<br>10<15 50% of mbp per yr of service<br>15<20 75% of mbp per yr of service<br>20 <25 100% of mbp per yr of service<br>25 years 125% of mbp per yr of and above service | |
| SOCIAL | | | |
| SO 7: Total number of legal actions for anticompetitive behavior, antitrust, and monopoly practices and their outcomes | 0 | 0 | Zero means no legal action |
| SO 8: Monetary value of signficant fines and total number of nonmonetary sanctions for noncompliance with laws and regulations | 0 | 0 | Zero means no fine |
| **PRODUCT RESPONSIBILITY** | | | |
| PR 5: Practices related to customer satisfaction, including results of surveys measuring customer satisfaction | Overall CSAT Rating: Key Accounts - 3.7<br>Non-Key Accounts - 4.5 | Overall CSAT Rating is 4.4 | 5 is the highest rating |
| PR 6: Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship | Our policy on advertising or production of marketing collaterals states that IMI adheres to truth in advertising and production of marketing collaterals, and that it does not engage in unethical practices. | Our policy on advertising or production of marketing collaterals states that IMI adheres to truth in advertising and production of marketing collaterals, and that it does not engage in unethical practices. | |
| PR 7: Total number of incidents of noncompliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes | 0 | 0 | Zero means no incident of noncompliance |

# Report of the Audit Committee to the Board of Directors

For the Year Ended 31 December 2012

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

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

- An independent director chairs the Committee;
- We had four (4) regular meetings and three (3) special meetings during the year;
- We met separately with the external auditors in an executive session during the year;
- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of Integrated Micro-Electronics, Inc. and subsidiaries ("IMI") with management, the internal auditors, as well as SGV & Co. as the independent auditor of IMI, and that these activities were performed in the following context:
  - Management has the primary responsibility for the financial statements and the financial reporting process; and
  - SGV & Co. is responsible for expressing an opinion on the conformity of IMI's audited consolidated financial statements with Philippine Financial Reporting Standards;
- We have discussed and approved the overall scope and plans for the respective audit reviews of the internal auditors and SGV & Co.;
- We have discussed the audit results of SGV & Co. and their assessment of the overall quality of IMI's financial reporting process, mainly on financial statements and compliance to financial reporting standards, and their management letter of comments on internal control weaknesses observed during the audit;
- We have discussed the audit results and reports of the internal auditors and their follow-ups on the implementation of audit recommendations, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues; and
- We have reviewed and recommended for the approval by the Board of Directors the audit services of SGV & Co. and approved all audit-related and permitted non-audit services provided by SGV & Co. to IMI including the related fees for such services. We have also assessed the compatibility of non-audit services with the auditors' independence to ensure that such services will not impair their independence.

Based on the reviews and discussions undertaken, and subject to the limitations on our roles and responsibilities referred to above, the Audit Committee recommends to the Board of Directors that the audited consolidated financial statements be included in the Annual Report for the year ended December 31, 2012 for filing with the Securities and Exchange Commission and the Philippine Stock Exchange.

The Audit Committee is also recommending to the Board of Directors the re-appointment of SGV & Co. as IMI's independent auditor for 2013 based on the review of their performance and qualifications.

28 February 2013

| | | |
|---|---|---|
| HIROSHI NISHIMURA<br>Chairman | RAFAEL MA. C. ROMUALDEZ<br>Member | JAIME P. VILLEGAS<br>Member |

# Statement of Management's Responsibility for Financial Statements

The management of Integrated Micro-Electronics, Inc. (Parent Company) and its subsidiaries (collectively referred to as the Group) is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, 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 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 of the Parent Company reviews and approves the consolidated financial statements and submits the same to the stockholders of the Parent Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders for the period December 31, 2012 and 2011, has examined the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders of the Parent Company, 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

# Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Integrated Micro-Electronics, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, 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, 2012, 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, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-2 (Group A),
February 4, 2013, valid until February 3, 2016
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669656, January 2, 2013, Makati City

February 28, 2013

# Consolidated Balance Sheets

| | December 31 | |
|---|---|---|
| | **2012** | 2011 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 5) | **$56,196,382** | $54,069,180 |
| Loans and receivables (Note 6) | **150,880,855** | 133,676,580 |
| Inventories (Note 7) | **83,175,869** | 80,402,000 |
| Derivative assets (Notes 30 and 31) | **2,857,010** | 2,798,912 |
| Other current assets (Note 8) | **7,425,912** | 8,854,602 |
| Total Current Assets | **300,536,028** | 279,801,274 |
| **Noncurrent Assets** | | |
| Property, plant and equipment (Notes 2 and 9) | **88,071,187** | 97,505,460 |
| Goodwill (Notes 2 and 10) | **54,355,193** | 54,355,193 |
| Intangible assets (Notes 2 and 11) | **5,894,121** | 7,333,491 |
| Pension asset (Note 25) | **1,941,695** | 2,807,134 |
| Available-for-sale financial assets | **1,608,404** | 414,348 |
| Noncurrent receivables | **–** | 213,577 |
| Deferred tax assets (Note 23) | **1,082,869** | 743,592 |
| Other noncurrent assets (Note 12) | **1,805,084** | 1,518,225 |
| Total Noncurrent Assets | **154,758,553** | 164,891,020 |
| | **$455,294,581** | $444,692,294 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses (Note 13) | **$143,405,648** | $144,242,009 |
| Trust receipts and loans payable (Note 14) | **44,206,600** | 39,008,811 |
| Current portion of long-term debt (Note 15) | **2,649,600** | – |
| Income tax payable (Note 23) | **1,911,110** | 1,686,735 |
| Derivative liabilities (Notes 30 and 31) | **–** | 34,562 |
| Total Current Liabilities | **192,172,958** | 184,972,117 |
| **Noncurrent Liabilities** | | |
| Noncurrent portion of: | | |
| Long-term debt (Note 15) | **62,851,135** | 60,398,500 |
| Deferred revenue (Note 16) | **2,031,018** | 2,303,765 |
| Obligation under finance lease (Note 28) | **704,866** | 612,724 |
| Deferred tax liabilities (Note 23) | **4,628,438** | 4,810,158 |
| Pension liabilities (Note 25) | **1,120,466** | 1,329,257 |
| Accrued rent (Note 28) | **585,408** | 913,688 |
| Other long-term employee benefits | **86,609** | 230,704 |
| Total Noncurrent Liabilities | **72,007,940** | 70,598,796 |
| Total Liabilities | **264,180,898** | 255,570,913 |

(Forward)

| | December 31 | |
|---|---|---|
| | **2012** | 2011 |
| **EQUITY** (Note 17) | | |
| **Equity Attributable to Equity Holders of the Parent Company** | | |
| Capital stock-common | **$30,011,256** | $24,932,075 |
| Capital stock-preferred | **26,601,155** | 26,601,155 |
| Subscribed capital stock | **1,300,851** | 6,506,970 |
| Additional paid-in capital | **58,558,091** | 59,085,110 |
| Subscriptions receivable | **(9,650,842)** | (10,395,200) |
| Retained earnings: | | |
| Appropriated for expansion | **20,660,981** | 30,660,981 |
| Unappropriated | **72,447,569** | 59,671,124 |
| Treasury stock | **(1,012,585)** | (1,012,585) |
| Reserve for fluctuation on available-for-sale financial assets | **197,894** | 144,067 |
| Cumulative translation adjustment | **(2,303,539)** | (6,042,819) |
| Other reserves | **170,714** | 170,714 |
| | **196,981,545** | 190,321,592 |
| **Equity Attributable to Non-controlling Interests in Consolidated Subsidiaries** | **(5,867,862)** | (1,200,211) |
| Total Equity | **191,113,683** | 189,121,381 |
| | **$455,294,581** | $444,692,294 |

*See accompanying Notes to Consolidated Financial Statements.*

# Consolidated Statements of Comprehensive Income

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **REVENUES** | | | |
| Sale of goods | **$590,363,704** | $482,388,266 | $328,697,578 |
| Sale of services | **71,486,018** | 93,065,642 | 83,629,027 |
| | **661,849,722** | 575,453,908 | 412,326,605 |
| **COST OF SALES** (Note 18) | | | |
| Cost of goods sold | **542,011,155** | 451,886,042 | 294,328,303 |
| Cost of services | **66,624,322** | 85,390,332 | 73,523,710 |
| | **608,635,477** | 537,276,374 | 367,852,013 |
| **GROSS PROFIT** | **53,214,245** | 38,177,534 | 44,474,592 |
| **OPERATING EXPENSES** (Note 19) | **(46,252,177)** | (52,686,767) | (40,224,016) |
| **OTHERS** - Net | | | |
| Interest expense and bank charges (Note 21) | **(3,021,473)** | (2,499,998) | (1,036,929) |
| Interest income (Note 22) | **267,092** | 315,520 | 352,578 |
| Foreign exchange gains - net | **201,735** | 4,480,815 | 1,792,949 |
| Mark-to-market gains (losses) from put and call options | **121,185** | 5,355,873 | (207,555) |
| Gain from bargain purchase (Note 2) | **–** | 13,018,493 | – |
| Impairment loss on goodwill (Note 10) | **–** | (2,717,451) | – |
| Miscellaneous income (Notes 7, 9 and 31) | **218,458** | 2,501,580 | 2,670,550 |
| **INCOME BEFORE INCOME TAX** | **4,749,065** | 5,945,599 | 7,822,169 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 23) | | | |
| Current | **4,687,578** | 4,177,862 | 3,414,175 |
| Deferred | **(728,268)** | 476,224 | (6,651) |
| | **3,959,310** | 4,654,086 | 3,407,524 |
| **NET INCOME** | **789,755** | 1,291,513 | 4,414,645 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Fair value changes on available-for-sale financial assets | **53,827** | 32,108 | 55,080 |
| Exchange differences arising from translation of foreign operations | **3,739,280** | (6,042,819) | – |
| | **3,793,107** | (6,010,711) | 55,080 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **$4,582,862** | ($4,719,198) | $4,469,725 |
| **Net Income (Loss) Attributable to:** | | | |
| Equity holders of the Parent Company | **$5,441,942** | $3,289,314 | $4,738,929 |
| Non-controlling interests | **(4,652,187)** | (1,997,801) | (324,284) |
| | **$789,755** | $1,291,513 | $4,414,645 |
| **Total Comprehensive Income (Loss) Attributable to:** | | | |
| Equity holders of the Parent Company | **$9,235,049** | ($2,721,397) | $4,794,009 |
| Non-controlling interests | **(4,652,187)** | (1,997,801) | (324,284) |
| | **$4,582,862** | ($4,719,198) | $4,469,725 |
| **Earnings Per Share** (Note 24) | | | |
| Basic and Diluted | $0.002 | $0.001 | $0.002 |

*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 17) | Capital Stock - Preferred (Note 17) | Subscribed Capital Stock (Note 17) | Additional Paid-in Capital | Subscriptions Receivable (Note 17) | Retained Earnings Appropriated for Expansion (Note 17) | Retained Earnings Unappropriated (Note 17) | Treasury Stock (Note 17) | Reserve for Fluctuation on Available-for-Sale Financial Assets | Other Reserves | Cumulative Translation Adjustment | Attributable to Non-controlling Interests | Total |
| Balances at January 1, 2012 | $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 |
| Issued shares during the year (Note 17) | 5,079,181 | – | (5,079,181) | – | – | – | – | – | – | – | – | – | – |
| Cost of share-based payments (Note 26) | – | – | – | 70,490 | – | – | – | – | – | – | – | – | 70,490 |
| Accretion of subscription receivable (Note 17) | – | – | – | 676,304 | (676,304) | – | – | – | – | – | – | – | – |
| Collections on subscriptions (Note 17) | – | – | – | – | 19,911 | – | – | – | – | – | – | – | 19,911 |
| Forfeitures during the year (Note 17) | – | – | (126,938) | (1,273,813) | 1,400,751 | – | – | – | – | – | – | – | – |
| Reversal of appropriation (Note 17) | – | – | – | – | – | (10,000,000) | 10,000,000 | – | – | – | – | – | – |
| Cash dividends (Note 17) | – | – | – | – | – | – | (2,665,497) | – | – | – | – | (15,464) | (2,680,961) |
| | 30,011,256 | 26,601,155 | 1,300,851 | 58,558,091 | (9,650,842) | 20,660,981 | 67,005,627 | (1,012,585) | 144,067 | 170,714 | (6,042,819) | (1,215,675) | 186,530,821 |
| Net income (loss) | – | – | – | – | – | – | 5,441,942 | – | – | – | | (4,652,187) | 789,755 |
| Other comprehensive income | – | – | – | – | – | – | – | – | 53,827 | – | 3,739,280 | – | 3,793,107 |
| Total comprehensive income (loss) | – | – | – | – | – | – | 5,441,942 | – | 53,827 | – | 3,739,280 | (4,652,187) | 4,582,862 |
| **Balances at December 31, 2012** | $30,011,256 | $26,601,155 | $1,300,851 | $58,558,091 | ($9,650,842) | $20,660,981 | $72,447,569 | ($1,012,585) | $197,894 | $170,714 | ($2,303,539) | ($5,867,862) | $191,113,683 |

| | Attributable to Equity Holders of the Parent Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock - Common (Note 17) | Capital Stock - Preferred (Note 17) | Subscribed Capital Stock (Note 17) | Additional Paid-in Capital | Subscriptions Receivable (Note 17) | Retained Earnings Appropriated for Expansion (Note 17) | Retained Earnings Unappropriated (Note 17) | Treasury Stock (Note 17) | Reserve for Fluctuation on Available-for-Sale Financial Assets | Other Reserves | Cumulative Translation Adjustment | Attributable to Non-controlling Interests | Total |
| Balances at January 1, 2011 | $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 non-controlling interests due to the acquisition of a subsidiary during the year (Note 2) | – | – | – | – | – | – | – | – | – | – | – | 48,092 | 48,092 |
| Issued shares during the year (Note 17) | 38,362 | – | (38,362) | – | – | – | – | – | – | – | – | – | – |
| Subscriptions during the year (Notes 2 and 17) | – | – | 4,746,084 | 24,062,649 | – | – | – | – | – | – | – | – | 28,808,733 |
| Cost of share-based payments (Note 26) | – | – | – | 673,762 | – | – | – | – | – | – | – | – | 673,762 |
| Accretion of subscription receivable (Note 17) | – | – | – | 427,535 | (427,535) | – | – | – | – | – | – | – | – |
| Collections on subscriptions (Note17) | – | – | – | – | 615,889 | – | – | – | – | – | – | – | 615,889 |
| Forfeitures during the year (Note 17) | – | – | (102,715) | (725,725) | 828,440 | – | – | – | – | – | – | – | – |
| Reversal of appropriation (Note 17) | – | – | – | – | – | (30,000,000) | 30,000,000 | – | – | – | – | – | – |
| Cash dividends (Note 17) | – | – | – | – | – | – | (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 |

| | Capital Stock - Common (Note 17) | Capital Stock - Preferred (Note 17) | Subscribed Capital Stock (Note 17) | Additional Paid-in Capital | Subscriptions Receivable (Note 17) | Retained Earnings Appropriated for Expansion (Note 17) | Retained Earnings Unappropriated (Note 17) | Treasury Stock (Note 17) | Reserve for Fluctuation on Available-for-Sale Financial Assets | Other Reserves | Attributable to Non-controlling Interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to Equity Holders of the Parent Company | | | | | | | | | | | |
| 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 interests due to the acquisition of a subsidiary during the year (Note 2) | – | – | – | – | – | – | – | – | – | – | 861,883 | 861,883 |
| Issued shares during the year (Note 17) | 508,916 | – | (508,916) | – | – | – | – | 17 | – | – | – | 17 |
| Subscriptions during the year (Note 17) | – | – | 668,506 | 2,722,308 | (3,390,814) | – | – | – | – | – | – | – |
| Cost of share-based payments (Note 26) | – | – | – | 1,933,185 | – | – | – | – | – | – | – | 1,933,185 |
| Accretion of subscription receivable (Note 17) | – | – | – | 1,913,073 | (1,913,073) | – | – | – | – | – | – | – |
| Collections on subscriptions (Note 17) | – | – | – | – | 1,215,793 | – | – | – | – | – | – | 1,215,793 |
| Forfeitures during the year (Note 17) | – | – | (425,522) | (2,403,833) | 2,829,355 | – | – | – | – | – | – | – |
| Dilution of non-controlling interest | – | – | – | – | – | – | – | – | – | 9,163 | (9,163) | – |
| Reacquired shares (Note 17) | – | – | – | – | – | – | – | (10) | – | – | – | (10) |
| Cash dividends (Note 17) | – | – | – | – | – | – | (5,351,906) | – | – | – | (51,474) | (5,403,380) |
| Stock dividends (Note 17) | 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 | 1,093,564 | 165,589,807 |
| 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** | $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 |

*See accompanying Notes to Consolidated Financial Statements.*

# Consolidated Statements of Cash Flows

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **$4,749,065** | $5,945,599 | $7,822,169 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment (Notes 9, 18 and 19) | **23,319,434** | 24,615,286 | 19,373,226 |
| Interest expense (Note 21) | **2,900,187** | 2,182,374 | 928,072 |
| Net pension expense (Note 25) | **2,650,546** | 1,851,764 | 448,563 |
| Amortization of intangible assets (Notes 11,18 and 19) | **2,057,626** | 1,163,969 | 2,645,461 |
| Provision for restructuring (Note 13) | **1,896,238** | 831,718 | 246,382 |
| Gain on derivative transactions (Note 31) | **(1,758,926)** | (6,218,718) | (1,874,546) |
| Unrealized foreign exchange loss (gain) - net | **(862,535)** | (2,128,698) | 566,968 |
| Provision for doubtful accounts (Notes 6 and 20) | **441,498** | 1,977,541 | 1,531,927 |
| Provision (reversal of provision) for inventory obsolescence (Notes 7 and 20) | **282,948** | 1,029,155 | (1,734,481) |
| Interest income (Note 22) | **(267,092)** | (315,520) | (352,578) |
| Amortization of deferred revenue | **(260,829)** | (260,829) | (358,359) |
| Impairment loss on property, plant and equipment (Note 9) | **225,521** | – | – |
| Gain on sale of property, plant and equipment (Note 9) | **(132,752)** | (115,117) | (186,476) |
| Cost of share-based payments (Note 26) | **70,490** | 673,762 | 1,933,185 |
| Gain from bargain purchase (Note 2) | **–** | (13,018,493) | – |
| Impairment loss on goodwill (Note 10) | **–** | 2,717,451 | – |
| Dividend income | **–** | (367) | (61) |
| Reversal of provision for warranty (Note 13) | **–** | – | (18,481) |
| Operating income before working capital changes | **35,311,419** | 20,930,877 | 30,970,971 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in: | | | |
| Loans and receivables | **(16,858,982)** | (836,152) | 1,889,943 |
| Inventories | **(2,591,634)** | (400,171) | (14,503,933) |
| Other current assets | **1,428,690** | (6,346,587) | (103,392) |
| Net pension asset | **–** | (723,300) | (1,148,215) |
| Noncurrent receivables | **213,577** | (29,398) | 374,527 |
| Increase (decrease) in: | | | |
| Accounts payable and accrued expenses | **(3,044,414)** | 8,524,113 | (15,072,250) |
| Accrued rent | **(328,280)** | 19,600 | (27,918) |
| Other long-term employee benefits | **(144,095)** | (141,380) | – |
| Net cash generated from operations | **13,986,281** | 20,997,602 | 2,379,733 |
| Income tax paid | **(4,463,203)** | (4,789,919) | (4,377,137) |
| Interest paid | **(2,470,666)** | (1,567,431) | (908,577) |
| Interest received | **238,560** | 315,521 | 333,798 |
| Dividends received | **–** | 367 | 61 |
| Net cash provided by (used in) operating activities | **7,290,972** | 14,956,140 | (2,572,122) |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of: | | | |
| Property, plant and equipment (Notes 9 and 33) | **($16,026,776)** | ($14,830,473) | ($22,039,260) |
| Available-for-sale financial assets | **(1,000,000)** | – | – |
| Intangible assets (Note 11) | **(525,070)** | (411,344) | (765,833) |
| Proceeds from sale of property, plant and equipment | **3,710,103** | 2,656,466 | 2,594,526 |
| Settlement of derivatives (Note 31) | **1,666,266** | 1,315,015 | 1,601,406 |
| Decrease (increase) in other noncurrent assets | **(288,683)** | 293,354 | 1,900,973 |
| Acquisition through business combination - net of cash acquired (Note 2) | **–** | 5,053,343 | 2,202,930 |
| Net cash used in investing activities | **(12,464,160)** | (5,923,639) | (14,505,258) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Availments of loans | **43,697,044** | 50,838,903 | 15,619,405 |
| Payments of: | | | |
| Loans payable | **(32,780,287)** | (2,622,978) | (2,347,609) |
| Finance lease | **(800,671)** | – | – |
| Long-term debt | **–** | (38,000,000) | (8,000,000) |
| Dividends paid to equity holders of the Parent Company (Note 17) | **(2,468,881)** | (3,883,683) | (5,351,906) |
| Collections of subscriptions receivable (Note 17) | **19,911** | 615,889 | 1,215,793 |
| Dividends paid to non-controlling interests | **(15,464)** | (19,782) | (51,474) |
| Net cash provided by financing activities | **7,651,652** | 6,928,349 | 1,084,209 |
| **EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS** | **(351,262)** | (26,413) | 196,147 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **2,127,202** | 15,934,437 | (15,797,024) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **54,069,180** | 38,134,743 | 53,931,767 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 5) | **$56,196,382** | $54,069,180 | $38,134,743 |

*See accompanying Notes to Consolidated Financial Statements.*

# Notes to Consolidated Financial Statements

## 1. Corporate Information

Integrated Micro-Electronics, Inc. (the "Parent Company"), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four subsidiaries, namely: IMI International (Singapore) Pte. Ltd. ("IMI Singapore"), IMI USA, Inc. ("IMI USA"), IMI Japan, Inc. ("IMI Japan") and PSi Technologies, Inc. (PSi) (collectively referred to as the "Group"). IMI Singapore, IMI USA and IMI Japan are wholly-owned subsidiaries while PSi is 55.78% owned. 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 51.15% owned by Mermac, Inc., 10.62% 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, 2012, there are two (2) remaining project activities with ITH entitlement which will expire in 2013 and 2016. 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 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.

On December 10, 2012, the Board of Directors (BOD) of the Parent Company approved and authorized the Parent Company and STEL to enter into an agreement to integrate Speedy-Tech (Philippines), Inc. (STPHIL) to the Parent Company in 2013.

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 its subsidiaries (power management) and IMI USA (film chip). IMI Japan secures programs/projects from Japanese customers and then endorses 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 (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. (PSiTech Realty), the holding company of Pacsem Realty, Inc. (Pacsem Realty), which is a real estate company that acquires, holds, develops and disposes any real estate or interest acquired.

On June 21, 2012, the Philippine Securities and Exchange Commission (SEC) approved the legal merger of PSi Laguna and PSi, with the former as the absorbed entity and PSi as the surviving entity.

The consolidated financial statements as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 were authorized for issue by the Parent Company's BOD on February 28, 2013.

## 2. Business Combinations

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 Technologies Holdings, Inc. and Merrill Lynch Global Emerging Markets Partners, LLC (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.

The Agreement also provided details regarding the grant of put and call options, as follows:

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

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 as follows:

| | Fair Value | 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 | 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 |
| Non-controlling interest share in the fair value of net assets acquired (44.22%) | $861,884 | $1,646,276 |
| 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 expenses 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 1.60% plus 1.50% (see Note 15); and assumption of liabilities of EPIQ NV to the EPIQ Subsidiaries aggregating to €2,546,419 ($3,645,453).

# Notes to Consolidated Financial Statements

The acquisition costs are allocated as follows:

| | EPIQ EA | EPIQ CZ | EPIQ MX | Total |
|---|---|---|---|---|
| Issuance of 200 million IMI Consideration Shares (Note 17) | $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 1.60% plus 1.50% (see Note 15).

In 2011, the purchase price allocation for the acquisition of the EPIQ Subsidiaries was done on a preliminary basis as certain information were unavailable to finalize the fair value calculations of property, plant and equipment, intangible assets, contingent liabilities and goodwill.

In 2012, the Group finalized the purchase price allocation. As shown below, no changes were made to the provisional values as the impact of additional information subsequently obtained was not significant to affect the preliminary values.

| | EPIQ EA | | EPIQ CZ | | EPIQ MX | |
|---|---|---|---|---|---|---|
| | Fair Value | Provisional Values | Fair Value | Provisional Values | Fair Value | Provisional Values |
| **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 | 24,810,566 | 24,810,566 | 5,734,207 | 5,734,207 | 8,618,229 | 8,618,229 |
| Computer software | 158,818 | 158,818 | – | – | 299,735 | 299,735 |
| Customer relationships | 6,766,617 | 6,766,617 | – | – | – | – |
| Deferred tax assets | – | – | 444,245 | 444,245 | – | – |
| Other assets | 193,184 | 193,184 | – | – | 120,831 | 120,831 |
| Total | 80,268,592 | 80,268,592 | 13,012,165 | 13,012,165 | 27,408,787 | 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 | 1,158,778 | 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 | 2,138,855 | – | – | 1,686,277 | 1,686,277 |
| Total | 40,271,709 | 40,271,709 | 12,937,106 | 12,937,106 | 12,095,153 | 12,095,153 |
| **Net assets** | $39,996,883 | $39,996,883 | $75,059 | $75,059 | $15,313,634 | $15,313,634 |
| | | | | | | |
| Cost of acquisition | $28,287,108 | $28,287,108 | $725,472 | $725,472 | $13,956,824 | $13,956,824 |
| Less: Cooperatief's share in the fair value of net assets acquired | 39,948,791 | 39,948,791 | 75,059 | 75,059 | 15,313,634 | 15,313,634 |
| Goodwill (gain from bargain purchase) | ($11,661,683) | ($11,661,683) | $650,413 | $650,413 | ($1,356,810) | ($1,356,810) |

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

In 2011, from the date of acquisition, the EPIQ Subsidiaries have contributed $66.24 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 $189.90 million and $10.45 million, respectively.

3. **Summary of Significant Accounting and Financial Reporting Policies**

Basis of Preparation
The 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, except when otherwise indicated.

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

| | Percentage of Ownership | | | Country of | Functional |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | Incorporation | Currency |
| IMI USA | **100.00%** | 100.00% | 100.00% | USA | USD |
| IMI Japan | **100.00%** | 100.00% | 100.00% | Japan | USD |
| IMI Singapore | **100.00%** | 100.00% | 100.00% | Singapore | USD |
| IMI ROHQ | **100.00%** | 100.00% | 100.00% | Philippines | USD |
| STEL and Subsidiaries | | | | | |
| Vista Manufacturing Pte Ltd ("VISTA")* | **–** | 100.00% | 100.00% | Singapore | USD |
| Speedy-Tech Technologies Pte. Ltd. ("STTS")* | **–** | 100.00% | 100.00% | Singapore | USD |
| Speedy-Tech Electronics (HK) Limited ("STHK") | **100.00%** | 100.00% | 100.00% | Hong Kong | USD |
| Speedy-Tech (Philippines), Inc. ("STPHIL") | **100.00%** | 100.00% | 100.00% | Philippines | USD |
| Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE") | **99.48%** | 99.48% | 99.48% | China | USD |
| Speedy-Tech Electronics, Inc. | **100.00%** | 100.00% | 100.00% | USA | USD |
| Speedy-Tech Electronics (Jiaxing) Co., Ltd. ("STJX") | **100.00%** | 100.00% | 100.00% | China | USD |
| Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ") | **100.00%** | 100.00% | 100.00% | China | USD |
| IMI (Chengdu) Ltd. ("IMICD") | **100.00%** | 100.00% | 100.00% | China | USD |
| Monarch | **100.00%** | 100.00% | – | Hong Kong | USD |
| Cooperatief | **100.00%** | 100.00% | – | Netherlands | Euro |
| EPIQ EA | **100.00%** | 100.00% | – | Bulgaria | Bulgarian Lev |
| Microenergia OOD | **70.00%** | 70.00% | – | Bulgaria | Bulgarian Lev |
| EPIQ CZ | **100.00%** | 100.00% | – | Czech Republic | Czech Koruna |
| EPIQ MX | **100.00%** | 100.00% | – | Mexico | Mexican Peso |
| EPIQ Manufactura S.A.P.I de C.V. | **100.00%** | 100.00% | – | Mexico | Mexican Peso |
| IMI France | **100.00%** | 100.00% | – | France | Euro |
| PSi | **55.78%** | 55.78% | 55.78% | Philippines | USD |
| PSi Laguna** | **–** | 55.78% | 55.78% | Philippines | USD |
| PSiTech Realty *** | **22.31%** | 22.31% | 22.31% | Philippines | USD |
| Pacsem Realty *** | **35.70%** | 35.70% | 35.70% | Philippines | USD |

** On August 8, 2012 and July 3, 2012, VISTA and STTS were liquidated, respectively.*
*** On June 21, 2012, PSi Laguna was legally merged with PSi.*
**** The percentage pertains to ownership of the Parent Company.*

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 when such control ceases. The financial statements of the subsidiaries are prepared for the same balance sheet date as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions, are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not wholly-owned 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 non-controlling interests 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 non-controlling interests;
- 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; and
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

*Legal merger of PSi and PSi Laguna*
The plan of merger provides that PSi, as the surviving entity, received all the assets and assumed all the liabilities of PSi Laguna effective June 21, 2012. No new shares of stock shall be issued by PSi for the aforementioned transfer.

At the time PSi Laguna was merged to PSi, PSi already had an investment in PSi Laguna. Therefore, the legal merger does not represent PSi obtaining control of PSi Laguna and hence, outside the scope of PFRS 3, *Business Combinations*. Accordingly, the consolidated financial statements continue to carry the same amounts.

<u>Changes in Accounting Policies and Disclosures</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 and Philippine Accounting Standards (PAS) effective as of January 1, 2012. Except as otherwise indicated, the adoption of these new and amended standards did not have significant impact on the consolidated financial statements.

- PAS 12 (Amendment), *Income Taxes – Deferred Taxes: Recovery of Underlying Assets*
  This amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a "sale" basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ("use" basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

- PFRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*
  The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user 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 user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

<u>Standards Issued but not yet Effective</u>
*New and amended standards and interpretations*
The Group will adopt the following PFRS, PAS and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have a significant impact on the consolidated financial statements.

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

- PAS 19 (Amendment), *Employee Benefits* (effective for annual periods beginning on or after January 1, 2013)
  Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The amended standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and

risk. Once the amended standard is effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an actuary to compute the impact to the consolidated financial statements upon adoption of the standard. The effects are detailed below:

| Increase (decrease) in: | As at December 31, 2012 | As at January 1, 2012 | As at January 1, 2011 |
|---|---|---|---|
| Consolidated balance sheet | | | |
| Net defined benefit asset | ($1,941,695) | ($2,806,876) | $– |
| Net defined benefit liability | 1,222,559 | 2,093,572 | (2,207,975) |
| Other comprehensive income | (4,618,237) | (6,211,759) | (5,208,989) |
| Retained earnings | 1,942,088 | 1,311,311 | 3,001,014 |

| | 2012 | 2011 |
|---|---|---|
| Consolidated statement of comprehensive income | | |
| Net benefit cost | ($417,836) | ($47,055) |
| Income tax expense | (13,311) | (12,794) |
| Profit for the year | 431,147 | 59,849 |
| Attributable to the equity holders of the Parent Company | 197,137 | (8,287) |
| Attributable to non-controlling interests | 234,010 | 68,136 |
| Other comprehensive income | (4,618,237) | (6,211,759) |
| Tax effect on other comprehensive income | (515,895) | (677,201) |

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

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

- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2013)
  These amendments require the Group to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on the Group's financial position. The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The disclosures also apply to recognize 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 balance sheet date:
  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 consolidated statement of financial position;
  c) The net amounts presented in the consolidated 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 consolidated 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 addresses the accounting for consolidated financial statements. It also addresses the issues raised in Standing Interpretations Committee (SIC)-12, *Consolidation – 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. The Group does not expect the adoption of this

Standard to have an impact on the consolidated financial statements and have assessed that no facts and circumstances would suggest change to any criteria of control since majority of the subsidiaries are wholly-owned by the Parent Company.

- 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 JCEs using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture 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 of the disclosures that were previously in PAS 27 related to the consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to the Group'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 the Group 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. The Group is yet to implement this Standard by January 1, 2013 and would want to consider the key implications of PFRS 13 in its overall assessment.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after January 1, 2013)
  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity.

- PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014)
  These amendments clarify the meaning of "currently has a legally enforceable right to set-off." The amendments 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.

- PFRS 9, *Financial Instruments* (effective for annual periods beginning on or after January 1, 2015)
  PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss (FVPL). All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at FVPL. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The Group will quantify the effect in conjunction with other phases, when the final standard, including all phases, is issued. The Group's assessment of the impact of PFRS 9 is still in progress and no early adoption will be made as of the date of this report as there are still major changes that are expected to be made in the existing draft of the Standard that could impact the Group's decision to early adopt or not.

- 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 Philippine SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

*Annual improvements to PFRSs*
The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted. Except as otherwise indicated, the Group does not expect the adoption of these amendments to standards to have a significant impact on the consolidated financial statements.

- PAS 1, *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*
  The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements. The Group must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of consolidated financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements) are not required.

- PAS 16, *Property, Plant and Equipment – Classification of Servicing Equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise.

- PAS 32, *Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

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 - Initial Recognition and Subsequent Measurement
*Classification of financial instruments*
Financial instruments within the scope of PAS 39 are classified as: (1) financial assets and financial liabilities at 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. The Group determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every balance sheet date.

The financial instruments of the Group as of December 31, 2012 and 2011 consist of loans and receivables, financial asset at FVPL, AFS financial assets, financial liability at FVPL and other financial liabilities.

*Date of recognition of financial instruments*
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.

*Determination of fair value*
The fair value of financial instruments that are traded in active markets at each balance sheet date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value, as long as there has not been a significant change in economic circumstances since the time of the transaction.

For financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same; and
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 30.

*"Day 1" difference*
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" difference) in the consolidated statement of comprehensive income under "Interest income" or "Interest expense and bank charges," unless it qualifies for recognition as some other type of asset or liability.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss 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" difference 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 financial liabilities at FVPL, unless they are designated as effective hedging instruments or a financial guarantee contract. Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as financial asset or liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial instruments may be designated at initial recognition as financial assets or financial liabilities 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 financial instrument is part of a group of financial instruments which is managed and its 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 assets and financial liabilities at FVPL are subsequently measured at fair value. Changes in fair value of such assets or liabilities are accounted for in profit or loss.

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: (1) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract; (2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (3) 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.

Loans and receivables are recognized initially at fair value, plus transaction costs.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less any allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees and costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within twelve (12) months from the 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 recognized initially at fair value, plus transaction costs.

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 recognized in other comprehensive income under "Fair value changes on available-for-sale financial assets." 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 gains or losses previously recognized in other comprehensive income are 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*
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations and borrowings.

Other financial liabilities are initially recognized at the fair value of the consideration received, less directly attributable transaction costs.

After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Other financial liabilities are included in current liabilities if maturity is within twelve (12) months from the balance sheet date. 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, and long-term debt.

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

Derecognition of Financial Instruments
*Financial asset*
A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of 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. In that case, the Group also recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

*Financial liability*
A financial liability is derecognized 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. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or a 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 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 observable data indicating 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*
For loans and receivables, 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. 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 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 EIR (i.e., the EIR 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 recognized in profit or loss. Loans and 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 estimated impairment loss decreases because of 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 AFS financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is evaluated against the original cost of the investments and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment losses on that investments previously recognized in profit or loss - 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>Inventories</u>
Inventories are valued at the lower of cost and 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.

<u>Property, Plant and Equipment</u>
Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. 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 property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss 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 are removed from the accounts and any resulting gain or loss is included in profit or loss.

Construction in progress is stated at cost, less impairment loss, if any. This includes costs of construction and installation of plant and equipment and machinery items and any other cost directly attributable to bringing the asset to its intended use. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Depreciation of property, plant and equipment commences once the property, plant and equipment are available for use and is calculated on a straight-line basis over the estimated useful lives (EUL) of the 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 five (5) years.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss when the asset is derecognized.

Fully depreciated property, plant and equipment are retained in the accounts until these are no longer use and no further depreciation is charged to profit or loss.

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 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 asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group 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.

Business Combination and Goodwill or Gain on Bargain Purchase

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 non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in consolidated statement of comprehensive income under "Operating 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, is measured at fair value with changes in fair value recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for 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 the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes 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. When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. When 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.

PFRS 3 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 (12) 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.

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 accumulated amortization and any accumulated impairment losses.

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

Intangible assets with finite useful lives are amortized over their EUL and assessed for impairment whenever there is an indication that the intangible asset is impaired. The amortization period and method for intangible assets with finite useful lives are reviewed at least at the end of each balance sheet date. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in profit or loss.

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 CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life 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 recognized in profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets
The Group assesses, at each balance sheet date, whether there is an indication that an asset is impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. In assessing value in use, the estimated future cash flows 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.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally covered a period of five (5) years.

For assets excluding goodwill, an assessment is made at each balance sheet date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss, unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining EUL.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying amount is impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions

Provisions are recognized 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 a reliable estimate can be made of the amount of the obligation.

When the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Equity

*Capital stock*

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 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" account. 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.

*Additional paid-in-capital*

Additional paid-in capital pertains to the difference of the par value and selling price of issued and outstanding shares of stock.

*Subscriptions receivable*

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

*Retained earnings and dividend on capital stock of the Parent Company*

Retained earnings represent net accumulated earnings of the Group, less dividends declared. Appropriated retained earnings are set aside for future expansion. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the shareholders of the Parent Company and its subsidiaries.

*Treasury stock*

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

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, regardless of when the payment is being made. 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 EIR method.

*Dividends*
Dividend income is recognized when the right to receive the payment is established.

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

Expenses
Expenses of the Group include cost of sales and operating expenses.

*Cost of sales*
This includes cost of goods sold and cost of services. These expenses pertain to the direct expenses incurred by the Group related to the products and services offered. Cost of sales is recognized when the related goods are sold and when services are rendered.

*Operating expenses*
This pertains to the general and administrative expenses. Operating expenses are recognized when incurred, except for rent expense, which is computed on a straight line-basis over the lease term.

Income Taxes
*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 of the balance sheet date.

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

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

- When 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 profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient future taxable profits will be available against which the temporary differences can be utilized.

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

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax 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 taxable temporary difference. However, for temporary differences that are expected to reverse beyond the ITH, deferred taxes are recognized.

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 balance sheet date. All differences are taken to profit or loss. 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 balance sheet 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 balance sheet 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.

Exchange differences arising from elimination of intragroup balances and intragroup transactions are recognized in profit or loss. As an exception, if the exchange differences arise from intragroup balances that, in substance, forms part of an entity's net investment in a foreign operation, the exchange differences are not to be recognized in profit or loss, but are recognized in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation.

Pensions and Other Employee Benefits

*Defined contribution plans*

The Parent Company's subsidiaries in Singapore, PRC and Hong Kong, EPIQ CZ, and EPIQ MX 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 expense 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.

*EPIQ MX*
In accordance with Mexican Labor Law, EPIQ MX provides seniority premium benefits to its employees under certain circumstances. These benefits consist of a one-time payment equivalent to twelve (12) days of wage for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with fifteen (15) or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit. The Company estimates that the differences that might be determined if this liability had been estimated by an independent actuary are immaterial.

EPIQ MX also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three (3) months wages plus twenty (20) days wages for each year of service payable upon involuntary termination without just cause. These are recognized when such an event occurs.

*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 expense 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 balance sheet date 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 profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period. The net pension asset recognized in respect of the defined benefit pension plan is the lower of: (a) the fair value of the plan assets, less the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods; or (b) the total of any cumulative unrecognized net actuarial loss and past service cost and the present value of any economic benefit available in the form of refunds from the plan or reductions in future contributions to the plan. If there is no minimum funding requirement, the Group 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 Group, 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 Group.

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 balance sheet date.

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

The Group has 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 (EPS) Attributable to Equity Holders of the Parent Company
Basic 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 at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement. 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).

*Operating lease commitment - Group as lessor*
A lease in which the Group does not transfer substantially all the risks and benefits of ownership of an asset is classified as an operating lease. Lease income is recognized in the consolidated statement of comprehensive income under "Miscellaneous income" on a straight-line basis over the lease term.

*Operating and finance lease commitments - Group as lessee*
Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, 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 "Noncurrent portion of obligation under finance lease" 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 recognized under "Interest expense" in the consolidated statement of comprehensive income.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets and the respective lease terms.

Leases in which the Group 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 respective lease terms.

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

Events after the Balance Sheet Date
Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the consolidated financial statements when material.

## 4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities affected in future periods.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*Functional currency*
PAS 21, *Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Group's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Group. 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 commitment - 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.

In addition, the Parent Company has entered into finance lease agreements covering certain office equipment while 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 their respective arrangements, that they bear substantially all the risks and rewards incidental to the ownership of the said machineries and equipment and so account for the contracts as finance leases. Further details are given in Note 28.

*Contingencies*
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 is based upon an analysis of potential results. The Group currently does not believe that 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. Further details are given in Note 32.

*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 of these investments below its cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. The Group treats significant generally as 20% or more and prolonged as greater than six (6) months for quoted equity securities. In addition, the Group evaluates other factors, such as normal volatility in share price for quoted equities.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date 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. The Group based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

*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 has been incurred, based on the result of the individual and collective impairment assessments. Factors considered are payment history and past due status.

Loans and receivables, net of the allowance for doubtful accounts, amounted to $150.88 million and $133.68 million as of December 31, 2012 and 2011, respectively. Allowance for doubtful accounts amounted to $3.78 million and $3.40 million as of December 31, 2012 and 2011, respectively. Further details are given in Note 6.

*Estimating NRV of inventories*
Inventories are valued at the lower of cost and 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 $41.98 million and $51.61 million as of December 31, 2012 and 2011, respectively. Inventories carried at NRV amounted to $41.19 million and $28.80 million as of December 31, 2012 and 2011, respectively. Allowance for inventory obsolescence amounted to $4.40 million and $4.12 million as of December 31, 2012 and 2011, respectively. Further details are given in Note 7.

*Depreciation and amortization*
The Group computes depreciation of property, plant and equipment on a straight-line basis over the assets' EUL. The EUL and depreciation method are reviewed annually 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 and accumulated impairment losses, amounted to $88.07 million and $97.51 million as of December 31, 2012 and 2011, respectively. Depreciation expense on property, plant and equipment amounted to $23.32 million, $24.62 million and $19.37 million in 2012, 2011 and 2010, respectively. Further details are given in Notes 9, 18 and 19.

The Group computes amortization of intangible assets on a straight-line basis over the assets' EUL. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at the end of each balance sheet date. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the consolidated statements of comprehensive income in the expense category, consistent with the function of the intangible assets.

Intangible assets, net of accumulated amortization, amounted to $5.89 million and $7.33 million as of December 31, 2012 and 2011, respectively. Amortization expense amounted to $2.06 million, $1.16 million and $2.65 million in 2012, 2011 and 2010, respectively. Further details are given in Notes 11, 18 and 19.

*Impairment of property, plant and equipment and intangible assets*
The Group determines at each balance sheet date whether there is any indication that an item of property, plant and equipment and intangible assets 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 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 and accumulated impairment losses, amounted to $88.07 million and $97.51 million as of December 31, 2012 and 2011, respectively. Impairment loss on property, plant and equipment was recognized in 2012 amounting to $0.23 million. No impairment loss on property, plant and equipment was recognized in 2011 and 2010. Intangible assets, net of accumulated amortization, amounted to $5.89 million and $7.33 million as of December 31, 2012 and 2011, respectively. No impairment loss on intangible assets was recognized for the intangible assets in 2012, 2011 and 2010. Further details are given in Notes 9 and 11.

*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.

Goodwill amounted to $54.36 million as of December 31, 2012 and 2011. No impairment loss on goodwill was recognized in 2012 and 2010. Impairment loss on goodwill was recognized in 2011 amounting to $2.72 million. Further details are given in Note 10.

*Fair value measurement of intangible assets resulting from business combinations*
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 relationships) and determined its fair value based on discounted 5-year projected income from existing customers as of acquisition date after excluding projected returns contributed by working capital, workforce and fixed assets.

The customer relationships amounted to $4.85 million and $6.20 million as of December 31, 2012 and 2011, respectively. Further details are given in Note 11.

*Impairment of AFS financial assets*
The Group classifies certain equity investments as AFS financial assets and recognizes movements in their fair value in other comprehensive income. When the fair value of these assets declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss.

The carrying amount of AFS financial assets of the Group amounted to $1.61 million and $0.41 million as of December 31, 2012 and 2011, respectively. In 2012, 2011, and 2010, no impairment losses have been recognized on AFS financial assets.

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

As of December 31, 2012 and 2011, the Group has deferred tax assets of $1.08 million and $0.74 million, respectively. Further details are given in Note 23.

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

For the years ended December 31, 2012 and 2011, the Group did not recognize any provision for warranty while a reversal of $0.02 million was recognized for the year ended December 31, 2010. Further details are given in Note 13.

# Notes to Consolidated Financial Statements

*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 (VAT), 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 tax payable as of December 31, 2012 and 2011 amounted to $1.91 million and $1.69 million, respectively.

*Pensions 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, mortality rates, future salary rate increases, 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 balance sheet date.

The Group has unrecognized actuarial losses of $3.09 million, $4.92 million and $2.71 million in 2012, 2011 and 2010, respectively. Further details are given in Note 25.

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, 2012 and 2011 amounting to $1.75 million and $2.14 million, respectively, are recognized under "Accounts payable and accrued expenses," while noncurrent accrued leaves as of December 31, 2012 and 2011 amounting to $0.09 million and $0.23 million, respectively, are recognized under "Other long-term employee benefits" in the consolidated balance sheets. Cost of leaves in 2012, 2011 and 2010 amounted to $2.30 million, $2.65 million and $1.94 million, respectively, and are recognized under "Direct labor, salaries, wages and employee benefits" and "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 payments 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 ten (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.

In 2012, 2011 and 2010, the Group recognized cost of equity-settled share options amounting to $0.07 million, $0.67 million and $1.93 million, respectively. Further details are given in Note 26.

*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 (see Note 2). The put and call options were valued using binomial model. This valuation technique considers the probability of the value of PSi's shares, determined based on a five-year discounted cash flow model, to move up or down depending on the volatility, risk-free rate and exercise price.

As of December 31, 2012 and 2011, the call option has a positive value of $2.86 million and $2.74 million, respectively, while the put option has zero value. Further details are given in Note 31.

## 5. **Cash and Cash Equivalents**

This account consists of:

| | 2012 | 2011 |
|---|---|---|
| Cash on hand | **$127,180** | $103,983 |
| Cash in banks | **48,304,387** | 36,403,020 |
| Short-term deposits | **7,764,815** | 17,562,177 |
| | **$56,196,382** | $54,069,180 |

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. Interest income earned from cash in banks and short-term deposits amounted to $0.27 million, $0.30 million and $0.33 million in 2012, 2011 and 2010, respectively (see Note 22).

## 6. **Loans and Receivables**

This account consists of:

| | 2012 | 2011 |
|---|---|---|
| Trade | **$147,455,163** | $127,744,520 |
| Nontrade | **2,360,269** | 4,292,680 |
| Receivable from insurance | **1,178,785** | 1,230,038 |
| Receivable from employees | **539,159** | 1,811,210 |
| Due from related parties (Note 29) | **425,716** | 211,103 |
| Others | **2,702,067** | 1,790,216 |
| | **154,661,159** | 137,079,767 |
| Less: Allowance for doubtful accounts | **3,780,304** | 3,403,187 |
| | **$150,880,855** | $133,676,580 |

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 14).

Certain receivables of EPIQ EA have been pledged to UniCredit Bullbank and BNP Paribas (see Note 14).

As of December 31, 2012 and 2011, EPIQ EA's pledged receivables with UniCredit Bulbank amounted to €8.00 million ($10.16 million) and €2.73 million ($3.62 million), respectively (see Note 14).

As of December 31, 2012 and 2011, EPIQ EA's pledged receivables with BNP Paribas amounted to €0.32 million ($0.43 million) (see Note 14).

Nontrade

Nontrade receivables represent billings to customers for production and test equipment and all other charges agreed with the customers in carrying out business operations. These receivables have credit terms ranging from 30 to 60 days from invoice date.

Receivable from 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 amounted to $1.18 million and $1.23 million as of December 31, 2012 and 2011, respectively.

Allowance for Doubtful Accounts

Trade receivables, nontrade receivables, and receivable from insurance with aggregate nominal value of $3.78 million and $3.40 million were individually assessed to be impaired and fully provided with allowance for doubtful accounts as of December 31, 2012 and 2011, respectively.

Movements in the allowance for doubtful accounts follow:

**2012**

| | **Trade** | **Nontrade** | **Receivable from Insurance** | **Total** |
|---|---|---|---|---|
| At January 1, 2012 | **$2,117,204** | **$83,848** | **$1,202,135** | **$3,403,187** |
| Provisions (reversals) | **344,666** | **120,182** | **(23,350)** | **441,498** |
| Accounts written off | **(2,697)** | **(61,684)** | **–** | **(64,381)** |
| At December 31, 2012 | **$2,459,173** | **$142,346** | **$1,178,785** | **$3,780,304** |

2011

| | Trade | Nontrade | Receivable from Insurance | Total |
|---|---|---|---|---|
| At January 1, 2011 | $116,087 | $48,314 | $1,202,135 | $1,366,536 |
| Provisions | 1,920,224 | 57,317 | – | 1,977,541 |
| Recovery of previously written-off accounts | 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 |

Provisions during the year form part of “Operating expenses” and are included under “Facilities costs and others” (see Note 20).

7. **Inventories**

This account consists of:

| | **2012** | 2011 |
|---|---|---|
| At cost: | | |
| Raw materials and supplies | **$33,753,536** | $39,239,263 |
| Work-in-process | **3,017,263** | 6,134,662 |
| Finished goods | **5,210,691** | 6,231,243 |
| | **41,981,490** | 51,605,168 |
| At NRV: | | |
| Raw materials and supplies | **27,832,543** | 22,553,457 |
| Work-in-process | **7,429,997** | 1,875,642 |
| Finished goods | **5,931,839** | 4,367,733 |
| | **41,194,379** | 28,796,832 |
| | **$83,175,869** | $80,402,000 |

The cost of the inventories carried at NRV amounted to $45.59 million and $32.92 million as of December 31, 2012 and 2011, respectively. The amount of inventories recognized as an expense amounted to $449.06 million, $388.88 million and $265.48 million in 2012, 2011 and 2010, respectively (see Note 18).

Movements in the allowance for inventory obsolescence are as follows:

| | **2012** | 2011 |
|---|---|---|
| At beginning of year | **$4,120,666** | $3,749,822 |
| Provisions | **282,948** | 1,029,155 |
| Write-offs | **(6,158)** | (658,311) |
| At end of year | **$4,397,456** | $4,120,666 |

Provision for (reversal of) inventory obsolescence recognized in 2012, 2011 and 2010 amounted to $0.28 million, $1.03 million, and ($1.73 million), respectively (see Note 20).

Gain from sale of scrapped packaging supplies in 2012, 2011 and 2010 amounting to $0.01 million, $0.01 million and $0.23 million, respectively, are included under “Miscellaneous income” in the consolidated statements of comprehensive income.

As of December 31, 2012, inventories of EPIQ EA amounting to €8.00 million ($10.60 million) and €0.32 million ($0.43 million) were pledged to UniCredit Bulbank and BNP Paribas, respectively (see Note 14).

As of December 31, 2011, inventories of EPIQ EA amounting to €2.73 million ($3.62 million) and €0.32 million ($0.43 million) were pledged to UniCredit Bulbank and BNP Paribas, respectively (see Note 14).

8. **Other Current Assets**

This account consists of:

| | 2012 | 2011 |
|---|---|---|
| Tax credits | **$5,587,697** | $6,987,291 |
| Advances to suppliers | **1,031,452** | 959,386 |
| Prepayments | **683,528** | 674,612 |
| Current portion of deferred licensing fee (Note 12) | **10,000** | 10,000 |
| Others | **113,235** | 223,313 |
| | **$7,425,912** | $8,854,602 |

Tax credits are mainly attributable to EPIQ MX, EPIQ EA and the Parent Company.

Prepayments include prepayments for group hospitalization, life and fire insurance, rent and product liability and recall insurance which cover product recall expenses and liability to third parties seeking damaged in the event the Group recalls any of its product.

9. **Property, Plant and Equipment**

Movements in this account are as follows:

**2012**

| | 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, 2012 | $70,939,508 | $128,579,403 | $14,338,511 | $1,284,067 | $2,942,712 | $1,813,527 | $219,897,728 |
| Additions | 1,838,855 | 10,835,276 | 813,327 | 454,204 | 867,854 | 2,000,310 | 16,809,826 |
| Disposals | (6,214) | (11,869,870) | (89,987) | (426,333) | (600) | – | (12,393,004) |
| Transfers | 82,368 | 2,282,879 | 184,721 | 40 | – | (2,550,008) | – |
| Retirement | (205,774) | (908,415) | – | (51,339) | (58,459) | – | (1,223,987) |
| Foreign currency exchange difference | (420,063) | (868,891) | 862,347 | (44,018) | – | (49,758) | (520,383) |
| At December 31, 2012 | 72,228,680 | 128,050,382 | 16,108,919 | 1,216,621 | 3,751,507 | 1,214,071 | 222,570,180 |
| **Accumulated depreciation** | | | | | | | |
| At January 1, 2012 | 34,269,032 | 73,322,521 | 10,747,278 | 429,385 | 2,122,352 | – | 120,890,568 |
| Depreciation | 3,249,977 | 17,399,707 | 1,740,835 | 428,570 | 500,345 | – | 23,319,434 |
| Disposals | (7,097) | (8,873,429) | (151,280) | (352,238) | (568) | – | (9,384,612) |
| Retirement | (205,774) | (418,156) | – | (31,098) | – | – | (655,028) |
| Foreign currency exchange difference | (890,433) | (1,500,882) | 744,288 | (49,600) | – | – | (1,696,627) |
| Write-off | 82,787 | 215,250 | – | – | – | – | 298,037 |
| At December 31, 2012 | 36,498,492 | 80,145,011 | 13,081,121 | 425,019 | 2,622,129 | – | 132,771,772 |
| **Accumulated impairment losses** | | | | | | | |
| At January 1, 2012 | 736,565 | 752,909 | 12,226 | – | – | – | 1,501,700 |
| Impairment loss | – | 225,521 | – | – | – | – | 225,521 |
| At December 31, 2012 | 736,565 | 978,430 | 12,226 | – | – | – | 1,727,221 |
| **Net book value as of December 31, 2012** | $34,993,623 | $46,926,941 | $3,015,572 | $791,602 | $1,129,378 | $1,214,071 | $88,071,187 |

# Notes to Consolidated Financial Statements

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** | | | | | | | |
| At January 1, 2011 | 31,519,105 | 69,965,946 | 9,110,181 | 237,442 | 1,710,438 | – | 112,543,112 |
| Depreciation | 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 losses** | 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 |

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 machinery and equipment. The holders of the Mortgage Participation Certificates (MPC) under the MTI are Philippine Veterans Bank (PVB) and a major supplier, with a participation of $3.00 million each (see Notes 13 and 14). As of December 31, 2011, mortgaged machinery and equipment have a net carrying amount of $2.78 million. The credit facility was terminated in 2012.

As of December 31, 2012 and 2011, fully depreciated property, plant and equipment amounting to $40.75 million and $34.90 million, respectively, are still being used by the Group.

The carrying values of equipment under finance lease amounted to $2.05 million and $2.22 million, as of December 31, 2012 and 2011, respectively.

Depreciation expense included in"Cost of goods sold and services" and "Operating expenses" follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Cost of goods sold and services (Note 18) | **$20,448,129** | $21,682,170 | $16,223,661 |
| Operating expenses (Note 19) | **2,871,305** | 2,933,116 | 3,149,565 |
| | **$23,319,434** | $24,615,286 | $19,373,226 |

In 2012, PSi recognized an impairment loss of $0.23 million on certain machineries and directly wrote-off building improvements and machineries totaling $0.30 million.

Gains from disposal of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments included under "Miscellaneous income" in the consolidated statements of comprehensive income follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| PSi | **$120,709** | $5,577 | $2,325 |
| Parent Company | **6,144** | 108,076 | 183,171 |
| IMI Singapore | **5,899** | 1,464 | 980 |
| | **$132,752** | $115,117 | $186,476 |

10. **Goodwill**

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

| | 2012 | 2011 |
|---|---|---|
| STEL Group | **$45,128,024** | $45,128,024 |
| PSi | **7,478,980** | 7,478,980 |
| IMI USA | **656,610** | 656,610 |
| EPIQ CZ | **650,413** | 650,413 |
| Parent Company | **441,166** | 441,166 |
| | **$54,355,193** | $54,355,193 |

STEL Group, PSi, IMI USA and EPIQ CZ
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 are as follows:

| | 2012 | 2011 |
|---|---|---|
| STEL Group | **11.85%** | 11.12% |
| PSi | **13.47%** | 12.60% |
| IMI USA | **11.41%** | 10.16% |
| EPIQ CZ | **12.40%** | – |

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.
- 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, IMI USA, and EPIQ CZ in 2012, 2011 and 2010.

With regard to the assessment of value in use of STEL Group, IMI USA, and EPIQ CZ, 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.

For PSi, the assessment resulted to an impairment loss of $2.72 million in 2011 but no impairment losses in 2012 and 2010.

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

The recoverable amount was based on the market price of the Parent Company's shares at valuation date less estimated costs to sell. The comparison of the recoverable amount and the carrying amount resulted to no impairment loss in 2012, 2011 and 2010.

11. **Intangible Assets**

Movements in this account are as follows:

**2012**

| | Customer Relationships | Unpatented Technology | Computer Software | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At January 1, 2012 | **$19,666,617** | **$100,000** | **$2,254,030** | **$22,020,647** |
| Additions | **–** | **–** | **525,070** | **525,070** |
| Foreign currency exchange difference | **–** | **–** | **118,661** | **118,661** |
| At December 31, 2012 | **19,666,617** | **100,000** | **2,897,761** | **22,664,378** |
| **Accumulated amortization** | | | | |
| At January 1, 2012 | **13,463,885** | **100,000** | **1,123,271** | **14,687,156** |
| Amortization | **1,353,323** | **–** | **704,303** | **2,057,626** |
| Foreign currency exchange difference | **–** | **–** | **25,475** | **25,475** |
| At December 31, 2012 | **14,817,208** | **100,000** | **1,853,049** | **16,770,257** |
| **Net book value as of December 31, 2012** | **$4,849,409** | **$–** | **$1,044,712** | **$5,894,121** |

| | 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 |

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 Subsidiaries also have computer software with aggregate carrying value of $0.56 million and $0.35 million as of December 31, 2012 and 2011, respectively.

Amortization of intangible assets included in "Cost of goods sold and services" and "Operating expenses" in 2012, 2011 and 2010 amounted to $2.06 million, $1.16 million and $2.65 million, respectively (see Notes 18 and 19).

## 12. **Other Noncurrent Assets**

Other noncurrent assets consist of:

| | **2012** | 2011 |
|---|---|---|
| Miscellaneous deposits | **$1,795,084** | $1,498,225 |
| Noncurrent portion of deferred licensing fee | **10,000** | 20,000 |
| | **$1,805,084** | $1,518,225 |

Miscellaneous deposits include electric and water meter deposits.

Deferred licensing fee pertains to the payment made by PSi to Amkor Technology, Inc., an unrelated party, in 2004 amounting to $100,000, in accordance with the terms of their Microleadframe Patent License Agreement (the "Patent License Agreement"). The amortization expense, using the straight-line method, amounts to $10,000 for each of the ten (10) succeeding years. Moreover, PSi has to pay additional fees for the use of the license based on a certain formula included in the Patent License Agreement. The account is payable quarterly and any unpaid balance shall be subject to 1% interest per month. The Patent License Agreement is for a period of ten (10) years, which started in 2004. The amortization expense and additional licensing fee amounting to $10,000 and $74,870, respectively in 2012, $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:

| | **2012** | 2011 |
|---|---|---|
| Trade payables | **$101,772,745** | $99,217,065 |
| Accrued expenses | **21,107,739** | 20,554,660 |
| Accrued payroll | **8,826,799** | 8,421,735 |
| Dividends payable (Note 17) | **2,648,865** | 2,538,556 |
| Nontrade payables | **1,791,492** | 7,020,404 |
| Accrued interest payable (Notes 14 and 15) | **1,105,384** | 675,863 |
| Customers' deposits | **729,557** | 1,233,595 |
| Taxes payable | **704,023** | 485,924 |
| Current portion of obligation under finance lease (Note 28) | **674,071** | 783,833 |
| Employee-related payables | **612,713** | 678,833 |
| Current portion of obligation under deferred revenue (Note 16) | **272,747** | 260,829 |
| Due to related parties (Note 29) | **6,290** | 36,639 |
| Provision for restructuring | **–** | 249,044 |
| Others | **3,153,223** | 2,085,029 |
| | **$143,405,648** | $144,242,009 |

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

Trade Payables
Trade payables in 2011 include PSi's liability to a certain supplier amounting to $2.10 million, which is covered by an MPC amounting to $3.00 million under PSi's MTI with a local bank (see Notes 9 and 14).

Accrued Expenses
Accrued expenses consist mainly of accruals for light and water, taxes, repairs and maintenance, professional fees, transportation and travel, subcontractual costs, security, insurance, representation and rent.

Accrued Payroll
As of December 31, 2012 and 2011, accrued payroll contains current accrued leaves amounting to $1.75 million and $2.14 million, respectively.

Nontrade Payables
Nontrade payables include provision for losses on purchase commitments of PSi amounting to $0.29 million and $0.17 million as of December 31, 2012 and 2011, respectively, which pertain to losses arising from price decline and expected termination of several firm and executory purchase commitments. Additional provisions of $0.13 million and $0.01 million were recorded in 2012 and 2011, respectively. In 2011, nontrade payables also include SZSTE's liability for acquisition of fixed assets amounting to $3.00 million.

Provision for Restructuring
In 2011, PSi and STEL 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, STEL recognized provision amounting to $0.25 million, which was paid in 2012.

In 2012, PSi and STEL recognized additional provision of $1.16 million and $0.74 million, respectively, which were also paid during the year. Movement in provision for restructuring follows:

| | **2012** | 2011 |
|---|---|---|
| At beginning of year | **$249,044** | $– |
| Provision during the year | **1,896,238** | 831,718 |
| Payment during the year | **(2,145,282)** | (582,674) |
| At end of year | **$–** | $249,044 |

Provision for Warranty
A provision for warranty is recognized for all products under warranty at the balance sheet 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 provisions for warranty were recognized as of December 31, 2012 and 2011.

For the year ended December 31, 2010, the Group recognized reversal of provision of $0.02 million.

14. **Trust Receipts and Loans Payable**

This account consists of borrowings by the following entities:

| | **2012** | 2011 |
|---|---|---|
| Parent Company | **$22,000,000** | $16,460,500 |
| EPIQ EA | **9,700,611** | 11,066,203 |
| Psi | **9,099,902** | 10,167,932 |
| EPIQ MX | **2,009,461** | – |
| STEL | **1,396,626** | 1,314,176 |
| | **$44,206,600** | $39,008,811 |

Parent Company
As of December 31, 2012, the Parent Company has short-term loans aggregating to $22.00 million. The loans have maturities ranging from 32-60 days and fixed interest rates ranging from 1.64% to 2.00%.

As of December 31, 2011, there were two (2) $5.00 million 90-day term loans subject to fixed interest rate of 1.18% and 1.16%, respectively, and 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 $0.27 million, $0.16 million and $0.04 million in 2012, 2011 and 2010, respectively.

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

| | **2012** | 2011 |
|---|---|---|
| UniCredit Bulbank | **$9,275,017** | $10,351,817 |
| BNP Paribas | **425,594** | 714,386 |
| | **$9,700,611** | $11,066,203 |

The loans from UniCredit Bulbank and BNP Paribas are from existing revolving credit facilities with terms of one (1) year. 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 2012 and 2011 amounted to $0.48 million and $0.45 million, 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 €8,000,000;
- First ranking pledge on receivables from a certain customer; and
- Notary signed Soft Letter of Comfort from the Parent Company.

As of December 31, 2012 and 2011, EPIQ EA's pledged inventories and receivables with UniCredit Bulbank amounted to €16.00 million ($21.20 million) and €5.46 million ($7.24 million), 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 €3,750,000; 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 €3,750,000.

As of December 31, 2012 and 2011, EPIQ EA's pledged inventories and receivables with BNP Paribas amounted to €0.64 million ($0.86 million).

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

| | 2012 | 2011 |
|---|---|---|
| Metropolitan Bank & Trust Co. (MBTC) | **$9,099,902** | $9,247,621 |
| PVB | **–** | 920,311 |
| | **$9,099,902** | $10,167,932 |

*MBTC*
PSi has an unsecured Omnibus Line Credit Facility of $10.00 million granted on November 24, 2010 which will expire on October 30, 2012, and 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 2.21% to 2.71% in 2012, 2.18% to 2.80% in 2011 and 2.56% in 2010. On January 13, 2012, the credit facility with MBTC was renewed for one (1) year until January 6, 2013.

As of December 31, 2012 and 2011, the outstanding trust receipts payable amounted to $0.40 million and $1.75 million, respectively.

The undrawn credit facility amounted to $0.41 million and $0.75 million as of December 31, 2012 and 2011, respectively.

PSi incurred interest expense on its short-term loan and trust receipts payable aggregating to $0.20 million in 2012, $0.44 million in 2011 and $0.03 million in 2010.

*PVB*
In 2010, PSi had a Revolving Promissory Note Line (RPNL) of $3.00 million, including the availability of LC/TR up to $1.50 million. This short-term credit facility, which expired in April 2011, was 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. As of December 31, 2011, PSi has not yet availed of the 5-year term loan, hence, the MPC of PVB is temporarily not effective. In February 2012, PSi terminated this short-term credit facility. The interest rates in 2011 and 2010 ranged from 2.59% to 2.72% and 2.21% to 3.49%, respectively. As of December 31, 2012 and 2011, there are no outstanding trust receipts payables under this facility.

The undrawn credit facility amounted to $4.08 million as of December 31, 2011. PSi incurred interest expense for its short-term loan amounting to $1.33 thousand, $0.10 million and $0.03 million in 2012, 2011 and 2010, respectively.

EPIQ MX
EPIQ MX has a revolving credit line with Banamex with term not exceeding twelve (12) months maturing on September 30, 2013 and bears interest based on Libor plus 2%. Interest expense incurred on the short-term loan amounted to $0.08 million in 2012.

STEL
The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates of 3.55%, 3.35% to 3.45%, and 3.52% to 3.70% in 2012, 2011 and 2010, 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 $0.40 million, $0.34 million and $0.34 million in 2012, 2011 and 2010, respectively.

# Notes to Consolidated Financial Statements

## 15. Long-Term Debt

This account consists of borrowings by the following entities:

| | 2012 | 2011 |
|---|---|---|
| Parent Company | **$46,624,000** | $40,000,000 |
| Cooperatief | **18,876,735** | 20,398,500 |
| | **65,500,735** | 60,398,500 |
| Less: Current portion | **2,649,600** | – |
| Noncurrent portion | **$62,851,135** | $60,398,500 |

Parent Company
In October 2011, the Parent Company obtained a five-year term clean loan from a Philippine bank amounting to $40.0 million 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 three-month LIBOR plus margin of 0.80%.

On February 29, 2012, the Parent Company obtained a €5,000,000 ($6,624,000), five-year term clean loan from a local bank 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, if made on an interest payment date, subject to certain conditions. Interest is payable semi-annually at the rate of six-month LIBOR plus 1.50% spread per annum.

The Parent Company incurred interest expense for its long-term loans amounting to $0.90 million, $0.43 million and $0.34 million in 2012, 2011 and 2010, respectively.

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

- The ratio of debt to 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, 2012 and 2011, the Parent Company has complied with all of the above-mentioned loan covenants.

Cooperatief
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 1.60% plus 1.50%. Below is the amortization schedule:

| Due dates | Amounts in Euro | Amount in USD |
|---|---|---|
| 2013 | €2,000,000 | $2,649,600 |
| 2014 | 2,000,000 | 2,649,600 |
| 2015 | 2,000,000 | 2,649,600 |
| 2016 | 2,000,000 | 2,649,600 |
| 2017 | 2,000,000 | 2,649,600 |
| 2018 | 4,248,743 | 5,628,735 |
| Total | €14,248,743 | $18,876,735 |

In 2012 and 2011, Cooperatief incurred interest expense amounting to $0.57 million and $0.28 million, respectively, for its long-term debt.

## 16. 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 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 above 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, 2012 and 2011, the current and noncurrent portion of the advances from the local customer follow:

| | **2012** | 2011 |
|---|---|---|
| Total outstanding advances from the local customers | **$2,303,765** | $2,564,594 |
| Less: Current portion | **272,747** | 260,829 |
| Noncurrent portion | **$2,031,018** | $2,303,765 |

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

## 17. **Equity**

Capital Stock
This account consists of:

| | **2012** | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount | Shares | Amount |
| **Authorized** - ₱1 par value | | | | | | |
| Common | **2,250,000,000** | | 2,250,000,000 | | 2,250,000,000 | |
| Preferred | **1,500,000,000** | | 1,500,000,000 | | 1,500,000,000 | |
| **Issued – Common** | | | | | | |
| At beginning of year | **1,354,230,740** | **$24,932,075** | 1,352,290,094 | $24,893,713 | 1,137,788,197 | $20,267,538 |
| Issuances during the year through stock dividend | **–** | **–** | – | – | 187,500,000 | 4,117,259 |
| Issuances during the year through ESOWN | **17,643,691** | **333,097** | 1,940,646 | 38,362 | 27,001,897 | 508,916 |
| Issuances during the year to EPIQ NV | **200,000,000** | **4,746,084** | – | – | – | – |
| At end of year* | **1,571,874,431** | **$30,011,256** | 1,354,230,740 | $24,932,075 | 1,352,290,094 | $24,893,713 |
| **Issued – Preferred** | | | | | | |
| 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, 2012, 2011 and 2010 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 per annum, 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 Philippine SEC approved the registration of 1,268,497,252 common shares of the Parent Company with ₱1.00 par value. As of December 31, 2012, 2011 and 2010, 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 Philippine SEC in connection with its approval of the Parent Company’s application for increase in authorized capital stock. The BOD of the Parent Company further resolved to consolidate into whole shares, the fractional shares resulting from the declaration of stock dividend and the Parent Company to redeem it as treasury stock, at a price equal to the last closing price at the PSE immediately prior to the record date.

On August 12, 2010, the Philippine 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.

# Notes to Consolidated Financial Statements

Subscribed Capital Stock
Details of this account follow:

| | **2012** | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount | Shares | Amount |
| At beginning of year | **283,909,186** | **$6,506,970** | 90,587,000 | $1,901,963 | 107,898,420 | $2,167,895 |
| Subscriptions during the year | | | | | | |
| ESOWN (Note 26) | **–** | **–** | – | – | 30,885,000 | 668,506 |
| EPIQ NV | **–** | **–** | 200,000,000 | 4,746,084 | – | – |
| Issuances during the year | | | | | | |
| ESOWN | **(17,643,691)** | **(333,097)** | (1,940,646) | (38,362) | (27,001,897) | (508,916) |
| EPIQ NV | **(200,000,000)** | **(4,746,084)** | – | – | – | – |
| Forfeitures during the year | | | | | | |
| ESOWN | **(5,844,495)** | **(126,938)** | (4,737,168) | (102,715) | (21,194,523) | (425,522) |
| At end of year | **60,421,000** | **$1,300,851** | 283,909,186 | $6,506,970 | 90,587,000 | $1,901,963 |

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. On October 19, 2012, the Philippine SEC approved the valuation of shares of stock of EPIQ NV applied as payment for the 200 million unissued shares of the Parent Company. The shares were issued to EPIQ NV on October 31, 2012 and the securities are yet to be filed for listing with the PSE.

Subscriptions Receivable
Details of this account are as follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| At beginning of year | **$10,395,200** | $11,411,994 | $10,153,255 |
| Subscriptions during the year (Note 26) | **–** | – | 3,390,814 |
| Collections during the year | **(19,911)** | (615,889) | (1,215,793) |
| Accretion during the year (Note 26) | **676,304** | 427,535 | 1,913,073 |
| Forfeitures during the year (Note 26) | **(1,400,751)** | (828,440) | (2,829,355) |
| At end of year | **$9,650,842** | $10,395,200 | $11,411,994 |

Dividends

*2012*
On December 10, 2012, the Parent Company's BOD approved the declaration and payment of the quarterly dividends of 8.25% per annum for 2013 to all shareholders of the Parent Company's preferred shares. Details of the dividend payment are as follows:

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|
| Record date | February 8, 2013 | May 8, 2013 | August 9, 2013 | November 11, 2013 |
| Payment date | February 21, 2013 | May 21, 2013 | August 23, 2013 | November 22, 2013 |
| Amount | $662,846 | $655,106 | $684,699 | $662,846 |

*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 ₱0.04 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% per annum 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.

Treasury Stock
The movements in the treasury stock follow:

| | **2012** | | 2011 | | 2010 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount | Shares | Amount |
| At beginning of year | **15,892,109** | **$1,012,585** | 15,892,109 | $1,012,585 | 15,892,365 | $1,012,592 |
| Issuances during the year | **–** | **–** | – | – | (300) | (17) |
| Acquisitions during the year | **–** | **–** | – | – | 44 | 10 |
| At end of year | **15,892,109** | **$1,012,585** | 15,892,109 | $1,012,585 | 15,892,109 | $1,012,585 |

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 balance of the appropriated retained earnings from prior years' appropriations approved by the Parent Company's BOD and Executive Committee will be used to finance continuous plant expansions in the newly acquired facilities in Europe and Mexico.

On December 10, 2012, the BOD of the Parent Company approved the reclassification of appropriated retained earnings to unappropriated retained earnings amounting to $10.00 million for dividend declaration.

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 $53.13 million and $44.72 million as of December 31, 2012 and 2011, 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 SRC 68, as amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2012 amounted to $13.04 million.

# Notes to Consolidated Financial Statements

## 18. Cost of Goods Sold and Services

This account consists of:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Direct, indirect and other material-related costs (Note 7) | **$449,059,291** | $388,879,422 | $265,483,888 |
| Direct labor, salaries, wages and employee benefits (Note 25) | **101,177,267** | 90,847,467 | 64,704,176 |
| Depreciation and amortization (Notes 9 and 11) | **20,465,277** | 21,698,353 | 16,231,694 |
| Facilities costs and others (Note 20) | **37,933,642** | 35,851,132 | 21,432,255 |
| | **$608,635,477** | $537,276,374 | $367,852,013 |

## 19. Operating Expenses

This account consists of:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Salaries, wages and employee benefits (Note 25) | **$23,631,371** | $28,175,341 | $22,897,063 |
| Depreciation and amortization (Notes 9 and 11) | **4,911,783** | 4,080,902 | 5,786,993 |
| Facilities costs and others (Note 20) | **17,709,023** | 20,430,524 | 11,539,960 |
| | **$46,252,177** | $52,686,767 | $40,224,016 |

## 20. Facilities Costs and Others

This account consists of:

| | **Cost of Goods Sold and Services** | | | **Operating Expenses** | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** | 2011 | 2010 |
| Utilities | **$13,408,630** | $12,993,248 | $8,071,258 | **$935,136** | $913,419 | $649,768 |
| Repairs and maintenance | **6,249,440** | 6,189,964 | 3,381,890 | **856,785** | 974,965 | 492,723 |
| Outsourced activities (Note 28) | **5,139,000** | 6,008,519 | 3,379,122 | **5,915,728** | 6,828,361 | 5,549,611 |
| Variable overhead | **3,751,925** | 2,945,218 | 3,616,274 | – | – | – |
| Travel | **1,158,276** | 1,435,137 | 192,176 | **2,112,897** | 1,922,497 | 1,496,090 |
| Government-related | **1,132,098** | 1,262,184 | 1,171,785 | **1,725,075** | 1,605,101 | 157,017 |
| Insurance | **758,459** | 586,854 | – | **948,695** | 550,173 | 262,678 |
| Provision (reversal of provision) for inventory obsolescence (Note 7) | **593,469** | – | – | **(310,521)** | 1,029,155 | (1,734,481) |
| Postal and communication | **121,147** | 142,677 | | **986,286** | 869,266 | 781,162 |
| Technology-related | **90,820** | 184,563 | 41,733 | **1,949,604** | 1,408,556 | 1,063,758 |
| Promotional materials, representation and entertainment | **67,229** | 116,445 | – | **518,765** | 492,746 | 270,215 |
| Staff house | **841** | 482 | – | **30,581** | 271,366 | 25,844 |
| Membership fee | **92** | 30,322 | – | **51,453** | 182,961 | 69,929 |
| Provision for doubtful accounts (Note 6) | **–** | – | – | **441,498** | 1,977,541 | 1,531,927 |
| Sales commission | **–** | – | – | **753,667** | 835,092 | 556,665 |
| Others | **5,462,216** | 3,955,519 | 1,578,017 | **793,374** | 569,325 | 367,054 |
| | **$37,933,642** | $35,851,132 | $21,432,255 | **$17,709,023** | $20,430,524 | $11,539,960 |

"Others" include donations, small tools and instruments, spare parts, brokerage charges, freight out, test material, service processing fees, scrap materials, office supplies, copying expenses and impairment loss on property and equipment.

21. **Interest Expense and Bank Charges**

This account consists of:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Interest expense (Notes 14 and 15) | **$2,900,187** | $2,182,374 | $928,072 |
| Bank charges | **81,621** | 155,191 | 94,727 |
| Others | **39,665** | 162,433 | 14,130 |
| | **$3,021,473** | $2,499,998 | $1,036,929 |

"Others" include interest on finance lease and employees' car and housing loan.

22. **Interest Income**

This account consists of:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Interest on bank balances and fixed deposits (Note 5) | **$267,092** | $299,849 | $333,798 |
| Others | **–** | 15,671 | 18,780 |
| | **$267,092** | $315,520 | $352,578 |

23. **Income Taxes**

*Parent Company*
As discussed in Note 1, the Parent Company is registered with PEZA and is entitled to certain incentives, which include ITH. The Parent Company's entitlements to ITH under the current PEZA registrations have expirations beginning January 2010. As of December 31, 2012, there are two (2) remaining project activities with ITH entitlement which will expire in 2013 and 2016. 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 registered with PEZA under the Omnibus Investment Code of 1987 and R.A. No. 7916 on May 17, 2004, for the manufacture of semiconductor devices and for export and importation of raw materials, machinery and equipment, and other materials used in manufacturing semiconductor devices in the Food Terminal Incorporated - Special Economic Zone (FTI-SEZ), Taguig City and Carmelray Industrial Park II, Calamba City.

On August 24, 2012, PEZA issued an amended Certificate of Registration to PSi as an Ecozone Export Enterprise to include the transfer of registered activities of PSi Laguna to PSi. The issuance of the new certification was based on the approval of the merger of PSi and PSi Laguna with the former as the surviving entity and the latter as the absorbed entity, by the Philippine SEC on June 21, 2012 (see Note 1).

As a PEZA-registered entity, PSi is subject to a five percent (5%) tax on gross income less allowable deductions, as defined in R.A. No. 7916, as amended by R.A. No. 8748, in lieu of all national and local taxes, except real property tax on land being leased by PSi in FTI-SEZ and Carmelray Industrial Park II. The five percent (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.

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

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

On February 17, 2011, the BOD of PEZA approved, through Resolution Nos. 11-073 and 11-074, the application of 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 R.A. No. 7916, as amended, as indicated in the Supplemental Agreement between PSi and PEZA executed on April 6, 2011.

As of December 31, 2012, there are two (2) remaining PEZA registered activities with ITH entitlement which will expire in 2014.

ITH incentives availed in 2012, 2011 and 2010 amounted to $6,307, $11,079 and nil, respectively.

*STHK and Monarch*
Hong Kong profits tax has been provided at the rate of 16.5% for the years ended December 31, 2012, 2011 and 2010 on the assessable profit for the year.

*SZSTE, STJX and STCQ and 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 (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 24% for the years ended December 31, 2012 and 2011 and 22% in 2010 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 EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year 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 seventh profitable year, and hence, is subject to taxation at the rate of 28% in 2012 and 2011 and 25% in 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 Law of 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.

IMICD is subject to taxation at the statutory rate of 25% on their taxable income as reported in the financial statement. With effect from year 2008, the China authority ceased the incentive of preferential tax treatment for enterprises with foreign investment and foreign enterprises.

*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 five percent (5%) on gross income, as defined under R.A. No. 7916, in lieu of payment of national and local taxes.

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

*IMI France*
Income tax is computed based on the income earned by the entity 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 in 2012 and 2011 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 tax is calculated based on the taxable income for tax purposes. The nominal tax rate in 2012 and 2011 is 10%.

*EPIQ MX*
EPIQ MX is subject to Income Tax and the Business Flat Tax. These taxes are recorded in profit or loss in the year they are incurred. Income tax rate for 2012 and 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 multiplying the tax base by the rate as defined by the income tax law of Czech Republic. 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 in 2012 and 2011 is 19%.

The effective income tax of the Group is as follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Income before income tax | **$4,749,065** | $5,945,599 | $7,822,169 |
| Tax on: | | | |
| Income from foreign subsidiaries | **3,820,307** | 3,431,467 | 3,085,736 |
| Income subject to 5% gross income tax | **831,774** | 741,540 | 324,316 |
| Income subject to regular corporate income tax | **35,497** | 3,939 | 4,077 |
| Others | **–** | 916 | 46 |
| Current income tax expense | **4,687,578** | 4,177,862 | 3,414,175 |
| Deferred income tax expense (benefit) | **(728,268)** | 476,224 | (6,651) |
| Effective income tax | **$3,959,310** | $4,654,086 | $3,407,524 |

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:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Statutory income tax | **30.00%** | 30.00% | 30.00% |
| Tax effects of: | | | |
| Income subject to ITH | **(1.65%)** | (15.12%) | 50.87% |
| Income subject to gross income tax | **(13.76%)** | (28.54%) | (14.07%) |
| Interest income subjected to final tax | **(0.88%)** | (0.90%) | (0.54%) |
| Nondeductible expenses | **111.85%** | 134.47% | (13.75%) |
| Difference in tax jurisdiction | **(42.19%)** | (41.63%) | (8.95%) |
| Provision for income tax | **83.37%** | 78.28% | 43.56% |

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

| | **2012** | 2011 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for inventory obsolescence | **$231,245** | $111,275 |
| Allowance for doubtful accounts | **194,591** | – |
| Revaluation of property, plant and equipment of subsidiaries | **444,245** | 444,245 |
| Others | **212,788** | 188,072 |
| | **1,082,869** | 743,592 |
| Deferred tax liabilities: | | |
| Revaluation of property, plant and equipment and intangibles of subsidiaries | **(3,405,195)** | (3,966,754) |
| Accelerated depreciation | **(186,914)** | – |
| Unrealized mark-to-market gains from put and call options | **(802,557)** | (820,748) |
| Excess of net book value over tax written-down value of property, plant and equipment of subsidiaries | **(9,988)** | (9,988) |
| Others | **(223,784)** | (12,668) |
| | **(4,628,438)** | (4,810,158) |
| Net deferred tax liabilities | **($3,545,569)** | ($4,066,566) |

The temporary differences, MCIT and NOLCO of PSi for which no deferred income tax assets have been recognized are as follows:

| | **2012** | 2011 |
|---|---|---|
| Unrealized foreign exchange loss on monetary assets | **$1,437,866** | $2,439,561 |
| Net operating loss carryover (NOLCO) | **631,228** | 820,789 |
| Pension liability | **430,878** | 431,122 |
| Excess of: | | |
| Cost over NRV of inventories | **2,682,635** | 2,097,023 |
| Rent expense under operating lease arrangement computed on a straight-line basis over the amount computed based on lease agreement | **263,902** | 417,307 |
| Minimum corporate income tax (MCIT) over regular corporate income tax | **49** | 916 |
| | **$5,446,558** | $6,206,718 |

Details of PSi's NOLCO and MCIT follow:

| Inception Year | Expiry Year | NOLCO | MCIT |
|---|---|---|---|
| 2012 | 2015 | $402 | $– |
| 2011 | 2014 | 505 | – |
| 2010 | 2013 | 429,971 | 49 |
| | | $430,878 | $49 |

Movements in NOLCO and MCIT are as follows:

**2012**

| | **NOLCO** | **MCIT** |
|---|---|---|
| At January 1, 2012 | **$431,122** | **$916** |
| Addition | **402** | **–** |
| Expiration | **(29,949)** | **(929)** |
| Foreign currency exchange difference | **29,303** | **62** |
| At December 31, 2012 | **$430,878** | **$49** |

2011

| | NOLCO | MCIT |
|---|---|---|
| At January 1, 2011 | $453,628 | $3,237 |
| Addition | 342 | – |
| Expiration | (22,848) | (2,321) |
| At December 31, 2011 | $431,122 | $916 |

24. **Earnings per Share (EPS)**

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

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Net income | **$5,441,942** | $3,289,314 | $4,738,929 |
| Less: Dividends on preferred stock (Note 17) | **2,665,497** | 2,477,852 | 2,360,119 |
| | **$2,776,445** | $811,462 | $2,378,810 |
| Weighted average number of common shares outstanding | **1,621,760,776** | 1,526,590,221 | 1,337,038,223 |
| Basic and diluted EPS | **$0.002** | $0.001 | $0.002 |

As of December 31, 2012, 2011 and 2010, the Parent Company has no dilutive potential common shares.

25. **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, 2012.

The following tables summarize the components of the net defined benefit expense 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*

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Current service cost | **$1,360,128** | $1,497,897 | $630,577 |
| Benefits paid due to settlement | **1,065,922** | (23,837) | – |
| Interest cost on benefit obligation | **1,047,994** | 1,095,671 | 583,682 |
| Amortization of actuarial losses (gains) | **259,712** | 133,506 | (55,578) |
| Expected return on plan assets | **(1,083,210)** | (1,178,866) | (992,574) |
| Settlement gain | **–** | 166,774 | 136,079 |
| Curtailment loss | **–** | 160,619 | 146,377 |
| Net defined benefit expense | **$2,650,546** | $1,851,764 | $448,563 |

*Net pension asset*

| | 2012 | 2011 |
|---|---|---|
| Plan assets | **$12,630,615** | $12,185,092 |
| Benefit obligation | **(14,955,921)** | (15,629,752) |
| Underfunded | **(2,325,306)** | (3,444,660) |
| Unrecognized net actuarial losses | **3,091,955** | 4,922,537 |
| Foreign currency exchange difference | **54,580** | – |
| Net pension asset | **$821,229** | $1,477,877 |

These are presented in the consolidated balance sheets as follows:

| | 2012 | 2011 |
|---|---|---|
| Pension asset - | | |
| Parent Company | **$1,941,695** | $2,807,134 |
| Pension liabilities: | | |
| PSi | **$835,763** | $1,086,610 |
| EPIQ EA | **284,703** | 242,647 |
| | **$1,120,466** | $1,329,257 |
| Net pension asset | **$821,229** | $1,477,877 |

The Parent Company will contribute $428,154 to the retirement fund in February 2013 to compensate the underfunded status of the retirement plan.

Movements in the net pension asset of the Parent Company for the years ended December 31, 2012 and 2011 follow:

| | 2012 | 2011 |
|---|---|---|
| At beginning of year | **$2,807,134** | $2,765,675 |
| Net benefit expense | **(1,026,539)** | (1,018,375) |
| Foreign currency exchange difference | **161,100** | 1,059,834 |
| At end of year | **$1,941,695** | $2,807,134 |

Movements in the net pension liability of PSi for the years ended December 31, 2012 and 2011 follow:

| | 2012 | 2011 |
|---|---|---|
| At beginning of year | **$1,086,610** | $1,392,995 |
| Net benefit expense | **1,587,549** | 815,334 |
| Benefits paid due to settlement | **(1,870,335)** | (1,111,767) |
| Foreign currency exchange difference | **31,939** | (9,952) |
| At end of year | **$835,763** | $1,086,610 |

Movements in the net pension liability of EPIQ EA for the year ended December 31, 2012 and for the five-month period ended December 31, 2011 follow:

| | 2012 | 2011 |
|---|---|---|
| At beginning of period | **$242,647** | $220,123 |
| Net benefit expense | **36,458** | 18,055 |
| Foreign currency exchange difference | **5,598** | 4,469 |
| At end of period | **$284,703** | $242,647 |

The rollforward of the fair value of plan assets follows:

| | 2012 | 2011 |
|---|---|---|
| At beginning of year | **$12,185,092** | $12,812,771 |
| Expected return on plan assets | **1,083,210** | 1,178,866 |
| Foreign currency exchange difference | **452,506** | 7,679 |
| Actuarial losses | **(94,196)** | (684,909) |
| Benefits paid during the year | **(995,997)** | (1,129,315) |
| At end of year | **$12,630,615** | $12,185,092 |
| Actual return on plan assets | **$1,014,304** | $484,101 |

# Notes to Consolidated Financial Statements

The rollforward of the present value of obligation follows:

| | **2012** | 2011 |
|---|---|---|
| At beginning of year | **$15,629,752** | $14,145,445 |
| Current service cost | **1,360,128** | 1,497,897 |
| Interest cost on benefit obligation | **1,047,994** | 1,095,671 |
| Foreign currency exchange difference | **484,954** | (28,627) |
| Benefits paid during the year | **(1,114,283)** | (1,513,280) |
| Curtailments | **(1,148,389)** | 238,797 |
| Actuarial gains (losses) | **(1,304,235)** | 528,960 |
| Settlements | **–** | (555,234) |
| Additions through business combination | **–** | 220,123 |
| At end of year | **$14,955,921** | $15,629,752 |

The rollforward of the unrecognized actuarial losses follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| At beginning of year | **($4,922,537)** | ($2,711,374) | $2,836,751 |
| From pension obligation | **1,304,235** | (528,960) | (5,499,387) |
| Recognized actuarial loss due to curtailment | **394,905** | (64,551) | (51,624) |
| Amortization of actuarial gain | **262,783** | 126,741 | (55,578) |
| Foreign currency exchange difference | **(37,145)** | (1,226,161) | 137,554 |
| From plan assets | **(94,196)** | (684,909) | 476,306 |
| Recognized actuarial gain due to settlement | **–** | 159,912 | 136,079 |
| Additions through business combinations | **–** | 6,765 | (691,475) |
| At end of year | **($3,091,955)** | ($4,922,537) | ($2,711,374) |

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

| | **2012** | 2011 |
|---|---|---|
| Government securities | **$7,828,734** | $7,560,086 |
| Equities | **1,327,058** | 1,081,823 |
| Corporate bonds | **1,283,963** | 1,608,780 |
| Loans | **891,505** | 1,032,678 |
| Trust funds | **822,352** | 670,448 |
| Investment properties | **450,329** | 221,556 |
| Others | **52,721** | 47,574 |
| Cash | **13,397** | 26 |
| Liabilities | **(39,444)** | (37,879) |
| Total plan assets | **$12,630,615** | $12,185,092 |

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

The plan assets include shares of stock, corporate bonds and deposit instruments of related parties (primarily Ayala Corporation (AC), Ayala Land Inc. (ALI), Bank of the Philippine Islands (BPI) and Manila Water Corporation (MWC) as follows:

**2012**

| | **Equity Securities** | **Debt Securities** | **Other Securities** | **Total** |
|---|---|---|---|---|
| **Fair Value** | | | | |
| AC shares/bonds | **$112,468** | **$320,287** | **$245,769** | **$678,524** |
| Other AC group shares/bonds | **198,307** | **73,916** | **323,809** | **596,032** |
| Total | **310,775** | **394,203** | **569,578** | **1,274,556** |
| **Carrying Value** | | | | |
| AC shares/bonds | **97,804** | **316,687** | **243,605** | **658,096** |
| Other AC group shares/bonds | **149,285** | **73,082** | **323,266** | **545,633** |
| Total | **247,089** | **389,769** | **566,871** | **1,203,729** |
| **Unrealized Gain** | | | | |
| AC shares/bonds | **14,664** | **3,600** | **2,164** | **20,428** |
| Other AC group shares/bonds | **49,022** | **834** | **543** | **50,399** |
| Total | **$63,686** | **$4,434** | **$2,707** | **$70,827** |

2011

| | Equity Securities | Debt Securities | Other Securities | Total |
|---|---|---|---|---|
| **Fair Value** | | | | |
| AC shares/bonds | $20,714 | $299,903 | $230,128 | $550,745 |
| Other AC group shares/bonds | 59,191 | 69,212 | 12,006 | 140,409 |
| Total | 79,905 | 369,115 | 242,134 | 691,154 |
| **Carrying Value** | | | | |
| AC shares/bonds | 20,385 | 296,533 | 228,102 | 545,020 |
| Other AC group shares/bonds | 58,988 | 68,431 | 12,027 | 139,446 |
| Total | 79,373 | 364,964 | 240,129 | 684,466 |
| **Unrealized Gain (Loss)** | | | | |
| AC shares/bonds | 329 | 3,370 | 2,026 | 5,725 |
| Other AC group shares/bonds | 203 | 781 | (21) | 963 |
| Total | $532 | $4,151 | $2,005 | $6,688 |

The expected rates of return on the plan assets follow:

| | **2012** | 2011 |
|---|---|---|
| Treasury bills | **4.92%** | 5.09% |
| Equities | **0.84%** | 1.61%-1.84% |
| Corporate bonds | **1.74%** | 2.08% |

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, when available, and historical returns.

The principal assumptions used to determine pension benefits of the Parent Company, PSi and EPIQ EA are shown below:

| | **2012** | 2011 |
|---|---|---|
| Discount rate | **5.80%-5.96%** | 6.20%-7.00% |
| Expected rate of return on plan assets | **7.25%-7.50%** | 7.25%-9.00% |
| Salary rate increase | **5.00%** | 5.00%-7.00% |

The deficit in the plan and the economic benefit available as a reduction in future contributions amounted to $2.33 million and nil, respectively, in 2012, and $3.44 million and nil, respectively, in 2011.

Amounts for the current and previous years follow:

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Plan assets | **$12,630,615** | $12,185,092 | $12,812,771 | $10,997,452 | $13,282,258 |
| Defined benefit obligation | **(14,955,921)** | (15,629,752) | (14,145,445) | (5,294,481) | (4,589,104) |
| Surplus (deficit) | **($2,325,306)** | ($3,444,660) | ($1,332,674) | $5,702,971 | $8,693,154 |
| Experience adjustments on plan assets | **($94,196)** | ($684,909) | ($489,126) | $409,922 | $2,721,023 |
| Experience adjustments on plan liabilities | **$1,083,619** | $1,919,560 | $461,141 | $832,013 | $4,720,473 |

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:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Cost of goods sold and services (Note 18) | **$1,720** | $1,072 | $1,127 |
| Operating expenses (Note 19) | **251,148** | 316,043 | 284,843 |
| | **$252,868** | $317,115 | $285,970 |

The retirement expenses of the Group are recorded under "Salaries, wages, and employee benefits."

Salaries, wages, and employee benefits follow:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Salaries and wages | **$111,243,118** | $106,227,793 | $79,920,925 |
| Social security costs | **1,375,183** | 1,652,411 | 1,392,817 |
| Retirement expense under defined benefit plans | **2,650,546** | 1,851,764 | 448,563 |
| Retirement expense under defined contribution plans | **252,868** | 317,115 | 285,970 |
| Others | **9,286,923** | 8,973,725 | 5,552,964 |
| | **$124,808,638** | $119,022,808 | $87,601,239 |

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

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

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Cost of goods sold and services (Note 18) | **$101,177,267** | $90,847,467 | $64,704,176 |
| Operating expenses (Note 19) | **23,631,371** | 28,175,341 | 22,897,063 |
| | **$124,808,638** | $119,022,808 | $87,601,239 |

26. **Employee Stock Ownership Plan (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 eight (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, 2012 and 2011 follow:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Number of shares** | **Weighted average exercise price** | Number of shares | Weighted average exercise price |
| At January 1 | **116,250,309** | **₱6.59** | 120,987,477 | ₱6.59 |
| Forfeitures | **(5,844,495)** | **₱6.59** | (4,737,168) | ₱6.59 |
| At December 31 | **110,405,814** | **₱6.59** | 116,250,309 | ₱6.59 |

The employee benefit expense in 2012, 2011 and 2010 amounted to $0.07 million, $0.67 million and $1.93 million, respectively. The accretion, recognized as increase in "Subscriptions receivable" and "Additional paid-in capital" presented in the consolidated statements of changes of equity in 2012, 2011 and 2010 amounted to $0.68 million, $0.43 million and $1.91 million, respectively (see Note 17).

## 27. 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, 2012, 2011 and 2010.

| **December 31, 2012** | **Philippines** | | **Singapore/ China** | **Europe/ Mexico** | **USA** | **Japan** | **Consolidation and Eliminations** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | **Parent Company** | **PSi** | | | | | | |
| Revenue | | | | | | | | |
| Third party | **$159,081,890** | **$45,598,208** | **$273,994,631** | **$182,233,202** | **$457,897** | **$483,894** | **$–** | **$661,849,722** |
| Inter-segment | **–** | **–** | **6,521,490** | **–** | **2,695,395** | **908,796** | **(10,125,681)** | **–** |
| Total revenue | **$159,081,890** | **$45,598,208** | **$280,516,121** | **$182,233,202** | **$3,153,292** | **$1,392,690** | **($10,125,681)** | **$661,849,722** |
| Segment gross profit (loss) | **$14,113,123** | **($3,861,153)** | **$28,379,263** | **18,776,688** | **$2,231,718** | **$1,038,289** | **($7,463,683)** | **$53,214,245** |
| Segment operating income (loss) | **($2,518,520)** | **(9,868,520)** | **$11,172,370** | **$8,897,538** | **($875,279)** | **$151,546** | **$2,933** | **$6,962,068** |
| Segment interest income | **$469,490** | **2,858** | **$125,175** | **$5,312** | **$–** | **$57** | **($335,800)** | **$267,092** |
| Segment interest expense | **$1,197,181** | **$323,317** | **$419,371** | **$1,414,671** | **$1,945** | **$788** | ($335,800) | **$3,021,473** |
| Segment profit (loss) before income tax | **($2,267,634)** | **($10,510,556)** | **$10,792,286** | **$7,504,568** | **($877,764)** | **$133,917** | **($25,752)** | **$4,749,065** |
| Segment provision for income tax | **(697,756)** | **(42,271)** | **(2,677,956)** | **(540,396)** | **–** | **(931)** | **–** | **(3,959,310)** |
| Segment profit (loss) after income tax | **($2,965,390)** | **($10,552,827)** | **$8,114,330** | **$6,964,172** | **($877,764)** | **$132,986** | **($25,752)** | **$789,755** |

| 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 |

# Notes to Consolidated Financial Statements

| 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 |

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

For the year ended December 31, 2012, the operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $10.13 million and intersegment cost of sales and services and operating expenses aggregating to $2.66 million and $4.80 million, respectively.

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

For the year ended December 31, 2010, the operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $7.32 million and intersegment cost of sales and services and operating expenses aggregating to $0.75 million and $5.88 million, respectively.

The following table presents segment assets of the Group's geographical segments as of December 31, 2012 and 2011:

| **Segment assets** | **Philippines** | | **Singapore/ China** | **Europe/ Mexico** | **USA** | **Japan** | **Consolidation and Eliminations** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | **Parent Company** | **PSi** | | | | | | |
| **December 31,2012** | **$254,327,137** | **$19,756,312** | **$219,501,358** | **$127,487,552** | **$1,926,343** | **$914,487** | **($168,618,608)** | **$455,294,581** |
| 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 as of December 31, 2012 do not include investments in subsidiaries amounting to $129.56 million and inter-segment loans and receivables amounting to $46.39 million which are eliminated on consolidation. Furthermore, goodwill arising from the acquisition of STEL, PSi, IMI USA and EPIQ CZ amounting to $45.13 million, $7.48 million, $0.66 million and $0.65 million, respectively, are recognized at consolidated level.

Segment assets as of December 31, 2011 do not include investments in subsidiaries amounting to $129.53 million and intersegment loans and receivables amounting to $32.21 million which are eliminated on consolidation. Furthermore, goodwill arising from the acquisition of STEL, PSi, IMI USA and EPIQ CZ amounting to $45.13 million, $7.48 million (net of impairment loss of $2.72 million), $0.66 million and $0.65 million, respectively, are recognized at consolidated level.

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

| | **Revenues from External Customers** | | | **Noncurrent Assets** | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** | 2011 |
| Philippines | **$328,827,668** | $284,763,474 | $153,701,402 | **$42,341,822** | $40,891,989 |
| Europe | **203,910,809** | 139,314,874 | 101,406,122 | **1,141,157** | 1,200,195 |
| USA | **63,268,887** | 72,609,453 | 67,921,099 | **63,507,886** | 71,656,878 |
| Asia | **60,160,816** | 69,646,659 | 73,948,544 | **41,312,873** | 45,366,664 |
| Japan | **5,681,542** | 9,119,448 | 15,349,438 | **16,763** | 78,418 |
| | **$661,849,722** | $575,453,908 | $412,326,605 | **$148,320,501** | $159,194,144 |

Revenues are attributed to countries on the basis of the customer's location. In 2012, certain customers independent of each other but within the same group account for 11.55% of the Group's total revenue. In 2011, no revenue of a specific customer reached 10% of the Group's total revenue.

For the year ended December 31, 2012, one customer group from the Europe segment accounts for $76.42 million or 11.55 % of the Group's total revenues. For the years ended December 31, 2011 and 2010, one customer from the Philippine segment accounts for $47.06 million or 8.18% and $42.74 million or 10.37% 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:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Automotive | **$207,949,017** | $106,497,849 | $36,604,125 |
| Telecom | **127,209,820** | 109,859,417 | 112,253,127 |
| Industrial | **107,491,974** | 102,569,175 | 80,627,459 |
| Consumer | **107,307,549** | 114,272,192 | 91,000,340 |
| Multiple market | **53,872,819** | 83,417,526 | 26,423,871 |
| Computer peripherals | **30,488,587** | 32,627,483 | 36,822,362 |
| Medical | **22,085,306** | 22,451,137 | 24,594,396 |
| Others | **5,444,650** | 3,759,129 | 4,000,925 |
| Total | **$661,849,722** | $575,453,908 | $412,326,605 |

28. **Lease Commitments**

Finance Lease Commitments - Group as Lessee
On June 30, 2009, the Parent Company entered into a lease contract with International Business Machines Corporation (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 three (3) to five (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 five (5) to ten (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:

| | **2012** | |
|---|---|---|
| | **Minimum Payments** | **Present value of payments** |
| Within one year (Note 13) | **$777,907** | **$674,071** |
| After one year but not more than five years | **705,857** | **704,866** |
| | **$1,483,764** | **$1,378,937** |

| | 2011 | |
|---|---|---|
| | Minimum Payments | Present value of payments |
| Within one year (Note 13) | $787,247 | $783,833 |
| After one year but not more than five years | 625,340 | 612,724 |
| | $1,412,587 | $1,396,557 |

Operating Lease Commitments - Group 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 period of three (3) years, commencing on December 31, 2005 up to December 31, 2008, renewable at the option of the Company 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 shall advise the Company in writing at least sixty (60) days before the expiration of the term of its desire to renew the contract, which the Company may consider upon such terms and conditions as may be agreed upon between the parties. On December 23, 2008, the lease agreement was extended for another three (3) years commencing from December 31, 2008 up to December 31, 2012 with the same terms and conditions.

For the period December 31, 2005 to December 31, 2011, IMI paid, as monthly rental for and in consideration of the use of the leased premises, the amount of $1,642, exclusive of VAT.

On January 2, 2012, a new lease agreement was executed for a period of three (3) years, commencing on January 2, 2012 up to December 31, 2014 with the same terms and conditions of the prior agreement except for the rental fees. IMI shall pay a monthly rental of $1,704, exclusive of VAT. This agreement was subsequently amended on July 2, 2012 due to increase in real property taxes as included in the escalation clause of the contract. Monthly rentals increased to $1,934, retroactive from January, for 2012, $2,198 for 2013, and $2,501 for 2014.

The future minimum rent payable follow:

| | **2012** | 2011 |
|---|---|---|
| Within one year | **$27,176** | $21,066 |
| More than one year but less than five years | **30,922** | 42,133 |
| | **$58,098** | $63,199 |

*IMI Japan*

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 a seven-year contract with Roy G.G. Harris and Patricia S. Harris for lease of office premises commencing in 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 (3) months if Fremont caused the delay. The base monthly rental rate is $3,687 on the first six (6) months with escalation every eleven (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 FTI for its plant facilities, office spaces, and other facilities, with Lot Nos. 92-A and 92-B commencing on August 15, 2004 up to August 14, 2019. The lease agreement with FTI provides for a 5% increase in rental per year starting on the second year and annually thereafter until the end of the lease term.

In 2012, PSi pre-terminated the lease contract of Lot 92-B and transferred its legacy manufacturing operations and offices to Calamba, Laguna. Accordingly, as of December 31, 2012, the balance of the rent expense computed on a straight-line basis over the amount computed based on the operating lease agreement for this lot included under “Accrued rent” in the consolidated statement of financial position amounting to $0.44 million was reversed and recorded as part of “Facilities” account.

Moreover, PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from Centereach Resources, Inc. (CRI), an unrelated entity. The contract commenced in April 2011 and expires in March 2013. In 2012, PSi accepted the Letter of Offer for the renewal of the lease until March 2018.

In 2012, the contract of lease for the second lot was executed between CRI and PSi for office and warehouse use. The contract commenced on October 13, 2012 and will expire on October 12, 2015.

The lease agreement with CRI provides for increase in rental at varying rates over the term of the lease and a penalty interest rate of 3% per month using simple interest.

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, 2012 and 2011 follow:

| | **2012** | 2011 |
|---|---:|---:|
| Within one year | **$1,912,566** | $2,113,206 |
| After one year but not more than five years | **2,053,972** | 1,743,440 |
| More than five years | **2,934,333** | 3,081,319 |
| | **$6,900,871** | $6,937,965 |

The aggregate rent expense of the Group included under “Outsourced activities” account under “Operating expenses” in the consolidated statements of comprehensive income, recognized on these operating lease agreements for the years ended December 31, 2012, 2011 and 2010 amounted to $0.54 million, $1.00 million and $1.09 million, respectively (see Note 20). Deposits made under these operating lease agreements are intended to be applied against the remaining lease payments.

Operating Lease Agreements - Group as Lessor

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

On June 8, 2010, an extension of the lease contract was executed by the Parent Company and the lessees for a period of one month from August 1 to 31, 2010. The monthly rental has been amended to ₱543.83 per square meter. In addition, the lessees have the option to renew the extended lease under the same terms and conditions, for a month-to-month tenancy basis for 12 months until August 31, 2011. The renewal option was exercised by the lessees for which the term of the lease has been extended to March 15, 2011. The lease income amounted to nil, $1,899, and $17,376 in 2012, 2011 and 2010, respectively, recognized under “Miscellaneous income” in the consolidated statements of comprehensive income.

## 29. 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.

Terms and Conditions of Transactions with Related Parties

The transactions with related parties are made on terms equivalent to those that prevail in arm’s length transactions. Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2012, 2011 and 2010, the Group has not recorded any impairment of loans and receivables relating to amounts owed by related parties. Impairment assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

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

a. Transactions with Bank of the Philippine Islands (BPI), an affiliate

As of December 31, 2012 and 2011, the Group maintains current and savings accounts, and other short-term investments with BPI as follows:

| | **2012** | 2011 |
|---|---:|---:|
| Cash in bank | **$749,838** | $411,556 |
| Short-term investments | **1,318,027** | 3,342,153 |

Total interest income earned from investments with BPI amounted to $22,652, $10,402 and $11,938 in 2012, 2011 and 2010, respectively.

b. Outstanding balances of related party transactions follow:

| | Receivables | | Payables | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Affiliates:** | | | | |
| BPI | **$417,487** | $201,726 | **$–** | $33,262 |
| TLI | **8,229** | 9,377 | **3,425** | – |
| Innove Communication Inc. (ICI) | **–** | – | **1,994** | 446 |
| Globe Telecom, Inc. (GTI) | **–** | – | **871** | 2,931 |
| | **425,716** | 211,103 | **6,290** | 36,639 |
| **Subsidiaries:** | | | | |
| STEL | **$21,592,138** | $21,596,858 | **$1,518,066** | $1,449,658 |
| EPIQ Subsidiaries | **10,309,801** | 4,673,470 | **–** | – |
| PSi | **7,289,665** | 30,558 | **546,135** | 546,135 |
| IMI Singapore | **1,016,936** | 1,020,251 | **–** | – |
| IMI Japan | **979,125** | 1,061,160 | **717,056** | 171,417 |
| IMI USA | **257,652** | 250,000 | **125,679** | 1,024,886 |
| IMI ROHQ | **–** | – | **436,367** | 520,141 |
| | **41,445,317** | 28,632,297 | **3,343,303** | 3,712,237 |
| | **$41,871,033** | $28,843,400 | **$3,349,593** | $3,748,876 |

i. Receivables from BPI are nontrade in nature and pertain to retirement and separation pay advanced by the Parent Company but reimbursable from the trust fund with BPI. These are non-interest bearing and are due quarterly.

ii. Receivables from TLI are nontrade in nature and pertain to advances by the Parent Company for various expenses incurred by TLI, primarily on real property taxes and corporate secretarial services. These are reimbursable with a 30-day term.

iii. Receivables from IMI Singapore, STEL, IMI Japan, IMI USA, PSi and EPIQ Subsidiaries pertain to operating cash advances made by the Parent Company.

Operating cash advances to subsidiaries that have been billed are presented as “Nontrade receivables,” while those still for billing are recognized as “Advances to related party”. Advances to Singapore, STEL, IMI Japan and IMI USA are non-interest bearing and are due on demand.

Advances to EPIQ MX, EPIQ CZ and PSi have a 90-day term subject to interest rates ranging from 2.31% to 2.81%.

iv. Payables to BPI pertain to the outstanding housing and automobile financing loans included in “Employee-related payables” under “Accounts payable and accrued expenses.” The outstanding housing and automobile financing loans arise from timing differences of the remittances by the Parent Company to BPI and the period of withholding from employee salaries and wages. The loan reductions are remitted on a monthly basis

v. Payables to TLI are nontrade in nature and pertain to the new lease agreement between the Parent Company and TLI which was executed for a period of three (3) years, commencing on January 2, 2012 up to December 31, 2014 with the same terms and condition of the prior agreement except for the rental fees (see Note 28).

vi. Payables to ICI are nontrade in nature and pertain to leased lines, internet connections and automated teller machines connections. These are non-interest bearing and are due every month.

vii. Payables to GTI pertain to billings for Blackberry cellphone charges, software and wifi connections. These are due and demandable.

viii. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ which serve as a supervisory, communications and coordinating center for its affiliates.

ix. Payables to STEL pertain to various expenses of the Parent Company advanced by IMI Singapore and its subsidiaries such as travel expenses of the Parent Company’s personnel when going to STEL for business purposes. These advances are noninterest-bearing and are payable on demand.

x. Payables to PSi represent payments to settle certain liabilities that had arisen prior to the investment of New Investors and which have been identified as Pre-Completion Liabilities. Pursuant to the Agreement, Old Investors and the New Investors shall reimburse PSi for these payments to the extent of two-thirds (2/3) and one-third (1/3) of the amounts, respectively, for the first $3.00 million of the Pre-Completion Liabilities, with the Old Investors absorbing any amount in excess, but only to the extent of the value of the shares that will be eventually sold to the new Investors under the put and call option provision.

c. Revenue and expenses from related parties follow:

| | Revenue/Income | | | Expenses | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** | 2011 | 2010 |
| **Affiliates:** | | | | | | |
| BPI | **$58,198** | $252,370 | $107,478 | **$–** | $– | $– |
| Ayala Group Legal (AG Legal) | **–** | – | – | **72,351** | 110,786 | 209,743 |
| TLI | **–** | – | – | **26,531** | – | – |
| ICI | **–** | – | – | **144,905** | 203,951 | 202,143 |
| GTI | **–** | – | – | **68,355** | 88,248 | 94,926 |
| | **58,198** | 252,370 | 107,478 | **312,142** | 402,985 | 506,812 |
| **Subsidiaries:** | | | | | | |
| IMI Singapore | **–** | – | – | **–** | – | – |
| STEL | **2,665,499** | 4,887,483 | – | **–** | – | – |
| IMI ROHQ | **3,859,491** | 3,130,303 | 3,997,122 | **55,625** | 50,702 | – |
| EPIQ Subsidiaries | **292,303** | – | – | **–** | – | – |
| IMI USA | **2,695,395** | 128,047 | 2,463,391 | **798,982** | – | – |
| IMI Japan | **908,796** | – | 863,087 | **–** | – | – |
| PSi | **68,681** | – | – | **–** | – | – |
| | **10,490,165** | 8,145,833 | 7,323,600 | **854,607** | 50,702 | – |
| | **$10,548,363** | $8,398,203 | $7,431,078 | **$1,166,749** | $453,687 | $506,812 |

Revenue recognized from related parties includes:

i. Interest income earned from investments, gain on foreign currency forwards with BPI and intercompany advances to EPIQ MX, EPIQ CZ and PSi.
ii. Intercompany revenues mainly pertain to billings of IMI USA and IMI Japan to the Parent Company for recovery costs, billings for management salaries of key management personnel under IMI ROHQ and intercompany transfers of finished goods to be shipped to ultimate customers.

Expenses incurred for related parties include:

i. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.
ii. Lot rental expense from lease agreement with TLI.
iii. Building rental, leased lines, internet connections and ATM connections with ICI.
iv. Purchases of Blackberry software and billings for cellphone charges and WiFi connections with GTI.
v. Allocation of retirement expense covering IMI ROHQ.
vi. Professional fees from IMI USA.

Compensation of Key Management Personnel of the Group

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

| | **2012** | 2011 |
|---|---|---|
| Short-term employee benefits | **$6,264,578** | $5,275,504 |
| Post-employment benefits | **258,904** | 387,529 |
| Share-based payments | **24,793** | 208,877 |
| | **$6,548,275** | $5,871,910 |

30. **Fair Value of Financial Instruments**

The following table sets forth the comparison of the carrying amounts and fair values of the Group's financial assets and financial liabilities recognized as of December 31, 2012 and 2011. There are no material unrecognized financial assets and liabilities as of December 31, 2012 and 2011.

| | **Carrying Amounts** | | **Fair Values** | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **$56,196,382** | $54,069,180 | **$56,196,382** | $54,069,180 |
| Loans and receivables: | | | | |
| Trade | **144,995,990** | 125,627,316 | **144,995,990** | 125,627,316 |
| Nontrade | **2,217,923** | 4,208,832 | **2,217,923** | 4,208,832 |
| Receivable from employees | **539,159** | 1,811,210 | **539,159** | 1,811,210 |
| Due from related parties | **425,716** | 211,103 | **425,716** | 211,103 |
| Receivable from insurance | **–** | 27,903 | **–** | 27,903 |
| Others | **2,521,168** | 1,598,369 | **2,521,168** | 1,598,369 |
| Noncurrent receivables | **–** | 213,577 | **–** | 195,848 |
| Miscellaneous deposits | **1,388,059** | 1,498,225 | **1,388,059** | 1,498,225 |
| *Loans and receivables* | **208,284,397** | 189,265,715 | **208,284,397** | 189,246,986 |
| *AFS financial assets* | **1,608,404** | 414,348 | **1,608,404** | 414,348 |
| *Derivative assets* | **2,857,010** | 2,798,912 | **2,857,010** | 2,798,912 |
| **Total Financial Assets** | **$212,749,811** | $192,478,975 | **$212,749,811** | $192,461,246 |
| | | | | |
| **Financial Liabilities** | | | | |
| *Derivative liabilities* | **$–** | $34,562 | **$–** | $34,562 |
| *Other financial liabilities* | | | | |
| Accounts payable and accrued expenses: | | | | |
| Trade payables | **101,772,745** | 99,217,065 | **101,772,745** | 99,217,065 |
| Accrued expenses | **17,285,296** | 17,677,151 | **17,285,296** | 17,677,151 |
| Nontrade payables | **1,791,492** | 7,020,404 | **1,791,492** | 7,020,404 |
| Accrued payroll | **8,826,799** | 8,421,735 | **8,826,799** | 8,421,735 |
| Dividends payable | **2,648,865** | 2,538,556 | **2,648,865** | 2,538,556 |
| Current portion of obligation under finance lease | **674,071** | 783,833 | **674,071** | 783,833 |
| Employee-related payables | **168,749** | 169,596 | **168,749** | 169,596 |
| Accrued interest payable | **1,105,384** | 675,863 | **1,105,384** | 675,863 |
| Due to related parties | **6,290** | 36,639 | **6,290** | 36,639 |
| Others | **3,153,223** | 2,085,029 | **3,153,223** | 2,085,029 |
| Trust receipts and loans payable | **44,206,600** | 39,008,811 | **44,206,600** | 39,008,811 |
| Provision for restructuring | **–** | 249,044 | **–** | 249,044 |
| Long-term debt | **62,851,135** | 60,398,500 | **68,606,380** | 60,917,515 |
| Accrued rent | **585,408** | 913,688 | **760,726** | 622,298 |
| Noncurrent portion of obligation under finance lease | **704,866** | 612,724 | **660,662** | 541,528 |
| Other long-term employee benefits | **86,609** | 230,704 | **86,609** | 230,704 |
| | **245,867,532** | 240,039,342 | **251,753,891** | 240,195,771 |
| **Total Financial Liabilities** | **$245,867,532** | $240,073,904 | **$251,753,891** | $240,230,333 |

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 loans and 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 in 2011 is 4.36%.

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 put and call 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 re-priced on a semi-annual basis is estimated by 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 in 2012 and 2011 ranged from 1.84% to 3.10% and 2.10% to 3.90%, respectively. For variable rate loans that re-price every three (3) months, the carrying amount approximates the fair value because of recent and regular re-pricing 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 2.71% to 6.06% and 3.68% to 7.03% in 2012 and 2011, respectively.

Noncurrent portion of obligation under finance lease - The fair values are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used range from 2.00% to 12.26% in 2012 and 2011.

Other long-term employee benefits - The fair value approximates the accrual that was discounted using the assumptions and method used in discounting the pension 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, 2012 and 2011, based on fair value hierarchy:

| | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| **2012** | | | |
| AFS financial assets | **$1,608,404** | **$–** | **$–** |
| Derivative assets - | | | |
| Call option | **–** | **–** | **2,857,010** |
| | **$1,608,404** | **$–** | **$2,857,010** |
| 2011 | | | |
| AFS financial assets | $414,348 | $– | $– |
| Derivative assets: | | | |
| Currency forwards | – | 63,087 | – |
| Call option | – | – | 2,735,825 |
| Derivative liabilities - | | | |
| Currency forwards | – | 34,562 | – |
| | $414,348 | $97,649 | $2,735,825 |

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.

In 2011, the fair value of the put and call options are highly sensitive to the estimated 12-month trailing EBITDA of PSi during the option period (as the strike price is based on EBITDA) and PSi's cost of equity as of valuation date.

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

| | **2012** | 2011 |
|---|---|---|
| | **Increase (Decrease) in Net Income** | Increase (Decrease) in Net Income |
| Estimated EBITDA is 5% higher | | |
| Call option | **–** | ($271,472) |
| Put option | **–** | – |
| Estimated EBITDA is 5% lower | | |
| Call option | **–** | 161,879 |
| Put option | **–** | – |

In 2012, an amendment to the Agreement regarding the call strike price was made (see Note 31). The amended Agreement fixed the strike price of the put and call options at $150,000. Hence, the fair value of the put and call options are no longer sensitive to estimated EBITDA.

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%.

| | **2012** | 2011 |
|---|---|---|
| | **Increase (Decrease) in Net Income** | Increase (Decrease) in Net Income |
| Cost of equity is 5% higher | | |
| Call option | **($173,734)** | ($209,005) |
| Put option | **–** | – |
| Cost of equity is 5% lower | | |
| Call option | **194,490** | 234,412 |
| Put option | **–** | – |

31. **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, 2012 and 2011. 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 | **2012** | 2011 |
| +100 | **($583,341)** | ($510,662) |
| -100 | **583,341** | 510,662 |

The following table shows the information about the Group's financial instruments as of December 31, 2012 and 2011 that are exposed to interest rate risk presented by maturity profile:

| | Debt | |
|---|---|---|
| | **2012** | 2011 |
| Within one year | **$11,710,072** | $11,066,203 |
| One to five years | **46,624,000** | 40,000,000 |
| | **$58,334,072** | $51,066,203 |

Liquidity Risk
Liquidity or funding risk is the risk that the Group 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 its 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:

**2012**

| | **On Demand** | **Less than 3 Months** | **3 to 12 Months** | **1 to 5 Years** | **Total** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | **$48,431,567** | **$7,870,632** | **$–** | **$–** | **$56,302,199** |
| **Financial liabilities** | | | | | |
| Accounts payable and accrued expenses: | | | | | |
| Trade payables | **–** | **101,772,745** | **–** | **–** | **101,772,745** |
| Accrued expenses* | **–** | **17,285,296** | **–** | **–** | **17,285,296** |
| Accrued payroll | **–** | **8,826,799** | **–** | **–** | **8,826,799** |
| Dividends payable | **–** | **–** | **2,648,865** | **–** | **2,648,865** |
| Nontrade payables | **–** | **1,791,492** | **–** | **–** | **1,791,492** |
| Accrued interest payable | **–** | **1,105,384** | **–** | **–** | **1,105,384** |
| Current portion of obligation under finance lease | **–** | **–** | **674,071** | **–** | **674,071** |
| Employee-related payables* | **–** | **168,749** | **–** | **–** | **168,749** |
| Due to related parties | **–** | **6,290** | **–** | **–** | **6,290** |
| Others | **–** | **3,173,476** | **–** | **–** | **3,173,476** |
| Long-term debt | **–** | **–** | **–** | **69,597,367** | **69,597,367** |
| Trust receipt and loans payable | **–** | **–** | **44,853,242** | **–** | **44,853,242** |
| Noncurrent portion of obligation under finance lease | **–** | **–** | **–** | **704,866** | **704,866** |
| Accrued rent | **–** | **–** | **–** | **585,408** | **585,408** |
| Other long-term employee benefits | **–** | **–** | **–** | **86,609** | **86,609** |
| | **–** | **134,130,231** | **48,176,178** | **70,974,250** | **253,280,659** |
| | **$48,431,567** | **($126,259,599)** | **($48,176,178)** | **($70,974,250)** | **($196,978,460)** |

# Notes to Consolidated Financial Statements

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 | $17,675,873 | $– | $– | $54,182,876 |
| **Financial liabilities** | | | | | |
| Derivative liabilities | – | 34,562 | – | – | 34,562 |
| Accounts payable and accrued expenses | | | | | |
| Trade payables | – | 99,217,065 | – | – | 99,217,065 |
| Accrued expenses* | – | 17,677,151 | – | – | 17,677,151 |
| Accrued payroll | – | 8,421,735 | – | – | 8,421,735 |
| Nontrade payables | – | 7,020,404 | – | – | 7,020,404 |
| Dividends payable | – | – | 2,538,556 | – | 2,538,556 |
| Current portion of obligation under finance lease | – | – | 783,833 | – | 783,833 |
| Accrued interest payable | – | 675,863 | – | – | 675,863 |
| Employee-related payables* | – | 169,596 | – | – | 169,596 |
| Due to related parties | – | 36,639 | – | – | 36,639 |
| Others | – | 2,085,029 | – | – | 2,085,029 |
| Long-term debt | – | – | – | 70,057,156 | 70,057,156 |
| Trust receipt and loans payable | – | – | 39,662,504 | – | 39,662,504 |
| Accrued rent | – | – | – | 913,688 | 913,688 |
| Noncurrent portion of obligation under finance lease | – | – | – | 612,724 | 612,724 |
| Provisions for restructuring | – | 249,044 | – | – | 249,044 |
| Other long-term employee benefits | – | – | – | 230,704 | 230,704 |
| | – | 135,587,088 | 42,984,893 | 71,814,272 | 250,386,253 |
| | $36,507,003 | ($117,911,215) | ($42,984,893) | ($71,814,272) | ($196,203,377) |

**Excluding statutory payables*

*Credit lines*

The Group has credit lines with different financing institutions as at December 31, 2012 and 2011, as follows:

**2012**

| Financial Institutions | **Credit Limit** | **Available Credit Line** |
|---|---|---|
| Local: | | |
| U.S. Dollar | **30,000,000** | **13,000,000** |
| Philippine Peso | **1,060,000,000** | **1,060,000,000** |
| Singapore Dollar | **25,000,000** | **23,773,017** |
| Czech Koruna | **4,000,000** | **4,000,000** |
| Euro | **11,000,000** | **3,678,796** |
| Foreign: | | |
| U.S. Dollar | **39,475,000** | **31,009,680** |
| Singapore Dollar | **25,000,000** | **23,773,017** |

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 |

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 as of December 31, 2012 and 2011 is the carrying amounts of the financial assets presented in Note 30. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

The Group has 36% of trade receivables relating to three (3) major customers as of December 31, 2012 and 2011.

As of December 31, 2012 and 2011, the aging analysis of loans and receivables, noncurrent receivables and miscellaneous deposits follows:

**2012**

| | | 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 | $147,455,163 | $121,003,761 | $17,351,627 | $3,598,589 | $1,440,648 | $545,744 | $1,055,621 | $2,459,173 |
| Nontrade | 2,360,269 | 701,392 | 512,565 | 571,920 | 231,564 | 3,884 | 196,598 | 142,346 |
| Receivable from insurance | 1,178,785 | – | – | – | – | – | – | 1,178,785 |
| Receivable from employees | 539,159 | 451,011 | 5,031 | 6,447 | 222 | 1,874 | 74,574 | – |
| Due from related parties | 425,716 | 425,716 | – | – | – | – | – | – |
| Others | 2,702,067 | 1,176,054 | 992,375 | 177,361 | 119,900 | 155,531 | 80,846 | – |
| | $154,661,159 | $123,757,934 | $18,861,598 | $4,354,317 | $1,792,334 | $707,033 | $1,407,639 | $3,780,304 |
| Miscellaneous deposits | $1,388,059 | $1,388,059 | $– | $– | $– | $– | $– | $– |

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 | $– | $– | $– | $– | $– | $– |

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2012 and 2011:

**2012**

| | Neither Past Due nor Impaired | | | | Past Due or | |
|---|---|---|---|---|---|---|
| | **Minimal Risk** | **Average Risk** | **Fairly High Risk** | **High Risk** | **Individually Impaired** | **Total** |
| Cash and cash equivalents | $56,069,202 | $– | $– | $– | $– | $56,069,202 |
| Loans and receivables: | | | | | | |
| Trade | 6,992,886 | 112,250,969 | 1,759,906 | – | 26,451,402 | 147,455,163 |
| Nontrade | 701,392 | – | – | – | 1,658,877 | 2,360,269 |
| Receivable from insurance | – | – | – | – | 1,178,785 | 1,178,785 |
| Receivable from employees | 451,011 | – | – | – | 88,148 | 539,159 |
| Due from related parties | 425,716 | – | – | – | – | 425,716 |
| Others | 1,176,054 | – | – | – | 1,526,013 | 2,702,067 |
| AFS financial assets | 1,608,404 | – | – | – | – | 1,608,404 |
| Miscellaneous deposits | 1,388,059 | – | – | – | – | 1,388,059 |
| | $68,812,724 | $112,250,969 | $1,759,906 | $– | $30,903,225 | $213,726,824 |

# Notes to Consolidated Financial Statements

2011

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

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 LC and subject to semi-annual review for possible upgrade.

High Risk - transaction should be under advance payment or confirmed and irrevocable Stand-By LC; 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 2012 and 2011, the Group entered into currency forward contracts 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 43% and 37% of the Group's sales for the years ended December 31, 2012 and 2011, respectively, and 35% and 51% of costs for the years ended December 31, 2012 and 2011, 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 (₱)

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Philippine Peso** | In U.S.Dollar | In Philippine Peso |
| Cash and cash equivalents | **$2,524,544** | **₱103,632,511** | $3,155,606 | ₱138,586,115 |
| Loans and receivables | **1,267,619** | **52,035,744** | 682,449 | 29,971,390 |
| Miscellaneous deposits | **1,097,588** | **45,056,007** | 1,136,210 | 49,899,432 |
| Accounts payable and accrued expenses | **(30,727,252)** | **(1,261,353,697)** | (18,685,121) | (820,602,594) |
| Other current liabilities | **(2,332,655)** | **(95,755,486)** | (345,891) | (15,190,659) |
| Other noncurrent liabilities | **(311,785)** | **(12,798,786)** | (2,227,069) | (97,807,142) |
| Net foreign currency-denominated liabilities | **($28,481,941)** | **(₱1,169,183,707)** | ($16,283,816) | (₱715,143,458) |

Singapore Dollar (SGD)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Singapore Dollar** | In U.S. Dollar | In Singapore Dollar |
| Cash and cash equivalents | **$828,978** | **SGD1,013,177** | $1,182,114 | SGD1,534,256 |
| Loans and receivables | **32,790** | **40,156** | – | – |
| Accounts payable and accrued expenses | **(1,933,932)** | **(2,363,731)** | (1,063,060) | (1,379,738) |
| Other current liabilities | **(1,106,394)** | **(1,352,234)** | (977,220) | (1,268,326) |
| Loans payable | **(1,395,373)** | **(1,705,424)** | (1,258,190) | (1,632,995) |
| Net foreign currency-denominated liabilities | **($3,573,931)** | **(SGD4,368,056)** | ($2,116,356) | (SGD2,746,803) |

Euro (€)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Euro** | In U.S. Dollar | In Euro |
| Cash and cash equivalents | **$2,429,922** | **€1,835,566** | $2,129,369 | €1,645,571 |
| Loans and receivables | **41,286,662** | **31,187,991** | 528,889 | 408,724 |
| Accounts payable and accrued expenses | **(13,740,963)** | **(10,379,939)** | (161,531) | (124,831) |
| Other current liabilities | **(31,193)** | **(23,563)** | – | – |
| Loans payable | **(16,319,612)** | **(12,327,853)** | (17,526,703) | (13,544,593) |
| Net foreign currency-denominated assets (liabilities) | **$13,624,816** | **€10,292,202** | ($15,029,976) | (€11,615,129) |

Japanese Yen (¥)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Japanese Yen** | In U.S. Dollar | In Japanese Yen |
| Cash and cash equivalents | **$241,456** | **¥20,777,535** | $318,454 | ¥24,801,744 |
| Loans and receivables | **1,661,465** | **142,970,938** | 1,770,996 | 137,928,015 |
| Miscellaneous deposits | **1,889,291** | **162,575,616** | 30,712 | 2,391,931 |
| Accounts payable and accrued expenses | **(4,186,844)** | **(360,282,581)** | (6,104,454) | (475,424,732) |
| Other current liabilities | **–** | **–** | (40,959) | (3,189,916) |
| Net foreign currency-denominated liabilities | **($394,632)** | **(¥33,958,492)** | ($4,025,251) | (¥313,492,958) |

Renminbi (RMB)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Renminbi** | In U.S. Dollar | In Renminbi |
| Cash and cash equivalents | **$14,713,080** | **RMB91,750,882** | $6,725,654 | RMB42,513,614 |
| Loans and receivables | **55,410,423** | **345,539,841** | 43,024,337 | 271,961,674 |
| Accounts payable and accrued expenses | **(38,457,523)** | **(239,821,418)** | (29,528,588) | (186,653,530) |
| Other current liabilities | **–** | **–** | (5,982) | (37,813) |
| Net foreign currency-denominated assets | **$31,665,980** | **RMB197,469,305** | $20,215,421 | RMB127,783,945 |

Hong Kong Dollar (HK$)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Hong Kong Dollar** | In U.S. Dollar | In Hong Kong Dollar |
| Cash and cash equivalents | **$60,245** | **HK$466,954** | $43,089 | HK$334,932 |
| Loans and receivables | **119,222** | **924,084** | 517,213 | 4,020,312 |
| Accounts payable and accrued expenses | **(785,622)** | **(6,089,334)** | (417,235) | (3,243,178) |
| Net foreign currency-denominated assets (liabilities) | **($606,155)** | **(HK$4,698,296)** | $143,067 | HK$1,112,066 |

# Notes to Consolidated Financial Statements

British Pound (£)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In UK Pound** | In U.S. Dollar | In UK Pound |
| Loans and receivables | **$1,000** | **£621** | $742 | £480 |
| Accounts payable and accrued expenses | **(14,505)** | **(9,009)** | (151,974) | (98,346) |
| Net foreign currency-denominated liabilities | **($13,505)** | **(£8,388)** | ($151,232) | (£97,866) |

Australian Dollar (AUD)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Australian Dollar** | In U.S. Dollar | In Australian Dollar |
| Cash and cash equivalents | **$3** | **AUD3** | $– | AUD– |
| Accounts payable and accrued expenses | **(504,114)** | **(486,621)** | – | – |
| Net foreign currency-denominated liabilities | **($504,111)** | **(AUD486,618)** | $– | AUD– |

Thai Baht (THB)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Thai Baht** | In U.S. Dollar | In Thai Baht |
| Loans and receivables | **$1,123** | **THB34,398** | $803 | THB25,318 |
| Net foreign currency-denominated assets | **$1,123** | **THB34,398** | $803 | THB25,318 |

Bulgarian Lev (BGN)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Bulgarian Lev** | In U.S. Dollar | In Bulgarian Lev |
| Cash and cash equivalents | **$1,142,402** | **BGN1,697,952** | $67,505 | BGN98,956 |
| Loans and receivables | **3,269,012** | **4,858,733** | 1,523,099 | 2,232,727 |
| Accounts payable and accrued expenses | **(3,035,848)** | **(4,512,181)** | (1,620,203) | (2,375,072) |
| Other current liabilities | **(662,181)** | **(984,200)** | – | – |
| Net foreign currency-denominated assets (liabilities) | **$713,385** | **BGN1,060,304** | ($29,599) | (BGN43,389) |

Czech Koruna (CZK)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Czech Koruna** | In U.S. Dollar | In Czech Koruna |
| Cash and cash equivalents | **$78,297** | **CZK1,507,157** | $3,165 | CZK60,917 |
| Loans and receivables | **219,898** | **4,183,007** | 55,240 | 1,063,330 |
| Accounts payable and accrued expenses | **(1,025,718)** | **(19,511,717)** | (1,060,807) | (20,419,768) |
| Other current liabilities | **(337,234)** | **(6,415,029)** | (216,736) | (4,172,005) |
| Net foreign currency-denominated liabilities | **($1,064,757)** | **(CZK20,236,582)** | ($1,219,138) | (CZK23467,526) |

Mexican Peso (MXN)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Mexican Peso** | In U.S. Dollar | In Mexican Peso |
| Cash and cash equivalents | **$569,244** | **MXN7,318,827** | $161,737 | MXN2,266,174 |
| Loans and receivables | **153,617** | **1,975,074** | – | – |
| Other assets | **4,905,342** | **63,068,476** | 3,666,259 | 51,369,752 |
| Accounts payable and accrued expenses | **(3,660,058)** | **(47,057,735)** | (1,651,199) | (23,135,761) |
| Other current liabilities | **(39,173)** | **(503,650)** | – | – |
| Net foreign currency-denominated assets | **$1,928,972** | **MXN24,800,992** | $2,176,797 | MXN30,500,165 |

Swiss Franc (CHF)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Swiss Franc** | In U.S. Dollar | In Swiss Franc |
| Cash and cash equivalents | **$13,442** | **CHF12,274** | **$–** | CHF – |
| Accounts payable and accrued expenses | **(2,645)** | **(2,415)** | – | – |
| Net foreign currency-denominated assets | **$10,797** | **CHF9,859** | **$–** | CHF – |

*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, 2012 and 2011. 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.

**2012**

| **Currency** | **Increase/Decrease in U.S. Dollar Rate** | **Effect on Profit before Tax** |
|---|---|---|
| **PHP** | 1% | **(164,175)** |
| | -1% | **164,175** |
| **SGD** | 1% | **(18,536)** |
| | -1% | **18,536** |
| **EUR** | 1% | **166,513** |
| | -1% | **(166,513)** |
| **JPY** | 1% | **(3,132)** |
| | -1% | **3,132** |
| **RMB** | 1% | **280,508** |
| | -1% | **(280,508)** |
| **HKD** | 1% | **(6,205)** |
| | -1% | **6,205** |
| **GBP** | 1% | **(102)** |
| | -1% | **102** |
| **AUD** | 1% | **(6,408)** |
| | -1% | **6,408** |
| **THB** | 1% | **14** |
| | -1% | **(14)** |
| **BGN** | 1% | **7,718** |
| | -1% | **(7,718)** |
| **CZK** | 1% | **(8,935)** |
| | -1% | **8,935** |
| **MXN** | 1% | **15,536** |
| | -1% | **(15,536)** |
| **CHF** | 1% | **140** |
| | -1% | **(140)** |

# Notes to Consolidated Financial Statements

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% | (134,784) |
| | -1% | 134,784 |
| 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% | (312) |
| | -1% | 312 |
| CZK | 2% | (24,237) |
| | -2% | 24,237 |
| MXN | 3% | 60,883 |
| | -3% | (60,883) |

*Derivatives*
In 2012 and 2011, the Parent Company entered into various short-term currency forwards with an aggregate notional amount of $13.00 million and $21.00 million, respectively. As of December 31, 2012 and 2011, the outstanding forward contracts have a net positive fair value of nil and $0.03 million, respectively. Net fair value gains recognized in 2012, 2011 and 2010 amounted to $1.64 million, $0.86 million and $2.08 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. On September 26, 2012, amendments relating to the Agreement were made. Accordingly, call option period shall mean the period commencing from the amendment date and ending January 4, 2013 and put option period shall mean the period from January 4, 2013 up to January 30, 2013. In addition, both the call and put strike prices were fixed at $150,000.

As of December 31, 2012 and 2011, the call option has a positive value of $2.86 million and $2.74 million, respectively, while the put option has a zero value. Net fair value gain (loss) on the options amounted to $0.12 million, $5.36 million and ($0.21 million) in 2012, 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, 2012 and 2011 follow:

| | **2012** | 2011 |
|---|---|---|
| **Derivative assets** | | |
| At beginning of year | **$2,798,912** | $1,693,121 |
| Net changes in fair value: | | |
| Call option | **121,185** | 1,523,399 |
| Currency forwards | **1,603,179** | 897,407 |
| Fair value of settled instruments | **(1,666,266)** | (1,315,015) |
| At end of year | **$2,857,010** | $2,798,912 |
| **Derivative liabilities** | | |
| At beginning of year | **$34,562** | $3,832,474 |
| Net changes in fair value: | | |
| Put option | – | (3,832,474) |
| Currency forwards | **(34,562)** | 34,562 |
| At end of year | **$–** | $34,562 |

The net changes in fair value of currency forwards are recognized in the consolidated statements of comprehensive income under "Foreign exchange gains - net".

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, 2012 and 2011.

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.

| | **2012** | 2011 |
|---|---|---|
| Trust receipts and loans payable | **$44,206,600** | $39,008,811 |
| Long-term debt | **46,624,000** | 40,000,000 |
| Total debt | **90,830,600** | 79,008,811 |
| Less: Cash and cash equivalents | **(56,196,382)** | (54,069,180) |
| Net debt | **34,634,218** | 24,939,631 |
| Equity attributable to equity holders of the Parent Company | **$196,981,545** | $190,321,592 |
| Debt to equity ratio | **46%** | 42% |
| Net debt to equity ratio | **18%** | 13% |

## 32. Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested. The outcome of 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, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments.

## 33. Notes to Consolidated Statements of Cash Flows

The Group's noncash investing activities includes capitalization by the Group of office equipment under finance lease amounting to $0.78 million, $1.94 million and $2.03 million in 2012, 2011, and 2010, respectively.

## 34. Events after the Balance Sheet Date

Pursuant to the second amendment to the Agreement dated September 26, 2012 executed among the Old and New Investors of PSi on the exercise of option rights, the exercise notice which is one of the conditions for the completion of the sale and purchase of the option shares was received by the parties on January 9, 2013. The sale and purchase transaction involving the option shares shall be deemed completed upon compliance of the rest of the conditions set forth in the Agreement.

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