



MUSX Corporation  
(formerly MUSIC Semiconductors Corporation)  
110 Excellence Ave. cor. Accuracy Drive, SEPZ 1  
Carmelray Industrial Park, Canlubang  
Laguna, Philippines 4028  
Tel. (049) 5491480 (NDD)  
63-49 5491480 (Int'l)  
Fax. (049) 5491024 (NDD)  
63-49 5491024 (Int'l)

April 15, 2009

**PHILIPPINE STOCK EXCHANGE**  
4<sup>th</sup> Floor Philippine Stock Exchange Centre,  
Exchange Road, Ortigas Center, Pasig City

**Attention: Noel B. del Castillo**  
**OIC – Disclosure Department**

Gentlemen:

Attached herewith is MUSX Corporation 2008 Annual Report and Financial Statements as of December 31, 2008 as approved by the Company's Board of Directors today.

If you should have any questions, please call us.

Very truly yours,

A handwritten signature in black ink, appearing to read 'J. Custodio', with a long horizontal flourish extending to the right.

JUAN B. CUSTODIO  
VP-Corporate Affairs,  
Corporate Secretary, Compliance Officer

A S 9 2 0 0 0 5 8 9  
S.E.C. Registration Number

M U S X C O R P O R A T I O N  
( f o r m e r l y M U S I C S E M I C O N D U C T O R S  
C O R P O R A T I O N )

(Company's Full Name)

1 1 0 E X C E L L E N C E A V E . C A R M E L R A Y  
I N D U S T R I A L P A R K C A L A M B A L A G U N A

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

J U A N B C U S T O D I O

Contact Person

4 9 5 4 9 1 4 8 0

Company Telephone Number

1 2 3 1  
Month Day  
Fiscal Year

1 7 - A  
FORM TYPE

0 5  
Month Day  
Annual Meeting

N A

Secondary License Type, If Applicable

S E C

Dept. Requiring this Doc.

Amended Articles Number/Section

1 0 7 1  
Total No. of Stockholders

Total Amount of Borrowings

Php5.5 M  
Domestic

Php3.2 M  
Foreign

To be accomplished by SEC Personnel concerned

File Number

Document I.D.

LCU

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the calendar year ended : **31 December 2008**
2. SEC Identification Number : **AS092-000589**
3. BIR Tax Identification Number : **001-817-292**
4. Exact name of Registrant as specified in its charter : **MUSX Corporation (formerly MUSIC Semiconductors Corporation)**
5. Province, Country or other Jurisdiction on incorporation or organization : **Philippines**
6. Industrial Classification Code :  
(SEC Use Only)
7. Address of Principal Office : **110 Excellence Avenue corner Accuracy Drive, SEPZI, Carmelray Industrial Park, Canlubang, Calamba, Laguna**
8. Issuer's Telephone No. including area code : **(049) 5491480**
9. Former name of the Company : **MUSIC Semiconductors Corporation**
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA  

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>Common Shares PhP0.10 par</b>	<b>2,450,000,000</b>
11. Are any or all of these securities listed on the Philippine Stock Exchange  
Yes [ **X** ] No [ ]
12. Check whether the registrant:
- a. Has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 there under or Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 there under and Sections 26 and 41 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such report.  
Yes [ **x** ] No [ ]
- b. has been subject to such filing requirement for the past 90 days  
Yes [ **x** ] No [ ]
13. Based on the full year 2008 the volume weighted average price at the Philippine Stock Exchange was 0.23 Pesos per share. The Company's issued and outstanding common shares held by non-affiliates as of 31 December 2008 would have a current market price of Php469,456,617.
14. MUSX Corporation is not involved in insolvency/suspension of payments during the immediate preceding five years.

## TABLE OF CONTENTS

<b>PART I – BUSINESS AND GENERAL INFORMATION.....</b>	<b>1</b>
ITEM 1. DESCRIPTION OF THE BUSINESS.....	1
ITEM 2. PROPERTIES.....	7
ITEM 3. LEGAL PROCEEDINGS.....	7
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	8
<b>PART II – OPERATIONAL AND FINANCIAL INFORMATION .....</b>	<b>11</b>
ITEM 5. MARKET FOR ISSUER’S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS ...	11
ITEM 6. MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION .....	13
ITEM 7. FINANCIAL STATEMENTS.....	16
ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES .....	16
<b>PART III – CONTROL AND COMPENSATION INFORMATION.....</b>	<b>16</b>
ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER.....	16
ITEM 10. EXECUTIVE COMPENSATION .....	21
ITEM 11. SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MGT....	21
ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS .....	23
<b>PART IV – CORPORATE GOVERNANCE.....</b>	<b>23</b>
ITEM 13. CORPORATE GOVERNANCE.....	23
<b>PART V – EXHIBITS AND SCHEDULES.....</b>	<b>24</b>
ITEM 14. REPORT ON SEC FORM 17-C.....	24

## PART I – BUSINESS AND GENERAL INFORMATION

### Item 1. Description of the Business

MUSX Corporation (“Company” or “MUSX”), formerly MUSIC Semiconductors Corporation was incorporated in the Philippines, in January 1992, and in September 1996, its shares became listed on the Philippine Stock Exchange (“PSE”) under the ticker symbol MUSX, through an Initial Public Offering .On October 2008, the stockholders approved a change in the primary purpose of the Company, from a Semiconductor Company to a Holding Company, and a change in the name from Music Semiconductors Corporation to MUSX Corporation. The Securities and Exchange Commission (SEC) approved these changes on December 15<sup>th</sup> 2008.

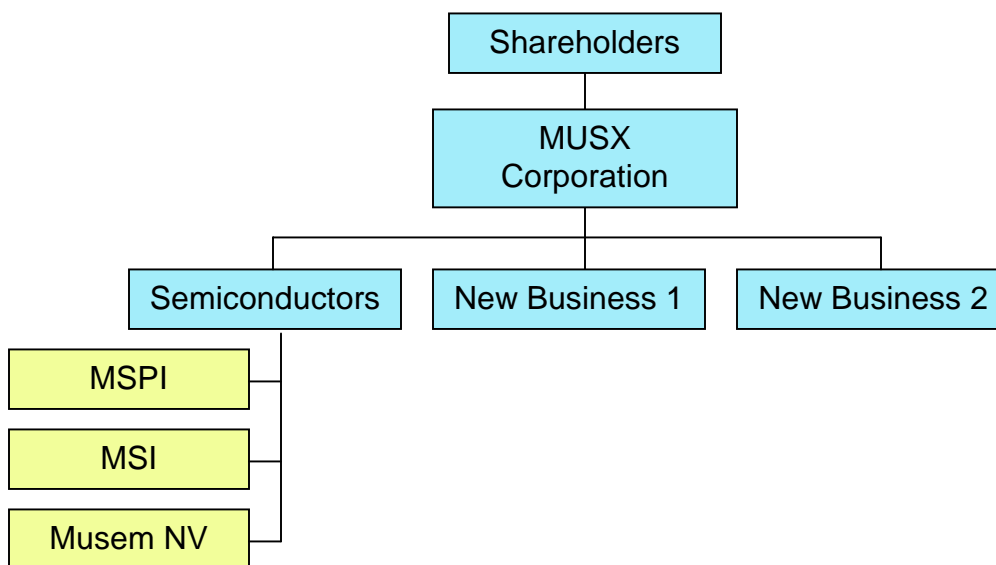
#### **The strategy behind the creation of the Holding Company is founded on the following principles:**

1. Management wants to build a business, characterized by consistent annual operating revenue and profit growth, whose principles are transparent to, and understood by, investors. Management felt that it may not be possible to accomplish these goals with a focus solely on the semiconductor business.
2. MUSX was founded around the semiconductor business which is still the core business today. The semiconductor business is cyclical, holds myriad technical risks, and follows closely the ups and downs of the global gross domestic product (GDP). When the business is in a growth cycle, and the risks have been mitigated, the financial results can be spectacular. However, these periods, are interspersed with other periods which may not be quite so spectacular. Furthermore, it has proven difficult for investors to understand this business, which has a different model than any other semiconductor company in the Philippines.
3. Thus, in order to diversify risk and accomplish the goals of consistent revenue and operating profit growth, MUSX will attempt to identify, and close, other (non-semiconductor) investment opportunities. These businesses will, within their own markets, have a recipe for success based around providing products and/or services of the highest quality, and at a price lower than its competition. They will also be able to contribute to MUSX Group financial results within 12 months of their acquisition by MUSX.

**As of December 31<sup>st</sup> 2008 MUSX’s sole operating business remains the Semiconductor business, organized under MUSIC Semiconductors Philippines Inc. (MSPI). However, initial steps in pursuit of other business opportunities were begun during the September to December 2008 period. These were:**

- a) MUSX executed a Heads of Agreement (in partnership with Lodestar) on September 24<sup>th</sup> 2008 with Abacus Holdings inc. in connection with the possible acquisition by MUSX/Lodestar of all the shares of Abacoal, a subsidiary of Abacus. Abacoal owns the rights over coal reserves in an area of 7000 hectares in Surigao del Norte. The due diligence is now essentially complete, and negotiations with the parties involved continue.
- b) In connection with item (a), MUSX awarded a service contract to Verum Terra on September 24<sup>th</sup> 2008, to conduct technical due diligence over the Abacoal coal rights in Surigao, on behalf of MUSX.
- c) MUSX acquired a strategic stake (13.11%) in Lodestar Inc. in October 2008.
- d) MUSX continues in due diligence in other potential acquisitions.

The MUSX structure as at Dec 31<sup>st</sup> 2008 is as follows:



As can be seen from the above, the intention is to have a separate structure for each business in order to provide the greatest degree of transparency for shareholders and investors alike. MUSIC Semiconductors Philippines Inc. (MSPI) is the semiconductors parent company, headquartered in the Philippines. The formal transfer of ownership of MUSIC Semiconductors Inc. (MSI) and Musem NV from MUSX to MSPI is underway, but not complete at this time. MSI is a Colorado (USA) company which is the worldwide marketing and selling arm for MSPI's products, and Musem is a Dutch company with European responsibilities for sales and marketing. MSPI is owned 100% by MUSX, MSI 90.8%, and Musem 99.9%.

## CURRENT STATUS AND FUTURE POTENTIAL BY BUSINESS

### 1. SEMICONDUCTORS

#### A. MSPI's Market

MSPI's Content Addressable Memory (CAM) products sell into the Network Search Engine (NSE) market segment of the global Networking Equipment Market (NEM), the market of our customers. The future trends and developments projected for the NEM will have a major impact on the size and scope of the NSE market, and ultimately on MSPI's growth potentials.

#### *The Global Networking Equipment Market (NEM)*

The NEM is calculated as the revenues derived by all manufacturers for the production, sale or provision of computer networking equipment and products, including LANs (Local Area Networks), WANs (Wide Area Networks), Switches and Routers.

The NEM is estimated to have had a value of \$84.0 billion in 2008 and is projected to grow to \$122.0 billion by 2015 (a CAGR of around 5.3%). Switches and Routers are projected to account for 49.4% of the total NEM value, with Client Connection devices with 20.2%, and the balance of just over 30% characterized as "other" and made up of Hubs, CDMA backbone, Network interface cards, and other.

Leading players within the global market for networking equipment include Cisco Systems, 3COM Corporation, Alcatel, Nortel, Foundry Networks, Juniper Networks, Nokia, Siemens, Ericsson, Lucent Technologies, Hitachi,

Fujitsu, Banyan Networks, and Lucky Goldstar Electronics (LGE). Many of these have been MSPI customers for the past 10-12 years.

### ***The Network Search Engine Market (NSE)***

One of the component parts of Networking equipment is the NSE, and in 2006, the value of the search engines consumed by the NEM was estimated to be \$356 million or 0.46% of the NEM. MUSIC's CAM is a search engine, so the NSE market can be viewed as MUSIC's potential market.

Network Search Engines are devices that accelerate and enhance those networking functions where speed is of the utmost importance. An example of such a function is the speed at which the networking system accesses the internet. The search engine will search the destination address coming from a specific source, then forward the data to that particular computer at wire-speed, thus supplying significantly improved performance compared to the traditional memory search algorithms performed in software.

Network Search Engines are heavily deployed on LAN's, WAN's, switches and routers; Storage Area Networks (SAN); Digital Subscriber Line Access Multiplexers (DSLAM); core, edge, enterprise, and access routers; terabit optical routers all of which are commonly called networking peripheral equipment.

There are primarily four different forms of search engines competing in this market. They are:

- FPGA (Field Programmable Gate Array) or CPLD (Complex Programmable Logic Device) with an SRAM
- Chipset with embedded memories
- ASIC (Application Specific Integrated Circuit) + Software (programmed to do the search algorithms)
- CAM (Content Addressable Memory)

Any of these search engines can be used on systems ranging from low to high level applications and everything in between. The designers' decision on which search engine to use in their new design will be based mostly on functionality, cost, its interface, ease of integration, power dissipation, and packaging.

During the early 1990's, most common search engines were developed using algorithmic solutions as in ASIC plus software, since the internet was originally designed for individuals and groups to share information of common interest as in email and data files. Thus speed was not a major factor. However, the explosive growth of the internet and the increasingly diversified and complex applications that are continually evolving has driven the need for higher performance at economic prices. The growing internet traffic combined with enhancing features required from service providers has triggered the use of super fast routers and switches with Quality of Service (QoS) and differentiated Class of Service (CoS) capabilities.

Thus, has evolved the need for CAMs (Content Addressable Memory) during the mid to late 1990's, and which today is the most preferred solution to achieve the growing requirements in terms of speed and features because it has parallel searching and a deterministic fast look-up mechanism.

### ***MUSIC Served Market in the NSE***

According to SEMICO Research, the NSE market was projected to be \$321.7 million in 2008, and projected to grow to \$774.3 million by 2015. The CAM % of the NSE market is projected to grow from 80% in 2008 to 95% by 2015 due to CAM's being the most preferred solution to achieve the growing requirements in terms of speed and features because CAM technology has parallel searching and a deterministic fast look-up mechanism.

The CAM market is typically broken down by product density. Since MSPI's entry into this market in 1994, it has served the "less than 1 meg" market which has an annual value of around \$6million. However, following fundraising that took place in 2007 and 2008, MSPI was able to begin the development of a new family of CAM technology products called "FlexCAM". This family will fit very well the MUSX Corporate model of being products of high quality and performance, while at the same time being very competitively priced when

compared to competition. With the release to market in 2009 of the first FlexCAM product, MSPI's served market will jump from \$6 million to around \$60 million. Subsequent "FlexCAM" products will be dependant on further financing availability later in 2009.

## B. MSPI's Operations

### Manufacturing

Since late 2008, MSPI is fully outsourcing all its manufacturing operations from the fabrication of its silicon wafers, to the packaging and testing of its chips and substrates. For these two activities it contracts with world-class companies; Chartered Semiconductors Manufacturing (CSM) in Singapore, and Taiwan Semiconductor Manufacturing Company (TSMC) in Taiwan for silicon wafer production; Advanced Semiconductor Assembly & Test (ASAT) in China and Circuit Electronics Industries (CEI) in Thailand for chip and substrate packaging and testing. Although at present the chips return to the Philippines after testing, for shipping to customers worldwide, even this (shipping) activity will be outsourced later in 2009/2010 timeframe.

This change has had a significant benefit to the MSPI overhead structure, and will assist the Company to price its products ever more competitively.

MSPI's quality record is proven with only 1 quality related customer return in the past 11 years, Customer satisfaction surveys, done each year, regularly rank MSPI no.1 in quality

### Sales and Marketing

Worldwide Sales and Marketing is headquartered out of Silicon Valley, California, although the Vice President of World wide Sales is headquartered in Calamba, Philippines. A customer service representative is based in the USA, Holland, and the Philippines, to service the needs of the customers and independent sales representatives in each geographic area. The independent sales representatives are paid on a commission on sales basis. All products designed, manufactured, or sold by MSPI are currently 100% exported from the Philippines to the United States, Asia and Europe.

The following sales revenues, operating income, and assets attributable to MSPI's operations for the last three (3) years are indicated below: **(Please note that the 2008 figures are for the semiconductor business only)**

<i>In Philippine Pesos (amount in thousands)</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Sales Revenue	104,002	152,776	183,364
Net Income/(Loss)	26,000	22,729	29,769
Total Assets	282,094	224,077	166,392

In addition, below are net sales revenues per region for the last three (3) years:

<i>In U.S. Dollars</i>	<i>2008</i>		<i>2007</i>		<i>2006</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Europe	263,927	11.29	698,514	21.09	822,066	23.01
Asia	858,580	36.72	1,190,400	35.95	747,888	20.93
U.S.A.	1,215,935	51.99	1,421,660	42.94	2,003,411	56.06
Total	2,338,442	100.00	3,310,574	100.00	3,573,365	100.00

### Development

MSPI's development activities include the detailed definition (as documented in the Functional Product Specification or FPS) of the functions of the new product, the design and layout of the chip, and the translation of the new product in software to silicon. The first activity (FPS) is the function done entirely in-house but with the coordination of key customers. The second activity, the chip design and layout is outsourced, and in the case of the

current design ongoing, this is being done in Ireland, by a company known as S3. The third activity is done by the Wafer Fabrication companies, under a specific contract.

The following amounts spent on developmental activities and its percentage to revenues during each of the last three (3) fiscal years, are indicated below.

In Thousand Pesos	2008	2007	2006
R & D expenses	110,595	12,352	10,730
Revenues	104,000	152,776	183,364
%	106.34%	8.08%	5.8%

### ***Semiconductor Working Capital***

Net Working Capital declined from Php107,189,012 at the end of 2007 to Php41,235,403 at the end of 2008. This decline was almost entirely related to the non-semiconductor activities begun since September 2008.

### ***Potential Risks Involved in the Semiconductor Business***

#### The Semiconductor Industry

The Company provides specialty semiconductors to the telecommunications, voice, video and data communications markets. The semiconductor industry has historically been cyclical and has been subject to economic downturns at various times, characterized by diminished product demand, accelerated erosion of average selling prices and production over-capacity. The Company may experience periodic fluctuations in future operating results due to general semiconductor industry conditions, overall economic conditions, and/or other factors.

#### Dependence on New Products; Risks of Product Development Delays

The Company's earnings projections through 2009 are not dependent in any material way on new products. In the long-term, however, the Company's success depends upon its ability to develop new CAM products for the NSE market, to introduce such products in a timely manner and to have such products selected for design into new products of leading systems manufacturers. Successful product development and introduction depends on a number of factors, including accurate new product definition, timely completion and introduction of new product designs and market acceptance of the Company's, and its customers' products.

While the Company believes that its market positioning and strategies, combined with the talents of its creative personnel, will provide the winning products required, to support its long term financial goals, there are a number of factors outside the Company's control that could impact negatively on this hypothesis.

#### Dependence on Key Personnel

The Company's success depends to a significant extent upon the continued service of its executive and other key management and technical personnel. These people are currently challenged by the Company's market, business and product development strategies. The Company believes that so long as it continues to challenge the intellect of its employees and rewards them accordingly, via appropriate incentive compensation programs, they will continue to be loyal to the Company.

#### Dependence on Future Capital Needs

Companies such as MUSX have continuing capital requirements. To remain competitive, the Company must invest in research and development. The Company believes that the net proceeds of approximately \$6.5 million from the successful sale of New Shares, together with existing cash balances, cash flow from operations, and available working capital will be sufficient to meet the Company's liquidity and capital requirements at least through 2010. However, the timing and amount of such funding requirements cannot be precisely determined and will depend

on a number of factors, including demand for the Company's products, product mix and competitive factors. Further, there can be no assurances that such additional funding will be available when needed, or if available, will be on satisfactory terms.

#### Dependence on VLSI Fabrication Facilities

The Company does not own or operate a VLSI (Very Large Scale Integration) fabrication facility, and all of its semiconductor device requirements are currently supplied by outside foundries. There can be no assurance that the Company's requirements in a period of capacity shortage and strong demand will be met without interruption.

#### Earnings Forecast

Earnings forecasts are prepared based on assumptions that the Company considers reasonable in light of, among others, the prevailing market and competitive environment, historical and current operating results, recent developments in the industry, and the Company's future business plans and strategies. However, the earnings forecast is also subject to external factors such as economic uncertainties and contingencies, which are beyond the Company's control.

#### Competition

MUSIC believes that the principal basis of competition within the NSE include product definition, product design and testing, product reliability, product functionality, time-to-market, reputation and price. The ability of the Company to compete successfully in the rapidly evolving area of high performance electronics technology depends on factors both within and outside its control. These include success in designing and subcontracting the manufacture of new products that implement new technologies, protection of Company products by effective utilization of intellectual property laws, product quality, reliability, price, efficiency of production, the pace at which customers incorporate the Company's electronic products into their products, success of competitor's products, and the scope of the Company's, and its competitors' financial, technical and management resources and general economic conditions. The Company believes that it properly reflects in its forecasts, its competitive position within its chosen markets.

#### ***Procedures in Place to Identify, Assess, and Manage these Risks***

- The general risks stated above do not tend to change materially over time, since they are the risks associated with designing, making and selling semiconductors into the highly competitive worldwide market of Networking. Nonetheless, the Company is watchful for new risks emerging.
- The risk assessment is based upon "what if" analysis, judged against the method used to include the particular item in the projection. The analysis could support the projection or require it to be modified.

Risks that are manageable, i.e. within the scope of control by the Company, must be managed as a natural course of running the business. When taking decisions, management considers first the effect of those risks that are in any way related to the decision.

## **2. NON-SEMICONDUCTOR BUSINESSES**

During 2008, no new business ventures were concluded but activities were undertaken in a number of areas.

- a) MUSX executed a Heads of Agreement (in partnership with Lodestar) on September 24<sup>th</sup> 2008 with Abacus Holdings inc. in connection with the possible acquisition by MUSX/Lodestar of all the shares of Abacoal, a subsidiary of Abacus. Abacoal owns the rights over coal reserves in an area of 7000 hectares in Surigao del Norte. The due diligence is now essentially complete, and negotiations with the parties involved continue.

- b) In connection with item (a) above, MUSX awarded a service contract to Verum Terra on September 24<sup>th</sup> 2008, to conduct technical due diligence over the Abacoal coal rights in Surigao, on behalf of MUSX.
- c) MUSX acquired a strategic stake (13.11%) in Lodestar Inc. in October 2008.
- d) MUSX continues in due diligence in other potential acquisitions.

### **3. CORPORATE MATTERS**

#### ***Government Approval***

There is no need for any government approval of principal products or services of the Company.

#### ***Government Regulations***

The existing government regulations have no effect on the business of the Company. The Company is not aware of any probable governmental regulations, which will have an effect on the business of the Company.

#### ***Environmental Laws***

The Company and its subsidiaries are in strict compliance with environmental laws. Because of the nature of the business of the companies, there is minimal cost in ensuring its compliance.

### **EMPLOYEES**

The Board of Directors is made up of seven directors. Chairman of the Board is Michael Burton. Board Committees are formed to focus on Nomination and Election, Audit and Compliance, Compensation and Remuneration, and Strategic Direction matters.

MUSX's Group of Companies employ 14 people worldwide down from the previous 30 employees as a result of retrenchment implemented by the Company to reduce cost. Of the 14 people, two are in Sales and Marketing, two in Development, three in Operations and seven in admin and finance. Of the total 14 people, one is employed by MUSX and the rest are with the semiconductor business.

The retrenchment came about by the elimination of in-house manufacturing (and moving to fully outsourced manufacturing) which will reduce MSPI's operating expense by as much as Php50 million per year. As significant as this saving is, this change will also reduce MSPI's investment in inventory, and with that, the financial risk of carrying inventory. Eventually the Company expects that its subcontract manufacturers will drop ship product deliveries directly to MSPI customers on behalf of MSPI, thereby providing further savings.

None of these employees is subject to Collective Bargaining Agreements (CBA). MSPI's employees have never been on strike, nor are threatening to strike. MSPI pays its employees a 14<sup>th</sup> month pay and has provided for a company pension plan.

### **Item 2. Properties**

MUSX nor any of its subsidiaries, does not own any real estate property.

### **Item 3. Legal Proceedings**

None

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

The Annual Stockholders' Meeting of the Company for the year ended December 31, 2007 took place on October 30, 2008. In attendance in said meeting were the following:

Present:

Total issued and outstanding shares	-	2,369,000,000
Total no. of shares represented in the meeting	-	1,842,779,705 (77.78%)

The following matters which were on the agenda, were approved by the stockholders present or represented in the said meeting:

1. Issuance of shares out of the current unissued capital stock of the Company:
  - a) The issuance of 470 million new shares, at Php0.16/share, through Private Placement to finance the Company's new product development to the following investors:
    1. Jerry C. Angping – 170M shares
    2. Wilma C. Crisostomo – 170M shares
    3. Ricardo G. Grande – 130M shares
  - b) The issuance of 123,252,226 new shares, at Php0.16/share, under the 2007 Stock Purchase Plan to the following Company directors, officers and employees
    1. Michael Burton -47,999,080 shares
    2. Ramon L. Abad Jr. -14,000,000 shares
    3. Renato Reyes – 28,000,000 shares
    4. Virgilio D.C. Herce – 3,000,000 shares
    5. Juan B. Custodio – 2,742,062 shares
    6. Renelia L. Yturzaeta – 3,125,000 shares
    7. Jose Alexander S. Ignacio – 9,236,416 shares
    8. Rodney S. Antonisse – 3,750,000 shares
    9. Richard Wigglesworth – 2,193,650 shares
    10. Judy Gonzales – 1,000,000 shares
    11. Nelia Ecija – 1,009,375 shares
    12. Jacinto Galarosa – 1,462,431 shares
    13. Nigel Gestiada – 369,456 shares
    14. Eugenia Lucena – 312,500 shares
    15. Bernard Valiente – 625,000 shares
    16. Honesto Magayanes – 146,250 shares
    17. Maxima Manalo – 625,000 shares
    18. Josephine Pleras – 629,375 shares
    19. Manuel Marvil Jr. – 1,500,000 shares
    20. Vilma M. Marvil – 750,000 shares
    21. Restituto Reyes – 307,881 shares
    22. Ana Liza F. Tablada – 312,500 shares
    23. Noemi Manansala – 156,250 shares
  - c) The issuance of 71,195,131 new shares, at Php0.16/share, under employee's debt to equity scheme to the following employees:
    1. Michael Burton – 22,891,775 shares
    2. Juan B. Custodio – 4,369,469 shares
    3. Renelia L. Yturzaeta – 2,845,825 shares

4. Alexander S. Ignacio – 6,142,900 shares
  5. Rodney S. Antonisse – 4,920,694 shares
  6. Richard Wigglesworth – 3,132,306 shares
  7. Manuel Marvil Jr. – 2,234,113 shares
  8. Vilma M. Marvil – 780,525 shares
  9. Angeles Gomez – 502,919 shares
  10. Manolito Dayuta – 11,174,262 shares
  11. Jocelyn Fajardo – 7,551,500 shares
  12. Tracy P. Voag – 4,648,843 shares
- d) The issuance of 81,000,000 new shares, at Php0.16/share, under the debt to equity scheme to MUSIC Semiconductors Philippines Inc. (MSPI) for the employee pension fund.
- e) The issuance of 596,182,604 new shares, at Php0.16/share, through private placement to the following investors:
1. Raymond P. Evangelista – 173,091,302 shares
  2. Edwin Q. Concepcion – 173,091,302 shares
  3. Lilibeth L. Cruz – 125,000,000 shares
  4. Maria Lucille L. Hirang – 125,000,000 shares
2. The approval of stockholders representing more than 2/3 of the issued and outstanding capital stock, including at least 99.99% of the minority shareholders, of the following acts of Management and the Board of Directors:
- a) The sale of 470 million shares through private placement to three investors namely Mr. Jerry Angping, Ms. Wilma Crisostomo and Mr. Ricardo Grande.
  - b) The sale of 596,182,604 shares to four investors namely Mr. Raymond P. Evangelista, Mr. Edwin Q. Concepcion, Ms. Lilibeth L. Cruz and Ms. Maria Lucille L. Hirang.
  - c) The waiver of the requirement to conduct a rights or public offering for the sale of the both the 470 million and 596,182,604 shares in order to proceed with the listing of such shares.
3. The approval of stockholders representing more than 2/3 of the issued and outstanding capital stock, including at least 99.99% of the minority shareholders, of the restructuring of the Company into a holding company and in this regard:
- a) Amendment of the Articles of Incorporation of MUSIC Semiconductors Corporation to:
    1. Change its name to MUSX CORPORATION, subject to the approval of the Securities and Exchange Commission.
    2. Change the Primary Purpose from a Semiconductor operating company to a holding company with the following purpose, subject to such changes as may be required by the Securities and Exchange Commission and approved by the Board of Directors:
 

“To invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, or otherwise dispose of real or personal property of every kind and description, including shares of stocks, bonds, debentures, notes, evidence of indebtedness, marketable securities, deposit substitutes in any valid currency, and other securities or obligations of any corporation or corporations, association or associations, domestic or foreign, for whatever lawful purpose or purposes the same may have been organized and to pay therefor in money or by exchanging therefor stocks, bonds, or other evidences of indebtedness or securities of this or any other corporation, stocks, bonds,

debentures, contracts, or obligations, to receive, collect, and dispose of the interest, dividends, proceeds and income arising from such property; and to possess and exercise in respect therefore all voting powers of any stock so owned, provided that the corporation shall not engage as stock brokers or dealers in securities.”

This change in the primary purpose is expected to contribute to group revenue and earnings growth within a short period of time following the investment, and any such investment shall be subject to due-diligence (legal, financial, business and corporate).

- b) To restructure the existing semiconductor assets and liabilities out of the Company and into MUSIC Semiconductors Philippines Inc. (MSPI) an existing (since 1999) Philippine incorporated company owned 100% by the Company.
  - c) To approve a mandate to the Management and the Board of Directors to sign, execute, and deliver all actions deemed necessary to effect this restructuring.
4. The approval of stockholders representing more than 2/3 of the issued and outstanding capital stock, including at least 99.99% of the minority shareholders, of the increase in the authorized capital stock from Php245 million to Php500 million divided into 5,000,000,000 shares with a par value of ten centavos, the waiver of pre-emptive rights over the same, and the amendment of Article VII of the Articles of Incorporation thereof.
5. The approval of stockholders representing more than 2/3 of the issued and outstanding capital stock, including at least 99.99% of the minority shareholders, of the issuance of an additional 2,760,000,000 shares for the following purpose:
- a) Issuance of 637,500,000 shares through private placement in order to meet legal requirements and secure the increase in the authorized capital stock for the product development and new business acquisition.
    1. In connection with this, to waive the necessity to re-approve the sale once the name/s of the specific buyers are known.
    2. Due to market volatility, to allow the Board to set the issue share price based on a discount to the market price at the time of filing the registration statement with the SEC.
  - b) Subject to due diligence, the 55% acquisition of Abacus Coal Exploration and Development Corporation (Abacoal) through the issuance of up to 450 million MUSX shares, and up to Php41,250,000 in cash.
  - c) Issuance of 760,000,000 shares through stock rights offering for Flexcam2 and new business development.
  - d) Maintain a reserve of 702,500,000 new shares for new business opportunities.
6. The election of the following directors of the Company:
- 1) Michael Burton
  - 2) Ma. Therese G. Santos (independent director)
  - 3) Jerry C. Angping
  - 4) Ramon L. Abad Jr.
  - 5) Antonio Victoriano F. Gregorio III (independent director)
  - 6) Renato L. Reyes
  - 7) Juan B. Custodio
7. Punongbayan and Araullo was re-appointed external auditors of the Company.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Issuer’s Common Equity and Related Stockholders Matters

#### Securities

As of December 31, 2008, the Company had one class of stock – common, and had 2,450,000,000 shares issued and outstanding.

There are no sales of unregistered securities within the past three years.

No debt securities are registered or contemplated to register.

No securities subject to redemption or call exist or are planned.

No warrants exist and are outstanding.

#### Market Information

The Company’s common equity is traded on the Philippine Stock Exchange.

At March 31, 2009, the Company’s stock price closed at eight point five centavos (PhP0.085).

Volume Average Market Price On	2008**	2007*	2006*
Last Day	0.107	2.01	1.30
Year	0.230	1.77	1.24
Lowest Trading Day	0.107	1.10	1.10
Highest Trading Day	0.310	2.26	1.48

\* Pre quasi-reorganization share price.

\*\* Post quasi-reorganization share price (par value from Php1.00 to Php0.10, increasing the number of shares by a multiple of 7).

Quarter	2008		2007*		2006*	
	High	Low	High	Low	High	Low
1 <sup>st</sup>	0.297	0.201	1.48	1.44	1.19	1.16
2 <sup>nd</sup>	0.249	0.195	1.64	1.59	1.23	1.18
3 <sup>rd</sup>	0.317	0.205	1.39	1.35	1.20	1.17
4 <sup>th</sup>	0.192	0.106	1.58	1.51	1.26	1.24

#### Holders

As of 31 December 2008, the Company had 1,071 stockholders as per its stock and transfer agent, Stock Transfer Service, Inc. The top 20 shareholders reported by the Stock and Transfer Agent were as follows:

	Shareholder	No. of Shares	Pct.
1	PCD Nominee Corp. (Filipino)*	1,462,898,206	59.71%
2	Raymond P. Evangelista**	173,091,302	7.06%
3	Edwin Q. Concepcion**	173,091,302	7.06%
4	Lilibeth L. Cruz**	125,000,000	5.10%
5	Maria Lucille L. Hiranng**	125,000,000	5.10%
6	MUSIC Semiconductors Phil.Inc.	81,000,000	3.31%
7	Michael Burton	70,890,855	2.89%

8	PCD Nominee Corp. (Non-Filipino)	63,920,081	2.61%
9	Renato Reyes	28,000,000	1.14%
10	Alexander S. Ignacio	15,729,316	0.64%
11	Ramon L. Abad Jr.	14,000,000	0.57%
12	Manolito G. Dayuta	11,386,054	0.46%
13	Rodney S. Antonisse	8,670,694	0.35%
14	Jocelyn Fajardo	7,740,136	0.32%
15	Juan B. Custodio	7,111,531	0.29%
16	Renelia L. Yturzaeta	5,970,825	0.24%
17	Willam T. Gabaldon	5,880,000	0.24%
18	Richard Wigglesworth	5,325,956	0.22%
19	Tracie Voag	4,648,843	0.19%
20	George H. Tan	4,508,000	0.18%
	<b>Total</b>	<b>2,393,863,101</b>	<b>97.71%</b>
	Others	<b>56,136,899</b>	2.29%
	<b>Total Issued and Outstanding Shares</b>	<b>2,450,000,000</b>	100.00%

\* 24.0% lodged under Guild Securities Inc.

### Background of Major Shareholders

**Philippine Central Depository, Inc. (PCD).** Regulated by the Securities and Exchange Commission (SEC), PCD is owned by major capital market players in the Philippines, namely: Philippine Stock Exchange (31.75%), Bankers Association of the Philippines (31.75%), Financial Executives Institute of the Philippines (10%), Development Bank of the Philippines (10%), Investment House Association of the Philippines (6.5%), Social Security System (5%) and Citibank N.A. (5%).

All PSE-member brokers are Participants of PCD. Other Participants include custodian banks, institutional investors and other corporations or institutions that are active players in the Philippine equities market.

**GUILD SECURITIES, INC.** Guild Securities, Inc. (Guild) is an active local Trading Participant of the PSE. It was incorporated and registered with the SEC on March 14, 1979. Guild is engaged in the brokerage business of stocks, bonds, and other financial securities, and in all activities directly or indirectly connected therewith or incidental thereto. Its authorized capital stock is 200,000 shares with a par value of ₱100.00 per share, equivalent to an aggregate amount of ₱20.00 million. Its issued and outstanding shares as at December 31, 2006 were 199,000 shares, equivalent to an aggregate amount of ₱19.90 million. Voting rights over these shares are exercised by the respective beneficial shareholders.

**\*\* Raymond P. Evangelista, Edwin Q. Concepcion, Lilibeth L. Cruz and Maria Lucille L. Hirang** – were old subscribers to a total 596M shares issued through private placement as disclosed to the PSE and SEC in September 24, 2008. In December 18, 2008, the Company's Board of Directors approved the change of subscribers to these shares (still not fully paid) at the new share price of Php0.104 (from Php0.16) to the following Investors which was finalized and disclosed on March 18, 2009 with their signing of the Investment and Subscription Agreements:

- a) Edmundo R. Agcaoili – 125,000,000 shares
- b) Reynaldo C. Oriel – 125,000,000 shares
- c) Chi Ho Co – 173,091,302 shares
- d) Richard Y. Chiongbian – 173,091,302 shares

### Dividends

No dividends were distributed in 2006, 2007 and 2008.

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

### A. PROFIT AND LOSS TRENDS

The audited income statements include some significant transactions that make comparisons with prior period results somewhat difficult. In order to allow the reader to better appreciate the financial trends of the Company, a pro-forma set of income statement figures have been prepared and are now shown, in comparison with the audited figures:

#### Year 2008 Consolidated Income Figures-PESOS

	<u>AUDITED</u>	<u>PRO-FORMA</u>
SALES	104,002,208	104,002,208
COGS (*)	101,409,227	43,672,716
GROSS PROFIT	2,592,981	60,329,492
% SALES	2%	58%
OPERATING EXPENSE (**)	64,685,996	45,748,630
OPERATING PROFIT	(62,093,015)	14,580,862
% SALES	0%	14%
OI/OE		
FINANCE	(18,639,673)	(18,639,673)
REORG.	(2,124,793)	(2,124,793)
OTHERS (***)	16,698,181	19,217,022
TOTAL	(4,066,485)	(1,547,644)
INCOME BEFORE TAX	(66,159,500)	13,033,218
TAX (***)	78,536,801	(655,917)
NET INCOME	12,377,301	12,377,301

#### Explanation of Differences:

\* Due to the considerable reduction in business resulting from the global economic downturn, Management has assessed an inventory risk based on the Company's policies in this respect of Php57,736,511. In the audited statements this, in accordance with GAAP, is charged against Cost of Goods Sold, which then results in a Gross Profit Margin of 2%. In the pro-forma figures this amount is included in OI/OE Others. The effect of this is that the normalized Gross Profit Margin is 58%, very much in line with prior periods

\*\* Operating expenses include two significant Corporate transactions, namely:

1. The Retrenchment termination cost of 16 employees worldwide (headcount reduction from 30 people to 14), and
2. The Recognition of additional Pension Fund Liability caused by the erosion in the company's stock price creating an unfunded liability. These were included as operating expenses in accordance with GAAP, but their inclusion does not allow for a realistic view of the Operating Profit of the Company. The amount involved is Php18.9 million which in the pro-forma figures is included as OI/OE Others.

As a result of these two changes above, the Operating profit margin in the audited figures is negative 2.5%, but in the pro-forma figures is positive 14%, much in line with prior period's results.

\*\*\* The USA deferred tax accrual has been deemed unnecessary, since it is the Company's full expectation that the NOLCO will be fully utilized in future years. As a result, the accrual reversal, in the audited figures, was shown on the tax line. In the pro-forma figures, and in accordance with the other major changes, it is shown in OI/OE Others.

\*\*\*\* The OI/OE other expenses in the audited figures have been impacted in the pro-forma figures by the three items shown above.

## **B. PROFIT AND LOSS DISCUSSION AND ANALYSIS**

Company revenues for 2008 totaled Php104.0 million, some 31% below the level of 2007, as technology based demand slowed on a worldwide basis. This was separate from and not related to the global recession which began to add further uncertainty to demand beginning in October 2008. Without contribution to sales revenues from FlexCAM in 2009, the company can expect a further year-on-year reduction of revenues in 2009.

The Company took the first steps in midyear 2008 to move to fully outsource all its remaining production operations, which had become intolerably inefficient from a financial perspective. In December 2008, the Company announced Layoffs, partly related to the outsourcing, but in addition, related to the additional impact of the global recession.

Gross Profit in 2008, at Php60.3 million was 58% of revenues. Although lower than the 62% achieved in 2007, the Company is confident it can achieve 62% again in 2009, as a result of the outsourcing and other general Production cost actions taken in December 2008.

Other Operating expenses in 2008 totaled Php45.7 million, of which Php44.1 million is attributed to the semiconductor business and Php1.6 million to non-semiconductor business. The semiconductor level is a decrease of 26% from the 2007 level of Php59.2 million. The Company expects this to decline further in 2009. The non-semiconductor business expense (Php1.6 million) was incurred in Q4 2008 and includes various expenses in Q4 2008 relating to the sale of shares, and the due diligence of new business opportunities, and corporate restructuring.

As a result of the above, total operating profit in 2008 was Php14.6 million (14.0 % revenue). However, of this amount, Php16.2 million (16% of revenue) was semiconductor, offset partially by the Php1.6 million loss in non-semiconductor activities.

Other Income and Expense for 2008 was a net expense of Php1.5 million, made up of Php(18.6) million of finance costs, Php(2.1) million of reorganization costs related to MSI's bankruptcy status, mostly offset by Php19.2million of other income (including the other re-classifications from COGS, operating expenses, and Tax). Of this total amount, Semiconductor enjoys other income of Php10.2 million, and Non-Semiconductor, an other expense of Php11.7 million (this expense is principally made up of expenses to Verum Terra related to the technical due diligence of Abacoal, and the Currency conversion of the Stock Purchase loans.

Net income in 2008, at Php12.4 million (12% revenue) compared to Php22.7 million in 2007 equal to 15% of revenue. Of this, the Non-semiconductor net loss was Php13.6million and the semiconductor business net profit was Php26.0 million (25% revenue), which compares favorably to the Php22.7 million achieved in 2007.

## **C. BALANCE SHEET TRENDS**

Cash and Cash equivalents decreased to Php9.2 million at Dec 31<sup>st</sup> 2008, from Php83.3 million at December 31, 2007. A total of Php113.4million was raised as fresh capital during the year through the sale of Company shares. Cash used in 2008 was Php186.5 million; Php63.0 million was invested in non-semiconductor activities, leaving Php123.5 million in semiconductor, including FlexCAM development Php88.9million, and Loan settlements Php34.6 million.

Trade and Other receivables decreased from Php26.3 million at December 31, 2007 to Php14.5 million at December 31, 2008. The decrease relates to the lowering of sales revenues discussed above, along with increased impairments.

Inventory on a net basis fell from Php83.6 million at the end of 2007 to Php30.7 million at the end of 2008. This change was principally due to the reduction in sales revenues and the calculation of obsolete inventory allowance on the basis of low levels of revenue. Intangible assets grew from Php27.1 million in 2007 to Php137.7 million in 2008,

reflecting the development of the “Interim Products” and “Flexcam” and described more fully in the section of this report entitled “The CAM Business”.

Total Current Liabilities fell from the level of Php87.9 million at the end of 2007, to Php37.5 million at the end of 2008. This trend clearly displays the further progress the Company is making to eliminate its debt. Making up the total Current Liabilities are two principal items; Interest Bearing loans, and Trade and Other payables.

Interest bearing loans totaled Php8.7million at the end of 2008, a 79% reduction from the Php40.5 million level of 2007, all as a function of principal repayments. Trade and Other Payables totaled Php28.8 million at the end of 2008, a 40% reduction from the Php47.1 million level at the end of 2007. Included are Trade Payables Php2.9million at the end of 2008 (Php9.1 million at the end of 2007), MSI bankruptcy Payables Php0 million at the end of 2008 (Php9.1 million at the end of 2007), and Accrued and other Liabilities Php26.0million at the end of 2008 (Php29.0million at the end of 2007).

## **Discussion and analysis of material events and/or uncertainties known to Management**

### Timely and sufficient fund raising for new product development

Fund raising in a timely fashion is uncertain at best. MUSIC needs to raise Php60.0 million in order to complete this first two phases of the FlexCAM family of products.

### **Key Performance Indicators**

The top 5 key performance indicators for MUSIC Semiconductor’s business are shown below, along with their relevant results of 2008 and 2007.

	2008	2007
Revenue Growth % - in units	(22%)	9%
Number of new design wins	3	7
New geographic markets entered	0	0
New applications for Music products	0	0
Selling price reduction % overall selling change from prior year	8%	10%

For 2009 and beyond, the Company will continue to try to grow the number of new design wins, new geographic markets, and new applications for MUSIC products, both current and new. These are the "grass roots" actions, which, if successful, will undoubtedly lead to increasing growth to all aspects of the business.

Revenue growth percentage in units compares the number of units sold one year compared with previous year.

The number of new design wins is the number of new customer projects going into production that will use one of the Company’s products in its system. New geographic markets entered means new countries where MUSIC has representation and new applications for MUSIC products means other than for networking.

All of the above, taken together, will indicate the health and dynamic of the business.

The last indicator tracks that portion of period-to-period change in average selling price which is due to price reductions, since this can have an impact on profit.

### **Audit and Audit-Related Fees – 2008/2007**

1. The audit fees of the company’s financial statements or services that the external auditors had provided to the company in connection with statutory and regulatory filings or engagements for fiscal year 2008 was Php800,000, the same amount as in 2007 of Php750,000.

- The audit fees of the company's interim financial statements (as of November 30, 2008) required by the SEC that the external auditor had provided to the company in connection with its net asset sale between the Company and MSPI was Php140,000. In 2007, Php246,400 was paid to the external auditor for fees on equity re-structuring.

#### **Tax Fees –2008/2007**

- The fees paid to the external auditors on tax services on various tax queries were Php25,125 in 2008 and Php0.00 in 2007.

#### **All Other Fees – 2008/2007**

- The fees paid to the external auditors on review of consolidation of quarterly financial statements were zero in 2008 and Php30,000 in 2007.
- The fees paid to the external auditor in 2008 for the increase in the capital stock was Php28,000 and Php28,769 for the debt-to-equity transaction and Php50,000 for local government processing requirement. On the company's cash balance verification and certification required by SEC in connection with its increase in capital stock/subscription, Php15,100 was paid to the external auditors in 2007.

#### **Audit Committee's Approval Policies and Procedures for the above services**

The Audit Committee had approved the above fees paid to the external auditors as reflected in its minutes of meetings for the fiscal years 2008 and 2007.

#### **Item 7. Financial Statements**

The report of MUSX Corporation and Subsidiaries' independent public accountant is incorporated and attached to this report, in its entirety.

#### **Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

There are no disagreements with the Company's external auditors as regards to financial disclosures.

### **PART III – CONTROL AND COMPENSATION INFORMATION**

#### **Item 9. Directors and Executive Officers of the Issuer**

As at 31 December 2008, the Board of Directors is composed of seven (7) individuals:

<b>Name</b>	<b>Position</b>	<b>Nationality</b>	<b>Age</b>	<b>Term of Office</b>	<b>Period Served</b>
Michael Burton	Director	British	64	One year	1992 to present
Juan B. Custodio	Director	Filipino	53	One year	2008 to present
Ma. Therese G. Santos	Director	Filipino	50	One year	2003 to present
Jerry C. Angping	Director	Filipino	54	One year	2008 to present
Antonio V. F. Gregorio III	Director	Filipino	35	One year	2007 to present
Renato L. Reyes	Director	Filipino	60	One year	2007 to present
Ramon L. Abad Jr.	Director	Filipino	68	One year	2007 to present

**Michael Burton, 65**, is currently the Chairman of the Board of Directors and the President and Chief Executive Officer of the Company. He is a member of the Audit and Compliance Committee as well as the Strategic Direction Committee. Mr. Burton is the President and CEO of the company's subsidiary MUSIC Semiconductors Philippines Inc. and the U. S. subsidiary MUSIC Semiconductors Inc. He has served as director of the Company since it was

incorporated in 1992. Mr. Burton has been involved in the semiconductor business since 1964 when first employed by Texas Instruments where he held various operation positions in Houston, Curacao, Singapore, Germany and France. In 1979, Mr. Burton joined Inmos Corporation, a British-American semiconductor company headquartered in Colorado, as Vice President for Finance and Administration and later became Vice President for Corporate Development until 1985. In 1985, Mr. Burton founded Triad Semiconductors, which was focused on the development, marketing and selling of VGA graphics integrated circuits for the personal computer market. MUSIC NV of the Netherlands acquired Triad in 1989, which initially owned the Company when the latter was incorporated in the Philippines in 1992. Mr. Burton was the founding president and has been the Company's executive officer since its inception. Mr. Burton is also the President of MUSIC Semiconductors, Inc.

**Ma. Therese G. Santos\***, 51, is an Independent Director, and is the Chairman of the Audit and Compliance Committee and a member of the Nomination Committee and the Strategic Direction Committee. Ms. Santos is Associate Director and concurrently head of Administration of Gravitas Prime since 2007, responsible for general administrative and human resource functions. Gravitas Prime is a private equity firm with corporate finance activities. Prior to joining Gravitas Prime, Ms. Santos was an independent consultant since 1997, with consulting assignments in the manufacturing and retail sector, specializing in systems and procedures in the Accounting and Finance functions. Prior thereto, she was Vice President for Finance and CFO of the Company (1993-1996), in charge of all matters pertaining to finance for the parent company in the Philippines and its offshore subsidiaries in the US and in the Netherlands. Ms. Santos also worked with a number of concerns, including United Development Corporation (1991-1993), a holding company invested in diverse interests, where she was Group Comptroller. She began her career in finance with Private Development Corporation of the Philippines (PDCP) where she started as Project Analyst in the Project Management Group (1981-1991). Ms. Santos sits as Independent Director of First Abacus Financial Holdings Corp. Ms. Santos completed her MBA, major in Finance, and her Bachelor of Science in Chemical Engineering from the University of the Philippines. She is a licensed Chemical Engineer.

**Jerry C. Angping**, 54, Filipino, is an alternate member of 3 committees namely the Nomination and Election Committee, Audit and Compliance Committee and Compensation and Remuneration Committee. Mr. Angping is the current: President of Geograce Resources Philippines Inc. since 1997, Director – Nihao Mineral Resources International Inc. since 2007, Chairman – Peaksun Enterprises & Export Corp. since 1998, Vice Chairman – STI Education Services Inc. since 2001, Director of Crown Equities Inc. since 1995.

**Antonio Victoriano F. Gregorio III\***, 36, is an Independent Director and the Chairman of the Compensation and Remuneration Committee. He is a member of the Strategic Direction Committee and the Nomination and Election Committee. Atty. Gregorio is the President/Director of World Wide Manpower Overseas Inc. and Asst. Corporate Secretary/Director of ATN Holdings, Inc. starting 2007. He is a Partner at the Gregorio Law Office since 1999. He is the Corporate Secretary/Director of Cangoc Inc., Cuisine Allurements Inc. since 2002, Active Earnings, Inc., Buddybuds Inc., Carellan Inc., Hobiton Inc., Pinecrest Realty Corp. since 2003 and of Outsource Leverage Systems Int'l. Inc, Weathertop Inc, Grand Pin Development Corp. since 2004 and of Cuervo Far East Inc. since 2005. He is the Corporate Secretary of 4A9T Scholarship Foundation Inc. since 1999, Barnyard Realty Corp., Beaver Q Corp, JMARR Realty Inc. since 2002, PPARR Mgt. & Holding Corp. since 2004, RF Cuervo Inc. since 2003. He is the Director/Treasurer of Carom Inc., Onion & Chives Inc. and Los Boldos Inc. since 2003. He is the Corporate Secretary/Treasurer/Director of Big Herald Link Int'l. Corp. since 2004 and of Tajima Yakiniku Inc. since 2005. Mr. Gregorio graduated Cum Laude from the Ateneo de Manila in 1994 for his Bachelor of Science in Management Engineering, Bachelor of Arts Major in Economics-honors degrees. He took his Juris Doctor at the same university in 1998 and passed the Bar examinations also that year.

**Renato L. Reyes**, 61, is the Chairman of the Nomination and Election Committee and a member of the Audit and Compensation Committee and the Strategic Direction Committee. He is the President/Director of Cangoc Inc, Cuisine Allurements Inc. since 2002, Active Earnings Inc, Carellan Inc., and Hobiton Inc., since 2003 and of Weathertop Inc. since 2004. He is the Chairman/Director of JMARR Realty Inc. and Grand Pin Development Corp. since 2002. He is a Director of Neorama Signs Inc. since 1970, PPARR Mgt. & Holding Corp. since 2001, and ATN Holdings Inc. since 2007. He is the current owner of Bertese Grains Trading and Myrna J. Reyes Rice Trading. He is the Chairman/President/Director of Pinecrest Realty Corporation since 2003. He is a member of Chrysalid Foundation Inc. since 2004. He was the Corporate Secretary of Aristocrat Inc from 1972 to 1979, Mortgage Broker

for Mortgage Broker, California, USA from 1982 to 1989 and a Proprietor of R. Reyes Pawnshop from 1991 to 1997

**Ramon L. Abad Jr., 69**, is a member of the Strategic Direction Committee, Audit & Compliance Committee and Compensation & Remuneration Committee. Mr. Abad is the Vice President of Isla Insurance Brokers Corporation since 1997. He was the Treasurer and a Director of PPARR Management and Holding Corp. from 1992 to 1997, VP of Dominion Insurance Corp from 1992 to 1997 and Davao Branch Manager of AFIA Worldwide Insurance from 1976 to 1979. He was Head of Leasing and Discount of the Commercial and Credit Corporation from 1966 to 1970. He took his AB Math at the Ateneo de Manila University in 1957 and another Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology in 1968.

**Juan B. Custodio, 53**, is the Corporate Information and Compliance Officer of the Company. He is a member of the Nomination and Election Committee. Prior to his election as member of the Company's Board of Directors, Mr. Custodio was the Vice President of Operations from 2007 to 2008. He is the VP-Operations of the Company's subsidiary MUSIC Semiconductors Philippines, Inc. (MSPI). He was a member of the Company's Board of Directors and of the Audit and Compliance Committee from 2001 to October 3, 2007. Mr. Custodio graduated from the Mapua Institute of Technology with a Bachelor of Science degree in Electrical Engineering in 1977. Before he joined MSPI as Director of Quality, Mr. Custodio was employed with Allegro Microsystems Philippines, Inc., a semiconductor company, as Test QAR Manager from October 1983 to 1995.

\* The Independent Directors of the Company are Atty. Antonio Victoriano F. Gregorio III and Ma. Therese G. Santos. Ms. Santos and Atty. Gregorio have never been engaged as a Consultant of the company.

**Officers of the Issuer:**

Chairman, President and CEO	-	Michael Burton
Treasurer, VP-Finance & Admin, CFO	-	Renelia L. Yturzaeta
Corporate Secretary	-	Virgilio D.C. Herce
Asst. Corporate Secretary	-	Alan C. Ortiz
Compliance Officer & Corp. Information Officer	-	Juan B. Custodio

**The current Executive Officers and significant employees of the Group**

Name	Age	Citizenship	Period Served	Business Experience for the past 5 years
Juan B. Custodio Vice President - Operations	53	Filipino	Oct.3, 2007 to present	<b>Juan B. Custodio, 53</b> , is the Vice President of Operations of subsidiary MUSIC Semiconductors Philippines, Inc. (MSPI). He is also the Compliance Officer of the Company as well as Corporate Information Officer. He was a member of the Company's Board of Directors and of the Audit and Compliance Committee from 2001 to October 3, 2007. Mr. Custodio graduated from the Mapua Institute of Technology with a Bachelor of Science degree in Electrical Engineering in 1977. Before he joined MSPI, Mr. Custodio was employed with Allegro Microsystems Philippines, Inc., a semiconductor company, as Test QAR Manager from October 1983 to 1995.

<p>Jose Alexander S. Ignacio Vice President – Sales</p>	<p>47</p>	<p>Filipino</p>	<p>Oct.3, 2007 to present</p>	<p><b>Jose Alexander S. Ignacio</b>, 47, is the Vice President of Sales of the Company and Director for Asian Sales and Marketing of MSI, after serving as Vice President for Operations of MSPI. He was a member of the Company’s Board of Directors and of the Nomination &amp; Election Committee from 2001 to October 3, 2007.</p> <p>Mr. Ignacio obtained his Bachelor of Science Major in Industrial Management Engineering (minor in Chemical Engineering) from the De La Salle University in 1983. Prior to MUSIC, Mr. Ignacio was responsible for setting up Electronic Test Lab Corporation (ETLC), a company engaged in the subcontract test services, where he held various positions including as Materials Manager for four years and Operations Manager for two years. ETLC has gained the recognition of being the first final test and reliability subcontract company in the Philippines. Mr. Ignacio began his career in the semiconductor industry at American Microsystems, Inc, as Senior Business Planning Specialist.</p>
<p>William Mundy Executive Vice President – Development and Marketing</p>	<p>55</p>	<p>American</p>	<p>Oct.3, 2007 to present</p>	<p><b>William Mundy</b>, 55, is the Executive Vice President of Development and Marketing. Mr. Mundy had 15-plus years experience leading technical business units to profitability and commanding market leadership positions through marketing, sales and operations for international Fortune 500 companies such as Siemens Optoelectronics, Hewlett Packard, Mitsubishi Semiconductors, Lara Networks, Ensemble Systems from 1985 to 2000. He joined MUSIC Semiconductors Inc. in the U.S. as VP- Marketing from 2000 to 2001. He held Consulting job with numerous clients from 2001 to 2007 in varying industries from Real Estate to Hosting Services, directed at boosting sales through successful implementation of marketing strategies then as well as for specialty firms. Background includes serving OEM markets in medical devices, telecom and network systems with custom and semi-custom components including Optoelectronics, MCUs, ASICs, CAMs and custom assemblies. Mr. Mundy graduated cum laude from the University of Missouri for his BS Business Administration degree in 1976. He took another degree in BS Electrical Engineering from the Washington University also in Missouri graduating cum laude in 1980.</p>

Renelia L. Yturzaeta Vice President – Finance & Admin, Chief Financial Officer	51	Filipino	Oct.3, 2007 to present	<b>Renelia L. Yturzaeta</b> , 51, is the Vice President of Finance and Admin of the Company as well as its Chief Financial Officer. She's also the Director of Finance and Admin of MUSIC Semiconductors Philippines Inc.(MSPI). Ms. Yturzaeta joined the Company in March 2001 after working with PMI Asia Inc. as the Finance and Admin Manager for three(3) years. Previous to that she was the CFO of Amertron Inc., a semiconductor company, for three (3) years, Finance Manager of Innodata Processing Corporation for a year (1 year), and as an Accounting Services Manager of Sea-Land Service, Inc., an American shipping line, for thirteen (13) years. She graduated from the University of the East with a BSBA Major in Accounting degree and is a Certified Public Accountant. She has Masteral degree units at the De la Salle University.
---	----	----------	------------------------	---

### Other Significant Employees

Name and Position Held	Age	Citizenship	Period Served	Business Experience for the past 5 years
Rodney Antonisse European Application Manager *	38	Dutch	2001 to present	<b>Rodney Antonisse</b> , 38, is the European Applications Manager*. He has been responsible for expanding the company's business in the European marketplace. Mr. Antonisse has also been instrumental in the development of new product concepts.  * Effective January 28, 2009, Rodney Antonisse was appointed VP- Product Development of the Company's subsidiary MUSIC Semiconductors Philippines Inc. (MSPI) with the resignation of David T. Cutler, Chief Technology Officer.

### Family Relationships

There are no existing family relationships within the fourth civil degree either by consanguinity or affinity among directors, executive officers, or persons nominated or chosen by the Company to become directors or executive officers.

### Involvement in Legal Proceedings

To the best of the Registrant's knowledge, in the last 5 years up to the latest date of this information statement, none of the directors or officers is or has been involved in any of the following events material in evaluating his ability or integrity as such director or officer:

- a. any bankruptcy proceeding filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two (2) years prior to that time;
- b. any conviction by final judgment;
- c. any order, judgment or decree, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
- d. violation of a securities or commodities law or regulation.

## Item 10. Executive Compensation

The aggregate compensation paid or incurred during the last two fiscal years and estimated to be paid in the current fiscal year to the Chief Executive Officer of the Company is as follows:

Annual Compensation of the Group's Executive Officers and Directors				
	Year	Salary (US\$)	Bonuses (US\$)	Other Income
Name & Position of 6 most Compensated Officers				
Michael Burton-President and CEO				
William Mundy, EVP- Development & Marketing				
Jose Alexander S. Ignacio, VP-Sales				
David Cutler, CTO				
Juan B. Custodio, VP-Operations				
Renelia L. Yturzaeta VP-Finance & Admin, CFO				
CEO and the Five most highly compensated officers named above	2008	443,000	NA	0
	2007	431,105	NA	0
	2006	363,032	NA	0
	2005	306,253	NA	0
Aggregate compensation of the Executive Officers and Directors	2008	465,000	NA	0
	2007	453,505	NA	0
	2006	375,832	NA	0
	2005	318,653	NA	0

### Compensation of Directors

Each non-employee member of the board received in 2007 a per diem of US\$800 for the actual attendance at every regular board meeting, and US\$400 for the actual attendance at every special board meeting. The chairman of a committee received US\$200 every month, while the members received US\$200 per actual attendance at every committee meeting. Commencing 2008, the directors' fees had been reduced to US\$500 for actual attendance at every regular board meetings and US\$250 for special board meetings.

### Employment Contracts

The only employees with employment contracts are Mr. Michael Burton, MUSIC's President and CEO and Mr. David Cutler, the Corporation's Chief Technology Officer.

### Warrants and Options Outstanding

None

## Item 11. Security Ownership of Certain Record and Beneficial Owners and Management

### Security Ownership of Certain Record and Beneficial Owners

As of December 31, 2008, the following persons or group own more than five percent (5%) of the Registrant's voting securities:

	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent

Common	PCD Nominee Corp G/F Makati Stock Exchange, Ayala Avenue, Makati City	PCD Nominee Corporation, a wholly-owned subsidiary of the Philippine Depository and Trust Corporation, Inc. (PDTC), is the registered owner of the shares in the books of the Registrant's stock transfer agent. The beneficial owner of such shares entitled to vote the same are PDTC's participants, who hold the shares either in their own behalf or on behalf of their clients. The following PDTC participants hold more than 5% of the Registrant's voting securities: - Guild Securities Inc. - 24.0% - No relationship with the Issuer	Filipino	1,462,898,206	59.71%
Common	Raymond P. Evangelista (replaced by new investor by Richard Y. Chiongbian)	Raymond P. Evangelista (replaced by new investor by Richard Y. Chiongbian)	Filipino	173,091,302	7.06%
Common	Edwin Q. Concepcion (replaced by new investor by Chi Ho Co)	Edwin Q. Concepcion (replaced by new investor by Chi Ho Co)	Filipino	173,091,302	7.06%
Common	Lilibeth L. Cruz (replaced by new investor by Reynaldo C. Oriel)	Lilibeth L. Cruz (replaced by new investor by Reynaldo C. Oriel)	Filipino	125,000,000	5.10%
Common	Maria Lucille L. Hirang (replaced by new investor by Edmundo R. Agcaoili)	Maria Lucille L. Hirang (replaced by new investor by Edmundo R. Agcaoili)	Filipino	125,000,000	5.10%

### Security Ownership of Management

The following table shows the ownership of the following directors and executive officers in the Registrant's Common shares as of December 31, 2008:

Title of Class	Name of Beneficial Owner	Citizenship	No of shares	Nature	Percent Ownership
Common	Michael Burton	British	94,974,313	Record	3.88%
Common	Juan B. Custodio	Filipino	7,620,935	Record	0.31%
Common	Ma. Therese G. Santos	Filipino	123,200	Record	0.01%
Common	Jerry C. Angping	Filipino	170,100,000	Record**	6.94%
Common	Renato L. Reyes	Filipino	103,550,000	Record*	4.23%
Common	Antonio F. Gregorio III	Filipino	9,380,000	Record*	0.38%
Common	Ramon L. Abad, Jr.	Filipino	14,120,000	Record*	0.58%
Common	Virgilio D.C Herce	Filipino	3,010,000	Record	0.12%
Common	Alan C. Ortiz	Filipino	0	Record	0.00%
Common	Renelia L. Yturzaeta	Filipino	6,005,825	Record	0.34
<b>Total</b>			<b>408,884,273</b>		<b>16.69%</b>

\* Lodged under Guild Securities \*\* Lodged under Angping Securities

### Voting Trust Holders of 5% or more

To the knowledge of the Company, no such voting trust exists.

## **Changes in Control**

The Company is not aware of any change in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

## **Item 12. Certain Relationships and Related Transactions**

No director, executive officer, or stockholders owns ten percent (10%) or more of total outstanding shares of the Company during the last two years.

## **PART IV – CORPORATE GOVERNANCE**

### **Item 13. Corporate Governance**

The Company has adopted the Corporate Governance Self-Rating system to measure its compliance with the Manual on Corporate Governance. Items that need improvement are being reviewed and discussed for actions by champions as assigned by the Audit and Compliance Committee (which is composed of a majority of independent directors, one of which is the Chairperson.) The results of these reviews are documented and forwarded to the Board for further discussion and if needed, for resolutions.

The performance of the Board and its individual members is being measured and monitored via the Board Performance Tracking system in which the Compliance Officer regularly reports to the Board. Areas for improvement are discussed for action during the Board/Committee meetings. Board performance metrics include among others the individual director's attendance to Board and Committee meetings, availability of minutes, open/closed action items, etc.

The Board through its Audit and Compliance Committee continuously reviews and follow-up until closure all action items needed to be in full compliance with the company's Manual on Corporate Governance and its related documents and policies.

No substantial deviation from the Company's Manual on Corporate Governance was recorded and disclosed in 2008.

#### Plan to improve the Corporate Governance of the Company:

Continuous training of members of the Board of Directors, Management officers and personnel to the various documents on corporate governance manuals and policies including its revisions.

## PART V – EXHIBITS AND SCHEDULES


### Item 14. Reports on SEC Form 17-C

<b>Matters Reported</b>	
Jan.10, 2008	Director's attendance to Corporate Governance Seminar and submission of the amended Manual of Corporate Governance.
Jan.28, 2008	Certification on compliance to Corporate Governance and Board meetings attendance of directors.
Mar.7, 2008	Board approval on 470M shares Private Placement, 123M Stock Purchase Plan, Postponement of shareholders meeting, and proposed Amendment to AOI.
Mar.24, 2008	Board approval on the 71M shares debt-to-equity for employees
Apr.10, 2008	Board approval on release of the 2007 Annual report/FS and the postponement of the shareholders meeting.
Apr.24, 2008	Resignation of a Director and appointment of a new director by the Board
Apr.28, 2008	Report on subsidiary's (MSI) receipt of a notice of a lawsuit by a shareholder of Protelcon Inc. in the US.
May 15, 2008	Board approval on release of the Q108 report, director's fee reduction, appointment of an Assistant Corporate Secretary.
June 24, 2008	Board approval to change the purpose, name and principal address of the Corporation subject to shareholders approval.
July 2, 2008	Settlement of a bank loan with Deutsche Bank AG.
July 28, 2008	Board approval on the issuance of 81M shares to MSPI under debt-to-equity scheme, establishment of a retirement fund company (MSRFI) and additional shares issuance to a director under the Stock Purchase Plan.
Sept.18, 2008	Board approval on postponement of the shareholders meeting, investment in Abacus coal, issuance of 596M shares through private placement, filing of the registration statement for 1.34B shares with the SEC.
Oct.28, 2008	Board approval for the Company to invest in high yield deposits, equities, marketable securities, bonds and cash equivalents. Expand the rule of the Strategic Committee responsibility over these matters.
Oct. 30, 2008	Results of Annual Shareholders meeting and Organizational structure.
Dec.18, 2008	Board approval on the re-assignment to new investors of the 596M shares private placement at a reduced share price.

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the Company by the undersigned, thereunto duly authorized, in the City of \_\_\_\_\_, on \_\_\_\_ 2009.

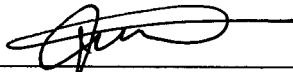
By:



**Michael Burton**  
Principal Executive Officer  
Principal Operating Officer



**Renelia L. Yturzaeta**  
Principal Financial Officer  
Comptroller  
Principal Accounting Officer




**Juan B. Custodio**  
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this APR 14 2009 day of 2009 affiants exhibiting to me their Community Tax Certificates/Passport Numbers, as follows:

NAMES	COMM. TAX. CERT. NO. PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Michael Burton	706295612	March 16, 2007	Manila
Renelia L. Yturzaeta	20187192	Jan. 21, 2009	Binan, Laguna
Juan B. Custodio	11829937	Jan. 6, 2009	Las Pinas City

Doc. No. 127 ;  
Page No. 24 ;  
Book No. CCXII  
Series of 2009.



**ATTY. FERNANDO M. ALONZO**  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2009  
PTR. NO. 417/894 JAN. 6, 2009  
CITY OF CALAMBA TINS 170-150-620  
ATTY. ROLLS 36200 IBPS 741321  
ISSUED ON JAN. 08, 09 AT CALAMBA CITY

**MUSX CORPORATION AND SUBSIDIARIES**  
**(Formerly MUSIC Semiconductors Corporation)**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2008 AND 2007**

	Notes	In U.S. Dollars (Functional Currency)		In Philippine Pesos (Presentation Currency)	
		2008	2007	2008	2007
<b><u>ASSETS</u></b>					
<b>CURRENT ASSETS</b>					
Cash	5	\$ 193,405	\$ 2,011,719	P 9,183,836	P 83,287,178
Trade and other receivables - net	6	306,018	634,809	14,531,265	26,281,727
Inventories - net	7	646,436	2,020,408	30,696,013	83,646,912
Refundable deposits	8	473,755	23,943	22,496,256	991,265
Prepayments and other current assets - net	8	39,349	22,355	1,868,487	925,519
Total Current Assets		<u>1,658,963</u>	<u>4,713,234</u>	<u>78,775,857</u>	<u>195,132,601</u>
<b>NON-CURRENT ASSETS</b>					
Trade and other receivables - net	6	332,237	-	15,776,274	-
Available-for-sale financial asset - net	9	349,090	-	16,576,539	-
Property and equipment - net	10	-	43,920	-	1,818,332
Intangible asset	11	2,899,864	654,703	137,700,042	27,105,359
Deferred tax asset	22	1,780,612	-	84,552,361	-
Other non-current assets		212	497	10,067	20,576
Total Non-current Assets		<u>5,362,015</u>	<u>699,120</u>	<u>254,615,283</u>	<u>28,944,267</u>
<b>TOTAL ASSETS</b>		<u>\$ 7,020,978</u>	<u>\$ 5,412,354</u>	<u>P 333,391,140</u>	<u>P 224,076,868</u>
<b><u>LIABILITIES AND EQUITY</u></b>					
<b>CURRENT LIABILITIES</b>					
Interest-bearing loans and borrowings	12	\$ 183,338	\$ 979,087	P 8,705,805	P 40,535,181
Trade and other payables	13	607,237	1,137,113	28,834,649	47,077,615
Income tax payable		-	7,990	-	330,794
Total Current Liabilities		<u>790,575</u>	<u>2,124,190</u>	<u>37,540,454</u>	<u>87,943,590</u>
<b>NON-CURRENT LIABILITY</b>					
Retirement benefit obligation	20	295,805	295,505	14,046,300	12,234,203
Total Liabilities		<u>1,086,380</u>	<u>2,419,695</u>	<u>51,586,754</u>	<u>100,177,793</u>
<b>EQUITY</b>					
Issued capital and reserves	15	5,934,598	2,992,659	281,804,386	123,899,075
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>\$ 7,020,978</u>	<u>\$ 5,412,354</u>	<u>P 333,391,140</u>	<u>P 224,076,868</u>

*See Notes to Consolidated Financial Statements.*

**MUSX CORPORATION AND SUBSIDIARIES**  
*(Formerly MUSIC Semiconductors Corporation)*  
**CONSOLIDATED INCOME STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**

	Notes	In U.S. Dollars (Functional Currency)			In Philippine Pesos (Presentation Currency)		
		2008	2007	2006	2008	2007	2006
<b>NET SALES</b>		<b>\$ 2,338,442</b>	\$ 3,310,574	\$ 3,573,365	<b>P 104,002,208</b>	P 152,776,369	P 183,363,652
<b>COST OF GOODS SOLD</b>	16	<b>2,280,140</b>	1,254,414	946,372	<b>101,409,227</b>	57,888,697	48,562,133
<b>GROSS PROFIT</b>		<b>58,302</b>	2,056,160	2,626,993	<b>2,592,981</b>	94,887,672	134,801,519
<b>OTHER OPERATING EXPENSES</b>	16	<b>1,454,435</b>	1,365,905	1,488,446	<b>64,685,996</b>	63,033,783	76,378,118
<b>OPERATING PROFIT (LOSS)</b>		<b>( 1,396,133 )</b>	690,255	1,138,547	<b>( 62,093,015 )</b>	31,853,889	58,423,401
<b>OTHER INCOME (CHARGES)</b>							
Finance costs	19	( 419,109 )	( 243,611 )	( 210,428 )	( 18,639,873 )	( 11,242,160 )	( 10,797,902 )
Reorganization costs - net	18	( 47,775 )	( 71,129 )	( 403,897 )	( 2,124,793 )	( 3,282,461 )	( 20,725,571 )
Others - net	19	375,451	155,917	91,909	16,698,181	7,195,256	4,716,218
		<b>( 91,433 )</b>	( 158,823 )	( 522,416 )	<b>( 4,066,485 )</b>	( 7,329,365 )	( 26,807,255 )
<b>INCOME (LOSS) BEFORE TAX</b>		<b>( 1,487,566 )</b>	531,432	616,131	<b>( 66,159,500 )</b>	24,524,524	31,616,146
<b>TAX INCOME (EXPENSE)</b>	22	<b>1,765,864</b>	( 38,905 )	( 35,994 )	<b>78,536,801</b>	( 1,795,388 )	1,846,996
<b>NET INCOME</b>		<b>\$ 278,298</b>	\$ 492,527	\$ 580,137	<b>P 12,377,301</b>	P 22,729,136	P 29,769,150
<b>Earnings Per Share</b>	24	<b>\$ 0.0002</b>	\$ 0.0006	\$ 0.0009	<b>P 0.0086</b>	P 0.0295	P 0.0476

*See Notes to Consolidated Financial Statements.*

**MUSX CORPORATION AND SUBSIDIARIES**  
*(Formerly MUSIC Semiconductors Corporation)*  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**

Note	In U.S. Dollars (Functional Currency)			In Philippine Pesos (Presentation Currency)		
	2008	2007	2006	2008	2007	2006
<b>CAPITAL STOCK</b>						
15						
	\$ 3,245,047	\$ 3,121,683	\$ 3,121,683	P 110,837,004	P 89,338,577	P 89,338,577
	2,145,206	1,514,098	-	98,449,301	69,000,000	-
	-	( 1,390,734)	-	-	( 47,501,573)	-
	<u>5,390,253</u>	<u>3,245,047</u>	<u>3,121,683</u>	<u>209,286,305</u>	<u>110,837,004</u>	<u>89,338,577</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>						
15						
	384,458	-	-	27,252,067	-	-
	1,228,572	222,325	-	56,340,149	10,040,023	-
	-	1,390,734	-	-	47,501,573	-
	-	( 1,228,601)	-	-	( 30,289,529)	-
	<u>1,613,030</u>	<u>384,458</u>	<u>-</u>	<u>83,592,216</u>	<u>27,252,067</u>	<u>-</u>
<b>TREASURY SHARES - At Cost</b>						
15	( 270,096)	-	-	( 12,960,000)	-	-
<b>REVALUATION RESERVES</b>						
15	( 441,295)	-	-	( 21,236,000)	-	-
<b>ACCUMULATED TRANSLATION ADJUSTMENTS</b>						
15	( 34,901)	( 36,155)	( 33,414)	29,056,332	4,121,772	19,649,078
<b>DEFICIT</b>						
15						
	( 600,691)	( 2,321,819)	( 2,901,956)	( 18,311,768)	( 71,330,433)	( 101,099,583)
	-	1,228,601	-	-	30,289,529	-
	278,298	492,527	580,137	12,377,301	22,729,136	29,769,150
	<u>( 322,393)</u>	<u>( 600,691)</u>	<u>( 2,321,819)</u>	<u>( 5,934,467)</u>	<u>( 18,311,768)</u>	<u>( 71,330,433)</u>
<b>TOTAL EQUITY</b>						
	<u>\$ 5,934,598</u>	<u>\$ 2,992,659</u>	<u>\$ 766,450</u>	<u>P 281,804,386</u>	<u>P 123,899,075</u>	<u>P 37,657,222</u>
<b>Net Loss Directly Recognized in Equity</b>						
	( \$ 441,295)	\$ -	\$ -	( P 21,236,000)	P -	P -

*See Notes to Consolidated Financial Statements.*

**MUSX CORPORATION AND SUBSIDIARIES**  
***(Formerly MUSIC Semiconductors Corporation)***  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008, 2007 AND 2006**

**1. CORPORATE INFORMATION**

***1.1 General***

MUSIC Semiconductors Corporation (the Company or parent company) was incorporated in the Philippines in 1992 and was established to engage in the creation, design, development and manufacture of specialty semiconductor products and to market and sell the same to customers worldwide. However, in 1999, with the approval of its shareholders, the Company became a holding company which lasted until 2003, when it reverted to its prior state, being a semiconductor operating company.

On October 30, 2008, the stockholders approved to change the Company's name to MUSX Corporation and to change the primary purpose of its business back to a holding company with the operation of semiconductor business as part of its secondary purposes. The Securities and Exchange Commission (SEC) approved these changes on December 15, 2008.

The registered office of the Company, which is also its principal place of business, is located at 110 Excellence Avenue corner Accuracy Drive, Carmelray Industrial Park, Canlubang, Calamba, Laguna. On March 2, 2009, the Board of Directors (BOD) approved the change in the principal office and place of business of the Company to L14 Net Cube Centre, 3<sup>rd</sup> Avenue corner 30<sup>th</sup> Street, E-Square Crest Park, West Bonifacio Global City, Taguig City. The change of principal office and place of business under Article III of its Articles of Incorporation is still subject to approval by shareholders and the SEC.

The Company operates within the Philippines. Its administrative functions are being handled by a subsidiary.

The Company's shares of stock are listed with the Philippine Stock Exchange (PSE).

The consolidated financial statements of the Company and its subsidiaries (the Group) for the year ended December 31, 2008 (including the comparatives for the years ended December 31, 2007 and 2006) were authorized for issue by the Company's President and Chief Executive Officer (CEO) on April 8, 2009.

### ***1.2 Ownership Interests***

As of December 31, 2008 and 2007, the Company holds direct interests in the following companies:

<u>Name of Subsidiary</u>	<u>Percentage of Ownership</u>
MUSIC Semiconductors Philippines, Inc. (MSPI)	100.0%
MUSIC Semiconductors, Inc. (MSI)	90.8%
Musem Electronics N.V. (Musem)	99.9%
Protelcon, Inc.* (Protelcon)	52.6%

\* Dormant company as of December 31, 2008 and 2007.

MSI and Protelcon were incorporated in the United States while Musem was incorporated in the Netherlands. MSPI is a domestic company.

In addition, the Company holds indirect interests in the following companies:

<u>Name of Subsidiary</u>	<u>Percentage of Ownership</u>
Innovative Technology Partners**	90.8%
Innovative Engineering, LLC**	90.8%

\*\* Wholly owned by MSI and have been dormant since December 31, 2001.  
These companies were all incorporated in the United States.

The minority interest in the subsidiaries that are not wholly owned has been reduced to zero by the minority interest's share in the net losses of those subsidiaries. Hence, no amount of minority interest is presented in the consolidated financial statements.

#### **MSPI**

MSPI was established to engage in manufacturing and testing of integrated circuits. MSPI is registered with the Philippine Economic Zone Authority (PEZA) as a non-pioneer export enterprise, entitled to a number of tax incentives (see Note 23).

On March 2, 2009, the BOD approved the change in the primary purpose of MSPI from manufacturing of semiconductor products to development, sales, marketing and logistics of semiconductor products. Relative to this, MSPI fully outsource to third party its manufacturing operation effective January 2009. On the same date, the BOD also approved the change in the principal address of MSPI from Canlubang, Laguna to Alabang, Muntinlupa City and for its logistic operation to Carmona, Cavite. The application for change in the primary purpose and principal address are subject to PEZA and SEC approval.

## MSI

MSI was established primarily as the sales and marketing arm of the Company, but in addition, undertook the role as the developer of the new products during the period of 1999 to 2001. During 2001, MSI suffered significant business losses as a result of the implosion of the internet and telecom markets, the two main markets of its customers. On January 30, 2002, MSI had filed a motion for voluntary bankruptcy under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court of the Northern District of California. On June 11, 2003, the Court approved the Plan of Reorganization filed by MSI.

As of December 31, 2008, MSI has fully paid all claims of creditors. The total payment to creditors since the bankruptcy began until December 31, 2008 amounted to \$9,453,799. (see Note 13).

On December 24, 2008, the Court issued its final decree and ordered that all the properties of MSI dealt with under the Plan of Reorganization are free and clean of claims and interests of creditors of MSI.

## Musem

Musem is a Dutch company responsible for sales and marketing in Europe.

### ***1.3 Company Restructuring***

On October 30, 2008, the stockholders approved a restructuring plan, whereby the existing semiconductor assets and liabilities of the Company will be transferred to MSPI in exchange for MSPI shares that will be taken from such subsidiary's unissued shares of stock. Relative to this, on November 3, 2008, the Company executed a Deed of Assignment in favor of MSPI under which both parties agreed to the transfer of the Company's net semiconductor assets with carrying value of \$4,465,228 (P218,260,365) in exchange for 34,258 unissued shares of MSPI at \$130.34 (P6,371.08) per share. The restructuring plan is yet to be submitted to the SEC for approval.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### ***2.1 Basis of Preparation of Consolidated Financial Statements***

#### ***(a) Statement of Compliance with Philippine Financial Reporting Standards***

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These consolidated financial statements have been prepared on the historical cost basis except for the revaluation of available-for-sale financial assets. The measurement bases are more fully described in the accounting policies that follow.

*(b) Functional and Presentation Currency*

The Group's consolidated financial statements are presented in U.S. dollars and Philippine pesos, the Group's functional currency and presentation currency, respectively, and all values represent absolute amounts except when otherwise indicated (see Note 2.13).

*(c) Reclassification of Accounts*

Certain accounts in the 2007 and 2006 consolidated financial statements have been reclassified to conform with the 2008 presentation and classification.

**2.2 Impact of New Amendments and Interpretations to Existing Standards**

*(a) Effective in 2008 that are relevant to the Group*

In 2008, the Group adopted for the first time the following new interpretation and amended standards which are mandatory in 2008.

Philippine Interpretation IFRIC 14	:	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
PAS 39 and PFRS 7 (Amendments)	:	PAS 39, Financial Instruments: Recognition and Measurements and PFRS 7, Financial Instruments: Disclosures

Discussed below are the effects on the consolidated financial statements of the new accounting interpretation and amended standards.

- (i) Philippine Interpretation IFRIC 14, *PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides guidance on assessing the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group's adoption of this interpretation does not have any impact on the Group's financial statements, as it has a retirement benefit obligation and is not subject to any minimum funding requirements.

- (ii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurements* and PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective from July 1, 2008). The amendments permit an entity to:
- Reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of fair value through profit or loss category in particular circumstances; and
  - Transfer from the available for sale category to the loans and receivable category those financial assets that would have met the definition of loans and receivables, provided that the entity has the intention and the ability to hold those financial assets for the foreseeable future.

The amendments are applicable in a partially retrospective manner up to July 1, 2008 provided that the reclassification was made on or before November 15, 2008, the cut-off date set by the FRSC. After the cut-off date, all reclassifications will only take effect prospectively. As the Group did not exercise the option to reclassify its financial assets; hence, it determined that the adoption of these amendments has no impact on the 2008 consolidated financial statements.

The first time application of these interpretation and amendments has not resulted in any prior period adjustments of consolidated balance sheet, net income or cash flows line items.

*(b) Effective in 2008 but not relevant to the Group*

The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2008 but are not relevant to the Group's operations:

Philippine Interpretation IFRIC 11	:	PFRS 2 – Group and Treasury Share Transactions
Philippine Interpretation IFRIC 12	:	Service Concession Arrangements

*(c) Effective subsequent to 2008*

There are new and amended standards that are effective for periods subsequent to 2008. The following new standards, effective for annual periods beginning on or after January 1, 2009, are relevant to the Group and which the Group will apply in accordance with their transitional provisions.

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 23 (Revised 2007)	:	Borrowing Costs
PAS 27 (Revised 2008)	:	Consolidated and Separate Financial Statements
PFRS 3 (Revised 2008)	:	Business Combinations
PFRS 8	:	Operating Segments
Various Standards	:	2008 Annual Improvements to PFRS

Below is a discussion of the possible impact of these accounting standards.

- (i) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Group will apply PAS 1 (Revised 2007) in its 2009 consolidated financial statements.
- (ii) PAS 23 (Revised 2007), *Borrowing Costs* (effective from January 1, 2009). Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed. The Group has initially determined that adoption of this new standard will not have significant effects on the consolidated financial statements for 2009, since the Group has no borrowing costs that qualify for asset recognition.
- (iii) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the non-controlling interests be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. As of December 31, 2008, the deficit balance of non-controlling interest absorbed by the equity of the owners of the parent amounted to \$19,989. This will be retrospectively adjusted in the Company's 2010 consolidated financial statements.
- (iv) PFRS 3 (Revised 2008), *Business Combinations* (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply PFRS 3 (Revised 2008) prospectively to all business combinations from January 1, 2010.

- (v) PFRS 8, *Operating Segments* (effective from January 1, 2009). This standard requires entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets to disclose segment information. With PFRS 8, entities are required to adopt the “management approach” in reporting on its operating segments. The expected information generally to be reported in the annual financial statements would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has determined that the adoption of this new standard will not have a material impact on the Group’s consolidated financial statements since the current reporting segments are consistent with the management reporting segments.
- (vi) 2008 Annual Improvements to PFRS. The FRSC has issued *Improvements to Philippine Financial Reporting Standards 2008*. These amendments become effective in the Philippines in annual periods beginning on or after January 1, 2009. The Group expects the amendments to the following standards to be relevant to the Group’s accounting policies:
- PAS 23 (Amendment), *Borrowing Costs*. The amendment clarifies the definition of borrowing costs to include interest expense determined using the effective interest method under PAS 39. This amendment will be applied by the Group in 2009; however, management expects its effect to be insignificant.
  - PAS 19 (Amendment), *Employee Benefits*. The amendment includes the following:
    - Clarification that a curtailment is considered to have occurred to the extent that benefit promises are affected by future salary increases and a reduction in the present value of the defined benefit obligation results in negative past service cost.
    - Change in the definition of return on plan assets to require the deduction of plan administration costs in the calculation of plan assets return only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
    - Distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
    - Removal of the reference to recognition in relation to contingent liabilities in order to be consistent with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, which requires contingent liabilities to be disclosed and not recognized.

The Group’s management assessed that this amendment to PAS 19 will have no impact on its 2009 consolidated financial statements.

- PAS 38 (Amendment), *Intangible Assets*. The amendment clarifies when to recognize a prepayment asset, including advertising or promotional expenditures. In the case of supply of goods, the entity recognizes such expenditure as an expense when it has a right to access the goods. For services, an expense is recognized on receiving the service. Also, prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group initially determined that adoption of this amendment will not have a material effect on its 2009 consolidated financial statements.

Minor amendments are made to several other standards; however, those amendments are not expected to have a material impact on the Group's consolidated financial statements.

### ***2.3 Basis of Consolidation***

The Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Company, and its wholly owned subsidiaries, MSPI and Musem, 90.8% owned MSI, and 52.6% owned Protelcon. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. In addition, shares of stock of the Company acquired by the subsidiary are recognized as treasury stock and these are presented as deduction in the consolidated statement of changes in equity. Any changes in their market values as recognized separately by the subsidiaries are likewise eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting principles.

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The Company obtains and exercises control through voting rights.

Subsidiaries are consolidated from the date the Company obtains control until such time that such control ceases.

Acquired subsidiaries are subject to the application of the purchase method for acquisitions. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

The portion of the equity interest in the subsidiary not owned by the Company is treated as minority interest. When losses applicable to the minority interest exceed the minority interest in the equity of the subsidiary, the excess, and any further losses applicable to the minority, are charged against the Company. If the subsidiary subsequently reports profits, such profits are allocated to the Company until the minority's share in losses previously absorbed by the Company has been recovered.

#### ***2.4 Segment Reporting***

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

#### ***2.5 Financial Assets***

Financial assets include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the characteristics of the instrument and the purpose for which it was acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards. The financial instruments category is relevant for the way it is measured and whether any resulting income and expense is recognized in profit or loss or directly in equity.

All financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated income statement.

The Group's financial instruments are currently classified as follows:

##### ***(a) Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated cash flows.

The Company's financial assets categorized as loans and receivables include cash, trade and other receivables and refundable deposits.

*(b) Available-for-sale (AFS) Financial Assets*

These include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are presented under the Non-current Assets section in the consolidated balance sheet unless management intends to dispose of the investment within 12 months from the balance sheet date.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the consolidated income statement when they are sold or when the investment is impaired.

In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the consolidated income statement. If circumstances change, impairment losses recognized on equity investments are not reversed through the consolidated income statement.

Impairment losses recognized on financial assets are presented as part of Finance costs in the consolidated income statement.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related amount of financial asset is measured. All income and expense relating to financial assets recognized in profit or loss are presented in the income statement under Other income (charges).

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

## **2.6 Inventories**

At the balance sheet date, inventories are valued at the lower of cost and net realizable value.

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

- (a) *Raw materials* – landed cost (purchase price plus costs incurred in bringing each product to its present location) on a moving average method; and,
- (b) *Finished goods and work-in-process* – cost of direct materials and labor and a proportion of manufacturing overhead based on normal operating capacity on a moving average method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of raw materials is the current replacement cost.

## **2.7 Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to income as incurred. When assets are sold, retired, or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in the consolidated income statement for the period.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Machinery and equipment	3 to 5 years
Office and computer equipment	3 years
Other operating equipment	3 years
Office furniture and fixtures	3 years

Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or remaining term of the lease, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.14).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at each balance sheet date.

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

### ***2.8 Intangible Asset***

Intangible asset represents capitalized development costs which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition or production. This asset is subject to impairment testing as described in Note 2.14.

Costs associated with research activities are expensed in the consolidated income statement as incurred. Costs that are directly attributable to the development phase of new Content Addressable Memory (CAM) products are recognized as intangible asset provided they meet the following recognition requirements:

- (a) demonstration of technical feasibility of the prospective product for internal use or sale;
- (b) the intangible asset will generate probable economic benefits through internal use or sale;
- (c) sufficient technical, financial and other resources are available for completion; and,
- (d) the intangible asset can be reliably measured.

Directly attributable costs include personnel costs incurred on software development along with an appropriate portion of relevant overheads. However, until completion of the development project, the assets are subject to impairment testing only as described in Note 2.14. Amortization commences upon completion of the asset.

All other development costs are expensed as incurred.

### ***2.9 Financial Liabilities***

Financial liabilities, which include interest-bearing loans and borrowings and trade and other payables are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as an expense in the consolidated income statement under the caption Finance costs.

Interest-bearing loans and borrowings are raised for support of funding of operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method.

Trade and other payables are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

Financial liabilities are classified at fair value through profit or loss if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

Financial liabilities are derecognized from the consolidated balance sheet only when the obligations are extinguished either through discharge, cancellation or expiration.

### ***2.10 Provisions***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements.

### ***2.11 Revenue and Cost Recognition***

Revenue is recognized to the extent that the revenue can be reliably measured, it is probable that the economic benefits will flow to the Group, and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Sale of goods* – Revenue is recognized when the title to inventories passes to the buyer. This is generally when the customer has taken undisputed delivery of goods.
- (b) *Interest* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for goods supplied and services provided, excluding trade discounts.

Costs and expenses are recognized in the consolidated income statement upon receipt of goods and utilization of the service or at the date they are incurred. Finance costs are reported on an accrual basis.

### ***2.12 Leases***

Leases which do not transfer to the Group 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 income statement on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Lease income from operating leases is recognized as income in the consolidated income statement on a straight-line basis over the lease term. Indirect costs incurred by the lessor in negotiating and arranging for an operating lease is added to the carrying amount of the leased asset and recognized as expense over the lease term. The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

### ***2.13 Functional Currency and Foreign Currency Transactions***

#### ***(a) Functional and Presentation Currency***

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented both in U.S. dollars, which is the Group's functional currency, and in Philippine pesos, the Group's presentation currency.

In translating consolidated financial statements from functional currency to presentation currency, assets and liabilities for each consolidated balance sheet presented are translated using the closing rate at the balance sheet date while income and expenses for each consolidated income statement presented are translated using the average exchange rate for the year. All resulting exchange differences are recognized as Accumulated translation adjustments presented as a separate component of consolidated Equity (see Note 15.7).

#### ***(b) Transactions and Balances***

The accounting records of the Group are maintained in U.S. dollars and Philippine pesos. Foreign currency transactions (i.e. transactions in foreign currencies other than the U.S. dollars) during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

(c) *Foreign Entities*

The operating results and financial position of all foreign entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities, including equity (capital deficiency), for each consolidated balance sheet presented are translated at the closing rate at the date of that consolidated balance sheet;
- (ii) income and expenses for each consolidated income statement are translated at average exchange rates; and,
- (iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognized in the consolidated income statement as part of the gain or loss on sale.

The translation of the consolidated financial statements into the presentation currency should not be construed as a representation that the foreign entity's functional currency amounts could be converted into the presentation currency amounts at the translation rates or at any other rates of exchange.

***2.14 Impairment of Non-Financial Assets***

The Group's property and equipment and intangible asset are subject to impairment testing. These assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

## **2.15 Employee Benefits**

### **(a) Retirement Benefit Obligations**

Pension benefits are provided to employees through a defined benefit plan.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of pension plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the consolidated balance sheet for defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated periodically by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor is disclosed separately.

Past-service costs are recognized immediately in the consolidated income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

### **(b) Post-employment Benefit – Defined Contribution**

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in the current liabilities or current assets as they are normally of a short term nature.

*(c) Termination Benefit*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

*(d) Compensated Absences*

Compensated absences are recognized for the number of unused leave days (including holiday entitlement) remaining at the balance sheet date. The amounts recognized are included in the Trade and other payables account at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

**2.16 Income Taxes**

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the consolidated income statement.

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

Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the consolidated income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

### ***2.17 Equity***

Capital stock is determined using the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuing of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Treasury shares are stated at the cost of reacquiring such shares.

Revaluation reserves comprise gains and losses arising from the revaluation of available-for-sale financial assets.

Accumulated translation adjustments include all exchange differences resulting from the translation of the financial statements of a foreign entity to U.S. dollars functional currency, and from the translation of the Group's consolidated financial statements from functional currency to presentation currency.

Deficit includes all current and prior period results as reported in the consolidated income statement.

### ***2.18 Earnings Per Share***

Basic earnings per share is computed by dividing net income by the weighted average number of issued and outstanding common shares during the year after giving retroactive effect to stock dividends declared, stock split and reverse stock split during the current year, if any.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. The Company does not have dilutive potential shares outstanding that would require disclosure of diluted earnings per share in the consolidated income statement.

## **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

### ***3.1 Critical Management Judgments in Applying Accounting Policies***

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

#### ***(a) Operating Leases***

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Rental expense charged to operations amounted to \$37,321 in 2008, \$46,091 in 2007 and \$57,442 in 2006 (see Note 17).

#### ***(b) Provisions and Contingencies***

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Notes 2.10 and 25.

#### ***(c) Impairment of AFS Financial Assets***

The Group follows the guidance of PAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance and changes in operational and financing cash flow.

Based on management assessment, the decline in the fair value of AFS financial assets as of December 31, 2008 does not constitute impairment. The analysis of the carrying value of AFS investment is disclosed in Note 9.

#### ***(d) Capitalization of Development Costs***

Careful judgment by management is applied when deciding whether the recognition requirements for development costs for new CAM product, in contrast with research, have been met (see Note 2.8). This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new products are continuously monitored by management.

The new CAM product being developed is currently at the design and layout stage. The total capitalized development costs as of December 31, 2008 and 2007 amounted to \$2,899,864 and \$654,703, respectively (see Note 11).

*(e) Stock Purchase Plan*

The Group determines whether its stock purchase plan is considered share-based payment transaction under PFRS 2, *Share-based Payment*. In making this judgment, the Group evaluates the substance of the transaction under the plan which considers among others, presence of award element for the employees and vesting requirements, the basis of valuation of the shares and the timing of the issuance of the shares. Based on the Group's judgment, the stock purchase plan is not covered by PFRS 2 since the transaction constitute only the granting of interest-bearing loans to Group's employees for the purchase of shares of stock of the Group at share price prevailing in the market. Relative to this, the Group's employees are paying the full fair value of the shares which demonstrates that the stock purchase plan does not have award element for the employees (see Note 14).

***3.2 Key Sources of Estimation Uncertainty***

The following are 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:

*(a) Determining the Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories (\$646,436 and \$2,020,408 as of December 31, 2008 and 2007, respectively) is affected by price changes in different market segments of internet and wireless networking. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

*(b) Costing of Inventories*

The Group's inventory costing policies and procedures were based on a careful evaluation of production operations. Review of the benchmarks set by management necessary for the determination of standard inventory costs and allocation of overhead is being done regularly. Actual data are being compared to the related benchmarks and critical judgment is exercised to assess reasonableness of the costing policies and procedures which are currently in place.

*(c) Allowance for Inventory Obsolescence*

In providing allowance for inventory obsolescence, the Group assesses inventories by classifying them into active and inactive products by family. The classification is based on past years' actual shipments as well as forecast shipments to customers. Management also considers in determining allowance for inventory obsolescence the effects of current global economic crisis. Any changes as a result of the assessment are booked in profit or loss.

*(d) Useful Lives of Property and Equipment*

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. Actual results, however may vary due to changes in estimates brought about by changes in factors mentioned above. The carrying amount of property and equipment as of December 31, 2008 was written off relative to the Group's plan of outsourcing the production of semiconductor products by 2009 (see Note 10).

*(e) Allowance for Impairment of Trade and Other Receivables*

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The analysis for the allowance for impairment of receivables is presented in Note 6.3.

*(f) Impairment of Non-financial Assets*

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.14. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses on non-financial assets are required to be recognized for the years ended December 31, 2008, 2007 and 2006.

*(g) Retirement Benefits and Other Employee Benefits*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit obligation and net unrecognized actuarial gains amounted to \$295,805 and \$103,816, respectively, as of December 31, 2008 and \$295,505 and \$158,211, respectively, as of December 31, 2007 (see Note 20.4).

(h) *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at each consolidated balance sheet date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets as of December 31, 2008 and 2007 is disclosed in Note 22.

**4. SEGMENT INFORMATION**

The Company has two significant operating subsidiaries which constitute the main segments of the Company: testing in the Philippines of semiconductors and electronic products which is undertaken by MSPI; and worldwide sales and marketing of products produced by MSPI which is undertaken by MSI. Information relating to these two segments, before intercompany eliminations, is shown below.

	In U.S. Dollars		In Philippine Pesos	
	2008	2007	2008	2007
Total assets				
MSI	\$ 2,712,795	\$ 2,040,641	P 128,817,071	P 84,484,578
MSPI	4,714,314	1,761,155	223,859,200	72,913,578
Total liabilities				
MSI	2,500,708	3,262,641	118,746,119	135,076,600
MSPI	827,734	1,570,293	39,304,949	65,011,700

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Net sales						
MSI	\$ 2,338,442	\$ 3,310,574	\$ 3,573,365	P 104,002,208	P 152,776,369	P 183,363,652
MSPI	734,070	1,569,458	1,894,435	32,647,763	72,427,348	97,211,038
Operating profit (loss)						
MSI	( 188,104)	352,860	905,983	( 8,365,925)	16,283,783	46,489,612
MSPI	( 987,266)	522,004	506,032	( 43,908,655)	24,089,441	25,966,526
Net income (loss)						
MSI	1,434,087	178,385	500,875	63,781,019	8,232,111	25,701,900
MSPI	( 684,386)	260,064	286,949	( 30,438,068)	12,001,433	14,724,501

The Group operates in three main geographical areas even though these areas are managed on a worldwide basis. The home country of the Company, which is also the main operating country, is the Philippines. The areas of operations are principally the testing and sale of integrated circuits. The Group's net sales in different continents are as follows:

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
North America	\$ 1,215,935	\$ 1,421,660	\$ 2,003,411	P 54,078,709	P 65,606,766	P 102,803,032
Asia	858,580	1,190,400	747,888	38,185,346	54,934,579	38,377,125
Europe	263,927	698,514	822,066	11,738,153	32,235,024	42,183,495
	<u>\$ 2,338,442</u>	<u>\$ 3,310,574</u>	<u>\$ 3,573,365</u>	<u>P 104,002,208</u>	<u>P 152,776,369</u>	<u>P 183,363,652</u>

## 5. CASH

Cash as of December 31, 2008 decreased by \$1,818,314 (P74,103,342) compared to the balance as of December 31, 2007. This decrease was brought about by the Company's acquisition of a strategic interest in Lodestar Investment Holdings Corporation (Lodestar), deposit for future acquisition of Abacus Coal Exploration Development Corporation (ABACOAL) (see Note 8), and disbursement for the execution of a new advanced semiconductor chip called FlexCAM.

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates.

## 6. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of:

	Note	In U.S. Dollars		In Philippine Pesos	
		2008	2007	2008	2007
Trade		\$ 265,092	\$ 407,389	P 12,587,894	P 16,866,312
Less allowance for impairment		<u>57,810</u>	<u>17,000</u>	<u>2,745,108</u>	<u>703,817</u>
		<u>207,282</u>	<u>390,389</u>	<u>9,842,786</u>	<u>16,162,495</u>
Loans		<b>83,060</b>	-	<b>3,944,104</b>	-
Advances to officers and employees	14	<b>123,256</b>	179,598	<b>5,852,811</b>	7,435,537
Receivable from:					
Bureau of Internal Revenue (BIR)		<b>16,158</b>	16,969	<b>767,263</b>	702,534
Vickers		<b>13,864</b>	15,901	<b>658,332</b>	658,317
Micron		-	142,187	-	5,886,684
Amex		-	14,672	-	607,435
Others		<u>21,920</u>	<u>12,293</u>	<u>1,040,871</u>	<u>508,942</u>
		<u>258,258</u>	<u>381,620</u>	<u>12,263,381</u>	<u>15,799,449</u>
Less allowance for impairment:					
Advances to officers and employees		<b>116,633</b>	112,505	<b>5,538,318</b>	4,657,820
Vickers		<b>12,934</b>	13,198	<b>614,171</b>	546,410
BIR		<b>14,795</b>	-	<b>702,541</b>	-
Others		<u>15,160</u>	<u>11,497</u>	<u>719,872</u>	<u>475,987</u>
		<u>159,522</u>	<u>137,200</u>	<u>7,574,902</u>	<u>5,680,217</u>
		<u>\$ 306,018</u>	<u>\$ 634,809</u>	<u>P 14,531,265</u>	<u>P 26,281,727</u>
Non-current – Loans		<u>\$ 332,237</u>	<u>\$ -</u>	<u>P 15,776,274</u>	<u>P -</u>

### **6.1 Loans Receivables**

Loans receivables relate to the granting of interest-bearing loans to eligible employees and directors over five years amounting to \$420,324 (P19,720,356) on September 26, 2008 as a result of the shareholders-approved Stock Purchase Plan (the Purchase Plan) (see Note 14). As of December 31, 2008, the balance of outstanding loans receivable from employees amounted to \$415,297 (P19.7 million). The process of getting the shares to be sold under the Purchase Plan listed at the PSE is yet to be done. When complete and listed shares are made available to the participants, the loan repayments will begin.

### **6.2 Receivable from Others**

Significant portion of Receivable from others pertains to input VAT which can be claimed as tax credit. As of December 31, 2008 and 2007, input VAT was fully provided with allowance for impairment amounting to \$13,803 (P655,435) and \$10,138 (P419,723), respectively.

### **6.3 Impairment**

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain receivables were found to be impaired and losses have been recorded accordingly.

The reconciliation of the allowance for impairment of trade and other receivables at the beginning and end of 2008 and 2007 is shown below.

	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 154,200	\$ 197,741	P 6,384,034	P 9,715,411
Impairment loss	57,215	3,452	2,544,637	159,303
Provision for returns	32,730	-	1,455,667	-
Reversals of allowance	( 17,000)	( 56,762)	( 756,075)	( 2,619,453)
Effects of exchange rates	( 9,813)	9,769	691,747	( 871,227)
Balance at end of year	<u>\$ 217,332</u>	<u>\$ 154,200</u>	<u>P 10,320,010</u>	<u>P 6,384,034</u>

Allowance for impairment on receivables is based on management's reasonable estimate of accounts doubtful of collection. This amount may differ from the actual amount written-off once circumstances relating to their collectibility become certain.

In 2008, the Group wrote-off advances to an employee who was terminated in 2009 amounting to \$29,503 (P1,312,146). On January 29, 2009, the Company finalized the terms of settlement with this terminated employee which include the write-off of advances to the employee. The write-off of receivable is included as part of Others under Finance costs in the 2008 consolidated income statement (see Note 19.1).

## 7. INVENTORIES

The components of inventories are as follows:

	Note	In U.S. Dollars		In Philippine Pesos	
		2008	2007	2008	2007
Finished goods	16.1	\$ 1,043,309	\$ 1,240,900	P 49,541,528	P 51,374,501
Work-in-process	16.1	133,427	169,758	6,335,781	7,028,151
Raw materials and supplies		<u>767,879</u>	<u>826,527</u>	<u>36,462,734</u>	<u>34,219,044</u>
		<b>1,944,615</b>	<b>2,237,185</b>	<b>92,340,043</b>	<b>92,621,696</b>
Valuation allowance for inventory obsolescence		( 1,298,179)	( 216,777)	( 61,644,030)	( 8,974,784)
		<u>\$ 646,436</u>	<u>\$ 2,020,408</u>	<u>P 30,696,013</u>	<u>P 83,646,912</u>

The reconciliation of the inventory valuation allowance at the beginning and end of 2008 and 2007 is shown below.

	In U.S. Dollars		In Philippine Pesos	
	2008	2007	2008	2007
Balance at beginning of year	\$ 216,777	\$ 903,971	P 8,974,784	P 44,413,903
Additions	1,081,402	-	48,095,354	-
Reversals	-	( 80,681)	-	( 3,723,268)
Write-off	-	( 606,513)	-	( 27,989,362)
Effects of exchange rates	-	-	4,573,892	( 3,726,489)
Balance at end of year	<u>\$ 1,298,179</u>	<u>\$ 216,777</u>	<u>P 61,644,030</u>	<u>P 8,974,784</u>

The downturn of the market in the worldwide semiconductor and electronics industries resulted in the significant reduction of new orders and cancellation of placed orders in early 2001. As a result, an inventory valuation allowance for technological obsolescence was set-up for such products identifiable to the cancelled orders, non-moving and slow moving products. In 2007, the Group reversed the valuation allowance relating to those inventories sold during that year, and a portion relating to those inventories that the Group expects to sell in the succeeding years. Also in 2007, the Group wrote-off against valuation allowance certain inventories which were considered to be non-recoverable.

Towards the end of 2008, a similar business condition as in 2001 occurred, which resulted in a significant reduction or cancellation of customer orders. This necessitated an increase in inventory valuation allowance to measure inventories at their net realizable values.

The amounts of additions to the allowance for inventory obsolescence and reversals in 2008, 2007 and 2006 are shown under the Cost of goods sold account in the consolidated income statements (see Note 16.1).

## 8. REFUNDABLE DEPOSITS

This account includes deposits made with Silicon & Software Systems, Ltd. (S3), Abacus Consolidated Resources Holdings, Inc. (Abacus), lessors, utility companies and other deposits.

On February 5, 2008, the Company and S3 entered into an agreement whereby S3 will develop a CAM IC for the Group's FlexCAM products. Under the agreement, the Company is required to deposit a sum of EU100,000 (\$139,510) with S3. This deposit will be refunded upon the completion of the product design, approximately by the third quarter of 2009.

On September 24, 2008, the Company entered into a Heads of Agreement with Abacus, the parent company of ABACOAL, whereby the Company and Lodestar will co-invest for the 100% acquisition of the outstanding issued shares of ABACOAL together with its assets and a Coal Operating Contract issued by the Department of Energy. Relative to this planned acquisition, the Company made a deposit with Abacus amounting to \$315,889 (P15 million) subject to the completion of satisfactory due diligence and a positive independent valuation (see Note 5). If these expectations are not realized, this deposit will be refunded. The due diligence review and the independent valuation were completed in December 2008 and negotiations with Abacus have restarted. On the other hand, the advances given to the technical service contractor for the independent valuation amounted to \$166,667 (P7 million), which is recorded as part of Prepayment and other current assets in the 2008 consolidated balance sheet. This was fully provided with allowance for impairment and recorded under Finance costs in the 2008 consolidated income statement (see Note 19.1). Management is yet to determine whether the renegotiations with Abacus will be successful.

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

In October 2008, the Group acquired about 13% (5.4 million shares) of the outstanding shares of stock of Lodestar, a Philippine investment company with shares listed in the PSE. A reconciliation of the carrying amount of AFS financial assets as of December 31, 2008 is as follows:

	Note	<u>In U.S. Dollars</u>	<u>In Philippine Pesos</u>
Equity shares		\$ 790,385	P 38,034,900
Fair value loss	15.1	( 441,295)	( 21,236,000)
Effects of exchange rates		<u>-</u>	<u>( 222,361)</u>
		<u>\$ 349,090</u>	<u>P 16,576,539</u>

The fair values of AFS financial assets have been determined directly by reference to published prices in the PSE as of December 31, 2008. Although the fair value of shares have declined since its acquisition, management has assessed that no impairment loss on AFS is required to be recognized for the year ended December 31, 2008.



	<u>Machinery and Equipment</u>	<u>Office and Computer Equipment</u>	<u>Other Operating Equipment</u>	<u>Leasehold Improvements</u>	<u>Office Furniture and Fixtures</u>	<u>Total</u>
<b><u>In U.S. Dollars</u></b>						
Balance at January 1, 2007, net of accumulated depreciation and amortization	\$ 11,562	\$ 9,389	\$ 16,714	\$ 12,801	\$ 5	\$ 50,471
Reclassification	( 36)	-	36	-	-	-
Additions	12,669	1,063	-	4,232	-	17,964
Depreciation and amortization charges for the year	( 5,115)	( 4,449)	( 6,084)	( 8,862)	( 5)	( 24,515)
Balance at December 31, 2007, net of accumulated depreciation and amortization	<u>\$ 19,080</u>	<u>\$ 6,003</u>	<u>\$ 10,666</u>	<u>\$ 8,171</u>	<u>\$ -</u>	<u>\$ 43,920</u>

**In Philippine Pesos**

Balance at January 1, 2008, net of accumulated depreciation and amortization	P 789,931	P 248,530	P 441,583	P 338,288	P -	P 1,818,332
Additions	-	145,921	82,719	-	-	228,640
Write-off	( 548,332)	( 225,088)	( 280,904)	( 144,633)	-	( 1,198,957)
Depreciation and amortization charges for the year	( 300,251)	( 178,567)	( 270,942)	( 218,773)	-	( 968,533)
Effects of exchange rates	<u>58,652</u>	<u>9,204</u>	<u>27,544</u>	<u>25,118</u>	<u>-</u>	<u>120,518</u>
Balance at December 31, 2008, net of accumulated depreciation and amortization	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>
Balance at January 1, 2007, net of accumulated depreciation and amortization	P 568,064	P 461,300	P 821,192	P 628,939	P 246	P 2,479,741
Reclassification	( 1,622)	-	1,622	-	-	-
Additions	524,509	44,009	-	175,209	-	743,727
Depreciation and amortization charges for the year	( 236,047)	( 205,359)	( 280,718)	( 408,964)	( 231)	( 1,131,319)
Effects of exchange rates	( 64,973)	( 51,420)	( 100,513)	( 56,896)	( 15)	( 273,817)
Balance at December 31, 2007, net of accumulated depreciation and amortization	<u>P 789,931</u>	<u>P 248,530</u>	<u>P 441,583</u>	<u>P 338,288</u>	<u>P -</u>	<u>P 1,818,332</u>

***10.1 Write-off of Property and Equipment***

In 2008, the Group wrote-off the remaining carrying amount of its property and equipment totaling \$26,958 (P1,198,957) (see Note 19.2) since these assets will no longer be used by the Group as it has plans to completely outsource the production of its semiconductor products in 2009.

### 10.2 Depreciation and Amortization

The amount of depreciation and amortization is allocated as follows (see Note 16):

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Cost of goods sold	\$ 13,769	\$ 16,593	\$ 23,996	P 612,377	P 765,734	P 1,231,331
Other operating expenses	8,008	7,922	5,060	356,156	365,585	259,649
	<u>\$ 21,777</u>	<u>\$ 24,515</u>	<u>\$ 29,056</u>	<u>P 968,533</u>	<u>P 1,131,319</u>	<u>P 1,490,980</u>

### 10.3 Security

MSPI's machinery and equipment with a total cost of \$3.4 million and net book value of \$19,080 as of December 31, 2007 were used as collateral for the loans obtained from a bank (see Note 12.1). The loan was fully settled in 2008.

## 11. INTANGIBLE ASSET

This account represents capitalized product development costs of the Group's new products. This intangible asset will be amortized upon the completion of the related new products, which as of December 31, 2008, are still under development.

The movement in this account is presented below.

	In U.S. Dollars		In Philippine Pesos	
	2008	2007	2008	2007
Balance at beginning of year	\$ 654,703	\$ 300,281	P 27,105,359	P 14,753,406
Additions	2,245,161	354,422	106,611,470	16,355,866
Effects of exchange rates	-	-	3,983,213	( 4,003,913)
Balance at end of year	<u>\$ 2,899,864</u>	<u>\$ 654,703</u>	<u>P 137,700,042</u>	<u>P 27,105,359</u>

Intangible asset is subject to impairment testing whenever there is an indication of impairment. No impairment losses were recognized in 2008, 2007 and 2006 as the estimated recoverable amount of the intangible asset is higher than its carrying value.

## 12. INTEREST-BEARING LOANS AND BORROWINGS

The breakdown of interest-bearing loans and borrowings as of December 31 is as follows:

	Note	In U.S. Dollars		In Philippine Pesos	
		2008	2007	2008	2007
Bank loans		\$ 183,338	\$ 905,952	P 8,705,805	P 37,507,319
Others	21.1	-	73,135	-	3,027,862
		<u>\$ 183,338</u>	<u>\$ 979,087</u>	<u>P 8,705,805</u>	<u>P 40,535,181</u>

### ***12.1 Bank Loans***

Bank loans in 2007 represent U.S. dollar-denominated loan from a foreign bank and U.S. dollar and Philippine peso-denominated loans from a local bank. By the end of 2008, only the loan from local bank remained outstanding.

The U.S. dollar loan of MSPI from a foreign bank, with outstanding balance of \$750,000 as of December 31, 2007, was fully settled by the Company in June 2008 at \$450,000. The remaining balance of \$300,000 was waived by the foreign bank and recorded as part of Other gains (losses) in the 2008 consolidated income statement (see Note 19.2).

This U.S. dollar loan bears annual interest ranging from 6.97% to 8.64% in 2008, 9.81% to 11.39% in 2007. The dollar loan is secured by certain property and equipment of MSPI and is guaranteed by the Company (see Note 10.3).

On December 20, 2007 and January 15, 2008, the Group obtained U.S. dollar-denominated loans for working capital requirements from a local commercial bank amounting to \$23,105 and \$44,409, respectively. These loans, which are renewed monthly, bear average interest ranging from 6% to 6.5%.

The Philippine peso-denominated loan originally amounting to P5.5 million bears interest at rates averaging 8.65% in 2008 and 7.68% in 2007. This loan is collateralized by the assets of a related party (see Note 21.3). In 2008, the loan was renewed and will mature on October 2, 2009.

### ***12.2 Others***

Other loan pertains to a loan from an officer of Musem N.V., another subsidiary of the parent company. This loan was obtained for working capital requirements and was settled in 2008 (see Note 21.1).

### ***12.3 Finance Costs***

Interests incurred on all bank loans and borrowings amounted to \$45,279, \$143,882, and \$159,564 in 2008, 2007 and 2006, respectively, and are shown as part of Finance costs in the consolidated income statements (see Note 19.1).

### 13. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	In U.S. Dollars		In Philippine Pesos	
		2008	2007	2008	2007
Trade		\$ 60,894	\$ 219,193	P 2,891,552	P 9,074,809
Accrued employee benefits	15.5, 20.2, 20.3	359,681	469,627	17,079,453	19,443,027
Accrued outside services		46,460	26,481	2,206,153	1,096,340
Accrued taxes and licenses		19,699	15,704	935,407	650,161
Accrued director's fee		2,390	6,970	113,489	288,565
Accrued interest		393	12,059	18,662	499,255
Liabilities subject to compromise	1.2	-	220,417	-	9,125,484
Accrued commission		-	10,001	-	414,051
Accrued and other liabilities		117,720	156,661	5,589,933	6,485,923
		<u>\$ 607,237</u>	<u>\$ 1,137,113</u>	<u>P 28,834,649</u>	<u>P 47,077,615</u>

Liabilities subject to compromise pertain to outstanding liabilities of MSI prior to the commencement of the bankruptcy case. These liabilities consist primarily of amounts payable to MSI's prior lessors and professional service providers. These amounts represent the Company's estimate of losses relating to known or potential claims. The amounts were fully settled as of December 31, 2008 (see Note 1.2).

### 14. STOCK PURCHASE PLAN

On December 6, 2007, the Company's stockholders ratified the October 26, 2007 Board resolution approving the 2007 Purchase Plan. The Purchase Plan was established to promote the interests of the Company by providing a mechanism whereby its employees and BOD (the Eligible Members) may borrow money from the Company for the express purpose of acquiring up to 10% of the total issued shares of the Company or about 123.2 million shares at prevailing market price (see Note 15.4). Under the Purchase Plan, the Company will grant interest-bearing loans to the Eligible Members payable over five years (see Note 6.1). The shares to be acquired by the Eligible Members will be held as collateral for the loan and will only be released to them after the loan is repaid. A portion of the collateralized shares can be released to the extent of the paid amount of the loan at the agreed date.

The Company filed the Purchase Plan with the SEC on April 14, 2008 and was approved by the SEC on June 24, 2008. The application for the listing of the shares with PSE will take place once all the requirements are in place.

## 15. EQUITY

### 15.1 Issued Capital and Reserves

This account is composed of the following:

	Notes	In U.S. Dollars		In Philippine Pesos	
		2008	2007	2008	2007
Capital stock	15.2	\$ 5,390,253	\$ 3,245,047	P 209,286,305	P 110,837,004
Additional paid-in capital		1,613,030	384,458	83,592,216	27,252,067
Treasury shares	15.6	( 270,096)	-	( 12,960,000)	-
Revaluation reserves	9	( 441,295)	-	( 21,236,000)	-
Accumulated translation adjustments	15.7	( 34,901)	( 36,155)	29,056,332	4,121,772
Deficit		( 322,393)	( 600,691)	( 5,934,467)	( 18,311,768)
		<u>\$ 5,934,598</u>	<u>\$ 2,992,659</u>	<u>P 281,804,386</u>	<u>P 123,899,075</u>

The consolidated deficit mainly came from the accumulated losses of the Company's subsidiaries.

### 15.2 Capital Stock

Capital stock consists of:

#### In U.S. Dollars

	Shares			Amounts		
	2008	2007	2006	2008	2007	2006
Common shares – P0.10 par value						
Authorized	<u>2,450,000,000</u>	<u>1,120,000,000</u>	<u>100,000,000</u>			
Issued and outstanding:						
Balance at beginning of year	1,108,370,039	89,338,577	89,338,577	\$ 3,245,047	\$ 3,121,683	\$ 3,121,683
Issued during the year	984,493,007	69,000,000	-	2,145,206	1,514,098	-
Change in capital stock arising from equity restructuring	-	950,031,462	-	-	( 1,390,734)	-
Balance at end of year	<u>2,092,863,046</u>	<u>1,108,370,039</u>	<u>89,338,577</u>	<u>\$ 5,390,253</u>	<u>\$ 3,245,047</u>	<u>\$ 3,121,683</u>

#### In Philippine Pesos

Common shares – P0.10 par value						
Authorized	<u>2,450,000,000</u>	<u>1,120,000,000</u>	<u>100,000,000</u>			
Issued and outstanding:						
Balance at beginning of year	1,108,370,039	89,338,577	89,338,577	P 110,837,004	P 89,338,577	P 89,338,577
Issued during the year	984,493,007	69,000,000	-	98,449,301	69,000,000	-
Change in capital stock arising from equity restructuring	-	950,031,462	-	-	( 47,501,573)	-
Balance at end of year	<u>2,092,863,046</u>	<u>1,108,370,039</u>	<u>89,338,577</u>	<u>P 209,286,305</u>	<u>P 110,837,004</u>	<u>P 89,338,577</u>

On December 17, 2003, the Company's stockholders approved a fund raising from shares being issued out of an increase in authorized capital stock. On September 7, 2007, the SEC approved the increase in the Company's authorized capital stock from 100 million to 160 million shares with a par value of P1.00 per share for a total authorized capital of P160 million.

The decrease in the Company's authorized capital stock in 2007 resulted from its equity restructuring as discussed in Note 15.3.

### ***15.3 Equity Restructuring***

On December 6, 2007, the Company's stockholders approved the amendments to the Company's Articles of Incorporation to implement its equity restructuring to wipe out the deficit of the Company as of September 30, 2007 against additional paid-in capital. The equity restructuring was executed through a reduction of the par value of the shares of the Company from P1.00 to P0.10 and an increase in the number of shares by multiple of seven (see Note 15.2).

On December 28, 2007, the SEC approved the decrease in capital stock of the Company from P160 million divided into 1.12 billion shares with a par value of P0.14 per share to P112 million divided into 1.12 billion shares with a par value of P0.10 per share, as approved by majority of the BOD and by vote of the stockholders owning and representing at least two-thirds of the outstanding capital stock at a meeting held on December 6, 2007. The equity restructuring is subject to the condition that the remaining additional paid-in capital of P39.8 million will not be used to wipe out the losses that may be incurred in the future without its prior approval.

### ***15.4 Increase in Authorized Capital Stock***

On October 26, 2007, the BOD approved that, after the equity restructuring discussed in Note 15.3, the authorized capital stock of the Company be again increased from P112 million to P245 million divided into 2.45 billion shares with a par value of P0.10 per share together with the amendment of the Company's Articles of Incorporation for this purpose. The shares will be issued either through stock rights offering, private placement or a combination of both. The funds raised will be used for the Company's operations and product development. Relative to this, the BOD approved the issuance of 470 million shares of the total increase in authorized capital stock through a private placement. On March 26, 2008, the Company received \$422,216 (P18.8 million) as payment for the 117.5 million shares of the 470 million subscribed shares.

On June 24, 2008, the total 470 million subscribed shares was approved by the SEC. The balance of \$1,266,647 (P56.4 million) representing full payment of the 470 million subscribed shares was paid on July 8, 2008. On October 20, 2008, the total 596.2 million subscribed shares was approved by the SEC. As of October 30, 2008, the Company through private placement received \$794,387 (P38.2 million) as payment for the 239 million shares of the 596.2 million subscribed shares.

However, for reasons mostly related to the financial crisis, the four investors who subscribed to the 596.2 million shares were unable to follow through their commitments under the Investment and Subscription Agreements (ISAs) and have asked for the cancellation of their respective ISAs. The four investors recommended new subscribers, who are willing to invest at P0.104 per share, in their places for the 596.2 million shares. On December 18, 2008, the BOD approved the cancellation of the ISAs executed with the original subscribers and reduce the issue price of P0.16 per share to P0.10 per share for the new subscribers for the 596.2 million shares. On March 17, 2009, the Company and the new subscribers have finalized and executed their respective ISAs.

The Company received additional stock subscriptions through private placement offerings, out of the unissued capital stock of the Company in various dates in 2008. The following is the summary of these subscriptions:

Subscription Date	Number of shares	Share Price	Amount of Subscription	
			In Philippine Pesos	In U.S. Dollars
June 24	117,500,000	P 0.16	P 18,800,000	\$ 422,216
June 24*	71,195,131	0.16	11,391,221	255,827
July 8	352,500,000	0.16	56,400,000	1,266,647
September 29	123,252,226	0.16	19,720,356	423,156
October 9	117,795,650	0.16	18,847,304	395,437
October 10	31,250,000	0.16	5,000,000	105,139
October 20*	81,000,000	0.16	12,960,000**	270,096
October 30	<u>90,000,000</u>	0.16	<u>14,400,000</u>	<u>293,812</u>
	<u>984,493,007</u>		<u>P 157,518,881</u>	<u>\$ 3,432,330</u>

\* debt to equity conversion (see Note 15.5)

\*\* treasury shares (see Note 15.6)

Of the total amount of subscription, \$1,228,572 (P56,340,149) was recognized as additional paid-in capital, net of taxes and other subscription costs amounting to \$58,552 (P2,729,431).

On September 25, 2008, the BOD approved the increase in the authorized capital stock of the Company from P245 million divided into 2.45 billion shares at P0.10 par value per share to P500 million divided into 5 billion shares with a par value of P0.10 per share. This proposed increase in authorized capital stock was approved by the stockholders on October 30, 2008. The Company is yet to file an application with the SEC for this increase in authorized capital stock.

### ***15.5 Debt to Equity Conversion***

On December 6, 2007, the Company's stockholders approved, as recommended by the BOD, the conversion of the advances from officers and employees into common shares (see Note 15.4). With the approval of the BOD on March 24, 2008, the Company entered into various deeds of assignment with its officers and certain employees of the subsidiaries on March 25, 2008 whereby the parties agreed to settle the advances provided by the officers and employees in prior years to the Company totaling \$418,406 (P17.3 million) and presented as part of Accrued employee benefits under Trade and other payables in the 2007 consolidated balance sheet (see Note 13). As settlement, the entitled officers and employees received a total amount of P5.9 million cash on April 8, 2008, while the remaining balance of the advances amounting to \$275,800 (P11.4 million) will be converted into 71.2 million shares of the Company. On June 24, 2008, the SEC approved this debt to equity conversion and the related stock purchase plan.

On July 28, 2008, the Company's BOD approved the conversion of \$293,611 (P13.0 million) liability to MSPI into 81 million common shares (see Note 15.6). This debt-to-equity conversion was approved by the SEC on October 20, 2008. This completed the full subscription to the 2.45 billion shares of authorized capital stock of the Company. The application for listing of the 81 million shares and 71.2 million shares was approved by the PSE on February 2009 while the application for listing of the 596.2 million shares, as discussed in Note 15.4, with the PSE will take place once all the requirements are in place.

### ***15.6 Treasury Shares***

This account includes the Company's common shares held and acquired by MSPI through conversion of its advances to the Company and is accounted for as AFS in the separate financial statements of MSPI (see Note 15.5). The changes in market values of these shares recognized as fair value losses by MSPI were eliminated in full and were not recognized in the consolidated financial statements.

### ***15.7 Accumulated Translation Adjustments***

Accumulated translation adjustments include all exchange differences resulting from the translation of the financial statements of a foreign entity presented in European Union euro (functional currency) into U.S. dollars (the Group's functional currency), and from the translation of the Group's consolidated financial statements from U.S. dollars (functional currency) to Philippine pesos (presentation currency).

This account pertains to:

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Translation adjustments arising from:						
Foreign entity financial statements	(\$ 34,901)	(\$ 36,155)	(\$ 33,414)	(P 1,657,274)	(P 1,496,853)	(P 1,641,697)
Presentation currency	-	-	-	30,713,606	5,618,625	21,290,775
	<u>(\$ 34,901)</u>	<u>(\$ 36,155)</u>	<u>(\$ 33,414)</u>	<u>P 29,056,332</u>	<u>P 4,121,772</u>	<u>P 19,649,078</u>

The movement in this account is as follows:

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Balance at beginning of year	(\$ 36,155)	(\$ 33,414)	(\$ 31,672)	P 4,121,772	P 19,649,078	P 21,740,523
Translation adjustments during the year	1,254	( 2,741)	( 1,742)	25,154,527	( 15,785,630)	( 2,216,074)
Effects of exchange rates	-	-	-	( 219,967)	258,324	124,629
	<u>(\$ 34,901)</u>	<u>(\$ 36,155)</u>	<u>(\$ 33,414)</u>	<u>P 29,056,332</u>	<u>P 4,121,772</u>	<u>P 19,649,078</u>

## 16. COST OF GOODS SOLD AND OTHER OPERATING EXPENSES

### 16.1 Cost of Goods Sold

The details of this account follow:

	Notes	In U.S. Dollars			In Philippine Pesos		
		2008	2007	2006	2008	2007	2006
Raw materials used	17	\$ 424,952	\$ 529,282	\$ 722,356	P 18,899,740	P 24,425,306	P 37,066,976
Employee benefits		235,864	226,863	199,148	10,490,051	10,469,274	10,219,080
Manufacturing overhead:							
Assembly charges		113,846	135,270	153,543	5,063,301	6,242,440	7,878,906
Utilities		46,571	62,808	54,981	2,071,245	2,898,463	2,821,295
Rentals		32,042	29,453	26,359	1,425,068	1,359,197	1,352,586
Outside services		16,684	15,820	31,982	742,021	730,061	1,641,124
Transportation and travel		15,372	6,095	17,100	683,670	281,272	877,469
Freight		14,414	21,865	25,757	641,063	1,009,026	1,321,695
Operating supplies		13,976	19,282	14,490	621,583	889,826	743,540
Depreciation and amortization	10.2	13,769	16,593	23,996	612,377	765,734	1,231,331
Communication		13,083	14,116	13,193	581,866	651,425	676,986
Repairs and maintenance		8,572	22,329	23,349	381,240	1,030,439	1,198,131
Taxes and licenses		1,487	4,495	3,210	66,134	207,435	164,718
Others		14,184	35,335	22,498	630,833	1,630,640	1,154,462
		<u>304,000</u>	<u>383,461</u>	<u>410,458</u>	<u>13,520,401</u>	<u>17,695,958</u>	<u>21,062,243</u>
Total manufacturing costs		964,816	1,139,606	1,331,962	42,910,192	52,590,538	68,348,299
Loss on inventory obsolescence	7	1,081,402	-	-	48,095,354	-	-
Change in finished goods inventories	7	197,591	212,994	( 407,919)	8,787,860	9,829,247	( 20,931,956)
Change in work-in-process inventories	7	36,331	( 17,505)	61,306	1,615,821	( 807,820)	3,145,856
Reversal of inventory valuation allowance	7	-	( 80,681)	( 38,977)	-	( 3,723,268)	( 2,000,066)
		<u>\$ 2,280,140</u>	<u>\$ 1,254,414</u>	<u>\$ 946,372</u>	<u>P 101,409,227</u>	<u>P 57,888,697</u>	<u>P 48,562,133</u>

## 16.2 Other Operating Expenses

The details of this account are presented below.

Note	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Employee benefits	\$ 1,136,411	\$ 1,009,827	\$ 1,184,914	P 50,541,879	P 46,601,496	P 60,802,677
Other operating expenses:						
Outside services	118,538	63,120	58,286	5,271,978	2,912,862	2,990,888
Selling expenses	48,835	78,934	38,616	2,171,937	3,642,646	1,981,541
Asia expenses	32,004	20,757	16,821	1,423,378	957,894	863,153
Transportation and travel	22,321	35,160	16,156	992,726	1,622,564	829,029
Taxes and licenses	19,200	7,613	5,921	853,920	351,325	303,830
Europe expenses	18,366	58,038	46,910	816,828	2,678,338	2,407,140
Communication	15,426	22,281	25,433	686,071	1,028,224	1,305,069
Bank charges	13,988	12,206	12,365	622,115	563,282	634,498
Depreciation and amortization	10.2 8,008	7,922	5,060	356,156	365,585	259,649
Office supplies	6,798	8,969	11,537	302,341	413,901	592,010
Rentals	5,279	16,638	31,083	234,784	767,810	1,594,993
Utilities	4,062	5,462	4,781	180,657	252,060	245,332
Repairs and maintenance	300	419	999	13,343	19,336	51,263
Freight	25	450	726	1,112	20,767	37,254
Relocation expense	-	1,819	8,000	-	83,943	410,512
China design services	-	-	9,510	-	-	487,996
Others	4,874	16,290	11,328	216,771	751,750	581,284
	<u>318,024</u>	<u>356,078</u>	<u>303,532</u>	<u>14,144,117</u>	<u>16,432,287</u>	<u>15,575,441</u>
	\$ 1,454,435	\$ 1,365,905	\$ 1,488,446	P 64,685,996	P 63,033,783	P 76,378,118

## 17. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

Notes	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Employee benefits	14, 20 \$ 1,372,275	\$ 1,236,690	\$ 1,384,062	P 61,031,930	P 57,070,770	P 71,021,757
Raw materials and other consumables	16.1 424,952	529,282	722,356	18,899,740	24,425,306	37,066,976
Manufacturing overhead/ Other operating expenses:						
Outside services	135,222	78,940	90,268	6,013,999	3,642,923	4,632,012
Assembly charges	113,846	135,270	153,543	5,063,301	6,242,440	7,878,906
Utilities	50,633	68,270	59,762	2,251,902	3,150,523	3,066,627
Selling expenses	48,835	78,934	38,616	2,171,937	3,642,646	1,981,541
Rental	25 37,321	46,091	57,442	1,659,852	2,127,007	2,947,579
Transportation and travel	37,693	41,255	33,256	1,676,396	1,903,836	1,706,498
Asia expenses	32,004	20,757	16,821	1,423,378	957,894	863,153
Communication	28,509	36,397	38,626	1,267,937	1,679,649	1,982,055
Depreciation and amortization	10.2 21,777	24,515	29,056	968,533	1,131,319	1,490,980
Operating /office supplies	20,774	28,251	26,027	923,924	1,303,727	1,335,550
Taxes and licenses	20,687	12,108	9,131	920,054	558,760	468,548
Europe expenses	18,366	58,038	46,910	816,828	2,678,338	2,407,140
Freight	14,439	22,315	26,483	642,175	1,029,793	1,358,949
Bank charges	13,988	12,206	12,365	622,115	563,282	634,498
Repairs and maintenance	8,872	22,748	24,348	394,583	1,049,775	1,249,393
Relocation expense	-	1,819	8,000	-	83,943	410,512
China design services	-	-	9,510	-	-	487,996
Others	19,058	51,625	33,826	847,604	2,382,390	1,735,747
Balance brought forward	622,024	739,539	713,990	27,664,518	34,128,245	36,637,684

Notes	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
<i>Balance carried forward</i>	<b>\$ 622,024</b>	\$ 739,539	\$ 713,990	<b>P 27,664,518</b>	P 34,128,245	P 36,637,684
Loss on inventory obsolescence	7 <b>1,081,402</b>	-	-	<b>48,095,354</b>	-	-
Change in finished goods inventories	7 <b>197,591</b>	212,994	( 407,919)	<b>8,787,860</b>	9,829,247	( 20,931,956)
Change in work-in-process inventories	7 <b>36,331</b>	( 17,505)	61,306	<b>1,615,821</b>	( 807,820)	3,145,856
Reversal of inventory valuation allowance	7 -	( 80,681)	( 38,977)	-	( 3,723,268)	( 2,000,066)
	<b>\$ 3,734,575</b>	<b>\$ 2,620,319</b>	<b>\$ 2,434,818</b>	<b>P 166,095,223</b>	<b>P 120,922,480</b>	<b>P 124,940,251</b>

These expenses are classified in the consolidated income statements as follows:

Notes	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Cost of goods sold	16.1 <b>\$ 2,280,140</b>	\$ 1,254,414	\$ 946,372	<b>P 101,409,227</b>	P 57,888,697	P 48,562,133
Other operating expenses	16.2 <b>1,454,435</b>	1,365,905	1,488,446	<b>64,685,996</b>	63,033,783	76,378,118
	<b>\$ 3,734,575</b>	<b>\$ 2,620,319</b>	<b>\$ 2,434,818</b>	<b>P 166,095,223</b>	<b>P 120,922,480</b>	<b>P 124,940,251</b>

## 18. REORGANIZATION COSTS

Reorganization costs represent administrative charges related to the bankruptcy proceedings which include professional fees of lawyers and accountants and estimated claims for rejected executory contracts mainly for the lease of office space and subcontracting agreement, net of gain on extinguishment or settlement of debts (see Note 1.2). The total reorganization costs for the years ended December 31, 2008, 2007 and 2006 amounted to \$47,775, \$71,129 and \$403,897, respectively, and are presented under the Other income (charges) section of the consolidated income statements.

Reorganization costs are recorded as they are incurred.

## 19. OTHER INCOME (CHARGES)

### 19.1 Finance Costs

The breakdown of this account is as follows:

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Foreign currency losses	<b>\$ 129,720</b>	\$ 93,615	\$ 43,563	<b>P 5,769,297</b>	P 4,320,145	P 2,235,392
Impairment losses on:						
Prepayments	<b>157,392</b>	-	5,914	<b>7,000,009</b>	-	303,471
Trade and other receivables	<b>57,215</b>	3,452	1,387	<b>2,544,637</b>	159,303	71,172
Interest expense from Bank loans and borrowings	<b>45,279</b>	143,882	159,564	<b>2,013,784</b>	6,639,866	8,187,867
Others	<b>29,503</b>	2,662	-	<b>1,312,146</b>	122,846	-
	<b>\$ 419,109</b>	<b>\$ 243,611</b>	<b>\$ 210,428</b>	<b>P 18,639,873</b>	<b>P 11,242,160</b>	<b>P 10,797,902</b>

## 19.2 Other Gains (Losses)

The breakdown of this account is as follows:

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Discount on loan	\$ 300,000	\$ -	\$ -	P 13,342,500	P -	P -
Foreign currency gains	163,798	153,941	-	7,284,916	7,104,069	-
Write-off of property and equipment	( 26,958)	-	-	( 1,198,957)	-	-
Interest income	24,720	4,631	5,555	1,099,422	213,711	285,049
Income from write-off of provisions and liabilities	3,753	26,154	17,994	166,915	1,206,955	923,344
Others	( 89,862)	( 28,809)	68,360	( 3,996,615)	( 1,329,479)	3,507,825
	<u>\$ 375,451</u>	<u>\$ 155,917</u>	<u>\$ 91,909</u>	<u>P 16,698,181</u>	<u>P 7,195,256</u>	<u>P 4,716,218</u>

## 20. EMPLOYEE BENEFITS

### 20.1 Salaries and Employee Benefits Expense

Expenses recognized for employee benefits (see Note 17) are presented below.

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Salaries and short-term benefits	\$ 975,668	\$ 1,184,899	\$ 1,343,962	P 43,392,815	P 54,680,719	P 68,964,066
Termination benefit	220,956	-	-	9,827,018	-	-
Post-employment:						
Defined contribution	134,907	-	-	5,999,990	-	-
Defined benefit	40,744	51,791	40,100	1,812,107	2,390,051	2,057,691
	<u>\$ 1,372,275</u>	<u>\$ 1,236,690</u>	<u>\$ 1,384,062</u>	<u>P 61,031,930</u>	<u>P 57,070,770</u>	<u>P 71,021,757</u>

### 20.2 Termination Benefit

The Group retrenched a significant number of its employees in 2008 as part of the actions done by management in order to cope with the current economic situation. Termination benefits recognized in 2008 amounted to \$220,956 (P9,827,018) and the unpaid balance of \$171,706 (P8,153,459) is presented as part of Accrued employee benefits under Trade and other payables in the 2008 consolidated balance sheet (see Note 13).

### 20.3 Post-employment – Defined Contribution

Starting in 2008, the Group recognized post-employment benefit under defined contribution for the retirement of its key management personnel, amounting to \$134,907 (P6 million). The outstanding balance is recorded as part of Accrued employee benefits under Trade and other payables in the 2008 consolidated balance sheet (see Note 13).

### ***20.4 Post-employment – Defined Benefit***

The Group maintains a partially funded tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all of their regular full-time employees.

Due to low headcount turnover within the Group, actuarial valuations are usually made every two years to update the retirement benefit costs and the amount of contributions.

The amounts of retirement benefit obligation recognized in the consolidated balance sheets are determined as follows:

	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Present value of the obligation	\$ 334,280	\$ 357,307	P 15,873,266	P 14,792,867
Fair value of plan assets	( 142,291)	( 220,013)	( 6,756,707)	( 9,108,758)
Excess of obligation over plan assets	191,989	137,294	9,116,559	5,684,109
Unrecognized actuarial gains	103,816	158,211	4,929,741	6,550,094
Retirement benefit obligation	<u>\$ 295,805</u>	<u>\$ 295,505</u>	<u>P 14,046,300</u>	<u>P 12,234,203</u>

The movements in the present value of retirement benefit obligation recognized in the books are as follows:

	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 357,307	\$ 304,937	P 14,792,867	P 14,982,143
Current service cost and interest cost	52,889	62,379	2,352,255	2,878,666
Actuarial gains	( 28,597)	( 66,480)	( 1,271,856)	( 3,067,919)
Effects of exchange rates	( 47,319)	56,471	-	( 23)
Balance at end of year	<u>\$ 334,280</u>	<u>\$ 357,307</u>	<u>P 15,873,266</u>	<u>P 14,792,867</u>

The movements in the fair value of plan assets are presented below.

	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 220,013	\$ 151,800	P 9,108,758	P 7,458,245
Expected return on plan assets	6,144	9,697	273,263	447,497
Actuarial gains (losses)	( 59,029)	26,069	( 2,625,314)	1,203,032
Effects of exchange rates	( 24,837)	32,447	-	( 16)
Balance at end of year	<u>\$ 142,291</u>	<u>\$ 220,013</u>	<u>P 6,756,707</u>	<u>P 9,108,758</u>

The plan assets consist of cash in bank and receivables from employees.

The amounts of retirement benefits recognized in the consolidated income statements are as follows:

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Current service costs	\$ 26,247	\$ 23,420	\$ 20,867	P 1,167,346	P 1,080,786	P 1,070,791
Interest costs	26,642	38,959	29,047	1,184,909	1,797,880	1,490,518
Expected return on plan assets	( 6,144)	( 9,697)	( 8,476)	( 273,263)	( 447,497)	( 434,937)
Net actuarial gains recognized during the year	( 6,001)	( 891)	( 1,338)	( 266,885)	( 41,118)	( 68,681)
Retirement benefits	<u>\$ 40,744</u>	<u>\$ 51,791</u>	<u>\$ 40,100</u>	<u>P 1,812,107</u>	<u>P 2,390,051</u>	<u>P 2,057,691</u>

The amounts of retirement benefits are allocated as follows (see Note 20.1):

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Cost of goods sold	\$ 20,417	\$ 25,811	\$ 20,660	P 908,076	P 1,191,126	P 1,060,147
Other operating expense	20,327	25,980	19,440	904,031	1,198,925	997,544
	<u>\$ 40,744</u>	<u>\$ 51,791</u>	<u>\$ 40,100</u>	<u>P 1,812,107</u>	<u>P 2,390,051</u>	<u>P 2,057,691</u>

The plan assets held for funding the retirement benefit obligation do not include the Company's own shares. Actual returns on plan assets amounted to \$9,061, \$14,385 and \$16,978 in 2008, 2007 and 2006, respectively.

In determining the amount of the retirement benefit obligation, the following actuarial assumptions were used:

	2008	2007	2006
Discount rates	9%	8%	12%
Expected rate of return on plan assets	3%	3%	6%
Expected rate of salary increases	5%	3%	10%

## 21. RELATED PARTY TRANSACTIONS

The Group's related parties include key management personnel and stockholders as described below. The following are the transactions with related parties:

### 21.1 Loans

The movements in loans from a stockholder and officers (presented as part of Interest-bearing loans and borrowings – see Note 12) are as follows:

	In U.S. Dollars		In Philippine Pesos	
	2008	2007	2008	2007
Balance at beginning of year	\$ 73,135	\$ 114,691	P 3,027,862	P 5,634,998
Additions	-	33,000	-	1,522,884
Repayments	( 69,755)	( 81,946)	( 3,312,316)	( 3,781,644)
Effects of exchange rates	( 3,380)	7,390	284,454	( 348,376)
Balance at end of year	<u>\$ -</u>	<u>\$ 73,135</u>	<u>P -</u>	<u>P 3,027,862</u>

In 2002, the Group obtained a loan from a stockholder (who is also an officer in the Company) amounting to \$319,405. Moreover, in 2007 and 2006, additional loans amounting to \$33,000 and \$60,000, respectively, were obtained from the same stockholder to meet the additional funding requirements of the Company's interim new product development. The loans were secured by a perfected lien over the undivided 20% interest in the ownership of the intellectual property owned by the Company, Protelcon, MSPI and Musem. These loans bear interest equivalent to LIBOR plus 3% per annum and were paid in full during the current year.

Interests incurred on these loans amounted to \$15,548 and \$7,384 in 2007 and 2006, respectively, and are shown as part of Finance costs in the consolidated income statements (see Note 19.1). This loan was fully settled in 2008.

In 2005, the Group obtained loans from certain key management personnel. These loans have varying maturity dates and bear monthly interest of 3%. The outstanding balance of the loans from certain officers was settled in 2006 and the rest was settled in January 2008. Interest expense, recorded as part of Finance costs, related to these loans amounted to \$2,596, \$28,862 and \$28,261 in 2008, 2007 and 2006, respectively (see Note 19.1).

### ***21.2 Key Management Personnel Compensations***

The salary of the Company's president and CEO is paid and shouldered by the Company and two of its subsidiaries, MSI and MSPI in 2008 and by MSI in 2007 and 2006.

The compensations of the Company's key management personnel amounted to \$225,800, \$218,900 and \$188,800 in 2008, 2007 and 2006, respectively, representing the salary of the Company's president and CEO and the Board of Directors' remuneration.

In 2008, post-employment defined contribution of key management personnel amounted to \$134,907 (P6 million) (see Note 20.3).

### ***21.3 Contingencies***

MSPI's short-term loan from a local bank with original amount of P5.5 million is collateralized by the assets of a related party (see Notes 12.1).

## 22. TAXES

### 22.1 Current Taxes

The components of tax expense (income) for the years ended December 31 are as follows:

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Current tax expense:						
Preferential tax at 5%	\$ 9,410	\$ 31,047	\$ 34,764	P 418,502	P 1,432,744	P 1,783,874
Federal and state taxes*	150	5,739	130	6,671	264,844	6,671
Regular corporate income tax (RCIT) at 35%	231	857	578	10,264	39,567	29,675
Final tax at 20% and 7.5%	4,882	739	81	217,155	34,110	3,671
Minimum corporate income tax (MCIT) at 2%	75	523	441	3,339	24,139	22,663
Effects of exchange rates	-	-	-	(14)	(16)	442
	14,748	38,905	35,994	655,917	1,795,388	1,846,996
Deferred tax income –						
Deferred tax relating to origination and reversal of temporary difference	(1,780,612)	-	-	(79,192,718)	-	-
Tax expense (income) reported in consolidated income statements	<u>(S 1,765,864)</u>	<u>\$ 38,905</u>	<u>\$ 35,994</u>	<u>(P 78,536,801)</u>	<u>P 1,795,388</u>	<u>P 1,846,996</u>

\* Federal and state taxes refer to taxes paid by MSI in foreign countries where it operates.

The reconciliation of tax on pretax income (loss) computed at the applicable statutory rates to tax expense reported in the consolidated income statements is as follows:

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Tax on pretax income (loss)	(S 149,503)	\$ 185,998	\$ 215,646	(P 6,649,176)	P 8,583,445	P 11,065,688
Adjustment for income subjected to different tax rates	( 3,283)	5,579	( 254,124)	( 146,036)	257,500	( 13,040,643)
Tax effects of:						
Unrecognized net operating loss carry-over (NOLCO), MCIT and temporary deductible differences – net	( 23,944)	( 164,506)	55,826	( 1,064,893)	( 7,591,643)	2,864,687
Non-deductible expenses	68,532	23,181	24,826	3,047,967	1,069,736	1,273,939
Nontaxable revenues	( 11,600)	( 11,347)	( 6,180)	( 515,904)	( 523,634)	( 317,117)
Unrecognized temporary deductible differences resulting from a decrease in rate	( 4,004)	-	-	( 178,039)	-	-
Reversal of valuation allowance on deferred tax assets	( 1,642,062)	-	-	( 73,030,706)	-	-
Effects of exchange rates	-	-	-	(14)	(16)	442
Tax expense(income) reported in consolidated income statements	<u>(S 1,765,864)</u>	<u>\$ 38,905</u>	<u>\$ 35,994</u>	<u>(P 78,536,801)</u>	<u>P 1,795,388</u>	<u>P 1,846,996</u>

## 22.2 Deferred Taxes

The Group did not recognize the net deferred tax assets for the Company and MSPI in 2008 and 2007 because management believes that the net deferred tax assets may not be recoverable. The amount of net deferred tax assets as of the end of 2008 and 2007 which have not been recognized are shown below.

	<u>Amount</u>		<u>Tax Effect</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<u>In U.S. Dollars</u>				
Allowance for impairment	\$ 305,569	\$ 1,135,829	\$ 91,671	\$ 397,540
Inventory valuation allowance	570,557	249,223	28,528	12,461
NOLCO	947,762	898,089	284,328	314,331
MCIT	1,056	2,231	1,056	2,231
Unrealized foreign currency gain	( 491,945)	-	( 147,583)	-
	<u>\$ 1,332,999</u>	<u>\$ 2,285,372</u>	<u>\$ 258,000</u>	<u>\$ 726,563</u>

### In Philippine Pesos

Allowance for impairment	P 14,509,960	P 47,024,474	P 4,352,988	P 16,458,566
Inventory valuation allowance	27,092,909	10,318,068	1,354,645	515,903
NOLCO	45,004,457	37,181,789	13,501,337	13,013,626
MCIT	50,141	92,352	50,141	92,352
Unrealized foreign currency gain	( 23,360,008)	-	( 7,008,002)	-
	<u>P 63,297,459</u>	<u>P 94,616,683</u>	<u>P 12,251,109</u>	<u>P 30,080,447</u>

Moreover, there is no tax benefit recognized on the fair value loss on AFS financial assets, presented as Revaluation reserves in the equity section of the 2008 consolidated balance sheet, since the Company's AFS financial asset is subject to transaction tax and not to income tax.

## 22.3 NOLCO and MCIT

The details of the Company's NOLCO as of December 31, 2008 are as follows:

### In U.S. Dollars

<u>Year</u>	<u>Original Amount</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2008	\$ 229,815	\$ -	\$ 229,815	2011
2007	630,015	-	630,015	2010
2006	162,999	-	162,999	2009
2005	58,230	( 58,230)	-	2008
	1,081,059	( 58,230)	1,022,829	
Effect of exchange rates	( 68,222)	( 6,845)	( 75,067)	
	<u>\$ 1,012,837</u>	<u>( \$ 65,075)</u>	<u>\$ 947,762</u>	

In Philippine Pesos

<u>Year</u>		<u>Original Amount</u>	<u>Expired Balance</u>		<u>Remaining Balance</u>	<u>Valid Until</u>
2008	P	10,912,748	P -	P	10,912,748	2011
2007		26,083,233	-		26,083,233	2010
2006		8,008,476	-		8,008,476	2009
2005		<u>3,090,080</u>	<u>( 3,090,080)</u>		<u>-</u>	2008
		<u>P 48,094,537</u>	<u>(P 3,090,080)</u>		<u>P 45,004,457</u>	

The Company is subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations, or regular corporate income tax (RCIT), whichever is higher. The excess of MCIT over the RCIT shall be carried forward and credited against the RCIT for the three immediate succeeding years.

The details of the Company's MCIT as of December 31, 2008 are as follows:

<u>Year</u>	<u>Amount</u>		<u>Valid Until</u>
	<u>In U.S. Dollars</u>	<u>In Philippine Pesos</u>	
2008	\$ 70	P 3,339	2011
2007	583	24,139	2010
2006	<u>461</u>	<u>22,663</u>	2009
	1,114	50,141	
Effects of exchange rates	<u>( 58)</u>	<u>-</u>	
	<u>\$ 1,056</u>	<u>P 50,141</u>	

The Company's MCIT from 2005 amounting to \$859 (P45,550) expired in 2008.

Also, the Company's subsidiary, MSI, incurred net operating losses (NOL) that can be carried forward for 20 years from the year incurred based on MSI's tax jurisdiction.

Details of the remaining NOL of MSI as of December 31, 2008 are as follows:

In U.S. Dollars

<u>Year</u>	<u>Original Amount</u>	<u>Applied Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2005	\$ 457,681	\$ -	\$ 457,681	2025
2004	574,819	-	574,819	2024
2002	666,301	-	666,301	2022
2001	10,078,155	7,325,427	2,752,728	2021
1998	1,422,438	1,422,438	-	2018
1995	<u>687,091</u>	<u>687,091</u>	<u>-</u>	2015
	<u>\$ 13,886,485</u>	<u>\$ 9,434,956</u>	<u>\$ 4,451,529</u>	

In Philippine Pesos

<u>Year</u>		<u>Original Amount</u>		<u>Applied Balance</u>		<u>Remaining Balance</u>		<u>Valid Until</u>
2005	P	21,732,982	P	-	P	21,732,982		2025
2004		27,295,280		-		27,295,280		2024
2002		31,639,303		-		31,639,303		2022
2001		478,561,190		347,847,901		130,713,289		2021
1998		67,544,468		67,544,468		-		2018
1995		<u>32,626,516</u>		<u>32,626,516</u>		<u>-</u>		2015
	P	<u>659,399,739</u>	P	<u>448,018,885</u>	P	<u>211,380,854</u>		

In 2008, MSI reversed the valuation allowance on deferred tax assets on its NOL as management believes that with the advent of new CAM products, sufficient taxable profit will be generated in the next few years for the MSI to utilize the NOL. In 2008, the total NOL utilized by MSI amounted to \$282,936 (P13,435,216). The deferred tax assets of MSI as of December 31, 2008 amounted to \$1,780,612 (P84,552,361).

***22.4 New Tax Regulations***

On October 18, 2005, Republic Act (RA) 9337 became effective which included, among others, provision for: (a) the decrease in corporate income tax rate from 35% to 30% effective January 1, 2009; and (b) the change in the non-allowable deduction to interest expense from 42% to 33% beginning January 1, 2009.

In July 2008, RA 9504 became effective giving the corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made.

In 2008, the Company opted to continue claiming itemized standard deductions.

**23. REGISTRATION WITH THE PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA)**

The Company's subsidiary, MSPI, is registered with PEZA under Omnibus Investment Code of 1987 and RA No. 7916 as a registered non-pioneer export enterprise and is entitled to the following incentives:

- (a) Income tax holiday (ITH), which is a continuation of the Company's unavailed ITH for the manufacture and testing of semiconductor products (integrated circuits) such as CAM and CAM complimentary semiconductors and the testing of board circuits. These registered activities were subsequently transferred to MSPI as a result of its takeover of the Company's business on September 29, 2000 (see Note 1). MSPI's ITH incentive expired, after a one year extension, on December 31, 2001. Consequently, MSPI is liable for the payment of 5% preferential tax on gross income earned, net of allowable deductions, in lieu of payment of national tax and local taxes starting January 1, 2002;

- (b) Exemption from the payment of duties and taxes on goods imported pursuant to MSPI's registered operations;
- (c) Exemption from export taxes and fees on importations;
- (d) Exemption from the payment of local taxes and fees, contractor's tax on gross receipts and wharfage fees; and,
- (e) Zero-rating of value-added tax on purchases of goods and services from local suppliers.

Income arising from outside the registered operating activities is subject to RCIT rate.

## 24. EARNINGS PER SHARE

Earnings per share were computed as follows:

	In U.S. Dollars			In Philippine Pesos		
	2008	2007	2006	2008	2007	2006
Net income	\$ 278,298	\$ 492,527	\$ 580,137	P 12,377,301	P 22,729,136	P 29,769,150
Divided by weighted average of shares outstanding	<u>1,438,605.540</u>	<u>770,620.039</u>	<u>625,370.039</u>	<u>1,438,605.540</u>	<u>770,620.039</u>	<u>625,370.039</u>
	<u>\$ 0.0002</u>	<u>\$ 0.0006</u>	<u>\$ 0.0009</u>	<u>P 0.0086</u>	<u>P 0.0295</u>	<u>P 0.0476</u>

The weighted average number of shares outstanding as of December 31, 2008 is computed as follows:

	Number of shares	Stock Split by Seven	Months outstanding	Weighted no. of shares
Beginning balance	158,338,577	1,108,370,039	12	13,300,440,468
Issuance on June 24, 2008	-	117,500,000	6.2	728,500,000
Conversion of debt to equity on June 24, 2008	-	71,195,131	6.2	441,409,812
Issuance on July 8, 2008	-	352,500,000	5.74	2,024,032,258
Issuance on September 29, 2008	-	123,252,226	3.03	373,865,086
Issuance on October 9, 2008	-	117,795,650	2.71	319,188,213
Issuance on October 10, 2008	-	31,250,000	2.68	83,669,355
Conversion of debt to equity on October 20, 2008	-	( 81,000,000)	2.35	( 190,741,935)
Issuance on October 30, 2008	-	<u>90,000,000</u>	2.03	<u>182,903,226</u>
Total	<u>158,338,577</u>	<u>1,930,863,046</u>		17,263,266,483
Divided by total months as of December 31, 2008				<u>12</u>
Weighted average number of shares outstanding				<u>1,438,605.540</u>

Diluted earnings per share is not determined since the Company does not have potential dilutive common shares as of December 31, 2008, 2007 and 2006.

The weighted average number of shares outstanding in prior years changed due to the effect of stock split and treasury shares discussed in Note 15.2 and 15.6.

## **25. COMMITMENTS AND CONTINGENCIES**

The following are the significant commitments and contingencies involving the Group:

### ***25.1 Operating Lease Commitments***

MSPI operates principally on leased land for a period of two years commencing on July 15, 2004 subject to renewal or extension. This lease was renewed on August 8, 2006 for another term of two years commencing on July 1, 2006 and ending on June 30, 2008. This was further extended by MSPI for a term of six months commencing in July 2008 and ending December 31, 2008.

Other operating leases cover certain warehouse and office equipment.

### ***25.2 Others***

There are other commitments and contingent liabilities that arise in the normal course of the Group's operations that are not reflected in the accompanying consolidated financial statements. Management is of the opinion that losses, if any, from these items will not have a material effect on the Group's consolidated financial statements.

## **26. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group is exposed to a variety of financial risks which result from its operating activities. The Group's risk management is coordinated with the BOD, and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described in the succeeding paragraphs.

### ***26.1 Foreign Currency Sensitivity***

The Group operates internationally and is exposed to foreign currency risks arising from various currency exposures primarily with respect to Philippine pesos and European Union euro. The Group manages its exposure to foreign currency risks by entering into transactions denominated in U.S. dollars, its functional currency.

Foreign currency denominated financial assets and liabilities as of December 31, 2008 and 2007, translated into U.S. dollars at the closing rate, are as follows:

	<u>Foreign Currency</u>		<u>U.S. Dollars</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
In Philippine Pesos:				
Financial assets	<b>P 34,569,158</b>	P 66,817,659	<b>\$ 728,002</b>	\$ 1,613,914
Financial liabilities	<b>( 25,494,557)</b>	( 17,372,235)	<b>( 536,897)</b>	( 419,609)
Total net exposure	<b>P 9,074,601</b>	P 49,445,424	<b>\$ 191,105</b>	\$ 1,194,305
In European Union Euro:				
Financial assets	<b>€ 104,387</b>	€ 124,047	<b>\$ 145,631</b>	\$ 181,481
Financial liability	<b>( 14,504)</b>	( 101,803)	<b>( 20,234)</b>	( 148,938)
Total net exposure	<b>€ 89,883</b>	€ 22,244	<b>\$ 125,397</b>	\$ 32,543

The following table illustrates the sensitivity of the Group's income before tax with respect to changes in Philippine peso against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

	<u>2008</u>			<u>2007</u>		
	<u>Reasonably possible change in rate</u>	<u>Effect in income before tax</u>	<u>Effect in equity before tax</u>	<u>Reasonably possible change rate</u>	<u>Effect in income before tax</u>	<u>Effect in equity before tax</u>
USD - PhP	+/-26.18%	\$ 42,592	(\$ 92,630)	+/-20.72%	(\$ 247,485)	\$ -
USD - Euro	+/-44.57%	( 62,302)	6,418	+/-18.68%	( 8,950)	2,872
Total		<u>(\$ 19,710)</u>	<u>(\$ 86,212)</u>		<u>(\$ 256,435)</u>	<u>\$ 2,872</u>

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

## ***26.2 Interest Rate Sensitivity***

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At December 31, 2008 and 2007, the Group is exposed to changes in market interest rates through its bank and other borrowings and cash in banks, which are subject to variable interest rates (see Notes 5 and 12). All other financial assets and liabilities have fixed rates.

The Philippine peso-denominated cash in bank and bank borrowings are tested on a reasonably possible change of +/-7.33% in 2008 and +/-4.46% in 2007. The calculations are based on Philippine peso-denominated financial instruments held at balance sheet date, estimated at 99% level of confidence. On the other hand, U.S. dollar-denominated cash in bank are tested on a reasonably possible change of +/-6.35% in 2008 and +/-6.37% in 2007 and +/-4.40% for bank borrowings in 2007. The percentages have been determined based on average market volatility in interest rates in previous 12 months estimated at 99% level confidence (using standard deviation). These changes are considered to be reasonably possible based on the observation of current market conditions. This sensitivity analysis is based on the Group's financial instruments held at each balance sheet date, with effect estimated from the beginning of the year.

The increase in percentage change would increase income before tax by \$3,995 and \$51,118 for the years ended December 31, 2008 and 2007, respectively. Conversely, if the percentage change, with all other variables held constant, income before tax would decrease by the same amount.

### **26.3 Market Risk**

The Company's market price risk arises from its investments carried at fair value in 2008 (available-for-sale financial assets). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

For equity securities listed in the Philippines, an average volatility of 75.14% has been observed during 2008. If quoted price for these securities increased or decreased by that amount, equity would have changed by \$265,824.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Company's policies, no specific hedging activities are undertaken in relation to these investments.

### **26.4 Credit Risk**

The Group's customers are stable. For new customers, the Group conducts due diligence through web site check and background. If the Group has concerns regarding new customers, special term, either on cash on delivery or prepaid basis, is provided.

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognized at the 2008 and 2007 balance sheet date, as summarized below.

	Notes	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
		<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cash	5	\$ 193,405	\$ 2,011,719	P 9,183,836	P 83,287,178
Trade and other receivables	6	638,255	634,809	30,307,539	26,281,727
Refundable deposits	8	473,755	23,943	22,496,256	991,265
		<u>\$ 1,305,415</u>	<u>\$ 2,670,471</u>	<u>P 61,987,631</u>	<u>P 110,560,170</u>

The Group's management considers that all of the above financial assets are not impaired nor past due, except for those receivables already provided with allowance for impairment.

None of the Group's financial assets are secured by collateral or other credit enhancements.

In addition to impaired receivables, some of the unimpaired trade and other receivables are past due as at the reporting date. The age of trade receivables past due but not impaired as of December 31, 2008 and 2007 is as follows:

	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Not more than 1 month	\$ 35,859	\$ 78,177	P 1,594,829	P 3,236,606
1 to 2 months	1,591	29,658	70,760	1,227,871
2 to 3 months	15,279	25,716	679,534	1,064,668
More than 3 months	34,457	583	1,532,475	24,137
More than 6 months but not more than one year	-	104	-	4,294
More than one year	<u>6,739</u>	<u>19,588</u>	<u>320,001</u>	<u>810,963</u>
	<u>\$ 93,925</u>	<u>\$ 153,826</u>	<u>P 4,197,599</u>	<u>P 6,368,539</u>

### ***26.5 Liquidity Risk***

The Group manages its liquidity needs by carefully monitoring scheduled debt payments for long-term financial liabilities as well as cash outflows due in a day-to-day business.

At December 31, 2008, the Group's financial liabilities have contractual maturities which are summarized below.

	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
	<u>1-6 months</u>	<u>6-12 months</u>	<u>1-6 months</u>	<u>6-12 months</u>
Interest-bearing loans and borrowings	\$ 67,512	\$ 115,826	P 3,205,805	P 5,500,000
Trade and other payables	<u>439,173</u>	<u>168,064</u>	<u>20,854,105</u>	<u>7,980,544</u>
	<u>\$ 506,685</u>	<u>\$ 283,890</u>	<u>P 24,059,910</u>	<u>P 13,480,544</u>

This compares to the maturity of the Group's financial liabilities as at December 31, 2007 as follows:

	<u>U.S. Dollars</u>		<u>Philippine Pesos</u>	
	<u>1-6 months</u>	<u>6-12 months</u>	<u>1-6 months</u>	<u>6-12 months</u>
Interest-bearing loans and borrowings	\$ 875,283	\$ 165,985	P 36,237,591	P 6,871,945
Trade and other payables	<u>984,612</u>	<u>152,501</u>	<u>40,763,921</u>	<u>6,313,694</u>
	<u>\$ 1,859,895</u>	<u>\$ 318,486</u>	<u>P 77,001,512</u>	<u>P 13,185,639</u>

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet date.

## 27. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and fair values of the categories of assets and liabilities presented in the consolidated balance sheets are shown below.

	Notes	2008		2007	
		Carrying Values	Fair Values	Carrying Values	Fair Values
<u>In U.S. Dollars</u>					
<b>Financial Assets</b>					
Loans and receivables:					
Cash	5	\$ 193,405	\$ 193,405	\$ 2,011,719	\$ 2,011,719
Trade and other receivables	6	638,255	638,255	634,809	634,809
Refundable deposits	8	473,755	473,755	23,943	23,943
		<u>\$ 1,305,415</u>	<u>\$ 1,305,415</u>	<u>\$ 2,670,471</u>	<u>\$ 2,670,471</u>
AFS financial assets –					
Equity securities	9	\$ 349,090	\$ 349,090	\$ -	\$ -
<u>In Philippine Pesos</u>					
<b>Financial Assets</b>					
Loans and receivables:					
Cash	5	P 9,183,836	P 9,183,836	P 83,287,178	P 83,287,178
Trade and other receivables	6	30,307,539	30,307,539	26,281,727	26,281,727
Refundable deposits	8	22,496,256	22,496,256	991,265	991,265
		<u>P 61,987,631</u>	<u>P 61,987,631</u>	<u>P 110,560,170</u>	<u>P 110,560,170</u>
AFS financial assets –					
Equity securities	9	P 16,576,539	P 16,576,539	P -	P -
<u>In U.S. Dollars</u>					
<b>Financial Liabilities</b>					
Financial liabilities at					
amortized cost:					
Interest-bearing loans					
and borrowings	12	\$ 183,338	\$ 183,338	\$ 979,087	\$ 979,087
Trade and other payables	13	607,237	607,237	1,137,113	1,137,113
		<u>\$ 790,575</u>	<u>\$ 790,575</u>	<u>\$ 2,116,200</u>	<u>\$ 2,116,200</u>
<u>In Philippine Pesos</u>					
<b>Financial Liabilities</b>					
Financial liabilities at					
amortized cost:					
Interest-bearing loans					
and borrowings	12	P 8,705,805	P 8,705,805	\$ 40,535,181	\$ 40,535,181
Trade and other payables	13	28,834,649	28,834,649	47,077,615	47,077,615
		<u>P 37,540,454</u>	<u>P 37,540,454</u>	<u>\$ 87,612,796</u>	<u>\$ 87,612,796</u>

## 28. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders.

The Group sets the amount of capital in proportion to its overall financing structure, (i.e. equity and financial liabilities). The Group manages the capital structure and makes adjustments to consider changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group monitors capital on the basis of the carrying amount of equity and interest-bearing loans and borrowings. The Group's debt-to-equity ratio for the year ended December 31, 2008 and 2007 is summarized below.

	Note	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
		<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Debt		\$ 183,338	\$ 979,087	P 8,705,805	P 40,535,181
Total equity	15.1	<u>5,934,598</u>	<u>2,992,659</u>	<u>281,804,386</u>	<u>123,899,075</u>
Debt-to-equity ratio		<u><b>0.03 : 1</b></u>	<u>0.33 : 1</u>	<u><b>0.03 : 1</b></u>	<u>0.33 : 1</u>

The ratio-reduction in 2008 is the result of the net liability repayment and the increase in equity due to additional stock issuance and net income earned in 2008.

The increase in ratio in 2007 is a direct result of the capital infusion made by the stockholders which increased total equity and cash as of December 31, 2007.

**MUSX CORPORATION AND SUBSIDIARIES**  
*(Formerly MUSIC Semiconductors Corporation)*  
**CONSOLIDATED CASH FLOW STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**

	Notes	In U.S. Dollars (Functional Currency)			In Philippine Pesos (Presentation Currency)		
		2008	2007	2006	2008	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Income (loss) before tax		(\$ 1,487,566)	\$ 531,432	\$ 616,131	( P 66,159,500)	P 24,524,524	P 31,616,146
Adjustments for:							
Discount on loan	19	( 300,000)	-	-	( 13,342,500)	-	-
Interest income		( 24,720)	( 4,631)	( 5,555)	( 1,099,422)	( 213,711)	( 285,049)
Finance costs	19	419,109	243,611	210,428	18,639,873	11,242,160	10,797,902
Unrealized foreign currency losses (gains) - net		( 62,313)	75,950	( 14,177)	-	-	-
Depreciation and amortization	10	21,777	24,515	29,056	968,533	1,131,319	1,490,980
Write-off of property and equipment	19	26,958	-	-	1,198,957	-	-
Operating income (loss) before working capital changes		( 1,406,755)	870,877	835,883	( 59,794,059)	36,684,292	43,619,979
Decrease (increase) in trade and other receivables		21,692	( 221,712)	87,844	( 2,973,950)	( 5,800,343)	6,394,168
Decrease (increase) in inventories		1,373,972	215,176	( 157,979)	65,243,060	9,929,942	( 8,106,534)
Decrease (increase) in other current assets		( 183,735)	12,559	26,962	( 8,358,774)	789,876	1,568,179
Increase in refundable deposits		( 473,755)	-	-	( 22,496,256)	-	-
Decrease in trade and other payables		( 260,007)	( 170,356)	( 237,021)	( 6,227,227)	( 17,238,231)	( 17,820,235)
Increase in retirement benefit obligation		40,744	51,790	40,099	1,812,097	2,390,017	2,057,665
Cash generated from (used in) operations		( 887,844)	758,334	595,788	( 32,795,109)	26,755,553	27,713,222
Cash paid for taxes		( 22,390)	( 41,043)	( 52,672)	( 1,048,043)	( 1,702,721)	( 2,702,834)
Net Cash From (Used in) Operating Activities		( 910,234)	717,291	543,116	( 33,843,152)	25,052,832	25,010,388
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Acquisitions of intangible asset	11	( 2,245,161)	( 354,422)	( 224,464)	( 106,611,470)	( 16,355,866)	( 11,518,146)
Acquisitions of available-for-sale financial assets	9	( 790,385)	-	-	( 37,812,539)	-	-
Acquisitions of property and equipment	10	( 4,815)	( 17,964)	( 42,176)	( 228,640)	( 743,727)	( 2,072,190)
Interest received		24,720	4,631	5,555	1,099,422	213,711	285,049
Decrease in other non-current assets		285	463	366	10,509	26,591	23,200
Net Cash Used in Investing Activities		( 3,015,356)	( 367,292)	( 260,719)	( 143,542,718)	( 16,859,291)	( 13,282,087)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Proceeds from issuance of common shares - net	15	2,847,855	1,736,423	-	130,438,229	79,040,023	-
Payments of interest-bearing loans and borrowings		( 522,243)	( 185,952)	( 352,340)	( 24,798,709)	( 8,581,313)	( 17,311,167)
Interest paid		( 266,485)	( 269,509)	( 157,424)	( 11,851,921)	( 12,437,301)	( 8,078,088)
Proceeds from availment of interest-bearing loans and borrowings		46,895	56,105	60,000	2,226,809	2,589,134	2,947,920
Net Cash From (Used in) Financing Activities		2,106,022	1,337,067	( 449,764)	96,014,408	60,610,543	( 22,441,335)
Effects of Exchange Rates		1,254	( 2,741)	( 1,742)	7,268,120	( 1,602,428)	450,631
<b>NET INCREASE (DECREASE) IN CASH</b>		( 1,818,314)	1,684,325	( 169,109)	( 74,103,342)	67,201,656	( 10,262,403)
<b>CASH AT BEGINNING OF YEAR</b>		2,011,719	327,394	496,503	83,287,178	16,085,522	26,347,925
<b>CASH AT END OF YEAR</b>		\$ 193,405	\$ 2,011,719	\$ 327,394	P 9,183,836	P 83,287,178	P 16,085,522

**Supplemental Information for Noncash Investing and Financing Activities**

In June 2008, the Group fully settled its outstanding U.S. dollar-denominated loan from a foreign bank amounting to \$750,000 (P33.6 million), of which \$300,000 (P13.3 million) was waived by the bank (see Note 12.1).

On June 24, 2008, the advances from officers and employees amounting to \$275,800 (P11.4 million) were converted into 71.2 million shares of the Company (see Note 15.5).

*See Notes to Consolidated Financial Statements.*