



108152014000617

**SECURITIES AND EXCHANGE COMMISSION**

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Barcode Page**The following document has been received:****Receiving Officer/Encoder** : Darwin San Jose**Receiving Branch** : SEC Head Office**Receipt Date and Time** : August 15, 2014 09:52:24 AM**Received From** : Head Office**Company Representative****Doc Source****Company Information**

SEC Registration No.	CS201102137
Company Name	CIRTEK HOLDINGS PHILIPPINES CORPORATION
Industry Classification	Financial Holding Company Activities
Company Type	Stock Corporation

Document Information

Document ID	108152014000617
Document Type	17-Q (FORM 11-Q: QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	June 30, 2014
No. of Days Late	0
Department	CFD
Remarks	

COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

Mr. Anthony Albert S. Buyawe

(Contact Person)

729-6205

(Company Telephone Number)

SEC Form 17Q

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Month Day
(Calendar Year)

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(Form Type)

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Month Day
(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

SEC

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

17

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 the registrant was required to file such reports)

Yes [☒] No [☐]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [☒] No [☐]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

Please see attached

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Please see attached

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer.:

Signature and Title

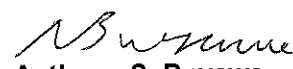

Anthony S. Buyawe

Compliance officer/Corporate Information Officer

Date: August 14 2014

Principal Financial/Accounting Officer/Controller:

Signature and Title.


Anthony S. Buyawe
Chief Financial Officer

Date: August 14, 2014

CIRTEK HOLDINGS PHILIPPINES CORPORATION

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CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 2014	December 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$4,975,866	\$7,023,747
Trade and other receivables	7,463,820	4,060,866
Inventories	6,725,074	7,534,619
Financial asset at fair value through profit or loss	8,055,039	8,055,039
Amounts owed by related parties	2,223,078	2,222,415
Other current assets	1,707,983	1,801,286
Total Current Assets	31,150,860	30,697,972
Noncurrent Assets		
Property, plant and equipment	15,897,390	15,783,581
Deferred income tax asset	83,754	83,754
Other noncurrent assets	651,269	687,748
Total Noncurrent Assets	16,632,413	16,555,083
TOTAL ASSETS	\$47,783,273	\$47,253,055
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables	\$4,322,137	\$4,383,654
Long-term debt - current portion and net of deferred financing costs	481,449	964,977
Short-term loan	262,500	200,000
Amounts owed to related parties	460,476	447,420
Dividends payable	600,000	-
Income tax payable	51,440	58,210
Derivative liability	102,090	102,090
Total Current Liabilities	6,280,092	6,156,351
Noncurrent Liabilities		
Long-term debt - net of current portion and deferred financing costs	8,684,679	8,684,679
Retirement benefit obligation	2,007,145	1,881,835
Total Noncurrent Liabilities	10,691,824	10,566,514
Total Liabilities	16,971,916	16,722,865
Equity		
Capital stock	6,559,066	6,559,066
Additional paid-in capital	4,733,511	4,733,511
Equity reserve	4,138,375	4,138,375
Other comprehensive income	(66,414)	(66,414)
Retained earnings	15,446,819	15,165,652
Total Equity	30,811,357	30,530,190
TOTAL LIABILITIES AND EQUITY	\$47,783,273	\$47,253,055

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Six Months Ended June 30		For the Three Months Ended June 30	
	2014	2013	2014	2013
NET SALES	\$22,818,274	\$22,027,299	\$11,634,878	\$11,577,549
COST OF SALES	(19,171,670)	(18,606,152)	(9,798,630)	(9,753,973)
GROSS PROFIT	3,646,604	3,421,147	1,836,248	1,823,576
OPERATING EXPENSES	(1,307,431)	(1,311,600)	(669,737)	(696,743)
FINANCIAL INCOME (EXPENSES)				
Interest income	11,052	38,841	2,979	11,711
Interest expense	(180,239)	(124,690)	(95,410)	(99,393)
	(169,187)	(85,849)	(92,431)	(87,682)
OTHER INCOME (CHARGES) - net	34,216	37,477	34,208	4,640
INCOME BEFORE INCOME TAX	2,204,202	2,061,175	1,108,288	1,043,791
PROVISION FOR INCOME TAX	123,025	(92,876)	51,440	35,367
NET INCOME	2,081,177	1,968,299	1,056,848	1,008,424
OTHER COMPREHENSIVE INCOME	-	-	-	-
TOTAL COMPREHENSIVE INCOME	2,081,177	1,968,299	1,056,848	1,008,424
Earnings Per Share				
Basic and diluted	\$0.0074	\$0.0074	\$0.0038	\$0.0036

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS JUNE 30, 2014 AND 2013

2014

	Capital Stock					Other				Total
	Undistributed		Additional Paid-in Capital	Equity Reserve	Comprehensive Income	Retained Earnings				
	Issued	Dividends					Stock			
Balances at December 31, 2013	\$6,559,066	\$-	\$4,733,511	\$4,138,375	(\$66,414)	\$15,165,642	\$30,530,180			
Net income for the year	-	-	-	-	-	2,081,177	2,081,177			
Other comprehensive income	-	-	-	-	-	-	-			
Total comprehensive income	-	-	-	-	-	2,081,177	2,081,177			
Cash dividends declared	-	-	-	-	-	(1,800,000)	(1,800,000)			
Balances at June 30, 2014	\$6,559,066	\$-	\$4,733,511	\$4,138,375	(\$66,414)	\$15,446,819	\$30,811,357			

2013

2013

	Capital Stock		Undistributed Stock Dividends	Additional Paid-in Capital	Equity Reserve	Other		Total
	Issued	Comprehensive Income				Retained Earnings		
Balances at December 31, 2012	\$4,460,896	\$950,847	\$4,733,511	\$4,138,375	\$-	\$13,416,525	\$27,700,154	
Net income for the year	-	-	-	-	-	1,968,299	1,968,299	
Other comprehensive income	-	-	-	-	-	-	-	
Total comprehensive income	-	-	-	-	-	1,968,299	1,968,299	
Issuance of shares for stock dividends	950,847	(950,847)	-	-	-	-	-	
Cash dividends declared	-	-	-	-	-	(1,119,937)	(1,119,937)	
Stocks dividends	-	1,147,323	-	-	-	(1,147,323)	-	
Balances at June 30, 2013	\$5,411,743	\$1,147,323	\$4,733,511	\$4,138,375	\$-	\$13,117,564	\$28,548,516	

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$2,204,202	\$2,061,175
Adjustments for:		
Depreciation and amortization	1,144,230	1,676,107
Net unrealized foreign exchange losses	111,731	(1,443)
Interest expense	180,239	124,690
Interest income	(11,052)	(37,022)
Mark-to-market loss on forward contracts	-	(2,211)
Operating income before working capital changes	3,629,350	3,821,296
Decrease (increase) in:		
Inventories	809,544	(704,541)
Trade and other receivables	(3,402,953)	(1,426,792)
Other current assets	92,637	(51,693)
Increase (decrease) in:		
Trade and other payables	(46,816)	1,517,717
Retirement benefit obligation	125,311	135,157
Net cash generated from operations	1,207,073	3,291,144
Interest received	11,052	37,022
Income taxes paid	(129,795)	(177,853)
Net cash flows from operating activities	1,088,330	3,150,313
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment	(1,258,040)	(2,133,068)
Increase in other noncurrent assets	36,470	169,107
Cash flows used in investing activities	(1,221,570)	(1,963,961)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of:		
Short-term loan	450,000	200,000
Payments of:		
Cash dividends	(1,200,000)	(1,706,552)
Long-term loan	(500,000)	-
Short-term loan	(387,500)	-
Interest (Note 14)	(178,467)	(180,380)
Net movement in amounts owed by and owed to related parties	13,056	14,354
Net cash flows from (used in) financing activities	(1,802,911)	(1,672,578)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,936,151)	(486,226)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(111,731)	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,023,748	13,110,963
CASH AND CASH EQUIVALENTS AT END OF FIRST QUARTER	\$4,975,866	\$12,624,737

CIRTEK HOLDINGS PHILIPPINES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Cirtek Holdings Philippines Corporation (CHPC or the Parent Company) was incorporated under the laws of the Republic of the Philippines on February 10, 2011 to invest in, purchase or acquire personal property of every kind, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities.

On March 1, 2011, the Parent Company acquired from Cirtek Holdings, Inc. (CHI) 155,511,952 common shares of Cirtek Electronics Corporation (CEC), and 50,000 shares of Cirtek Electronics International Corporation (CEIC), representing 100% of the outstanding capital stock of both companies.

The above transaction was treated as a business combination of entities under common control and was accounted for similar to pooling-of-interests method. Accordingly, all financial information for the periods prior to the effectivity of the combination were restated as if the Parent Company, CEC and CEIC (collectively referred to as "the Group") had always been combined but depending on whether these entities were under common control for the periods presented (see Note 4).

The Group is primarily engaged in the manufacture and sale of semiconductor packages as an independent subcontractor for outsourced semiconductor assembly, test and packaging services. CEC manufactures standard integrated circuits, discrete, hybrid and potential new packages and provides complete turnkey solutions that include wafer probing, wafer back grinding, assembly and packaging and final testing of semiconductor devices with majority of its client base located in United States of America (USA). CEIC sells integrated circuits principally in the USA and assigns the production of the same to CEC.

The Parent Company was listed with the Philippine Stock Exchange on November 18, 2011.

The Parent Company's registered address is 116 East Main Avenue Phase V-SEZ, Laguna Technopark, Biñan, Laguna, Philippines.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group are prepared on a historical cost basis except for derivative liability and financial asset at fair value through profit or loss (FVPL) which is carried at fair value. The consolidated financial statements are presented in United States (US) dollars (\$), which is also the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. All amounts are rounded off to the nearest US dollar except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including Philippine Interpretations from the International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council (FRSC).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at June 30, 2014 and 2013 (see Notes 1 and 4):

	Country of Incorporation	Percentage of Ownership
CEC	Philippines	100
CEIC	British Virgin Islands (BVI)	100

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 (i.e. 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
- The Group's voting rights and potential voting rights

The Group re-assesses 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 statements 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 and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and 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:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests

- 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 parent's share of components previously recognised 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 or liabilities

Common Control Business Combination

Business combinations involving entities under common control, which is scoped out of PFRS 3, *Business Combinations* are accounted for similar to pooling-of-interests method. Under the pooling-of-interests method:

- the assets and liabilities of the combining entities are reflected at their carrying amounts;
- no 'new' goodwill is recognized as a result of the combination;
- the income statement reflects the results of the combining entities for the full year, irrespective of when the combination took place; and
- comparatives are presented as if the entities had always been combined

The financial information in the consolidated financial statements for periods prior to the combination under common control are restated, to reflect the combination as if it had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the combination. However, financial information in the consolidated financial statements for periods prior to the combination is restated only for the period that the entities were under common control.

Changes in Accounting Policies and Disclosures

The Group applied, for the first time, certain standards and amendments that require restatement of previous consolidated financial statements. These include PAS 19, *Employee Benefits* (Revised 2011) and amendments to PAS 1, *Presentation of Financial Statements*.

Several other amendments apply for the first time in 2013.

The nature and the impact of each new standard and amendment are described below:

New and Amended Standards and Interpretations and Improved PFRS Adopted in Calendar Year 2013

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended standards and Philippine Interpretations from IFRIC and improved PFRS which the Group has adopted starting January 1, 2013. Unless otherwise indicated, the adoption did not have any significant impact on the consolidated financial statements of the Group.

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *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. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

- **PFRS 10, *Consolidated Financial Statements***

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 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.

- **PFRS 11, *Joint Arrangements***

PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities 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).

- **PFRS 13, *Fair Value Measurement***

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

- **PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)**

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) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance.

- PAS 19, *Employee Benefits* (Revised)

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. On January 1, 2013, the Group adopted the Revised PAS 19.

For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to 2013, actuarial gains and losses are measured using the 10% corridor approach wherein actuarial gains and losses are recognized in income when the net cumulative unrecognized actuarial gains and losses for the retirement plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets at that date. These gains and losses are recognized over the remaining estimated working lives of the employees participating in the plan

In 2013, the Group decided to change the policy in recognizing actuarial gains and losses such that all actuarial gains and losses during the year are recognized immediately in other comprehensive income as they occur. This change in accounting policy which is aligned with one of the requirements of Revised PAS 19 is accounted for retroactively, and accordingly, an additional consolidated statement of financial position as at January 1, 2012 is presented in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The following summarizes the effects of this accounting policy change:

	Balance as previously reported	Effect of change in accounting policy	Balance as restated
Personnel costs for the year ended 2011	\$7,739,764	(\$29,222)	\$7,710,542
Net income for the year ended 2011	3,968,828	3,224	3,972,052
Other comprehensive income for the year ended December 31, 2011	—	—	—
Other comprehensive loss as of Dec. 31, 2011	—	—	—
Retirement benefit obligation as of January 1, 2012	1,511,358	(33,895)	1,477,463
Retained earnings as of January 1, 2012	11,498,011	32,285	11,530,296
Other comprehensive loss as of January 1, 2012	—	—	—
Retirement benefit obligation as of December 31, 2012	1,829,542	177,050	2,006,592
Retained earnings as of December 31, 2012	13,416,523	29,553	13,446,076
Other comprehensive loss as of December 31, 2012	—	(198,193)	(198,193)
Personnel costs for the year ended 2012	7,989,788	2,395	7,992,183
Net income for the year ended December 31, 2012	4,409,897	2,732	4,407,165
Other comprehensive income for the year ended December 31, 2012	—	131,779	131,779

The adoption did not have material impact on consolidated statement of cash flows for the year ended December 31, 2012 and 2011.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
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, and associates in the separate financial statements.
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 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.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity.
- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)
The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans.

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.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
- 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 financial statements. An entity must include comparative information in the related notes to the 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 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 financial statements) are not required. As a

result, the Group has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- *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 does not have any significant impact on the Group's financial position or performance.
- *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 does not have any significant impact on the Group's financial position or performance.
- *PAS 34, Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2013

The Group will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new standards and interpretations to have any significant impact on the Group's consolidated financial statements.

Effective in 2014

- *PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36, *Impairment of Assets*. 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. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)*
These amendments are effective for annual periods beginning on or after January 1, 2014. They 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.

- *Philippine Interpretation IFRIC 21, Levies (IFRIC 21)*
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. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.
- *PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014.
- *PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015

- *Amendments to PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions*
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 re-measurements 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. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

Annual Improvements to PFRSs (2010-2012 cycle)

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

- *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.
- *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. The amendment has no significant impact on the Group's consolidated financial position or performance.

- 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. The amendment has no significant impact on the Group's consolidated financial position or performance.

- 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 relate 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 fair value through profit or loss. 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 fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, 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 non-financial 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.

- **Philippine Interpretation IFRIC 15, *Agreements for the 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 SEC and FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

Summary of Significant Accounting Policies

Fair value measurement

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 to 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.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 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 or 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 financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments

Financial assets

Initial recognition

Financial assets within the scope of PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and available-for-sale (AFS) financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognized initially at fair value plus, in the case of investments not at FVPL, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

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

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets 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 do not meet the hedge accounting criteria as defined by PAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in the balance sheets at fair value with gains or losses recognized in the statement of comprehensive income.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the statements of comprehensive income. 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.

As at June 30, 2014 and December 31, 2013, the Group carries a financial asset at FVPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of June 30, 2014 and December 31, 2013, the Group has designated as loans and receivables its cash and cash equivalents, trade and other receivables, amounts owed by related parties, and refundable deposits (reported as part of 'Other noncurrent assets' in the consolidated balance sheets).

HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Group has the positive intention and ability to hold it to maturity. After initial measurement HTM investments are measured at amortized cost using the effective interest rate method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognized in the statements of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process.

As of June 30, 2014 and December 31, 2013, the Group has no HTM investments.

AFS financial assets

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in the statements of comprehensive income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognized in the statements of comprehensive income.

As of June 30, 2014 and December 31, 2013, the Group has no AFS financial assets.

Financial Liabilities*Initial recognition*

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

Financial liabilities are recognized initially at fair value plus, in the case of investments not at FVPL, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amount owed to related parties, dividends payable, derivative liability,

Financial liabilities are classified in this category if these 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.

The Group's financial liabilities are bank loans, trade and other payables and amounts owed to related parties

Subsequent measurement

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

Financial liabilities at FVPL

Financial liabilities as at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at FVPL.

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 do not meet the hedge accounting criteria as defined by PAS 39.

Gains and losses on liabilities held for trading are recognized in the statements of comprehensive income.

As at June 30, 2014 and December 31, 2013, the Group's derivative liability is classified as a financial liability at FVPL. The Group does not have a financial liability held for trading and has not designated any financial liabilities as at FVPL.

Other financial liabilities

Other financial liabilities are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in the statements of comprehensive income when the liabilities are derecognized, as well as through the amortization process.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's-length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statements of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price

and model value is only recognized in the statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Amortized cost of financial instruments

Amortized cost is computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Classification of financial instruments between debt and equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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 of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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.

AFS financial assets

For AFS financial assets, 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, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss is removed from equity and recognized in the statements of comprehensive income. Impairment losses on equity investments are not reversed through the statements of comprehensive income; increases in their fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'interest income' in the statements of comprehensive income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of comprehensive income, the impairment loss is reversed through the statements of comprehensive income.

Derecognition of Financial Instruments

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- 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.

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

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

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price..

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

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 recognized in the statements of consolidated comprehensive income.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing each inventory to its present location and condition is accounted for as follows:

- | | |
|--|---|
| Raw materials, spare parts,
supplies and others | - purchase cost on a first-in, first-out basis (FIFO); |
| Finished goods and work-in-
process | - cost includes raw materials, direct labor and a portion of manufacturing overhead costs. Costs are determined on a standard cost basis. Standard costs take into account normal levels of materials and supplies, labor, efficiency, and capacity utilization. They are regularly reviewed and, if necessary, revised in light of current conditions. |

NRV of finished goods, work-in-process and raw materials 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. NRV of supplies and spare parts is the current replacement costs.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred and if the

recognition criteria are met. Repairs and maintenance are recognized in the consolidated statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line method over the estimated useful lives of the property, plant and equipment as follows:

Category	Number of Years
Machinery and equipment	6-12
Buildings and improvements	5-25
Facility and production tools	3-5
Furniture, fixtures and equipment	2-5
Transportation equipment	5-7

The property, plant and equipment's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

Construction-in-progress represents property under construction and is stated at cost. This includes costs of construction and other direct costs. Construction-in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective 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.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is charged against income in the year in which the expenditure is incurred.

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

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income.

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

Research and Development Costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- its intention to complete and its ability to use or sell the asset
- how the asset will generate future economic benefits
- the availability of resources to complete the asset
- the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. The Group has designated as nonfinancial assets its prepaid expenses and other current assets, property and equipment and other noncurrent assets. If any such indication exists, or when annual impairment testing for a nonfinancial asset is required, the Group makes an estimate of the nonfinancial asset's recoverable amount. A nonfinancial asset's estimated recoverable amount is the higher of a nonfinancial asset's or cash-generating unit's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the nonfinancial asset does not generate cash inflows that are largely independent of those from other nonfinancial assets or groups of nonfinancial assets. Where the carrying amount of a nonfinancial asset exceeds its estimated recoverable amount, the nonfinancial asset is considered impaired and is written down to its estimated recoverable amount. In assessing VIU, 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 nonfinancial asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the nonfinancial asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the nonfinancial asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the nonfinancial asset in prior years. Such reversal is recognized in the consolidated statements of comprehensive income.

Capital Stock

Capital stock is measured at par value for all shares issued. Subscriptions receivable are accounted for as a deduction from equity.

Retained Earnings

The amount included in retained earnings includes profit or loss attributable to the Group's equity holders and reduced by dividends on capital stock. Retained earnings may also include effect of changes in accounting policies as may be required by the standards' transitional provisions.

Cash dividends

Cash dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the BOD. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date.

Stock dividends

Stock dividends are recognized as a liability and deducted from equity when they are approved by the shareholders representing not less than two-thirds (2/3) of the outstanding capital stock of the Parent Company. A stock dividend of at least 20% of the outstanding capital stock is considered as large stock dividend and is measured at par value. A stock dividend of less than 20% is considered small stock dividend and is measured at fair value.

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 and excluding discounts, returns, rebates and other sales taxes or duties. The Group assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest income

Interest income is recognized as it accrues using the effective interest rate method. (i.e., the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Operating expenses

Operating expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Operating expenses are recognized when incurred.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfillment of the arrangements is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the 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 and extension granted, unless the 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.

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

Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Retirement Benefit Costs

The Group is covered by a noncontributory defined benefit retirement plan. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit 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.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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 net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statements of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

Foreign Currency Transactions

The consolidated financial statements are presented in US dollars, which is the functional and presentation currency of all companies in the Group. Transactions in foreign currencies are initially recorded at the functional currency spot 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 the consolidated statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Taxes

Current income tax

Current income tax liabilities for the current and prior periods are measured at the amount expected to be paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the financial reporting date.

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income 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 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 income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits from excess minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be

available against which the deductible temporary differences, and the carryforward of unused tax credits from MCIT and unused NOLCO can be utilized, except:

- where the deferred income 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 and interests in joint ventures, deferred income tax assets are recognized 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 utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date 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 income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Income tax relating to items recognized directly in equity is recognized in the statement of changes in equity and not in the consolidated statement of comprehensive income.

Earnings Per Share (EPS)

Basic EPS is calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year, with retroactive adjustments for any stock dividends and stock split.

For the purpose of calculating diluted earnings per share, the net income and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and 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. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statements of comprehensive income, net of any reimbursement. 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 current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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

Events After the Reporting Date

Post year-end events that provide additional information about the Group's position at the financial reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

Segment Reporting

For management purposes, the Group has determined that it is operating as one operating segment. Sales are reported internally per division, however, profit or loss, assets and liabilities are reported on an entity-wide basis. These information are measured using the same accounting policies and estimates as the Group's consolidated financial statements (see Note 23).

3. Significant Accounting Judgments and Estimates

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. 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.

Judgments

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

Determining functional currency

Based on the economic substance of the underlying circumstances relevant to the companies in the Group, the functional currency of all companies in the Group has been determined to be the US dollar. The US dollar is the currency of the primary economic environment in which the companies in the Group operate and it is the currency that mainly influences the operating activities of all companies in the Group.

Recognition of deferred tax liability on a subsidiary's undistributed profits

CEIC has an undistributed profit as of June 30, 2014 and December 31, 2013 that becomes taxable when distributed to the Parent Company. PAS 12, *Income Taxes*, requires the recognition of deferred tax liability on taxable temporary difference associated with investments in subsidiaries and interests in joint ventures, unless the Group has the ability to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group has made a judgment that it is probable that the temporary difference will not reverse in the foreseeable future based on management's plan that the Group will not be declaring dividends from CEIC in the foreseeable future.

Operating lease commitments - Group as lessee

The Group has entered into leases of its office and commercial spaces. The Group has determined that it does not acquire all the significant risks and rewards of ownership of these properties which are leased as operating leases (see Note 9).

Estimation Uncertainty

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.

Estimating useful lives of property, plant and equipment

The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical

evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation expense and decrease noncurrent assets.

Depreciation charged in the consolidated statement of comprehensive income amounted to \$1,144,230 and \$2,309,774 in June 30, 2014 and December 31, 2013, respectively. As of June 30, 2014 and December 31, 2013, the Group's property, plant and equipment have a net book value of \$15,897,390 and \$15,783,581, respectively (see Note 10).

Assessing impairment of nonfinancial assets

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its estimated recoverable amount which is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	June 2014	December 2013
Advances to suppliers, prepaid expense and others under other current assets (see Note 9)	\$434,426	\$598,944
Property, plant and equipment (see Note 10)	15,897,390	15,783,581
Product development cost, advances to suppliers included under other noncurrent assets (see Note 11)	651,269	513,405

No impairment loss was recognized as of June 30, 2014 and December 31, 2013.

Estimating allowance for inventory obsolescence

The Group recognizes allowance for inventory obsolescence when the inventory items are no longer marketable and diminishes in value. Obsolescence is based on the physical and internal condition of inventory items. The Group reviews on a monthly basis the condition of its stocks. The assessment of the condition of the inventory goods either increase or decrease the expenses or total inventory.

The estimated allowance for inventory obsolescence is \$96,885 as of June 30, 2014 and December 31, 2013. The carrying amounts of inventories, net of allowance for inventory obsolescence, amounted to \$6,725,074 and \$7,534,619 as of June 30, 2014 and December 31, 2013, respectively (see Note 7).

Estimating impairment of loans and receivables

The Group maintains allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this impairment allowance is evaluated by the management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors, their payment behavior and known market factors. The Group reviews the age and status of receivable, and identifies accounts that are to be provided with allowance on a continuous basis either individually or collectively. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment would increase the Group's recorded expenses and decrease current assets.

The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing the impairment is the inability to collect from the counterparty based on the contractual terms of the receivables.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is not yet objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectability.

In June 30, 2014 and December 31, 2013, the Group has not provided any impairment allowance since receivables were assessed to be fully collectible. The carrying amount of trade and other receivables, loans to employees and amounts owed by related parties amounted to \$9,820,802 and \$6,417,353 as of June 30, 2014 and December 31, 2013, respectively (see Notes 6 and 15).

Estimating retirement benefit cost

The determination of the obligation for retirement benefits is dependent on the selection by management of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 19 and include among others, discount rate and salary increase rate. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While management believes that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement obligation.

The Group's retirement benefit cost amounted to \$125,310 and \$135,157 for the six months ended June 30, 2014 and June 30, 2013, respectively. As of June 30, 2014 and December 31, 2013, the Group's retirement benefit obligation amounted to \$2,007,145 and \$1,881,835, respectively (see Note 19).

Estimating useful life of software costs and capitalized product development cost

The estimated useful lives of amortizing software costs and capitalized product development cost were determined on the basis of management's assessment of the period within which the benefits of these costs are expected to be realized by the Group.

As of June 30, 2014 and December 31, 2013, the software costs have been fully amortized (see Note 10). The carrying of capitalized development cost amounted to \$433,495 and \$469,965 as of June 30, 2014 and December 31, 2013.

Recoverability of deferred income tax assets

The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date

and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The Group has unrecognized net deferred income tax assets amounting to \$439,219 and \$439,219 as of June 30, 2014 and December 31, 2013, respectively.

Legal contingencies

The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon analysis of potential claims.

Management, in consultation with these counsels, believes that the likely outcome of these legal proceedings will not have a material adverse effect on the Group's financial position and operating results. However, it is possible that the future results of operations could be materially affected on changes in estimates or in the effectiveness of the strategies relating to these litigations and claims. No provision for probable losses arising from legal contingencies was recognized in 2013 and 2012 (see Note 27).

4. Common Control Business Combination

As discussed in Note 1, the Parent Company acquired 100% ownership in CEC and CEIC from CHI on March 1, 2011. The acquisition was accounted for by the Parent Company similar to pooling-of-interests method. Accordingly, all financial information for the periods prior to the effectivity of the combination were restated as if the entities had always been combined but depending on whether these entities were under common control for the periods presented. In applying the pooling-of-interests method, the combined capital of CEC and CEIC represents the total paid up capital of the Group for periods prior to the business combination. However, for purposes of calculating earnings per share, the number of the Parent Company's issued common shares is used for all periods presented (see Note 22).

With the acquisition of CEC and CEIC by the Parent Company in 2011, the paid-up capital of the Group represents the paid-up capital of the Parent Company. The equity reserve recognized in the consolidated statement of changes in equity represents the difference between the total consideration for the acquisition of CEC and CEIC and the combined paid-up capital of CEC and CEIC as shown below:

	CEC	CEIC	Total
Purchase consideration			
Cash	\$1,377,252	\$1,377,253	\$2,754,505
Balance payable to CHI (see Note 15)	1,606,794	1,606,795	3,213,589
Total	2,984,046	2,984,048	5,968,094
Net carrying value of capital of acquired subsidiaries	10,056,469	50,000	10,106,469
Equity reserve	(\$7,072,423)	\$2,934,048	(\$4,138,375)

5. Cash and Cash Equivalents

	June 2014	December 2013
Cash on hand and in banks	\$4,972,423	\$7,020,304
Short-term deposits	3,443	3,443
	<u>\$4,975,866</u>	<u>\$7,023,747</u>

Cash in banks earns interest at prevailing bank deposit rates. Short-term deposits are made for varying periods of between one (1) day and three (3) months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Interest income earned from cash in banks and short-term deposits amounted to \$11,052 and \$118,370 in June 30, 2014 and December 31, 2013, respectively.

6. Trade and Other Receivables

	June 2014	December 2013
Trade	\$7,439,113	\$4,054,523
Others (see Notes 9 and 10)	24,707	6,343
	<u>\$7,463,820</u>	<u>\$4,060,866</u>

Trade receivables are non-interest bearing and are generally on 30-60 days' terms.

Others include accrued interest receivable from short-term deposits and nontrade receivable from suppliers which are expected to be collected within one year.

7. Inventories

	June 2014	December 2013
At Cost:		
Raw materials	\$2,134,625	\$2,241,400
Finished goods	452,590	1,182,590
Work in process	3,115,904	3,115,904
Spare parts	709,611	670,508
	<u>6,412,730</u>	<u>7,210,402</u>
At NRV:		
Supplies and others	312,344	324,217
Total inventories at lower of cost and NRV	<u>\$6,725,074</u>	<u>\$7,534,619</u>

Certain inventories have been provided with allowance to reflect valuation for non-movement and obsolescence.

The cost of supplies and other inventories amounted to \$409,229 and \$421,102, respectively.

The movements in the allowance for inventory obsolescence are as follows:

	June 2014	December 2013
Allowance, beginning	\$96,885	\$96,885
Addition (see Note 17)	—	—
Allowance, ending	<u>\$96,885</u>	<u>\$96,885</u>

The cost of inventories recognized as cost of sales amounted to \$12,507,768 and \$22,954,231 in June 30, 2014 and December 31, 2013, respectively (see Note 16).

8. Financial Asset at Fair Value through Profit or Loss

This account primarily consists of investment in Unit Investment Trust Fund, which is designated as at FVPL on initial recognition, acquired by the Company in 2013. The reconciliation of the carrying amounts of financial assets at FVPL as of June 30, 2014 and December 31, 2013 as follows:

	June 2014	December 2013
Initial investment	\$8,021,567	\$8,021,567
Additions during the year	—	—
Fair value gains (see Note 20)	33,472	33,472
Balance at end of year	\$8,055,039	\$8,055,039

All amounts have been determined directly by reference to published prices quoted in an active market.

9. Other Current Assets

	June 2014	December 2013
Rental deposit (see Note 15)	\$1,131,399	\$1,131,399
Advances to suppliers	261,177	235,709
Loans to employees	133,233	134,072
Prepaid expenses	154,116	258,051
Others	28,058	42,055
	\$1,707,983	\$1,801,286

Advances to suppliers pertain mainly to down payments for production materials that are still to be delivered.

10. Property, Plant and Equipment

June 30, 2014

	Machinery and Equipment	Buildings and Improvements	Facility and Production Tools	Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost:						
Beginning balances	\$36,453,977	\$5,649,376	\$5,489,442	\$826,271	\$86,204	\$48,505,270
Additions	948,500	—	301,465	8,075	—	1,258,040
Disposals	—	—	—	—	—	—
Ending balances	37,402,477	5,649,376	5,790,907	834,346	86,204	49,763,310
Accumulated						
Depreciation:						
Beginning balances	24,886,622	3,717,818	3,314,529	734,614	68,107	32,721,690
Depreciation	673,888	117,131	316,310	34,433	2,468	1,144,230
Disposals	—	—	—	—	—	—
Ending balances	25,560,510	3,834,949	3,630,839	769,047	70,575	33,865,920
Net Book Values	\$11,841,967	\$1,814,427	\$2,160,068	\$65,299	\$15,629	\$15,897,390

December 31, 2013

	Machinery and Equipment	Buildings and Improvements	Facility and Production Tools	Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost:						
Beginning balances	\$33,987,777	\$5,649,376	\$4,538,972	\$768,769	\$86,204	\$45,031,098
Additions	2,466,200	—	950,470	57,502	—	3,474,172
Disposals	—	—	—	—	—	—
Ending balances	36,453,977	5,649,376	5,489,442	826,271	86,204	48,505,270
Accumulated						
Depreciation:						
Beginning balances	23,617,503	3,475,650	2,591,241	664,349	63,172	30,411,915
Depreciation	1,269,119	242,168	723,288	70,264	4,935	2,309,774
Disposals	—	—	—	—	—	—
Ending balances	24,886,622	3,717,818	3,314,529	734,613	68,107	32,721,689
Net Book Values	\$11,567,355	\$1,931,558	\$2,174,913	\$91,658	\$18,097	\$15,783,581

There are no restrictions on title and no property, plant and equipment are pledged as security for liabilities.

11. Other Noncurrent Assets

	June 2014	December 2013
Product development costs	\$433,495	\$469,965
Miscellaneous deposits	168,767	168,776
Advances to suppliers	43,440	43,440
Other long-term receivable	5,567	5,567
	\$651,269	\$687,748

Miscellaneous deposits pertain to refundable deposits with MERALCO for the installation of CEC's electrical meters and bill deposit equivalent to one month energy consumption.

As of June 30, 2014 and December 31, 20, CEC has software costs with gross carrying amount of \$39,278 that are fully amortized but are still in active use.

Product development costs pertain to the capitalized cost of developing certain packages or products for specific customers. The development costs met the requirements of PAS 38, *Intangible Assets*, for capitalization. As of June 30, 2014, amortization of product development cost was charged to the consolidated statements of comprehensive income for the development costs incurred in 2013 and 2012 as these are substantially available for use.

12. Trade and Other Payables

	June 2014	December 2013
Trade	\$3,146,157	\$3,487,478
Accruals:		
Utilities	227,056	416,540
Payroll	614,020	56,554
Interest	55,500	70,200
Others	89,019	42,072
Advances from customers	141,985	153,544
Others	48,400	157,266
	\$4,322,137	\$4,383,654

Trade payables are non-interest bearing and are generally on 60-90 days terms.

Accruals comprise mainly of accruals for electricity, water, communication, security, shuttle services and professional services.

Advances from customers pertain mainly to down payments for sales orders.

Other payables pertain to statutory liabilities and are generally payable within 12 months from balance sheet date.

13. Short-term loan

In 2014, CEC obtained a 180-day loan from Chinatrust (Phils.) Commercial Bank Corporation amounting to \$200,000 with a 2.60% interest per annum, and 182-day loan from Security Bank amounting to \$250,000 with a 2.125% interest per annum.

In 2013, CEC obtained a 180-day loan from Chinatrust (Phils.) Commercial Bank Corporation amounting to \$200,000 with a 2.28% interest per annum.

14. Long-term debt

	June 2014	December 2013
5-year corporate note-secured	\$8,684,679	\$9,750,000
Less deferred financing costs	-	100,344
	8,684,679	9,649,656
Less current portion - net of deferred financing costs	-	964,977
	\$8,684,679	\$8,684,679

On July 25, 2012, the Parent Company entered into a \$10.0 million Notes Facility Agreement (NFA) with Metropolitan Bank & Trust Company (Initial Noteholder), Metropolitan Bank & Trust Company - Trust Banking Group (Facility and Paying Agent) and First Metro Investment Corporation (Arranger). The Notes Facility Agreement provided for the issuance of 5-year fixed rate corporate note which bears interest of 3.6% per annum payable quarterly. On July 27, 2012 (issue date), the Parent Company drew \$10.0 million from the facility. The net proceeds of the issuance of the Notes shall be used to finance the Group's strategic acquisitions and for general corporate purposes.

Under the NFA, the Parent Company shall pay 30% of the loan outstanding on issue date in 12 equal consecutive quarterly installments in the amount equivalent to 2.5% of loan outstanding on issue date commencing on the end of the 5th quarter until end of the 16th quarter from the issue date. The remaining 70% of the loan outstanding on issue date is payable in 4 equal consecutive quarterly installments in the amount equivalent to 17.5% of the loan outstanding on issue date commencing on the 17th quarter from the issue date until the maturity date.

Prior to the maturity date, the Parent Company may redeem in whole but not in part, the relevant outstanding notes beginning on and after the third anniversary of the issue date, by paying the amount that is equivalent to 102% of the unpaid principal amount together with any and all accrued interest up to the date of prepayment.

In accordance with the NFA, the following ratios based on consolidated financial statements of the Group are required to be maintained:

- debt to equity ratio shall not at any time exceed 2:1
- debt service coverage ratio shall not exceed 1.5
- current ratio shall not at any time be less than 1:1, provided however, this ratio shall not apply after the fourth anniversary of the issue date.

The Group is in compliance with the debt covenants as of March 31, 2014 and December 31, 2013.

Total interest expense charged to the consolidated statement of comprehensive income amounted to \$180,239 and \$403,450 in June 30, 2014 and December 31, 2013, respectively.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by \$100,344 and \$100,344 as of June 30, 2014 and December 31, 2013, respectively.

15. Related Party Disclosures

Parties are considered to be related if one party has the ability to control, directly or indirectly, 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. Related parties may be individuals or corporate entities.

In the normal course of business, the Group has entered into transactions with affiliates. The significant transactions consist of the following:

- Advances for operating requirements of Cirtek Holdings, Inc. (CHI), former parent of CEC and CEIC
- Rental of land and lease deposit with Cirtek Land Corporation (CLC), an affiliate, where the manufacturing building 1 and administrative building is situated.
- Payments and /or reimbursements of expenses made or in behalf of the affiliates.
- Rental of land with Cayon Holdings, Inc. (Cayon), an affiliate, where the building 2 of the Group is situated.

The consolidated balance sheets and consolidated statements of income include the following significant account balances resulting from the above transactions with related parties:

a. Expenses

a. Expenses		Amount		Amounts owed to related parties		Terms	Conditions
		Nature of Transactions	June 2014	2013	June 2014		
<i>Other related parties</i>							
CLC	Rental	\$6,841	(\$18,585)	\$416,890	\$410,049	Due and demandable; non-interest bearing	Unsecured
Cayon	Rental	6,215	10,428	43,586	37,371	Due and demandable; non-interest bearing	Unsecured
		\$13,056	(\$8,157)	\$460,476	\$447,420		

b. Amounts owed by related parties

	Nature of Transactions	Volume	Outstanding Balances		Terms	Conditions	
		June 2014	2013	June 2014			2013
<i>Other related parties</i>							
CHI	Advances for working capital	\$–	\$–	\$1,809,256	\$1,809,256	Due and demandable; non-interest bearing	Unsecured; no impairment
Cayon	Reimbursement of expenses	–	–	206,284	206,284	Due and demandable; non-interest bearing	Unsecured; no impairment
Camerton, Inc.	Reimbursement of expenses	–	–	33,161	33,161	Due and demandable; non-interest bearing	Unsecured; no impairment
Jerry Liu	Reimbursement of expenses	663	–	174,377	173,714	Due and demandable; non-interest bearing	Unsecured; no impairment
		\$663	\$–	\$2,223,078	\$2,222,415		

c. Rental deposit

	Amount		Outstanding Balances (see Note 9)		Terms	Conditions
	June 2014	2013	June 2014	2013		
<i>Other related party</i>						
CLC	\$—	\$—	\$1,131,399	\$1,131,399	Due and demandable; non- interest bearing	Unsecured; no impairment

The above related parties are under common ultimate ownership with the Group.

In 2011, the Group entered into the following assignments and set-off agreements with the related parties as part of its corporate restructuring:

Transactions with CHI, Charmview Enterprises Ltd (CEL) and officer

The amount owed by an officer amounting to \$7.7 million as of December 31, 2010 was transferred in 2011 to CEL, the former ultimate parent of CEC and CEIC. CEL now owns 40% interest in Camerton, the parent of the Parent Company.

The amounts owed by and to CHI as of December 31, 2010 represent advances for working capital lines in the normal course of business when CEC and CEIC were then still subsidiaries of CHI.

For purposes of settling outstanding balances with the Group and as part of corporate restructuring in preparation for the planned Initial Public Offering (IPO) of the Parent Company, on March 17, 2011:

- CHI, CEL and the officer, with the consent of the Group, entered into assignment agreements whereby CHI absorbed the amounts owed by CEL and by the officer as of March 17, 2011 amounting to \$7.7 million and \$0.8 million, respectively.
- The Group, with the consent of the related parties, entered into assignment agreements whereby the Parent Company absorbed the amount owed by CEIC to CHI totaling \$3.6 million representing unpaid advances of \$2.3 million and dividends of \$1.3 million (see Note 26) as of March 17, 2011.

Thereafter, on March 18, 2011, the Parent Company and CHI, in view of being creditors and debtors to each other as a result of the assignment agreements above, entered into a set-off agreement for the value of the Group's liability aggregating \$6.8 million. The amount represents the above mentioned total liability of \$3.6 million and the balance outstanding from the Parent Company's purchase of CEC and CEIC amounting to \$3.2 million (see Note 4), as revalued from the effect of foreign exchange rate.

The amount owed by CHI as of June 30, 2013 and December 31, 2013 pertains to the remaining balance of receivable as a result of the assignments and set-off agreements as discussed above.

Transactions with Camerton

Camerton is the majority shareholder of the Parent Company holding 60% interest. Amounts owed by Camerton as of June 30, 2013 and December 31, 2013 pertain mainly to advances for incorporation expenses of Camerton.

Transactions with CLC and Cayon

CLC is an entity under common ownership with the ultimate parent. CEC had a lease agreement on the land where its manufacturing plant (Building 1) is located with CLC for a period of 50 years starting January 1, 1999. The lease was renewable for another 25 years at the option of CEC. The lease agreement provided for an annual rental of \$151,682, subject to periodic adjustments upon mutual agreement of both parties.

On January 1, 2005, CEC terminated the lease agreement with CLC but has continued to occupy the said land for no consideration with CLC's consent. With the termination of the lease agreement, the Group has classified the rental deposit amounting to \$1.1 million as current asset as the deposit has become due and demandable anytime from CLC (see Note 9).

On January 1, 2011, CEC entered into an agreement with CLC to lease the land where CEC's Building 1 is located. The agreement calls for a ₱640,704 rent per annum for a period of ten (10) years and renewable thereafter by mutual agreement of the parties subject to such new terms and conditions as they may then be mutually agreed-upon. Total rent expense charged to operations amounted to \$7,200 and \$7,767 for the six months ended June 30, 2014 and June 30, 2013, respectively.

CEC also entered into an agreement with Cayon starting January 1, 2011 to lease the land where CEC's Building 2 is located. The agreement calls for an annual rental of ₱582,144 for a period of ten (10) years and renewable thereafter. Total rent expense charged to operations amounted to \$6,543 and \$7,057 for the six months ended June 30, 2014 and June 30, 2013, respectively.

The short-term compensation of key management personnel of the Group are as follows:

	June 2014	June 2013
Salaries and wages	\$379,848	\$272,630
Employee benefits	52,384	26,622
	\$432,232	\$299,252

16. Cost of Sales

	June 2014	June 2013
Raw materials, spare parts, supplies and other inventories used (see Note 7)	\$12,507,768	\$10,894,078
Salaries, wages and employees' benefits (see Notes 16 and 17)	3,474,435	3,798,559
Utilities	1,623,145	1,702,957
Depreciation and amortization (see Note 10)	1,119,860	1,646,677
Change in finished goods and work in process inventories (see Note 7)	—	—
Inward freight and duties	277,563	362,306
Others	168,899	201,575
	\$19,171,670	\$18,606,152

17. Operating expense

	June 2014	June 2013
Salaries, wages and employees' benefits (see Notes 16 and 17)	\$609,371	\$520,329
Utilities	149,956	145,500
Transportation and travel	115,332	133,270
Professional fees	23,856	92,309
Entertainment, amusement and recreation	72,444	103,274
Commissions	98,598	101,489
Depreciation (see Note 10)	24,370	29,430
Taxes and licenses	17,753	40,236
Office supplies	7,493	9,582
Insurance premiums	122,043	72,970
Others	66,215	63,211
	\$1,307,431	\$1,311,600

18. Salaries, Wages and Employees' Benefits

	June 2014	June 2013
Salaries and wages	\$3,406,286	\$3,606,850
Other employees' benefits	552,210	576,881
Retirement costs	125,310	135,157
	\$4,083,806	\$4,318,888

19. Retirement Benefit Obligation

The Group has a funded, noncontributory defined benefit retirement plan which covers all of its regular employees. The benefits are based on years of service and compensation on the last year of employment.

20. Other Income (Charges)

	June 2014	June 2013
Sale of scrap	\$176,438	\$73,318
Mark-to-market losses	—	2,211
Foreign exchange losses - net	(111,731)	(37,888)
Others - net	(30,491)	(164)
	\$34,216	\$37,477

21. Income Taxes

On March 24, 1998, the Philippine Economic Zone Authority (PEZA) approved CEC's registration as an ecozone export enterprise at the Laguna Technopark for the manufacture of standard integrated circuits, discrete, hybrid and potential new packages.

Beginning October 30, 2002, the manufacture and export of integrated circuits, discrete and hybrid transferred to PEZA from Board of Investments (where originally registered) and became subject to the 5% gross income tax incentive, as defined under Republic Act (R.A.) No. 7916, the law creating the PEZA.

Details of provision for (benefit from) income tax are as follows:

	For the six months ended June 30	
	2014	2013
Current	\$123,025	\$92,876
Deferred	—	—
	\$123,025	\$92,876

The provision for current income tax for the six months ended June 30, 2014 and June 30, 2013 pertains to the special rate of 5% on taxable gross income of CEC.

22. Earnings Per Share (EPS)

The following table presents information necessary to calculate EPS on net income.

	June 2014	June 2013
Net income	\$2,081,177	\$1,968,299
Weighted average number of common shares outstanding	280,217,654	264,650,008
Basic and diluted EPS	\$0.0074	\$0.0074

As of June 30, 2014 and 2013, the Parent Company has no dilutive potential common shares.

The weighted average number of common shares outstanding used in the calculation of the EPS, including 2011, is based on the outstanding shares of the Parent Company (see Note 4). The additional shares from stock dividends during the year, including the unissued stock dividends and stock dividends declared after the reporting period but before the approval of the financial statements, were reflected in the calculation of the EPS as if these shares have been issued in all earlier period presented. Thus, EPS for the years 2012 and 2011 were restated.

23. Operating Segment

The Group has determined that it is operating as one operating segment. Based on management's assessment, no part or component of the business of the Group meets the qualifications of an operating segment as defined by PFRS 8. More specifically:

- There is no significant or obvious distinction among the products assembled by the Group. All products are semiconductor packages that go into electronic products and applications. The assembly process is likewise similar;
- The Group's production facility and head office is located in the Philippines;
- Although production of goods is divided into six divisions, the commercial, technical, operating, marketing and selling matters are made at the executive committee level and not at the division levels. The role of the respective division managers is to ensure that production is on track in meeting its volume forecasts, and that quality standards are consistently met.

Sales are reported internally per division, but profit or loss, assets and liabilities are reported on an entity-wide basis. These information are measured using the same accounting policies and estimates as the Group's consolidated financial statements.

Sales from external customers per division as reported internally are as follows (amounts in thousands):

	For the six months ended June 30		For the three months ended June 30	
	June 2014	June 2013	June 2014	June 2013
Discrete	\$5,529	\$5,458	\$2,771	\$3,013
Multichip	5,883	4,592	2,759	2,223
Integrated Circuits (IC)	5,678	5,401	3,090	3,002
New Products	2,679	3,440	1,452	1,806
Quad-Flat No-Leads (QFN)	2,082	2,417	1,032	1,141
Hermetics	967	719	531	393
	\$22,818	\$22,027	\$11,635	\$11,578

Below are customers contributing to at least 10% of the Group's total sales of each year. Sales to these customers are as follows (amounts in thousands):

	For the six months ended June 30		For the three months ended June 30	
	June 2014	June 2013	June 2014	June 2013
Major Customer A	\$8,044	\$5,605	\$4,260	\$3,169
Major Customer B	2,308	3,077	1,237	1,516
Major Customer C	—	—	—	—

The Group's customers are located in various countries, with the bulk of revenues contributed by customers located in Europe and the USA. Following shows the revenue distribution of customers by revenue contribution (amounts in thousands):

	For the six months ended June 30		For the three months ended June 30	
	June 2014	June 2013	June 2014	June 2013
Europe	\$11,552	\$10,108	\$5,962	\$5,491
USA	6,769	7,773	3,326	3,921
Asia	4,497	4,146	2,347	2,166
	\$22,818	\$22,027	\$11,635	\$11,578

There are no sales made to entities under common control with the Group.

24. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash and cash equivalents, short term loans and long-term debt. The main purpose of these financial instruments is to support the Group's operation. The Group has various other financial instruments such as trade and other receivables, amounts owed by related parties, rental deposits and loans to employees (presented as part of other current assets, miscellaneous deposits (presented under other noncurrent assets), trade and other payables, amounts owed to related parties, dividends payable and derivative liability which generally arise directly from its operations.

Risk Management Structure

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

The main risks arising from the financial instruments of the Group are credit risk, liquidity risk and foreign currency risk. The Group's management reviews and approves policies for managing each of these risks and they are summarized below.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties failed to discharge their contractual obligations.

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that 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 table below shows the maximum exposure to credit risk of the Group's financial assets. The maximum exposure is shown net of impairment losses, if any:

	June 2014	December 31, 2013
Cash and cash equivalents (excluding cash on hand)	\$4,975,765	\$7,023,647
Trade and other receivables	7,463,820	4,060,866
Financial assets at FVPL	8,055,039	8,055,039
Amounts owed by related parties	2,223,078	2,222,415

(Forward)

	June 2014	December 31, 2013
Other current assets		
Rental deposit	\$1,131,399	\$1,131,399
Loans to employees	133,233	134,072
Other noncurrent assets		
Miscellaneous deposits	168,767	168,776
Total credit risk exposure	\$24,151,101	\$22,796,214

The aging analyses per class of financial assets that are past due but not yet impaired are as follows:

June 30, 2014

	Neither Past Due nor Impaired	Past Due but not Impaired				Impaired Financial Assets	Total
		< 30 days	30 - 60 days	60 - 90 days	> 90 days		
Cash and cash equivalents (excluding cash on hand)	\$4,975,765	\$-	\$-	\$-	\$-	\$-	\$4,975,765
Trade and other receivables	6,284,980	840,899	306,713	1,232	29,996	-	7,463,820
Financial Assets at FVPL	8,055,039	-	-	-	-	-	8,055,039
Amounts owed by related parties	-	-	-	-	2,223,078	-	2,223,078
Other current assets							
Rental deposit	-	-	-	-	1,131,399	-	1,131,399
Loans to employees	-	-	-	-	133,233	-	133,233
Other noncurrent assets							
Miscellaneous deposits	168,767	-	-	-	-	-	168,767
	\$19,484,551	\$840,899	\$306,713	\$1,232	\$3,517,706	\$-	\$24,151,101

December 31, 2013

	Neither Past Due nor Impaired	Past Due but not Impaired				Impaired Financial Assets	Total
		< 30 days	30 - 60 days	60 - 90 days	> 90 days		
Cash and cash equivalents (excluding cash on hand)	\$7,023,647	\$-	\$-	\$-	\$-	\$-	\$7,023,647
Trade and other receivables	3,168,356	775,341	87,894	2,500	26,775	-	4,060,866
Financial Assets at FVPL	8,055,039	-	-	-	-	-	8,055,039
Amounts owed by related parties	-	-	-	-	2,222,415	-	2,222,415
Other current assets							
Rental deposit	-	-	-	-	1,131,399	-	1,131,399
Loans to employees	-	-	-	-	134,072	-	134,072
Other noncurrent assets							
Miscellaneous deposits	168,776	-	-	-	-	-	168,776
	\$18,415,818	\$775,341	\$87,894	\$2,500	\$3,514,661	\$-	\$22,796,214

The tables below summarize the credit quality per class of the Group's financial assets that are neither past due nor impaired:

June 30, 2014

	Neither Past Due nor Impaired			Total
	High Grade	Medium Grade	Low Grade	
Cash and cash equivalents (excluding cash on hand)	\$4,975,765	\$—	\$—	\$4,975,765
Trade and other receivables	7,432,592	31,228	—	7,463,820
Financial Assets at FVPL	8,055,039	—	—	8,055,039
Other noncurrent assets	—	—	—	—
Miscellaneous deposits	168,767	—	—	168,767
	\$20,632,163	\$31,228	\$—	\$20,663,391

December 31, 2013

	Neither Past Due nor Impaired			Total
	High Grade	Medium Grade	Low Grade	
Cash and cash equivalents (excluding cash on hand)	\$7,023,647	\$—	\$—	\$7,023,647
Trade and other receivables	3,139,082	29,274	—	3,168,356
Financial Assets at FVPL	8,055,039	—	—	8,055,039
Other noncurrent assets	—	—	—	—
Miscellaneous deposits	168,776	—	—	168,776
	\$18,386,544	\$29,274	\$—	\$18,415,818

High grade - These are receivables which have a high probability of collection (the counterparty has the apparent ability to satisfy its obligation and the security on the receivables are readily enforceable).

Medium grade - These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay and that have history of sliding beyond the credit terms but pay within 60 days.

Low grade - These are receivables where the counterparty's capability of honoring its financial obligation is doubtful.

Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties in raising funds to meet commitments from financial instruments. Liquidity risk may result from a counterparty's failure on repayment of a contractual obligation or inability to generate cash inflows as anticipated.

The Group maintains sufficient cash to finance its operations and major capital expenditures and satisfy its maturing obligations. It may also from time to time seek other sources of funding, which may include debt or equity financings, including dollar and peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

The tables below summarize the maturity analysis of the Group's financial assets used for liquidity management and financial liabilities based on contractual undiscounted payments:

June 30, 2014

	On demand	Less than 1 year	1 to 2 years	3 to 5 years	Total
Financial Assets					
Cash and cash equivalents	\$4,975,765	\$-	\$-	\$-	\$4,975,765
Trade and other receivables	-	7,463,820	-	-	7,463,820
Amounts owed by related parties	2,223,078	-	-	-	2,223,078
	\$7,198,843	\$7,463,820	\$-	\$-	\$14,662,663
Financial Liabilities					
Trade and other payables					
Trade payables	\$3,146,157	\$-	\$-	\$-	\$3,146,157
Accrued expenses	-	1,175,980	-	-	1,175,980
Amounts owed to related parties	460,476	-	-	-	460,476
Long-term debt	-	1,319,500	6,990,500	1,765,750	10,075,750
Derivative liability	-	102,090	-	-	102,090
	\$3,606,633	\$2,597,570	\$6,990,500	\$1,765,750	\$14,960,453

December 31, 2013

	On demand	Less than 1 year	1 to 2 years	3 to 5 years	Total
Financial Assets					
Cash and cash equivalents	\$7,023,747	\$-	\$-	\$-	\$7,023,747
Trade and other receivables	-	4,060,866	-	-	4,060,866
Amounts owed by related parties	2,222,415	-	-	-	2,222,415
	\$9,246,162	\$4,060,866	\$-	\$-	\$13,307,028
Financial Liabilities					
Trade and other payables					
Trade payables	\$3,487,478	\$-	\$-	\$-	\$3,487,478
Accrued expenses	-	567,374	-	-	567,374
Amounts owed to related parties	447,420	-	-	-	447,420
Long-term debt	-	1,334,675	4,045,825	5,298,300	10,678,800
Derivative liability	-	102,090	-	-	102,090
	\$3,934,898	\$2,004,139	\$4,045,825	\$5,298,300	\$15,283,162

Management's Discussion and Analysis of Financial Conditions

Results of Operations

For the six-month period ending June 30, 2014 compared to the six-month period ending June 30, 2013

Revenue

The Company recorded consolidated revenues of US\$22.8 million for the six months ending June 30, 2014, an increase of 4% from US\$22 million for the same period in 2013. The growth was led by the strong sales performance of the Company's Multichip and Hermetics Divisions, which grew by 28% and 34%, respectively. The IC and Discrete Divisions registered 5% and 1% growth, respectively. The QFN and New Product Divisions recorded lower sales in the six months ending June 30, 2014 compared to the same period in 2013.

Sales per division

<i>In US\$ 000</i>	For the Six months ended June 30		% Inc / (Dec)
	2014	2013	
Discrete	5,592	5,458	1
Multichip	5,883	4,592	28
IC	5,678	5,401	5
QFN	2,082	2,417	(14)
New Products	2,679	3,440	(22)
Hermetics	967	719	34
Total	22,818	22,027	4%

Cost of Sales and Gross Margin

The Company's cost of sales (COS) is composed of: raw materials, spare parts, supplies; direct salaries, wages and employees' benefits; depreciation and amortization; utility expenses directly attributable to production, freight and duties; and changes in finished goods and work in process inventories. The Company's cost of sales increased by 3% to US\$19.2 million in the six months ending June 30, 2014 from US\$18.6 million for the same period in 2013. The increase was mainly due to a rise in raw materials expenses as a result of higher sales. Consistent with its cost reduction program, the Company managed to reduce other major COS items such as direct salaries, utilities and depreciation.

- Raw materials, spare parts, supplies and other inventories grew by 15% to US\$12.5 million for the six months ending June 30, 2014 from US\$10.9 million for the same period in 2013.
- Salaries, wages and employees' benefits decreased by 9% to US\$3.5 million for the six months ending June 30, 2014, from US\$3.8 million for the same period in 2013.
- Depreciation and amortization decreased by 32% to US\$1.1 million for the six months ending June 30, 2014 from US\$1.6 million for the same period in 2013. The decrease was the result of the Company's review of the EUL of its fixed assets.

- Utility expenses amounted to US\$1.6 million for the six months ending June 30, 2014, from US\$1.7 million for the same period in 2013, a decrease of 5%. The decrease was due to accurate contracted capacity entered into by the Company with its electric retails supplier.
- Freight and duties decreased by 23% to US\$278 thousand for the six months ending June 30, 2014 from US\$362 thousand for the same period in 2013. The decrease, which was achieved despite increase in the number of shipments, was due to lower freight charges negotiated with logistics companies.
- Other cost of sales decreased by 16% to US\$97 thousand for the six months ending June 30, 2014 from US\$202 thousand for the same period in 2013. The decrease was mainly due to lower repairs and maintenance expenses.

The Company's gross margin was 16% for the six months ending June 30, 2014, similar to the gross margin recorded for the same period in 2013.

Operating Expenses

The Company's operating expenses for the six months ending June 30, 2014 amounted to US\$1.3 million, the same amount compared to the same period in 2013.

Net Income (Loss) Before Income Tax

For the six months ending June 30 2014, the Company recorded a net income before income tax of US\$2.2 million, an increase of 7% compared with US\$2.1 million recorded for the same period in 2013. The increase can be attributed to higher sales and improved operating profit margin.

Provision for Income Tax

Provision for income tax for the six months ending June 30 2014 amounted to US\$123 thousand compared with US\$93 thousand for the same period in 2013, an increase of 32%. The increase is due to higher sales booked by CEC.

Net Income After Tax

The Company's net income for the six months ending June 30 2014 amounted to US\$2.1million, an increase of 6% compared with US\$2 million for the same period in 2013.

Financial Condition

For the six-month period ending June 30, 2014 compared to the period ending December 31, 2013

Assets

The Company's cash and cash equivalent for the six months ending June 30, 2014 amounted to US\$5 million, compared with US\$7 million for the period ending December 31, 2013, a decrease of US\$2 million or 29%. The reduction was mainly due to payment of cash dividends and repayment of banks loans.

Trade and other receivables for the six months ending June 30, 2014 amounted to US\$7.5 million, compared with US\$4.1 million for the period ending December 31, 2013, an 84% increase. The increase was mainly due to timing of accounts receivable collection.

Inventory levels for the six months ending June 30, 2014 amounted to US\$6.7 million, 11% lower compared with US\$7.5 million for the period ending December 31, 2013. This is mainly due to conversion of finished goods inventories to sales.

For the six months ending June 30 2014, amounts owed by related parties amounted to US\$2.2 million, unchanged from the period ending December 31, 2013.

Other current assets for the six months ending June 30, 2014 totaled US\$1.7 million, compared with US\$1.8 million for the period ending December 31 2013, a decrease of 5%. The change was mainly due to the decrease in advances to suppliers.

Property, plant and equipment (PPE) for the six months ending June 30, 2014 amounted to US\$15.9 million compared with US\$15.8 million for the period ending December 31, 2013, an increase of 1%. The increase in PPE was due to acquisition of production equipment amounting to US\$1.2 million during the first half of 2014.

Other noncurrent assets for the six months ending June 30, 2014 and December 31, 2013 amounted to US\$651 thousand and US\$688 thousand, respectively, a decrease of 5%. This was mainly due to lower capitalized amount of product development costs.

Liabilities

The Company's current liabilities is comprised of trade and other payables, long-term debt – current portion and net of deferred financing costs, short-term loan, amounts owed to related parties, income tax payable, dividends payable and derivative liability. For the six months ending June 30, 2014, current liabilities were at US\$6.3 million compared with US\$6.2 million for the period ending December 31, 2013, a 2% increase. This can be mainly attributed to dividends payable of US\$600 thousand.

For the six months ending June 30, 2014, the Company's non-current liabilities, comprised of long-term debt – net of current portion and deferred financing costs and retirement benefit obligation, amounted to US\$10.7 million, a 1% increase compared to US\$10.6 million for the period ending

December 31, 2013. The slight increase was mainly due to increment in the Company's retirement benefit obligations.

Equity

The Company's shareholders' equity as of the six months ending June 30, 2014 amounted to US\$30.8 million compared with US\$30.5 million for the period ending December 31, 2013, a 1% increase. The slight increase in equity was due to profits recorded by the Company in 2014, less cash and stock dividends paid out during the year.

Liquidity and Capital Resources

For the six months ending June 30, 2014, the Company's principal sources of liquidity was cash from sales of its products, IPO proceeds, bank credit facilities and proceeds from its 5-year corporate notes issuance. The Company expects to meet its working capital, capital expenditure, dividend payment and investment requirements for the next 12 months primarily from the proceeds of the Company's Initial Public Offering, proceeds of the Company's corporate notes issuance, short-term credit facilities and cash flows from operations. It may also from time to time seek other sources of funding, which may include debt or equity financings, including dollar and peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

For the next 12 months, the Company plans to increase its production further by increasing volume deliveries to existing customers, entering into new production agreements, and expanding its customer base by intensifying its sales and marketing activities.

The following table sets out the Company's cash flows for six months ending June 30, 2014 and the same period 2013:

<i>In US\$ Thousands</i>	For the six months ending June 30	
	2014	2013
Net cash flows provided by/ (used for) operating activities	1,088	3,150
Net cash flows provided by/ (used for) investing activities	(1,258)	(2,133)
Net cash flows provided by/ (used for) financing activities	(1,802)	(1,673)
Net increase (decrease) in cash equivalents	(1,936)	(486)

Net Cash Flows from Operating Activities

Net cash flow provided by operating activities was US\$1.1 million for the six months ending June 30, 2014, compared with US\$3.2 million for the same period in 2013.

For the six months ending June 30, 2014, net income before tax was US\$2.2 million. After adjustments for depreciation, unrealized foreign exchange gain/losses, and interest income, operating income before change in working capital was US\$3.6 million. Changes in working capital reduced operating income by US\$2.5 million. This was mainly due to increase in trade and other receivables.

Investing Activities

Net cash used in investing activities amounted to US\$1.2 million for the six months ending June 30, 2014. Investing activities mainly involved acquisition of production-related machinery and equipment

and advances to suppliers. For the same period in 2013, cash used in investing activities totaled US\$1.9 million, the bulk of which was spent on production-related machinery and equipment and facility and production tools.

Financing Activities

Net cash flow used for financing activities for the six months ending June 30, 2014 amounted to US\$1.8 million. Major financing activities involved payment of cash dividends, payment of short-term and long-term loans, interest and proceeds from availment of short-term loan. For the same period in 2013 financing activities amounted to US\$1.7 million and mainly involved payment of cash dividends, interest payments and proceeds from short-term bank facilities.

Material Changes to the Company's Unaudited Income Statement as of June 30, 2014 compared to the Unaudited Income Statement as of June 30, 2013 (increase/decrease of 5% or more)

- 7% increase in Gross Profit
Increase in net sales
- 7% increase in Net Income Before Tax
Increase in cost of sales items, as a result of higher sales and increase in raw material costs, wages and power rates
- 32% increase in Provision for Income Tax
Increase in sales booked by CEC
- 6% increase in Net Income After Tax
Higher sales and higher operating profit

Material Changes to the Company's Unaudited Balance Sheet as of June 30, 2014 compared to the Audited Balance Sheet as of December 31, 2013 (increase/decrease of 5% or more)

- 29% decrease in Cash and Cash Equivalent
Increase in trade and other receivables
- 84% increase in Trade and Other Receivables – Net
Higher sales and timing of collection
- 11% decrease in inventories
decrease in finished goods inventory
- 5% decrease in iOther Current Assets
decrease in advances to suppliers
- 5% decrease in Other Non-current Assets
Lower capitalized amount of product development costs

KEY PERFORMANCE INDICATORS

The Company's top five (5) key performance indicators are listed below:

<i>Amounts in thousand US\$, except ratios, and where indicated</i>	2012	2013	Six months ended June 30 2014
EBITDA	7,471	8,385	3,629
EBITDA Margin	18%	19%	16%
Sales Growth	10%	8%	4%*
Current Ratio (x)	5 x	5 x	7x
Earnings per share** (US\$)	0.024	0.017	0.0074

Note:

**Compared with same period in 2013*

***Earnings per Share was calculated using CHPC's average outstanding common shares from January 1 to June 30 2014 for 2014 and full year for the years 2012 and 2013*

▪ *EBITDA and EBITDA Margin*

Earnings before interest, tax, depreciation and amortization (EBITDA) provides an indication of the rate of earnings growth achieved.

The EBITDA margin shows earnings before interest, tax, depreciation and amortization as a percentage of revenue. It is a measure of how efficiently revenue is converted into EBITDA.

EBITDA and EBITDAR Margin are not measures of performance under PFRS, and investors should not consider EBITDA and EBITDA Margin in isolation or as alternatives to net income as an indicator of our Company's operating performance or to cash flow from operating, investing and financing activities as a measure of liquidity, or any other measures of performance under PFRS. Because there are various EBITDA and EBITDA Margin calculation methods, the

Company's presentation of these measures may not be comparable to similarly titled measures used by other companies.

The following table sets out the Company's EBITDA after consolidation entries.

<i>In US\$ 000</i>	For the years ended December 31		Six months ended June 30
	2012	2013	2014
Net income	4,209	4,636	2,081
Add back:			
Interest expense/income-net	60	285	169
Provision for income tax	55	260	123
Depreciation and amortization	3,037	2,310	1,144
Unrealized foreign exchange losses		894	112
Unrealized mark to market loss/(gain)	10		-
-EBITDA	7,471	8,385	3,629

The table sets forth a reconciliation of the Company's consolidated EBITDA to consolidated net income.

<i>In US\$ 000</i>	For the years ended December		Six months ended
	31		June 30
	2012	2013	2014
EBITDA	7,471	8,385	3,629
Deduct:			
Interest expense/(income)	(60)	(285)	(169)
Provision for income tax	((155)	(260)	(123)
Depreciation and amortization	(3,037)	(2,310)	(1,144)
Unrealized foreign exchange losses		-	(112)
Unrealized mark to market gain	(10)	-	-
Net Income	4,209	4,636	2,081

- *Sales growth*

Sales growth is a key indicator of the Company's ability to grow the business

- *Current ratio*

Current ratio measures a company's short-term liquidity, i.e. its ability to pay its debts that are due within the next 12 months. It is expressed as the ratio between current assets and current liabilities.

- *Earnings per share*

Earnings per share show the Company's attributable profit earned per share. At constant outstanding number of shares, as the Company's earnings increase, the earnings per share correspondingly increase.

FINANCIAL RISK DISCLOSURE

The Company is not aware of any known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.

The Company is not aware of any event that will trigger direct or contingent financial obligation that is material to the Company, including default or acceleration of any obligation.

The Company does not have any off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.

The Company has allocated up to US\$3 Million for capital expenditure for full year 2014, from the proceeds of the Company's Initial Public Offering and cash flows from operations. It may also from time to time seek other sources of funding, which may include debt or equity financings, including dollar and peso-denominated loans from Philippine banks, depending on its financing needs and market conditions.

The Company is not aware of any trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

The Company does not have any significant elements of income or loss that did not arise from its continuing operations.

The Company does not have any seasonal aspects that had a material effect on the financial conditions or results of operations.

FINANCIAL RATIOS

	December 31, 2013	As of June 30 2014
Liquidity		
Current ratio	5.1 x	7 x
Quick ratio	3.6 x	3.3 x
Profitability		
Gross profit margin	19%	16%
Net profit margin	13%	9%
Leverage ratios		
Debt to asset	0.21	0.20
Debt to equity	0.32	0.31

USES OF PROCEEDS**Cirtek Holdings Philippines Corporation**

Report on Uses of Proceeds

As of June 30, 2014

		Php
Net Balance of Proceeds from the offering as of December 31, 2011		247,799,583
Uses of Proceeds		
Acquisition of new equipment	133,812,924	
Working Capital	<u>50,653,465</u>	
Total Uses of Proceeds		<u>184,466,389</u>
Net Balance of proceeds from the offering as of June 30, 2014		<u><u>63,333,194</u></u>