COVER SHEET

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INTEGRATED MICRO-ELECTRONICS,
INC.

(Company's Full Name)

NORTH SCIENCE AVE., LAGUNA
TECHNOPARK, BINAN, LAGUNA

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

ATTY. SHEILA MARIE U. TAN	908-3468
Contact Person	Company Telephone Number

1 2	3 1	SEC FORM 17-A	0 4	0 4
Month	*Day*	FORM TYPE	*Month*	*Day*
Fiscal Year			Annual Meeting	

Secondary License Type, if Applicable

C F D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. Of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes

SEC Number: 94419
File Number: ______

INTEGRATED MICRO-ELECTRONICS, INC.

(Company's Full Name)

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

(Company Address)

(632) 756-6840

(Telephone Number)

December 31, 2013

(Fiscal Year Ending)
(Month & Day)

SEC Form 17-A

(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended: **December 31, 2013**

2. SEC Identification Number: **94419**

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

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

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

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

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

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

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

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

Title of Each Class	Number of Shares Issued and Outstanding
Common *	1,634,078,088

* Net of 15,892,109 treasury shares

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

    1,350,636,697 common shares are listed with the Philippine Stock Exchange, including 15,892,109 treasury shares as of March 31, 2014.

12. Check whether the registrant:

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

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

13. The aggregate market value of the voting stock held by non-affiliates of the Company is about ₱1.96 billion (based on closing stock price of IMI common shares as of December 31, 2013 and issue value of IMI preferred shares.

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PART I - BUSINESS AND GENERAL INFORMATION

ITEM 1. Business

(A) Description of Business

(1) Business Development

Integrated Micro-Electronics, Inc. (IMI), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four (4) 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 83.25% owned.

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

IMI is registered with the Philippine Economic Zone Authority (PEZA) as an exporter of printed circuit board assembly (PCBA), flip chip assembly, box build sub-assembly, enclosure system, and provider of electronics product design, research and development (R&D), product development outsourcing and other electronic parts, among others. IMI is also engaged in the business of providing test development and systems integration services and distributing related products and equipment and related services. These PEZA registrations entitle IMI to a four-year income tax holiday (ITH) and an option to apply for ITH extension for a maximum of three (3) years subject to various PEZA requirements. As of December 31, 2013, there are four (4) new project activities with ITH entitlement which will expire in 2017.

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) and Singapore. STEL and its subsidiaries are principally engaged in the provision of Electronic Manufacturing Services (EMS) and Power Electronics solutions to original equipment manufacturing (OEM) customers in the consumer electronics, computer peripherals/information technology, industrial equipment, telecommunications and medical device sectors.

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

In 2011, IMI infused additional capital to IMI Singapore in exchange for newly issued shares of the latter. This was used by IMI Singapore to set up Monarch Elite Ltd. and Cooperatief IMI Europe U.A. as holding companies and facilitate the acquisition of Integrated Micro-Electronics Bulgaria EOOD (IMI BG) (formerly EPIQ Electronic Assembly EOOD), Integrated Micro-Electronics Czech Republic s.r.o. (IMI CZ) (formerly EPIQ CZ s.r.o.), and Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (IMI MX) (formerly EPIQ MX, S.A.P.I de C.V.), (collectively referred to as "IMI EU/MX Subsidiaries"), from EPIQ NV. IMI EU/MX 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. They also provide engineering, R&D, and logistics management services.

IMI USA was incorporated and is domiciled in Tustin, California in the United States. It is at the forefront of technology with regard to precision assembly capabilities including surface mount technology (SMT), chip on flex, chip on board 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 technology, advanced manufacturing process development, new product innovations, direct chip attach and small precision assemblies. 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. Renewable Energy Test Center (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 Photovoltaic (PV) module NPI (new product introduction), and the capability to build different PV panel sizes and PV panel coupons for new product-technology validation.

IMI Japan was registered and is domiciled in Japan. IMI Japan acts as sales office and program management center for new business. There is no manufacturing operation in IMI Japan.

PSi is a power semiconductor assembly and test services (SATS) company serving niche markets in the global power semiconductor market. It provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices. PSi wholly owns PSi Technologies Laguna, Inc. (PSi Laguna), which also provides SATS. In addition, PSi owns 40% of PSiTech Realty, Inc., the holding company of Pacsem Realty, which is a real estate company that acquires, holds, develops and disposes any real estate or interest acquired. In 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.

(2) Business of Issuer

Principal Products and Services

Design and Engineering Solutions

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

Supply Chain Solutions

IMI's supply chain management solutions are equipped to help partners reduce the risk brought about by a volatile global market. The three-pronged approach include a systematic Order Management Solution, a dynamic Supply Chain Strategy hinged on Supplier Managed Inventory, Continuous Replenishment and Buffer Stock Programs, and a comprehensive Cost Management Solution that revolves around regular price reviews and negotiations with leading materials strategic supplier-partners, distributors and manufacturers.

Manufacturing Solutions

IMI's comprehensive manufacturing experience allows a prospective client to leverage its strength in RoHS-compliant and cleanroom manufacturing process, complex manufacturing using consigned equipment and materials, complete turnkey manufacturing, and ERP-based planning. IMI has the essential infrastructure equipment, manpower and quality systems to assure quick start of operations and turnaround time. These include: PCBA and FCPA Assembly (Flexible PCBA, Aluminum PCBA, Ceramic PCBA, Flip Chip On Flex, Chip-On-Board, Chip-On-flex, Chip-On-Glass, Hybrid Module PCBA), Automated Through-Hole Assembly, PCBA with Multiple BGA SMT - Automated Manufacturing, Complete Box build Solutions, Sub Assembly services, Component Assembly and Manufacturing of Enclosure Systems.

Business Models

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

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

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

Capabilities and Solutions

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

Subsidiary in Power Semiconductor Assembly and Test

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

Global Materials and Supply Chain Management

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

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

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

Product Capabilities

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

Automotive Electronics

- Automotive Camera
- Electronic Wiper System
- PCBA for Electronic Stability Program (ESP)
- Tire Pressure Sensor PCBA
- Car Windshield Temperature and Humidity Sensor
- Electronic Power Steering (EPS)
- Rotor Position Sensor (RPS)
- PCBA for Headlight
- Switch Controller for Main Light
- Communication Power PCBA
- Body Control Module (BCM)
- Antenna Receiver / DAB Tuner
- Powertrain Control Solutions
- Semiconductors used in Electric Drive/ Hybrid Electric Vehicles
- Fuel Management
- Pump Driver
- Steering Wheel Control Device
- Cockpit Control Device, Audio Processor
- Daytime Running Light
- Interior Plastic Parts

Industrial Electronics

- Automated Meter Reading (AMR)
- Security Device
- Electronic Door Access System
- Smart Card
- Point Of Sales System
- Printer Control Board
- Power Amplifier
- DC-DC Power Converter
- Engine Controllers
- Welding Machine Inverter
- Motor Drivers for Conveyor
- Fan Motor Control Board
- Computer Numerical Control (CNC) Control Board
- Main power supplies for LED street lighting
- Modules for renewable energy generation, transmission and conversion
- Solar Power Power Regulator
- Mobile Base Station Antenna
- Semiconductor Test Handling Equipment

Medical Electronics

- Flat Panel Imaging Equipment
- Auto Body Contouring Imaging Equipment
- Dental Imaging System
- Defibrillator Component
- Concealed Hearing Aid
- Biomedical and Laboratory Equipment
- Centrifuge Control Board
- Fitness Equipment Control Board
- Medical Instrument Power Supply

Telecommunications	• Back Panel for Telecommunication Board • Fiber to the "X" (FFTx) systems • Booster Amplifier • GPON (Gigabit Passive Optical Network) Systems • Wireless Security System • Base Station Power Supply • Digital Station Control Board • Power Transistors for amplifiers in cellular base stations • Power Conversion ICs in adapters and chargers for cell phones and cordless phones • DC port and USB port protection for cell phones and satellite radio peripherals
Computing and Storage Devices	• CD/Combo Drive • DVD Drive • Blu-Ray Disc Drive • Hard Disk Drive • Solid State Drives • Printer Sensor • Printer Control Board • Multi-Function Copier Machine • DVD Recorder Power Supply • Power Supplies for Servers, PCs, Notebooks, and Netbooks • Over-voltage protection for HDD and DC port protection for keyboard mouse
Consumer Electronics	• Hybrid IC • Gas Ignitor and Re-Ignitor • Air-Conditioning (HVAC) Controller • Power Management and Home Appliance for Lighting Control • Refrigerator and Cooker Hood Control Board • Projector Lamp Drivers • Household Metering Device • Bluetooth Headset • Electric Drive Control for home appliances • Main Power Supply for Flat-panel TV • Power Supply for game consoles and entertainment electronics • High Voltage Power Conversion ICs in adapters and chargers for personal electronics • Garage Door Control • Programmable Timer • Pressure Cooker Modules • Steamer Controller Modules • Washing Machine controllers Coffee Machine

Power Semiconductor

- Low-Medium Power Packages:
  - TO 220 Fpak 2/3L; TO 220 2/3/5/7L, SOT 82
  - PowerFlex 2/3/5/7L, TO252 / TO251, TO 263 3L;
  - 3 x 3 mm QFN, 3.3 x 3.3mm QFN ; 5x6mm QFN
- Medium-High Power Packages:
  - SOT 93 3L, TO 247 3L, TO 264 3/5L, SOT 227
  - Standard Packages - SP3, SP4, SP6
  - DRF, ARF
- Small Signal Packages - SOT 223 3L, TO 220 2/3/5/7L

Renewable Energy

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

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

Except as otherwise disclosed as above, there are no other publicly-announced new products or services during the year.

Revenue Contribution by Industry Segment (in US$ Mn)

Revenues by Industry	2013	% of Total	2012	% of Total	2011	% of Total
Automotive	278.3	37%	207.9	32%	106.5	19%
Telecom	134.7	18%	127.0	19%	109.9	19%
Industrial	108.4	15%	111.5	17%	104.4	18%
Consumer	104.1	14%	107.3	16%	114.3	20%
Computing	37.8	5%	30.5	5%	32.6	6%
Medical	24.8	3%	22.1	3%	22.5	4%
Multiple markets/others	56.9	8%	55.5	8%	85.3	15%
TOTAL REVENUE	**745.0**	**100%**	**661.8**	**100%**	**575.5**	**100%**

Revenue Contribution by Customer Nationality (in US$ Mn)

Revenues by Customer Nationality	2013	% of Total	2012	% of Total	2011	% of Total
Europe	379.5	51%	331.6	50%	284.7	50%
North America	222.7	30%	203.9	31%	139.3	24%
Japan	68.1	9%	59.7	9%	76.9	13%
Rest of Asia/Others	74.8	10%	66.6	10%	74.5	13%
TOTAL REVENUE	**745.0**	**100%**	**661.8**	**100%**	**575.5**	**100%**

Foreign Subsidiaries' Contribution

	2013		2012 (As restated)		2011 (As restated)	
	Revenue	Net Income∗	Revenue	Net Income∗	Revenue	Net Income∗
Foreign Subsidiaries:						
China/SG	37%	19%	42%	148%	49%	174%
Europe/Mexico	32%	121%	28%	124%	12%	365%
TOTAL	**69%**	**140%**	**70%**	**272%**	**61%**	**539%**

∗ *attributable to equity holders of the Parent Company*

Strategic Partnerships

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

Competition

IMI is an EMS provider to OEM manufacturers in the computing, communications, consumer, automotive, industrial, and medical electronics segments as well as emerging industries like renewable energy. The global economy continues to be weak despite improvements in advanced economies. Global economy grew by 3% in 2013 and is estimated to rise further at 3.7% in 2014. The global electronics equipment production fell 2.3% in 2013 with China dropping by 1.8% as well. 2014 is seen to have better positive estimates with a 4.8% growth in global production as Europe leaves recession towards a slow yet progressive rise. Combined EMS and original design manufacturing (ODM) revenues fell by 4.9% in 2013. Global EMS revenues were estimated to be just flat in 2013. Leading EMS companies continue to seek more innovation by focusing on higher margins in non-traditional markets as it faces thinning margins and cost pressures from OEM customers.

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

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

Hon Hai is a Taiwanese company with estimated annual revenues of US$130 billion in 2013, best known as the vertically integrated outsourcing partner of Apple for tablets and smartphones. Hon Hai is a competitor of IMI in the computing and telecommunication infrastructure markets. It is estimated that Hon Hai will attain estimated total revenues of more than US$ 105 billion in 2013. Flextronics is a Singapore-headquartered company with annual revenues of US$23.5 billion in 2013; its cost structure is very competitive it is vertically integrated as well. Flextronics poses competition to IMI in the automotive space. Hana is a Thai company with annual revenues of around US$550 million a year; it has a semiconductor manufacturing arm. Hana competes with IMI in industrial market. Plexus, U.S.-based, recorded US$2.2 billion revenues in fiscal 2013 ended Sept 31, 2013. Plexus is a key EMS player in industrial and medical sectors, which are target markets of IMI.

IMI is focused on delivering customized solutions of highest quality at reasonable prices. It collaborates with the customers in finding the right solutions to their problems. IMI even challenges its own systems and processes if needed. It has a distinct advantage in serving customers who value quality over price and require complex non-standard solutions. Living up to the flexible expertise brand, IMI is adaptable to the needs and conditions of its customers. This expertise has propelled IMI onto the current list of the top 30 EMS providers in the world and earned for IMI several accolades from its customers. IMI also ranked number 9 among the largest EMS providers in the automotive segment based on 2012 revenues.

Transactions with Related Parties

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 BPI, an affiliate

As of December 31, 2013 and 2012, the Group maintains current and savings accounts, and other short-term investments with BPI as follows:

	2013	2012
Cash in bank	**$772,267**	$749,838
Short-term investments	**–**	1,318,027
	$772,267	$2,067,865

Total interest income earned from investments with BPI amounted to $2,639 in 2013, $22,652 in 2012 and $10,402 in 2011.

b. Outstanding balances of the Group's related party transactions with its affiliates follow:

	Receivables		**Payables**	
	2013	2012	**2013**	2012
BPI	**$109,854**	$417,487	**$18,267**	$–
Narra VC	**91,792**	91,792	**–**	–
TLI	**16,807**	8,229	**–**	3,425
Innove Communication Inc. (ICI)	**–**	–	**17,742**	1,994
Globe Telecom, Inc. (GTI)	**–**	–	**1,090**	871
Ayala Group Legal (AG Legal)	**–**	–	**4,505**	–
	$218,453	$517,508	**$41,604**	$6,290

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 noninterest-bearing and are due quarterly.

ii. PSi's outstanding receivables from Narra VC are nontrade in nature and represent payments made by PSi to settle the Pre-Completion Liabilities and which will be later reimbursed from the New Investors.

iii. 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.

iv. Payables to BPI are nontrade in nature and pertain to outstanding housing and automobile financing loans. 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 ICI are nontrade in nature and pertain to leased lines, internet connections and automated teller machines connections. These are noninterest-bearing and are due every month.

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

vii. Payables to AG Legal are nontrade in nature and pertain to legal services provided to the Parent Company and PSi. These are noninterest-bearing and are due within 30 days.

viii. Payables to TLI are nontrade in nature and pertain to the lease contract between the Parent Company and TLI (see Note 28 of the Audited Consolidated Financial Statements).

c. Outstanding balances of related party transactions within the Group follow:

	Receivables		Payables	
	2013	2012	**2013**	2012
STEL	**$24,204,080**	$21,592,138	**$8,390,188**	1,518,066
IMI EU/MX Subsidiaries	**14,705,805**	11,060,830	**–**	–
PSi	**11,319,929**	7,289,665	**415,317**	415,317
IMI Singapore	**1,010,247**	1,016,936	**–**	–
IMI Japan	**979,526**	979,125	**712,569**	717,056
IMI USA	**250,405**	257,652	**289,146**	125,679
IMI ROHQ	**253,323**	–	**1,212,240**	436,367
	$52,723,315	$42,196,346	**$11,019,460**	$3,212,485

i. Receivables from STEL, IMI EU/MX Subsidiaries, PSi, IMI Singapore, IMI Japan and IMI USA are nontrade in nature and pertain to operating cash advances made by the Parent Company.

Claims from subsidiaries that have been billed are presented as "Nontrade receivables," while those still for billing are recognized as "Advances to related parties" in the financial statements of the Parent Company.

Advances to STEL, IMI Singapore, IMI Japan and IMI USA are noninterest-bearing and are due on demand.

Advances to PSi, IMI MX and IMI CZ have a 90-day term subject to interest rates ranging from 2.24% to 3.24% in 2013 and 2.31% to 2.81% in 2012.

ii. Receivables from IMI ROHQ are nontrade in nature and represent the pension expense for IMI ROHQ's employees to be funded by the Parent Company upon availment. These receivables are due on demand.

iii. 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.

iv. Payables to PSi represent payments to settle certain liabilities that had arisen prior to the entry of New Investors and which have been identified as Pre-Completion Liabilities. Pursuant to the Agreement, the 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 options provision.

v. Payables to IMI Japan and IMI USA are trade in nature and pertain to the services rendered by IMI Japan and IMI USA. These receivables are with a 30-day term.

vi. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ to the Parent Company and PSi which serves as a supervisory, communications and coordinating center for its affiliates.

d. Revenue/income and expenses from the Group's affiliates follow:

	Revenue/Income			Expenses		
	2013	2012	2011	**2013**	2012	2011
MWAP	**$9,971**	$8,885	$–	**$–**	$–	$–
TLI	**7,713**	–	–	**26,328**	26,531	–
BPI	**2,639**	58,198	252,370	**–**	–	–
AG Legal	**–**	–	–	**82,818**	72,351	110,786
ICI	**–**	–	–	**88,266**	144,905	203,951
GTI	**–**	–	–	**70,438**	68,355	88,248
	$20,323	$67,083	$252,370	**$267,850**	$312,142	$402,985

Revenue/income from its affiliates pertains to the following transactions:

i. Rent income earned by STEL from lease of its office premises (see Note 28 of the Audited Consolidated Financial Statements)

ii. In 2013, the Parent Company and TLI entered into a service agreement for the Parent Company to provide TLI administrative services such as professional, clerical, financial and accounting services. The administrative services shall be for a period of three (3) years, commencing on January 2, 2013 up to December 31, 2015, renewable upon mutual agreement by both parties. The fixed monthly service fee is ₱30,000, inclusive of all taxes.

iii. Interest income earned from investments and gain on foreign currency forwards with BPI.

Expenses incurred from related party transactions include:

i. Rent expense from the lease contract with TLI (see Note 28 of the Audited Consolidated Financial Statements)

ii. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.

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.

e. Revenue and expenses eliminated at the Group level follow:

	Revenue			Expenses		
	2013	2012	2011	**2013**	2012	2011
IMI ROHQ	**$4,649,240**	$3,859,491	$3,130,303	**$–**	$55,625	$50,702
IMI USA	**2,441,304**	2,695,395	128,047	**–**	798,982	–
IMI Japan	**808,166**	908,796	–	**–**	–	–
STEL	**–**	2,665,499	4,887,483	**261,711**	–	–
IMI EU/MX Subsidiaries	**–**	**–**	–	**326,379**	267,119	–
PSi	**–**	**–**	–	**205,516**	68,681	–
	$7,898,710	$10,129,181	$8,145,833	**$793,606**	$1,190,407	$50,702

Intercompany revenues mainly pertain to billings of IMI USA and IMI Japan to the Parent Company for recovery costs and billings for management salaries of key management personnel under IMI.

Expenses incurred from related party transactions include:

i. Allocation of pension expense covering IMI ROHQ's employees.

ii. Professional fees from IMI USA and IMI Japan.

iii. Interest expense of PSi, IMI MX and IMI CZ from loans granted by the Parent Company

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:

	2013	2012
Short-term employee benefits	**$7,294,687**	$6,264,578
Post-employment benefits	**378,920**	258,904
Share-based payments	**5,262**	24,793
	$7,678,869	$6,548,275

Intellectual Property

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

Name	Filing Date	Expiration
Anisotropic Bonding System and Method Using Dynamic Feedback	27 November 2000	26 November 2020
Traceless Flip Chip assembly and method	26 February 2001	25 February 2021
Manufacturing Method for Attaching Components to a Substrate	05 March 2001	04 March 2021
Passive circuitry for harmonic current regulation in a power supply by energy efficient input current shaping	16 September 2001	17 September 2020
Energy efficient method and apparatus for shaping input waveform (Singapore)	20 April 2000	19 April 2020
Self-coupled driver used in dual-switch forward power converter (Singapore)	27 February 2007	26 February 2027
Self-coupled driver used in dual-switch forward power converter (US)	9 January 2008	8 January 2028

IMI's patents are not critical to operations. These were obtained for possible future opportunities and are in various stages of being commercialized or used in some of the solutions we deliver.

Government Regulations and Approvals

IMI complies with all existing government regulations applicable to the company and secures all government approvals for its registered activities. Currently, there are no known probable governmental regulations that may significantly affect the business of the Company.

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

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

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

Among these regulations are the following:

- DENR Administrative Order No. 35, Series of 1990 (Revised effluent regulations);
- Resolution No. 25, Series of 1996 (Implementation of the Environmental User Fee System in the Laguna de Bay Region);
- Resolution No. 33, Series of 1996 (Approving the Rules and Regulations implementing the Environmental User Fee System in the Laguna de Bay Region);
- DENR Administrative Order No. 26, Series of 1992 (Appointment/Designation of Pollution Control Officers);
- Philippine Clean Water Act of 2004 – Republic Act No. 9275; and
- Republic Act (RA 6969) Control of Toxic Substances and Hazardous and Nuclear Wastes

IMI paid nominal fees required for the submission of applications for the above mentioned environmental laws.

Research and Development Activities

IMI spent the following for the last three years:

		% to Revenues
2013	$212,515	0.02
2012	$809,381	0.1
2011	$872,254	0.2

Human Resources

The Company has a total workforce of 14,281 employees as of December 31, 2013, shown in the following table:

Job Groups	**Total**	**Philippines**	**China/ Singapore**	**USA**	**Japan**	**Europe**
Managers	**385**	150	168	6	3	58
Supervisors	**1,444**	540	605	5	1	293
Rank-and-File	**1,851**	809	629	4	-	409
Technicians	**892**	291	499	-	-	102
Operators	**9,709**	3,973	4,017	-	-	1,719
TOTAL	**14,281**	5,763	5,918	15	4	2,581

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

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

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

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

Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IMI operates in a highly competitive industry

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

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

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

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

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

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

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

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

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

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

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

The impact of these risks was very evident in the aftermath of the global financial crisis which resulted in global reduction of demand for electronics products by end customers. IMI mitigates the impact of industry downturns on demand by rationalizing excess labor and capacity to geographical areas that are most optimal, and by initiating cost containment programs. With indications of global financial recovery already in place, the Company has been able to re-hire some of its employees. However, IMI remains cautious and is continuously monitoring improvements resulting from its cost containment programs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(10) possible labor unrest and political economic instability.

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

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

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

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

IMI has adopted various Risk Management Policies like hedging policy that will protect company's position on different currencies against movements of the U.S. dollars. Limits on business transactions have been set with different sites following the Company guidelines on limit of authorities granted to Company officers and executives. The Company has also introduced and adopted the Enterprise Risk Management (ERM) program that will identify the universe of risks related to the business and draw action plans to mitigate and manage the risk exposures.

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

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

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

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

IMI has a Business Continuity Plan composed of, among other components, the ICT Systems Continuity Plan and the Disaster Recovery Plan. The Company backs-up data in its servers on a daily basis. Data is backed-up on tape drives for critical and non-critical applications. For SAP-R3 Financials, data is replicated to a back-up site every hour. Critical systems are recoverable within four to eight hours; regular systems can be recovered within 24 hours. IMI continually invests in business continuity technology in order to reduce the recovery time of servers at the back-up site, maximize the reliability, efficiency and manageability of the back-up system. All these are designed for the recovery of IMI's critical production systems in its principal office in the event said office becomes unavailable due to disaster. As part of the Company's strategic initiatives, there is an on-going upgrade of the ERP system from SAP-R3 to ECC 6.0 version.

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

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

IMI faces risks related to foreign currency exchange rates

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

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

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

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

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

Risks relating to the Philippines or other country where IMI operates

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

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

The following tables present revenue and profit information regarding the Group's geographical segments for the years ended December 31, 2013, 2012 and 2011.

December 31, 2013	**Philippines**		**Singapore/ China**	**Europe/ Mexico**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**						
Revenue								
Third party	**$188,897,145**	**$43,084,648**	**$276,522,656**	**$235,808,946**	**$372,446**	**$346,022**	**$–**	**$745,031,863**
Intersegment	**261,711**	**–**	**4,649,240**	**–**	**2,441,304**	**808,165**	**(8,160,420)**	**–**
Total revenue	**$189,158,856**	**$43,084,648**	**$281,171,896**	**$235,808,946**	**$2,813,750**	**$1,154,187**	**($8,160,420)**	**$745,031,863**
Segment gross profit (loss)	**$18,992,296**	**($1,205,449)**	**$26,798,039**	**$28,438,871**	**$1,993,317**	**$810,535**	**($7,898,709)**	**$67,928,900**
Segment operating income (loss)	**$79,521**	**($4,930,140)**	**$1,577,199**	**$15,748,376**	**($377,403)**	**$37,671**	**$–**	**$12,135,224**
Segment interest income	**$597,797**	**$1,845**	**$149,569**	**$1,228**	**$–**	**$33**	**($531,895)**	**$218,577**
Segment interest expense	**$1,491,504**	**$426,845**	**$4,388**	**$1,489,099**	**$–**	**$–**	**($531,895)**	**$2,879,941**
Segment profit (loss) before income tax	**$323,200**	**($4,833,528)**	**$4,130,632**	**$14,490,095**	**($378,217)**	**($8,863)**	**$–**	**$13,723,319**
Segment provision for income tax	**(488,473)**	**(51,629)**	**(2,193,264)**	**(1,793,245)**	**–**	**(670)**	**–**	**(4,527,281)**
Segment profit (loss) after income tax	**($165,273)**	**($4,885,157)**	**$1,937,368**	**$12,696,850**	**($378,217)**	**($9,533)**	**$–**	**$9,196,038**

December 31, 2012 (As restated)	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
Intersegment	–	–	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)	$13,906,796	($3,446,022)	$31,892,517	$18,776,688	$2,231,718	$1,038,289	($7,463,683)	$56,936,303
Segment operating income (loss)	($2,629,177)	($9,307,260)	$11,172,370	$8,897,538	($875,279)	$151,546	$2,933	$7,412,671
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	($2,588,196)	($10,047,323)	$10,792,287	$7,504,568	($877,764)	$133,917	($25,752)	$4,891,737
Segment provision for income tax	(697,756)	(42,271)	(2,677,956)	(540,396)	–	(931)	–	(3,959,310)
Segment profit (loss) after income tax	($3,285,952)	($10,089,594)	$8,114,331	$6,964,172	($877,764)	$132,986	($25,752)	$932,426

December 31, 2011 (As restated)	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
Intersegment	–	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	$12,048,461	$3,182,382	$25,643,949	$5,425,951	$2,338,546	$1,088,152	($7,946,062)	$41,781,379
Segment operating income (loss)	($14,043,927)	($3,952,151)	$3,902,328	($683,681)	$25,602	$208,146	$–	($14,543,683)
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	($8,681,117)	($4,328,231)	$6,666,192	$12,108,406	$22,844	$239,468	($116,413)	$5,911,149
Segment provision for income tax	(1,326,845)	(119,164)	(2,724,363)	(232,867)	(250,000)	(847)	–	(4,654,086)
Segment profit (loss) after income tax	($10,007,962)	($4,447,395)	$3,941,829	$11,875,539	($227,156)	$238,621	($116,413)	$1,257,063

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

Please refer also to Note 27 ("Segment Information") of the Notes to Consolidated Financial Statements of the 2013 Audited Consolidated Financial Statements which is incorporated herein as Exhibit 1.

ITEM 2. Properties

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

The Parent Company does not own land, thus, it 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 January 2, 2012 up to December 31, 2014, renewable at the option of the Parent 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. The Parent Company shall pay monthly rentals of ₱81,796 for 2012, ₱92,964 for 2013 and ₱105,778 for 2014. The Parent Company shall advise TLI in writing at least sixty (60) days before the expiration of the term of its desire to renew the lease contract, which TLI may consider upon such terms and conditions as may be agreed between the parties.

On December 20, 2013, an amendment to the lease contract was executed modifying the terms as follows:

- The lease shall be effective from January 2, 2014 up to December 31, 2016; and
- The Parent Company shall pay monthly rental of ₱4,133,853.

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

The Company's global facilities and capabilities of each location as of December 31, 2013 are shown below:

Location	Floor Area (in square meters)	Capabilities
Philippines-Laguna	96,182	▪ 37 SMT lines, 2 FC lines ▪ 5 COB/COF lines ▪ Box build ▪ Solder Wave, Potting, Al & AG W/B ▪ Protective Coating ▪ ICT, FCT, AOI, RF Testing ▪ Design & Development ▪ Test & System Development ▪ Complex Equipment manufacturing ▪ Cleanroom to class 100 ▪ LVHM, HVLM
Philippines-Cavite	2,350	▪ 3 SMT lines ▪ Box Build ▪ PTH, Solder Wave ▪ ICT, FCT, AOI ▪ LVHM
Singapore	4,000	• Central Warehouse, Logistics Services, HMLV
China-Liantang	18,600	▪ 22 SMT lines, 2 COB lines ▪ Box Build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ Design & Development ▪ LVHM, HVLM

China-Kiuchong	18,000	▪ 25 SMT lines ▪ Box Build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ LVHM, HVLM
China-Jiaxing	13,000	▪ 13 SMT lines ▪ Box Build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ ICT, FCT, AOI, RF Testing ▪ Test & System Development ▪ LVHM, HVLM
China-Chengdu	7,500	▪ 9 SMT lines ▪ Box Build ▪ PTH, Auto Pin Insertion ▪ Solder Wave ▪ ICT, FCT, AOI ▪ HVLM / LVHM
Hong Kong*	300	• Procurement, marketing and supply chai support
Philippines-PSi Taguig	2,799	▪ Customer Specific Quality Requirements ▪ Low/ Med Power Discrete Packaging and Processes including Au Wire Bonding ▪ Al Ribbon ,Cu Clip interconnect ▪ 3D Packaging, MCM ,High Reliability Hermetic Packages - Metal Cans and Ceramic Packages, Low-Medium Power OFN Packages: 3 x 3 mm to 12x12 mm., Medium-High Power Hermetics Packages: TO 257, TO258
Philippines-PSi Laguna	9,209	▪ Power Management (IC) Discrete Packaging, e.g., 5 - 7L TO-220 ▪ Diversified Packaging - from Low to High Power and Small to Large Outline ▪ Module R&D line
Japan*	110	• Sales Support
USA-Tustin, CA*	1,184	▪ 1 SMT prototyping line ▪ Engineering Development ▪ Prototype Manufacturing Center ▪ Precision Assembly ▪ SMT, COB FCOF ▪ Process Development
USA-Fremont, CA*	1,143	▪ PV Module or Panel Design / Co-Development ▪ Solar Panel Prototyping Development ▪ LVHM ▪ Solar Panel Testing and Certification ▪ Test Services for Control Electronics of Solar Systems
Botevgrad, Bulgaria	25,878	▪ 11 SMT lines ▪ Box build ▪ PTH, Auto Pin Insertion, Solder Wave ▪ Protective Coating ▪ ICT, FCT, AOI ▪ Test & System Development ▪ Design & Development ▪ Plastic Injection, Embedded Toolshop, Overmolding

El Salto, Guadalajara, Mexico	75,000	▪ 5 SMT lines ▪ Box build ▪ PTH, Auto Pin Insertion, Solder Wave, Protective Coating, Potting ▪ ICT, FCT, AOI, SPI ▪ Plastic Injection (50-1,000T) ▪ Overmolding ▪ Embedded Toolshop ▪ Mechanical Assembly
Třemošná, Plzeňská, Czech Republic	7,740	▪ 4 SMT lines ▪ PTH, Auto Pin Insertion, Solder Wave, Ultrasonic Welding ▪ Protective Coating ▪ ICT, FCT, AOI ▪ Mechanical Assembly
Total	282,995	

IMI leases some of its machinery and production equipment, transportation equipment and servers under various finance lease agreements.

Future minimum lease payments of the Group are as follows:

	Minimum Lease Payments		**Present Value of Payments**	
	2013	2012	**2013**	2012
Within one year	**$1,018,901**	$777,907	**$907,761**	$674,071
After one year but not more than five years	**3,157,187**	705,857	**2,977,968**	704,866
	$4,176,088	$1,483,764	**$3,885,729**	$1,378,937

Additional finance lease commitment of the Group amounted to $3.03 million and $0.78 million as of December 31, 2013 and 2012, respectively.

IMI also entered into operating lease contracts for the lease of parcels of land, condominium units, office premises and other facilities.

Future minimum rent payable under these non-cancellable operating leases of the Group as of December 31, 2013 and 2012 follows:

	2013	2012
Within one year	**$4,074,629**	$3,111,844
After one year but not more than five years	**7,761,489**	6,818,109
More than five years	**2,580,123**	4,006,181
	$14,416,241	$13,936,134

The aggregate rent expense of the Group, included under “Facilities costs and others - Outsourced activities” account under “Operating expenses” account in the consolidated statements of income, recognized on these operating lease commitments amounted to $3.47 million in 2013, $1.14 million in 2012 and $1.00 million in 2011 (see Note 20 of the Audited Financial Statements). Deposits made under these operating lease commitments are intended to be applied against the remaining lease payments.

For 2014, the Company expects to spend $27M for capital expenditures. These capital expenditures are to be partially funded by proceeds of the Company’s cash from operations and debt. The main components of these expenditures are building extensions and improvements, purchase of equipment for new projects, various machineries restorations and innovation and strategic investments. These will ensure uninterrupted services and meeting demands of the Company’s customers.

ITEM 3. Legal Proceedings

There are no material pending legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years to which the Company or any of its subsidiaries or its directors or executive officers is a party or of which any of its material properties are subject in any court or administrative government agency.

The Company filed a civil case on April 11, 2011 against Standard Insurance ("Standard") seeking to collect Standard's share in the loss incurred by the Company consisting in damage to production equipment and machineries as a result of the May 24, 2009 fire at the Company's Cebu facility which the Company claims to be covered by Standard's "Industrial All Risks Material Damage with Machinery Breakdown and Business Interruption" policy. The share of Standard in the loss is 22% or US $1,117,056.84 after its co-insurers all paid the amount of loss respectively claimed from them. The Company had to resort to court action after Standard denied its claim on the ground that the claim is an excepted peril. Standard filed a motion to dismiss on various grounds, such as lack of cause of action and of prescription. The Regional Trial Court denied the motion to dismiss but Standard filed a Motion for Reconsideration with the Court of Appeals (CA). On April 26, 2013, the CA dismissed the case on the ground that the claim has prescribed. On April 19, 2013, the Company filed a Motion for Reconsideration. On December 10, 2013, the Company received a decision promulgated on December 2, 2013 denying the said Motion for Reconsideration.

The Company filed a Petition for Review on Certiorari dated January 23, 2014 which is pending with the Supreme Court.

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

The following table shows the high and low prices (in PhP) of IMI's shares in the Philippine Stock Exchange for the year 2012 and 2013:

Philippine Stock Exchange
2013 Prices (in PhP/share)

	High		Low	
	2013	2012	2013	2012
First Quarter	4.20	5.30	3.85	4.91
Second Quarter	3.85	4.99	2.92	3.90
Third Quarter	3.40	4.35	1.88	3.98
Fourth Quarter	3.00	4.32	2.50	3.86

The market capitalization of the Company's common shares as of December 31, 2013, based on the closing price of ₱2.50/share, was approximately ₱ 4.1 billion.

The price information of IMI's common shares as of the close of the latest practicable trading date, March 12, 2014, is ₱3.00 per share.

Holders

There are approximately 526 and 41 registered holders of common and preferred shares, respectively, as of January 31, 2014.

The following are the top 20 registered holders of the common and preferred stockholders of the Company:

Common Shares:

	Stockholder Name	No. of Common Shares	Percentage of Common Shares
1.	AYC Holdings, Ltd.	945,537,373	57.8636%
2.	PCD Nominee Corporation (Filipino)	296,510,935	18.1454%
3.	EPIQ NV	200,000,000	12.2393%
4.	POMS Investment Pte Ltd.	57,339,671	3.5090%
5.	2007 ESOWN Subscriptions	44,988,446	2.7531%
6.	2009 ESOWN Subscription	30,022,153	1.8372%
7.	PCD Nominee Corporation (Non-Filipino)	22,904,797	1.4017%
8.	SIIX Corporation	6,581,622	0.4028%
9.	2004 ESOWN Subscription	3,765,248	0.2304%
10.	Chow Phui Kheong	3,164,906	0.1937%
11.	Arthur R. Tan	1,955,451	0.1197%
12.	Kwok Kai Ming	1,698,768	0.1039%
13.	Josef Pfister	1,415,860	0.0866%
14.	Rafael Nestor Velez Mantaring	1,057,930	0.0647%
15.	Timothy Patterson	955,696	0.0585%
16.	Richard D. Bell	910,572	0.0557%
17.	Helmut Baumgart	865,448	0.0530%
18.	Maria Rosa L. Santos	750,000	0.0459%
19.	Reynaldo N. Bartolome	550,000	0.0336%
20.	Lucrecio B. Mendoza	540,245	0.0331%

Preferred Shares:

	Stockholder Name	No. of Preferred Shares	Percentage of Preferred Shares
1.	Ayala Corporation	1,064,899,372	81.9153%
2.	Resins, Inc.	222,222,107	17.0940%
3.	SIIX Corp.	6,047,392	0.4652%
4.	Helmut Baumgart	1,062,122	0.0817%
5.	Andrew C. Carreon	1,043,400	0.0803%
6.	Meneleo J. Carlos, Jr.	855,000	0.0658%
7.	Neilson C. Esguerra	500,000	0.0385%
8.	Ceferino L. Follosco	426,720	0.0328%
8.	Francisco I. Ferrer	426,720	0.0328%
9.	Josef Pfister	362,824	0.0279%
10.	Transtechnology Pte Ltd	280,092	0.0215%
11.	Claudio Truzzi	208,680	0.0160%
12.	Mary Ann S. Natividad	200,000	0.0154%
13.	Rosalyn O. Tesoro	177,492	0.0136%
14.	Sherly D. del Carmen	121,920	0.0094%
15.	Peter Lausen	104,340	0.0080%
16.	Ceferina S. Santos	100,000	0.0077%
16.	Reynaldo N. Torda	100,000	0.0077%
17.	Fe R. Gonzales	80,000	0.0061%
18.	Maribeth D. Gamao	73,080	0.0056%
19.	Khalid S/O Faiz Mohamed	56,018	0.0043%
20.	Noelito A. Gamao	51,920	0.0040%

Dividends

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

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

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

Dividend policy

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors. There are no other restrictions that limit the payment of dividends on common shares.

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

Recent Sale of Securities

None of the Company's executives subscribed to the stock ownership (ESOWN) plans for the years 2013 and 2012.

On July 20, 2004, the Commission approved the issuance of 150,000,000 ESOWN shares as exempt transactions pursuant to Section 10.2 of the Securities Regulation Code.

ITEM 6. Management's Discussion and Analysis of Operation

Results of Operations

Revenues, gross profit, net income and the related computed EBITDA and basic earnings per share, for the years ended 2013, 2012 and 2011 are as follow:

	For the years ended 31 December		
	2013	**2012 (As restated)**	**2011 (As restated)**
	(in US$ thousands, except Basic EPS)		
Revenues from Sales and Services	**745,032**	661,850	575,454
Cost of Goods Sold and Services	**677,103**	604,914	533,673
Gross Profit	**67,929**	56,936	41,781
Net Income attributable to equity holders of the Parent Company	**10,473**	5,585	3,255
EBITDA[1]	**36,440**	32,754	19,540
Basic Earnings per Share (EPS)	**0.006**	0.002	0.001

2013 vs. 2012

Revenues from Sales and Services

Amidst a subdued global economy, the Group revenues grew 12.6% to US$745.0 million in 2013 from US$661.8 million in 2012 due mainly to the Group's strong business expansion in Europe, Mexico and the Philippines.

The Company realized higher revenues with corresponding profitability despite several challenges. The Company's diversification strategy has afforded extensive global footprint, amplified technical capabilities, and wide-ranging customers.

IMI's China and Singapore operations contributed 37% to IMI's 2013 revenues, posting USD277 million, same level as last year's. Improvement in China's telecommunications market in the fourth quarter proved favorable to IMI's assembly operations of communication infrastructure devices. Operations in Europe and Mexico generated USD235 million in consolidated revenues, or an increase of 28.9% year-over-year, due to the continued expansion of their automotive business.

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

IMI's Philippine operations recorded USD189 million in revenues, or a 20.9% year-on-year growth, mainly because of increased business in the storage device market following the consolidation of outsourced production of storage technology products from Japan.

PSi Technologies Inc., generated USD43 million revenues, down from the same period last year by 5.5% due to the shutdown of nonprofitable businesses.

The company's automotive electronics business now accounts for 37% of IMI's total revenues from 32% in 2012.

Europe remains to be the biggest market of the company's products, comprising 51% of global sales, followed by America at 30%.

Cost of Goods Sold and Services

Cost of sales is higher by 12% relative to the 13% increase in revenues. Increase is mainly attributable to direct materials from increased revenues of Europe and Mexico entities which are mostly under the turnkey business arrangement. Direct labor also increased from upsurge of labor-intensive businesses in the Philippines which are under the consignment arrangement.

Gross Profit and Gross Profit Margin

The Company's operations generated gross profit of US$67.9 million, higher year-on-year by 19% which is revenue driven. GP margin higher by 51 bps from better margins of Europe, Philippines and PSi, however offset by China driven by significant revenue drop and lower capacity utilization.

Operating Expenses

The Company's operating expenses went up by US$6.3 million or 13% due to higher reversal of prior year excess accruals in 2012 and higher general and administrative costs to support growth in line with continuous global expansion. The Group also recorded allowance provisions on certain assets.

Net Income

The company generated US$10.5 million net income, nearly doubled from last year's US$5.6 million. Operating income up by US$4.7 million or 64% driven by Europe entities. Beneficial FX positions contributed +US$1.5M vs. last year due to strengthening of USD/PHP (liability position) and appreciation of RMB/USD (asset position). Other business income such as rental and gain on sale of assets/materials +US$2.6M and amortization of deferred tax liability upon exercise of call option +US$0.8M also contributed significantly.

EBITDA

EBITDA higher by US$3.7 million or 11% from last year's US$32.8 million due to higher operating income +US$4.7 million and beneficial forex position +US$1.5M, however, offset by lower depreciation and amortization due to various disposals and end of life assets –US$2.5M.

Financial Condition

The Company maintains financial stability with a cash balance of US$49.0 million as of December 31, 2013. Current ratio and debt-to-equity ratio remains healthy at 1:53:1 and 0.48:1, respectively.

In 2013, the Company's capital expenditures amounted to US$20.8 million (inclusive of equipment under finance lease amounting to US$3.0M) which comprised mainly of warehouse, building improvements, machineries and facilities equipment to sustain continuous plant expansions. For 2014, the Company expects to spend $27M for capital expenditures. These capital expenditures are to be partially funded by proceeds of the Company's cash from operations and debt. The main components of these expenditures are building extensions and improvements, purchase of equipment for new projects, various machineries restorations and innovation and strategic investments. These will ensure uninterrupted services and meeting demands of the Company's customers.

Prospects for the future

The Company continues to grow its topline and exceed last year's profit despite a global economy in low gear. The Company is seeing improvements in its China business and has streamlined its operations to cushion the impact of reduced revenues while it continues to expand businesses in other locations. IMI continues to carry on its diversification strategy in the face of uncertain times. The Company also continues to boost its technical capabilities to capture high-growth, high-margin opportunities.

Key performance Indicators of the Company

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

	As of the Years Ended		
	31 Dec 2013	**31 Dec 2012 (As restated)**	**31 Dec 2011 (As restated)**
Performance indicators			
Liquidity:			
Current ratio[a]	1.53x	1.56x	1.51x
Solvency:			
Debt-to-equity ratio[b]	0.48x	0.47x	0.43x

	For the years ended 31 December		
	2013	**2012 (As restated)**	**2011 (As restated)**
Operating efficiency:			
Revenue growth[c]	13%	15%	40%
Profitability:			
Return on equity[d]	5%	3%	2%
Return on assets[e]	2%	1%	1%
EBITDA margin[3]	5%	5%	3%

[a] *Current assets/current liabilities*
[b] *Bank debts/Equity attributable to equity holders of the Parent Company*
[c] *(Current year less previous year revenue)/Previous year revenue*

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

[d] *Net income attributable to equity holders of the Parent Company/Average equity attributable to Parent*
[e] *Net income attributable to equity holders of the Parent Company/Total Assets*

In the above:

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

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

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

(iv) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Company's revenues from continuing operations.

(v) There were no significant elements of income or loss that did not arise from continuing operations.

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

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

Income Statement items
(Year ended 31 Dec 2013 versus 31 Dec 2012)

13% growth in Revenues from Sales and Services ($661.8M to $745.0M)
Increase was mainly due to the Company's automotive business expansion in Europe and Mexico (↑US$53.6 million) and the Philippines (↑US$30.1 million) due to increased business in the storage device market.

12% increase in Cost of Goods Sold and Services ($604.9M to $677.1M)
The increase in Cost of Goods Sold and Services was relative to the upsurge in revenues of turnkey businesses resulting to higher direct material costs, increase in labor cost ratio due to expansion of labor-intensive projects and increase in fixed overhead costs to cope with the business expansions.

13% increase in Operating Expenses ($49.5M to $55.8M)
The increase can be attributable to higher reversal of PY excess accruals in 2012 by US$2M and increased expenses (people costs, government-related costs, higher utilities). Provision for inventory obsolescence, bad debts and idle assets were also recognized for Bulgaria, China and Philippines.

163% increase in net finance and other income (-$2.5M to $1.6M)
Foreign exchange +US$1.5M due to strengthening of USD/PHP (liability position) and appreciation of RMB/USD (asset position). Other income also grew from other business income such as rental and gain on sale of assets/materials +US$2.6M.

14% increase in provision for income tax ($4.0M to $4.5M)
Increase in current tax from higher taxable base due to better margins. Increase in deferred tax benefit from reversal of deferred tax liability upon exercise of call option +US$0.8M, however, offset by reversal of deferred tax assets from allowance provisions.

88% increase in net income attributable to equity holders of the Parent Company ($5.6M to $10.5M)
Relative to increase in revenues and improved profitability.

66% decrease in net loss attributable to Noncontrolling Interest (-$4.7M to -$1.3 million)
Lower net loss of PSi by 54% as a result of consolidation of facilities coupled by dilution of minority share in PSi (44.22% to 16.75%).

Balance Sheet items
(31 Dec 2013 versus 31 Dec 2012)

13% decrease in Cash and cash equivalents (from $56.2M to $49.0M)
Operating activities generated $15.7 million cash mainly from higher operating income. Cash used for investing activities amounted to US$17.5M mainly attributable to capital expenditures to support growth and expansion. Financing activities used US$5.3M of cash to settle some loans, pay dividends to stockholders and pay separation benefits.

18% increase in Loans and receivables ($150.9M to $178.5M)
Relevant to significant growth of revenues from Europe, Mexico and Philippine operations.

13% increase in Inventories ($83.2M $94.1M)
Increase attributable to growth of turnkey businesses particularly in Europe and Mexico. Turnkey: consignment ratio from 89:11 to 91:9.

100% decrease in Derivative assets ($2.9M to $-)
Exercise of call option.

124% increase in Other current assets ($7.4M to $16.6M)
Represents VAT claims of IMI Mexico.

18% decrease in Intangible assets ($5.9M to $4.9M)
Due to amortization of customer relationship recognized upon acquisition of Europe and Mexico subsidiaries (5-year amortization) –US$1.8M, offset by additional computer software acquired during the year +US$0.8M.

40% decrease in Deferred income tax assets ($1.1M to $0.6M)
Attributable to allowance for bad debts and inventory obsolescence.

43% increase in Other noncurrent assets ($1.8M to $2.6M)
Increase in miscellaneous deposits.

16% increase in Accounts payable and accrued expenses ($143.4M to $171.1M)
Increase in trade payables (↑$19M) from IMI Europe and Philippines with reference to increased inventories and longer days payable for PSi. Increase in accrued expenses (↑$12M) mainly from additional accruals for people-related costs, subcontracting costs, taxes, supplies, utilities and professional fees.

10% increase in Current portion of long-term debt ($2.6M to $2.9M)
Appreciation of Euro against USD resulted to higher USD equivalent (+US$109K) of the €2M current portion of long-term debt to EPIQ NV. IMI CZ also incurred additional long-term debt in 2013 (current portion amounted to $145K).

33% decrease in Deferred tax liabilities ($4.6M to $3.1M)
Due mainly to reversal of deferred tax liability upon exercise of the call option and amortization of deferred tax liabilities on increase in fair value of PPE and recognition of intangibles for IMI EU/MX at the time of acquisition.

14% decrease in Deferred revenue ($2.0M to $1.7M)
Amortization of deferred revenue of PSi representing advances from customers for facilities support services.

188% increase in Pension liabilities ($2.3M to $6.7M)
Increase in actuarial losses recognized in other comprehensive income as a result of increased salary rate assumption.

322% increase in Obligation under finance lease ($0.7M to $3.0M)
Additional finance lease contracts related to IMI Europe's machineries and production equipment.

12% decrease in Additional Paid-in Capital ($58.6M to $51.3M)
Arising from change in ownership in PSi from 55.78% to 83.25%. Additional investment in PSi amounting equivalent to the value of call option at the time of exercise (US$3.0), cash consideration (US$125K), and dilution of non-controlling interest (US$4.5) was allocated to APIC.

38% increase in Cumulative translation adjustments (-$2.3M to -$1.4M)
Arising from translation of accounts of newly acquired entities in Europe and Mexico denominated in their respective local currencies to the Parent Company's functional currency. Movement is attributable to appreciation of subsidiaries' local currencies against USD with regard to its net assets.

94% increase in Other comprehensive loss (-$4.6M to -$9.0M)
Increase in actuarial losses resulting from increased salary rate assumption.

56% increase in Minority interests in a consolidated subsidiary (-$5.9M to $-2.6M)
Lower share of minority in the net liabilities of PSi as a result of change in ownership from 55.78% to 83.25%.

2012 vs. 2011 (As Restated)

Revenues from Sales and Services

The Company recorded US$661.8 million consolidated revenues from sales and services in 2012, a 15% increase from last year's US$575.5 million. The increase can be attributed mainly to the incremental revenues amounting to US$116.0 million (from US$66.2 million to US$182.2 million) resulting from full-year contribution of subsidiaries in Europe and Mexico acquired in July 2011. The Company's operations in China and Singapore posted US$276.7 million in combined revenues for 2012, a slight decline of 1% year-on-year due to delay in transition of new models. The Philippine operations generated US$159.1 million revenues, a 3% increase from 2011 due to strong programs in the automotive, industrial and storage device sectors. PSi contributed US$45.6 million revenues to the Group.

Cost of Goods Sold and Services

The increase in cost of goods sold and services in absolute amount by 13% was driven mainly by higher revenues from existing businesses and revenue contribution of entities acquired in 2011. Increase can be attributed also to material-related costs as a result of increasing turnkey businesses. Under-utilized facilities and lower capacity utilization in some operating sites also caused overhead to increase.

Gross Profit and Gross Profit Margin

Consolidated gross profit, in absolute amount increased by US$15.2 million or 36% driven by the European acquisition, higher revenues of Philippine operations and improvement in the contribution margin of China despite drop in revenues. Gross profit margin went up from 7.3% to 8.6% due to improvement in DM% of Philippines and China turnkey businesses.

Operating Expenses

Operating expenses was reduced by 12% from US$56.3 million in 2011 to US$49.5 million in 2012. This resulted from expenses related to key acquisition incurred in 2011 and reversal of prior year excess provisions in 2012.

Net Income

In spite of very daunting global economic scenario, IMI generally performed better than 2011. The Company generated positive operating income mainly due to the incremental contribution of the European acquisition and better performance of its Philippine and China operations. This resulted to consolidated net income of US$5.6 million in 2012, a 72% improvement against last year's $3.3 million.

EBITDA

Increase in EBITDA by US$13.2 million was mainly driven by increased operating income by $22.0 million.

Financial Condition

The Company continued to maintain financial stability, ending the year with a positive cash balance of US$56.2 million, an increase of US$2.1 million from last year's US$54.1 million.

The Company's current ratio and debt-to-equity ratio are 1.56:1 and 0.47:1, respectively.
In 2012, the Company's capital expenditures amounted to US$16.8 million (inclusive of equipment under finance lease amounting to US$0.8M) which comprised mainly of machineries and facilities equipment to sustain continuous plant expansions. For 2013, the Company expects to spend $18.1M for capital expenditures. These capital expenditures are to be partially funded by proceeds of the Company's cash from operations and debt. The main components of these expenditures are building improvements for new production facility, purchase of equipment and various machineries restorations and innovations. These will ensure uninterrupted services and meeting demands of the Company's customers.

Prospects for the future
The Company remains optimistic despite sluggish global economic growth. The Company begun to see the synergies expected from the European acquisition. New customer programs will continue to mass produce and the Company's objective is to optimize its capacity utilization to match its global customers' requirements.

Key Performance Indicators of the Company

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

	As of the Years Ended (As Restated)		
	31 Dec 2012	**31 Dec 2011**	**31 Dec 2010**
Performance indicators			
Liquidity:			
Current ratio[a]	1.56x	1.51x	1.23x
Solvency:			
Debt-to-equity ratio[b]	0.47x	0.43x	0.33x

	For the years ended 31 December (As Restated)		
	2012	**2011**	**2010**
Operating efficiency:			
Revenue growth[c]	15%	40%	4%
Profitability:			
Return on equity[d]	3%	2%	3%
Return on assets[e]	1%	1%	1%
EBITDA[5] margin	5%	3%	7%

[a] *Current assets/current liabilities*
[b] *Bank debts/Equity attributable to equity holders of the Parent Company*
[c] *(Current year less previous year revenue)/Previous year revenue*
[d] *Net income attributable to equity holders of the Parent Company/Average equity attributable to Parent*
[e] *Net income attributable to equity holders of the Parent Company/Total Assets*

In the above:

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

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

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

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

(iv) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the Company's revenues from continuing operations.

(v) There were no significant elements of income or loss that did not arise from continuing operations.

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

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

Income Statement items - YTD December 31, 2012 versus YTD December 31, 2011

15% increase in Revenues from sale of goods and services (US$575.5M to US$661.8M)
Increase was mainly driven by full year revenue contribution of the European acquisition in July 2011 resulting to incremental revenues of US$116.0 million. The Company's Philippine operation contributed additional US$4.9 million or 3% from 2011 due to strong programs in automotive, industrial and storage device sectors.

13% increase in Cost of goods sold and services (US$533.7M to US$604.9M)
Primarily due to increase in turnkey businesses that resulted to higher direct material cost and higher manufacturing overhead due to unutilized capacity of facilities and machineries in some operating sites.

12% decrease in Operating expenses (US$56.3M to US$49.5M)
Higher operating expenses in 2011 can be attributed to expenses incurred related to the acquisition. Decline also resulted from reversals of prior year excess provisions.

112% decrease in Net finance and other income (US$20.5M to US$2.5M loss)
The Company's non-operating income in 2011 includes gain related to the European acquisition (US$13.0 million) and mark-to-market gains from put and call options (US$5.4 million). Foreign exchange gains also decreased by US$4.6 million mainly due to appreciation of PHP and RMB resulting to higher USD liabilities.

15% decrease in Provision for income tax (US$4.7M to US$4.0M)
Decrease arise mainly from amortization of deferred tax liabilities recognized in 2011 relating to the increase in fair value of property, plant and equipment and recognition of intangible assets (customer relationships) pertaining to the acquired companies.

133% increase in Noncontrolling interests in net loss (US$2.0M to US$4.6M)
Pertains to the increase in share on net loss of PSi as a result of soft demand in the semiconductor business.

Balance Sheet items - December 31, 2012 versus December 31, 2011 (As Restated)

13% increase in Loans and receivables (US$133.7M to US$150.9M)
Arose from increase in revenues and trade receivables from the new subsidiaries which implement longer credit terms for their customers.

16% decrease in Other current assets (US$8.9M to US$7.4M)
Increase is mainly due to decrease in tax credits from the subsidiary in Mexico.

10% decrease in Property, plant and equipment – net (US$97.5M to US$88.1M)
Capital expenditures to set-up new production lines for new projects amounted to US$16.8 million. These were offset by depreciation recognized during the year amounting to US$23.3 million, disposals and retirement of assets with a net book value of US$3.8 million. Foreign exchange differences arising from subsidiaries with functional currencies other than US$ amounting to $1.2 million also caused the balance to increase.

20% decrease in Intangible assets – net (US$7.3M to US$5.9M)
Purchased licenses and software amounted to US$0.5 million. Amortization of customer relationships and software amounted to $2.1 million.

288% increase in Available-for-sale financial assets – net (US$0.4M to US$1.6M)
Additional long-term investment of IMI Singapore amounting $1.0 million.

100% decrease in Noncurrent receivables (US$0.2M to US$–)
Collection of receivables from customers for equipment purchased by the Company that are reimbursable from the former.

46% increase in Deferred income tax assets (US$0.7M to US$1.1M)
Recognition of deferred tax asset on additional allowance for inventory obsolescence and doubtful accounts provisions.

19% increase in Other noncurrent assets (US$1.5M to US$1.8M)
Increase pertains to increase in miscellaneous deposits.

13% increase in Trust receipts and notes payable (US$39.0M to US$44.2M)
Availment of loans mostly by the Parent Company for the year amounted to US$37.0 million of which $32.8 million was repaid. Foreign currency fluctuations on Euro loans amounted to $1.0 million.
13% increase in Income tax payable (US$1.7M to US$1.9M)
Due to higher taxable base as a result of better performance.

100% increase in Current portion of long-term debt (US$– to US$2.6M)
Represents current portion of long-term debt equivalent to EUR2.0 million payable to the previous owner of the acquired European entities.

12% decrease in Deferred revenue (US$2.3M to 2.0M)
Pertains to amortization of cash advances made by a customer of PSi related to a subcontracting service agreement for the facilities support services that will be rendered.

32% decrease in Pension liability (US$3.4M to US$2.3M)
Increase in gains recognized in other comprehensive income (-$1.6M) and decrease due to separation and benefits paid out of company funds (-$1.9M).

15% increase in Obligation under finance lease (US$0.6M to 0.7M)
Represents increase in finance lease obligations from Europe entities related to machineries and production equipment.

62% decrease in Other long-term employee benefits (US$0.2M to US$0.09M)
Decline in other long-term benefits in its PSi subsidiary.

20% increase in Capital stock - common (US$24.9M to US$30.0M)
80% decrease in Subscribed capital stock (US$6.5M to US$1.3M)
Issuance to EPIQ NV of 200 million shares equivalent to US$4.7 million as part of the purchase consideration in acquiring Europe and Mexico entities. Additional issuances during the year through the Company's Employee Stock Ownership (ESOWN) plan amounted to US$0.3 million equivalent to 17.6 million shares.

7% decrease in Subscriptions receivable (US$11.4M to US$10.4M)
Mainly represents forfeitures of ESOWN and collections of subscriptions, net of accretion of receivables.

33% decrease in Retained earnings appropriated (US$30.7M to US$20.7M)
Due to reversals of appropriations amounting to US$10.0 million for dividend declaration.

21% increase in Retained earnings unappropriated (US$59.7M to US$72.4M)
Increase was caused by reclassification from appropriated to unappropriated of US$10.0 million for dividend declaration and net income attributable to parent company of US$5.4 million. The increase was offset by actual dividend declaration amounting to US$2.7 million.

37% increase in Reserve for fluctuation on available-for-sale financial assets (US$0.14M to US$0.2M)
Represents changes in the fair values of the Company's investments in club shares.

62% increase in Cumulative translation adjustment (-US$6.0M to -US$2.3M)
Exchange differences arising from translation of newly acquired entities to the Company's reporting currency. Increase is attributable to appreciation of US Dollar against Euro resulting to lower US Dollar long term debt to EPIQ NV and appreciation of currencies of Europe and Mexico entities against US Dollar with regard to its net assets.

26% decrease in Other comprehensive loss (-$6.2M to -$4.6M)
Actuarial gains recognized for 2012.

389% decrease in Noncontrolling interests in consolidated subsidiaries (-US$1.2M to US$-5.9M)
Pertains to the increase in share on net loss of PSi as a result of soft demand in the semiconductor business.

ITEM 7. Financial Statements and Supplementary Schedules

Please see attached Exhibit 1.

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

Changes in Accounting Policies and Disclosures
The Group applied, for the first time, Philippine Accounting Standards (PAS) (as revised in 2011) 19, *Employee Benefits*, that requires restatement of previous consolidated financial statements.

- PAS 19 (as revised in 2011), *Employee Benefits*
  On January 1, 2013, the Group adopted the revised PAS 19.

  For defined benefit plans, the revised standard requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Prior to adoption of the revised standard, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised standard, the Group changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in profit or loss in the period they occur.

The revised standard replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The revised standard also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the revised standard modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of the adoption on the consolidated financial statements are as follows:

Consolidated Balance Sheets

Increase (decrease) in:	**December 31, 2013**	December 31, 2012	January 1, 2012
Pension asset	**$–**	($1,941,695)	($2,806,876)
Pension liabilities	**4,416,041**	1,222,559	2,093,572
Other comprehensive income	**(4,413,065)**	(4,618,236)	(6,211,759)
Retained earnings	**(267,024)**	1,453,982	1,311,311

Consolidated Statements of Income

Increase (decrease) in:	**2013**	2012	
Cost of sales	**($1,257,302)**	($199,803)	$25,866
Gross profit	**1,257,302**	199,803	(25,866)
General and administrative expenses	**621,045**	(250,800)	8,584
Foreign exchange loss	**(1,611,323)**	307,932	–
Net income	**267,024**	142,671	(34,450)

There is no significant impact on the Group's basic and diluted earnings per share (EPS).

Consolidated Statements of Comprehensive Income

Increase (decrease) in:	**2013**	2012	2011
Net income for the year	**$267,024**	$142,671	($34,450)
Remeasurement gains on defined benefit plans	**(4,413,065)**	1,593,523	(1,002,770)
Total comprehensive income for the year	**(4,146,041)**	1,736,194	(1,037,220)

The adoption did not have impact on consolidated statements of cash flows.

As permitted by the standard, sensitivity disclosures for pension liabilities for comparative year ended December 31, 2012 have not been provided.

Several other new and amended standards and interpretation were applied for the first time in 2013. However, they did not have significant impact on the consolidated financial statements of the Group.

- PAS 1 (Amendments), *Financial Statement Presentation – Presentation of Items of OCI*
- PAS 27 (as revised in 2011), *Separate Financial Statements*

- PAS 28 (as revised in 2011), *Investments in Associates and Joint Ventures*
- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
- PFRS 10, *Consolidated Financial Statements*
- PFRS 11, *Joint Arrangements*
- PFRS 12, *Disclosure of Interests in Other Entities*
- PFRS 13, *Fair Value Measurement*
- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*

Annual improvements to PFRSs (2009-2011 cycle)
The *Annual Improvements to PFRSs (2009-2011 Cycle)* contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year. These did not have any significant impact on the consolidated financial statements of the Group.

- PAS 1, *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*
- PAS 16, *Property, Plant and Equipment – Classification of Servicing Equipment*
- PAS 32, *Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments*

Information on Independent Public Accountant

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

b. Representatives of SGV & Co. for the current year and for the most recently completed fiscal year are expected to be present at the Annual Stockholders' Meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

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

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

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

External Audit Fees and Services

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

	Audit & Audit-related Fees	Tax Fees	Other Fees
2013	₱ 3.36M	-	₱ 1.35M
2012	₱ 3.20M	-	-

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

Tax fees

No tax consultancy services were secured from SGV & Co.

All other fees

In 2013, the Company engaged the services of SGV & Co. to perform tax advisory and transfer pricing services, agreed-upon procedure on review of impairment test of goodwill and validation of votes during the Annual Stockholder's Meeting. Aggregate amount of other non-audit related fees amounted to P1.35 million.

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

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

PART III - CONTROL AND COMPENSATION INFORMATION

ITEM 9. Directors and Executive Officers of the Issuer

The write-ups below include positions held by the directors and executive officers currently and during the past five years and their personal circumstances as of December 31, 2012.

Board of Directors

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

Jaime Augusto Zobel de Ayala*,* Filipino, 54, 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 for APEC Business Advisory Council. He graduated with B.A. in Economics (with honors) degree from Harvard College in 1981 and obtained an MBA from the Harvard Graduate School of Business in 1987.

***Fernando Zobel de Ayala**,* Filipino, 53, 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 National Museum.

Arthur R. Tan, Filipino, 54, has been a member of the Board of Directors of IMI since July 2001. He became the President of IMI on 1 July 2001 and has been the President & Chief Executive Officer of the IMI Group since 23 April 2002. Concurrently, he is the President and Chief Executive Officer of PSi Technologies Inc., President of Speedy-Tech Electronics Ltd., and Senior Managing Director of Ayala Corporation. 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 for Asia Pacific Region/Japan from 1998 to 2001.

Diosdado P. Banatao, American, 67, has been an independent director of IMI since January 1994 to date. 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, 44, 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, 42, has been a Director of IMI since July 2010. He is Managing Director and Member of the Management Committee of Ayala Corporation (Ayala Group) 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 is also the President of AC Energy Holdings Inc., which is Ayala's holding company for its investments in the power sector, and the President of AC Infrastructure Holdings Corporation. He is a Director of Manila Water Company Inc., LiveIt Investments Ltd., and HCM City Infrastructure Investment Joint Stock Company (CII). Before joining Ayala, he was a senior consultant and member of the management team of Monitor Group, a strategy consulting firm based in Cambridge, Massachusetts, USA.

Alelie T. Funcell, Filipino, 58, 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. She was President of the Filipino-American Association of Milpitas, California, a vibrant Bay area Filipino organization, in 1994–1996.

Delfin C. Gonzalez, Jr., Filipino, 64, 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, 67, has served as Director of IMI since May 2000. He is a member of the Management Committee of Ayala Corporation. His other significant positions include: Chairman of Philwater Holdings Company Inc., Atlas Fertilizer & Chemicals Inc., Chairman and President of Michigan Power Inc., and A.C.S.T. Business Holdings Inc.; Chairman of Azalea Intl. Venture Partners, Ltd.; Director of Ayala Land Inc., Integrated Micro-Electronics Inc., Manila Water Co. Inc., Ayala DBS Holdings Inc., AYC Holdings Ltd., Ayala International Holdings Ltd., Bestfull Holdings Ltd., AG Holdings, AI North America Inc., Probe Productions Inc., and Empire Insurance Company; and Trustee of Insular Life Assurance Co. Ltd. He was named Management Man of the Year 1999 by the Management Association of the Philippines for his contribution to the conceptualization and implementation of the Philippine Energy Development Plan and to the passage of the law creating the Department of Energy. He was also cited for stabilizing the power situation that helped the country achieve successive high growth levels leading up to the Asian crisis in 1997.

Hiroshi Nishimura**,** Japanese, 61, 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 known as Kyushu Matsushita Electronics Philippines (PKME), from 2000-2007.

Rafael Ma. C. Romualdez*,* Filipino, 50, has been a Director of IMI since May 1997. He is presently 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.

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

All incumbent directors, except Mr. Banatao.

Edgar O. Chua**,** Filipino, 56, is nominated as an independent director of IMI for the 2014-2015 term. He holds the following positions: Chairman of the Shell Companies in the Philippines; Chairman of the Philippine Business for the Environment and Energy Council of the Philippines; President of Green Army Philippines Network Foundation, Inc.; Director of European Chamber of Commerce of the Philippines; Vice-Chairman of Philippine-British Business Council; and Independent Director of Energy Development Corporation.

Management Committee Members / Key Executive Officers

*	Jaime Augusto Zobel de Ayala	Chairman of the Board
*	Arthur R. Tan	President & Chief Executive Officer
**	Jerome S. Tan	Chief Financial Officer
**	Linardo Z. Lopez	Senior Managing Director, Global Head of Materials and Supply Chain
***	Shong Cheng Yeh	Senior Managing Director - COO Asia
****	Gilles Bernard	Managing Director – COO of Europe and Asia
	Anthony Raymond P. Rodriguez	Assistant Vice President, Head – Treasury & Credit
	Solomon M. Hermosura	Corporate Secretary
	Christian Gerard P. Castillo	Assistant Corporate Secretary

** Members of the Board of Directors*
*** Management Committee members*
**** Resigned effective March 17, 2014*
***** Appointment as COO of Europe and Asia effective February 17, 2014*

Jerome S. Tan, Singaporean, 52, is the Chief Financial Officer of IMI since January 2011. He oversees Finance, Treasury, Credit, Controllership and ICT functions of the IMI global operation. He brings more than 20 years of broad-based experience and various achievements in finance, strategic planning, business development and acquisition/integration. He has assumed regional leadership roles in multinational Banking and Finance companies, and Food and Beverage industry located in different regions in the Asia Pacific. Prior to joining IMI, he was connected with NBC Universal, the media unit of General Electric Corporation by serving as the CFO of the TV Group and was responsible for the overall Finance function in Asia Pacific for CNBC and Universal Network. He was also a key member of the management team of San Miguel Brewing International Ltd., managing Treasury and Financial Planning, and Regional Business Planning and Development. Before his exposure in the food and beverage industry, he was an Assistant Director in First Pacific Bank Asia, Ltd., in Hong Kong. He started his career as an Associate in Robert Fleming, Inc., in New York City, USA.

Linardo Z. Lopez, Filipino, 56, joined IMI as Senior Managing Director and Global Head of Materials and Supply Chain in March 2008 and has served as such up to the present. He spent a significant part of his career in OEM and contract manufacturing industries, notably with industry leaders such as Solectron and Flextronics in China.

Shong Cheng Yeh, Malaysian, 44, has been a Senior Managing Director, COO Asia of IMI from February 2009 to March 17, 2014. He brings with him over 14 years of experience in electronics manufacturing. Prior to IMI, he was the General Manager for Asian Operations in the Infrastructure Global Manufacturing business of Flextronics overseeing China, Malaysia and India.

Gilles Bernard, French, 57, is the Global Chief Operating Officer of IMI effective February 2014. He holds this position on top of his role as Head of Global Operations Support. Before this movement, he was the COO for Europe and Mexico operations and Head of Global Operations support overseeing global Materials Management, Quality, Sales and Key Strategic Accounts Management. Prior to joining IMI, he was the General Manager of EPIQ NV from 1995 up to 2001, before he assumed the CEO post in 2001. He held this position until EPIQ NV's acquisition in 2011. He started his career as a development engineer and later on became D & D Manager of passive components division of Thomson. He then moved to the SMEE subsidiary of Mitsubishi Corporation as Quality Manager of SMEE.

Anthony Raymond P. Rodriguez, Filipino, 46, is an Assistant Vice President and Head of Treasury and Credit of IMI since February 2009. Prior to IMI, he has gained nineteen (19) years of extensive professional experience from Banco de Oro – EPCI Bank as Senior Dealer – FX and Derivatives Desk and from Far East Bank & Trust Co. as International Desk Head for Treasury Marketing.

Solomon M. Hermosura, Filipino, 51, has been the Corporate Secretary of IMI since November 29, 2013. He is a Managing Director of Ayala Corporation and a member of its Management Committee and the Ayala Group Management Committee. He is also the Group Head of Corporate Governance, General Counsel, Compliance Officer, and Corporate Secretary of Ayala Corporation. He is the CEO of Ayala Group Legal. He serves as Corporate Secretary of Ayala Land, Inc., Globe Telecom, Inc., Manila Water Company, Inc., and Ayala Foundation, Inc.; and a member of the Board of Directors of a number of companies in the Ayala group.

Christian Gerard P. Castillo, Filipino, 34, has served as Assistant Corporate Secretary of Integrated Micro-Electronics, Inc. since June 2011. He is a Senior Counsel of Ayala Group Legal. He handles various corporate secretarial functions for affiliates of Integrated Micro-Electronics, Inc., Ayala Corporation, and Ayala Land, Inc. Prior to joining Ayala Land, Inc. in 2008, he was an associate at SyCip, Salazar, Hernandez & Gatmaitan Law Offices.

Significant Employees

The Company considers its human resources working as a team as a key element for its continued success. But the Company has no employee who is not an executive officer and who is expected to make individually on his own a significant contribution to the business.

Family Relationships

Jaime Augusto Zobel de Ayala, Chairman of the Board, and Fernando Zobel de Ayala, a director of the Company, are brothers. Jose Ignacio A. Carlos and Rafael Ma. C. Romualdez, both incumbent directors, are first cousins.

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

Involvement in Legal Proceedings

There are no material pending legal proceedings, bankruptcy petition, conviction by final judgment, order, judgment or decree or any violation of a securities or commodities law for the past five years to which the Company or any of its subsidiaries or its directors or executive officers is a party or of which any of its material properties are subject in any court or administrative government agency.

The Company filed a civil case on April 11, 2011 against Standard Insurance (“Standard”) seeking to collect Standard’s share in the loss incurred by the Company consisting in damage to production equipment and machineries as a result of the May 24, 2009 fire at the Company’s Cebu facility which the Company claims to be covered by Standard’s “Industrial All Risks Material Damage with Machinery Breakdown and Business Interruption” policy. The share of Standard in the loss is 22% or US $1,117,056.84 after its co-insurers all paid the amount of loss respectively claimed from them. The Company had to resort to court action after Standard denied its claim on the ground that the claim is an excepted peril. Standard filed a motion to dismiss on various grounds, such as lack of cause of action and of prescription. The RTC denied the motion to dismiss but Standard filed a Motion for Reconsideration, which is pending resolution.

ITEM 10. Executive Compensation

Name and Principal Position	Year	Salary	Other Income
Arthur R. Tan President & Chief Executive Officer			
Linardo Z. Lopez Senior Managing Director, Global Materials & Supply Chain			
Anthony Raymond P. Rodriquez AVP, Head of Treasury and Credit			
Jerome S. Tan Global Chief Financial Officer			
Shong Cheng Yeh Senior Managing Director-COO Asia			
CEO & Other Named Executive Officers	Actual 2012 (Restated)	₱ 62.02M	₱ 22.18M
	Actual 2013	₱ 67.09M	₱ 13.69M
	Projected 2014	₱ 71.84M	₱ 14.61M
All officers as a group unnamed*	Actual 2012 (Restated)	₱ 331.54M	₱ 62.31M
	Actual 2013	₱ 388.74M	₱ 75.52M
	Projected 2014	₱ 411.49M	₱ 82.01M

**All employees with a rank of manager and higher, including all above-named officers.*

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

Compensation of Directors

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

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

x x x

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

i. Standard arrangement

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

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

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

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

ii. Other arrangement

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

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

ITEM 11. Security Ownership of Certain Beneficial Owners and Management

1) Security ownership of certain record and beneficial owners (of more than 5%) as of January 31, 2014.

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of outstanding Shares
Preferred	Ayala Corporation[6] 34/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Ave., Makati City	Ayala Corporation[7]	Filipino	1,064,899,372	36.2942%
Common				180,492	0.0062%
Common	AYC Holdings, Ltd.[8] 33/F Tower One & Exchange Plaza, Ayala Triangle, Ayala Ave., Makati City	AYC Holdings, Ltd.[9]	BVI	945,537,373	32.2260%
Common	PCD Nominee Corporation (Filipino)[10] 37/F Tower One, The Enterprise Center, 6766 Ayala Avenue cor. Paseo de Roxas, Makati City	Resins, Inc.[11]	Filipino	239,412,304	8.1597%
Preferred	Resins, Inc.[12] E. Rodriguez Ave., Pasig City	Resins, Inc.[6]	Filipino	222,222,107	7.5738%
Common	EPIQ NV[13] Transportstraat 1, 3980 Tessenderlo, Belgium	EPIQ NV[14]	Belgian	200,000,000	6.8165%

2) Security ownership of directors and management as of January 31, 2014.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of All Class
Directors				
Common	Jaime Augusto Zobel de Ayala	100 (direct)	Filipino	0.0000%
Common	Fernando Zobel de Ayala	100 (direct)	Filipino	0.0000%
Common	Delfin L. Lazaro	100 (direct)	Filipino	0.0000%

6 The Chairman of Ayala Corporation (AC), Jaime Augusto Zobel de Ayala, is the Chairman of the Company.

7 The Board of Directors of AC has the power to decide how AC's shares in IMI are to be voted. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power.

8 AYC Holdings, Ltd. (AYC) is a stockholder of the Company.

9 The Board of Directors of AYC has the power to decide how AYC's shares in IMI are to be voted. Mr. Jaime Augusto Zobel de Ayala has been named and appointed to exercise the voting power.

10 The PCD is not related to the Company.

11 Resins, Inc. (Resins) is a customer of a participant of PCD. The Board of Directors of Resins has the power to decide how Resins shares in IMI are to be voted. Mr. Jose Ignacio A. Carlos is usually appointed to exercise the voting power.

12 Resins is not related to the Company.

13 EPIQ NV is a stockholder of the Company.

14 The Board of Directors of EPIQ NV has the power to decide how EPIQ NV shares in IMI are to be voted.

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent of All Class
Common	Arthur R. Tan	7,279,252	(direct & indirect)	Filipino	0.2481%
Common	Rafael Ma. C. Romualdez	115	(direct)	Filipino	0.0000%
Common	Jose Ignacio A. Carlos	115	(direct)	Filipino	0.0000%
Common	Diosdado P. Banatao	115	(direct)	American	0.0000%
Common	Delfin C. Gonzalez, Jr.	100	(direct)	Filipino	0.0000%
Common	Hiroshi Nishimura	115	(direct)	Japanese	0.0000%
Common	Alelie T. Funcell	115	(direct)	Filipino	0.0000%
Common	John Eric T. Francia	100	(direct)	Filipino	0.0000%
CEO and Most Highly Compensated Officers					
Common	Arthur R. Tan	7,279,252	(direct & indirect)	Filipino	0.2481%
Common	Linardo Z. Lopez	3,061,580	(direct & indirect)	Filipino	0.1043%
Common	Anthony Raymond P. Rodriquez	172,561	(direct & indirect)	Filipino	0.0059%
Common	Jerome S. Tan	0		Singaporean	0.0000%
Common	Shong Cheng Yeh	1,725,617	(direct & indirect)	Malaysian	0.0588%
Other Executive Officers					
Common	Solomon M. Hermosura	220,115	(direct & indirect)	Filipino	0.0075%
Common	Christian Gerard P. Castillo	0		Filipino	0.0000%
All Directors and Officers as a group		**12,460,200**			**0.4247%**

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

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

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

As of December 2013, 10.05% of IMI's common shares were owned by the public.

ITEM 12. Certain Relationships and Related Transactions

The Company and its subsidiaries, in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of advances and reimbursement of expenses, and sales and purchases of goods on an arm's length basis and at current market prices at the time of the transactions.

No other transaction was undertaken by the Company in which any director or executive officer was involved or had a direct or indirect material interest.

The Company has not received any complaint regarding related-party transactions.

PART IV – CORPORATE GOVERNANCE

Section deleted as per SEC Memorandum Circular No. 5, series of 2013, issued last March 20, 2013. Please refer to the Annual Corporate Governance Report posted in the Company's Official Website.

PART V - EXHIBITS AND SCHEDULES

Exhibit 1: 2013 Audited Consolidated Financial Statements, Integrated Micro-Electronics, Inc. and Subsidiaries

Statement of Management's Responsibility for the Financial Statements
Report of Independent Auditors
Consolidated Balance Sheets as of December 31, 2013 and 2012
Consolidated Statements of Comprehensive Income for the Years ended December 31, 2013, 2012 and 2011
Consolidated Statement of Changes in Equity for the Years Ended December 31, 2013, 2012 and 2011
Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011
Notes to Consolidated Financial Statements

Exhibit 2: Supplementary Schedules

Report of Independent Public Accountant on Supplementary Schedules

A. Financial Assets
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
D. Intangible Assets – Other Assets
E. Long-Term Debt
F. Indebtedness to Related Parties (Long-term Loans from Related Companies)
G. Guarantees of Securities of Other Issuers
H. Capital Stock

Reconciliation of Retained Earnings Available For Dividend Declaration

Schedule of Financial Ratios

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

Schedule of All Effective Standards and Interpretations under Philippine Financial Reporting Standards as of December 31, 2013

2013 Audited Annual Financial Statements of Significant Foreign Subsidiaries

Exhibit 3: IMI International (Singapore) Pte Ltd

Exhibit 4: Speedy-Tech Electronics Ltd and its subsidiaries

Exhibit 5: Cooperatief IMI Europe U.A. and Subsidiaries

Reports on SEC Form 17-C

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

Date	Particulars
August 12, 2013	The Philippine Daily Inquirer News Article on August 11, 2013
November 18, 2013	BusinessMirror News Article Clarification
November 29, 2013	Board of Directors Approval on BOD Meeting
February 6, 2014	Attendance of BOD and Key Officers to CG Summit
February 12, 2014	Certificate of Attendance of BOD and Key Officers to CG Summit
February 17, 2014	Results of BOD Meeting
March 6, 2014	News release on “IMI’s Performance in FY 2013”
March 10, 2014	The Philippine Daily Inquirer News Article on March 10, 2014

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 10, 2014.

By:

Jaime Augusto Zobel de Ayala
Chairman of the Board

Arthur R. Tan
President and Chief Executive Officer

Jerome S. Tan
Chief Finance Officer

Solomon M. Hermosura
Corporate Secretary

Jaime G. Sanchez
Deputy CFO and Group Controller

SUBSCRIBED AND SWORN to before me this APR 10 2014 day of April 2014, affiants exhibiting to me their respective passports as follows:

	Passport No.	Date Of Issue	Place of Issue
Jaime Augusto Zobel de Ayala	EB1548914	Dec. 13, 2010	Manila City
Arthur R. Tan	EA0025242	Jan. 29, 2010	Manila City
Jerome S. Tan	E2068508C	Sep. 21, 2010	Singapore
Solomon M. Hermosura	EB2913409	Jul. 5, 2011	Manila City
Jaime G. Sanchez	EB4408073	Jan. 10, 2012	Batangas City

Doc. No. 103
Page No. 22
Book No. I
Series of 2014.

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

VERA M. DE GUZMAN-OCFEMIA
NOTARY PUBLIC
ROLL NO. 55764
MAKATI CITY, PHILIPPINES

VERA M. DE GUZMAN-OCFEMIA
Notary Public – Makati City
Appt. No. M285 until December 31, 2016
Attorney's Roll No. 55764
PTR No. 4236215MC; 01-09-2014; Makati City
IBP Lifetime Roll No. 0012406
MCLE Compliance No. IV – 0012687; 02/20/2013
3rd Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

EXHIBIT 1

2013 Audited Consolidated Financial Statements,
Integrated Micro-Electronics, Inc. and Subsidiaries

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

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Integrated Micro-Electronics, Inc. (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, 2013 and 2012, 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, 2013 and 2012, 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

SUBSCRIBED AND SWORN to before me this FEB 17 2014 at MAKATI CITY affiants exhibiting to me their respective Passports, to wit:

Name	Passport No.	Date & Place of Issue
Jaime Augusto Zobel de Ayala	EB1548914	13 December 2010 – Manila
Arthur R. Tan	EA0025242	29 January 2010 – Manila
Jerome S. Tan	E2068508	21 September 2010 - Singapore

Doc. No. 354
Page No. 72
Book No. XVII
Series of 2014.

ARLENE B. MONTERO
NOTARY PUBLIC
ROLL NO. 39682
MAKATI CITY PHILIPPINES

ARLENE S. BOBADILLA - MONTERO
Notary Public – Makati City
Appt. No. 457 until December 31, 2014
Attorney's Roll No. 39682
PTR No. 4232756MC; 01-07-2014; Makati City
IBP Lifetime Roll No. 06250
MCLE Compliance No. IV – 0015604; 04-10-2013
3rd Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

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

Integrated Micro-Electronics, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2013 and 2012
and years ended December 31, 2013, 2012 and 2011

and

Independent Auditors' Report

SGV

Building a better working world

A member firm of Ernst & Young Global Limited

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Integrated Micro-Electronics, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of income, 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, 2013, 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, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-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. 4225145, January 2, 2014, Makati City

February 17, 2014

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012 (As restated - Note 3)	January 1, 2012 (As restated - Note 3)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 5)	**$49,042,599**	$56,196,382	$54,069,180
Loans and receivables (Note 6)	**178,464,742**	150,880,855	133,676,580
Inventories (Note 7)	**94,135,608**	83,175,869	80,402,000
Derivative assets (Notes 2 and 31)	**–**	2,857,010	2,798,912
Other current assets (Note 8)	**16,619,969**	7,425,912	8,854,602
Total Current Assets	**338,262,918**	300,536,028	279,801,274
Noncurrent Assets			
Property, plant and equipment (Note 9)	**85,654,052**	88,071,187	97,505,460
Goodwill (Note 10)	**54,355,193**	54,355,193	54,355,193
Intangible assets (Note 11)	**4,861,730**	5,894,121	7,333,491
Available-for-sale financial assets	**1,867,094**	1,608,404	414,348
Noncurrent receivables	**–**	–	213,577
Deferred tax assets (Note 23)	**644,543**	1,082,869	743,592
Other noncurrent assets (Note 12)	**2,583,286**	1,805,084	1,518,483
Total Noncurrent Assets	**149,965,898**	152,816,858	162,084,144
	$488,228,816	$453,352,886	$441,885,418

	December 31, 2013	December 31, 2012 (As restated - Note 3)	January 1, 2012 (As restated - Note 3)
LIABILITIES AND EQUITY			
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses (Note 13)	**$171,054,574**	$143,405,648	$144,242,009
Trust receipts and loans payable (Note 14)	**45,653,865**	44,206,600	39,008,811
Current portion of long-term debt (Note 15)	**2,903,408**	2,649,600	–
Income tax payable (Note 23)	**1,649,533**	1,911,110	1,686,735
Derivative liabilities (Note 31)	**40,606**	–	34,562
Total Current Liabilities	**221,301,986**	192,172,958	184,972,117
Noncurrent Liabilities			
Noncurrent portion of:			
Long-term debt (Note 15)	**61,699,753**	62,851,135	60,398,500
Deferred revenue (Note 16)	**1,742,329**	2,031,018	2,303,765
Obligation under finance lease (Note 28)	**2,977,968**	704,866	612,724
Deferred tax liabilities (Note 23)	**3,091,890**	4,628,438	4,810,158
Pension liabilities (Note 25)	**6,742,808**	2,343,025	3,422,829
Accrued rent (Note 28)	**443,027**	585,408	913,688
Other noncurrent liabilities	**183,555**	86,609	230,704
Total Noncurrent Liabilities	**76,881,330**	73,230,499	72,692,368
Total Liabilities	**298,183,316**	265,403,457	257,664,485

(Forward)

	December 31, 2013	December 31, 2012 (As restated - Note 3)	January 1, 2012 (As restated - Note 3)
EQUITY (Note 17)			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock-common	**$30,016,551**	$30,011,256	$24,932,075
Capital stock-preferred	**26,601,155**	26,601,155	26,601,155
Subscribed capital stock	**1,229,926**	1,300,851	6,506,970
Additional paid-in capital	**51,263,933**	58,558,091	59,085,110
Subscriptions receivable	**(9,590,746)**	(9,650,842)	(10,395,200)
Retained earnings:			
Appropriated for expansion	**20,660,981**	20,660,981	30,660,981
Unappropriated	**83,503,457**	73,901,551	60,982,435
Treasury stock	**(1,012,585)**	(1,012,585)	(1,012,585)
Reserve for fluctuation on available-for-sale financial assets	**189,601**	197,894	144,067
Cumulative translation adjustment	**(1,425,142)**	(2,303,539)	(6,042,819)
Other comprehensive loss	**(8,958,073)**	(4,618,236)	(6,211,759)
Other reserves	**170,714**	170,714	170,714
	192,649,772	193,817,291	185,421,144
Equity Attributable to Non-controlling Interests in Consolidated Subsidiaries	**(2,604,272)**	(5,867,862)	(1,200,211)
Total Equity	**190,045,500**	187,949,429	184,220,933
	$488,228,816	$453,352,886	$441,885,418

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
REVENUES			
Sale of goods	**$670,772,413**	$590,363,704	$482,388,266
Sale of services	**74,259,450**	71,486,018	93,065,642
	745,031,863	661,849,722	575,453,908
COST OF SALES (Note 18)			
Cost of goods sold	**607,557,635**	541,811,352	451,911,908
Cost of services	**69,545,328**	63,102,067	81,760,621
	677,102,963	604,913,419	533,672,529
GROSS PROFIT	**67,928,900**	56,936,303	41,781,379
OPERATING EXPENSES (Note 19)	**(55,794,676)**	(49,523,632)	(56,325,062)
OTHERS - Net			
Interest expense and bank charges (Note 21)	**(2,879,941)**	(3,021,473)	(2,499,998)
Foreign exchange gains (losses) - net	**1,430,757**	(106,197)	4,480,815
Interest income (Note 22)	**218,577**	267,092	315,520
Mark-to-market gains from put and call options (Note 31)	**–**	121,185	5,355,873
Gain from bargain purchase (Note 2)	**–**	–	13,018,493
Impairment loss on goodwill (Note 10)	**–**	–	(2,717,451)
Miscellaneous income - net (Notes 7, 9 and 28)	**2,819,702**	218,458	2,501,580
INCOME BEFORE INCOME TAX	**13,723,319**	4,891,736	5,911,149
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**5,408,640**	4,687,578	4,177,862
Deferred	**(881,359)**	(728,268)	476,224
	4,527,281	3,959,310	4,654,086
NET INCOME	**$9,196,038**	$932,426	$1,257,063
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$10,472,995**	$5,584,613	$3,254,864
Non-controlling interests	**(1,276,957)**	(4,652,187)	(1,997,801)
	$9,196,038	$932,426	$1,257,063
Earnings Per Share (Note 24)			
Basic and diluted	**$0.006**	$0.002	$0.001

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
NET INCOME FOR THE YEAR	**$9,196,038**	$932,426	$1,257,063
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences arising from translation of foreign operations	**878,397**	3,739,280	(6,042,819)
Fair value changes on available-for-sale financial assets	**(8,293)**	53,827	32,108
	870,104	3,793,107	(6,010,711)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans	**(4,339,837)**	1,593,523	(1,002,770)
	(3,469,733)	5,386,630	(7,013,481)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**$5,726,305**	$6,319,056	($5,756,418)
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$7,003,262**	$10,971,243	($3,758,617)
Non-controlling interests	**(1,276,957)**	(4,652,187)	(1,997,801)
	$5,726,305	$6,319,056	($5,756,418)

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	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2013, as previously reported	$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	($2,303,539)	($4,618,236)	$170,714	($5,867,862)	$186,495,447
Effect of revised PAS 19 (Note 3)	–	–	–	–	–	–	1,453,982	–	–	–	–	–	–	1,453,982
Balances at January 1, 2013, as restated	30,011,256	26,601,155	1,300,851	58,558,091	(9,650,842)	20,660,981	73,901,551	(1,012,585)	197,894	(2,303,539)	(4,618,236)	170,714	(5,867,862)	187,949,429
Acquisition of non-controlling interests (Note 2)	–	–	–	(7,522,432)	–	–	–	–	–	–	–	–	4,540,547	(2,981,885)
Issued shares during the year (Note 17)	5,295	–	(5,295)	–	–	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 26)	–	–	–	14,852	–	–	–	–	–	–	–	–	–	14,852
Accretion of subscriptions receivable (Note 17)	–	–	–	795,542	(795,542)	–	–	–	–	–	–	–	–	–
Collections on subscriptions (Note 17)	–	–	–	–	207,888	–	–	–	–	–	–	–	–	207,888
Forfeitures during the year (Note 17)	–	–	(65,630)	(582,120)	647,750	–	–	–	–	–	–	–	–	–
Cash dividends (Note 17)	–	–	–	–	–	–	(871,089)	–	–	–	–	–	–	(871,089)
	30,016,551	26,601,155	1,229,926	51,263,933	(9,590,746)	20,660,981	73,030,462	(1,012,585)	197,894	(2,303,539)	(4,618,236)	170,714	(1,327,315)	184,319,195
Net income (loss)	–	–	–	–	–	–	10,472,995	–	–	–	–	–	(1,276,957)	9,196,038
Other comprehensive income (loss)	–	–	–	–	–	–	–	–	(8,293)	878,397	(4,339,837)	–	–	(3,469,733)
Total comprehensive income (loss)	–	–	–	–	–	–	10,472,995	–	(8,293)	878,397	(4,339,837)	–	(1,276,957)	5,726,305
Balances at December 31, 2013	$30,016,551	$26,601,155	$1,229,926	$51,263,933	($9,590,746)	$20,660,981	$83,503,457	($1,012,585)	$189,601	($1,425,142)	($8,958,073)	$170,714	($2,604,272)	$190,045,500

	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	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2012, as previously reported	$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	($6,042,819)	$–	$170,714	($1,200,211)	$189,121,381
Effect of revised PAS 19 (Note 3)	–	–	–	–	–	–	1,311,311	–	–	–	(6,211,759)	–	–	(4,900,448)
Balances at January 1, 2012, as restated	24,932,075	26,601,155	6,506,970	59,085,110	(10,395,200)	30,660,981	60,982,435	(1,012,585)	144,067	(6,042,819)	(6,211,759)	170,714	(1,200,211)	184,220,933
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 subscriptions 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	68,316,938	(1,012,585)	144,067	(6,042,819)	(6,211,759)	170,714	(1,215,675)	181,630,373
Net income (loss), as previously reported	–	–	–	–	–	–	5,441,942	–	–	–	–	–	(4,652,187)	789,755
Effect of revised PAS 19 (Note 3)	–	–	–	–	–	–	142,671	–	–	–	–	–	–	142,671
Net income (loss), as restated	–	–	–	–	–	–	5,584,613	–	–	–	–	–	(4,652,187)	932,426
Other comprehensive income	–	–	–	–	–	–	–	–	53,827	3,739,280	1,593,523	–	–	5,386,630
Total comprehensive income (loss)	–	–	–	–	–	–	5,584,613	–	53,827	3,739,280	1,593,523	–	(4,652,187)	6,319,056
Balances at December 31, 2012, as restated	$30,011,256	$26,601,155	$1,300,851	$58,558,091	($9,650,842)	$20,660,981	$73,901,551	($1,012,585)	$197,894	($2,303,539)	($4,618,236)	$170,714	($5,867,862)	$187,949,429

	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	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2011, as previously reported	$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
Effect of revised PAS 19 (Note 3)	–	–	–	–	–	–	1,345,761	–	–	–	(5,208,989)	–	–	(3,863,228)
Balances at January 1, 2011, as restated	24,893,713	26,601,155	1,901,963	34,646,889	(11,411,994)	60,660,981	34,073,218	(1,012,585)	111,959	–	(5,208,989)	170,714	769,280	166,196,304
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 subscriptions receivable (Note 17)	–	–	–	427,535	(427,535)	–	–	–	–	–	–	–	–	–
Collections on subscriptions (Note 17)	–	–	–	–	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	57,727,571	(1,012,585)	111,959	–	(5,208,989)	170,714	797,590	189,977,351
Net income (loss), as previously reported	–	–	–	–	–	–	3,289,314	–	–	–	–	–	(1,997,801)	1,291,513
Effect of revised PAS 19 (Note 3)	–	–	–	–	–	–	(34,450)	–	–	–	–	–	–	(34,450)
Net income (loss), as restated	–	–	–	–	–	–	3,254,864	–	–	–	–	–	(1,997,801)	1,257,063
Other comprehensive income (loss)	–	–	–	–	–	–	–	–	32,108	(6,042,819)	(1,002,770)	–	–	(7,013,481)
Total comprehensive income (loss)	–	–	–	–	–	–	3,254,864	–	32,108	(6,042,819)	(1,002,770)	–	(1,997,801)	(5,756,418)
Balances at December 31, 2011, as restated	$24,932,075	$26,601,155	$6,506,970	$59,085,110	($10,395,200)	$30,660,981	$60,982,435	($1,012,585)	$144,067	($6,042,819)	($6,211,759)	$170,714	($1,200,211)	$184,220,933

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2013	2012 (As restated - Note 3)	2011 (As restated - Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**$13,723,319**	$4,891,736	$5,911,149
Adjustments for:			
Depreciation of property, plant and equipment (Note 9)	**21,070,099**	23,319,434	24,615,286
Interest expense (Note 21)	**2,879,941**	3,021,473	2,499,998
Provision for inventory obsolescence (Note 7)	**2,123,145**	282,948	1,029,155
Amortization of intangible assets (Note 11)	**1,789,772**	2,057,626	1,163,969
Net pension expense (Note 25)	**1,682,245**	2,199,943	1,886,214
Unrealized foreign exchange loss (gain) - net	**(878,010)**	1,315,751	(1,740,231)
Loss (gain) on derivative transactions (Note 31)	**479,062**	(1,661,641)	(6,218,718)
Amortization of deferred revenue	**(288,689)**	(260,829)	(260,829)
Interest income (Note 22)	**(218,577)**	(267,092)	(315,520)
Gain on sale of property, plant and equipment (Note 9)	**(125,172)**	(132,752)	(115,117)
Reversal of allowance for decline in value of inventories (Note 7)	**(107,131)**	–	(21,343)
Provision (reversal of provision) for doubtful accounts (Note 6)	**(103,124)**	441,498	1,977,541
Cost of share-based payments (Note 26)	**14,852**	70,490	673,762
Impairment loss on property, plant and equipment (Note 9)	**4,991**	225,521	–
Provision for restructuring (Note 13)	**–**	1,896,238	831,718
Gain from bargain purchase (Note 2)	**–**	–	(13,018,493)
Impairment loss on goodwill (Note 10)	**–**	–	2,717,451
Dividend income	**–**	–	(367)
Operating income before working capital changes	**42,046,723**	37,400,344	21,615,625
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Loans and receivables	**(26,275,532)**	(16,858,982)	(836,152)
Inventories	**(12,648,183)**	(2,591,634)	(378,828)
Other current assets	**(9,194,057)**	1,428,690	(6,346,587)
Noncurrent receivables	**–**	213,577	(29,398)
Increase (decrease) in:			
Accounts payable and accrued expenses	**30,429,189**	(3,044,616)	8,524,113
Other noncurrent liabilities	**96,946**	(144,095)	(141,380)
Accrued rent	**(142,381)**	(328,280)	19,600
Net cash generated from operations	**24,312,705**	16,075,004	22,426,993
Income tax paid	**(5,670,217)**	(4,463,203)	(4,789,919)
Interest paid	**(3,513,625)**	(2,591,952)	(1,885,055)
Interest received	**522,183**	238,560	315,521
Dividends received	**–**	–	367
Net cash provided by operating activities	**15,651,046**	9,258,409	16,067,907

(Forward)

	2013	Years Ended December 31 2012 (As restated - Note 3)	2011 (As restated - Note 3)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Notes 9 and 33)	**($17,819,927)**	($16,026,776)	($14,830,473)
Intangible assets (Note 11)	**(776,158)**	(525,070)	(411,344)
Available-for-sale financial assets	**(350,369)**	(1,000,000)	–
Proceeds from sale of property, plant and equipment	**2,868,782**	3,710,103	2,656,466
Decrease (increase) in other noncurrent assets	**(841,810)**	(288,683)	293,354
Settlement of derivatives (Note 31)	**(438,456)**	1,568,981	1,315,015
Cash paid upon exercise of call option (Note 2)	**(124,875)**	–	–
Acquisition through business combination - net of cash acquired (Note 2)	**–**	–	5,053,343
Net cash used in investing activities	**(17,482,813)**	(12,561,445)	(5,923,639)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Loans payable (Note 14)	**(4,468,943)**	(32,780,287)	(2,622,978)
Long-term debt (Note 15)	**(2,656,400)**	–	(38,000,000)
Availments of loans	**6,134,943**	43,697,044	50,838,903
Dividends paid to equity holders of the Parent Company (Notes 13 and 17)	**(2,661,415)**	(2,468,881)	(3,883,683)
Separation/benefits paid (Note 25)	**(1,286,407)**	(1,870,152)	(1,111,767)
Payment of obligations under finance lease	**(523,260)**	(800,671)	–
Collections of subscriptions receivable (Note 17)	**207,888**	19,911	615,889
Dividends paid to non-controlling interests	**–**	(15,464)	(19,782)
Net cash provided by (used in) financing activities	**(5,253,594)**	5,781,500	5,816,582
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**(68,422)**	(351,262)	(26,413)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(7,153,783)**	2,127,202	15,934,437
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**56,196,382**	54,069,180	38,134,743
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**$49,042,599**	$56,196,382	$54,069,180

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

Integrated Micro-Electronics, Inc. (the "Parent Company"), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four subsidiaries, namely: IMI International (Singapore) Pte. Ltd. (IMI Singapore), IMI USA, Inc. (IMI USA), IMI Japan, Inc. (IMI Japan) and PSi Technologies, Inc. (PSi) (collectively referred to as the "Group"). IMI Singapore, IMI USA and IMI Japan are wholly-owned subsidiaries while PSi is 83.25% owned. The Group's parent company is AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd. under the umbrella of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE). AC is 50.66% owned by Mermac, Inc., 10.52% owned by Mitsubishi Corporation and the rest by the public. The registered office address of the Parent Company is North Science Avenue, Laguna Technopark, Biñan, Laguna.

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

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. As of December 31, 2013, there are four (4) new project activities with ITH entitlement which will expire in 2017. 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 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), and Singapore. STEL and its subsidiaries (collectively referred to as "STEL Group") 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 ("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 Integrated Micro-Electronics

Bulgaria EOOD (formerly EPIQ Electronic Assembly EOOD) (IMI BG), Integrated Micro-Electronics Czech Republic s.r.o. (formerly EPIQ CZ s.r.o.) (IMI CZ), and Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (formerly EPIQ MX, S.A.P.I de C.V.) (IMI MX) (collectively referred to as “IMI EU/MX Subsidiaries”) from EPIQ NV (see Note 2). IMI EU/MX 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. IMI EU/MX Subsidiaries also provide engineering, research and development, and logistics management services.

On December 14, 2012, the Directors of STEL approved the assignment of assets and liabilities of its subsidiary, Speedy-Tech (Philippines), Inc. (STPH), to the Parent Company of the operations of STPH. On June 13, 2013, the Board of Directors (BOD) of the Parent Company authorized the transfer of all rights, title and ownership over all of the assets, and assumption of liabilities and obligations of STPH as of December 31, 2012. The Deed of Assignment was executed on July 30, 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, chip on flex, chip on board 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 technology, advanced manufacturing process development, new product innovations, 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 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.

The Parent Company acquired of 55.78% of PSi on October 6, 2010. 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. On March 12, 2013, the Parent Company increased its ownership interest in PSi from 55.78% to 83.25% (see Note 2).

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. Also, on June 21, 2012, the respective BOD of PSi, Pacsem Realty and PSiTech Realty authorized the dissolution and liquidation of Pacsem Realty and PSiTech Realty by shortening their corporate life up to December 31, 2013, subject to the approval of the Philippine SEC.

The consolidated financial statements as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 were authorized for issue by the Parent Company’s BOD on February 17, 2014.

2. Group Information

Information about Subsidiaries

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

Subsidiary	Percentage of Ownership 2013	2012	2011	Country of Incorporation	Functional Currency
IMI Singapore	**100.00%**	100.00%	100.00%	Singapore	United States Dollar (USD)
IMI ROHQ	**100.00%**	100.00%	100.00%	Philippines	USD
STEL	**100.00%**	100.00%	100.00%	Singapore	USD
IMI (Chengdu) Ltd. (IMICD)	**100.00%**	100.00%	100.00%	China	USD
Shenzhen Speedy-Tech Electronics Co., Ltd. (SZSTE)	**99.48%**	99.48%	99.48%	China	USD
Speedy-Tech Electronics (HK) Limited (STHK)	**100.00%**	100.00%	100.00%	Hong Kong	USD
Speedy-Tech Electronics (Chong Qing) Co. Ltd. (STCQ)	**100.00%**	100.00%	100.00%	China	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. (STJX)	**100.00%**	100.00%	100.00%	China	USD
STPH [a]	**100.00%**	100.00%	100.00%	Philippines	USD
Vista Manufacturing Pte Ltd (VISTA) [b]	**–**	–	100.00%	Singapore	USD
Speedy-Tech Technologies Pte. Ltd. (STTS) [b]	**–**	–	100.00%	Singapore	USD
Speedy-Tech Electronics, Inc.	**100.00%**	100.00%	100.00%	USA	USD
Monarch	**100.00%**	100.00%	100.00%	Hong Kong	USD
Cooperatief	**100.00%**	100.00%	100.00%	Netherlands	Euro (EUR)
IMI BG	**100.00%**	100.00%	100.00%	Bulgaria	Bulgarian Lev (BGN)
Microenergia EOOD	**70.00%**	70.00%	70.00%	Bulgaria	BGN
IMI CZ	**100.00%**	100.00%	100.00%	Czech Republic	Czech Koruna (CZK)
IMI MX	**100.00%**	100.00%	100.00%	Mexico	Mexican Peso (MXN)
Integrated Micro-Electronics Manufactura S.A.P.I de C.V.	**100.00%**	100.00%	100.00%	Mexico	MXN
IMI France SAS (IMI France)	**100.00%**	100.00%	100.00%	France	EUR
IMI USA	**100.00%**	100.00%	100.00%	USA	USD
IMI Japan	**100.00%**	100.00%	100.00%	Japan	USD
PSi	**83.25%**	55.78%	55.78%	Philippines	USD
PSi Laguna [c]	**–**	–	55.78%	Philippines	USD
PSiTech Realty [d]	**33.30%**	22.31%	22.31%	Philippines	USD
Pacsem Realty [d]	**53.28%**	35.70%	35.70%	Philippines	USD

[a] *STPH's business operations was integrated as part of the Parent Company in 2013 (see Note 1). STPH is a dormant company.*
[b] *On August 8, 2012 and July 3, 2012, VISTA and STTS were liquidated, respectively.*
[c] *On June 21, 2012, PSi Laguna was legally merged with PSi.*
[d] *The percentage pertains to the indirect ownership of the Parent Company. On June 21, 2012, the BOD of PSi, PSiTech Realty and Pacsem Realty authorized the dissolution of PSiTech Realty and Pacsem Realty, subject to the Philippine SEC approval.*

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 the fair value computation of receivables, 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
Receivables	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

	Fair Value	Provisional Values
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

Receivables, 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 of Additional Interest in PSi
On September 26, 2012, amendments relating to the Agreement were made to allow the parties to respectively exercise their option rights without the need for further determination of valuation or engagement of third parties. Accordingly, a fixed price was established amounting to $150,000.

On January 9, 2013, pursuant to the second amendment to the Agreement, 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. The sale and purchase transaction involving the Option Shares shall be deemed completed upon compliance of the rest of conditions set forth in the Agreement.

On March 12, 2013, the Deeds of Assignment have been executed and the stock certificates have been delivered. The exercise of the option rights increased the Parent Company's ownership interest in PSi from 55.78% to 83.25%.

Details of the transactions are as follows:

Consideration paid to non-controlling shareholders (share of the Parent Company in the exercise price)	$124,875
Value of the option exercised	2,857,010
Additional interest acquired	2,981,885
Adjustment to non-controlling interests	4,540,547
Total amount recognized in "Additional paid-in capital" account within equity	$7,522,432

Acquisition of IMI EU/MX 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 IMI EU/MX 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 IMI EU/MX 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 IMI EU/MX Subsidiaries aggregating to €2,546,419 ($3,645,453).

The acquisition costs are allocated as follows as at May 4, 2011:

	IMI BG	IMI CZ	IMI 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 IMI EU/MX 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 IMI EU/MX Subsidiaries by Cooperatief was completed.

Under the SPA, Cooperatief also purchased receivables of EPIQ NV from IMI EU/MX 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 IMI EU/MX 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.

	IMI BG		IMI CZ		IMI 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
Loans and 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

	IMI BG		IMI CZ		IMI MX	
	Fair Value	Provisional Values	Fair Value	Provisional Values	Fair Value	Provisional Values
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, IMI EU/MX 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.

Material Partly-owned Subsidiary

PSi is the only subsidiary with non-controlling interests that are material to the Group. Financial information of PSi are provided below:

Proportion of equity interest held by non-controlling interests:

	2013	2012	2011
Proportion of equity interest held by non-controlling interests	**16.75%**	44.22%	44.22%
Accumulated balances of material non-controlling interests	**($2,921,102)**	($5,550,643)	($883,298)
Loss allocated to material non-controlling interests	**($1,297,486)**	($4,666,461)	($1,998,732)

The summarized financial information of PSi are provided below. These information are based on amounts before intercompany eliminations:

Summarized balance sheets as of December 31, 2013 and 2012:

	2013	2012 (As restated*)
Current assets	**$13,549,353**	$12,919,929
Noncurrent assets	**6,324,708**	6,836,382
Current liabilities	**(34,333,848)**	(28,769,848)
Noncurrent liabilities	**(3,496,747)**	(4,131,069)
Total equity	**($17,956,534)**	($13,144,606)
Attributable to:		
Equity holders of the Parent Company	**($15,035,432)**	($7,593,963)
Non-controlling interests	**(2,921,102)**	(5,550,643)
	($17,956,534)	($13,144,606)

**As restated for the effects of the adoption of the revised Philippine Accounting Standards (PAS) 19, Employee Benefits.*

Summarized statements of comprehensive income for 2013, 2012 and 2011:

	2013	2012 (As restated*)	2011 (As restated*)
Revenues	**$43,084,648**	$45,598,208	$73,963,213
Cost of sales	**(44,290,097)**	(49,044,230)	(71,157,382)
Operating expenses	**(3,802,830)**	(5,860,537)	(6,767,839)
Other income (expenses)	**174,751**	(740,764)	(366,223)
Loss before income tax	**(4,833,528)**	(10,047,323)	(4,328,231)
Provision for income tax	**(51,629)**	(42,271)	(119,164)
Net loss for the year	**(4,885,157)**	(10,089,594)	(4,447,395)
Other comprehensive income (loss)	**73,229**	244,052	(546,364)
Total comprehensive loss	**($4,811,928)**	($9,845,542)	($4,993,759)
Attributable to:			
Equity holders of the Parent Company	**($3,514,442)**	($5,179,081)	($2,995,027)
Non-controlling interests	**(1,297,486)**	(4,666,461)	(1,998,732)
	($4,811,928)	($9,845,542)	($4,993,759)

**As restated for the effects of the adoption of the revised PAS 19, Employee Benefits.*

Summarized statements of cash flows for 2013, 2012 and 2011:

	2013	2012	2011
Operating	**($3,795,317)**	($6,886,515)	($1,654,538)
Investing	**(1,530,828)**	(1,368,538)	(3,076,193)
Financing	**4,255,025**	6,163,471	3,542,682
Net decrease in cash and cash equivalents	**($1,071,120)**	($2,091,582)	($1,188,049)

3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The consolidated financial statements have been prepared under the historical cost basis, 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 USD, which is the functional currency of the Parent Company, and are rounded off to the nearest dollar, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional consolidated balance sheet at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement or a reclassification of items in the consolidated financial statements. An additional consolidated balance sheet as at January 1, 2012 is presented in these consolidated financial statements due to the retrospective application of the revised PAS 19, *Employee Benefits.*

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 comprise the financial statements of the Group and its subsidiaries as of December 31, 2013 and 2012.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (that is, existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same balance sheet date as the Parent Company, using consistent accounting policies. All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 adjustments 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 Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets and liabilities.

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 were 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.

Changes in Accounting Policies and Disclosures
New and amended standards and interpretation
The Group applied, for the first time, PAS 19 (As Revised in 2011), *Employee Benefits*, that requires restatement of previous consolidated financial statements.

Several other new and amended standards and interpretation were applied for the first time in 2013. The nature and the impact of each new and amended standard and interpretation are described below:

- PAS 1 (Amendments), *Financial Statement Presentation – Presentation of Items of OCI*
  The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) are presented separately from items that will never be reclassified. The amendments affect presentation only and have no impact on the Group's financial position or performance.

- PAS 19 (As Revised in 2011), *Employee Benefits*
  On January 1, 2013, the Group adopted the revised PAS 19.

  For defined benefit plans, the revised standard requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Prior to the adoption of the revised standard, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon the adoption of the revised standard, the Group changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in profit or loss in the period they occur.

  The revised standard replaced the interest cost and expected return on plan assets with the concept of net interest on pension liability or asset which is calculated by multiplying the net pension liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

  The revised standard also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the revised standard modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

  Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of the adoption on the consolidated financial statements are as follows:

Consolidated Balance Sheets

Increase (decrease) in:	**December 31, 2013**	December 31, 2012	January 1, 2012
Pension asset	**($1,606,862)**	($1,941,695)	($2,806,876)
Pension liabilities	**5,550,296**	1,222,559	2,093,572
Other comprehensive income	**(8,958,073)**	(4,618,236)	(6,211,759)
Retained earnings	**1,800,915**	1,453,982	1,311,311

Consolidated Statements of Income

Increase (decrease) in:	**2013**	2012	2011
Cost of sales	**$77,601**	($199,803)	$25,866
Operating expenses	**12,157**	(250,800)	8,584
Foreign exchange loss	**(436,691)**	307,932	–
Net income	**346,933**	142,671	(34,450)

There is no significant impact on the Group's basic and diluted earnings per share (EPS).

Consolidated Statements of Comprehensive Income

Increase (decrease) in:	**2013**	2012	2011
Net income for the year	**$346,933**	$142,671	($34,450)
Remeasurement gains on defined benefit plans	**(4,339,837)**	1,593,523	(1,002,770)
Total comprehensive income for the year	**(3,992,904)**	1,736,194	(1,037,220)

The adoption of the revised standard did not have impact on the consolidated statements of cash flows.

As permitted by the standard, sensitivity disclosures for pension liabilities for comparative year ended December 31, 2012 have not been provided.

- PAS 27 (As Revised in 2011), *Separate Financial Statements*
  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. The adoption of the revised standard did not have a significant impact on the separate financial statements of the entities in the Group.

- PAS 28 (As Revised in 2011), *Investments in Associates and Joint Ventures*
  As a consequence of the 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, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard did not have any impact on the consolidated financial statements of the Group.

- PFRS 7 (Amendments), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
  These amendments require the Group to disclose information about rights to set-off and related arrangements (such as, collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial*

Instruments: Presentation. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information:

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 balance sheets;
c. The net amounts presented in the consolidated balance sheets;
d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    ii. Amounts related to financial collateral (including cash collateral); and
e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

This is presented separately for financial assets and financial liabilities recognized at balance sheet date. The amended standard did not have any impact on the consolidated financial statements of the Group.

- PFRS 10, *Consolidated Financial Statements*
  The Group adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation – Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 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 adoption of the new standard did not have any impact on the consolidated financial statements of the Group. The Group assessed that no facts and circumstances would suggest change to any criteria of control since the subsidiaries are either wholly-owned or majority owned.

- PFRS 11, *Joint Arrangements*
  This standard replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *JCEs – Non-monetary Contributions by Venturers*. The standard removed 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. The new standard did not have any impact on the consolidated financial statements of the Group.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). While the Group has a subsidiary with material non-controlling interests, there are no unconsolidated structured entities. PFRS 12 disclosures are provided in Note 2.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 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. The standard defines fair value as an exit price. The standard also requires additional disclosures.

As a result of the guidance in PFRS 13, the Group reassessed its policies for measuring fair values. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 30.

- Philippine Interpretation of IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity, during the production phase of the mine ("production stripping costs"). The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Group.

Annual improvements to PFRSs (2009-2011 cycle)
The *Annual Improvements to PFRSs (2009-2011 Cycle)* contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year. The nature and the impact of each amendment are described below:

- PAS 1, *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*
  These 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. As a result, the Group has not included supporting notes in respect of the opening balance sheet as at January 1, 2012.

- 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. The amendment did not have any significant impact on the consolidated financial statements of the Group.

- 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*. The amendment did not have any significant impact on the Group's financial position or financial performance.

<u>Standards Issued but not yet Effective</u>
The Group will adopt the following new and amended standards and interpretations 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 significant impact on the consolidated financial statements.

Effective in 2014

- PAS 32 (Amendments), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  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.

- PAS 36 (Amendments), *Impairment of Assets – Recoverable Amount Disclosures for Nonfinancial Assets* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

- PAS 39 (Amendments), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements* (Amendments) – *Investment Entities* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss (FVPL).

- Philippine Interpretation of IFRIC 21, *Levies* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  Philippine Interpretation of IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

Effective in 2015

- PAS 19 (Amendments), *Employee Benefits – Defined Benefit Plans: Employee Contributions* (effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net pension asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

Annual improvements to PFRSs (2010-2012 cycle)
The *Annual Improvements to PFRSs (2010-2012 Cycle)* contain non-urgent but necessary amendments to the following standards.

- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

- PAS 24, *Related Party Disclosures – Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of these amendments and in the immediately preceding annual period.

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014.

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that has been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

- PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

Annual improvements to PFRSs (2011-2013 cycle)
The *Annual Improvements to PFRSs (2011-2013 Cycle)* contain non-urgent but necessary amendments to the following standards.

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement – Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

Standard with no mandatory effective date

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relates to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace 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 FVPL. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For liabilities designated as at FVPL using the FVO, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI 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 to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for nonfinancial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Interpretation whose effective date was deferred

- Philippine Interpretation of IFRIC 15, *Agreement for Construction of Real Estate*
  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.

The significant accounting policies that have been used in the preparation of the consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated balance sheet based on current or noncurrent classification.

An asset is current when it is expected to be realized or intended to be sold or consumed in the normal operating cycle or within twelve (12) months after the balance sheet date, when it is held primarily for the purpose of trading, or cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the balance sheet date. All other assets are classified as noncurrent.

A liability is current when it is expected to be settled in the normal operating cycle or due to be settled within twelve (12) months after the balance sheet date, when it is held primarily for trading, or when there is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the balance sheet date. All other liabilities are classified as noncurrent.

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, 2013 and 2012 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 sheets 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.

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.

Loans and receivables are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of loans and receivables.

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

This accounting policy relates primarily to the Group's cash and cash equivalents, loans and 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 that are attributable to the acquisition of AFS financial assets.

After initial measurement, AFS financial assets are subsequently measured at fair value. Dividends earned on holding AFS financial assets are recognized in profit or loss 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 OCI under "Fair value changes on available-for-sale financial assets" account. 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 OCI 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 and preferred equity shares and convertible notes.

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. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss when other financial liabilities are derecognized, as well as through the EIR amortization process.

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.

<u>Fair Value Measurement</u>
The Group measures derivatives at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at balance sheet date.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

<u>Offsetting of Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets 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.

<u>Derecognition of Financial Instruments</u>
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 (that is, removed from the consolidated balance sheets) 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 rights 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.

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. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "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.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

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 year, the amount of the estimated provision for doubtful accounts increases or decreases because of an event occurring after the provision for doubtful accounts was recognized, the previously recognized provision for doubtful accounts is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit or loss.

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 OCI 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 OCI.

Inventories
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 profit or loss.

Tax Credits
Tax credits, included under “Other current assets” account in the consolidated balance sheets, include amounts withheld from income tax payments and value added tax refund claims.

Property, Plant and Equipment
Property, plant and equipment are 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 costs 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
Furniture, fixtures and office equipment	3 - 5
Transportation equipment	3 - 5
Tools and instruments	2 - 5

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.

The EUL and methods of depreciation of property, plant and equipment are reviewed annually and adjusted prospectively, if appropriate.

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.

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 to measure the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the consolidated statements of income under "Operating expenses" account.

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, any 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 OCI. 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 interests 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. The Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost, less accumulated impairment losses. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGU, or group 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.

When goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill allocated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation.

PFRS 3, *Business Combinations*, provides that if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve (12) months of the acquisition date; and from the acquisition date (1) 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; (2) 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 (3) 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.

After 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 the 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 CGU 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. 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 as of September 30 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.

Restructuring provisions are recognized when the recognition criteria for provisions are fulfilled. The Group has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features.

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. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. 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 account 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 account 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 authorities. 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 in the countries where the Group operates and generates taxable profit.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

Deferred tax assets are recognized for all deductible temporary differences and 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, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets 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.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly 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.

<u>Foreign Currency Transactions</u>
Management has determined that the functional and presentation currency of the Parent Company, IMI USA, IMI Japan and IMI Singapore is the USD, being the currency of the primary environment in which these entities operate. The functional currencies of its operations in Bulgaria, Czech Republic and Mexico are determined as the currency in the country where the subsidiary operates. For consolidation purposes, the foreign subsidiaries' balances are translated to USD.

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 IMI BG, IMI CZ, and IMI MX, are the BGN, CZK and MXN, respectively. The functional currency of IMI France and Cooperatief is the EUR. 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.

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 OCI and accumulated in a separate component of equity until the disposal of the foreign operation.

On disposal of a foreign entity, the deferred cumulative amount recognized in the consolidated statement of comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.

Pensions and Other Employee Benefits

Defined benefit plans

The Parent Company, PSi and IMI BG maintain separate defined benefit plans covering substantially all of their employees. The plans of the Parent Company and PSi are funded and noncontributory pension plans administered by their respective Boards of Trustees, while that of IMI BG is unfunded and noncontributory.

The cost of providing benefits under the defined benefit plans 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.

Net pension expense comprises the following:

- Service cost;
- Net interest on pension liabilities; and
- Remeasurements of pension liabilities.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the pension liabilities is the change during the period in the net pension liabilities that arises from the passage of time which is determined by applying the discount rate based on government bonds to the pension liabilities. Net interest on pension liabilities is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on pension liabilities) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Pension liabilities are the aggregate of the present value of the defined benefit obligation at the end of the balance sheet date reduced by the fair value of plan assets, adjusted for any effect of limiting a net pension asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

Defined contribution plans
The Parent Company's subsidiaries in Singapore, PRC and Hong Kong, IMI CZ, and IMI MX participate in their respective national pension schemes which are considered as defined contribution plans. A defined contribution plan is a plan under which the subsidiary pays fixed contributions. Each subsidiary has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all 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.

IMI CZ
IMI 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. IMI CZ is not obliged to any other payments if employment terminates.

IMI MX
In accordance with the Mexican Labor Law, IMI 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. IMI MX estimates that the differences that might be determined if this liability had been estimated by an independent actuary are immaterial.

IMI 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.

Employee leave entitlement
Parent Company
Employee entitlements to annual leave are recognized as a liability when they accrue to the employees. The undiscounted liability for leave expected to be settled wholly before twelve (12) months after the end of the balance sheet date is recognized for services rendered by employees up to the end of the balance sheet date.

PSi
PSi compensates employees for vacation and sick absences (compensated absences). Entitlement to compensated absences is accumulating.

Unused sick leave and vacation leave benefits can be accumulated. Leave days entitlement for a certain year can be availed of during and/or the following year, except those unused vacation leaves for prior years through December 31, 2009. Upon separation of an employee who has rendered at least one (1) year of service, accumulated sick leave and vacation leave balances will be converted to cash based on the employee's final daily rate, except for Executives' (directors and higher positions), sick leave and vacation credits which are non-commutable to cash.

Unused vacation leaves for prior years through December 31, 2009 can only be converted to cash upon separation of the employees from PSi and are actuarially determined using the projected unit credit method.

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.

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 EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on EPS.

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 commitments - 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 statements of income under “Miscellaneous income - net” account 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 sheets. 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” account in the consolidated statements of 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 profit or loss 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 in the consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Segment Information
The Group is organized and managed separately according to geographical locations of businesses. The geographical segments are segregated as follows: Philippines, Singapore/China, Europe/Mexico and Japan. These geographical businesses are the basis upon which the Group reports its primary segment information presented in Note 27.

Events after the Balance Sheet Date
Post year-end events that provide additional information about the Group's financial 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 notes to 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 judgments, 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 disclosed in Note 3.

Operating lease commitments - Group as lessor
In agreement with the original lessors, the Parent Company and STEL Group subleased portions of the properties they occupy. Based on the evaluation of the terms and conditions of the arrangements between the Parent Company and STEL Group and their sublessees, the contracts are operating leases. Further details are disclosed in Note 28.

Operating and finance lease commitments - Group as lessee
The Group has entered into various lease contracts 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 contracts covering certain office equipment while IMI BG and IMI 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 assets and so account for the contracts as finance leases. Further details are disclosed 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 disclosed 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.

<u>Estimates and Assumptions</u>
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 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. Further details on loans and receivables are disclosed 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. Further details on inventories are disclosed 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. Further details on property, plant and equipment are disclosed in Note 9.

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 profit or loss, in the expense category consistent with the function of the intangible assets. Further details on intangible assets are disclosed in Note 11.

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 exists or has decreased. If any such indication exists, and when the carrying amount of an asset exceeds its estimated recoverable amount, the asset or, if it is not possible, for the CGU to which the asset belongs is written down to its recoverable amount.

Further details on property, plant and equipment and intangible assets are disclosed in Notes 9 and 11, respectively.

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 CGU 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. Further details on goodwill are disclosed 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 IMI BG (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. Further details on intangible assets resulting from business combinations are disclosed 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 OCI. 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 $1.87 million and $1.61 million as of December 31, 2013 and 2012, respectively. In 2013, 2012, and 2011, no impairment losses have been recognized on AFS financial assets.

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable profits. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience on previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognized for all deductible temporary differences and 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. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 23.

Pensions and other employee benefits
The cost of defined benefit plans and other long-term employee benefits (including accrued leaves of PSi) as well as the present value of defined benefit obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rates, turnover rates, mortality rates, salary increase rates, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and

its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The turnover rate represents the proportion of the current plan members who will resign from service prior to their retirement date and hence, be entitled to resignation benefits instead of retirement benefits. The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Salary increase rates and future pension increases are based on expected future inflation rates.

The Group also estimates other short-term employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policies. These estimates may vary depending on the future changes in salaries and actual experiences during the period.

Further details on pension and other employee benefits are disclosed in Note 25.

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. Further details on share-based payment transactions are disclosed 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 5-year discounted cash flow model, to move up or down depending on the volatility, risk-free rate and exercise price. Further details on the fair value of put and call options are disclosed in Notes 30 and 31.

5. Cash and Cash Equivalents

This account consists of:

	2013	2012
Cash on hand	**$97,912**	$127,180
Cash in banks	**44,887,461**	48,304,387
Short-term deposits	**4,057,226**	7,764,815
	$49,042,599	$56,196,382

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 $0.22 million in 2013, $0.27 million in 2012 and $0.30 million in 2011 (see Note 22).

6. **Loans and Receivables**

This account consists of:

	2013	2012
Trade	**$174,135,627**	$147,455,163
Nontrade	**2,838,394**	2,268,477
Receivable from insurance	**1,178,785**	1,178,785
Receivable from employees	**542,944**	539,159
Due from related parties (Note 29)	**218,453**	517,508
Others	**3,041,196**	2,702,067
	181,955,399	154,661,159
Less allowance for doubtful accounts	**3,490,657**	3,780,304
	$178,464,742	$150,880,855

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.

As of December 31, 2013 and 2012, IMI BG's pledged receivables with UniCredit Bulbank and BNP Paribas follow (see Note 14):

	In EUR		**In USD**	
	2013	2012	**2013**	2012
UniCredit Bulbank	**€5,080,000**	€8,000,000	**$7,010,000**	$10,600,000
BNP Paribas	**–**	320,000	**–**	430,000
	€5,080,000	€8,320,000	**$7,010,000**	$11,030,000

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
This represents 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.

Allowance for Doubtful Accounts
Trade receivables, nontrade receivables, receivable from insurance, receivable from employees and other receivables with aggregate nominal value of $3.49 million and $3.78 million were individually assessed to be impaired and fully provided with allowance for doubtful accounts as of December 31, 2013 and 2012, respectively.

Movements in the allowance for doubtful accounts are as follows:

2013

	Trade	**Nontrade**	**Receivable from Insurance**	**Receivable from Employees**	**Total**
At January 1, 2013	**$2,459,173**	**$124,320**	**$1,178,785**	**$18,026**	**$3,780,304**
Provisions (reversals)	**(115,511)**	**12,387**	**–**	**–**	**(103,124)**
Accounts written-off	**(172,306)**	**(14,217)**	**–**	**–**	**(186,523)**
At December 31, 2013	**$2,171,356**	**$122,490**	**$1,178,785**	**$18,026**	**$3,490,657**

2012

	Trade	Nontrade	Receivable from Insurance	Receivable from Employees	Total
At January 1, 2012	$2,117,204	$65,783	$1,202,135	$18,065	$3,403,187
Provisions (reversals)	344,666	120,221	(23,350)	(39)	441,498
Accounts written-off	(2,697)	(61,684)	–	–	(64,381)
At December 31, 2012	$2,459,173	$124,320	$1,178,785	$18,026	$3,780,304

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

7. Inventories

This account consists of:

	2013	2012
Raw materials and supplies	**$70,481,190**	$65,789,008
Work-in-process	**13,785,193**	10,822,065
Finished goods	**15,248,673**	11,277,519
	99,515,056	87,888,592
Less:		
Allowance for inventory obsolescence	**5,151,060**	4,349,787
Allowance for decline in value of inventories	**228,388**	362,936
	5,379,448	4,712,723
	$94,135,608	$83,175,869

The cost of the inventories carried at NRV amounted to $19.20 million and $15.85 million as of December 31, 2013 and 2012, respectively. The amount of inventories recognized as an expense under “Cost of goods sold and services” account amounted to $498.22 million in 2013, $449.06 million in 2012 and $388.88 million in 2011 (see Note 18).

Movements in the allowance for inventory obsolescence are as follows:

	2013	2012
At January 1	**$4,349,787**	$4,072,997
Provisions (Note 20)	**2,123,145**	282,948
Write-offs	**(1,321,872)**	(6,158)
At December 31	**$5,151,060**	$4,349,787

Movements in the allowance for decline in value of inventories value are as follows:

	2013	2012
At January 1	**$362,936**	$362,936
Reversals (Note 20)	**(107,131)**	–
Write-offs	**(27,417)**	–
At December 31	**$228,388**	$362,936

The Group recognized gains (losses) from sale of materials amounting to $0.92 million in 2013, ($1.82 million) in 2012, and $0.70 million in 2011. Gains (losses) from sale of materials are included under “Miscellaneous income - net” account in the consolidated statements of income.

As of December 31, 2013 and 2012, IMI BG's pledged inventories with UniCredit Bulbank and BNP Paribas follow (see Note 14):

	In EUR		In USD	
	2013	2012	**2013**	2012
UniCredit Bulbank	**€8,000,000**	€8,000,000	**$11,039,017**	$10,600,000
BNP Paribas	**–**	320,000	**–**	430,000
	€8,000,000	€8,320,000	**$11,039,017**	$11,030,000

8. Other Current Assets

This account consists of:

	2013	2012
Tax credits	**$12,402,958**	$5,028,572
Input taxes	**1,411,528**	559,125
Advances to suppliers	**1,668,113**	1,031,452
Prepayments	**1,076,126**	683,528
Current portion of deferred licensing fee (Note 12)	**10,000**	10,000
Others	**51,244**	113,235
	$16,619,969	$7,425,912

Tax credits are mainly attributable to IMI MX, IMI BG and the Parent Company.

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

9. Property, Plant and Equipment

Movements in this account are as follows:

2013

	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, 2013	$72,228,680	$128,050,382	$16,108,919	$1,216,621	$3,751,507	$1,214,071	$222,570,180
Additions	2,086,900	10,177,887	1,937,408	246,049	428,459	5,973,276	20,849,979
Disposals	(1,718,354)	(17,131,999)	(428,241)	(463,830)	(265,411)	–	(20,007,835)
Retirement	(3,436,092)	(12,138,924)	(1,899,897)	(53,973)	–	–	(17,528,886)
Transfers	1,245,220	4,641,848	161,250	52,313	–	(6,100,631)	–
Foreign currency exchange difference	(291,147)	1,266,183	77,706	26,058	–	84,866	1,163,666
At December 31, 2013	70,115,207	114,865,377	15,957,145	1,023,238	3,914,555	1,171,582	207,047,104
Accumulated depreciation							
At January 1, 2013	36,498,492	80,145,011	13,081,121	425,019	2,622,129	–	132,771,772
Depreciation	3,507,838	15,360,988	1,323,320	305,304	572,649	–	21,070,099
Disposals	(1,594,516)	(14,740,564)	(384,327)	(371,141)	(173,677)	–	(17,264,225)
Retirement	(3,436,092)	(12,138,924)	(1,899,897)	(53,973)	–	–	(17,528,886)
Foreign currency exchange difference	32,675	498,250	61,453	19,702	–	–	612,080
At December 31, 2013	35,008,397	69,124,761	12,181,670	324,911	3,021,101	–	119,660,840
Accumulated impairment losses							
At January 1, 2013	736,565	978,430	12,226	–	–	–	1,727,221
Impairment loss	–	4,991	–	–	–	–	4,991
At December 31, 2013	736,565	983,421	12,226	–	–	–	1,732,212
Net book value	$34,370,245	$44,757,195	$3,763,249	$698,327	$893,454	$1,171,582	$85,654,052

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)
Retirement	(205,774)	(908,415)	–	(51,339)	–	–	(1,165,528)
Transfers	82,368	2,282,879	184,721	40	–	(2,550,008)	–
Foreign currency exchange difference	(420,063)	(868,891)	862,347	(44,018)	(58,459)	(49,758)	(578,842)
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	(4,097)	(8,873,429)	(71,280)	(352,238)	(568)	–	(9,301,612)
Retirement	(205,774)	(418,156)	–	(31,098)	–	–	(655,028)
Foreign currency exchange difference	(810,646)	(1,285,632)	664,288	(49,600)	–	–	(1,481,590)
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	$34,993,623	$46,926,941	$3,015,572	$791,602	$1,129,378	$1,214,071	$88,071,187

As of December 31, 2013 and 2012, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to $92.89 million and $80.47 million, respectively.

The carrying values of equipment under finance lease amounted to $5.25 million and $2.05 million as of December 31, 2013 and 2012, respectively (see Note 28).

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

	2013	2012	2011
Cost of goods sold and services (Note 18)	**$18,698,523**	$20,448,129	$21,682,170
Operating expenses (Note 19)	**2,371,576**	2,871,305	2,933,116
	$21,070,099	$23,319,434	$24,615,286

PSi recognized impairment loss on certain machineries amounting to $5.00 thousand in 2013 and $0.23 million in 2012.

The Group recognized gains from disposal of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments amounting to $0.13 million in 2013 and 2012, and $0.12 million in 2011. Gains from disposal of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments are included under "Miscellaneous income - net" account in the consolidated statements of income.

10. Goodwill

As of December 31, 2013 and 2012, goodwill acquired through business combinations have been allocated to five (5) individual CGUs as follows:

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

<u>STEL Group, PSi, IMI USA and IMI CZ</u>
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 5-year period. The pre-tax discount rates applied to cash flow projections are as follows:

	2013	2012
STEL Group	**13.07%**	11.85%
PSi	**14.11%**	13.47%
IMI USA	**13.69%**	11.41%
IMI CZ	**12.73%**	12.40%

Cash flows beyond the 5-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:

- Forecasted gross margins - Gross margins are based on the mix of business model arrangements with the customers.
- Revenue - Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital.

No impairment loss was assessed for STEL Group, IMI USA, and IMI CZ in 2013, 2012 and 2011.

For PSi, the assessment resulted to an impairment loss of $2.72 million in 2011 but no impairment losses in 2013 and 2012.

Sensitivity to changes in assumptions
With regard to the assessment of value-in-use of STEL Group, PSi, IMI USA, and IMI CZ, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of these CGUs to exceed their recoverable amount.

<u>Parent Company</u>
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 2013, 2012 and 2011.

11. **Intangible Assets**

Movements in this account are as follows:

2013

	Customer Relationships	**Unpatented Technology**	**Computer Software**	**Total**
Cost				
At January 1, 2013	**$19,666,617**	**$100,000**	**$2,897,761**	**$22,664,378**
Additions	**–**	**–**	**776,158**	**776,158**
Foreign currency exchange difference	**–**	**–**	**56,200**	**56,200**
At December 31, 2013	**19,666,617**	**100,000**	**3,730,119**	**23,496,736**
Accumulated amortization				
At January 1, 2013	**14,817,208**	**100,000**	**1,853,049**	**16,770,257**
Amortization	**1,353,323**	**–**	**436,449**	**1,789,772**
Foreign currency exchange difference	**–**	**–**	**74,977**	**74,977**
At December 31, 2013	**16,170,531**	**100,000**	**2,364,475**	**18,635,006**
Net book value	**$3,496,086**	**$–**	**$1,365,644**	**$4,861,730**

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	$4,849,409	$–	$1,044,712	$5,894,121

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

Customer relationship of STEL Group amounting to $12.90 million is fully amortized as of December 31, 2013 and 2012.

Unpatented Technology
Unpatented technology of STEL pertains to products which are technologically feasible. The following technologies are also unique, difficult to design around and 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. IMI EU/MX Subsidiaries also have computer software with aggregate carrying value of $0.52 million and $0.56 million as of December 31, 2013 and 2012, respectively.

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

	2013	2012	2011
Cost of goods sold and services (Note 18)	**$11,290**	$17,148	$16,183
Operating expenses (Note 19)	**1,778,482**	2,040,478	1,147,786
	$1,789,772	$2,057,626	$1,163,969

12. Other Noncurrent Assets

This account consists of:

	2013	2012
Miscellaneous deposits	**$2,525,697**	$1,696,534
Noncurrent portion of deferred licensing fee	**–**	10,000
Others	**57,589**	98,550
	$2,583,286	$1,805,084

Miscellaneous Deposits
Miscellaneous deposits include electric and water meter deposits.

Deferred Licensing Fee
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 amortization expense, and the additional licensing fee amounting $78,139 in 2013, $74,870 in 2012 and $71,559 in 2011 are included in "Cost of goods sold and services" account under "Facilities costs and others - Others" (see Note 20).

13. Accounts Payable and Accrued Expenses

This account consists of:

	2013	2012
Trade payables	**$120,669,723**	$101,772,745
Accrued expenses	**32,783,762**	21,075,223
Accrued payroll	**7,347,471**	8,859,315
Nontrade payables	**4,116,382**	1,797,645
Customers' deposits	**1,721,072**	1,481,960
Current portion of obligation under finance lease (Note 28)	**907,761**	674,071
Dividends payable (Note 17)	**858,539**	2,648,852

(Forward)

	2013	2012
Taxes payable	**$720,216**	$704,023
Employee-related payables	**627,590**	612,713
Accrued interest payable (Notes 14 and 15)	**471,700**	1,105,384
Current portion of obligation under deferred revenue (Note 16)	**287,568**	272,747
Due to related parties (Note 29)	**41,604**	6,290
Others	**501,186**	2,394,680
	$171,054,574	$143,405,648

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

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, 2013 and 2012, accrued payroll includes accrued leaves amounting to $1.10 million and $1.86 million, respectively.

Nontrade Payables
Nontrade payables include provision for losses on purchase commitments of PSi amounting to $0.22 million and $0.29 million as of December 31, 2013 and 2012, respectively, which pertain to losses arising from price decline and expected termination of several firm and executory purchase commitments. Reversals of $0.05 million and provisions of $0.13 million were recorded in 2013 and 2012, respectively (see Note 20).

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 pension 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. As of December 31, 2012, movement in provision for restructuring follows:

At January 1	$249,044
Provision during the year	1,896,238
Payment during the year	(2,145,282)
At December 31	$–

14. **Trust Receipts and Loans Payable**

This account consists of borrowings of the following entities:

	2013	2012
Parent Company	**$24,000,000**	$22,000,000
PSi	**9,422,426**	9,099,902
IMI BG	**6,547,015**	9,700,611
STEL	**3,501,332**	1,396,626
IMI MX	**2,183,092**	2,009,461
	$45,653,865	$44,206,600

Parent Company
As of December 31, 2013 and 2012, the Parent Company has short-term loans aggregating to $24.00 million and $22.00 million, respectively. The loans have maturities ranging from 30-180 days and fixed interest rates ranging from 1.90% to 2.40% in 2013, 1.64% to 2.00% in 2012, and 1.16% to 2.27% in 2011.

The Parent Company incurred interest expense on its short-term loans amounting to $0.50 million in 2013, $0.27 million in 2012 and $0.16 million in 2011.

PSi
PSi has short-term loans and trust receipts payable to Metropolitan Bank & Trust Co. (MBTC) amounting to $9.42 million and $9.10 million as of December 31, 2013 and 2012, respectively.

These loans fall under an unsecured Omnibus Line Credit Facility of $10.00 million granted on November 24, 2010. The credit facility includes 30 to 360 days Promissory Notes (maybe denominated in USD or Philippine Peso (PHP)), Letter of Credit (LC)/Trust Receipt Line, Export Packing Credit Line, FX Forward Cover, and Foreign Bills Line and Domestic Bill Purchase Line, subject to interest rates ranging from 2.16% to 2.57% in 2013, 2.21% to 2.71% in 2012, and 2.18% to 2.80% in 2011.

As of December 31, 2013 and 2012, the outstanding trust receipts payable amounted to $0.22 million and $0.40 million, respectively.

The undrawn credit facility amounted to $0.58 million and $0.90 million as of December 31, 2013 and 2012, respectively.

PSi incurred interest expense on its short-term loans and trust receipts payable amounting to $0.22 million in 2013, $0.26 million in 2012 and $0.44 million in 2011.

IMI BG
IMI BG has short-term loans from the following banks:

	2013	2012
UniCredit Bulbank	**$5,167,138**	$9,275,017
BNP Paribas	**1,379,877**	425,594
	$6,547,015	$9,700,611

The loans from UniCredit Bulbank and BNP Paribas are from existing revolving credit facilities with terms of one (1) year. The loans from UniCredit Bulbank and BNP Paribas bear interest based on 1-month EURIBOR plus 3.00% and 3-month EURIBOR plus 2.50%, respectively.

IMI BG incurred interest expense on its loans amounting to $0.21 million in 2013, $0.39 million in 2012 and $0.45 million in 2011.

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, 2013 and 2012, IMI BG's pledged inventories and receivables with UniCredit Bulbank amounted to €13.08 million ($18.05 million) and €16.00 million ($21.20 million), respectively.

The credit facility with BNP Paribas is subject to the following collaterals:

- First rank pledge on receivables from selected customers of IMI BG, 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 IMI BG in the amount of 125% of the utilized portion of the facility but not more than €3,750,000.

As of December 31, 2013 and 2012, IMI BG's pledged inventories and receivables with BNP Paribas amounted to nil and €0.64 million ($0.86 million), respectively.

STEL
The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates of 2.30% to 2.39% in 2013, 3.36 to 3.55% in 2012, and 3.35% to 3.45% in 2011, and have maturities of 90 to 240 days from the date of issue, with renewal options.

STEL incurred interest expense on its short-term loans amounting to $0.04 million in 2013, $0.40 million in 2012 and $0.34 million in 2011.

IMI MX
IMI MX has a revolving credit line with Banamex amounting to $2.18 million and $2.00 million as of December 31, 2013 and 2012, respectively, with term not exceeding twelve (12) months and bears interest based on LIBOR plus 2%.

IMI MX incurred interest expense on its short-term loan amounting to $0.08 million in 2013 and 2012.

15. Long-Term Debt

This account consists of borrowings of the following entities:

	2013	2012
Parent Company	**$46,898,500**	$46,624,000
Cooperatief	**16,892,242**	18,876,735
IMI CZ	**812,419**	–
	64,603,161	65,500,735
Less current portion:		
Cooperatief	**2,758,200**	2,649,600
IMI CZ	**145,208**	–
	2,903,408	2,649,600
Noncurrent portion	**$61,699,753**	$62,851,135

Parent Company
In October 2011, the Parent Company obtained a 5-year term clean loan from a local bank amounting to $40.00 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 3-month LIBOR plus margin of 0.80%.

On February 29, 2012, the Parent Company obtained a €5.00 million ($6.90 million), 5-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 6-month LIBOR plus 1.50% spread per annum.

The Parent Company incurred interest expense on its long-term loans amounting to $0.81 million in 2013, $0.90 million in 2012 and $0.43 million in 2011.

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 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, 2013 and 2012, the Parent Company has complied with all of the above-mentioned loan covenants.

Cooperatief
Cooperatief's long-term debt aggregating to €14.25 million ($20.40 million) as at July 29, 2011 relates primarily to the acquisition of EPIQ shares and receivables of EPIQ NV from IMI EU/MX Subsidiaries (see Note 2). Based on the payment schedule in the SPA, this long-term debt will be settled from 2013 to 2018, subject to interest rate of 1.60% plus 1.50%.

In 2013, Cooperatief made payments of €2.00 million ($2.76 million).

Below is the amortization schedule:

Due Dates	In EUR	In USD
2014	€2,000,000	$2,758,200
2015	2,000,000	2,758,200
2016	2,000,000	2,758,200
2017	2,000,000	2,758,200
2018	4,248,743	5,859,442
	€12,248,743	$16,892,242

Cooperatief incurred interest expense on its long-term debt amounting to $0.55 million in 2013, $0.57 million in 2012 and $0.28 million in 2011.

IMI CZ

IMI CZ has a long-term debt from Citibank amounting to €0.59 million ($0.81 million) that relates to a term loan facility for the purchase of its new Surface Mount Technology machine. The debt bears interest of 1-month EURIBOR plus 2.70% and matures on July 31, 2019.

Below is the amortization schedule:

Due Dates	In EUR	In USD
2014	€105,246	$145,208
2015	105,246	145,208
2016	105,246	145,208
2017	105,246	145,208
2018	105,246	145,208
2019	62,607	86,379
	€588,837	$812,419

IMI CZ incurred interest expense on its long-term debt amounting to $0.02 million in 2013.

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, 2013 and 2012, the current and noncurrent portion of the advances from the local customer follows:

	2013	2012
Total outstanding advances from the local customer	**$2,029,897**	$2,303,765
Less current portion (Note 13)	**287,568**	272,747
Noncurrent portion	**$1,742,329**	$2,031,018

17. **Equity**

Capital Stock
This account consists of:

	2013		2012		2011	
	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 January 1	**1,571,874,431**	**$30,011,256**	1,354,230,740	$24,932,075	1,352,290,094	$24,893,713
Issuances during the year through ESOWN	**254,998**	**5,295**	17,643,691	333,097	1,940,646	38,362
Issuances during the year to EPIQ NV	**–**	**–**	200,000,000	4,746,084	–	–
At December 31	**1,572,129,429**	**$30,016,551**	1,571,874,431	$30,011,256	1,354,230,740	$24,932,075
Issued - Preferred						
At December 31	**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, 2013, 2012 and 2011 pertain to treasury shares.*

The preferred shares have certain features, rights and privileges, which include voting rights, quarterly dividends at a dividend rate of 2.90% 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, 2013, 2012 and 2011, there were 526, 562 and 112 registered common stockholders, respectively.

Subscribed Capital Stock
Details of this account follow:

	2013		2012		2011	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At January 1	**60,421,000**	**$1,300,851**	283,909,186	$6,506,970	90,587,000	$1,901,963
Subscriptions during the year						
EPIQ NV	**–**	**–**	–	–	200,000,000	4,746,084
Issuances during the year						
ESOWN	**(254,998)**	**(5,295)**	(17,643,691)	(333,097)	(1,940,646)	(38,362)
EPIQ NV	**–**	**–**	(200,000,000)	(4,746,084)	–	–
Forfeitures during the year						
ESOWN	**(3,025,002)**	**(65,630)**	(5,844,495)	(126,938)	(4,737,168)	(102,715)
At December 31	**57,141,000**	**$1,229,926**	60,421,000	$1,300,851	283,909,186	$6,506,970

As mentioned in Note 2, the consideration for the acquisition of EPIQ shares includes the 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.

Subscriptions Receivable
Details of this account are as follows:

	2013	2012	2011
At January 1	**$9,650,842**	$10,395,200	$11,411,994
Accretion during the year (Note 26)	**795,542**	676,304	427,535
Collections during the year	**(207,888)**	(19,911)	(615,889)
Forfeitures during the year (Note 26)	**(647,750)**	(1,400,751)	(828,440)
At December 31	**$9,590,746**	$9,650,842	$10,395,200

Dividends
2013
On November 29, 2013, the Parent Company's BOD approved a new dividend rate on preferred shares from 8.25% to 2.90% per annum. The BOD also approved the declaration and payment of quarterly dividends for 2014 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 7, 2014	May 7, 2014	August 7, 2014	November 7, 2014
Payment date	February 21, 2014	May 21, 2014	August 22, 2014	November 21, 2014
Amount	$217,772	$212,986	$222,559	$217,772

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

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 the 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 $63.48 million and $53.13 million as of December 31, 2013 and 2012, 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 Securities Regulation Code Rule 68, As Amended (2011), Annex 68-C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2013 amounted to $12.47 million.

18. Cost of Goods Sold and Services

This account consists of:

	2013	2012 (As restated)	2011 (As restated)
Direct, indirect and other material-related costs (Note 7)	**$498,220,475**	$449,059,291	$388,879,422
Direct labor, salaries, wages and employee benefits (Note 25)	**120,088,886**	97,455,209	87,243,622
Depreciation and amortization (Notes 9 and 11)	**18,709,813**	20,465,277	21,698,353
Facilities costs and others (Note 20)	**40,083,789**	37,933,642	35,851,132
	$677,102,963	$604,913,419	$533,672,529

19. Operating Expenses

This account consists of:

	2013	2012 (As restated)	2011 (As restated)
Salaries, wages and employee benefits (Note 25)	**$31,856,630**	$26,902,826	$31,813,636
Depreciation and amortization (Notes 9 and 11)	**4,150,058**	4,911,783	4,080,902
Facilities costs and others (Note 20)	**19,787,988**	17,709,023	20,430,524
	$55,794,676	$49,523,632	$56,325,062

20. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			Operating Expenses		
	2013	2012 (As restated)	2011 (As restated)	2013	2012 (As restated)	2011 (As restated)
Utilities	**$11,507,507**	$13,408,630	$12,993,248	**$1,099,034**	$935,136	$913,419
Variable overhead	**8,336,469**	3,751,925	2,945,218	**–**	–	–
Repairs and maintenance	**7,319,614**	6,249,440	6,189,964	**599,233**	856,785	974,965
Outsourced activities (Note 28)	**6,533,853**	5,139,000	6,008,519	**5,907,212**	5,915,728	6,828,361
Government-related	**1,312,753**	1,132,098	1,262,184	**3,562,265**	1,725,075	1,605,101
Insurance	**801,624**	758,459	586,854	**1,072,684**	948,695	550,173
Travel	**622,964**	1,158,276	1,435,137	**1,803,638**	2,112,897	1,922,497
Postal and communication	**322,637**	121,147	142,677	**943,065**	986,286	869,266
Provision (reversal of provision) for inventory obsolescence (Note 7)	**220,256**	593,469	–	**1,902,889**	(310,521)	1,029,155
Technology-related	**211,685**	90,820	184,563	**1,800,141**	1,949,604	1,408,556
Promotional materials, representation and entertainment	**185,416**	67,229	116,445	**821,979**	518,765	492,746
Reversal of allowance for decline in value of inventories (Note 7)	**(107,131)**	–	(21,434)	**–**	–	–
Loss (reversal of loss) on purchase commitments (Note 13)	**(51,552)**	131,885	–	**–**	–	–
Staff house	**977**	841	482	**294,622**	325,824	271,366
Membership fees	**634**	92	30,322	**89,998**	51,453	182,961
Sales commission	**–**	–	–	**731,918**	753,667	835,092
Provision (reversal of provision) for doubtful accounts (Note 6)	**–**	–	–	**(103,124)**	441,498	1,977,541
Others	**2,866,083**	5,330,331	3,976,953	**(737,566)**	498,131	569,325
	$40,083,789	$37,933,642	$35,851,132	**$19,787,988**	$17,709,023	$20,430,524

"Others" include amortization expense of deferred licensing fee, additional licensing fee, 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 machinery and equipment.

21. Interest Expense and Bank Charges

This account consists of:

	2013	2012	2011
Interest expense (Notes 14 and 15)	**$2,429,992**	$2,795,360	$2,182,374
Bank charges	**136,697**	81,621	155,191
Others	**313,252**	144,492	162,433
	$2,879,941	$3,021,473	$2,499,998

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

22. Interest Income

This account consists of:

	2013	2012	2011
Interest on bank balances and fixed deposits (Note 5)	**$218,577**	$267,092	$299,849
Others	**–**	–	15,671
	$218,577	$267,092	$315,520

23. Income Taxes

Current Tax

Parent Company

As discussed in Note 1, the Parent Company is registered with PEZA and is entitled to certain incentives, which include ITH. As of December 31, 2013, there are four (4) remaining project activities with ITH entitlement which will expire in 2017. Upon the expiration of the ITH, the Parent Company will be subject to a 5% final tax on gross income earned after certain allowable deductions in lieu of payment of national and local taxes. Income from other income-producing activities that are not registered with PEZA is subject to regular corporate income tax (RCIT) rate of 30%.

IMICD, SZSTE, STCQ and STJX

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.

IMICD is subject to taxation at the statutory rate of 25% in 2013, 2012 and 2011 on their taxable income as reported in the financial statements. With effect from year 2008, the China authority ceased the incentive of preferential tax treatment for enterprises with foreign investment and foreign enterprises.

SZSTE is subject to taxation at the statutory tax rate of 25% in 2013 and 2012 and 24% in 2011 on its taxable income as reported in the financial statements of SZSTE 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.

STJX is entitled to full exemption from 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 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 25% in 2013 and 2012 and 28% in 2011 on the taxable income as reported in the financial statements of STJX prepared in accordance with the accounting regulations in the PRC.

STHK and Monarch
Hong Kong profits tax has been provided at the rate of 16.5% in 2013, 2012 and 2011 on the assessable profit for the year.

STPH
STPH is registered with the PEZA as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to 5% on gross income, as defined under R.A. No. 7916, in lieu of payment of national and local taxes. Income from other income-producing activities that are not registered with PEZA is subject to RCIT rate of 30%.

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

IMI BG
Income taxes are calculated in accordance with 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 2013, 2012 and 2011 is 10%.

IMI 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 (for example, creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate in 2013, 2012 and 2011 is 19%.

IMI MX
IMI 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 in 2013, 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.

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 (1) year. The tax rate applicable in 2013, 2012 and 2011 is 33% based on net income.

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 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 5% tax on gross income shall be paid and remitted as follows: (a) 3% to the National Government; and (b) 2% to the treasurer's office of the municipality or city where the enterprise is located. Income from other income-producing activities that are not registered with PEZA is subject to RCIT rate of 30%.

As of December 31, 2013, there are two (2) remaining PEZA registered activities with ITH entitlement which will expire in 2014.

Deferred Tax

Recognized deferred taxes of the Group relate to the tax effects of the following:

	2013	2012
Deferred tax assets:		
Revaluation of property, plant and equipment of subsidiaries	**$444,245**	$444,245
Allowance for inventory obsolescence	**75,134**	231,245
Allowance for doubtful accounts	**15,366**	194,591
Others	**109,798**	212,788
	$644,543	$1,082,869
Deferred tax liabilities:		
Revaluation of property, plant and equipment and intangibles of subsidiaries	**$1,646,260**	$3,405,195
Accelerated depreciation	**202,052**	186,914
Unrealized foreign exchange gain on monetary assets - net	**62,412**	–
Unrealized mark-to-market gains from put and call options	**–**	802,557
Excess of net book value over tax written-down value of property, plant and equipment of subsidiaries	**–**	9,988
Others	**1,181,166**	223,784
	$3,091,890	$4,628,438

The component of PSi's recognized deferred tax asset and liability as of December 31, 2013 is as follows:

Deferred tax asset on accumulated impairment losses on property, plant and equipment	$119,430
Deferred tax liability on unrealized foreign exchange gain on monetary assets	(119,430)
	$–

PSi and IMI CZ have unrecognized deferred tax assets as of December 31, 2013 and 2012.

PSi

The temporary differences, minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO) for which no deferred tax assets have been recognized are as follows:

	2013	2012 (As restated)
Accumulated impairment losses on property, plant and equipment	**$9,740,318**	$14,953,529
Deferred revenue	**2,029,897**	2,303,765
Pension liability	**993,701**	724,037
Excess of:		
Cost over NRV of inventories	**1,733,928**	2,437,112
Rent expense under operating lease arrangement computed on a straight-line basis over the amount computed based on lease agreement	**443,027**	585,409
Allowance for doubtful accounts	**441,165**	348,348
NOLCO	**744**	403,008
Unrealized foreign exchange loss on monetary assets	**–**	487,086
MCIT	**–**	46
	$15,382,780	$22,242,340

NOLCO that can be claimed as a deduction from regular taxable income are as follows:

Years Incurred	Expiry Date	NOLCO
December 31, 2012	December 31, 2015	$402
December 31, 2011	December 31, 2014	342
		$744

IMI CZ

The temporary differences and tax losses for which no deferred tax assets have been recognized are as follows:

	2013	2012
Tax losses	**$3,175,932**	$3,410,526
Noncurrent assets	**1,294,737**	1,352,632
Provisions	**421,053**	342,105
Excess of cost over NRV of inventories	**184,211**	21,053
Allowance for doubtful accounts	**31,579**	131,579
	$5,107,512	$5,257,895

Tax losses that can be claimed as a deduction from regular taxable income are as follows:

Years Incurred	Expiry Date	Tax Losses
December 31, 2011	December 31, 2016	$954,056
December 31, 2010	December 31, 2015	1,110,888
December 31, 2009	December 31, 2014	1,110,988
		$3,175,932

Deferred tax assets are recognized only to the extent that sufficient future taxable profits will be available against which the deferred tax assets can be used. PSi and IMI CZ will reassess the unrecognized deferred tax assets to the extent that it has become probable that sufficient future taxable profits would allow the deferred tax assets to be recovered.

As of December 31, 2013 and 2012, deferred tax liabilities have not been recognized on the undistributed earnings of subsidiaries since the timing of the reversal of the temporary difference can be controlled by the Group and management does not expect the reversal of the temporary differences in the foreseeable future.

The effective income tax of the Group is as follows:

	2013	2012 (As restated)	2011 (As restated)
Income before income tax	**$13,723,319**	$4,891,736	$5,911,149
Tax on:			
Income from foreign subsidiaries	**4,348,720**	3,820,307	3,431,467
Income subject to 5% gross income tax	**979,448**	831,774	741,540
Income subject to RCIT	**51,629**	35,497	3,939
Others	**28,843**	–	916
Current income tax expense	**5,408,640**	4,687,578	4,177,862
Deferred income tax expense (benefit)	**(881,359)**	(728,268)	476,224
Effective income tax	**$4,527,281**	$3,959,310	$4,654,086

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:

	2013	2012	2011
Statutory income tax	**30.00%**	30.00%	30.00%
Tax effects of:			
Nondeductible expenses	**39.98%**	109.42%	134.92%
Income subject to gross income tax	**(25.82%)**	(13.76%)	(28.54%)
Difference in tax jurisdiction	**(10.80%)**	(42.19%)	(41.63%)
Income subject to ITH	**(0.28%)**	(1.65%)	(15.12%)
Interest income subjected to final tax	**(0.09%)**	(0.88%)	(0.90%)
Provision for income tax	**32.99%**	80.94%	78.73%

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:

	2013	2012	2011
Net income	**$10,472,995**	$5,584,613	$3,254,864
Less dividends on preferred stock (Note 17)	**871,089**	2,665,497	2,491,742
	$9,601,906	$2,919,116	$763,122
Weighted average number of common shares outstanding	**1,616,403,322**	1,621,760,776	1,526,590,221
Basic and diluted EPS	**$0.006**	$0.002	$0.001

As of December 31, 2013, 2012 and 2011, the Parent Company has no dilutive potential common shares.

25. Employee Benefits

Salaries, wages, and employee benefits follow:

	2013	2012 (As restated)	2011 (As restatated)
Salaries and wages	**$114,869,711**	$108,920,744	$104,035,402
Pension expense under defined contribution plans	**4,607,873**	2,575,242	2,509,506
Social security costs	**2,727,124**	1,375,183	1,652,411
Net pension expense under defined benefit plans	**1,682,245**	2,199,943	1,886,214
Others	**28,058,563**	9,286,923	8,973,725
	$151,945,516	$124,358,035	$119,057,258

"Others" include expenses for subcontracting costs, 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:

	2013	2012 (As restated)	2011 (As restated)
Cost of goods sold and services (Note 18)	**$120,088,886**	$97,455,209	$87,243,622
Operating expenses (Note 19)	**31,856,630**	26,902,826	31,813,636
	$151,945,516	$124,358,035	$119,057,258

Defined Benefit Plans

The Parent Company, PSi and IMI BG have defined benefit plans covering substantially all of their employees. The latest retirement valuation was made on December 31, 2013.

The plan is administered by local banks as trustees. The Board of Trustees is responsible for the investment direction of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes into account the plan's objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, and the Treasurer. The Treasurer oversees the entire investment process.

The defined benefit plans of the Parent Company and PSi meet the minimum retirement benefit specified under R.A. No. 7641, *Retirement Pay Law*.

The Group has pension liabilities attributable to the following:

	2013	2012 (As restated)
Parent Company	**$5,111,162**	$630,288
PSi	**1,247,677**	1,428,034
IMI BG	**383,969**	284,703
	$6,742,808	$2,343,025

Changes in net pension liabilities of the Parent Company and PSi's funded plans in 2013 are as follows:

		Net Pension Expense					**Remeasurements**						
	January 1, 2013 (As restated)	**Current Service Cost**	**Net Interest**	**Loss on Curtailments and Settlements**	**Subtotal**	**Separation and Benefits Paid**	**Return on Plan Assets (Excluding Amount Included in Net Interest)**	**Actuarial Changes Due to Experience Adjustments**	**Actuarial Changes Due to Demographic Assumptions**	**Actuarial Changes Arising from Changes in Financial Assumptions**	**Subtotal**	**Foreign Currency Exchange Difference**	**December 31, 2013**
Present value of defined benefit obligation	**$15,047,577**	**$1,319,873**	**$833,273**	**$202,918**	**$2,356,064**	**($1,286,407)**	**$–**	**$221,801**	**$–**	**$4,173,837**	**$4,395,638**	**($1,372,357)**	**$19,140,515**
Fair value of plan assets	**(12,989,255)**	**–**	**(748,651)**	**–**	**(748,651)**	**–**	**(55,801)**	**–**	**–**	**–**	**(55,801)**	**1,012,031**	**(12,781,676)**
Net pension liabilities	**$2,058,322**	**$1,319,873**	**$84,622**	**$202,918**	**$1,607,413**	**($1,286,407)**	**($55,801)**	**$221,801**	**$–**	**$4,173,837**	**$4,339,837**	**($360,326)**	**$6,358,839**

Changes in net pension liabilities of the Parent Company and PSi's funded plans in 2012 are as follows:

		Net Pension Expense					Remeasurements						
	January 1, 2012 (As restated)	Current Service Cost	Net Interest	Loss on Curtailments and Settlements	Subtotal	Separation and Benefits Paid	Return on Plan Assets (Excluding Amount Included in Net Interest)	Actuarial Changes Due to Experience Adjustments	Actuarial Changes Due to Demographic Assumptions	Actuarial Changes Arising from Changes in Financial Assumptions	Subtotal	Foreign Currency Exchange Difference	December 31, 2012 (As restated)
Present value of defined benefit obligation	$15,365,273	$1,325,653	$1,034,807	$646,398	$3,006,858	($2,866,149)	$–	($1,747,660)	$133,650	$149,747	($1,464,263)	$1,005,858	$15,047,577
Fair value of plan assets	(12,185,091)	–	(843,373)	–	(843,373)	995,997	(129,260)	–	–	–	(129,260)	(827,528)	(12,989,255)
Net pension liabilities	$3,180,182	$1,325,653	$191,434	$646,398	$2,163,485	($1,870,152)	($129,260)	($1,747,660)	$133,650	$149,747	($1,593,523)	$178,330	$2,058,322

The maximum economic benefit available is a contribution of expected refunds from the plans and reductions in future contributions.

Changes in the pension liability of IMI BG's unfunded plan in 2013 and 2012 are as follows:

		Pension Expense					
	January 1, 2013	**Current Service Cost**	**Net Interest**	**Subtotal**	**Benefits Paid**	**Foreign Currency Exchange Difference**	**December 31, 2013**
Pension liability	**$284,703**	**$65,764**	**$9,068**	**$74,832**	**$–**	**$24,434**	**$383,969**

		Pension Expense					
	January 1, 2012	Current Service Cost	Net Interest	Subtotal	Benefits Paid	Foreign Currency Exchange Difference	December 31, 2012
Pension liability	$242,647	$36,458	$–	$36,458	$–	$5,598	$284,703

The distribution of the plan assets as of December 31, 2013 and 2012 follows:

	2013	2012
Government securities	**$6,559,361**	$7,828,734
Trust funds	**2,375,637**	822,352
Corporate bonds	**1,910,082**	1,038,194
Loans	**1,157,758**	1,250,148
Investment properties	**477,081**	450,329
Equities	**262,169**	1,572,826
Cash and cash equivalents	**39,285**	13,397
Others	**13,199**	52,720
Liabilities	**(12,896)**	(39,445)
	$12,781,676	$12,989,255

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

2013

	Equity Securities	**Debt Securities**	**Other Securities**	**Total**
Fair Value				
AC shares/bonds	**$–**	**$296,154**	**$–**	**$296,154**
BPI shares/bonds	**–**	**–**	**688,415**	**688,415**
	$–	**$296,154**	**$688,415**	**$984,569**
Carrying Value				
AC shares/bonds	**$–**	**$292,826**	**$–**	**$292,826**
BPI shares/bonds	**–**	**–**	**761,311**	**761,311**
	$–	**$292,826**	**$761,311**	**$1,054,137**
Unrealized Gain (Loss)				
AC shares/bonds	**$–**	**$3,328**	**$–**	**$3,328**
BPI shares/bonds	**–**	**–**	**(72,896)**	**(72,896)**
	$–	**$3,328**	**($72,896)**	**($69,568)**

2012

	Equity Securities	Debt Securities	Other Securities	Total
Fair Value				
AC shares/bonds	$358,237	$320,287	$–	$678,524
ALI shares/bonds	135,917	73,916	–	209,833
BPI shares/bonds	54,751	–	323,809	378,560
MWC shares/bonds	7,639	–	–	7,639
ALFM shares/bonds	–	–	19,053	19,053
	$556,544	$394,203	$342,862	$1,293,609
Carrying Value				
AC shares/bonds	$341,410	$316,687	$–	$658,097
ALI shares/bonds	102,577	73,082	–	175,659
BPI shares/bonds	39,061	–	323,266	362,327
MWC shares/bonds	7,647	–	–	7,647
ALFM shares/bonds	–	–	18,119	18,119
	$490,695	$389,769	$341,385	$1,221,849

(Forward)

	Equity Securities	Debt Securities	Other Securities	Total
Unrealized Gain (Loss)				
AC shares/bonds	$16,827	$3,600	$–	$20,427
ALI shares/bonds	33,340	834	–	34,174
BPI shares/bonds	15,690	–	543	16,233
MWC shares/bonds	(8)	–	–	(8)
ALFM shares/bonds	–	–	934	934
	$65,849	$4,434	$1,477	$71,760

The plan assets pertain to diverse investments and do not have any concentration risk.

The overall investment policy and strategy of the Group's defined benefit plans are guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

The Group expects to contribute $1.30 million to the defined benefit plans in 2014.

The average duration of the net pension liabilities at the end of the balance sheet date is 20.3 to 23.4 years as of December 31, 2013 and 18.0 to 17.0 years as of December 31, 2012.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2013:

Less than one year	$392,384
More than one year to five years	4,156,806
More than five years to ten years	8,142,361
More than ten years to fifteen years	15,560,357
More than fifteen years to twenty years	25,669,601
More than twenty years	112,786,127
	$166,707,636

Principal actuarial assumptions
The principal actuarial assumptions used to determine pension benefits are shown below:

	2013	2012
Discount rate	**3.5% - 5.35%**	3.0% - 5.96%
Turnover rate	**0.62% - 27.94%**	0.62% - 27.94%
Salary increase rate	**5.00% - 6.00%**	5.00%

The sensitivity analysis per entity below has been determined based on reasonably possible changes of each significant assumption on the net pension liabilities as of the end of the balance sheet date, assuming all other assumptions were held constant:

Parent Company

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Pension Liability
Discount rate	+1%	($2,588,120)
	-1%	3,176,164
Turnover rate	+2%	(1,413,062)
	-2%	1,689,994
Salary increase rate	+1%	3,060,944
	-1%	(2,539,743)

PSi

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Pension Liability
Discount rate	+1%	($192,699)
	-1%	233,053
Turnover rate	+2%	(46,143)
	-2%	52,062
Salary increase rate	+1%	213,220
	-1%	(179,998)

IMI BG

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Pension Liability
Discount rate	+1%	($23,280)
	-1%	25,400
Turnover rate	+1%	(47,270)
	-1%	45,150
Salary increase rate	+1%	17,640
	-1%	(17,640)

The mortality rate in 2013 and 2012 is based on the 1994 Group Annuity Mortality Table.

The net pension expense of the Parent Company, PSi and BG under the defined benefit plans is allocated as follows:

	2013	2012 (As restated)	2011 (As restated)
Cost of goods sold and services	**$1,126,038**	$1,110290	$1,444,529
Operating expenses	**556,207**	1,089,652	441,685
	$1,682,245	$2,199,942	$1,886,214

Defined Contribution Plans
The Parent Company's subsidiaries, excluding PSi and IMI BG, participate in their respective national pension schemes which are considered as defined contribution plans. The pension expense of these subsidiaries is allocated as follows:

	2013	2012	2011
Cost of goods sold and services	**$3,568,458**	$1,954,417	$1,838,103
Operating expenses	**1,039,415**	620,825	671,403
	$4,607,873	$2,575,242	$2,509,506

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 ESOWN. 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 ten (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 of the Parent Company at the date of grant.

To subscribe, the grantee must be an eligible participant as defined in the ESOWN. 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. If 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 (1) year from subscription date; (b) 30% after two (2) years from subscription date; and (c) 30% after three (3) 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, management has approved a 2-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, 2013, 2012 and 2011 follow:

	2013		2012		2011	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
At January 1	**110,405,814**	**₱6.95**	116,250,309	₱6.95	120,987,477	₱6.95
Forfeitures	**(3,025,002)**	**6.95**	(5,844,495)	6.95	(4,737,168)	6.95
At December 31	**107,380,812**	**₱6.95**	110,405,814	₱6.95	116,250,309	₱6.95

The balance of the subscriptions receivable amounted to $9.59 million, $9.65 million and $10.40 million as of December 31, 2013, 2012 and 2011, respectively (see Note 17).

The share option expense amounted to $0.01 million in 2013, $0.07 million in 2012 and $0.67 million in 2011. The accretion, recognized as increase in “Subscriptions receivable” account and “Additional paid-in capital” account presented in the consolidated statements of changes of equity amounted to $0.80 million in 2013, $0.68 million in 2012 and $0.43 million in 2011 (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 per legal entity’s location for the years ended December 31, 2013, 2012 and 2011:

December 31, 2013	**Philippines**		**Singapore/ China**	**Europe/ Mexico**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**						
Revenue:								
Third party	**$188,897,145**	**$43,084,648**	**$276,522,656**	**$235,808,946**	**$372,446**	**$346,022**	**$–**	**$745,031,863**
Intersegment	**261,711**	**–**	**4,649,240**	**–**	**2,441,304**	**808,165**	**(8,160,420)**	**–**
Total revenue	**$189,158,856**	**$43,084,648**	**$281,171,896**	**$235,808,946**	**$2,813,750**	**$1,154,187**	**($8,160,420)**	**$745,031,863**
Segment gross profit (loss)	**$18,992,296**	**($1,205,449)**	**$26,798,039**	**$28,438,871**	**$1,993,317**	**$810,535**	**($7,898,709)**	**$67,928,900**
Segment operating income (loss)	**$79,521**	**($4,930,140)**	**$1,577,199**	**$15,748,376**	**($377,403)**	**$37,671**	**$–**	**$12,135,224**
Segment interest income	**$597,797**	**$1,845**	**$149,569**	**$1,228**	**$–**	**$33**	**($531,895)**	**$218,577**
Segment interest expense	**$1,491,504**	**$426,845**	**$4,388**	**$1,489,099**	**$–**	**$–**	**($531,895)**	**$2,879,941**
Segment profit (loss) before income tax	**$323,200**	**($4,833,528)**	**$4,130,632**	**$14,490,095**	**($378,217)**	**($8,863)**	**$–**	**$13,723,319**
Segment provision for income tax	**(488,473)**	**(51,629)**	**(2,193,264)**	**(1,793,245)**	**–**	**(670)**	**–**	**(4,527,281)**
Segment profit (loss) after income tax	**($165,273)**	**($4,885,157)**	**$1,937,368**	**$12,696,850**	**($378,217)**	**($9,533)**	**$–**	**$9,196,038**

December 31, 2012 (As restated)	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
Intersegment	–	–	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)	$13,906,796	($3,446,022)	$31,892,517	$18,776,688	$2,231,718	$1,038,289	($7,463,683)	$56,936,303
Segment operating income (loss)	($2,629,177)	($9,307,260)	$11,172,370	$8,897,538	($875,279)	$151,546	$2,933	$7,412,671
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	($2,588,196)	($10,047,323)	$10,792,287	$7,504,568	($877,764)	$133,917	($25,753)	$4,891,736
Segment provision for income tax	(697,756)	(42,271)	(2,677,956)	(540,396)	–	(931)	–	(3,959,310)
Segment profit (loss) after income tax	($3,285,952)	($10,089,594)	$8,114,331	$6,964,172	($877,764)	$132,986	($25,753)	$932,426

December 31, 2011 (As restated)	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
Intersegment	–	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	$12,048,461	$3,182,382	$25,643,949	$5,425,951	$2,338,546	$1,088,152	($7,946,062)	$41,781,379
Segment operating income (loss)	($14,043,927)	($3,952,151)	$3,902,328	($683,681)	$25,602	$208,146	$–	($14,543,683)
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	($8,681,117)	($4,328,231)	$6,666,192	$12,108,406	$22,844	$239,468	($116,413)	$5,911,149
Segment provision for income tax	(1,326,845)	(119,164)	(2,724,363)	(232,867)	(250,000)	(847)	–	(4,654,086)
Segment profit (loss) after income tax	($10,007,962)	($4,447,395)	$3,941,829	$11,875,539	($227,156)	$238,621	($116,413)	$1,257,063

Intersegment revenues, cost of sales, and operating expenses are eliminated on consolidation.

For the year ended December 31, 2013, the operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $8.16 million and intersegment cost of sales and operating expenses aggregating to $0.26 million and $7.90 million, respectively.

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 operating expenses aggregating to $2.66 million and $7.47 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 operating expenses aggregating to $0.08 million and $7.95 million, respectively.

The following table presents segment assets of the Group's geographical segments as of December 31, 2013 and 2012:

Segment assets	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
December 31,2013	**$267,859,850**	**$19,874,062**	**$231,552,717**	**$154,806,540**	**$1,610,978**	**$907,105**	**($188,382,436)**	**$488,228,816**
December 31,2012 (As restated)	$252,385,442	$19,756,312	$219,501,358	$127,487,552	$1,926,343	$914,487	($168,618,608)	$453,352,886

Segment assets as of December 31, 2013 do not include investments in subsidiaries amounting to $132.55 million and intersegment loans and receivables amounting to $63.17 million which are eliminated on consolidation. Furthermore, goodwill arising from the acquisition of STEL, PSi, IMI USA and IMI 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, 2012 do not include investments in subsidiaries amounting to $129.56 million and intersegment 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 IMI CZ amounting to $45.13 million, $7.48 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' Location			Noncurrent Assets	
	2013	2012	2011	**2013**	2012
Europe	**$379,465,943**	$331,594,548	$284,710,228	**$27,500,455**	$23,501,418
America	**222,740,713**	203,910,809	139,307,967	**11,063,756**	9,762,554
Japan	**68,075,201**	59,738,507	76,887,221	**14,213**	16,763
Rest of Asia	**74,750,006**	66,605,858	74,548,492	**106,292,551**	115,039,766
	$745,031,863	$661,849,722	$575,453,908	**$144,870,975**	$148,320,501

Revenues are attributed to countries on the basis of the customer's location. Certain customers independent of each other but within the same group account for 13.51% and 11.55% of the Group's total revenue in 2013 and 2012, respectively. In 2011, no revenue of a specific customer reached 10% of the Group's total revenues.

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:

	2013	2012	2011
Automotive	**$278,269,042**	$207,949,017	$106,497,849
Telecom	**134,748,260**	127,027,324	109,859,417
Industrial	**108,412,410**	111,465,781	104,411,032
Consumer	**104,083,799**	107,307,549	114,272,192
Multiple market	**56,873,912**	55,526,158	85,334,798
Computer peripherals	**37,841,556**	22,085,306	32,627,483
Medical	**24,802,884**	30,488,587	22,451,137
	$745,031,863	$661,849,722	$575,453,908

28. **Lease Commitments**

Operating Lease Commitments - Group as Lessor

Parent Company

On August 1, 2009, the Parent Company subleased the unused portion of its two (2) 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 twelve (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 rent income amounting to nil in 2013 and 2012, and $1,899 in 2011, is recognized under "Miscellaneous income - net" account in the consolidated statements of income.

STEL Group

STEL Group entered into lease contracts on their leasehold building. These non-cancellable lease contracts have remaining lease terms of between one (1) and five (5) years.

STEL Group also entered into a lease contract with Manila Water Asia Pacific Pte Ltd (MWAP), an affiliate, for the lease of office premises. The lease shall be for a period of one (1) year, commencing on June 1, 2013 up to May 31, 2014. Monthly rental rate amounts to $1,040.

The rent income recognized by STEL Group amounted to $1.08 million in 2013, $0.57 million in 2012, and $7.32 thousand in 2011.

The future minimum rent receivable of the Group is as follows:

	2013	2012
Within one year	**$1,234,000**	$1,252,070
More than one year but less than five years	**1,617,000**	1,422,653
	$2,851,000	$2,674,723

Operating Lease Commitments - Group as Lessee

Parent Company

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 January 2, 2012 up to December 31, 2014, renewable at the option of the Parent 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. The Parent Company shall pay monthly rental of ₱81,796 for 2012, ₱92,964 for 2013 and ₱105,778 for 2014. The Parent Company shall advise TLI in writing at least sixty (60) days before the expiration of the term of its desire to renew the lease contract, which TLI may consider upon such terms and conditions as may be agreed between the parties.

On December 20, 2013, an amendment to the lease contract was executed modifying the terms as follows:

- The lease shall be effective from January 2, 2014 up to December 31, 2016; and
- The Parent Company shall pay monthly rental of ₱4,133,853.

The Parent Company entered into lease contracts with IMI Retirement Plan through BPI as trustee bank starting January 1, 2013, for a period of one (1) year. These lease contracts cover the house units for the use of its officers and staff. Monthly rental rate amounts to ₱20,000.

IMI Singapore and STEL Group
IMI Singapore and STEL Group have various lease contracts in respect of office premises and land. These non-cancellable lease contracts have remaining non-cancellable lease terms of between one (1) to thirty-eight (38) years. Most of the lease contracts of IMI Singapore and STEL Group contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

IMI Japan
On February 15, 2010, IMI Japan entered into a 2-year lease contract with Kabushikigaisha Tokyu Community for the lease of office premises located in Nagoya whereby it is committed to pay a monthly rental of ¥245,490, and monthly maintenance fee of ¥35,070, inclusive of tax. The lease contract provides for the automatic renewal of the lease contract, unless prior notice of termination is given to the lessor. On February 15, 2012, IMI Japan renewed its lease contract for another two (2) years.

IMI USA
On July 17, 2008, IMI USA entered into a 7-year lease contract with Roy G.G. Harris and Patricia S. Harris for the lease of office premises commencing in August 2008 up to November 2014. The lease contract contains provisions including, but not limited to, an escalation rate of 3% per year and early termination penalties. The lease provides for monthly rental payment of $13,464 during the first year of the lease term.

On January 28, 2010, IMI USA entered into a 6-year lease contract with Fremont Ventures, LLC commencing two (2) months from the 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 an escalation every eleven (11) months as stated in the lease contract. Average monthly rental rate amounts to $9,523.

PSi
PSi has a 15-year lease contract 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 contract 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 contract for this lot included under “Accrued rent” account in the consolidated statement of financial position amounting to $0.44 million was reversed and recorded as part of “Facilities cost and others - Outsourced activities” account.

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

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

The lease contracts with CRI provides for increase in rental at varying rates over the term of the leases and a penalty interest rate of 3.00% per month using simple interest.

These lease contracts of the Group include clauses to enable upward revision of the rental charges on agreed dates.

The aggregate rent expense of the Group, included in “Facilities costs and others - Outsourced activities” account under “Cost of goods sold and services” and “Operating expenses” accounts in the consolidated statements of income, recognized on these operating lease commitments amounted to $3.47 million in 2013, $1.14 million in 2012 and $1.00 million in 2011 (see Note 20). Deposits made under these operating lease commitments are intended to be applied against the remaining lease payments.

Future minimum rent payable under these non-cancellable operating leases of the Group as of December 31, 2013 and 2012 follows:

	2013	2012
Within one year	**$4,074,629**	$3,111,844
After one year but not more than five years	**7,761,489**	6,818,109
More than five years	**2,580,123**	4,006,181
	$14,416,241	$13,936,134

Finance Lease Commitments - Group as Lessee

Parent Company

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 3-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 payment 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 1-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 payment 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 amount of ₱45.45.

IMI BG

IMI BG has various finance lease contracts with Interlease AD and UniCredit Leasing AD related to its machinery and production equipment with terms of three (3) to five (5) years and final repayment dates between 2012 and 2018. These leases are subject to interest rates of 3-month EURIBOR plus 2.00% to 4.00% per annum.

IMI CZ

IMI 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 of the Group are as follows:

	Minimum Lease Payments		Present Value of Payments	
	2013	2012	**2013**	2012
Within one year (Note 13)	**$1,018,901**	$777,907	**$907,761**	$674,071
After one year but not more than five years	**3,157,187**	705,857	**2,977,968**	704,866
	$4,176,088	$1,483,764	**$3,885,729**	$1,378,937

Additional finance lease commitment of the Group amounted to $3.03 million and $0.78 million as of December 31, 2013 and 2012, respectively (see Note 33).

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
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, 2013, 2012 and 2011, the Group has not recorded any impairment on 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 BPI, an affiliate

As of December 31, 2013 and 2012, the Group maintains current and savings accounts, and other short-term investments with BPI as follows:

	2013	2012
Cash in bank	**$772,267**	$749,838
Short-term investments	**–**	1,318,027
	$772,267	$2,067,865

Total interest income earned from investments with BPI amounted to $2,639 in 2013, $22,652 in 2012 and $10,402 in 2011.

b. Outstanding balances of the Group's related party transactions with its affiliates follow:

	Receivables		Payables	
	2013	2012	**2013**	2012
BPI	**$109,854**	$417,487	**$18,267**	$–
Narra VC	**91,792**	91,792	**–**	–
TLI	**16,807**	8,229	**–**	3,425
Innove Communication Inc. (ICI)	**–**	–	**17,742**	1,994
Globe Telecom, Inc. (GTI)	**–**	–	**1,090**	871
Ayala Group Legal (AG Legal)	**–**	–	**4,505**	–
	$218,453	$517,508	**$41,604**	$6,290

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 noninterest-bearing and are due quarterly.

ii. PSi's outstanding receivables from Narra VC are nontrade in nature and represent payments made by PSi to settle the Pre-Completion Liabilities and which will be later reimbursed from the New Investors.

iii. 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.

iv. Payables to BPI are nontrade in nature and pertain to outstanding housing and automobile financing loans. 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 ICI are nontrade in nature and pertain to leased lines, internet connections and automated teller machines connections. These are noninterest-bearing and are due every month.

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

vii. Payables to AG Legal are nontrade in nature and pertain to legal services provided to the Parent Company and PSi. These are noninterest-bearing and are due within 30 days.

viii. Payables to TLI are nontrade in nature and pertain to the lease contract between the Parent Company and TLI (see Note 28).

c. Outstanding balances of related party transactions within the Group follow:

	Receivables		**Payables**	
	2013	2012	**2013**	2012
STEL	**$24,204,080**	$21,592,138	**$8,390,188**	$1,518,066
IMI EU/MX Subsidiaries	**14,705,805**	11,060,830	**–**	–
PSi	**11,319,929**	7,289,665	**415,317**	415,317
IMI Singapore	**1,010,247**	1,016,936	**–**	–
IMI Japan	**979,526**	979,125	**712,569**	717,056
IMI USA	**250,405**	257,652	**289,146**	125,679
IMI ROHQ	**253,323**	–	**1,212,240**	436,367
	$52,723,315	$42,196,346	**$11,019,460**	$3,212,485

i. Receivables from STEL, IMI EU/MX Subsidiaries, PSi, IMI Singapore, IMI Japan and IMI USA are nontrade in nature and pertain to operating cash advances made by the Parent Company.

Claims from subsidiaries that have been billed are presented as "Nontrade receivables," while those still for billing are recognized as "Advances to related parties" in the financial statements of the Parent Company.

Advances to STEL, IMI Singapore, IMI Japan and IMI USA are noninterest-bearing and are due on demand.

Advances to PSi, IMI MX and IMI CZ have a 90-day term subject to interest rates ranging from 2.24% to 3.24% in 2013 and 2.31% to 2.81% in 2012.

Receivables from IMI ROHQ are nontrade in nature and represent the pension expense for IMI ROHQ's employees to be funded by the Parent Company upon availment. These receivables are due on demand.

ii. 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.

iii. Payables to PSi represent payments to settle certain liabilities that had arisen prior to the entry of the New Investors and which have been identified as the Pre-Completion Liabilities. Pursuant to the Agreement, the 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 options provision.

iv. Payables to IMI Japan and IMI USA are trade in nature and pertain to the services rendered by IMI Japan and IMI USA. These receivables are with a 30-day term.

v. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ to the Parent Company and PSi which serves as a supervisory, communications and coordinating center for its affiliates.

d. Revenue/income and expenses from the Group's affiliates follow:

	Revenue/Income			Expenses		
	2013	2012	2011	**2013**	2012	2011
MWAP	**$9,971**	$8,885	$–	**$–**	$–	$–
TLI	**7,713**	–	–	**26,328**	26,531	–
BPI	**2,639**	58,198	252,370	**–**	–	–
AG Legal	**–**	–	–	**82,818**	72,351	110,786
ICI	**–**	–	–	**88,266**	144,905	203,951
GTI	**–**	–	–	**70,438**	68,355	88,248
	$20,323	$67,083	$252,370	**$267,850**	$312,142	$402,985

Revenue/income from its affiliates pertain to the following transactions:

i. Rent income earned by STEL from lease of its office premises (see Note 28).

ii. In 2013, the Parent Company and TLI entered into a service agreement for the Parent Company to provide TLI administrative services such as professional, clerical, financial and accounting services. The administrative services shall be for a period of three (3) years, commencing on January 2, 2013 up to December 31, 2015, renewable upon mutual agreement by both parties. The fixed monthly service fee is ₱30,000, inclusive of all taxes.

iii. Interest income earned from investments and gain on foreign currency forwards with BPI.

Expenses incurred from related party transactions include:

i. Rent expense from the lease contract with TLI (see Note 28).

ii. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.

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.

e. Revenue and expenses eliminated at the Group level follow:

	Revenue			Expenses		
	2013	2012	2011	**2013**	2012	2011
IMI ROHQ	**$4,649,240**	$3,859,491	$3,130,303	**$–**	$55,625	$50,702
IMI USA	**2,441,304**	2,695,395	128,047	**–**	798,982	–
IMI Japan	**808,166**	908,796	–	**–**	–	–
STEL	**–**	2,665,499	4,887,483	**261,711**	–	–
IMI EU/MX Subsidiaries	**–**	**–**	–	**326,379**	267,119	–
PSi	**–**	**–**	–	**205,516**	68,681	–
	$7,898,710	$10,129,181	$8,145,833	**$793,606**	$1,190,407	$50,702

Intercompany revenues mainly pertain to billings of IMI USA and IMI Japan to the Parent Company for recovery costs and billings for management salaries of key management personnel under IMI ROHQ.

Expenses incurred from related party transactions include:

i. Allocation of pension expense covering IMI ROHQ's employees.
ii. Interest expense of PSi, IMI MX and IMI CZ from loans granted by the Parent Company

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:

	2013	2012
Short-term employee benefits	**$7,294,687**	$6,264,578
Post-employment benefits	**378,920**	258,904
Share-based payments	**5,262**	24,793
	$7,678,869	$6,548,275

30. **Fair Values of Financial Instruments**

Below are the fair values of financial assets and financial liabilities that are either carried at fair value or where the carrying amounts do not approximate fair values as of December 31, 2013 and 2012:

	Carrying Amounts		Fair Values	
	2013	2012	**2013**	2012
Financial assets:				
AFS financial assets	**$1,867,094**	$1,608,404	**$1,867,094**	$1,608,404
Derivative assets	–	2,857,010	**–**	2,857,010
	$1,867,094	$4,465,414	**$1,867,094**	$4,465,414
Financial liabilities:				
Derivative liabilities	**$40,606**	$–	**$40,606**	$–
Noncurrent portion of:				
Long-term debt	**61,699,753**	62,851,135	**64,228,205**	68,606,380
Obligation under finance lease	**2,977,968**	704,866	**2,973,854**	660,662
	$64,718,327	$63,556,001	**$67,242,665**	$69,267,042

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:

AFS financial assets - These pertain to investments in club shares and preferred equity shares and convertible notes. 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.

Noncurrent portion of 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 2013 and 2012 ranged from 0.25% to 2.87% and 2.10% to 3.90%, 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 2.29% to 12.30% and 2.00% to 12.26% as of December 31, 2013 and 2012, respectively.

<u>Fair Values of Financial Assets and Financial Liabilities where the Carrying Amounts Approximate Fair Values</u>
Below are the financial assets and financial liabilities where the carrying amounts approximate fair values as of December 31, 2013 and 2012 due to the short-term nature of the instruments:

	2013	2012
Financial assets:		
Cash and cash equivalents	**$49,042,599**	$56,196,382
Loans and receivables:		
Trade	**171,964,271**	144,995,990
Nontrade	**2,715,904**	2,126,131
Receivable from employees	**524,918**	539,159
Due from related parties	**218,453**	517,508
Others	**3,041,196**	2,702,067
Miscellaneous deposits	**2,525,697**	1,696,536
	$230,033,038	$208,773,773
Financial liabilities:		
Accounts payable and accrued expenses:		
Trade payables	**$120,669,723**	$101,772,745
Accrued expenses *	**25,237,080**	17,285,296
Accrued payroll	**7,347,471**	8,859,315
Nontrade payables	**4,116,382**	1,797,645
Current portion of long-term debt	**2,903,408**	2,649,600
Current portion of obligation under finance lease	**907,761**	674,071
Dividends payable	**858,539**	2,648,852
Employee-related payables *	**175,211**	168,749
Accrued interest payable	**471,700**	1,105,384
Due to related parties	**41,604**	6,290
Others	**501,186**	2,394,680
Trust receipts and loans payable	**45,653,865**	44,206,600
	$208,883,930	$183,569,227

** Excluding statutory payables*

Fair Value Hierarchy
The following tables provide the fair value hierarchy of the Group's assets and liabilities:

2013

	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets measured at fair value:				
AFS financial assets	**$516,725**	**$1,350,369**	**$–**	**$1,867,094**
Liabilities measured at fair value:				
Derivative liabilities	**$–**	**$40,606**	**$–**	**$40,606**
Liabilities for which fair values are disclosed:				
Noncurrent portion of:				
Long-term debt	**$–**	**$–**	**$64,228,205**	**$64,228,205**
Obligation under finance lease	**–**	**–**	**2,973,854**	**2,973,854**
	$–	**$–**	**$67,202,059**	**$67,202,059**

2012

	Level 1	Level 2	Level 3	Total
Assets measured at fair value:				
AFS financial assets	$608,404	$1,000,000	$–	$1,608,404
Derivative assets - Call option	–	–	2,857,010	2,857,010
	$608,404	$1,000,000	$2,857,010	$4,465,414

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following are the estimated changes in the fair values of the call and put options assuming the cost of equity will change by 5% as of December 31, 2012:

	Increase (Decrease) in Net Income
Cost of equity is 5% higher	
Call option	($173,734)
Put option	–
Cost of equity is 5% lower	
Call option	194,490
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, 2013 and 2012. There is no other impact on the Group's equity other than those already affecting income.

	Effect on Net Income before Tax	
Increase/Decrease in Basis Points	**2013**	2012
+100	**($556,286)**	($583,341)
-100	**556,286**	583,341

The following table shows the information about the Group's debt as of December 31, 2013 and 2012 that are exposed to interest rate risk presented by maturity profile:

	2013	2012
Within one year	**$8,730,107**	$11,710,072
One to five years	**46,898,500**	46,624,000
	$55,628,607	$58,334,072

Liquidity Risk

Liquidity 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:

2013

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets -					
Cash and cash equivalents	**$44,985,373**	**$4,057,226**	**$–**	**$–**	**$49,042,599**
Financial liabilities:					
Derivative liabilities	**–**	**40,606**	**–**	**–**	**40,606**
Accounts payable and accrued expenses:					
Trade payables	**–**	**120,669,723**	**–**	**–**	**120,669,723**
Accrued expenses *	**–**	**25,237,080**	**–**	**–**	**25,237,080**
Accrued payroll	**–**	**7,347,471**	**–**	**–**	**7,347,471**
Nontrade payables	**–**	**4,116,382**	**–**	**–**	**4,116,382**
Current portion of obligation under finance lease	**–**	**–**	**907,761**	**–**	**907,761**
Dividends payable	**–**	**–**	**858,539**	**–**	**858,539**
Employee-related payables *	**–**	**175,211**	**–**	**–**	**175,211**
Accrued interest payable		**–**	**471,700**	**–**	**471,700**
Due to related parties	**–**	**41,604**	**–**	**–**	**41,604**
Others	**–**	**501,186**	**–**	**–**	**501,186**
Trust receipt and loans payable	**–**	**–**	**45,653,865**	**–**	**45,653,865**
Current portion of long-term debt	**–**	**–**	**2,903,408**	**–**	**2,903,408**
Noncurrent portion of long-term debt	**–**	**–**	**–**	**61,699,753**	**61,699,753**
Noncurrent portion of obligation under finance lease	**–**	**–**	**–**	**2,977,968**	**2,977,968**
Other noncurrent liabilities	**–**	**–**	**–**	**183,555**	**183,555**
	–	**158,129,263**	**50,795,273**	**64,861,276**	**273,785,812**
	$44,985,373	**($154,072,037)**	**($50,795,273)**	**($64,861,276)**	**($224,743,213)**

**Excluding statutory payables*

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	$7,764,815	$–	$–	$56,196,382
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	–	8,859,315	–	–	8,859,315
Nontrade payables	–	1,797,645	–	–	1,797,645
Current portion of obligation under finance lease	–	–	674,071	–	674,071
Dividends payable	–	–	2,648,852	–	2,648,852
Employee-related payables *	–	168,749	–	–	168,749
Accrued interest payable	–	1,105,384	–	–	1,105,384
Due to related parties	–	6,290	–	–	6,290
Others	–	2,394,680	–	–	2,394,680
Trust receipt and loans payable	–	–	44,206,600	–	44,206,600
Current portion of long-term debt	–	–	2,649,600	–	2,649,600
Noncurrent portion of long-term debt	–	–	–	62,851,135	62,851,135
Noncurrent portion of obligation under finance lease	–	–	–	704,866	704,866
Other noncurrent liabilities	–	–	–	86,609	86,609
	–	133,390,104	50,179,123	63,642,610	247,211,837
	$48,431,567	($125,625,289)	($50,179,123)	($63,642,610)	($191,015,455)

**Excluding statutory payables*

Credit lines
The Group has credit lines with different financing institutions as at December 31, 2013 and 2012, as follows:

2013

Financial Institutions	**Credit Limit**	**Available Credit Line**
Local:		
USD	**30,000,000**	**1,000,000**
PHP	**860,000,000**	**860,000,000**
Foreign:		
USD	**22,295,000**	**15,790,000**
Singapore Dollar (SGD)	**20,000,000**	**16,500,000**
EUR	**12,839,988**	**11,409,501**

2012

Financial Institutions	Credit Limit	Available Credit Line
Local:		
USD	30,000,000	13,000,000
PHP	1,060,000,000	1,060,000,000
Foreign:		
USD	39,475,000	31,009,680
SGD	25,000,000	23,773,017
EUR	11,000,000	3,678,796
CZK	4,000,000	4,000,000

Credit Risk
Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's major credit risk exposure relates primarily to its holdings of cash and 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 as of December 31, 2013 and 2012 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 35% and 36% of trade receivables relating to three (3) major customers as of December 31, 2013 and 2012.

As of December 31, 2013 and 2012, the aging analysis of loans and receivables, and miscellaneous deposits follows:

2013

	Total	Neither Past Due nor Impaired	Past Due but not Impaired					Specifically Impaired
			<30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	
Trade	$174,135,627	$141,879,336	$19,157,279	$1,883,611	$1,988,280	$1,805,172	$5,250,593	$2,171,356
Nontrade	2,838,394	1,314,190	542,082	161,610	164,475	55,177	478,370	122,490
Receivable from insurance	1,178,785	–	–	–	–	–	–	1,178,785
Receivable from employees	542,944	489,415	25,119	1,031	158	2,045	7,150	18,026
Due from related parties	218,453	218,453	–	–	–	–	–	–
Others	3,041,196	3,034,334	–	–	–	–	6,862	–
	$181,955,399	$146,935,728	$19,724,480	$2,046,252	$2,152,913	$1,862,394	$5,742,975	$3,490,657
Miscellaneous deposits	$2,525,697	$2,525,697	$–	$–	$–	$–	$–	$–

2012

	Total	Neither Past Due Nor Impaired	Past Due but not Impaired					Specifically Impaired
			<30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	
Trade	$147,455,163	$121,003,761	$17,351,627	$3,598,589	$1,440,648	$545,744	$1,055,621	$2,459,173
Nontrade	2,268,477	701,392	512,565	571,920	231,564	3,884	104,806	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	517,508	425,716	–	–	–	–	91,792	–
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	$1,696,536	$1,696,536	$–	$–	$–	$–	$–	$–

The following table summarizes the credit quality of the Group’s financial assets as of December 31, 2013 and 2012:

2013

	Neither Past Due nor Impaired				Past Due or Individually Impaired	Total
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		
Cash and cash equivalents	$49,042,599	$–	$–	$–	$–	$49,042,599
Loans and receivables:						
Trade	10,521,911	131,357,425	–	–	32,256,291	174,135,627
Nontrade	1,314,190	–	–	–	1,524,204	2,838,394
Receivable from insurance	–	–	–	–	1,178,785	1,178,785
Receivable from employees	489,415	–	–	–	53,529	542,944
Due from related parties	218,453	–	–	–	–	218,453
Others	3,034,334	–	–	–	6,862	3,041,196
AFS financial assets	1,867,094	–	–	–	–	1,867,094
Miscellaneous deposits	2,525,697	–	–	–	–	2,525,697
	$69,013,693	$131,357,425	$–	$–	$35,019,671	$235,390,789

2012

	Neither Past Due nor Impaired				Past Due or Individually Impaired	Total
	Minimal Risk	Average Risk	Fairly High Risk	High Risk		
Cash and cash equivalents	$56,196,382	$–	$–	$–	$–	$56,196,382
Loans and receivables:						
Trade	6,992,886	112,250,969	1,759,906	–	26,451,402	147,455,163
Nontrade	701,392	–	–	–	1,567,085	2,268,477
Receivable from insurance	–	–	–	–	1,178,785	1,178,785
Receivable from employees	451,011	–	–	–	88,148	539,159
Due from related parties	425,716	–	–	–	91,792	517,508
Others	1,176,054	–	–	–	1,526,013	2,702,067
AFS financial assets	1,608,404	–	–	–	–	1,608,404
Miscellaneous deposits	1,696,536	–	–	–	–	1,696,536
	$69,248,381	$112,250,969	$1,759,906	$–	$30,903,225	$214,162,481

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 USD against other currencies. As a result of significant operating expenses in PHP, the Group's consolidated statements of income can be affected significantly by movements in the USD versus the PHP. In 2013 and 2012, 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 45% and 43% of the Group's sales for the years ended December 31, 2013 and 2012, respectively, and 37% and 35% of costs for the years ended December 31, 2013 and 2012, 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 USD equivalent follows:

Philippine Peso (₱)

	2013		2012	
	In USD	**In PHP**	In USD	In PHP
Cash and cash equivalents	**$1,301,522**	**₱57,768,395**	$2,524,544	₱103,632,511
Loans and receivables	**1,261,035**	**55,971,373**	1,267,619	52,035,744
Miscellaneous deposits	**1,308,741**	**58,088,831**	1,097,589	45,056,007
Accounts payable and accrued expenses	**(35,908,621)**	**(1,593,813,544)**	(30,727,258)	(1,261,353,697)
Pension liabilities	**(6,358,839)**	**(282,300,647)**	(2,058,321)	(84,494,098)
Other current liabilities	**(2,177,477)**	**(96,647,896)**	(2,332,655)	(95,755,486)
Other noncurrent liabilities	**(34,750)**	**(1,542,386)**	(311,785)	(12,798,786)
Net foreign currency-denominated liabilities	**($40,608,389)**	**(₱1,802,475,874)**	($30,540,267)	(₱1,253,677,805)

Singapore Dollar (SGD)

	2013		2012	
	In USD	**In SGD**	In USD	In SGD
Cash and cash equivalents	**$1,202,086**	**SGD1,521,608**	$828,978	SGD1,013,177
Loans and receivables	**42,278**	**53,516**	32,856	40,156
Accounts payable and accrued expenses	**–**	**–**	(1,933,997)	(2,363,731)
Other current liabilities	**(2,062,805)**	**(2,611,112)**	(1,106,393)	(1,352,234)
Loans payable	**–**	**–**	(1,395,372)	(1,705,424)
Net foreign currency-denominated liabilities	**($818,441)**	**(SGD2,035,988)**	($3,573,928)	(SGD5,368,056)

Euro (€)

	2013		2012	
	In USD	**In EUR**	In USD	In EUR
Cash and cash equivalents	**$3,372,710**	**€2,444,524**	$2,429,922	€1,835,566
Loans and receivables	**33,656,796**	**24,394,284**	41,286,658	31,187,991
Accounts payable and accrued expenses	**(15,267,300)**	**(11,065,666)**	(13,740,962)	(10,379,939)
Other current liabilities	**–**	**–**	(31,193)	(23,563)
Loans payable	**(900,196)**	**(652,458)**	(16,319,610)	(12,327,853)
Short-term debt	**(13,445,515)**	**(9,745,245)**	–	–
Net foreign currency-denominated assets	**$7,416,495**	**€5,375,439**	$13,624,815	€10,292,202

Japanese Yen (JPY or ¥)

	2013		2012	
	In USD	**In JPY**	In USD	In JPY
Cash and cash equivalents	**$110,783**	**¥11,600,269**	$241,456	¥20,777,535
Loans and receivables	**2,142,135**	**224,306,411**	1,661,467	142,970,938
Miscellaneous deposits	**23,388**	**2,449,004**	1,889,293	162,575,616
Accounts payable and accrued expenses	**(6,780,059)**	**(709,951,049)**	(4,186,848)	(360,282,581)
Net foreign currency-denominated liabilities	**($4,503,753)**	**(¥471,595,365)**	($394,632)	(¥33,958,492)

Renminbi (RMB)

	2013		2012	
	In USD	**In RMB**	In USD	In RMB
Cash and cash equivalents	**$8,791,172**	**RMB53,670,160**	$14,713,080	RMB91,750,882
Loans and receivables	**65,967,402**	**402,731,404**	55,410,425	345,539,841
Accounts payable and accrued expenses	**(45,116,122)**	**(275,434,206)**	(38,457,523)	(239,821,418)
Net foreign currency-denominated assets	**$29,642,452**	**RMB127,967,358**	$31,665,982	RMB106,469,305

Hong Kong Dollar (HKD or HK$)

	2013		2012	
	In USD	**In HKD**	In USD	In HKD
Cash and cash equivalents	**$209,933**	**HK$1,627,894**	$60,245	HK$466,954
Loans and receivables	**1,157,866**	**8,978,496**	119,223	924,084
Accounts payable and accrued expenses	**(358,999)**	**(2,783,806)**	(785,628)	(6,089,334)
Net foreign currency-denominated assets (liabilities)	**$1,008,800**	**HK$7,822,584**	($606,160)	(HK$4,698,296)

British Pound (GBP or £)

	2013		2012	
	In USD	**In GBP**	In USD	In GBP
Loans and receivables	**$1,024**	**£621**	$1,000	£621
Accounts payable and accrued expenses	**(5,272)**	**(3,197)**	(14,507)	(9,009)
Net foreign currency-denominated liabilities	**($4,248)**	**(£2,576)**	($13,507)	($8,388)

Australian Dollar (AUD)

	2013		2012	
	In USD	**In AUD**	In USD	In AUD
Cash and cash equivalents	**$3**	**AUD3**	$3	AUD3
Accounts payable and accrued expenses	**(54,619)**	**(61,239)**	(504,114)	(486,621)
Net foreign currency-denominated liabilities	**($54,616)**	**(AUD61,236)**	($504,111)	($486,618)

Thai Baht (THB)

	2013		2012	
	In USD	**In THB**	In USD	In THB
Loans and receivables	**$1,047**	**THB34,398**	$1,123	THB34,398

Swiss Franc (CHF)

	2013		2012	
	In USD	**In CHF**	In USD	In CHF
Cash and cash equivalents	**$1,411**	**CHF1,253**	$13,442	CHF12,274
Loans and receivables	**23**	**20**	–	–
Accounts payable and accrued expenses	**(58,208)**	**(51,690)**	(2,645)	(2,415)
Net foreign currency-denominated assets (liabilities)	**($56,774)**	**(CHF50,417)**	$10,797	CHF9,859

Danish Krone (DKK)

	2013		2012	
	In USD	**In DKK**	In USD	In DKK
Accounts payable and accrued expenses	**($2,789)**	**(DKK15,079)**	$–	DKK–

Sensitivity Analysis

The following tables demonstrate sensitivity to a reasonably possible change in the USD 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, 2013 and 2012. The reasonably possible change was computed based on one year average historical movement of exchange rates between the USD and other currencies.

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

Currency	Increase/Decrease in USD Rate	**Effect on Net Income before Tax** 2013	2012
PHP	+1%	**$257,733**	$176,040
	-1%	**(257,733)**	(176,040)
SGD	+1%	**5,839**	18,536
	-1%	**(5,839)**	(18,536)
EUR	+1%	**(100,879)**	(166,513)
	-1%	**100,879**	166,513
JPY	+1%	**27,143**	3,132
	-1%	**(27,143)**	(3,132)
RMB	+1%	**(243,729)**	(280,508)
	-1%	**243,729**	280,508)
HKD	+1%	**(10,052)**	6,205
	-1%	**10,052**	(6,205)

(Forward)

Currency	Increase/Decrease in USD Rate	Effect on Net Income before Tax **2013**	2012
GBP	+1%	**$52**	$102
	-1%	**(52)**	(102)
AUD	+1%	**637**	6,408
	-1%	**(637)**	(6,408)
THB	+1%	**(6)**	(14)
	-1%	**6**	14
CHF	+1%	**705**	(140)
	-1%	**(705)**	140
DKK	+1%	**38**	–
	-1%	**(38)**	–

Derivatives
In 2013 and 2012, the Parent Company entered into various short-term currency forwards with an aggregate notional amount of $37.00 million and $13.00 million, respectively. As of December 31, 2013 and 2012, the outstanding forward contracts have a net negative fair value of $0.04 million and nil, respectively. The changes in fair value of currency forwards recognized in 2013, 2012 and 2011 amounted to ($0.48 million), $1.54 million and $0.86 million, respectively. The changes in fair value of currency forwards are recognized in the consolidated statements of income under "Foreign exchange gains (losses) - net" account.

As discussed in Note 2, the acquisition of PSi gave rise to a long equity call option and written equity put option for the Parent Company.

As of December 31, 2013 and 2012, the fair value of the call option is nil and $2.86 million, respectively, while the put option has a zero value in both years. Net fair value gain on the options amounted to nil, $0.12 million and $5.36 million in 2013, 2012, and 2011, respectively.

Fair value changes on derivatives
The net movements in fair value of the Group's derivative instruments as of December 31, 2013 and 2012 follow:

	2013	2012
Derivative assets:		
At January 1	**$2,857,010**	$2,798,912
Exercise of call option	**(2,857,010)**	–
Changes in fair value of:		
Call option	**–**	121,185
Currency forwards	**104,427**	1,603,179
Fair value of settled currency forwards	**(104,427)**	(1,666,266)
At December 31	**$–**	$2,857,010
Derivative liabilities:		
At January 1	**$–**	$34,562
Fair value of currency forwards	**583,489**	62,723
Fair value of settled currency forwards	**(542,883)**	(97,285)
At December 31	**$40,606**	$–

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, 2013 and 2012.

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.

	2013	2012
Trust receipts and loans payable	**$45,653,865**	$44,206,600
Long-term debt	**46,898,500**	46,624,000
Total debt	**92,552,365**	90,830,600
Less cash and cash equivalents	**49,042,599**	(56,196,382)
Net debt	**$43,509,766**	$34,634,218
Equity attributable to equity holders of the Parent Company	**$192,649,772**	$193,817,291
Debt to equity ratio	**48%**	47%
Net debt to equity ratio	**23%**	18%

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 include capitalization by the Group of machinery and facilities equipment under finance lease amounting to $3.03 million in 2013, $0.78 million in 2012 and $1.94 million in 2011.

SGV
Building a better working world

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

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Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Integrated Micro-Electronics, Inc. (the "Parent Company") for the year ended December 31, 2013, on which we have rendered the attached report dated February 17, 2014.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the Parent Company has five hundred twenty six (526) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

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. 4225145, January 2, 2014, Makati City

February 17, 2014

EXHIBIT 2

Supplementary Schedules

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES**

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Integrated Micro-Electronics, Inc. and Subsidiaries (the "Group") as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, included in this Form 17-A, and have issued our report thereon dated February 17, 2014. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules, are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-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. 4225145, January 2, 2014, Makati City

February 17, 2014

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule A. Financial Assets
December 31, 2013

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

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2013
(in U.S. Dollars)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
Receivables from Employees:							
Various Officers and Employees*	539,159	3,439,671.06	(3,435,886.56)	-	542,944	-	542,944
Total	**539,159**	**3,439,671**	**(3,435,887)**	**-**	**542,944**	**-**	**542,944**

* Consist of receivables from approximately more than 2,000 Officers and Employees.

Integrated Microelectronics, Inc. and Subsidiaries
Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
December 31, 2013
(in U.S. Dollars)

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
Accounts receivable -trade							
Speedy-Tech Electronics	2,289,309	679,290			2,968,599		2,968,599
IMI International (Singapore) Pte Ltd.	-		-				-
Monarch and EPIQ Subsidiaries	1,029	8,706			9,735		9,735
PSi Technologies Inc.	738	16,615			17,353		17,353
IMI USA	7,652	-	7,652		-		-
Accounts receivable -nontrade							
Speedy-Tech Electronics Ltd.	18,496,749	2,738,733			21,235,481		21,235,481
Monarch and EPIQ Subsidiaries	907,933	19,779			927,712		927,712
PSi Technologies Inc.	7,288,927	4,256,532	242,883		11,302,576		11,302,576
IMI International (Singapore) Pte Ltd.	1,012,770		812,770		200,000		200,000
IMI Japan	976,540	2,987			979,526		979,526
IMI USA	-	405			405		405
IMI International ROHQ	-	7,936			7,936		7,936
Due From							
Speedy-Tech Electronics Ltd.	806,080	-	806,080		-		-
Monarch and EPIQ Subsidiaries	10,151,868	5,237,404	1,620,915		13,768,358		13,768,358
IMI International (Singapore) Pte Ltd.	4,167	806,080			810,247		810,247
IMI Japan	2,586		2,586		-		-
IMI USA	250,000	-	-		250,000		250,000
IMI International ROHQ	-	245,386			245,386		245,386
Total	**42,196,346**	**14,019,853**	**3,492,884**	**-**	**52,723,315**	**-**	**52,723,315**

These related party receivables are collectible on demand.

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule D. Intangible Assets
December 31, 2013
(in U.S. Dollars)

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance	Remarks
Customer relationships	4,849,409		1,353,323		-	3,496,085	
Unpatented technology	-	-	-		-	-	
Computer software	1,044,712	776,158	436,449		(18,777)	1,365,644	Other changes represent foreign currency exchange difference
	5,894,121	**776,158**	**1,789,772**	**-**	**(18,777)**	**4,861,729**	

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule E. Long-Term Debt
December 31, 2013
(in U.S. Dollars)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet	Remarks
5-year clean loan (Parent Company)	46,898,500	-	46,898,500	principal payable in October 2016; interest payable and repriced quarterly at the rate of 3-month LIBOR plus margin of 0.80%
Deferred payment to EPIQ NV (Cooperatief)	16,892,242	2,758,200	14,134,042	periodic payment of $2,758,200 for the first 5 years from 2013 to 2017 and $5,859,442 in 2018; subject to interest rate of 1.5999% plus 1.5%
Long-term Debt from Citibank (IMI CZ)	812,419	145,208	667,211	periodic payment of $145,208 for the first 5 years from 2014 to 2018 and $86,379 in 2019; The debt bears interest of 1-month EURIBOR plus 2.70% and matures on July 31, 2019.
Total	**64,603,161**	**2,903,408**	**61,699,753**	

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule F. Indebtedness to Related Parties
December 31, 2013
(in U.S. Dollars)

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

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

Related party payables eliminated during consolidation:

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
Accounts Payable - Trade		
Speedy-Tech Electronics Ltd.	-	128,952
IMI USA	-	135,939
Accounts Payable - Nontrade		
Speedy-Tech Electronics Ltd.	42,620	6,682,487
IMI USA	32,428	104,985
IMI Japan	-	130,345
IMI International ROHQ	-	435,266
Due To		
Speedy-Tech Electronics Ltd.	1,475,446	1,578,749
Monarch and EPIQ Subsidiaries	-	-
PSi Technologies Inc.	546,135	415,317
IMI International (Singapore) Pte Ltd.	-	-
IMI Japan	717,056	582,224
IMI USA	93,250	48,222
IMI International ROHQ	436,367	776,974
Total	**3,343,302**	**11,019,460**

Note 1. These related party liabilities are payable on demand.
2. Significant increase in the balance with Speedy-Tech Electronics Ltd. was due to the transfer of books of STPH to IMI PH and a booking of one customer coursed through IMI PH.

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule G. Guarantees of Securities of Other Issuers
December 31, 2013
(in U.S. Dollars)

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

Integrated Micro-Electronics, Inc. and Subsidiaries
Schedule H. Capital Stock
December 31, 2013

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Stocks	2,250,000,000	1,572,129,429				
Less: Treasury Shares		(15,892,109)				
Common shares	**2,250,000,000**	**1,556,237,320**	150,000,000		84,726,181	1,321,511,139
Preferred Shares	**1,500,000,000**	**1,300,000,000**			2,652,196	1,297,347,804

INTEGRATED MICROELECTRONICS, INC.
ANNEX 68-C - RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2013
(in U.S. Dollars)

Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning		13,037,616
Add: Net income actually earned/realized during the period		
Net loss during the period closed to Retained Earnings	(165,274)	
Less: Non-actual/unrealized income, net of tax		
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	(1,063,898)	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	1,534,738.15	
Sub-total	305,567	
Add: Non-actual losses	-	
Net income actually earned during the period		305,567
Add (less):		
Dividend declarations during the period		(871,089)
TOTAL RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION, END		**12,472,093**

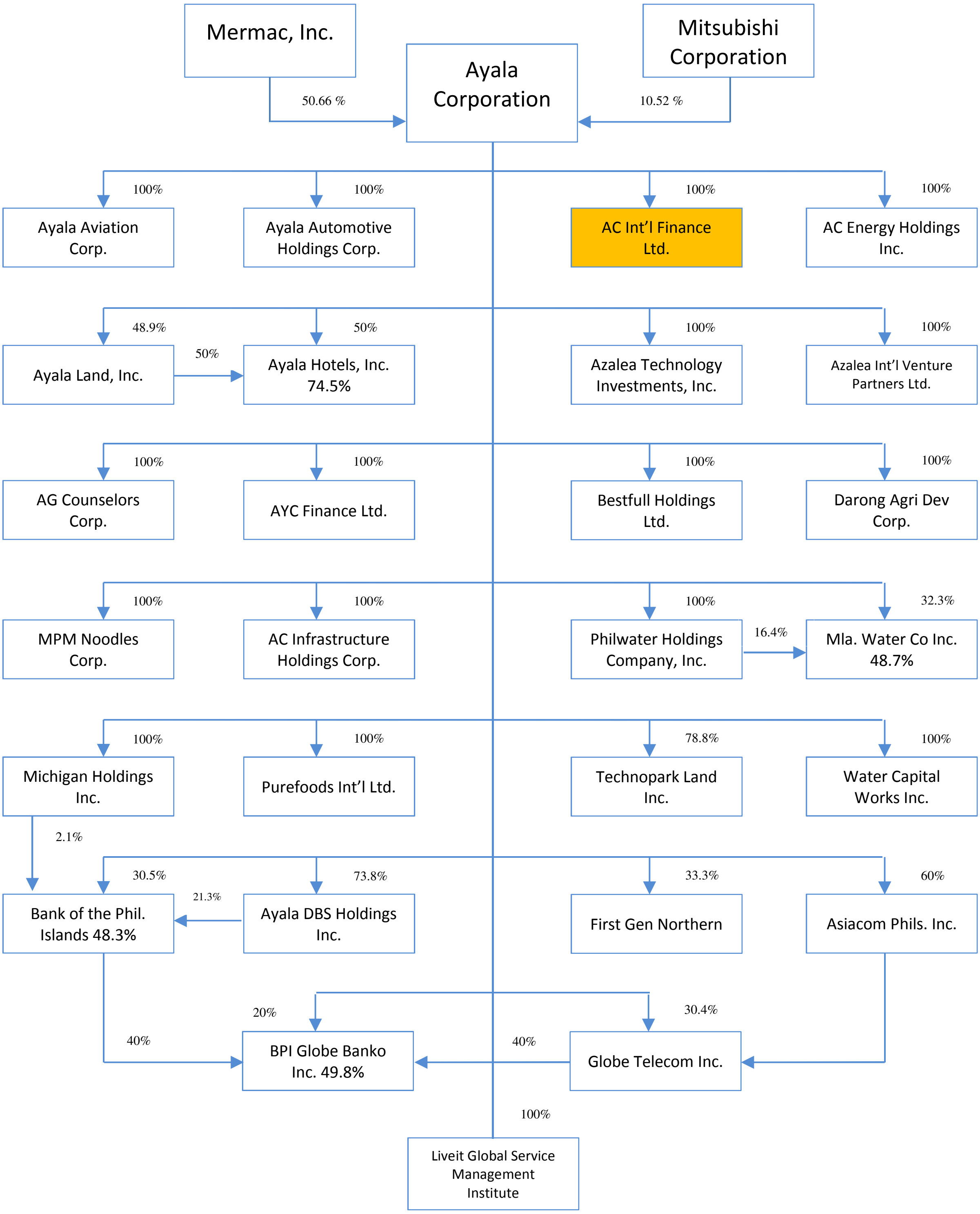
INTEGRATED MICRO-ELECTRONICS INC. AND SUBSIDIARIES
FINANCIAL RATIOS
DECEMBER 31, 2013 and 2012

Ratios	Formula	As of December 31, 2013	As of December 31, 2012 (As Restated)
(i) Current ratio	Current assets / Current Liabilities	1.53	1.56
(ii) Debt/Equity ratio	Bank debts / Equity attributable to parent	0.48	0.47
(iii) Asset to Equity ratio	Total Assets / Equity attributable to parent	2.53	2.34
(iv) Interest rate coverage ratio	Earnings before interest and taxes / Interest Expense	6.56	2.65
(v) Profitability ratios			
GP margin	Gross Profit / Revenues	9.1%	8.6%
Net profit margin	Net Income after Tax / Revenues	1.4%	0.8%
EBITDA margin	EBITDA / Revenues	4.9%	4.9%
Return on assets	Net Income after Tax / Total Asset	2.1%	1.2%
Return on equity	Net Income after Tax / Average equity attributable to parent	5.4%	2.9%

	(in U.S. Dollars)	
	December 31, 2013	December 31, 2012 (As Restated)
Current Assets	338,262,918	300,536,028
Current Liabilities	221,301,986	192,172,958
Bank Debts	93,364,784	90,830,600
Equity attributable to parent	192,649,772	193,817,291
Total Assets	488,228,816	453,352,886
Earnings before interest and taxes	15,934,734	7,420,004
Interest expense	2,429,992	2,795,360
Gross Profit	67,928,900	56,936,303
Revenues	745,031,863	661,849,722
Net Income after Tax	10,472,995	5,584,613
EBITDA	36,439,704	32,754,024
Average equity attributable to parent	193,233,532	189,619,218

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

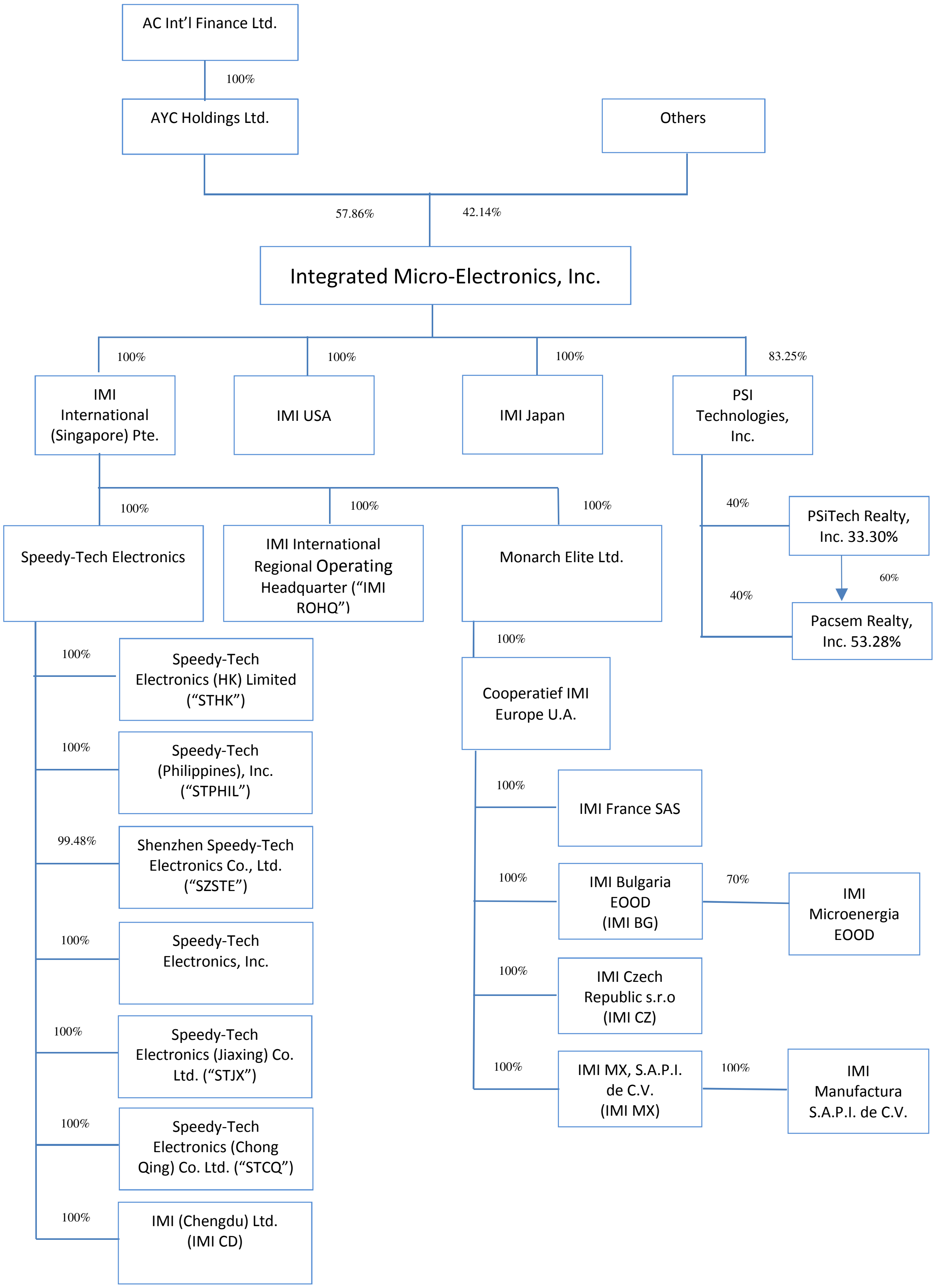
MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES



Legend:

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

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


AC Int'l Finance Ltd.
100%
AYC Holdings Ltd.
Others
57.86%
42.14%
Integrated Micro-Electronics, Inc.
100%
IMI International (Singapore) Pte.
100%
IMI USA
100%
IMI Japan
83.25%
PSI Technologies, Inc.
40%
PSiTech Realty, Inc. 33.30%
60%
40%
Pacsem Realty, Inc. 53.28%
100%
Speedy-Tech Electronics
100%
IMI International Regional Operating Headquarter ("IMI ROHQ")
100%
Monarch Elite Ltd.
100%
Speedy-Tech Electronics (HK) Limited ("STHK")
100%
Speedy-Tech (Philippines), Inc. ("STPHIL")
99.48%
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE")
100%
Speedy-Tech Electronics, Inc.
100%
Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX")
100%
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ")
100%
IMI (Chengdu) Ltd. (IMI CD)
100%
Cooperatief IMI Europe U.A.
100%
IMI France SAS
100%
IMI Bulgaria EOOD (IMI BG)
70%
IMI Microenergia EOOD
100%
IMI Czech Republic s.r.o (IMI CZ)
100%
IMI MX, S.A.P.I. de C.V. (IMI MX)
100%
IMI Manufactura S.A.P.I. de C.V.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

Schedule of Effective Standards and Interpretations as of December 31, 2013

PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework for Financial Reporting		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of PFRS	✓		
	PFRS 1 and PAS 27 (Amendments) - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*			✓
	PFRS 1 (Amendments) - *Additional Exemptions for First-time Adopters*			✓
	PFRS 1 (Amendments) - *Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters*			✓
	PFRS 1 (Amendments) - *Severe Hyperinflation and Removal of Fixed Date of First-time Adopters*			✓
	PFRS 1 (Amendments) - *Government Loans*			✓
PFRS 2	Share-based Payment	✓		
	PFRS 2 (Amendments) - *Vesting Conditions and Cancellations*	✓		
	PFRS 2 (Amendments) - *Group Cash-settled Share-based Payment Transactions*	✓		
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	PAS 39 and PFRS 4 (Amendments) - *Financial Guarantee Contracts*			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	PAS 39 and PFRS 7 (Amendments) - *Reclassification of Financial Assets*	✓		
	PAS 39 and PFRS 7 (Amendments) - *Reclassification of Financial Assets - Effective Date and Transition*	✓		
	PFRS 7 (Amendments) - *Improving Disclosures about Financial Instruments*	✓		
	PFRS 7 (Amendments) - *Limited Exemption from*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
	Comparative PFRS 7			
	PFRS 7 (Amendments) - *Offsetting Financial Assets and Financial Liabilities*			✓
PFRS 8	Operating Segments	✓		
PFRS 9 [a]	Financial Instruments		✓	
PFRS 10	Consolidated Financial Statements	✓		
	PFRS 10 (Amendments) - *Investment Entities*	NOT EARLY ADOPTED		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	PFRS 12 (Amendments) - *Investment Entities*	NOT EARLY ADOPTED		
PFRS 13	Fair Value Measurement	✓		
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	PAS 32 and PAS 1 (Amendments) - *Puttable Financial Instruments and Obligations Arising from Liquidation*			✓
	PAS 1 (Amendments) - *Presentation of Items of Other Comprehensive Income*	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date			✓
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	PAS 12 (Amendments) - *Deferred Tax: Recovery of Underlying Assets*			✓
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	PAS 19 (Amendments) - *Defined Benefit Plans: Employee Contributions*	NOT EARLY ADOPTED		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
	PAS 21 (Amendments) - *Net Investment in a Foreign Operation*	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	PAS 27 (Amendments) - *Investment Entities*	NOT EARLY ADOPTED		
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	PAS 32 and PAS 1 (Amendments) - *Puttable Financial Instruments and Obligations Arising on Liquidation*			✓
	PAS 32 (Amendments) - *Classification of Rights Issues*			✓
	PAS 32 (Amendments) - *Offsetting Financial Assets and Financial Liabilities*	NOT EARLY ADOPTED		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	PAS 36 (Amendments) - *Recoverable Amount Disclosures for Non-financial Assets*	NOT EARLY ADOPTED		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	PAS 39 (Amendments) - *Transition and Initial Recognition of Financial Assets and Financial Liabilities*	✓		
	PAS 39 (Amendments) - *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*			✓
	PAS 39 (Amendments) - *The Fair Value Option*	✓		
	PAS 39 and PFRS 4 (Amendments) - *Financial Guarantee Contracts*			✓
	PAS 39 and PFRS 7 (Amendments) - *Reclassification of Financial Assets*	✓		
	PAS 39 and PFRS 7 (Amendments) - *Reclassification of Financial Assets - Effective Date and Transition*	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
	Philippine Interpretation IFRIC 9 and PAS 39 (Amendments) - *Embedded Derivatives*	✓		
	PAS 39 (Amendments) - *Eligible Hedged Items*	✓		
	PAS 39 (Amendments) - *Novation of Derivatives and Continuation of Hedge Accounting*	NOT EARLY ADOPTED		
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
IFRIC 15 [b]	Agreements for the Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21 [b]	Levies			✓
SIC 7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

[a] PFRS 9 currently has no mandatory effective date. Integrated Micro-Electronics, Inc. and Subsidiaries will not adopt this standard before the completion of the limited amendments and the second phase of the project.

[b] The effective date of this interpretation was deferred until the final Revenue standard is issued.

EXHIBIT 3

2013 Audited Annual Financial Statements,
IMI International (Singapore) Pte Ltd

Master File

Company Registration No. 200502337G

IMI International (Singapore) Pte Ltd

Annual Financial Statements
31 December 2013

Building a better
working world

IMI International (Singapore) Pte Ltd

General Information

Directors

Arthur R. Tan
Chng Poh Guan
Jerome Su Tan

Company Secretary

Chang Ai Ling

Registered Office

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

Bankers

Bank of the Philippine Islands
Citibank
Standard Chartered Bank

Auditor

Ernst & Young LLP

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The directors are pleased to present their report to the member together with the audited financial statements of IMI International (Singapore) Pte Ltd (the "Company") for the financial year ended 31 December 2013.

Directors

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

Arthur R. Tan
Chng Poh Guan
Jerome Su Tan

Arrangements to enable directors to acquire shares and debentures

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

Directors' interests in shares and debentures

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

	Direct interest	
	At the beginning of financial year or at date of appointment	**At the end of financial year**
Ultimate holding company		
Ayala Corporation		
Ordinary shares of 1 Peso each		
Arthur R. Tan	249,023	247,454
Immediate holding company		
Integrated Micro-Electronics, Inc.		
Ordinary shares of 1 Peso each		
Arthur R. Tan	7,279,252	7,279,252
Chng Poh Guan	20,000	20,000
Fellow subsidiary		
Ayala Land Inc.		
Ordinary shares of 1 Peso each		
Jerome Su Tan	20,000	–

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

Directors' contractual benefits

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

Auditor

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

On behalf of the board of directors,

Arthur R. Tan
Director

Jerome Su Tan
Director

Singapore

14 FEB 2014

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

(i) the accompanying balance sheet, statement of comprehensive income, statement of changes in equity and cash flows statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2013 and the results of the business, changes in equity and cash flows of the Company for the year ended on that date, and

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

On behalf of the board of directors,

Arthur R. Tan
Director

Jerome Su Tan
Director

Singapore

14 FEB 2014

Report on the financial statements

We have audited the accompanying financial statements of IMI International (Singapore) Pte Ltd (the "Company"), set out on pages 6 to 38, which comprise the balance sheet of the Company as at 31 December 2013, the statement of comprehensive income, the statement of changes in equity and cash flow statement of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company as at 31 December 2013 and the results, changes in equity and cash flows of the Company for the year ended on that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP
Public Accountants and Chartered Accountants
Singapore

1 4 FEB 2014

Statement of Comprehensive Income for the financial year ended 31 December 2013

	Note	2013 $'000	2012 $'000
Revenue	3	4,649	3,859
Cost of sales		(4,294)	(3,522)
Gross profit		355	337
Other operating income	4	15,050	8
Administrative expenses		(519)	(1,402)
Finance costs	7	(5)	(6)
Profit/(loss) before taxation	5	14,881	(1,063)
Taxation	8	(10)	(15)
Profit/(loss) for the year		14,871	(1,078)
Other comprehensive income:		–	–
Total comprehensive income/(loss) for the year		14,871	(1,078)

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

Balance Sheet as at 31 December 2013

	Note	2013 $'000	2012 $'000
Non-current assets			
Property, plant and equipment	9	144	250
Investment in subsidiaries	10	128,003	127,997
Investment security	11	1,350	1,000
Current assets			
Other receivables, deposits and prepayments	12	111	44
Due from immediate holding company	13	1,212	436
Due from related party	13	144	117
Due from subsidiaries	13	28,812	28,812
Cash and cash equivalents	14	968	1,086
		31,247	30,495
Current liabilities			
Other payables and accruals	15	2,001	1,252
Provision for taxation		6	10
Due to immediate holding company	16	80,479	80,405
Due to a subsidiary	16	5,424	20,122
		87,910	101,789
Net current liabilities		(56,663)	(71,294)
Net assets		72,834	57,953
Equity attributable to owner of the Company			
Share capital	17	35,958	35,958
Reserves	18	36,876	21,995
Total equity		72,834	57,953

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

Statement of Changes in Equity for the year ended 31 December 2013

	Share capital (Note 17) $'000	Capital contribution reserves (Note 18a) $'000	Revenue reserves (Note 18b) $'000	Total $'000
Balance at 1 January 2013	35,958	3,132	18,863	57,953
Profit for the year	–	–	14,871	14,871
Total comprehensive income for the year	–	–	14,871	14,871
<u>Contributions by and distributions to owner</u>				
Grant of equity-settled share options in immediate holding company to employees	–	10	–	10
Total transactions with owner in their capacity as owner	–	10	–	10
At 31 December 2013	35,958	3,142	33,734	72,834
Balance at 1 January 2012	35,958	3,116	19,941	59,015
Loss for the year	–	–	(1,078)	(1,078)
Total comprehensive income for the year	–	–	(1,078)	(1,078)
<u>Contributions by and distributions to owner</u>				
Grant of equity-settled share options in immediate holding company to employees	–	16	–	16
Total transactions with owner in their capacity as owner	–	16	–	16
At 31 December 2012	35,958	3,132	18,863	57,953

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

	2013 $'000	2012 $'000
Cash flows from operating activities		
Profit/(loss) before taxation	14,881	(1,063)
Adjustments for:		
Gain on disposal of property, plant and equipment	(1)	(6)
Depreciation of property, plant and equipment	121	129
Interest expense	5	6
Interest income	(1)	(2)
Share option expenses	4	16
Unrealised exchange (gain)loss	(33)	276
Dividend income	(15,048)	–
Operating cashflows before working capital changes	(72)	(644)
Increase in other receivables, deposits and prepayments	(68)	(3)
(Increase)/decrease in amount due from immediate holding company	(776)	34
(Increase)/decrease in amount due from a related party	(27)	278
Decrease in amount due from subsidiaries	–	663
Increase/(decrease) in other payables and accruals	748	(69)
Increase in amount due to immediate holding company	109	–
Cash (used in)/generated from operations	(86)	259
Interest received	1	2
Interest paid	(5)	(6)
Income taxes paid	(14)	(42)
Net cash (used in)/generated from operating activities	(104)	213
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	14	32
Purchase of property, plant and equipment	(28)	(128)
Net cash used in investing activities	(14)	(96)
Net (decrease)/increase in cash and cash equivalents	(118)	117
Cash and cash equivalents at beginning of year (Note 14)	1,086	969
Cash and cash equivalents at end of year (Note 14)	968	1,086

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

1. Corporate information

IMI International (Singapore) Pte Ltd (the "Company") is a private limited company incorporated and domiciled in Singapore. The immediate holding company is Integrated Micro-Electronics Inc. ("IMI") which is incorporated in the Republic of the Philippines and is a subsidiary of AYC Holdings, Ltd. ("AYC"). AYC is a corporation incorporated in British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd under the umbrella of Ayala Corporation ("AC"), a corporation incorporated in the Republic of the Philippines and listed on the Philippine Stock Exchange. On 21 January 2010, the immediate holding company was listed by way of introduction on the Philippine Stock Exchange.

The Company has a wholly-owned subsidiary incorporated and domiciled also in Singapore which is Speedy-Tech Electronics Ltd. ("STEL"). On 16 April 2009, the Company established its Philippine Regional Operating Headquarters also known as IMI International ROHQ (the "Headquarters"). The Headquarters serves as a supervisory, communications and coordinating centre for the affiliates and subsidiaries of the Company. On 28 April 2011, IMI infused additional capital to the Company consisting of $7,026,000 (€4,850,000) cash and 200,000 of the IMI's own shares in exchange for 43,077,144 newly issued ordinary shares of the latter amounting to $3,835,000. This was used by the Company to set up Monarch Elite Ltd. ("Monarch") and Cooperatief IMI Europe U.A. ("Cooperatief") as holding companies and to facilitate the acquisition of Integrated Micro-Electronics Bulgaria EOOD (formerly EPIQ Electronic Assembly EOOD ("IMI BG"), Integrated Micro-Electronics Czech Republic s.r.o. (formerly EPIQ CZ s.r.o) ("IMI CZ"), and Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (formerly EPIQ MX, S.A.P.I de C.V.) ("IMI MX") (collectively the "IMI EU/MX Subsidiaries") from EPIQ NV.

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

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

The principal activities of the subsidiaries are disclosed in Note 10 to the financial statements.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The financial statements of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

As at 31 December 2013, the Company was in a net current liability position of $56,663,000 (2012: $71,294,000). These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as going concern.

The directors are of the opinion that the financial statements of the Company can be prepared on a going concern basis as the immediate holding company has given an undertaking in terms of the Company's obligations as a going concern.

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

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

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

2.1 *Basis of preparation (cont'd)*

Pursuant to Section 201(3BA) of the Singapore Companies Act and Singapore Financial Reporting Standards No. 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, the Company need not prepare consolidated financial statements as the Company is itself a wholly-owned subsidiary of Integrated Micro-Electronics Inc., which prepared one set of consolidated financial statements incorporating the financial statements of the Company and its subsidiaries. The registered office of Integrated Micro-Electronics Inc. is North Science Avenue, Laguna Technopark, Biñan, Laguna.

2.2 *Changes in accounting polices*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Company has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 January 2013. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Company.

2.3 *Standards issued but not yet effective*

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

Description	*Effective for annual period beginning on or after*
Revised FRS 27 *Separate Financial Statements*	1 January 2014
FRS 110 *Consolidated Financial Statements*	1 January 2014
FRS 112 *Disclosure of Interests in Other Entities*	1 January 2014
Amendments to FRS 32 *Offsetting Financial Assets and Financial Liabilities*	1 January 2014
Amendments to FRS 36 *Recoverable Amount Disclosures for Non-financial Assets*	1 January 2014
INT FRS 121 *Levies*	1 January 2014
Amendments to FRS 39 *Novation of Derivatives and Continuation of Hedge Accounting*	1 January 2014
Amendments to FRS 19 *Defined Benefit Plans: Employee Contributions*	1 July 2014
Improvements to FRSs 2014	
- Amendments to FRS 16 *Property, Plant and Equipment*	1 July 2014
- Amendments to FRS 24 *Related Party Disclosures*	1 July 2014
- Amendments to FRS 38 *Intangible Assets*	1 July 2014
- Amendments to FRS 40 *Investment Property*	1 July 2014
- Amendments to FRS 102 *Share-based Payment*	1 July 2014
- Amendments to FRS 103 *Business Combinations*	1 July 2014
- Amendments to FRS 108 *Operating Segments*	1 July 2014
- Amendments to FRS 113 *Fair Value Measurement*	1 July 2014

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

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

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

FRS 112 *Disclosure of Interests in Other Entities*

FRS 112 *Disclosure of Interests in Other Entities* is effective for financial periods beginning on or after 1 January 2014.

FRS 112 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. FRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in 2014.

2.4 ***Foreign currency***

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

Transactions and balances

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2.5 ***Investment in subsidiaries***

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

Investments in subsidiaries are accounted for at cost less any impairment losses.

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

2.6 *Property, plant and equipment*

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

Subsequent to recognition, all items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

Motor vehicles	5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.
The residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted prospectively, if appropriate.

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

2.7 *Impairment of non-financial assets*

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

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

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

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

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

2.8 *Financial assets*

Initial recognition and measurement

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

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

Subsequent measurement

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

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

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

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

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

2.8 ***Financial assets***

Subsequent measurement

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

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

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

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

(c) ***Held-to-maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

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

2.8 *Financial assets (cont'd)*

Subsequent measurement (cont'd)

(d) ***Available-for-sale financial assets***

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

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

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

2.9 *Cash and cash equivalents*

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

Cash and short-term deposits carried on the balance sheets are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.8.

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

2.10 *Other receivables*

Other receivables, including amounts due from immediate holding company, related party and subsidiaries are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.8.

An allowance is made for uncollectible amounts when there is objective evidence that the Company will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.11 below.

2.11 *Impairment of financial assets*

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

(a) ***Financial assets carried at amortised cost***

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

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

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

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

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

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

(b) ***Financial assets carried at cost***

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2.12 *Other payables*

Other payables and payables to related parties are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

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

2.13 *Provisions*

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

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.14 *Employee benefits*

Defined contribution plans

The Company participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Company makes contributions to the Central Provident Fund (CPF) scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

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

2.14 *Employee benefits (cont'd)*

Defined benefit plans

IMI maintains a defined benefit plan covering substantially all of its employees, including the employees of the Headquarters. IMI allocates pension expense to the Headquarters according to IMI's best estimate based on the prevailing basic pay of the employees, including the employees of the Headquarters. The plan is a funded, non-contributory pension plan administered by a Board of Trustees. Pension expense is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses, past service cost and the effect of any curtailment or settlement.

A portion of the actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets. These gains and losses are recognized over the expected average remaining working lives of 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 reporting date, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods; or (b) the total of any cumulative unrecognized net actuarial loss and past service cost and the present value of any economic benefit available in the form of refunds from the plan or reductions in future contributions to the plan. If there is no minimum funding requirement, an entity shall determine the economic benefit available as a reduction in future contributions as the lower of: (a) the surplus in the plan; and (b) the present value of the future service cost to the entity, excluding any part of the future cost that will be borne by employees, for each year over the shorter of the expected life of the plan and the expected life of the entity.

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

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

2.14 *Employee benefits (cont'd)*

Employee leave entitlement

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

Equity-settled transactions

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

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

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

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

2.15 *Revenue*

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

(a) ***Rendering of services***

Revenue is recognised when the related services have been rendered.

(b) ***Interest income***

Interest income is recognised using the effective interest method.

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

2.16 *Taxes*

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

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

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

(b) ***Deferred tax***

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

Deferred tax liabilities are recognised for all temporary differences, except:

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

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

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

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

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

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

2.16 *Taxes (cont'd)*

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

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

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

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

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

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

2.17 *Derivative financial instruments*

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

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

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

2.18 *Financial liabilities*

Initial recognition and measurement

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

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

Subsequent measurement

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

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

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

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

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

(b) ***Financial liabilities at amortised cost***

After initial recognition, financial liabilities are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

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

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

2.19 ***Share capital and share issuance expenses***

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

2.20 ***Related parties***

A related party is defined as follows:

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

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

(ii) Has significant influence over the Company; or

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

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

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

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

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

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

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

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

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

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

2.21 *Significant accounting estimates and judgements*

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

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below.

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

The Company assesses at each reporting date whether there is an indication that the investment in subsidiaries may be impaired. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Company's investment in subsidiaries at 31 December 2013 was $128,003,000 (2012: $127,997,000).

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

The cost of plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these property, plant and equipment as discussed in Note 2.6. These are common life expectancies applied in the electronics and telecommunication manufacturing industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Company's property, plant and equipment at 31 December 2013 was $144,000 (2012: $250,000).

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

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

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

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

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

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

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

The carrying values of property, plant and equipment are reviewed for impairment when there are indicators of impairment. As at 31 December 2013, there are no indications of impairment.

3. Revenue

Revenues relate to service fees provided by the Headquarters to IMI and PSi Technologies, Inc. (PSi), a related party.

4. Other operating income

	2013 $'000	**2012** $'000
Interest income from loans and receivables	1	2
Gain/(loss) on disposal of property, plant and equipment	1	6
Dividend income from subsidiary	15,048	–
	15,050	8

5. Profit/(loss) before taxation

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

	2013 $'000	**2012** $'000
Employee benefits expense (Note 6)	4,424	3,696
Depreciation of property, plant and equipment (Note 9)	121	129
Exchange (gain)/loss, net	(21)	832

6. Employee benefits expense

	2013 $'000	2012 $'000
Wages, salaries and bonuses	2,546	2,020
Other personnel benefits	176	99
Share option expenses (not including directors of Company)	4	37
Directors' remuneration – directors of the Company	1,698	1,540
	4,424	3,696

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

7. Finance costs

	2013 $'000	2012 $'000
Interest expense		
- bank loans	4	5
- bank overdrafts/bank charges	1	1
	5	6

8. Income tax

Major components of taxation

The components of taxation for the year ended 31 December 2013 and 2012 are:

	2013 $'000	2012 $'000
Current taxation		
Foreign		
Current year	10	15
Tax expense recognised in the statement of comprehensive income	10	15

The Headquarters derives income in the Philippines by charging service fees to IMI and PSi, a related party. It is subject to the following tax rules, among others:

- Its taxable income is taxed at 10%. Remittances to the Company are subject to the Headquarters profit tax of 15%;
- It is exempted from all kinds of local taxes, fees or charges, except real property tax on land improvements and equipment tax;
- The importation of equipment and materials for training and conferences which are needed and used solely for its functions, and which are not available locally, are tax and duty free, subject to the approval of the Board of Investments; and
- The gross income of its local and foreign employees is taxed at the preferential rate of 15%.

8. Income tax (cont'd)

Relationship between taxation and accounting (loss)/profit

A reconciliation between the taxation and the product of accounting (loss)/profit multiplied by the applicable tax rate for the years ended 31 December 2013 and 2012 are as follows:

	2013 $'000	**2012** $'000
Accounting profit/(loss) before taxation	14,881	(1,063)
Tax at the applicable statutory tax rate of 17% (2012: 17%)	2,530	(181)
Adjustments:		
Tax effect of expenses not deductible for tax purposes	30	190
Income not subject to taxation	(2,558)	–
Effect of differences in tax rates in other countries where Company operates	8	7
Others	–	(1)
Tax expense recognised in the statement of comprehensive income.	10	15

9. Property, plant and equipment

	Motor vehicles $'000
Cost	
At 1 January 2012	531
Additions	128
Disposals/written off	(51)
At 31 December 2012 and 1 January 2013	608
Additions	28
Disposals/written off	(31)
At 31 December 2013	605
Accumulated depreciation	
At 1 January 2012	254
Charge for the year	129
Disposal/written off	(25)
At 31 December 2012 and 1 January 2013	358
Charge for the year	121
Disposal/written off	(18)
At 31 December 2013	461
Net carrying amount	
At 31 December 2012	250
At 31 December 2013	144

9. Property, plant and equipment (cont'd)

Motor vehicles pertain to cars used by the employees of the Headquarters. It includes cars which were transferred from IMI on July 1, 2009 at book value of $0.15 million at the time of transfer.

Fully depreciated transportation equipment is transferred to the senior personnel assigned to it. For the financial years ended 31 December 2013 and 2012, cost of fully depreciated transportation equipment transferred to senior personnel amounted to $0.01 million and $0.03 million, respectively.

10. Investment in subsidiaries

	2013 $'000	2012 $'000
Unquoted equity shares, at cost	128,003	127,997

The cash consideration equivalent to €4,850,000 infused as additional capital by IMI and used by the Company to set up Monarch and Cooperatief was previously recorded as "Due from subsidiaries" in 2011. On December 18, 2012, the Company applied for 48,985,402 shares of HKD1.00 each in the capital of Monarch equivalent to €4,801,500 (US$6,320,684) at the time of conversion which represents 99% ownership interests in Monarch.

Details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group 2013	2012
Held by the Company			%	%
Speedy-Tech Electronics Ltd *	Singapore	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
Monarch Elite Ltd #	Hong Kong	Investment holding	99	99
Cooperatief IMI Europe U.A.	Netherlands	Provision of material needs of its members, pursuant to agreements concluded with its members in respect of the business that it carries on or procures to be carried on for the benefit of its members	1	1

10. Investment in subsidiaries (cont'd)

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group 2013	2012
Held by Speedy-Tech Electronics Ltd				
Speedy-Tech Technologies Pte Ltd @@ ("STTS")	Singapore	Manufacture and trading of electrical discharge machines and electronic components (dormant)	–	–
Speedy-Tech Electronics (HK) Limited * ("STHK")	Hong Kong	Procurement, marketing and supply chain services	100	100
Speedy-Tech (Philippines) Inc. # ("STPHIL")	Philippines	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	99.99	99.99
Shenzhen Speedy-Tech Electronics Co., Ltd. * ("SZSTE")	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing, procurement and research and development	99.48	99.48
Speedy-Tech Electronics Inc. **	United States of America	Marketing, liaison and support services (dormant)	100	100
Speedy-Tech Electronics (Jiaxing) Co. Ltd. * ("STJX")	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ") ##	People's Republic of China	Provision of electronic manufacturing service and manufacturing of Power Electronics, marketing and procurement	100	100
IMI (Cheng Du) Ltd. ("IMICD") &	People's Republic of China	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	100	100
Held by Monarch Elite Ltd				
Cooperatief IMI Europe U.A.**	Netherlands	Provision of material needs of its members, pursuant to agreements concluded with its members in respect of the business that it carries on or procures to be carried on for the benefit of its members	99	99

10. Investment in subsidiaries (cont'd)

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group 2013	2012
Held by Cooperatief IMI Europe U.A.				
IMI Bulgaria EOOD (IMI BG) #	Bulgaria	Production of electronic modules for domestic goods and automobile manufacturing	100	100
Microenergia OOD #	Bulgaria	Supply of water, refurbishment and infrastructure maintenance activities	70	70
IMI CZ s.r.o (IMI CZ) #	Czech Republic	Installation and repairs of products and equipment of consumer electronics; purchase of goods for the purpose of resale thereof, and sale of goods; leasing of real property, residential and non-residential premises without provision of other than basic services ensuring proper operation of the real property, residential and non-residential premises	100	100
IMI Mexico, S.A.P.I de C.V. (IMI MX) #	Mexico	Manufacture and sale of electronic components and plastic injection moulding primarily for the automotive and household industries	100	100
IMI Manufactura S.A.P.I de C.V. #	Mexico	Provides operation and management services	100	100
IMI France @	France	Employer of executives in EPIQ subsidiaries	100	100

* Audited by Ernst & Young LLP, Singapore.

Audited by member firms of Ernst & Young Global in the respective countries.

** No audit is required by the law of its country of incorporation.

Audited by Jiaxing Hengxin Certified Public Accountants Co., Ltd, Certified Public Accountants in the PRC.

& Audited by Sichuan Junyi Accounting Firm Co., Ltd, Certified Public Accountants in the PRC.

@ Audited by SEGEC in France.

@@ The subsidiary was liquidated during the financial year.

11. Investment security

	2013 $'000	2012 $'000
Available-for-sale financial asset		
- 8% non-cumulative, convertible preferred shares, at cost	1,350	1,000

12. Other receivables, deposits and prepayments

	2013 $'000	2012 $'000
Other receivables	24	21
Tax credits	67	7
Prepayments	20	16
	111	44

Other receivables represent various receivables from employees.

Prepayments pertain to prepaid expenses for membership fees of employees in golf clubs.

Included in other receivables are the following amounts denominated in foreign currencies at 31 December:

	2013 $'000	2012 $'000
Philippine Peso	24	21

13. Due from immediate holding company, related party and subsidiaries

Amounts due from immediate holding company and related party are trade related, unsecured, interest-free, repayable on demand and to be settled in cash.

Amount due from subsidiaries is non-trade related, unsecured, interest-free, repayable on demand and to be settled in cash. This pertains mainly to the advances made by the Company in connection with the acquisition of IMI EU/MX Subsidiaries in 2011.

14. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following at the balance sheet date:

	2013 $'000	2012 $'000
Cash and cash equivalents	968	1,086

Cash and cash equivalents denominated in foreign currencies at 31 December are as follows:

	2013 $'000	2012 $'000
Singapore Dollar	358	474
Philippines Peso	32	198

15. Other payables and accruals

	2013 $'000	2012 $'000
Accrued operating expenses	1,933	1,190
Other payables	68	62
	2,001	1,252

Accrued operating expenses include accruals for employee benefits such as leave credits and bonuses.

Other payables include employee-related payables and taxes payables.

Included in other payables are the following amounts denominated in foreign currencies at 31 December:

	2013 $'000	2012 $'000
Singapore Dollar	14	43
Philippine Peso	1,987	1,209

16. Due to immediate holding company and subsidiary

Amounts due to immediate holding company and subsidiary of the Company are non-trade in nature, unsecured, interest-free, repayable on demand and are to be settled in cash.

17. Share capital

	No. of Shares 2013 '000	2013 $'000	No. of Shares 2012 '000	2012 $'000
Issued and fully paid				
At 1 January and 31 December	43,277	35,958	43,277	35,958

The holder of ordinary shares is entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

18. Reserves

(a) ***Capital contribution reserves***

Capital contribution reserves are made up of the difference between the fair value and the subscription price of the share of the immediate holding company's Employee Stock Ownership Plan ("ESOWN") granted to employees of the Group.

(b) ***Revenue reserves***

Revenue reserves of the Company are available for distribution as dividends.

19. Related party transactions

(a) ***Sale and purchase of goods and services***

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Company and related parties took place at terms agreed between the parties during the financial year:

	2013 $'000	2012 $'000
Service fees from:		
Immediate holding company	4,539	3,521
Related party	111	338
Share option expenses from:		
Immediate holding company	4	16

19. Related party transactions (cont'd)

(b) ***Compensation of key management personnel***

	2013 $'000	2012 $'000
Short-term employee benefits	4,217	3,424
Pension and post-employment medical benefits	203	235
Share option expenses	4	37
Total compensation entitled to key management personnel	4,424	3,696
Comprise amounts entitled to :		
• Directors of the Company	1,698	1,540
• Other key management personnel	2,726	2,156
	4,424	3,696

20. Financial risk management objectives and policies

The Company's principal financial instruments, other than derivative financial instruments, comprise cash and short term deposits. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial assets and liabilities such as other receivables and other payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Company's policy that no trading in derivative financial instruments shall be undertaken.

Foreign currency risk

The Company is exposed to foreign currency risk from revenues generated and cost incurred in foreign currencies, principally in Singapore Dollar ("SGD") and Philippine Peso ("PHP"). The Company does not enter into forward foreign exchange contracts to hedge against its foreign exchange risk resulting from sale and purchase transactions denominated in foreign currencies.

The Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider to hedge any material exposure where appropriate.

20. Financial risk management objectives and policies (cont'd)

Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in SGD and PHP exchange rates (against USD), with all other variables held constant, of the Company's loss net of tax.

		2013 $'000 Profit net of tax Increase/(decrease)	2012 $'000 Loss net of tax Increase/(decrease)
SGD	– strengthened 1% (2012: 1%)	(7)	6
	– weakened 1% (2012: 1%)	7	(6)
PHP	– strengthened 1% (2012: 1%)	(20)	10
	– weakened 1% (2012: 1%)	20	(10)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

In the management of liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the directors to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

The table below summarises the maturity profile of the Company's financial liabilities at the balance sheet date based on the contractual undiscounted payments.

	2013			2012		
	1 year or less $'000	**2 to 5 years** $'000	**Total** $'000	**1 year or less** $'000	**2 to 5 years** $'000	**Total** $'000
Financial assets:						
Other receivables and deposits	91	–	91	28	–	28
Due from immediate holding company	1,212	–	1,212	436	–	436
Due from related party	144	–	144	117	–	117
Due from subsidiaries	–	28,812	28,812	–	28,812	28,812
Cash and cash equivalents	968	–	968	1,086	–	1,086
Total undiscounted financial assets	2,415	28,812	31,227	1,667	28,812	30,479
Financial liabilities:						
Other payables and accruals	2,001	–	2,001	1,252	–	1,252
Due to immediate holding company	–	80,479	80,478	–	80,405	80,405
Due to subsidiary	–	5,424	5,425	–	20,122	20,122
Total undiscounted financial liabilities	2,001	85,902	87,903	1,252	100,527	101,779
Total net undiscounted financial (liabilities)/assets	414	(57,090)	(56,676)	415	(71,715)	(71,300)

20. Financial risk management objectives and policies (cont'd)

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Company's exposure to credit risk arises primarily from other receivables. For other financial assets (including cash and cash equivalents), the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Credit risk, or the risk of counterparties defaulting, is managed through the application of credit approvals, credit limits and monitoring procedures. Where appropriate, the Company and its subsidiaries obtain collateral from the customer or arrange master netting agreements. Cash terms, advance payments, and letters of credit are required for customers of lower credit standing.

Exposure to credit risk

At the balance sheet date, the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

21. Fair value of financial instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models where practical.

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Bank balances, other liquid funds and short-term receivables

The carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.

Other current liabilities

The carrying amounts approximate fair values because of the short period to maturity of these instruments.

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

Available-for-sale financial assets amounting to $1,350,000 (2012: $1,000,000) are carried at cost because the fair value cannot be measured reliably. This investment is not quoted on any market and does not have any comparable industry peers that are listed. In addition, the variability in the range of reasonable fair value estimates derived from valuation techniques is significant. Consequently it is carried at cost less provision for impairment. The Company does not intend to dispose of this investment in the foreseeable future.

Disclosure of the nature of financial instruments and their significant terms and conditions that could affect the amount, timing and certainty of future cash flow is presented in the respective notes to the financial statements, where applicable.

The Company does not have any financial instruments that are carried at fair value.

22. Capital management

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012.

23. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on

1 4 FEB 2014

EXHIBIT 4

2013 Audited Annual Financial Statements,
Speedy-Tech Electronics Ltd and its subsidiaries

Master File

Company Registration No. 198502018H

Speedy-Tech Electronics Ltd and its subsidiaries

Annual Financial Statements
31 December 2013

EY
Building a better
working world

Speedy-Tech Electronics Ltd and its subsidiaries

General Information

Directors

Arthur R. Tan
Chng Poh Guan
Shong Cheng Yeh
Mary Ann Natividad
Jerome Su Tan

Company Secretary

Chang Ai Ling

Registered Office

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

Bankers

BNP Paribas
DBS Bank Ltd
OCBC Bank
Standard Chartered Bank
JP Morgan Bank

Auditor

Ernst & Young LLP

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The directors are pleased to present their report to the member together with the audited consolidated financial statements of Speedy-Tech Electronics Ltd (the "Company") and its subsidiaries (collectively, the "Group") and the statement of comprehensive income, balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2013.

Directors

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

Arthur R. Tan
Chng Poh Guan
Shong Cheng Yeh
Mary Ann Natividad
Jerome Su Tan

In accordance with Articles 87 of the Company's Articles of Association, Jerome Su Tan retires and, being eligible, offers himself for re-election.

Arrangements to enable directors to acquire shares and debentures

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

Directors' interests in shares and debentures

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

	Direct interest	
	At the beginning of financial year or at date of appointment	**At the end of financial year**
Ultimate holding company		
Ayala Corporation		
<u>Ordinary shares of 1 Peso each</u>		
Arthur R. Tan	249,023	247,454
Intermediate holding company		
Integrated Micro-Electronics, Inc.		
<u>Ordinary shares of 1 Peso each</u>		
Arthur R. Tan	7,279,252	7,279,252
Chng Poh Guan	20,000	20,000
Shong Cheng Yeh	1,725,000	1,725,000
Mary Ann Natividad	1,410,000	1,410,000
Fellow subsidiary		
Ayala Land Inc.		
<u>Ordinary shares of 1 Peso each</u>		
Jerome Su Tan	20,000	–

Directors' interests in shares and debentures (cont'd)

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

Directors' contractual benefits

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

Auditor

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

On behalf of the board of directors,

Arthur R. Tan
Director

Jerome Su Tan
Director

Singapore
14 February 2014

Statement by Directors

We, Arthur R. Tan and Jerome Su Tan, being two of the directors of Speedy-Tech Electronics Ltd, do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, statements of comprehensive income, statements of changes in equity and consolidated cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013 and the results of the business and changes in equity of the Group and Company and cash flows of the Group for the year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of directors,

Arthur R. Tan
Director

Jerome Su Tan
Director

Singapore
14 February 2014

Independent Auditor's Report
For the financial year ended 31 December 2013
To the member of Speedy-Tech Electronics Ltd

Report on the financial statements

We have audited the accompanying financial statements of Speedy-Tech Electronics Ltd (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 5 to 59, which comprise the balance sheets of the Group and the Company as at 31 December 2013, the statements of comprehensive income and statements of changes in equity of the Group and the Company and the consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet, statement of comprehensive income and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013 and the results and changes in equity of the Group and of the Company and cash flows of the Group for the year ended on that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

ERNST & YOUNG LLP
Public Accountants and Chartered Accountants
Singapore
14 February 2014

Speedy-Tech Electronics Ltd and its subsidiaries

Statements of Comprehensive Income for the financial year ended 31 December 2013

(Amounts expressed in United States Dollars)

	Note	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
Continuing operations					
Revenue	3	278,478	271,976	92,482	103,120
Cost of sales		(255,454)	(245,259)	(89,525)	(98,688)
Gross profit		23,024	26,717	2,957	4,432
Other operating income	4	1,854	1,427	27,575	5,507
Distribution and selling expenses		(3)	(18)	(2)	(10)
Administrative expenses		(20,275)	(16,472)	(4,597)	(5,445)
Finance costs	7	(379)	(236)	(38)	(78)
Profit before tax from continuing operations	5	4,221	11,418	25,895	4,406
Income tax expense	8	(2,183)	(2,627)	(408)	–
Profit from continuing operations, net of tax		2,038	8,791	25,487	4,406
Discontinued operation					
Loss from discontinued operation, net of tax	9	–	(657)	–	–
Profit for the year, representing total comprehensive income for the year		2,038	8,134	25,487	4,406
Total comprehensive income attributable to :					
Owner of the Company					
Profit from continuing operations, net of tax		2,030	8,792	25,487	4,406
Loss from discontinued operation, net of tax		–	(657)	–	–
		2,030	8,135	25,487	4,406
Non-controlling interests					
Profit/(loss) from continuing operations, net of tax		8	(1)	–	–
Loss from discontinued operation, net of tax		–	–	–	–
		8	(1)	–	–
		2,038	8,134	25,487	4,406

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

Speedy-Tech Electronics Ltd and its subsidiaries

Balance Sheets as at 31 December 2013

(Amounts expressed in United States Dollars)

	Note	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
Non-current assets					
Property, plant and equipment	11	24,424	28,688	3,264	3,692
Investment in subsidiaries	12	–	–	65,876	66,129
Current assets					
Inventories	13	31,600	30,359	596	611
Trade receivables	14	97,367	78,421	20,840	16,059
Other receivables, deposits and prepayments	15	3,377	2,897	231	174
Due from intermediate holding company	16	7,888	2,002	6,625	1,935
Due from immediate holding company	16	5,424	20,122	5,424	20,122
Due from subsidiaries	16	–	–	42,693	27,613
Due from related companies	16	3,616	–	3,500	–
Cash and short-term deposits	17	31,974	37,184	12,521	10,970
		181,246	170,985	92,430	77,484
Assets of disposal group classified as held for sale	9	–	4,549	–	–
		181,246	175,534	92,430	77,484
Current liabilities					
Trade payables	18	63,700	54,792	5,149	5,805
Other payables and accruals	19	14,397	10,180	2,843	1,649
Due to intermediate holding company	16	23,658	21,103	23,332	20,832
Due to subsidiaries	16	–	–	63,199	64,361
Tax payables		790	1,295	19	179
Short term bank loan (unsecured)	20	3,501	1,397	3,501	1,397
		106,046	88,767	98,043	94,223
Liabilities directly associated with disposal group classified as held for sale		–	2,780	–	–
		106,046	91,547	98,043	94,223
Net current assets/(liabilities)		75,200	83,987	(5,613)	(16,739)
Non-current liabilities					
Deferred tax liabilities	21	34	34	1	1
Net assets		99,590	112,641	63,526	53,081
Equity attributable to owner of the Company					
Share capital	22	26,872	26,872	26,872	26,872
Reserves	23	72,524	84,593	36,654	26,209
Reserve of disposal group classified as held for sale	9	–	943	–	–
		99,396	112,408	63,526	53,081
Non-controlling interests		194	233	–	–
Total equity		99,590	112,641	63,526	53,081

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

Speedy-Tech Electronics Ltd and its subsidiaries

Statements of Changes in Equity for the financial year ended 31 December 2013

(Amounts expressed in United States Dollars)

Group	Share capital (Note 22) $'000	Revaluation reserve (Note 23a) $'000	Capital reserve (Note 23a) $'000	Restricted reserves (Note 23b) $'000	Share option reserve (Note 23c) $'000	Capital contribution reserves (Note 23d) $'000	Revenue reserves (Note 23e) $'000	Reserve of disposal group classified as held for sale (Note 9)	Total $'000	Non-controlling interests $'000	Total equity $'000
	Attributable to owner of the Company										
Opening balance as at 1 January 2012	26,872	1,810	429	268	743	2,514	71,652	–	104,288	250	104,538
Profit for the year	–	–	–	–	–	–	8,135	–	8,135	(1)	8,134
Total comprehensive income for the year	–	–	–	–	–	–	8,135	–	8,135	(1)	8,134
Contributions by and distributions to owners											
Grant of equity-settled share options in intermediate holding company to employees	–	–	–	–	–	(15)	–	–	(15)	–	(15)
Dividend paid to non-controlling interest	–	–	–	–	–	–	–	–	–	(16)	(16)
Total contributions by and distributions to owners	–	–	–	–	–	(15)	–	–	(15)	(16)	(31)
Total transactions with owners in their capacity as owners	–	–	–	–	–	(15)	–	–	(15)	(16)	(31)
Others											
Reserve attributable to disposal group classified as held for sale	–	–	–	–	–	–	(943)	943	–	–	–
Transfer to restricted reserves	–	–	–	9,418	–	–	(9,418)	–	–	–	–
	–	–	–	9,418	–	–	(10,361)	943	–	–	–
Closing balance at 31 December 2012	26,872	1,810	429	9,686	743	2,499	69,426	943	112,408	233	112,641

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

Statements of Changes in Equity for the financial year ended 31 December 2013 (cont'd)

(Amounts expressed in United States Dollars)

Group	Share capital (Note 22) $'000	Revaluation reserve (Note 23a) $'000	Capital reserve (Note 23a) $'000	Restricted reserves (Note 23b) $'000	Share option reserve (Note 23c) $'000	Capital contribution reserves (Note 23d) $'000	Revenue reserves (Note 23e) $'000	Reserve of disposal group classified as held for sale (Note 9)	Total $'000	Non-controlling interests $'000	Total equity $'000
	Attributable to owner of the Company										
Opening balance as at 1 January 2013	26,872	1,810	429	9,686	743	2,499	69,426	943	112,408	233	112,641
Profit for the year	–	–	–	–	–	–	2,030	–	2,030	8	2,038
Total comprehensive income for the year	–	–	–	–	–	–	2,030	–	2,030	8	2,038
Contributions by and distributions to owners											
Grant of equity-settled share options in intermediate holding company to employees	–	–	–	–	–	6	–	–	6	–	6
Dividend paid on ordinary shares (Note 10)	–	–	–	–	–	–	(15,048)	–	(15,048)	–	(15,048)
Dividend paid to non-controlling interest	–	–	–	–	–	–	–	–	–	(47)	(47)
Total contributions by and distributions to owners	–	–	–	–	–	6	(15,048)	–	(15,042)	(47)	(15,089)
Total transactions with owners in their capacity as owners											
Others											
Transfer to revenue reserves	–	–	–	–	–	–	943	(943)	–	–	–
Transfer to restricted reserves				520			(520)	–	–	–	–
	–	–	–	520	–	–	423	(943)	–	–	–
Closing balance at 31 December 2013	26,872	1,810	429	10,206	743	2,505	56,831	–	99,396	194	99,590

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

(Amounts expressed in United States Dollars)

Company	**Share capital (Note 22)** $'000	**Share option reserve (Note 23c)** $'000	**Capital contribution reserves (Note 23d)** $'000	**Revenue reserves (Note 23e)** $'000	**Total** $'000
At 1 January 2012	26,872	743	2,034	19,047	48,696
Profit for the year	–	–	–	4,406	4,406
Total comprehensive income for the year	26,872	743	2,034	23,453	53,102
Contributions by and distributions to owner					
Grant of equity-settled share options in intermediate holding company to employees	–	–	(21)	–	(21)
Total transactions with owner in its capacity as owner	–	–	(21)	–	(21)
At 31 December 2012	26,872	743	2,013	23,453	53,081
At 1 January 2013	26,872	743	2,013	23,453	53,081
Profit for the year	–	–	–	25,487	25,487
Total comprehensive income for the year	26,872	743	2,013	48,940	78,568
Contributions by and distributions to owner					
Grant of equity-settled share options in intermediate holding company to employees	–	–	6	–	6
Dividend paid on ordinary shares (Note 10)	–	–	–	(15,048)	(15,048)
Total transactions with owner in its capacity as owner	–	–	6	(15,048)	(15,042)
At 31 December 2013	26,872	743	2,019	33,892	63,526

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

Speedy-Tech Electronics Ltd and its subsidiaries

Consolidated Cash Flow Statement for the financial year ended 31 December 2013

(Amounts expressed in United States Dollars)

	Group	
	2013	**2012**
	$'000	$'000
Cash flows from operating activities		
Profit before tax from continuing operations	4,221	11,418
Loss before tax from discontinued operation	–	(618)
Profit before tax, total	4,221	10,800
Adjustments:		
Loss/(gain) on disposal of property, plant and equipment	176	(436)
Depreciation of property, plant and equipment	6,703	7,502
Allowance/(Write-back) for inventories obsolescence, net	582	(293)
Impairment loss on property, plant and equipment	294	221
Allowance for doubtful debts	31	–
Interest expense	379	244
Interest income	(149)	(123)
Share options expense/(income)	6	(15)
Operating profit before working capital changes	12,243	17,900
(Increase)/decrease in inventories	(1,823)	230
Increase in trade receivables	(18,977)	(8,395)
(Increase)/decrease in other receivables, deposits and prepayments	(480)	811
Increase in amount due from related companies	(115)	–
Increase in trade payables	8,908	8,644
Increase/(decrease) in other payables and accruals	4,217	(639)
Cash generated from operations	3,973	18,551
Interest paid	(379)	(244)
Taxes paid	(2,688)	(2,462)
Net cash generated from operating activities	906	15,845
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	228	2,847
Purchase of property, plant and equipment	(3,137)	(2,257)
Interest received	149	123
Net cash (used in)/generated from investing activities	(2,760)	713
Cash flows from financing activities		
Dividend paid to non-controlling interest	(47)	(16)
Proceeds from short-term bank loan	3,501	–
Repayment of short-term bank loans	(1,397)	–
Increase in amount due to intermediate holding company, net	(2,365)	(1,120)
Increase in amount due from immediate holding company	(350)	(1,000)
Increase in amount due from related companies	(3,501)	–
Net cash used in financing activities	(4,159)	(2,136)
Net (decrease)/increase in cash and cash equivalents	(6,013)	14,422
Effect of exchange rate changes on cash and cash equivalents	92	83
Cash and cash equivalents at beginning of year	37,895	23,390
Cash and cash equivalents at end of year (Note 17)	31,974	37,895

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

(Amounts expressed in United States Dollars unless otherwise stated)

1. Corporate information

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

Its immediate holding company is IMI International (Singapore) Pte Ltd, a company incorporated and domiciled in Singapore and its ultimate holding company is Ayala Corporation ("AC"), a corporation incorporated in the Republic of the Philippines and listed in the Philippine Stock Exchange.

The Group is principally engaged in the provision of Electronic Manufacturing Services and Power Electronics solutions to Original Equipment Manufacturer ("OEM") customers in the consumer electronics, computer peripherals/IT, industrial equipment, telecommunications and medical devices sectors. The principal activities of the subsidiaries are stated below.

The subsidiaries at 31 December 2013 are :-

Name	Principal activities	Country of incorporation	Effective equity interest held by the Group 2013 %	2012 %
Held by the Company				
Speedy Tech Electronics (HK) Limited ("STHK")@	Procurement, marketing and supply chain services	Hong Kong	100	100
Speedy-Tech (Philippines) Inc. ("STPHIL")#	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	The Philippines	99.99	99.99
Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE")@	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing, procurement and research and development	People's Republic of China	99.48	99.48
Speedy-Tech Electronics Inc.*	Marketing, liaison and support services (dormant)	United States of America	100	100

1. Corporate information (cont'd)

Name	Principal activities	Country of incorporation	Effective equity interest held by the Group 2013 %	2012 %
Held by the Company (cont'd)				
Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX")@	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	People's Republic of China	100	100
Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ")##	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	People's Republic of China	100	100
IMI (Cheng Du) Ltd. ("IMICD")@	Provision of electronic manufacturing services and manufacture of Power Electronics, marketing and procurement	People's Republic of China	100	100

Audited by member firms of Ernst & Young Global.

@ Audited by Ernst & Young LLP, Singapore.

* The subsidiary was set up in 1999 with no paid up capital. No audit is required by the law of its country of incorporation.

Audited by JiaXing HengXin Certified Public Accountants Co., Ltd, Certified Public Accountants in the PRC.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

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

The financial statements have been prepared on the historical cost basis except for leasehold land and building which are stated at fair value less depreciation charged subsequent to the date of revaluation.

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

(Amounts expressed in United States Dollars unless otherwise stated)

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

2.2 *Changes in accounting polices*

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 January 2013. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company.

2.3 *Standards issued but not yet effective*

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

Description	*Effective for annual period beginning on or after*
Revised FRS 27 *Separate Financial Statements*	1 January 2014
FRS 110 *Consolidated Financial Statements*	1 January 2014
FRS 112 *Disclosure of Interests in Other Entities*	1 January 2014
Amendments to FRS 32 *Offsetting Financial Assets and Financial Liabilities*	1 January 2014
Amendments to FRS 36 *Recoverable Amount Disclosures for Non-financial Assets*	1 January 2014
INT FRS 121 *Levies*	1 January 2014
Amendments to FRS 39 *Novation of Derivatives and Continuation of Hedge Accounting*	1 January 2014
Amendments to FRS 19 *Defined Benefit Plans: Employee Contributions*	1 July 2014
Improvements to FRSs 2014	
- Amendments to FRS 16 *Property, Plant and Equipment*	1 July 2014
- Amendments to FRS 24 *Related Party Disclosures*	1 July 2014
- Amendments to FRS 38 *Intangible Assets*	1 July 2014
- Amendments to FRS 40 *Investment Property*	1 July 2014
- Amendments to FRS 102 *Share-based Payment*	1 July 2014
- Amendments to FRS 103 *Business Combinations*	1 July 2014
- Amendments to FRS 108 *Operating Segments*	1 July 2014
- Amendments to FRS 113 *Fair Value Measurement*	1 July 2014

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

<u>FRS 112 *Disclosure of Interests in Other Entities*</u>

FRS 112 *Disclosure of Interests in Other Entities* is effective for financial periods beginning on or after 1 January 2014.

FRS 112 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. FRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in 2014.

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

2.4 *Foreign currency*

The Group's consolidated financial statements are presented in United States Dollars, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(a) *Transactions and balances*

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

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

(b) *Consolidated financial statements*

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

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

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

2.5 *Basis of consolidation and business combinations*

(a) *Basis of consolidation*

Basis of consolidation from 1 January 2010

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

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

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

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

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

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

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

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

(b) *Business combinations*

Basis of consolidation prior to 1 January 2010

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

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

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

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

Business combinations from 1 January 2010

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

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

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

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

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

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

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

Business combinations from 1 January 2010 (cont'd)

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another FRS.

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

Business combinations prior to 1 January 2010

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

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

Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity. Any additional acquired share of interest did not affect previously recognised goodwill.

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

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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

2.6 *Transactions with non-controlling interests*

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

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

2.7 *Subsidiaries*

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

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

2.8 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.17. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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

Prior to 1 January 1997, there was no fixed policy with respect to the frequency of valuation of property, plant and equipment stated at valuation. Property, plant and equipment were revalued as and when deemed appropriate by the directors. Subsequent to 1 January 1997, property, plant and equipment stated at valuation are revalued every three to five years based on directors' revaluation to ensure that their carrying amount does not differ materially from their fair value at the balance sheet date.

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

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

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

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

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

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

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

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

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

2.9 *Impairment of non-financial assets*

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

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

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

2.9 *Impairment of non-financial assets (cont'd)*

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

2.10 *Financial instruments*

(a) *Financial assets*

Initial recognition and measurement

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

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

Subsequent measurement

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

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

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

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

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

2.10 *Financial instruments (cont'd)*

(a) *Financial assets (cont'd)*

(i) *Financial assets at fair value through profit or loss (cont'd)*

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

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

(ii) *Loans and receivables*

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

Derecognition

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

Regular way purchase or sale of a financial asset

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

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

2.10 *Financial instruments (cont'd)*

(b) ***Financial liabilities***

Initial recognition and measurement

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

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

Subsequent measurement

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

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

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

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

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

(ii) ***Financial liabilities at amortised cost***

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

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

2.10 *Financial instruments (cont'd)*

(b) *Financial liabilities (cont'd)*

Derecognition

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

(c) *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheets, when and only when, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.11 *Cash and cash equivalents*

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

Cash and short-term deposits carried on the balance sheets are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.10.

2.12 *Trade and other receivables*

Trade and other receivables, including amounts due from intermediate holding company, immediate holding company and subsidiaries are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.10.

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.13 below.

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

2.13 *Impairment of financial assets*

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

(a) *Financial assets carried at amortised cost*

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

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

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

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

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

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

(b) ***Financial assets carried at cost***

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2.14 *Inventories*

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

Costs incurred in bringing the inventories to their present location and conditions are accounted for as follows:

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

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

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

2.15 *Trade and other payables*

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

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

2.16 *Interest bearing loans and borrowings*

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

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

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

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

2.17 *Borrowings costs*

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.18 *Provisions*

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

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.19 *Employee benefits*

Defined contribution plans

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

<u>Singapore</u>

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

<u>PRC</u>

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

<u>Hong Kong</u>

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$1,500 per month and thereafter contributions are voluntary.

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

2.19 *Employee benefits (cont'd)*

<u>The Philippines</u>

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

Employee leave entitlement

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

Equity-settled transactions

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

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

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

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

2.20 *Non-current assets held for sale and discontinued operations*

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. A component of the Group is classified as a "discontinued operation" when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

In profit or loss of the current reporting period, and of the comparative period of the previous year, all income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in profit or loss.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

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

2.21 *Revenue*

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

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

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

(b) ***Interest income***

Interest income is recognised using the effective interest method.

(c) ***Rental income***

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

(d) ***Dividend income***

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

2.22 *Taxes*

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

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

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

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

2.22 *Taxes (cont'd)*

(b) ***Deferred tax***

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

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

2.22 *Taxes (cont'd)*

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

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

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

(c) *Sales tax*

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

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

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

2.23 *Derivative financial instruments*

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

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

2.24 *Leases*

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

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

2.24 *Leases (cont'd)*

(a) ***As lessee***

Finance leases which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods which they are incurred.

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

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

(b) ***As lessor***

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

2.25 *Share capital and share issuance expenses*

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

2.26 *Contingencies*

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

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

2.26 *Contingencies (cont'd)*

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

2.27 *Related parties*

A related party is defined as follows:

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

- (i) Has control or joint control over the Company;
- (ii) Has significant influence over the Company; or
- (iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.

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

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

2.28 *Significant accounting estimates and judgements*

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

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below.

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

The Company assesses at each reporting date whether there is an indication that the investment in subsidiaries may be impaired. This requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the Company's investment in subsidiaries at 31 December 2013 was $65,876,000 (2012: $66,129,000).

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

The cost of plant and equipment is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these property, plant and equipment as discussed in Note 2.8. These are common life expectancies applied in the electronics and telecommunication manufacturing industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's property and equipment at the end of each reporting period is disclosed in Note 11.

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

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

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

(iii) ***Income taxes***

The Group has exposure to taxes in numerous jurisdictions. Significant judgement is involved in determining the Group-wide provision for taxes including value-added tax, consumption tax and customs duty. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes are due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the profit and loss in the period in which such determination is made. The carrying amounts of the Group's tax payables and deferred tax liabilities as at 31 December 2013 were $790,000 (2012: $1,295,000) and $34,000 (2012: $34,000) respectively.

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

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

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

The carrying values of property, plant and equipment are reviewed for impairment when there are indicators of impairment. For the year ended 31 December 2013, the impairment of property, plant and equipment of the Group was $294,000 (2012: $221,000).

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

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

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

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

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

(iii) ***Discontinued operation***

On 14 December 2012, the Board of Directors announced its decision to - transfer the assets and liabilities of its wholly-owned subsidiary, Speedy-Tech (Philippines) Inc. ("STPHIL") to its intermediate holding company, Integrated Microelectronics, Inc. ("IMI") for a consideration of US$534,634. Speedy-Tech (Philippines) Inc., remains a subsidiary of Speedy-Tech Electronics Ltd.

For more details on the discontinued operations refer to Note 9.

3. Revenue

Revenue represents the invoiced value of goods sold, net of returns and discounts.

4. Other operating income

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Sundry income*	627	303	6	279
Dividend income from unquoted subsidiaries	–	–	26,490	4,663
Rental income	1,078	565	1,078	565
Interest income from loans and receivables	149	123	1	–
Gain on disposal of property, plant and equipment	–	436	–	–
	1,854	1,427	27,575	5,507

* This relates to sales of equipment, engineering service fees and testing fees.

5. Profit before taxation from continuing operations

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

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Depreciation of property, plant and equipment	6,703	7,462	435	465
Exchange (gain)/loss, net	(1,063)	(492)	(79)	68
Employee benefits expense (Note 6)	55,587	47,566	3,749	4,530
Allowance for doubtful debts - Trade receivables	31	–	–	–
Allowance for inventory obsolescence	751	228	79	–
Write-back of allowance for inventory obsolescence	(169)	(582)	–	–
Research costs	71	149	2	87
Operating lease expenses	1,681	1,248	86	71
Gain on sale of materials	(86)	(116)	–	–
Loss on disposal of property, plant and equipment	176	–	–	–
Impairment of investment in a subsidiary	–	–	253	289
Impairment loss on property, plant and equipment	294	221	–	–

6. Employee benefits expense

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Wages, salaries and bonuses	47,417	41,170	2,856	3,291
Central Provident Fund/pension contributions	5,464	2,667	313	355
Other personnel benefits	2,234	3,577	108	732
Share options expenses (not including directors of Company)	6	(21)	6	(21)
Directors' remuneration - directors of the Company	466	173	466	173
	55,587	47,566	3,749	4,530

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

7. Finance costs

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Interest expense				
- bank loans	21	60	21	60
- bank overdrafts/bank charges	358	176	17	18
	379	236	38	78

8. Income tax expense

Major components of taxation

The major components of taxation for the year ended 31 December 2013 and 2012 are:

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Current taxation – continuing operations:				
Current year	1,805	2,185	–	–
(Over)/underprovision in respect of prior years	(190)	442	(160)	–
	1,615	2,627	(160)	–
Withholding taxation - continuing operations	568	–	568	–
Tax attributable to continuing operations	2,183	2,627	408	–
Tax attributable to discontinued operations (Note 9)	–	39	–	–
Tax expense recognised in profit or loss	2,183	2,666	408	–

8. Income tax expense (cont'd)

Relationship between taxation and accounting profit/(loss)

A reconciliation between the taxation and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December 2013 and 2012 are as follows:

	Group		Company	
	2013 $'000	**2012** $'000	**2013** $'000	**2012** $'000
Profit before tax from continuing operations	4,221	11,418	25,895	4,406
Loss before tax from discontinued operations (Note 9)	–	(618)	–	–
Accounting profit before taxes	4,221	10,800	25,895	4,406
Tax at the domestic rates applicable to profits in the countries concerned *	5,564	3,237	4,402	749
Adjustments:				
Tax effect of expenses not deductible for tax purposes	462	266	137	154
Withhold tax expense not deducted	568	–	568	–
Benefits of previously unrecognised tax losses	(18)	(458)	(18)	(92)
(Over)/under provision of current tax in respect of prior years	(190)	489	(160)	–
Income not subject to tax	(4,546)	(873)	(4,503)	(793)
Deferred tax asset not recognised (Note 21)	356	67	–	–
Others	(13)	(62)	(18)	(18)
Tax expense recognised in profit or loss	2,183	2,666	408	–

* The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

Speedy Tech Electronics (HK) Limited ("STHK")

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the year.

8. Income tax expense (cont'd)

Shenzhen Speedy-Tech Electronics Co., Ltd. ("SZSTE"), Speedy-Tech Electronics (Jiaxing) Co. Ltd. ("STJX"), Speedy-Tech Electronics (Chong Qing) Co. Ltd. ("STCQ") and IMI (Cheng Du) Ltd. ("IMICD")

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", the subsidiaries in the PRC are entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

SZSTE is subject to taxation at the statutory tax rate of 25% (2012: 25% on their taxable income as reported in their respective financial statements, prepared in accordance with the accounting regulations in the PRC.

STJX is entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year, ie. after all tax losses have been fully offset in accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises". STJX is in its seventh profitable year, and hence is subject to taxation at the rate of 25% (2012:25% on the taxable income as reported in the financial statements of STJX prepared in accordance with the accounting regulations in the PRC.

STCQ is entitled to full exemption from Enterprise Income Tax ("EIT") for the first five years, commencing from the first profitable year in year 2008, ie. after all tax losses have been fully offset in accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises".

IMICD is subject to taxation at the statutory tax rate of 25% (2012: 25%) on their taxable income as reported in the financial statement. With effect from year 2008, the China tax authority ceased the incentive of preferential tax treatment for enterprises with foreign investment and foreign enterprises.

Speedy-Tech (Philippines) Inc. ("STPHIL")

Speedy-Tech (Philippines) Inc. is registered with the Philippine Economic Zone Authority ("PEZA") as an economic zone export enterprise engaged in the manufacture and distribution of electronic products. As a registered enterprise, it is entitled to certain incentives, including the payment of income tax equivalent to 5% on gross income, as defined under Republic Act No. 7916, in lieu of all local and national taxes.

9. Discontinued operation and disposal group classified as held for sale

On 14 December 2012, the board of directors of the Company, made a decision to dispose of one of its subsidiaries, Speedy-Tech (Philippines) Inc. ("STPHIL"). As at 31 December 2012, the assets and liabilities related to STPHIL have been presented in the balance sheet as "Assets of disposal group classified as held for sale" and "Liabilities directly associated with disposal group classified as held for sale", and its results are presented separately on profit or loss as "Loss from discontinued operation, net of tax".

Balance sheet disclosures

The major classes of assets and liabilities of STPHIL classified as held for sale and the related asset revaluation reserve as at 31 December are as follows:

	Group 2012 $'000
Assets:	
Property, plant and equipment	363
Deferred tax assets	11
Inventories	1,826
Trade receivables	564
Other receivables deposit and prepayments	785
Due from intermediate holding company	289
Cash and short term deposits	711
Assets of disposal group classified as held for sale	4,549
Liabilities:	
Trade payables	1,463
Other payables and accruals	1,317
Liabilities directly associated with disposal group classified as held for sale	2,780
Net assets directly associated with disposal group classified as held for sale	1,769
Reserves:	
Revenue reserve	943

9. Discontinued operation and disposal group classified as held for sale (cont'd)

Income statement disclosures

The results of STPHIL for the years ended 31 December are as follows:

	Group 2012 $'000
Revenue	4,681
Cost of sales	(5,106)
Loss from operations	(425)
Other operating income	(43)
Administrative expenses	(142)
Finance costs	(8)
Loss before tax from discontinued operation	(618)
Income tax expense	(39)
Loss from discontinued operation, net of tax	(657)

Loss before tax from discontinued operation is stated after charging /(crediting) the following:

	Group 2012 $'000
Depreciation of property, plant and equipment	40
Allowance for inventory obsolescence	107
Write-back of allowance for inventory obsolescence	(46)

Cash flow statement disclosures

	Group 2012 $'000
Operating	217
Investing	(3)
Financing	–
Effect of exchange rate changes on cash and cash equivalents	(1)
Net cash inflows	213

10. Dividend

	Group and Company 2013 $'000	2012 $'000
Declared and paid during the financial year:		
Dividend on ordinary shares:		
- Interim exempt (one-tier) dividend for 2013: 0.04 cents (2012: $Nil) per share	15,048	–

(Amounts expressed in United States Dollars unless otherwise stated)

11. Property, plant and equipment

	At valuation	At cost										
Group	Leasehold land and building $'000	Land use rights $'000	Plant and machinery $'000	Motor vehicles $'000	Office equipment $'000	Electronics equipment and computer software $'000	Furniture and fittings $'000	Tools and equipment $'000	Leasehold building and improve-ments $'000	EMC testing facility $'000	Reno-vation $'000	Total $'000
Cost or valuation												
At 1 January 2012	6,492	517	71,808	493	1,332	7,835	1,054	734	5,463	2,179	8,957	106,864
Additions	–	–	1,107	82	156	58	6	153	–	415	280	2,257
Disposals/written off	–	–	(5,685)	(139)	(57)	(12)	(17)	(1)	–	–	–	(5,911)
Attributable to discontinued operation (Note 9)	–	–	(1,268)	(69)	(4)	(2)	(312)	(1)	(723)	–	–	(2,379)
At 31 December 2012 and 1 January 2013	6,492	517	65,962	367	1,427	7,879	731	885	4,740	2,594	9,237	100,831
Additions	–	–	2,115	111	132	96	3	298	–	–	382	3,137
Disposals/written off	–	–	(1,685)	(87)	(103)	(72)	(1)	(69)	–	(10)	(1,697)	(3,724)
At 31 December 2013	6,492	517	66,392	391	1,456	7,903	733	1,114	4,740	2,584	7,922	100,244
Accumulated depreciation and impairment loss												
At 1 January 2012	4,998	510	43,713	356	1,177	6,989	671	564	2,017	1,654	7,287	69,936
Charge for the year	275	–	5,548	62	141	132	5	148	184	236	771	7,502
Disposals/written off	–	–	(3,323)	(96)	(54)	(11)	(16)	–	–	–	–	(3,500)
Attributable to discontinued operation (Note 9)	–	–	(1,250)	(51)	(2)	(1)	(312)	–	(400)	–	–	(2,016)
Impairment loss	–	–	221	–	–	–	–	–	–	–	–	221
At 31 December 2012 and 1 January 2013	5,273	510	44,909	271	1,262	7,109	348	712	1,801	1,890	8,058	72,143
Charge for the year	251	7	5,167	23	99	97	3	134	156	241	525	6,703
Disposals/written off	–	–	(1,456)	(47)	(101)	(64)	(1)	(68)	–	(10)	(1,573)	(3,320)
Impairment loss	–	–	294	–	–	–	–	–	–	–	–	294
At 31 December 2013	5,524	517	48,914	247	1,260	7,142	350	778	1,957	2,121	7,010	75,820
Net carrying amount												
At 31 December 2012	1,219	7	21,053	96	165	770	383	173	2,939	704	1,179	28,688
At 31 December 2013	968	–	17,478	144	196	761	383	336	2,783	463	912	24,424

(Amounts expressed in United States Dollars unless otherwise stated)

11. Property, plant and equipment (cont'd)

Company	Plant and machinery $'000	Furniture and fittings $'000	Office equipment $'000	Computer software $'000	Leasehold building and improvements $'000	EMC testing facility $'000	Motor vehicle $'000	Total $'000
Cost								
At 1 January 2012	1,059	93	359	469	4,471	2,180	58	8,689
Additions	–	–	2	–	–	415	–	417
Disposals	–	–	(2)	–	–	–	–	(2)
At 31 December 2012 and 1 January 2013	1,059	93	359	469	4,471	2,595	58	9,104
Additions	–	–	7	–	–	–	–	7
Disposals	(25)	–	–	–	–	(10)	–	(35)
At 31 December 2013	1,034	93	366	469	4,471	2,585	58	9,076
Accumulated depreciation								
At 1 January 2012	854	92	354	469	1,473	1,655	52	4,949
Charge for the year	66	1	5	–	151	236	6	465
Disposals	–	–	(2)	–	–	–	–	(2)
At 31 December 2012 and 1 January 2013	920	93	357	469	1,624	1,891	58	5,412
Charge for the year	45	–	2	–	147	241	–	435
Disposals	(25)	–	–	–	–	(10)	–	(35)
At 31 December 2013	940	93	359	469	1,771	2,122	58	5,812
Net carrying amount								
At 31 December 2012	139	–	2	–	2,847	704	–	3,692
At 31 December 2013	94	–	7	–	2,700	463	–	3,264

11. Property, plant and equipment (cont'd)

A subsidiary's leasehold land and factory building at Area 7, Liantang Industrial Zone, Luo Hu, Shenzhen, People's Republic of China, stated at valuation, was valued by Richard Ellis, a firm of independent professional valuers as at 31 December 1993. The valuation was based on the open market value on a willing buyer and willing seller basis for existing use. The surplus on revaluation of $1,810,000 has been taken to asset revaluation reserve.

Had the leasehold land and building of the subsidiary been stated at cost less accumulated depreciation and any impairment loss, the net book value of the leasehold land and building as at 31 December 2013 would have been approximately $553,000 (2012: $586,000) instead of $968,000 (2012: $1,219,000).

12. Investment in subsidiaries

	Company	
	2013	**2012**
	$'000	$'000
Unquoted equity shares at cost	66,418	66,418
Less provision for diminution in value	(542)	(289)
Carrying amount of investment	65,876	66,129

Details of the subsidiaries at the end of the financial year are set out in Note 1.

13. Inventories

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Finished goods	5,086	3,819	85	7
Work-in-progress	4,271	4,055	141	105
Raw materials	20,680	21,895	297	234
Goods-in-transit	1,388	437	73	265
Tools	175	153	–	–
Total inventories at lower of cost and net realisable value	31,600	30,359	596	611

Analysis of allowance for inventories obsolescence:

At 1 January	636	990	91	91
Charge for the year	751	228	79	–
Written back	(169)	(582)	–	–
	1,218	636	170	91

14. Trade receivables

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
Trade receivables	97,409	78,432	20,851	16,070
Less : Allowance for doubtful trade debts	(42)	(11)	(11)	(11)
Trade receivables, net	97,367	78,421	20,840	16,059
Add:				
Other receivables (Note 15)	1,775	905	138	89
Deposits (Note 15)	92	368	36	37
Sales tax recoverable (Note 15)	1,290	1,416	(5)	(5)
Due from intermediate holding company	7,888	2,002	6,625	1,935
Due from immediate holding company	5,424	20,122	5,424	20,122
Due from subsidiaries	–	–	42,693	27,613
Due from related companies	3,616	–	3,500	–
Cash and short-term deposits (Note 17)	31,974	37,184	12,521	10,970
Total loans and receivables	149,426	140,418	91,772	76,820

Trade receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Included in trade receivables are the following amounts denominated in foreign currencies at 31 December:

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
Singapore Dollar	–	7	–	7
Renminbi	64,748	50,192	–	–

Receivables that are past due but not impaired

The Group and Company have trade receivables amounting to $12,435,000 (2012: $50,469,000) and $3,629,000 (2012: $3,609,000) respectively, that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
Trade receivables past due:				
Less than 30 days	9,789	41,656	3,460	3,436
30-60 days	1,563	7,602	97	168
61-90 days	538	751	29	5
More than 90 days	545	460	43	–
	12,435	50,469	3,629	3,609

14. Trade receivables (cont'd)

Receivables that are impaired

The Group's and Company's trade receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group		Company	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Trade receivables – nominal amounts	42	11	11	11
Less: Allowance for doubtful trade debts	(42)	(11)	(11)	(11)
	–	–	–	–
Movements in allowance account:				
At 1 January	11	11	11	11
Charge for the year	31	–	–	–
At 31 December	42	11	11	11

Trade receivables that are determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

15. Other receivables, deposits and prepayments

	Group		Company	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Other receivables	1,777	907	140	91
Less : Allowance for doubtful debts	(2)	(2)	(2)	(2)
	1,775	905	138	89
Deposits	92	368	36	37
Prepayments	220	208	62	53
Sales tax recoverable	1,290	1,416	(5)	(5)
	3,377	2,897	231	174

Included in other receivables are the following amounts denominated in foreign currencies at 31 December:

Singapore Dollar	101	10	101	10
Renminbi	1,599	884	–	–

15. Other receivables, deposits and prepayments (cont'd)

Receivables that are past due but not impaired

The Group and the Company have other receivables amounting to $220,000 (2012: $12,000) and $58,000 (2012: $Nil) respectively that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Other receivables past due:				
Less than 30 days	59	7	52	–
30-60 days	4	5	1	–
61-90 days	12	–	1	–
More than 90 days	145	–	4	–
	220	12	58	–

Receivables that are impaired

The Group's and the Company's other receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group and Company	
	2013	**2012**
	$'000	$'000
Other receivables – nominal amounts	2	2
Less: Allowance for doubtful debts	(2)	(2)
	–	–
Movements in allowance account:		
At 1 January	2	2
Charge for the year	–	–
At 31 December	2	2

Other receivables that are determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and defaulted on payments. These receivables are not secured by any collateral or credit enhancement.

16. Due from/(to) related companies, subsidiaries, immediate and intermediate holding company

Amount due from/(to) the intermediate holding companies are mainly non-trade in nature, unsecured, interest-free, repayable on demand and are to be settled in cash.

Amount due from the immediate holding companies are non-trade in nature, unsecured, interest-free, repayable on demand and are to be settled in cash.

Amount due from/(to) subsidiaries are trade in nature, unsecured, interest-free, repayable on demand and are to be settled in cash.

Amount due from related companies are non-trade in nature, unsecured, bears interest at rates ranging from 2.85% to 2.87%, repayable on demand and are to be settled in cash.

17. Cash and cash equivalents

Cash and cash equivalents comprise:

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Fixed deposits [1]	2,785	2,067	–	–
Cash and bank balances [2]	29,189	35,117	12,521	10,970
Cash and short-term deposits	31,974	37,184	12,521	10,970

(1) Fixed deposits are mainly short term deposits made for varying periods of approximately one to two months depending on the immediate cash requirements of the Group and bears interest ranging from 1.55% to 2.85% (2012: 0.05% to 1.35%) per annum during the year.

(2) Cash at banks earns interest at floating rates based on daily bank deposit rates.

Cash and short-term deposits denominated in foreign currencies at 31 December are as follows :

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Singapore Dollar	863	195	860	195
Euro	942	1,012	942	1,007
Renminbi	8,749	14,415	–	–

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at the end of the reporting period:

	Group	
	2013	**2012**
	$'000	$'000
Continuing operations	31,974	37,184
Discontinued operation (Note 9)	–	711
Cash and short-term deposits	31,974	37,895

18. Trade payables

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Trade payables	63,700	54,792	5,149	5,805
Add:				
Other payables (Note 19)	4,436	1,240	1,481	450
Accrued operating expenses (Note 19)	9,571	7,089	972	769
Deposits received (Note 19)	390	430	390	430
Due to intermediate holding company	23,658	21,103	23,332	20,832
Due to subsidiaries	–	–	63,199	64,361
Short term bank loan (unsecured)	3,501	1,397	3,501	1,397
Total financial liabilities carried at amortised cost	105,256	86,051	98,024	94,044

Trade payables are non-interest bearing and are generally on 30 to 60 days' terms.

Included in trade payables are the following amounts denominated in foreign currencies at 31 December:

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Euros	688	320	–	22
Singapore Dollar	32	57	32	5
Hong Kong Dollar	267	142	8	–
Renminbi	37,822	25,060	–	–
Australian Dollar	104	–	–	–

19. Other payables and accruals

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Other payables	4,436	1,240	1,481	450
Accrued operating expenses	9,571	8,510	972	769
Deposits received	390	430	390	430
	14,397	10,180	2,843	1,649

Other payables are non-interest bearing and are normally settled on 30 to 90 days' terms.

19. Other payables and accruals (cont'd)

Included in other payables are the following amounts denominated in foreign currencies at 31 December :

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
Singapore Dollar	106	962	106	962
Hong Kong Dollar	–	537	–	–
Renminbi	2,909	1,480	–	–
Japanese Yen	1,374	–	1,374	–

20. Short term bank loan (unsecured)

The unsecured Singapore Dollar denominated short term bank loan of the Group and Company is revolving in nature and bears interest at rates ranging from 2.30% to 2.39% (2012: 3.36% to 3.55%) per annum.

21. Deferred taxation

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
Deferred tax assets				
Unutilised tax losses	(84)	(173)	(84)	(173)
General provisions	(28)	(15)	(28)	(15)
Others	(166)	(166)	–	–
	(278)	(354)	(112)	(188)
Deferred tax liabilities				
Excess of net book value over tax written down value of property, plant and equipment	113	189	113	189
Revaluation reserve	158	158	–	–
Others	41	41	–	–
	312	388	113	189
Net deferred tax liabilities	34	34	1	1

Deferred tax asset not recognised

At the balance sheet date, the Group has allowance for inventory obsolescence and unused tax lossess of approximately $1,218,000 (2012: $1,058,000) and $1,423,000 (2012: $Nil) that are available for offset against future taxable profits of the companies in which the provision of inventory arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability.

21. Deferred taxation (cont'd)

Unrecognised temporary differences relating to investments in subsidiaries

At the balance sheet date, no deferred tax liability (2012: $Nil) has been recognised for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries as the Group has determined that undistributed earnings of its subsidiaries will not be material.

22. Share capital

	Group and Company			
	No. of shares 2013 '000	2013 $'000	No. of shares 2012 '000	2012 $'000
Issued and fully paid				
At 1 January and 31 December	376,200	26,872	376,200	26,872

The holder of ordinary shares is entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The ordinary shares have no par value.

23. Reserves

(a) ***Revaluation and capital reserves***

(i) Revaluation reserve represents increase in the fair value of freehold land and buildings, net of tax, and decrease to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

(ii) Capital reserve represents premium paid or discount on acquisition of non-controlling interest.

These reserves are not available for distribution.

(b) ***Restricted reserves***

Pursuant to the relevant laws in the People's Republic of China ("PRC"), the PRC subsidiaries of the Group have each set up a general reserve fund and an enterprise expansion fund by way of appropriation from their PRC statutory net profits at a rate to be determined by the board of directors of the subsidiaries. The respective board of directors of the subsidiaries use a guideline, that 10% of the PRC statutory profit after tax be appropriated each year to the general reserve fund and enterprise expansion reserve fund respectively. The funds may be utilised to off-set accumulated losses or increase the capital of the PRC subsidiaries, subject to approval from the PRC authorities. The funds are not available for dividend distribution to the shareholders.

23. Reserves (cont'd)

(c) ***Share option reserve***

Share option reserve are made up of the cumulative value of services received from employees recorded over the vesting period commencing from grant date, in relation to the Speedy-Tech Employee Stock Option Scheme 2003 which has since lapsed.

(d) ***Capital contribution reserves***

Capital contribution reserves are made up of the difference between the fair value and the subscription price of the share of the Integrated Microelectronics, Inc. Employee Stock Ownership Plan ("ESOWN") granted to employees of the Group.

(e) ***Revenue reserves***

Revenue reserves of the Company that are available for distribution as dividend.

24. Related party information

An equity or individual is considered a related party of the group for the purposes of the financial statements if : i) possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the group or vice versa; or ii) it is subject to common control or common significant influence.

The Group did not have any significant transactions with related parties, who are not members of the Group, on terms agreed between the parties.

Compensation of key management personnel

	Group	
	2013	**2012**
	$'000	$'000
Short-term employee benefits	849	518
Pension and post-employment medical benefits	41	38
Total compensation entitled to key management personnel	890	556
Comprise amounts entitled to :		
Directors of the Company	466	173
Other key management personnel	424	383
	890	556

25. Commitments

(a) *Operating lease commitments – as lessee*

The Group and Company has various operating lease agreements in respect of office premises and land. These non-cancellable leases have remaining non-cancellable lease terms of between 1 and 38 years. Most leases contain renewable options. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases are as follows as at 31 December:

	Group		Company	
	2013	**2012**	**2013**	**2012**
	$'000	$'000	$'000	$'000
Within 1 year	1,482	1,510	68	69
Within 2 to 5 years	1,235	1,427	248	263
After 5 years	2,257	2,911	1,895	1,984
	4,974	5,848	2,211	2,316

(b) *Operating lease commitments – as lessor*

The Group and Company has entered into leases on their leasehold building. These non-cancellable leases have remaining lease terms of between 1 and 5 years.

Future minimum rental receivable under non-cancellable operating leases are as follows as at 31 December:

	Group and Company	
	2013	**2012**
	$'000	$'000
Within 1 year	1,234	1,252
Within 2 to 5 years	1,617	1,423
	2,851	2,675

26. Financial risk management objectives and policies

The Group principal financial instruments, other than derivative financial instruments, comprise bank loans, overdrafts, cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of financing.

It is, and has been throughout the year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the Group's debt obligations. The Group obtains additional financing through bank borrowings. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Surplus funds are placed with reputable banks.

<u>Sensitivity analysis for interest rate risk</u>

As at 31 December 2013, it is estimated that a general increase/decrease of 75 (2012: 75) basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit before tax by approximately $26,250 (2012: decrease/increase the Group's profit before tax by approximately $12,750).

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 75 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2012.

Foreign currency risk

The Group is exposed to foreign currency risk from revenues generated and cost incurred in foreign currencies, principally in Chinese RMB ("RMB"), Hong Kong Dollars ("HKD") and Singapore Dollars ("SGD"). The Group does not enter into forward foreign exchange contracts to hedge against its foreign exchange risk resulting from sale and purchase transactions denominated in foreign currencies.

The Group manages its foreign exchange exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into the relevant domestic currency as and when the management deems necessary. The unhedged exposure is reviewed and monitored closely on an ongoing basis and management will consider to hedge any material exposure where appropriate.

26. Financial risk management objectives and policies (cont'd)

Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in RMB, HKD and SGD exchange rates (against USD), with all other variables held constant, of the Group's profit before tax.

			Group	
			2013 $'000 Profit before tax Increase/(decrease)	**2012** $'000 Profit before tax Increase/(decrease)
RMB	–	strengthened 4% (2012: 4%)	(1,322)	(1,555)
	–	weakened 4% (2012: 4%)	1,432	1,684
HKD	–	strengthened 4% (2012: 4%)	10	19
	–	weakened 4% (2012: 4%)	(11)	(21)
SGD	–	strengthened 4% (2012: 4%)	(32)	31
	–	weakened 4% (2012: 4%)	34	(33)

Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

26. Financial risk management objectives and policies (cont'd)

Liquidity risk (cont'd)

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the balance sheet date based on the contractual undiscounted payments.

	2013		2012	
	1 year or less $'000	**Total** $'000	**1 year or less** $'000	**Total** $'000
Group				
Financial assets:				
Trade receivables	97,367	97,367	78,421	78,421
Other receivables and deposits	3,157	3,157	2,689	2,689
Due from intermediate holding company	7,888	7,888	2,002	2,002
Due from immediate holding company	5,424	5,424	20,122	20,122
Due from related companies	3,629	3,629	–	–
Cash and short-term deposits	31,974	31,974	37,184	37,184
Total undiscounted financial assets	149,439	149,439	140,418	140,418
Financial liabilities:				
Trade payables	63,700	63,700	54,792	54,792
Other payables and accruals	14,397	14,397	10,180	10,180
Due to intermediate holding company	23,658	23,658	21,103	21,103
Short term bank loan	3,512	3,512	1,446	1,446
Total undiscounted financial liabilities	105,267	105,267	87,521	87,521
Total net undiscounted financial assets	44,172	44,172	52,897	52,897

26. Financial risk management objectives and policies (cont'd)

Liquidity risk (cont'd)

	2013		2012	
	1 year or less $'000	Total $'000	1 year or less $'000	Total $'000
Company				
Financial assets:				
Trade receivables	20,840	20,840	16,059	16,059
Other receivables and deposits	169	169	121	121
Due from intermediate holding company	6,625	6,625	1,935	1,935
Due from immediate holding company	5,424	5,424	20,122	20,122
Due from subsidiaries	42,693	42,693	–	–
Due from related companies	3,513	3,513	27,613	27,613
Cash and bank balances	12,521	12,521	10,970	10,970
Total undiscounted financial assets	91,785	91,785	76,820	76,820
Financial liabilities:				
Trade payables	5,149	5,149	5,805	5,805
Other payables and accruals	2,843	2,843	1,649	1,649
Due to intermediate holding company	23,332	23,332	20,832	20,832
Due to subsidiaries	63,199	63,199	64,361	64,361
Short term bank loan	3,512	3,512	1,446	1,446
Total undiscounted financial liabilities	98,035	98,035	94,093	94,093
Total net undiscounted financial liabilities	(6,250)	(6,250)	(17,273)	(17,273)

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Credit risk, or the risk of counterparties defaulting, is managed through the application of credit approvals, credit limits and monitoring procedures. Where appropriate, the Company and its subsidiaries obtain collateral from the customer or arrange master netting agreements. Cash terms, advance payments, and letters of credit are required for customers of lower credit standing.

26. Financial risk management objectives and policies (cont'd)

Credit risk (cont'd)

Exposure to credit risk

At the balance sheet date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

Credit risk concentration profile

At balance sheet date, approximately:

32% (2012: 29%) of the Group's trade receivables were due from 3 major customers of the Group.

14% (2012: 21%) of the Group's trade and other receivables were due from related parties.

Financial assets that are neither past due nor impaired

Trade receivables and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 14 (Trade receivables) and Note 15 (Other receivables, deposits and prepayments).

27. Fair value of financial instruments

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Bank balances, other liquid funds and short-term receivables

The carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.

Short term borrowings and other current liabilities

The carrying amounts approximate fair values because of the short period to maturity of these instruments.

Disclosure of the nature of financial instruments and their significant terms and conditions that could affect the amount, timing and certainty of future cash flow is presented in the respective notes to the financial statements, where applicable.

The Group and Company does not have any financial instruments that are carried at fair value or any financial instruments that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value.

28. Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholder, return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012.

As disclosed in Note 23(b), the subsidiaries of the Group are required by the relevant laws of the PRC to contribute to and maintain restricted reserves whose utilisation is subject to approval by the relevant PRC authorities.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes all liabilities (excluding tax payables) less cash and cash equivalents as the net debt. Capital includes equity attributable to the equity holder of the Company less the abovementioned restricted reserves.

	Group	
	2013	**2012**
	$'000	$'000
Trade payables (Note 18)	63,700	54,792
Other payables and accruals (Note 19)	14,397	10,180
Due to intermediate holding company	23,658	21,103
Short term bank loan	3,501	1,397
Less:		
Cash and short-term deposits (Note 17)	(31,974)	(37,184)
Financial liabilities, net of cash and short-term deposits attributable to discontinued operation	–	2,069
Net debt	73,282	52,357
Equity attributable to equity holder of the Company	99,396	112,408
Less: Restricted reserves	(10,206)	(9,686)
Total capital	89,190	102,722
Capital and net debt	162,472	155,079
Gearing ratio	45%	34%

29. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 14 February 2014.

EXHIBIT 5

2013 Audited Annual Financial Statements,
Cooperatief IMI Europe U.A. and Subsidiaries

Cooperatief IMI Europe U.A. and Subsidiaries

Consolidated Financial Statements
December 31, 2013 and 2012

and

Independent Auditors' Report

SGV

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Members and the Board of Directors
Cooperatief IMI Europe U.A. and Subsidiaries

We have audited the accompanying consolidated financial statements of Cooperatief IMI Europe U.A. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in members' equity and statements of cash flows for the years then ended, 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 the 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.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cooperatief IMI Europe U.A. and Subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards.

Basis of Accounting and Restriction of Use

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which describes the basis of preparation. The consolidated financial statements are prepared to assist Integrated Micro-Electronics, Inc. to meet the requirements of the Philippine Securities and Exchange Commission. As a result, the consolidated financial statements may not be suitable for another purpose. Our auditors' report is intended solely for Integrated Micro-Electronics, Inc. and the Philippine Securities and Exchange Commission and should not be used by parties other than Integrated Micro-Electronics, Inc. and the Philippine Securities and Exchange Commission.

SYCIP GORRES VELAYO & CO.

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February 14, 2014

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2013	2012
ASSETS		
Current Assets		
Cash (Note 5)	**$6,486,321**	$6,701,078
Loans and receivables (Note 6)	**51,010,694**	43,763,004
Inventories (Note 7)	**36,383,006**	28,766,955
Other current assets (Note 8)	**12,793,970**	5,126,918
Total Current Assets	**106,673,991**	84,357,955
Noncurrent Assets		
Property, plant and equipment (Note 9)	**41,997,100**	36,285,608
Goodwill (Note 10)	**650,413**	650,413
Intangible assets (Note 11)	**4,018,596**	5,405,801
Deferred tax assets (Note 20)	**644,543**	717,790
Other noncurrent assets	**822,133**	73,241
Total Noncurrent Assets	**48,132,785**	43,132,853
	$154,806,776	$127,490,808
LIABILITIES AND EQUITY		
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses (Note 12)	**$38,559,844**	$29,714,828
Loans payable (Note 13)	**25,896,190**	21,760,072
Current portion of long-term debt (Note 14)	**2,903,408**	2,649,600
Income tax payable	**292,047**	151,408
Total Current Liabilities	**67,651,489**	54,275,908
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Note 14)	**14,801,253**	16,227,135
Obligation under finance lease (Note 22)	**2,977,968**	704,866
Deferred tax liabilities (Note 20)	**2,959,369**	3,556,429
Pension liability (Note 21)	**383,969**	284,703
Due to related parties (Note 23)	**28,808,733**	28,808,733
Total Noncurrent Liabilities	**49,931,292**	49,581,866
Total Liabilities	**117,582,781**	103,857,774
MEMBERS' EQUITY (Note 15)		
Equity Attributable to Equity Holders of the Parent Company		
Members' contribution	**6,388,893**	6,388,893
Retained earnings	**31,541,437**	18,843,171
Cumulative translation adjustment	**(781,481)**	(1,662,112)
	37,148,849	23,569,952
Equity Attributable to Non-controlling Interests in a Consolidated Subsidiary	**75,146**	63,082
Total Members' Equity	**37,223,995**	23,633,034
	$154,806,776	$127,490,808

See accompanying Notes to Consolidated Financial Statements.

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2013	2012
REVENUES		
Sale of goods	**$235,286,557**	$181,632,380
Sale of services	**522,389**	600,822
	235,808,946	182,233,202
COST OF SALES (Note 16)		
Cost of goods sold	**206,847,686**	162,933,635
Cost of services	**522,389**	522,880
	207,370,075	163,456,515
GROSS PROFIT	**28,438,871**	18,776,687
OPERATING EXPENSES (Note 17)	**(12,677,019)**	(9,860,886)
OTHERS - Net		
Interest expense (Note 19)	**(1,539,056)**	(1,447,049)
Foreign exchange losses - net	**(167,793)**	(89,178)
Interest income (Note 5)	**1,229**	5,312
Miscellaneous income - net	**447,342**	137,956
INCOME BEFORE INCOME TAX	**14,503,574**	7,522,842
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 20)		
Current	**2,154,786**	1,141,421
Deferred	**(361,542)**	(601,025)
	1,793,244	540,396
NET INCOME	**$12,710,330**	$6,982,446
Net Income Attributable to:		
Equity holders of the Parent Company	**$12,698,266**	$6,967,456
Non-controlling interests	**12,064**	14,990
	$12,710,330	$6,982,446

See accompanying Notes to Consolidated Financial Statements.

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2013	2012
NET INCOME FOR THE YEAR	**$12,710,330**	$6,982,446
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences arising from translation of foreign operations	**880,631**	4,380,707
TOTAL COMPREHENSIVE INCOME	**$13,590,961**	$11,363,153
Total Comprehensive Income Attributable to:		
Equity holders of the Parent Company	**$13,578,897**	$11,348,163
Non-controlling interests	**12,064**	14,990
	$13,590,961	$11,363,153

See accompanying Notes to Consolidated Financial Statements.

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Attributable to Equity Holders of the Parent Company				
	Members' Contribution (Note 15)	Retained Earnings	Cumulative Translation Adjustment	Attributable to Non-controlling Interests in a Consolidated Subsidiary	Total
Balances at January 1, 2013	**$6,388,893**	**$18,843,171**	**($1,662,112)**	**$63,082**	**$23,633,034**
Net income	**–**	**12,698,266**	**–**	**12,064**	**12,710,330**
Other comprehensive income	**–**	**–**	**880,631**	**–**	**880,631**
Total comprehensive income	**–**	**12,698,266**	**880,631**	**12,064**	**13,590,961**
Balances at December 31, 2013	**$6,388,893**	**$31,541,437**	**($781,481)**	**$75,146**	**$37,223,995**
Balances at January 1, 2012	$4,363	$11,875,715	($6,042,819)	$48,092	$5,885,351
Members' contributions during the year (Note 15)	6,384,530	–	–	–	6,384,530
	6,388,893	11,875,715	(6,042,819)	48,092	12,269,881
Net income	–	6,967,456	–	14,990	6,982,446
Other comprehensive income	–	–	4,380,707	–	4,380,707
Total comprehensive income	–	6,967,456	4,380,707	14,990	11,363,153
Balances at December 31, 2012	$6,388,893	$18,843,171	($1,662,112)	$63,082	$23,633,034

See accompanying Notes to Consolidated Financial Statements.

COOPERATIEF IMI EUROPE U.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**$14,503,574**	$7,522,842
Adjustments for:		
Depreciation of property, plant and equipment (Note 9)	**5,232,912**	5,358,654
Interest expense (Note 19)	**1,539,056**	1,447,049
Amortization of intangible assets (Note 11)	**1,436,550**	1,450,749
Provisions for:		
Inventory obsolescence (Note 7)	**579,209**	198,006
Doubtful accounts (Note 6)	**171,824**	215,642
Pension expense (Note 21)	**74,832**	36,458
Unrealized foreign exchange loss (gain) - net	**(7,904)**	5,598
Interest income (Note 5)	**(1,229)**	(5,312)
Gain on sale of property, plant and equipment (Note 9)	**–**	(19,835)
Operating income before working capital changes	**23,528,824**	16,209,851
Changes in operating assets and liabilities:		
Increase in:		
Loans and receivables	**(8,077,930)**	(10,031,790)
Inventories	**(8,664,870)**	(1,603,836)
Other current assets	**(7,667,052)**	(1,138,050)
Increase (decrease) in accounts payable and accrued expenses	**8,639,387**	(1,687,615)
Net cash generated from operations	**7,758,359**	1,748,560
Interest paid	**(2,243,873)**	(971,141)
Income tax paid	**(2,014,147)**	(1,021,771)
Interest received	**1,229**	5,312
Net cash provided by (used in) operating activities	**3,501,568**	(239,040)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment (Note 9)	**(7,301,142)**	(6,130,697)
Intangible assets (Note 11)	**(68,122)**	(157,253)
Proceeds from sale of property, plant and equipment	**27,149**	149,781
Increase in other noncurrent assets	**(748,892)**	(271)
Net cash used in investing activities	**(8,091,007)**	(6,138,440)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of loans payable	**22,800,958**	13,964,467
Payments of:		
Loans payable	**(17,903,016)**	(8,000,130)
Finance lease	**(523,260)**	(682,348)
Net cash provided by financing activities	**4,374,682**	5,281,989
NET DECREASE IN CASH	**(214,757)**	(1,095,491)
CASH AT BEGINNING OF YEAR	**6,701,078**	7,796,569
CASH AT END OF YEAR (Note 5)	**$6,486,321**	$6,701,078

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Cooperatief IMI Europe U.A. ("Cooperatief" or the "Parent Company"), a non-stock holding entity registered under the laws of Amsterdam, the Netherlands on May 2, 2011, has four (4) wholly-owned subsidiaries, namely: Integrated Micro-Electronics Bulgaria EOOD (formerly EPIQ Electronic Assembly EOOD) (IMI BG), Integrated Micro-Electronics Czech Republic s.r.o. (formerly EPIQ CZ s.r.o.) (IMI CZ), Integrated Micro-Electronics Mexico, S.A.P.I. de C.V. (formerly EPIQ MX, S.A.P.I de C.V.) (IMI MX) and IMI France SAS (IMI France) (collectively referred to as the "Group"). The Group's parent company is Monarch Elite Ltd. (Monarch), a limited liability company incorporated in Hong Kong and a subsidiary of IMI International (Singapore) Pte Ltd. ("IMI Singapore"). IMI Singapore is a wholly-owned subsidiary of Integrated Micro-Electronics, Inc. (IMI), a company registered under the laws of the Republic of the Philippines and listed in the Philippine Stock Exchange (PSE). IMI's parent company is AYC Holdings, Ltd. (AYC), a corporation incorporated in the British Virgin Islands and a wholly-owned subsidiary of AC International Finance Ltd. under the umbrella of Ayala Corporation (AC), a corporation incorporated in the Republic of the Philippines and listed in the PSE. AC is 50.66% owned by Mermac, Inc., 10.52% owned by Mitsubishi Corporation and the rest by the public. The registered office address of Cooperatief is Locatellikade 1, 1077 MA Amsterdam, the Netherlands.

On April 28, 2011, IMI infused additional capital to IMI Singapore consisting of $7,026,195 cash and 200 million of IMI'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 IMI BG, IMI CZ, and IMI MX (collectively the "IMI EU/MX Subsidiaries") from EPIQ NV. IMI EU/MX Subsidiaries design and produce printed circuits, electronic modules for domestic goods 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. IMI EU/MX Subsidiaries also provide engineering, research and development, and logistics management services.

The consolidated financial statements as of and for the years ended December 31, 2013 and 2012 were authorized for issue by the Cooperatief's Board of Directors on February 14, 2014.

2. Basis of Preparation and Statement of Compliance

<u>Basis of Preparation</u>
The consolidated financial statements have been prepared under the historical cost basis. The consolidated financial statements are presented in United States Dollar (USD), which is the Parent Company's presentation currency for purposes of reporting to IMI, and are rounded off to the nearest dollar, except when otherwise indicated.

The consolidated financial statements have been prepared for submission to the Philippine Securities and Exchange Commission (SEC) in compliance with the requirements under *Part II, Additional Requirements for Issuers of Securities to the Public, of the Amended Securities Regulation Code Rule 68* on submission of the financial statements of IMI's significant foreign subsidiaries.

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

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

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries as of December 31, 2013 and 2012:

Name of Subsidiary	Percentage of Ownership	Country of Incorporation	Functional Currency
IMI BG	100.00%	Bulgaria	Bulgarian Lev (BGN)
Microenergia EOOD	70.00%	Bulgaria	Bulgarian Lev
IMI CZ	100.00%	Czech Republic	Czech Koruna (CZK)
IMI MX	100.00%	Mexico	Mexican Peso (MXN)
Integrated Micro-Electronics Manufactura S.A.P.I de C.V.	100.00%	Mexico	Mexican Peso
IMI France	100.00%	France	Euro (EUR)

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (that is, existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same balance sheet date as the Parent Company, using consistent accounting policies. All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 adjustments 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 Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets and liabilities.

Changes in Accounting Policies and Disclosures
New and amended standards and interpretation
The Group applied the following new and amended standards and interpretation in 2013. Except as otherwise indicated, these standards and interpretation did not have any impact on the consolidated financial statements of the Group.

- PAS 1 (Amendments), *Financial Statement Presentation – Presentation of Items of OCI*
  The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) are presented separately from items that will never be reclassified. The amendments affect presentation only and have no impact on the Group's financial position or performance.

- PAS 19 (As Revised in 2011), *Employee Benefits*
  On January 1, 2013, the Group adopted the revised PAS 19.

  For defined benefit plans, the revised standard requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Prior to the adoption of the revised standard, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon the adoption of the revised standard, the Group changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in profit or loss in the period they occur.

  The revised standard replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

  The revised standard also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the revised standard modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

  The adoption of the revised standard did not have a significant impact on the Group since only IMI BG has a defined benefit plan.

- PAS 27 (As Revised in 2011), *Separate Financial Statements*
  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*
  As a consequence of the 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, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- PFRS 7 (Amendments), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
  These amendments require the Group to disclose information about rights to set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information:

  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 balance sheets;
  c. The net amounts presented in the consolidated balance sheets;
  d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

  This is presented separately for financial assets and financial liabilities recognized at balance sheet date.

- PFRS 10, *Consolidated Financial Statements*
  The Group adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation – Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 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 adoption of the new standard did not have any impact on the consolidated financial statements of the Group. The Group assessed that no facts and circumstances would suggest change to any criteria of control since majority of the subsidiaries are wholly-owned.

- PFRS 11, *Joint Arrangements*
  This standard replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *JCEs – Non-monetary Contributions by Venturers.* The standard removed 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*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting

rights). The adoption of the new standard did not have any significant impact on the consolidated financial statements of the Group since majority of the subsidiaries are wholly-owned.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 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. The standard defines fair value as an exit price. The standard also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Group reassessed its policies for measuring fair values. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 24.

- Philippine Interpretation of International Financial Reporting Interpretations Committee (IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal costs (“stripping costs”) that are incurred in surface mining activity, during the production phase of the mine (“production stripping costs”). The interpretation addresses the accounting for the benefit from the stripping activity.

Annual improvements to PFRSs (2009-2011 cycle)
The *Annual Improvements to PFRSs (2009-2011 Cycle)* contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year. Except as otherwise indicated, these standards did not have any impact on the consolidated financial statements of the Group.

- PAS 1, *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*
  These 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*.

Standards Issued but not yet Effective
The Group will adopt the following new and amended standards and interpretations 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 significant impact on the consolidated financial statements.

Effective in 2014

- PAS 32 (Amendments), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  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.

- PAS 36 (Amendments), *Impairment of Assets – Recoverable Amount Disclosures for Nonfinancial Assets* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

- PAS 39 (Amendments), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements* (Amendments) – *Investment Entities* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss (FVPL).

- Philippine Interpretation of IFRIC 21, *Levies* (effective for annual periods beginning on or after January 1, 2014 and are applied retrospectively)
  Philippine Interpretation of IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

Effective in 2015

- PAS 19 (Amendments), *Employee Benefits – Defined Benefit Plans: Employee Contributions* (effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

Annual improvements to PFRSs (2010-2012 cycle)
The *Annual Improvements to PFRSs (2010-2012 Cycle)* contain non-urgent but necessary amendments to the following standards.

- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

- PAS 24, *Related Party Disclosures – Key Management Personnel*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of these amendments and in the immediately preceding annual period.

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014.

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

- PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

Annual improvements to PFRSs (2011-2013 cycle)
The *Annual Improvements to PFRSs (2011-2013 Cycle)* contain non-urgent but necessary amendments to the following standards.

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement – Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

Standard with no mandatory effective date

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relates to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace 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 FVPL. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For liabilities designated as at FVPL using the FVO, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI 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 to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for nonfinancial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Interpretation whose effective date was deferred

- Philippine Interpretation of IFRIC 15, *Agreement for Construction of Real Estate*
  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.

The significant accounting policies that have been used in the preparation of the consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated balance sheet based on current or noncurrent classification.

An asset is current when it is expected to be realized or intended to be sold or consumed in the normal operating cycle or within twelve (12) months after the balance sheet date, when it is held primarily for the purpose of trading, or cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the balance sheet date. All other assets are classified as noncurrent.

A liability is current when it is expected to be settled in the normal operating cycle or due to be settled within twelve (12) months after the balance sheet date, when it is held primarily for trading, or when there is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the balance sheet date. All other liabilities are classified as noncurrent.

Cash
Cash includes cash on hand and in banks.

Financial Instruments - Initial Recognition and Subsequent Measurement
Classification of financial instruments
Financial instruments within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, are classified as: (1) financial assets and financial liabilities at FVPL; (2) loans and receivables; (3) held-to-maturity investments; (4) available-for-sale 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, 2013 and 2012 consist of loans and receivables and other financial liabilities.

Date of recognition of financial instruments
Financial instruments are recognized in the consolidated balance sheets 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.

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.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of loans and receivables.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for doubtful accounts. 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 loans and receivables are derecognized or impaired, as well as through the amortization process.

This accounting policy relates primarily to the Group's cash in banks and loans and receivables.

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 or 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. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss when other financial liabilities are derecognized, as well as through the EIR amortization process.

This accounting policy relates primarily to the Group's accounts payable and accrued expenses (excluding customers' deposits), loans payable, long-term debt and due to related parties.

<u>Fair Value Measurement</u>
Fair values of financial instruments measured at amortized cost are disclosed in Note 24.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.
All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets 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 (that is, removed from the consolidated balance sheets) 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 rights 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.

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. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "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.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

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 year, the amount of the estimated provision for doubtful accounts increases or decreases because of an event occurring after the provision for doubtful accounts was recognized, the previously recognized provision for doubtful accounts is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit or loss.

Inventories

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 profit or loss.

Tax Credits

Tax credits, included under "Other current assets" account in the consolidated balance sheets, are the amount withheld from income payments and value added tax refund claims.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. 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 costs 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
Furniture, fixtures and office equipment	3 - 5
Transportation equipment	3 - 5

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 they are no longer in 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.

The EUL and methods of depreciation of property, plant and equipment are reviewed annually and adjusted prospectively, if appropriate.

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.

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 to measure the non-controlling interest in the acquiree at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred and included in consolidated statements 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, any 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 OCI. 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 interests 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. The Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date if the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or group 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.

When goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed.

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.

After 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
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 the 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 cost 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 CGU 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. 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 as of September 30 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

Members' contribution

Members' contribution pertains to the capital contributed by members.

Retained earnings

Retained earnings represent the net accumulated earnings of the Group.

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. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. 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.

Expenses

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

Cost of sales

This account 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 account 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 authorities. 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 in the countries where the Group operates and generates taxable income.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of 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 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, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets 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.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly 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.

<u>Foreign Currency Transactions</u>
For the purpose of the consolidated financial statements, the financial position and financial performance of each entity within the Group are expressed in USD, which is the presentation currency of the Group for purposes of reporting to IMI.

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 IMI BG, IMI CZ, and IMI MX, are the BGN, CZK and MXN, respectively. The functional currency of IMI France and Cooperatief is the EUR. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of IMI 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.

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 OCI and accumulated in a separate component of equity until the disposal of the foreign operation.

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.

<u>Pension Benefits</u>
Defined benefit plan
IMI BG maintains a separate defined benefit plan covering substantially all of its employees. The plan of IMI BG is unfunded and noncontributory.

The cost of providing benefits under the defined benefit plan 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. An actuarial valuation is conducted with sufficient regularity, with the option to accelerate when significant changes to underlying assumptions occur.

Pension expense comprises the following:

- Service cost;
- Net interest on the pension liability; and
- Remeasurements of the pension liability.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the pension liability is the change during the period in the pension liability that arises from the passage of time which is determined by applying the discount rate based on government bonds to pension liability. Net interest on the pension liability is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on pension liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Pension liability is the aggregate of the present value of the defined benefit obligation at the end of the balance sheet date reduced by the fair value of plan assets, adjusted for any effect of limiting a net pension asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

Defined contribution plans
IMI CZ and IMI 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. Each 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.

IMI CZ
IMI 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. IMI CZ is not obliged to any other payments if employment terminates.

IMI MX
In accordance with the Mexican Labor Law, IMI 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. IMI MX estimates that the differences that might be determined if this liability had been estimated by an independent actuary are immaterial.

IMI 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.

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).

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 sheets. 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 statements of comprehensive income.

Capitalized leased assets are depreciated over the shorter of the EUL of the assets and 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 in the consolidated financial statements but are disclosed in the notes to 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 financial 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 notes to 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 judgments, 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.

Finance lease commitments - Group as lessee
IMI BG and IMI 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 assets and so account for the contracts as finance leases. Further details are given in Note 22.

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 26.

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 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. Further details on loans and receivables are disclosed 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 the sale to determine the NRV. In the event that NRV is lower than cost, the decline is recognized as an expense. Further details on inventories are disclosed 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. Further details on property, plant and equipment are disclosed in Note 9.

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. Further details on intangible assets are disclosed in Note 11.

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 exists or has 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. Further details on property, plant and equipment and intangible assets are disclosed in Notes 9 and 11, respectively.

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 CGU 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. Further details on goodwill are disclosed in Note 10.

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable profits. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience on previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of 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 losses can be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 20.

Pension benefits
The cost of defined benefit plan and the present value of the defined benefit obligation are determined using an actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, turnover rate, mortality rate, salary increase rate and future pension increase. 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.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The turnover rate represents the proportion of the current plan members who will resign from service prior to their retirement date and hence, be entitled to resignation benefits instead of retirement benefits. The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Salary increase rate and future pension increase are based on expected future inflation rates. Further details on pension benefits are disclosed in Note 21.

5. Cash

This account consists of:

	2013	2012
Cash on hand	**$19,142**	$34,619
Cash in banks	**6,467,179**	6,666,459
	$6,486,321	$6,701,078

Cash in banks earns interest at the respective bank deposit rates. Interest income earned from cash in banks amounted to $0.01 thousand and $0.05 thousand in 2013 and 2012, respectively.

6. Loans and Receivables

This account consists of:

	2013	2012
Trade	**$49,933,766**	$42,713,032
Nontrade	**1,123,920**	1,146,748
Due from related parties (Note 23)	**73,746**	70,019
Others	**121,806**	93,724
	51,253,238	44,023,523
Less allowance for doubtful accounts	**242,544**	260,519
	$51,010,694	$43,763,004

Trade receivables arise from manufacturing and other related services for electronic products and components and have credit terms ranging from 40 to 60 days after the sale.

As of December 31, 2013 and 2012, IMI BG's pledged receivables with UniCredit Bulbank and BNP Paribas follow (see Note 13):

	In EUR		In USD	
	2013	2012	**2013**	2012
UniCredit Bulbank	**€5,080,000**	€8,000,000	**$7,010,000**	$10,600,000
BNP Paribas	**–**	320,000	**–**	430,000
	€5,080,000	€8,320,000	**$7,010,000**	$11,030,000

Nontrade receivables represent billings for all other charges agreed with the customers in carrying out business operations. These receivables have credit terms ranging from 40 to 60 days from invoice date.

Trade receivables with aggregate nominal value of $0.24 million and $0.26 million were individually assessed to be impaired and fully provided with allowance for doubtful accounts as of December 31, 2013 and 2012, respectively.

Movements in the allowance for doubtful accounts follow:

	2013	2012
At January 1	**$260,519**	$45,900
Provisions	**171,824**	215,642
Accounts written-off	**(189,799)**	(1,023)
At December 31	**$242,544**	$260,519

Provisions during the year form part of "Operating expenses" account and are included under "Facilities costs and others" (see Note 18).

7. Inventories

This account consists of:

	2013	2012
Cost		
Raw materials and supplies	**$25,923,398**	$22,061,851
Work in-process	**3,464,830**	2,129,713
Finished goods	**7,894,773**	4,896,177
	37,283,001	29,087,741
Allowance for inventory obsolescence		
Raw materials and supplies	**758,663**	225,436
Work in-process	**65,208**	40,074
Finished goods	**76,124**	55,276
	899,995	320,786
	$36,383,006	$28,766,955

The amount of inventories recognized as an expense amounted to $166.75 million and $131.18 million in 2013 and 2012, respectively (see Note 16).

Movements in the allowance for inventory obsolescence are as follows:

	2013	2012
At January 1	**$320,786**	$122,780
Provisions (Note 18)	**579,209**	198,006
At December 31	**$899,995**	$320,786

As of December 31, 2013 and 2012, IMI BG's pledged inventories with UniCredit Bulbank and BNP Paribas follow (see Note 13):

	In EUR		In USD	
	2013	2012	**2013**	2012
UniCredit Bulbank	**€8,000,000**	€8,000,000	**$11,039,017**	$10,600,000
BNP Paribas	**–**	320,000	**–**	430,000
	€8,000,000	€8,320,000	**$11,039,017**	$11,030,000

8. Other Current Assets

This account consists of:

	2013	2012
Tax credits	**$12,171,760**	$4,831,278
Prepayments	**505,601**	111,727
Input taxes	**116,103**	120,281
Others	**506**	63,632
	$12,793,970	$5,126,918

Tax credits and input taxes are attributable to IMI MX and IMI BG.

Prepayments include prepayments for life and fire insurance and rent.

9. Property, Plant and Equipment

Movements in this account are as follows:

2013

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Construction in Progress	Total
Cost						
At January 1, 2013	$18,406,671	$21,576,240	$1,437,473	$167,534	$1,169,652	$42,757,570
Additions	460,432	4,005,862	459,116	60,977	5,409,449	10,395,836
Disposals	–	(271,020)	–	(81,904)	–	(352,924)
Transfers	1,245,220	4,641,848	161,250	52,313	(6,100,631)	–
Foreign currency exchange difference	(291,269)	1,266,263	77,707	26,055	84,867	1,163,623
At December 31, 2013	19,821,054	31,219,193	2,135,546	224,975	563,337	53,964,105
Accumulated depreciation						
At January 1, 2013	56,525	5,504,478	874,620	36,339	–	6,471,962
Depreciation	561,704	4,354,805	262,818	53,585	–	5,232,912
Disposals	–	(267,924)	–	(81,904)	–	(349,828)
Foreign currency exchange difference	32,554	498,251	61,453	19,701	–	611,959
At December 31, 2013	650,783	10,089,610	1,198,891	27,721	–	11,967,005
Net book value	$19,170,271	$21,129,583	$936,655	$197,254	$563,337	$41,997,100

2012

	Buildings and Improvements	Machinery and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Construction in Progress	Total
Cost						
At January 1, 2012	$18,515,536	$17,491,115	$299,408	$356,632	$1,473,460	$38,136,151
Additions	312,457	4,479,244	130,018	36,140	1,955,889	6,913,748
Disposals	–	(1,530,672)	(60,011)	(181,260)	–	(1,771,943)
Transfers	(1,256)	2,005,444	205,711	40	(2,209,939)	–
Foreign currency exchange difference	(420,066)	(868,891)	862,347	(44,018)	(49,758)	(520,386)
At December 31, 2012	18,406,671	21,576,240	1,437,473	167,534	1,169,652	42,757,570
Accumulated depreciation						
At January 1, 2012	311,592	3,952,369	68,513	119,457	–	4,451,931
Depreciation	635,955	4,456,936	131,041	134,722	–	5,358,654
Disposals	(588)	(1,403,945)	(69,222)	(168,242)	–	(1,641,997)
Foreign currency exchange difference	(890,434)	(1,500,882)	744,288	(49,598)	–	(1,696,626)
At December 31, 2012	56,525	5,504,478	874,620	36,339	–	6,471,962
Net book value	$18,350,146	$16,071,762	$562,853	$131,195	$1,169,652	$36,285,608

As of December 31, 2013 and 2012, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to $24.90 million and $21.35 million, respectively.

The carrying values of equipment under finance lease amounted to $5.25 million and $2.05 million as of December 31, 2013 and 2012, respectively (see Note 22).

Depreciation expense included in “Cost of goods sold and services” and “Operating expenses” accounts is as follows:

	2013	2012
Cost of goods sold and services (Note 16)	**$4,738,621**	$4,921,375
Operating expenses (Note 17)	**494,291**	437,279
	$5,232,912	$5,358,654

Gains from disposal of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments included under "Miscellaneous income - net" account in the consolidated statements of comprehensive income amounted to nil and $0.02 million in 2013 and 2012, respectively.

10. Goodwill

Goodwill amounting to $0.65 million as of December 31, 2013 and 2012, resulted from the acquisition of IMI CZ. IMI CZ is treated as the CGU for this goodwill.

The recoverable amount of this CGU has been based on value in use calculation using cash flow projections from the financial budget approved by management covering a 5-year period. The pre-tax discount rate applied to cash flow projections is 12.73% and 12.40% in 2013 and 2012, respectively.

Cash flows beyond the 5-year period are extrapolated using a steady growth rate of 1%, which does not exceed the compound annual growth rate for the global Electronic Manufacturing Services (EMS) industry.

Key Assumptions Used in the Value-in-Use Calculation
The calculation of value-in-use for this CGU is most sensitive to the following assumptions:

- Forecasted gross margin - Gross margins are based on the mix of business model arrangements with the customers.
- Revenue - Revenue forecasts are management's best estimates considering factors such as index growth to market, customer projections and economic factors.
- Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. This is also the benchmark used by management to assess operating performance.

No impairment loss was assessed in 2013 and 2012.

Sensitivity to Changes in Assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of this CGU to exceed its recoverable amount.

11. Intangible Assets

Movements in this account are as follows:

2013

	Customer Relationships	Computer Software	Total
Cost			
At January 1, 2013	$6,766,617	$718,481	$7,485,098
Additions	–	68,122	68,122
Foreign currency exchange difference	–	56,200	56,200
At December 31, 2013	6,766,617	842,803	7,609,420
Accumulated amortization			
At January 1, 2013	1,917,208	162,089	2,079,297
Amortization	1,353,323	83,227	1,436,550
Foreign currency exchange difference	–	74,977	74,977
At December 31, 2013	3,270,531	320,293	3,590,824
Net book value	$3,496,086	$522,510	$4,018,596

2012

	Customer Relationships	Computer Software	Total
Cost			
At January 1, 2012	$6,766,617	$393,813	$7,160,430
Additions	–	157,253	157,253
Foreign currency exchange difference	–	167,415	167,415
At December 31, 2012	6,766,617	718,481	7,485,098
Accumulated amortization			
At January 1, 2012	563,885	39,188	603,073
Amortization	1,353,323	97,426	1,450,749
Foreign currency exchange difference	–	25,475	25,475
At December 31, 2012	1,917,208	162,089	2,079,297
Net book value	$4,849,409	$556,392	$5,405,801

Customer relationships pertain to IMI BG's contractual agreements with certain customers which lay out the principal terms upon which the parties agree to undertake business.

Amortization of intangible assets included in "Operating expenses" account amounted to $1.44 million and $1.45 million in 2013 and 2012, respectively (see Note 17).

12. Accounts Payable and Accrued Expenses

This account consists of:

	2013	2012
Trade	**$28,801,765**	$22,456,482
Accrued expenses:		
Taxes and licenses	**5,353,851**	2,278,373
Employee salaries and benefits	**876,314**	988,176
Supplies	**634,576**	47,041
Professional	**158,325**	17,236
Others	**480,333**	683,253
Due to related parties (Note 23)	**937,687**	955,009
Current portion of obligation under finance lease (Note 22)	**894,341**	674,071
Accrued interest payable (Note 23)	**222,304**	876,208
Customers' deposits	**11,215**	10,831
Others	**189,133**	728,148
	$38,559,844	$29,714,828

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

Accrued expenses consist mainly of accruals for taxes, compensation and benefits, repairs and maintenance, professional fees, light and water, supplies and transportation and travel.

13. **Loans Payable**

This account consists of borrowings of the following entities:

	2013	2012
IMI MX	**$17,683,092**	$11,009,461
IMI BG	**6,547,014**	9,700,611
IMI CZ	**1,666,084**	1,050,000
	$25,896,190	$21,760,072

<u>IMI MX</u>
IMI MX has a revolving credit line with Banamex amounting to $2.18 million and $2.00 million as of December 31, 2013 and 2012, respectively, with term not exceeding twelve (12) months, and bears interest rate based on LIBOR plus 2%.

Interest expense incurred on the short-term loan amounted to $0.08 million in 2013 and 2012.

IMI MX also has outstanding loans from IMI aggregating to $12.00 million and $9.00 million as of December 31, 2013 and 2012, respectively, and from IMI Singapore aggregating to $3.50 million as of December 31, 2013 to fund its working capital requirements (see Note 23). In 2013 and 2012, the loans bear interest rates ranging from 2.79% to 3.08% with terms ranging from 90 to 360 days.

Interest expense incurred on these loans amounted to $0.34 million and $0.27 million in 2013 and 2012, respectively.

<u>IMI BG</u>
IMI BG has short-term loans from the following banks:

	2013	2012
UniCredit Bulbank	**$5,167,138**	$9,275,017
BNP Paribas	**1,379,876**	425,594
	$6,547,014	$9,700,611

The loans from UniCredit Bulbank and BNP Paribas are from existing revolving credit facilities with terms of one (1) year. The loans from UniCredit Bulbank and BNP Paribas bear interest rates based on 1-month EURIBOR plus 3.00% and 3-month EURIBOR plus 2.50%, respectively.

Interest expense recognized on these loans amounted to $0.21 million in 2013 and $0.39 million in 2012.

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 IMI.

As of December 31, 2013 and 2012, IMI BG's pledged inventories and receivables with UniCredit Bulbank amounted to €13.08 million ($18.05 million) and €16.00 million ($21.20 million), respectively.

The credit facility with BNP Paribas is subject to the following collaterals:

- First rank pledge on receivables from selected customers of IMI BG, 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 IMI BG in the amount of 125% of the utilized portion of the facility but not more than €3,750,000.

As of December 31, 2013 and 2012, IMI BG's pledged inventories and receivables with BNP Paribas amounted to nil and €0.64 million ($0.86 million), respectively.

IMI CZ
IMI CZ has outstanding loans from IMI aggregating to $1.67 million and $1.05 million as of December 31, 2013 and 2012, respectively, to fund its working capital requirements (see Note 23). In 2013 and 2012, the loans bear interest rates ranging from 2.66% to 3.24% with terms not exceeding twelve (12) months.

Interest expense incurred on these loans amounted to $0.05 million and $0.03 million in 2013 and 2012, respectively.

14. **Long-Term Debt**

This account consists of borrowings of the following entities:

	2013	2012
Cooperatief	**$16,892,242**	$18,876,735
IMI CZ	**812,419**	–
	17,704,661	18,876,735
Less current portion		
Cooperatief	**2,758,200**	2,649,600
IMI CZ	**145,208**	–
	2,903,408	2,649,600
Noncurrent portion	**$14,801,253**	$16,227,135

Cooperatief
On May 4, 2011, IMI and 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 IMI EU/MX Subsidiaries.

IMI, Cooperatief and EPIQ NV agreed that the consideration for the EPIQ shares would include the issuance of 200 million of the Parent Company's shares (the "IMI Consideration Shares"), assumption of liabilities of EPIQ NV to IMI EU/MX Subsidiaries aggregating to €2,546,419 ($3,645,453), purchase of receivables of EPIQ NV from IMI EU/MX Subsidiaries aggregating to €11,734,824 ($16,799,576) and deferred payment of €7,345,080 ($10,515,218).

On July 29, 2011, €4,831,161 ($6,916,294) of the purchase price was settled through cash payment, while the rest amounting to €14.25 million ($20.40 million) will be settled through additional deferred payment from 2013 to 2018 subject to interest rate of 1.60% plus 1.50%.

In 2013, Cooperatief made payments of €2.00 million ($2.76 million).

Below is the amortization schedule:

Due Dates	In EUR	In USD
2014	€2,000,000	$2,758,200
2015	2,000,000	2,758,200
2016	2,000,000	2,758,200
2017	2,000,000	2,758,200
2018	4,248,743	5,859,442
	€12,248,743	$16,892,242

Cooperatief incurred interest expense on its long-term debt amounting to $0.55 million in 2013 and $0.57 million in 2012.

IMI CZ
IMI CZ has a long-term debt from Citibank amounting to €0.59 million ($0.81 million) that relates to a term loan facility for the purchase of its new Surface Mount Technology machine. The debt bears interest of 1-month EURIBOR plus 2.70% and matures on July 31, 2019.

Below is the amortization schedule:

Due Dates	In EUR	In USD
2014	€105,246	$145,208
2015	105,246	145,208
2016	105,246	145,208
2017	105,246	145,208
2018	105,246	145,208
2019	62,607	86,379
	€588,837	$812,419

IMI CZ incurred interest expense on its long-term debt amounting to $0.02 million in 2013.

15. Member's Equity

Details of the members of the Cooperatief follow:

	Country of Incorporation	**Ownership Interest**
Monarch	Hong Kong	99%
IMI Singapore	Singapore	1%

The movements in "Members' contribution" account follow:

	2013	2012
At January 1	**$6,388,893**	$4,363
Contributions during the year	**–**	6,384,530
At December 31	**$6,388,893**	$6,388,893

The advances made by Monarch and IMI Singapore to the Cooperatief in 2011 amounting to €4,801,500 ($6,320,684) and €48,500 ($63,846), respectively, representing the cash consideration used by the latter to facilitate the acquisition of IMI EU/MX Subsidiaries, were converted into members' contributions on December 18, 2012.

16. **Cost of Goods Sold and Services**

This account consists of:

	2013	2012
Direct, indirect and other material-related costs (Note 7)	**$166,747,825**	$131,178,141
Direct labor, salaries, wages and employee benefits (Note 21)	**26,338,595**	20,413,198
Depreciation (Note 9)	**4,738,621**	4,921,375
Facilities costs and others (Note 18)	**9,545,034**	6,943,801
	$207,370,075	$163,456,515

17. **Operating Expenses**

This account consists of:

	2013	2012
Salaries, wages and employee benefits (Note 21)	**$4,898,238**	$3,940,044
Depreciation and amortization (Notes 9 and 11)	**1,930,841**	1,888,028
Facilities costs and others (Note 18)	**5,847,940**	4,032,814
	$12,677,019	$9,860,886

18. **Facilities Costs and Others**

This account consists of:

	Cost of Goods Sold and Services		**Operating Expenses**	
	2013	2012	**2013**	2012
Repairs and maintenance	**$2,989,417**	$2,000,786	**$61,343**	$137,104
Utilities	**2,430,410**	2,105,128	**–**	1,602
Travel	**1,119,371**	680,455	**979,495**	807,661
Outsourced activities	**522,064**	221,452	**2,020,334**	1,327,053
Insurance	**17,062**	15,980	**644,031**	581,285
Government-related	**15,008**	1,811	**271,785**	286,678
Provision for inventory obsolescence (Note 7)	**–**	–	**579,209**	198,006
Promotional materials, representation and entertainment	**–**	–	**227,734**	163,061
Postal and communication	**–**	–	**258,522**	249,466
Provision for doubtful accounts (Note 6)	**–**	–	**171,824**	215,642
Membership fees	**–**	–	**8,314**	266
Technology-related	**–**	–	–	18,963
Others	**2,451,702**	1,918,189	**625,349**	46,027
	$9,545,034	$6,943,801	**$5,847,940**	$4,032,814

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

19. **Interest Expense**

This account consists of:

	2013	2012
Interest expense (Notes 13 and 14)	**$1,230,892**	$1,342,222
Interest on finance lease and bank charges (Note 22)	**308,164**	104,827
	$1,539,056	$1,447,049

20. **Income Taxes**

Current Tax

Parent Company

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

IMI BG

Income taxes are calculated in accordance with 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 2013 and 2012 is 10%.

IMI CZ

Income tax due is calculated by multiplying the tax base by the rate as defined by the income tax law of the 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 (for example, creation and recording of other provisions and allowances, entertainment expenses, difference between book and tax depreciations). The applicable tax rate in 2013 and 2012 is 19%.

IMI MX

IMI 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 in 2013 and 2012 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.

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 (1) year. The tax rate applicable in 2013 and 2012 is 33% based on net profits.

Deferred Tax

Deferred taxes of the Group relates to the following:

	2013	2012
Deferred tax assets:		
Revaluation of property, plant and equipment of subsidiaries upon acquisition	**$444,245**	$444,245
Allowance for inventory obsolescence	**75,134**	114,369
Allowance for doubtful accounts	**15,366**	91,140
Others	**109,798**	68,036
	$644,543	$717,790

	2013	2012
Deferred tax liabilities:		
Revaluation of property, plant and equipment and intangibles of subsidiaries upon acquisition	**$1,646,260**	$2,012,889
Accelerated depreciation	**202,052**	186,914
Others	**1,111,057**	1,356,626
	$2,959,369	$3,556,429

The temporary differences and tax losses of IMI CZ for which no deferred tax assets have been recognized as of December 31, 2013 and 2012 are as follows:

	2013	2012
Tax losses	**$3,175,932**	$3,410,526
Noncurrent assets	**1,294,737**	1,352,632
Provisions	**421,053**	342,105
Excess of cost over NRV of inventories	**184,211**	21,053
Allowance for doubtful accounts	**31,579**	131,579
	$5,107,512	$5,257,895

Tax losses that can be claimed as a deduction from regular taxable income are as follows:

Years Incurred	Expiry Date	Tax Losses
December 31, 2011	December 31, 2016	$954,056
December 31, 2010	December 31, 2015	1,110,888
December 31, 2009	December 31, 2014	1,110,988
		$3,175,932

Deferred tax assets are recognized only to the extent that sufficient future taxable profits will be available against which the deferred tax assets can be used. IMI CZ will reassess the unrecognized deferred tax assets to the extent that it has become probable that sufficient future taxable profits would allow the deferred tax assets to be recovered.

As of December 31, 2013 and 2012, deferred tax liabilities have not been recognized on the undistributed earnings since the timing of the reversal of the temporary difference can be controlled by management does not expect the reversal of the temporary differences in the foreseeable future.

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

	2013	2012
Statutory income tax	**10.00%**	10.00%
Tax effects of:		
Nondeductible expenses	**6.26**	14.74
Difference in tax jurisdiction	**(3.90)**	(17.56)
Effective income tax rate	**12.36%**	7.18%

21. **Employee Benefits**

IMI BG has a defined benefit plan covering substantially all of its employees. The latest retirement valuation was made on December 31, 2013.

The tables below summarize the amount of pension liability recognized in the balance sheets and components of pension expense recognized in the statements of income as of and for the years ended December 31, 2013 and 2012:

Pension Expense

	2013	2012
Current service cost	**$65,764**	$36,458
Net interest	**9,068**	–
	$74,832	$36,458

Pension Liability

	2013	2012
At January 1	**$284,703**	$242,647
Pension expense:	**74,832**	36,458
Foreign currency exchange difference	**24,434**	5,598
At December 31	**$383,969**	$284,703

The average duration of the pension liability at the end of the balance sheet date is 22 years and 23 years as of December 31, 2013 and 2012, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2013:

Less than one year	$38,860
More than one year to five years	118,470
More than five years to ten years	119,701
More than ten years to fifteen years	85,060
More than fifteen years to twenty years	8,271
More than twenty years	2,736
	$373,098

Principal Actuarial Assumptions

The principal actuarial assumptions used to determine pension benefits are shown below:

	2013	2012
Discount rate	**3.50%**	3.00%
Salary increase rate	**5.00%**	5.00%
Turnover rate	**0.62%**	0.62%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the pension liability as of the end of the balance sheet date, assuming all other assumptions were held constant:

Actuarial assumption	Increase/ Decrease in Actuarial Assumption	Effect on Pension Liability
Discount rate	+1%	($23,280)
	-1%	25,400
Salary increase rate	+1%	17,640
	-1%	(17,640)
Turnover rate	+1%	(47,270)
	-1%	45,150

The pension expense of the Group is included under “Salaries, wages, and employee benefits” account.

22. Lease Commitments

IMI BG
IMI BG has various finance lease contracts with Interlease AD and UniCredit Leasing AD related to its machinery and production equipment with terms of three (3) to five (5) years and final repayment dates between 2012 and 2018. The leases are subject to interest rates of 3-month EURIBOR plus 2.00% to 4.00% per annum.

IMI CZ
IMI 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 rate of 12.26% per annum.

Future minimum lease payments are as follows:

	Minimum Lease Payments		**Present Value of Payments**	
	2013	2012	**2013**	2012
Within one year (Note 12)	**$1,018,901**	$777,907	**$907,761**	$674,071
After one year but not more than five years	**3,157,187**	705,857	**2,977,968**	704,866
	$4,176,088	$1,483,764	**$3,885,729**	$1,378,937

Additional finance lease commitment of the Group amounted to $3.03 million and $0.78 million for 2013 and 2012, respectively.

23. 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
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, 2013 and 2012, the Group has not recorded any impairment on 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. Outstanding balances of related party transactions follow:

	Receivables		Payables	
	2013	2012	**2013**	2012
Speedy-Tech Electronics Ltd. (STEL)	**$72,265**	$68,538	**$–**	$–
Monarch	**1,466**	1,466	**28,520,645**	28,520,645
IMI Singapore	**15**	15	**288,088**	288,088
IMI	**–**	–	**14,674,055**	11,042,557
	$73,746	$70,019	**$43,482,788**	$39,851,290

i. Receivables from STEL are trade in nature, unsecured, noninterest-bearing, repayable on demand and to be settled in cash.

ii. Receivables from Monarch and IMI Singapore are nontrade in nature and pertain to the members' contribution amounting to €1,000 ($1,481) based on the agreed allocation of 99.00% and 1.00%, respectively.

iii. Payables to Monarch and IMI Singapore, presented as "Due to related parties" in the consolidated balance sheets, are nontrade in nature and relate to the acquisition of IMI EU/MX Subsidiaries. Management intends to convert these payables into equity in the future.

iv. Payables to IMI include nontrade transactions and operating cash advances. Nontrade transactions are unsecured, noninterest-bearing, repayable on demand and to be settled in cash. Cash advances of IMI to IMI MX and IMI CZ have a 90-day term subject to interest rates ranging from 2.79% to 2.81%.

Payables to IMI are presented as follows:

	2013	2012
Loans payable (Note 13)	**$13,666,084**	$10,050,000
Due to related parties (Note 12)	**937,687**	955,009
Accrued interest payable (Note 12)	**70,284**	37,548
	$14,674,055	$11,042,557

b. Revenues and expenses from related parties follow:

	Revenues		Expenses	
	2013	2012	**2013**	2012
STEL	**$667,398**	$386,687	**$–**	$–
IMI	**–**	–	**326,379**	286,138
	$667,398	$386,687	**$326,379**	$286,138

Details of revenue and expenses follow:
i. Intercompany revenues of STEL from IMI BG.
ii. Interest expense from IMI's intercompany advances to IMI EU/MX Subsidiaries.

<u>Compensation of Key Management Personnel of the Group</u>
Key management personnel of the Group include all management committee members. Short-term employee benefits of key management personnel amounted to $1.49 million and $1.12 million in 2013 and 2012, respectively.

24. Fair Values of Financial Instruments

Below are the fair values of financial liabilities where the carrying amounts do not approximate fair values as at December 31, 2013 and 2012:

	Carrying Amounts		Fair Values	
	2013	2012	**2013**	2012
Noncurrent portion of:				
Long-term debt	**$14,801,253**	$16,227,135	**$15,013,867**	$14,216,864
Obligation under finance lease	**2,977,968**	704,866	**2,973,854**	660,662
	$17,779,221	$16,932,001	**$17,987,721**	$14,877,526

The following methods and assumptions were used to estimate the fair value:

Noncurrent portion of long-term debt - The fair value of long-term debt 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 ranged from 0.25% to 2.87% in 2013 and 3.10% in 2012.

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 2.29% to 12.30% and 2.00% to 12.26% in 2013 and 2012, respectively.

Fair Value Hierarchy
The following table provides the fair value hierarchy of the inputs to the valuation of the financial liabilities:

		Fair Value Measurement Using		
	Total	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Noncurrent portion of:				
Long-term debt	**$15,013,867**	**$–**	**$–**	**$15,013,867**
Obligation under finance lease	**2,973,854**	**–**	**–**	**2,973,854**
	$17,987,721	**$–**	**$–**	**$17,987,721**

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.

Financial Assets and Financial Liabilities where the Carrying Amounts Approximate Fair Values
Below are the financial assets and financial liabilities where the carrying amounts approximate fair values as of December 31, 2013 and 2012 due to the short-term nature of the instruments:

	2013	2012
Financial assets:		
Cash	**$6,486,321**	$6,701,078
Loans and receivables:		
Trade	**49,691,222**	42,452,513
Nontrade	**1,123,920**	1,146,748
Due from related parties	**73,746**	70,019
Others	**121,806**	93,724
	$57,497,015	$50,464,082

	2013	2012
Financial liabilities:		
Accounts payable and accrued expenses:		
Trade payables	**$28,801,765**	$22,456,482
Accrued expenses	**7,503,399**	4,014,079
Current portion of obligation under finance lease	**894,341**	674,071
Accrued interest payable	**222,304**	876,208
Due to related parties	**937,687**	955,009
Others	**189,133**	728,148
Loans payable	**25,896,190**	21,760,072
	$64,444,819	$51,464,069

25. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, composed of loans payable and long-term debt, were issued primarily to raise financing for the Group's operations. The Group has various financial instruments such as cash, 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'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 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, 2013 and 2012. There is no other impact on the Group's equity other than those already affecting income.

	Effect on Income before Tax	
Increase/Decrease in Basis Points	**2013**	2012
+100	**($95,425)**	($117,101)
-100	**95,425**	117,101

Liquidity Risk
Liquidity 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 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:

2013

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets:					
Cash	**$6,486,321**	**$–**	**$–**	**$–**	**$6,486,321**
Financial liabilities:					
Accounts payable and accrued expenses:					
Trade payables	**–**	**28,801,765**	**–**	**–**	**28,801,765**
Accrued expenses *	**–**	**7,503,399**	**–**	**–**	**7,503,399**
Due to related parties	**–**	**937,687**	**–**	**–**	**937,687**
Accrued interest payable	**–**	**222,304**	**–**	**–**	**222,304**
Current portion of obligation under finance lease	**–**	**–**	**894,341**	**–**	**894,341**
Others	**–**	**189,133**	**–**	**–**	**189,133**
Current portion of long-term debt	**–**	**2,903,408**	**–**	**–**	**2,903,408**
Loans payable	**–**	**–**	**26,517,158**	**–**	**26,517,158**
Long-term debt	**–**	**–**	**–**	**15,239,657**	**15,239,657**
Noncurrent portion of obligation under finance lease	**–**	**–**	**–**	**2,977,968**	**2,977,968**
	–	**40,557,696**	**27,411,499**	**18,217,625**	**86,186,820**
	$6,486,321	**($40,557,696)**	**($27,411,499)**	**($18,217,625)**	**($79,700,499)**

**Excluding statutory payables*

2012

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets:					
Cash	$6,701,078	$–	$–	$–	$6,701,078
Financial liabilities:					
Accounts payable and accrued expenses:					
Trade payables	–	22,456,482	–	–	22,456,482
Accrued expenses *	–	1,735,705	–	–	1,735,705
Due to related parties	–	955,009	–	–	955,009
Accrued interest payable	–	876,208	–	–	876,208
Current portion of obligation under finance lease	–	–	674,071	–	674,071
Others	–	728,148	–	–	728,148
Current portion of long-term debt	–	2,669,853	–	–	2,669,853
Loans payable	–	–	22,123,310	–	22,123,310
Long-term debt	–	–	–	18,707,886	18,707,886
Noncurrent portion of obligation under finance lease	–	–	–	704,866	704,866
	–	29,421,405	22,797,381	19,412,752	71,631,538
	$6,701,078	($29,421,405)	($22,797,381)	($19,412,752)	($64,930,460)

**Excluding statutory payables*

Credit lines

The Group has credit lines with different financing institutions as at December 31, 2013 and 2012, as follows:

2013

Financial Institutions	**Credit Limit**	**Available Credit Line**
Local:		
EUR	**12,750,000**	**8,005,364**
Foreign:		
USD	**2,175,000**	**–**

2012

Financial Institutions	Credit Limit	Available Credit Line
Local:		
EUR	11,000,000	3,678,196
Foreign:		
USD	2,000,000	–

Credit Risk
Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's major credit risk exposure relates primarily to its holdings of cash and loans 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 as of December 31, 2013 and 2012 is the carrying amounts of the financial assets presented in Note 24. The Group's maximum exposure for cash excludes the carrying amount of cash on hand.

The Group has 60% of trade receivables relating to three (3) major customers as of December 31, 2013 and 2012.

As of December 31, 2013 and 2012, the aging analysis of loans and receivables follows:

2013

		Neither Past Due	**Past Due but not Impaired**					
	Total	**nor Impaired**	**<30 Days**	**30-60 Days**	**60-90 Days**	**90-120 Days**	**>120 Days**	**Specifically Impaired**
Trade	**$49,933,766**	**$43,684,192**	**$4,282,269**	**$796,241**	**$367,644**	**$560,876**	**$–**	**$242,544**
Nontrade	**1,123,920**	**1,123,920**	**–**	**–**	**–**	**–**	**–**	**–**
Due from related parties	**73,746**	**73,746**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**121,806**	**121,806**	**–**	**–**	**–**	**–**	**–**	**–**
	$51,253,238	**$45,003,664**	**$4,282,269**	**$796,241**	**$367,644**	**$560,876**	**$–**	**$242,544**

2012

		Neither Past Due	Past Due but not Impaired					
	Total	nor Impaired	<30 Days	30-60 Days	60-90 Days	90-120 Days	>120 Days	Specifically Impaired
Trade	$42,713,032	$37,192,914	$3,123,503	$921,105	$516,927	$187,328	$510,736	$260,519
Nontrade	1,146,748	1,146,748	–	–	–	–	–	–
Due from related parties	70,019	70,019	–	–	–	–	–	–
Others	93,724	93,724	–	–	–	–	–	–
	$44,023,523	$38,503,405	$3,123,503	$921,105	$516,927	$187,328	$510,736	$260,519

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2013 and 2012:

2013

	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	**Average Risk**	**Fairly High Risk**	**High Risk**	**Individually Impaired**	**Total**
Cash	**$6,467,179**	**$–**	**$–**	**$–**	**$–**	**$6,467,179**
Loans and receivables:						
Trade	**43,684,192**	**–**	**–**	**–**	**6,249,574**	**49,933,766**
Nontrade	**1,123,920**	**–**	**–**	**–**	**–**	**1,123,920**
Due from related parties	**73,746**	**–**	**–**	**–**	**–**	**73,746**
Others	**121,806**	**–**	**–**	**–**	**–**	**121,806**
	$51,470,843	**$–**	**$–**	**$–**	**$6,249,574**	**$57,720,417**

2012

	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	Average Risk	Fairly High Risk	High Risk	Individually Impaired	Total
Cash	$6,666,459	$–	$–	$–	$–	$6,666,459
Loans and receivables:						
Trade	37,192,914	–	–	–	5,520,118	42,713,032
Nontrade	1,146,748	–	–	–	–	1,146,748
Due from related parties	70,019	–	–	–	–	70,019
Others	93,724	–	–	–	–	93,724
	$45,169,864	$–	$–	$–	$5,520,118	$50,689,982

The Group classifies credit quality as follows:

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

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

Fairly High Risk - Credit could be extended under a confirmed and irrevocable Letters of Credit (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

Foreign currency risk arises when future commercial transactions and recognized financial assets and financial liabilities are denominated in a currency that is not the Group's functional currency. As there is no material exposure to foreign currency risk within the financial assets and financial liabilities outside of each operating site's functional currency, no sensitivity analysis has been prepared.

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.

No changes were made in the objectives, policies and processes during the years ended December 31, 2013 and 2012.

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 loans payable and long-term debt. Net debt is equivalent to the total bank borrowings less cash.

	2013	2012
Loans payable	**$25,896,190**	$21,760,072
Long-term debt	**812,419**	–
	26,708,609	21,760,072
Less cash	**6,486,321**	6,701,078
Net debt	**$20,222,288**	$15,058,994
Equity attributable to equity holders of the Parent Company	**$37,148,849**	$23,569,952
Debt to equity ratio	**0.72**	0.92
Net debt to equity ratio	**0.54**	0.64

26. 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.

27. Notes to Consolidated Statements of Cash Flows

The Group's noncash investing activities includes capitalization by the Group of production equipment under finance lease amounting to $3.03 million and $0.78 million in 2013 and 2012, respectively.