



MUSX Corporation
(formerly MUSIC Semiconductors Corporation)
110 Excellence Ave. cor. Accuracy Drive, SEPZ 1
Carmelray Industrial Park, Canlubang
Laguna, Philippines 4028
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May 14, 2009

PHILIPPINE STOCK EXCHANGE
4th Floor Philippine Stock Exchange Centre,
Exchange Road, Ortigas Center, Pasig City

Attention: Janet A. Encarnacion
Head – Disclosure Department

Gentlemen:

Further to our disclosure today on the release of the Company's 17Q Report for the quarter ending March 31, 2009, we are furnishing the Exchange the amended 17Q report to correct a typo on page 2 on the number of listed shares to be 1,730,565,170 instead of 1,969,610,820 shares as earlier reported.

Very truly yours,

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

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

MUSX CORPORATION

(Company's Full Name)

**110 Excellence Avenue cor. Accuracy Drive
Special Export Processing Zone 1
Carmelray Industrial Park, Canlubang,
Calamba,Laguna**

(Company's Address)

(049) 549-1480

(Telephone Number)

March 31, 2009

(Quarter Ending)
(month & day)

17-Q

Form Type

Amendment Designation (If applicable)

March 31, 2009

Period Ended Date

53

Number of Pages

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17 – Q

QUARTERLY REPORT PRUSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended : **31 March 2009**
2. SEC Identification Number : **AS092-000589**
3. BIR Tax Identification Number : **001-817-292**
4. Exact name of issuer as specified in its charter : **MUSX CORPORATION**
5. Province, country or other jurisdiction on incorporation or organization : **Canlubang, Calamba, Laguna, Philippines**
6. Industry Classification Code : _____
(SEC Use Only)
7. Address of Principal Office : **110 Excellence Avenue cor. Accuracy Drive, SEPZ1, Carmelray Industrial Park, Canlubang, Calamba, Laguna**
Postal Code : **4037**
8. Issuer's telephone no. area code : **(049) 5491480**
9. There have been no changes to our name, address and fiscal year since our last report
10. Securities registered pursuant to Section 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<u>Common Shares Php 0.10 par</u>	2,221,579,934 (As of 31 March, 2009)

11. Are any or all of these securities listed on the Philippine Stock Exchange
Yes [] No [**x**]
- 1,730,565,170 out of the 2,221,579,934 issued and outstanding securities are listed on the Philippine Stock Exchange.
12. Check whether the registrant:
- a. Has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder 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 []

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)
CONSOLIDATED BALANCE SHEETS
March 31, 2009
(With Comparative Figures for December 31, 2008)

Notes	In U.S. Dollars (Functional Currency)		In Philippine Pesos (Presentation Currency)		
	Audited		Audited		
	MARCH 31, 2009	DEC. 31, 2008	MARCH 31, 2009	DEC. 31, 2008	
<u>ASSETS</u>					
CURRENT ASSETS					
Cash	5	\$ 54,722	\$ 193,405	P 2,649,585	P 9,183,836
Trade and other receivables - net	6	284,690	306,018	13,784,300	14,531,265
Inventories - net	7	625,856	646,436	30,303,322	30,696,013
Refundable deposits	8	453,230	473,755	21,944,943	22,496,256
Prepayments and other current assets - net	8	33,237	39,349	1,609,302	1,868,487
		1,451,735	1,658,963	70,291,452	78,775,857
NON-CURRENT ASSETS					
Trade and other receivables - net	6	325,826	\$ 332,237	15,776,274	15,776,274
Available-for-sale financial assets - net	9	245,490	\$ 349,090	11,886,380	16,576,539
Intangible asset	11	3,001,654	2,899,864	145,337,085	137,700,042
Deferred tax assets	22	1,780,612	\$ 1,780,612	86,215,452	84,552,361
Other non-current assets		-	212	-	10,067
		5,353,582	5,362,015	259,215,191	254,615,283
TOTAL ASSETS		\$ 6,805,317	\$ 7,020,978	P 329,506,643	P 333,391,140
<u>LIABILITIES AND EQUITY</u>					
CURRENT LIABILITIES					
Interest-bearing loans and borrowings	12	\$ 181,104	\$ 183,338	P 8,768,875	P 8,705,805
Trade and other payables	13	427,854	607,237	20,716,263	28,834,649
		608,958	790,575	29,485,138	37,540,454
NON-CURRENT LIABILITY					
Retirement benefit obligation	20	300,426	295,805	14,546,326	14,046,300
		909,384	1,086,380	44,031,464	51,586,754
EQUITY					
Issued capital and reserves	15	5,895,933	5,934,598	285,475,179	281,804,386
TOTAL LIABILITIES AND EQUITY		\$ 6,805,317	\$ 7,020,978	P 329,506,643	P 333,391,140

See Notes to Consolidated Financial Statements.

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)
CONSOLIDATED INCOME STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2009
(With Comparative Figures for the Period Ended March 31, 2008 and March 31, 2007)

	Notes	In U.S. Dollars (Functional Currency)			In Philippine Pesos (Presentation Currency)		
		Three Months Ended			Three Months Ended		
		March 31, 2009	March 31, 2008	March 31, 2007	March 31, 2009	March 31, 2008	March 31, 2007
NET SALES		\$ 284,005	\$ 626,601	\$ 861,369	P 13,561,239	P 25,661,504	P 41,865,979
COST OF GOODS SOLD	16	<u>111,836</u>	<u>233,554</u>	<u>340,844</u>	<u>5,340,169</u>	<u>9,564,854</u>	<u>16,566,382</u>
GROSS PROFIT		172,169	393,047	520,525	8,221,070	16,096,650	25,299,597
OTHER OPERATING EXPENSES	16	<u>113,364</u>	<u>290,582</u>	<u>319,270</u>	<u>5,413,130</u>	<u>11,900,350</u>	<u>15,517,799</u>
OPERATING PROFIT		<u>58,805</u>	<u>102,465</u>	<u>201,255</u>	<u>2,807,940</u>	<u>4,196,300</u>	<u>9,781,798</u>
OTHER INCOME (CHARGES)							
Finance costs	19	(21,561)	(31,805)	(43,724)	(1,029,538)	(1,302,526)	(2,125,162)
Reorganization costs - net	18	-	(12,015)	(52,232)	-	(492,056)	(2,538,684)
Others - net	19	<u>26,764</u>	<u>20,040</u>	<u>6,519</u>	<u>1,277,979</u>	<u>820,708</u>	<u>316,850</u>
		<u>5,203</u>	(23,780)	(89,437)	<u>248,441</u>	(973,874)	(4,346,996)
INCOME BEFORE TAX		64,008	78,685	111,818	3,056,381	3,222,426	5,434,802
TAX EXPENSE		<u>477</u>	<u>1,147</u>	<u>6,046</u>	<u>22,777</u>	<u>46,974</u>	<u>293,860</u>
NET INCOME		<u>\$ 63,531</u>	<u>\$ 77,538</u>	<u>\$ 105,772</u>	<u>P 3,033,604</u>	<u>P 3,175,452</u>	<u>P 5,140,942</u>
Earnings Per Share	24	<u>\$ 0.0001</u>	<u>\$ 0.0001</u>	<u>\$ 0.0002</u>	<u>P 0.0016</u>	<u>P 0.0041</u>	<u>P 0.0082</u>

See Notes to Consolidated Financial Statements.

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2009
(With Comparative Figures for the Period Ended December 31, 2008, March 31, 2008 and March 31, 2007)

	Note	In U.S. Dollars (Functional Currency)			Audited December 31, 2008	In Philippine Pesos (Presentation Currency)			Audited December 31, 2008
		Three Months Ended				Three Months Ended			
		March 31, 2009	March 31, 2008	March 31, 2007		March 31, 2009	March 31, 2008	March 31, 2007	
CAPITAL STOCK	15								
Balance at beginning of period		\$ 5,390,253	\$ 3,245,047	\$ 3,121,683	\$ 3,245,047	P 209,286,305	P 110,837,004	P 89,338,577	P 110,837,004
Additional issuance during the period		-	-	-	2,145,206	-	-	-	98,449,301
Reclassification during the period		<u>267,342</u>	-	-	-	<u>12,871,689</u>	-	-	-
Balance at end of period		<u>5,657,595</u>	<u>3,245,047</u>	<u>3,121,683</u>	<u>5,390,253</u>	<u>222,157,994</u>	<u>110,837,004</u>	<u>89,338,577</u>	<u>209,286,305</u>
ADDITIONAL PAID-IN CAPITAL	15								
Balance at beginning of period		1,613,030	384,458	-	384,458	83,592,216	27,252,067	-	27,252,067
Additional issuance during the period		-	-	-	1,228,572	-	-	-	56,340,149
Reclassification during the period		<u>(267,342)</u>	-	-	-	<u>(12,871,689)</u>	-	-	-
Balance at end of period		<u>1,345,688</u>	<u>384,458</u>	<u>-</u>	<u>1,613,030</u>	<u>70,720,527</u>	<u>27,252,067</u>	<u>-</u>	<u>83,592,216</u>
DEPOSIT ON FUTURE SUBSCRIPTION		-	449,030	-	-	-	18,800,000	-	-
TREASURY SHARES - At Cost	15	(270,096)	-	-	(270,096)	(12,960,000)	-	-	(12,960,000)
REVALUATION RESERVES	9	(544,895)	-	-	(441,295)	(26,221,480)	-	-	(21,236,000)
ACCUMULATED TRANSLATION ADJUSTMENTS	15	(33,497)	(39,955)	(33,604)	(34,901)	34,679,001	5,431,143	18,936,923	29,056,332
DEFICIT	15								
Balance at beginning of period		(322,393)	(600,691)	(2,321,819)	(600,691)	(5,934,467)	(18,311,768)	(71,330,433)	(18,311,768)
Net income		<u>63,531</u>	<u>77,538</u>	<u>105,772</u>	<u>278,298</u>	<u>3,033,604</u>	<u>3,175,452</u>	<u>5,140,942</u>	<u>12,377,301</u>
Balance at end of period		(<u>258,862</u>)	(<u>523,153</u>)	(<u>2,216,047</u>)	(<u>322,393</u>)	(<u>2,900,863</u>)	(<u>15,136,316</u>)	(<u>66,189,491</u>)	(<u>5,934,467</u>)
TOTAL EQUITY		<u>\$ 5,895,933</u>	<u>\$ 3,515,427</u>	<u>\$ 872,032</u>	<u>\$ 5,934,598</u>	<u>P 285,475,179</u>	<u>P 147,183,898</u>	<u>P 42,086,009</u>	<u>P 281,804,386</u>
Net Loss Directly Recognized in Equity		(<u>\$ 544,895</u>)	<u>\$ -</u>	<u>\$ -</u>	(<u>\$ 441,295</u>)	(<u>P 26,221,480</u>)	<u>P -</u>	<u>P -</u>	(<u>P 21,236,000</u>)

See Notes to Consolidated Financial Statements.

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009 AND DECEMBER 31, 2008 AND 2007

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, 3rd Avenue corner 30th 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).

1.2 Ownership Interests

As of March 31, 2009 and December 31, 2008, 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 March 31, 2009 and December 31, 2008.

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 a 90.8% indirect interests in Innovative LLC, through its subsidiary MSI. It was incorporated in the United States. It has been dormant since December 31, 2001.

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.

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).

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	:	PAS 19 – The Limit on a Defined
IFRIC 14		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 December 31, 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 December 31, 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.

2.17 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 \$9,359, \$9,969 and \$16,451 as of March 31, 2009, March 31, 2008 and March 31, 2007, respectively (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 March 31, 2009 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 March 31, 2009 and December 31, 2008 amounted to \$3,001,654 and \$2,899,864, 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 (\$625,856 and \$646,436 as of March 31, 2009 and December 31, 2008, 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 period ended March 31, 2009, 2008 and 2007.

(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 amounted to \$300,426 as of March 31, 2009 and \$295,805 as of December 31, 2008 (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 is disclosed in Note 22.1.

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 MSI which is undertaken by MSI. Information relating to these two segments, before intercompany eliminations, is shown below.

	In U.S. Dollars			In Philippine Pesos		
	March 31, 2009	Audited Dec. 31, 2008		March 31, 2009	Audited Dec. 31, 2008	
Total assets						
MSI	\$ 2,753,588	\$ 2,712,795		P 133,325,977	P 128,817,071	
MSPI	4,619,861	4,714,314		223,689,050	223,859,200	
Total liabilities						
MSI	2,392,340	2,500,708		115,834,710	118,746,119	
MSPI	818,000	827,734		39,606,742	39,304,949	

	In U.S. Dollars			In Philippine Pesos		
	March 31, 2009	March 31, 2008	March 31, 2007	March 31, 2009	March 31, 2008	March 31, 2007
Net sales						
MSI	\$ 284,005	\$ 626,601	\$ 861,369	P 13,561,239	P 25,661,504	P 41,865,979
MSPI	82,868	122,607	331,076	3,956,947	5,021,186	16,091,618
Operating profit (loss)						
MSI	164,424	233,369	207,633	7,851,246	9,557,277	10,091,794
MSPI	(73,386)	(106,832)	17,143	(3,504,182)	(4,735,144)	833,218
Net income (loss)						
MSI	149,161	211,200	135,627	7,122,438	8,649,379	6,592,015
MSPI	(34,077)	(102,759)	1,286	(1,627,177)	(4,208,341)	62,505

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		
	March 31, 2009	March 31, 2008	March 31, 2007	March 31, 2009	March 31, 2008	March 31, 2007
North America	\$ 111,916	\$ 241,073	\$ 414,942	P 5,343,989	P 9,872,783	P 20,167,841
Asia	87,772	294,123	197,551	4,191,113	12,045,366	9,601,769
Europe	84,317	91,405	248,876	4,026,137	3,743,355	12,096,369
	<u>\$ 284,005</u>	<u>\$ 626,601</u>	<u>\$ 861,369</u>	<u>P 13,561,239</u>	<u>P 25,661,504</u>	<u>P 41,865,979</u>

5. CASH

Cash as of March 31, 2009 decreased by \$138,683 (P6,534,251) compared to the balance as of December 31, 2008. This decrease was mainly brought about by the Company's retrenchment of certain employees and continued disbursements relating to 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	
		March 31, 2009	Audited Dec. 31, 2008	March 31, 2009	Audited Dec. 31, 2008
Trade		\$ 217,023	\$ 265,092	P 10,508,042	P 12,587,894
Less allowance for impairment		<u>25,080</u>	<u>57,810</u>	<u>1,214,349</u>	<u>2,745,108</u>
		<u>191,943</u>	<u>207,282</u>	<u>9,293,693</u>	<u>9,842,786</u>
Current portion of Stock Loans	14	81,457	83,060	3,944,082	3,944,082
Advances to officers and employees		126,611	123,256	6,130,143	5,852,811
Less allowance for impairment		<u>117,335</u>	<u>116,633</u>	<u>5,681,243</u>	<u>5,538,318</u>
		<u>9,276</u>	<u>6,623</u>	<u>448,900</u>	<u>314,493</u>
Receivables from:					
Bureau of Internal Revenue (BIR)		15,844	16,158	767,214	767,263
Less allowance for impairment		<u>14,510</u>	<u>14,795</u>	<u>702,541</u>	<u>702,541</u>
		<u>1,334</u>	<u>1,363</u>	<u>64,673</u>	<u>64,722</u>
Vickers		13,596	13,864	658,332	658,332
Less allowance for impairment		<u>12,916</u>	<u>12,934</u>	<u>625,380</u>	<u>614,171</u>
		<u>680</u>	<u>930</u>	<u>32,952</u>	<u>44,161</u>
Others		16,219	21,920	785,308	1,040,893
Less allowance for impairment		<u>16,219</u>	<u>15,160</u>	<u>785,308</u>	<u>719,872</u>
		<u>-</u>	<u>6,760</u>	<u>-</u>	<u>321,021</u>
		<u>\$ 284,690</u>	<u>\$ 306,018</u>	<u>P 13,784,300</u>	<u>P 14,531,265</u>
Non-current portion of Stock Loans	14	\$ 325,826	\$ 332,237	P 15,776,274	P 15,776,274

6.1 Loans Receivables

On September 26, 2008, the Company granted interest-bearing loans to eligible employees and directors amounting to \$420,324 (P19,720,356) as a result of the shareholders-approved Stock Purchase Plan (see Note 14). The process of obtaining listing approval of the loans shares is on going as of March 31, 2009. When complete, enabling the listed shares being made available to the participants, the loan repayments will be underway.

6.2 Receivable from Others

Significant portion of Receivable from others pertains to input VAT which can be claimed as tax credit. As of March 31, 2009 and December 31, 2008, input VAT was fully provided with allowance for impairment amounting to \$14,879 (P720,426) and \$13,803 (P655,435), 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 as of March 31, 2009 and December 31, 2008 is shown below.

	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
	<u>March 31, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>March 31, 2009</u>	<u>Audited Dec. 31, 2008</u>
Balance at beginning of period	\$ 217,332	\$ 154,200	P 10,320,010	P 6,384,034
Impairment loss	3,104	57,215	148,216	2,544,637
Provision for returns	-	32,730	-	1,455,667
Reversals of provision for returns	(32,730)	(17,000)	(1,562,858)	(756,075)
Effects of exchange rates	(1,646)	(9,813)	103,453	691,747
Balance at end of period	<u>\$ 186,060</u>	<u>\$ 217,332</u>	<u>P 9,008,821</u>	<u>P 10,320,010</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.

7. INVENTORIES

The components of inventories are as follows:

	Note	In U.S. Dollars		In Philippine Pesos	
		March 31, 2009	Audited Dec. 31, 2008	March 31, 2009	Audited Dec. 31, 2008
Finished goods	16.1	\$ 1,035,776	\$ 1,043,309	P 50,151,239	P 49,541,528
Less: Valuation allowance for inventory obsolescence		(724,000)	(724,000)	(35,055,356)	(34,379,140)
		<u>311,776</u>	<u>319,309</u>	<u>15,095,883</u>	<u>15,162,388</u>
Work-in-process	16.1	130,815	133,427	6,333,931	6,335,781
Less: Valuation allowance for inventory obsolescence		(107,971)	(107,971)	(5,227,848)	(5,127,003)
		<u>22,844</u>	<u>25,456</u>	<u>1,106,083</u>	<u>1,208,778</u>
Raw materials and supplies		757,444	767,879	36,674,681	36,462,734
Less: Valuation allowance for inventory obsolescence		(466,208)	(466,208)	(22,573,325)	(22,137,887)
		<u>291,236</u>	<u>301,671</u>	<u>14,101,356</u>	<u>14,324,847</u>
		<u>\$ 625,856</u>	<u>\$ 646,436</u>	<u>P 30,303,322</u>	<u>P 30,696,013</u>

The reconciliation of the inventory valuation allowance as of March 31, 2009 and December 31, 2008 is shown below.

	In U.S. Dollars		In Philippine Pesos	
	March 31, 2009	Audited Dec. 31, 2008	March 31, 2009	Audited Dec. 31, 2008
Balance at beginning of period	\$ 1,298,179	\$ 216,777	P 61,644,030	P 8,974,784
Additions	-	1,081,402	-	48,095,354
Effects of exchange rates	-	-	1,212,499	4,573,892
Balance at end of period	<u>\$ 1,298,179</u>	<u>\$ 1,298,179</u>	<u>P 62,856,529</u>	<u>P 61,644,030</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.

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.

8. REFUNDABLE DEPOSITS

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

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 (\$131,940) 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 \$309,796 (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 as of March 31, 2009 and December 31, 2008 consolidated balance sheet. This was fully provided with allowance for impairment and recorded under Finance costs in the 2008 consolidated income statement. 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 March 31, 2009 and December 31, 2008 is as follows:

	<u>Note</u>	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
		<u>March 31, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>March 31, 2009</u>	<u>Audited Dec. 31, 2008</u>
Equity shares		\$ 790,385	\$ 790,385	P 38,034,900	P 38,034,900
Fair value loss	15.1	(544,895)	(441,295)	(26,221,480)	(21,236,000)
Effects of exchange rates		-	-	72,960	(222,361)
		<u>\$ 245,490</u>	<u>\$ 349,090</u>	<u>P 11,886,380</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 March 31, 2009 and 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 period ended March 31, 2009 and December 31, 2008.

10. PROPERTY AND EQUIPMENT

In 2008, the Group wrote-off the remaining carrying amount of its property and equipment totaling \$26,958 (P1,198,957) 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.

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 March 31, 2009, are still under development.

The movement in this account is presented below.

	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
	<u>March 31, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>March 31, 2009</u>	<u>Audited Dec. 31, 2008</u>
Balance at beginning of period	\$ 2,899,864	\$ 654,703	P 137,700,042	P 27,105,359
Additions	101,790	2,245,161	4,860,473	106,611,470
Effects of exchange rates	-	-	2,776,570	3,983,213
Balance at end of period	<u>\$ 3,001,654</u>	<u>\$ 2,899,864</u>	<u>P 145,337,085</u>	<u>P 137,700,042</u>

Intangible asset is subject to impairment testing whenever there is an indication of impairment. No impairment losses were recognized in March 31, 2009, March 31, 2008 and March 31, 2007 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 March 31, 2009 is as follows:

	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
	<u>March 31, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>March 31, 2009</u>	<u>Audited Dec. 31, 2008</u>
Bank loans	\$ 181,104	\$ 183,338	P 8,768,875	P 8,705,805
	<u>\$ 181,104</u>	<u>\$ 183,338</u>	<u>P 8,768,875</u>	<u>P 8,705,805</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. As of March 31, 2009, 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.

This U.S. dollar loan bears annual interest ranging from 6.97% to 8.64% in 2008.

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 interest of 6%.

The Philippine peso-denominated loan originally amounting to P5.5 million bears interest at rates averaging 8.61% as of March 31, 2009 and 8.65% in 2008. This loan is collateralized by the assets of a related party (see Note 21.2). In 2008, the loan was renewed and will mature on October 2, 2009.

12.2 Finance Costs

Interests incurred on all bank loans and borrowings amounted to \$4,045, \$20,357, and \$24,633 as of March 31, 2009, March 31, 2008 and March 31, 2007, 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:

	<u>Note</u>	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
		<u>March 31, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>March 31, 2009</u>	<u>Audited Dec. 31, 2008</u>
Trade		\$ 67,087	\$ 60,894	P 3,248,285	P 2,891,552
Accrued employee benefits	20.2, 20.3	243,785	366,915	11,803,817	17,422,959
Accrued outside services		20,491	46,460	992,154	2,206,153
Accrued taxes and licenses		6,869	10,538	332,590	500,397
Accrued director's fee		3,329	2,390	161,187	113,489
Accrued interest		568	393	27,502	18,662
Accrued commission		2,828	-	136,929	-
Accrued and other liabilities		82,897	119,647	4,013,799	5,681,437
		<u>\$ 427,854</u>	<u>\$ 607,237</u>	<u>P 20,716,263</u>	<u>P 28,834,649</u>

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:

	Note	In U.S. Dollars		In Philippine Pesos	
		March 31, 2009	Audited Dec. 31, 2008	March 31, 2009	Audited Dec. 31, 2008
Capital stock	15.2	\$ 5,657,595	\$ 5,390,253	P 222,157,994	P 209,286,305
Additional paid-in capital		1,345,688	1,613,030	70,720,527	83,592,216
Treasury shares	15.6	(270,096)	(270,096)	(12,960,000)	(12,960,000)
Revaluation reserves	9	(544,895)	(441,295)	(26,221,480)	(21,236,000)
Accumulated translation adjustments	15.7	(33,497)	(34,901)	34,679,001	29,056,332
Deficit		(258,862)	(322,393)	(2,900,863)	(5,934,467)
		<u>\$ 5,895,933</u>	<u>\$ 5,934,598</u>	<u>P285,475,179</u>	<u>P 281,804,386</u>

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

15.2 Capital Stock

Capital stock consists of:

In U.S. Dollars

	Shares				Amounts			
	Three months ended:			Audited	Three months ended:			Audited
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Dec 31, 2008	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Dec 31, 2008
Common shares – P0.10 par value for Mar. 31, 2009, March 31, 2008 & Dec. 31, 2008 and P1.00 par value for Mar. 31, 2007								
Authorized	2,450,000,000	1,120,000,000	100,000,000	2,450,000,000				
Issued and outstanding								
Balance beginning of period	2,092,863,046	1,108,370,039	89,338,577	1,108,370,039	\$ 5,390,253	\$ 3,245,047	\$ 3,121,683	\$ 3,245,047
Issued during the period				984,493,007				2,145,206
Reclassification during the period	128,716,888	-	-	-	267,342	-	-	-
	<u>2,221,579,934</u>	<u>1,108,370,039</u>	<u>89,338,577</u>	<u>2,092,863,046</u>	<u>\$ 5,657,595</u>	<u>\$ 3,245,047</u>	<u>\$ 3,121,683</u>	<u>\$ 5,390,253</u>

In Philippine Pesos

	Shares				Amounts			
	Three months ended:			Audited	Three months ended:			Audited
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Dec 31, 2008	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Dec 31, 2008
Common shares – P0.10 par value for Mar. 31, 2009, March 31, 2008 & Dec. 31, 2008 and P1.00 par value for Mar. 31, 2007								
Authorized	2,450,000,000	1,120,000,000	100,000,000	2,450,000,000				
Issued and outstanding								
Balance beginning of period	2,092,863,016	1,108,370,039	89,338,577	1,108,370,039	P209,286,305	P110,837,004	P89,338,577	P110,837,004
Issued during the year				984,493,007				98,449,301
Reclassification during the period	128,716,888	-	-	-	12,871,689	-	-	-
	<u>2,221,579,934</u>	<u>1,108,370,039</u>	<u>89,338,577</u>	<u>2,092,863,046</u>	<u>P222,157,994</u>	<u>P110,837,004</u>	<u>P89,338,577</u>	<u>P 209,286,305</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 P0.104 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 resulting in the increase of issued shares from 239 million to about 368 million shares and a reclassification of the previously settled additional paid-in capital amounting to \$267,342 (P12.9 million) to capital stock.

The Company received additional stock subscriptions through private placement offerings, out of the unissued capital stock of the Company in various dates in 2008 and 2009. 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)

*** subscription price was reduced to P0.104 per share on March 17, 2009 (see Note 15.4 above)

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. 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			
	Three months ended			Audited	Three months ended			Audited
	Mar. 31, 2009	Mar. 31, 2008	Mar 31, 2007	Dec. 31, 2008	Mar. 31, 2009	Mar. 31, 2008	Mar 31, 2007	Dec. 31, 2008
Translation adjustments arising from:								
Foreign entity financial statements	(\$ 33,497)	(\$ 39,955)	(\$ 33,604)	(\$ 34,901)	(P 1,621,891)	P 1,672,836	P 1,621,796	P 1,657,274
Presentation currency	-	-	-	-	36,300,892	7,103,979	20,558,719	30,713,606
	(\$ 33,497)	(\$ 39,955)	(\$ 33,604)	(\$ 34,901)	P34,679,001	P 5,431,143	P 18,936,923	P 29,056,332

The movement in this account is as follows:

	In U.S. Dollars				In Philippine Pesos			
	Three months ended			Audited	Three months ended			Audited
	Mar. 31, 2009	Mar. 31, 2008	Mar 31, 2007	Dec. 31, 2008	Mar. 31, 2009	Mar. 31, 2008	Mar 31, 2007	Dec. 31, 2008
Balance at beginning of period	(\$ 34,901)	(\$ 36,155)	(\$ 33,414)	(\$ 36,155)	P 29,056,332	P 4,121,772	P 19,649,078	P 4,121,772
Translation adjustment during the period	1,404	(3,800)	(190)	1,254	5,655,266	1,326,256	(741,226)	25,154,527
Effects of exchange rates	-	-	-	-	(32,597)	(16,885)	29,071	(219,967)
	(\$ 33,497)	(\$ 39,955)	(\$ 33,604)	(\$ 34,901)	P 34,679,001	P 5,431,143	P 18,936,923	P 29,056,332

16.2 Other Operating Expenses

The details of this account are presented below.

Note	In U.S. Dollars			In Philippine Pesos		
	Three months ended:			Three months ended:		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Employee benefits	\$ 88,577	\$ 224,733	\$ 230,471	P 4,229,551	P 9,203,603	P 11,201,812
Other operating expenses:						
Outside services	430	17,310	11,591	20,533	708,905	563,369
Selling expenses	2,828	9,199	15,135	135,037	376,731	735,622
Asia expenses	3,135	7,800	4,681	149,696	319,437	227,515
Transportation and travel	4,611	2,349	11,179	220,175	96,200	543,344
Taxes and licenses	3,032	6,342	5,973	144,778	259,727	290,312
Europe expenses	1,442	5,117	12,271	68,856	209,559	596,420
Communication	2,827	5,509	5,657	134,989	225,614	274,953
Bank charges	2,169	4,269	2,458	103,570	174,831	119,469
Depreciation and amortization	-	1,876	2,121	-	76,829	103,089
Office supplies	1,458	1,779	2,105	69,620	72,856	102,311
Rentals	2,077	1,348	9,451	99,177	55,206	459,356
Utilities	24	1,090	1,298	1,146	44,639	63,088
Repairs and maintenance	-	-	135	-	-	6,659
Freight	-	28	39	-	1,147	1,896
Relocation expense	-	-	481	-	-	23,379
Others	754	1,833	4,224	36,002	75,066	205,205
	<u>24,787</u>	<u>65,849</u>	<u>88,799</u>	<u>1,183,579</u>	<u>2,696,747</u>	<u>4,315,987</u>
	<u>\$ 113,364</u>	<u>\$ 290,582</u>	<u>\$ 319,270</u>	<u>P 5,413,130</u>	<u>P 11,900,350</u>	<u>P 15,517,799</u>

17. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

Notes	In U.S. Dollars			In Philippine Pesos			
	Three months ended:			Three months ended:			
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	
Employee benefits	20	\$ 106,644	\$ 285,355	\$ 282,432	P 5,092,250	P 11,686,286	P 13,727,325
Raw materials and other consumables	16.1	39,395	64,142	144,999	1,881,111	2,626,839	7,047,531
Manufacturing overhead/							
Other operating expenses:							
Outside services		4,436	21,423	14,760	211,820	877,347	717,395
Assembly charges		14,094	9,351	38,880	672,989	382,956	1,889,724
Utilities		7,282	13,622	16,229	347,716	557,868	788,794
Selling expenses		2,828	9,199	15,135	135,037	376,731	735,622
Rental	25	9,359	9,969	16,451	446,893	408,266	799,584
Transportation and travel		5,532	4,456	12,845	264,153	182,489	624,318
Asia expenses		3,135	7,800	4,681	149,696	319,437	227,515
Communication		5,225	8,957	9,313	249,494	366,822	452,649
Depreciation and amortization	10.2	-	5,233	7,247	-	214,310	352,233
Operating /office supplies		2,081	4,859	6,834	99,368	198,993	332,160
Taxes and licenses		3,640	6,899	7,010	173,810	282,538	340,714
Europe expenses		1,442	5,117	12,271	68,856	209,559	596,420
Freight		3,139	3,160	6,251	149,887	129,413	303,824
Bank charges		2,169	4,269	2,458	103,570	174,831	119,469
Repairs and maintenance		366	1,399	7,832	17,477	57,294	380,667
Relocation expense		-	-	481	-	-	23,379
Others		4,289	6,366	10,307	204,796	260,709	500,960
Balance brought forward		<u>69,017</u>	<u>122,079</u>	<u>188,985</u>	<u>3,295,562</u>	<u>4,999,563</u>	<u>9,185,427</u>

Notes	In U.S. Dollars			In Philippine Pesos		
	Three months ended:			Three months ended:		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
<i>Balance carried forward</i>	\$ 69,017	\$ 122,079	\$ 188,985	P 3,295,562	P 4,999,563	P 9,185,427
Change in finished goods inventories	7 7,533	265,377	58,041	359,701	10,868,117	2,821,025
Change in work-in-process inventories	7 2,611	3,960	(14,343)	124,675	162,176	(697,127)
Reversal of inventory valuation allowance	7 -	(216,777)	-	-	(8,877,777)	-
	<u>\$ 225,200</u>	<u>\$ 524,136</u>	<u>\$ 660,114</u>	<u>P 10,753,299</u>	<u>P 21,465,204</u>	<u>P 32,084,181</u>

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

Notes	In U.S. Dollars			In Philippine Pesos		
	Three months ended:			Three months ended:		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Cost of goods sold	16.1 \$ 111,836	\$ 233,554	\$ 340,844	P 5,340,169	P 9,564,854	P 16,566,382
Other operating expenses	16.2 113,364	290,582	319,270	5,413,130	11,900,350	15,517,799
	<u>\$ 225,200</u>	<u>\$ 524,136</u>	<u>\$ 660,114</u>	<u>P 10,753,299</u>	<u>P 21,465,204</u>	<u>P 32,084,181</u>

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 period ended March 31, 2008 and 2007 amounted to \$12,015 and \$52,232, respectively, and are presented under the Other income (charges) section of the consolidated income statements. No additional reorganization costs was incurred for the period ended March 31, 2009.

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		
	Three months ended:			Three months ended:		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Foreign currency losses	\$ 14,412	\$ 6,520	\$ 9,560	P 688,173	P 267,016	P 464,654
Impairment losses on:						
Trade and other receivables	3,104	2,332	745	148,216	95,504	36,210
Interest expense from:						
Bank loans and borrowings	4,045	20,357	24,633	193,149	833,691	1,197,263
Others	-	2,596	8,786	-	106,315	427,035
	<u>\$ 21,561</u>	<u>\$ 31,805</u>	<u>\$ 43,724</u>	<u>P 1,029,538</u>	<u>P 1,302,526</u>	<u>P 2,125,162</u>

19.2 Other Gains (Losses)

The breakdown of this account is as follows:

	In U.S. Dollars			In Philippine Pesos		
	Three months ended:			Three months ended:		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Foreign currency gains	\$ 4,014	\$ 7,471	\$ -	P 191,669	P 305,964	P -
Interest income	95	9,007	602	4,537	368,868	29,260
Others	22,655	3,562	5,917	1,081,773	145,876	287,590
	<u>\$ 26,764</u>	<u>\$ 20,040</u>	<u>\$ 6,519</u>	<u>P 1,277,979</u>	<u>P 820,708</u>	<u>P 316,850</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		
	Three months ended:			Three months ended:		
	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007	Mar. 31, 2009	Mar. 31, 2008	Mar. 31, 2007
Salaries and short-term benefits	\$ 85,700	\$ 270,997	\$ 271,483	P 4,092,172	P 11,098,275	P 13,195,160
Termination benefit	-	-	-	-	-	-
Post-employment:						
Defined contribution	10,472	-	-	500,039	-	-
Defined benefit	10,472	14,358	10,949	500,039	588,011	532,165
	<u>\$ 106,644</u>	<u>\$ 285,355</u>	<u>\$ 282,432</u>	<u>P 5,092,250</u>	<u>P 11,686,286</u>	<u>P 13,727,325</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). Unpaid balance of \$171,706 (P8,153,459) and \$34,001 (P1,646,294) as of December 31, 2008 and March 31, 2009, respectively are presented as part of Accrued employee benefits under Trade and other payables (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 \$126,355 (P6 million). The outstanding balance is recorded as part of Accrued employee benefits under Trade and other payables in the 2008 consolidated balance sheet. Additional amount of \$10,327 (P0.5 million) was accrued resulting to total post-employee benefit accrual of \$134,245 (P 6.5 million) as of March 31, 2009 (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 movements in the retirement benefit obligation recognized in the books, shown as Retirement benefit obligation in the consolidated balance sheets, are as follows:

	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
	<u>Mar. 31, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>Mar. 31, 2009</u>	<u>Audited Dec. 31, 2008</u>
Balance at beginning of period	\$ 295,805	\$ 295,505	P 14,046,300	P 12,234,203
Expense recognized	10,472	40,744	500,039	1,812,107
Effects of exchange rates	(5,851)	(40,444)	(13)	(10)
Balance at end of period	<u>\$ 300,426</u>	<u>\$ 295,805</u>	<u>P 14,546,326</u>	<u>P 14,046,300</u>

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

	<u>In U.S. Dollars</u>			<u>In Philippine Pesos</u>		
	<u>Three months ended:</u>			<u>Three months ended:</u>		
	<u>Mar. 31, 2009</u>	<u>Mar. 31, 2008</u>	<u>Mar. 31, 2007</u>	<u>Mar. 31, 2009</u>	<u>Mar. 31, 2008</u>	<u>Mar. 31, 2007</u>
Current service costs	\$ 6,746	\$ 6,366	\$ 5,873	P 322,121	P 260,695	P 285,440
Interest costs	6,847	10,975	7,667	326,968	449,470	372,629
Expected return on plan assets	(1,579)	(2,732)	(2,237)	(75,405)	(111,874)	(108,734)
Net actuarial gains recognized during the period	(1,542)	(251)	(354)	(73,645)	(10,280)	(17,170)
Retirement benefits	<u>\$ 10,472</u>	<u>\$ 14,358</u>	<u>\$ 10,949</u>	<u>P 500,039</u>	<u>P 588,011</u>	<u>P 532,165</u>

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

	<u>In U.S. Dollars</u>			<u>In Philippine Pesos</u>		
	<u>Three months ended:</u>			<u>Three months ended:</u>		
	<u>Mar. 31, 2009</u>	<u>Mar. 31, 2008</u>	<u>Mar. 31, 2007</u>	<u>Mar. 31, 2009</u>	<u>Mar. 31, 2008</u>	<u>Mar. 31, 2007</u>
Cost of goods sold	\$ 2,950	\$ 6,524	\$ 5,459	P 140,863	P 267,181	P 265,329
Other operating expense	7,522	7,834	5,490	359,176	320,830	266,836
	<u>\$ 10,472</u>	<u>\$ 14,358</u>	<u>\$ 10,949</u>	<u>P 500,039</u>	<u>P 588,011</u>	<u>P 532,165</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 \$1,700, \$1,899 and \$3,907 for the three months ended March 31, 2009, March 31, 2008 and March 31, 2007, respectively.

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

	<u>Mar. 31, 2009</u>	<u>Mar. 31, 2008</u>	<u>Mar. 31, 2007</u>
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 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 as of March 31, 2009 and 2008 and by MSI in 2007.

The compensations of the Company's key management personnel amounted to \$52,694, \$56,925 and \$52,725 for the three months ended March 31, 2009, 2008, and 2007, respectively, representing the salary of the Company's president and CEO and the Board of Directors' remuneration.

As of March 31, 2009 and in 2008, post-employment defined contribution of key management personnel amounted to \$10,327 (P 0.5 million) and \$134,245 (P6.5 million), respectively (see Note 20.3).

21.2 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 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>
In U.S. Dollars				
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.

22.2 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	<u>58,230</u>	<u>(58,230)</u>	<u>-</u>	2008
	1,081,059	(58,230)	1,022,829	
Effect of exchange rates	<u>(68,222)</u>	<u>(6,845)</u>	<u>(75,067)</u>	
	<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	687,091	687,091	-	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	32,626,516	32,626,516	-	2015
	<u>P 659,399,739</u>	<u>P 448,018,885</u>	<u>P 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).

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:

	<u>In U.S. Dollars</u>			
	<u>Three months ended:</u>			<u>Audited</u>
	<u>Mar. 31, 2009</u>	<u>Mar. 31, 2008</u>	<u>Mar. 31, 2007</u>	<u>Dec. 31, 2008</u>
Net income	\$ 63,531	\$ 77,538	\$ 105,772	\$ 278,298
Divided by weighted average of shares outstanding	<u>1,951,623,834</u>	<u>770,620,039</u>	<u>625,370,039</u>	<u>1,438,605,540</u>
	<u>\$ 0.0001</u>	<u>\$ 0.0001</u>	<u>\$ 0.0001</u>	<u>\$ 0.0002</u>
	<u>In Philippine Pesos</u>			
	<u>Three months ended:</u>			<u>Audited</u>
	<u>Mar. 31, 2009</u>	<u>Mar. 31, 2008</u>	<u>Mar. 31, 2007</u>	<u>Dec. 31, 2007</u>
Net income	P 3,033,604	P 3,175,452	P 5,140,942	P 12,377,301
Divided by weighted average of shares outstanding	<u>1,951,623,834</u>	<u>770,620,039</u>	<u>625,370,039</u>	<u>1,438,605,540</u>
	<u>P 0.0016</u>	<u>P 0.0041</u>	<u>P 0.0082</u>	<u>P 0.0086</u>

The weighted average number of shares outstanding as of March 31, 2009 is computed as follows:

	<u>Number of shares</u>	<u>Stock Split by Seven</u>	<u>Months outstanding</u>	<u>Weighted no. of shares</u>
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>
Beginning balance		1,930,863,046	3	5,792,589,138
Issuance in March 17, 2009		128,716,888	.48	<u>62,282,365</u>
Total				5,854,871,503
Divided by total months as of March 31, 2009				<u>3</u>
Weighted average number of shares as of March 31, 2009				<u>1,951,623,834</u>

Diluted earnings per share is not determined since the Company does not have potential dilutive common shares as of March 31, 2009, March 31, 2008 and March 31, 2007.

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 extended by MSPI for a term of six months commencing in July 2008 and ending December 31, 2008, and further extended up to the target of June 30, 2009.

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.

26.2 Interest Rate Sensitivity

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At March 31, 2009, 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.

26.3 Market Risk

The Company's market price risk arises from its investments carried at fair value as of March 31, 2009 (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.

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.

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.

27. 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 period ended March 31, 2009 and December 31, 2008 is summarized below.

	<u>Note</u>	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
		<u>Mar. 31, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>Mar. 31, 2009</u>	<u>Audited Dec. 31, 2008</u>
Debt		\$ 181,104	\$ 183,338	P 8,768,875	P 8,705,805
Total equity	15.1	<u>5,895,933</u>	<u>5,934,598</u>	<u>285,475,179</u>	<u>281,804,386</u>
Debt-to-equity ratio		<u>0.03 : 1</u>	<u>0.03 : 1</u>	<u>0.03 : 1</u>	<u>0.03 : 1</u>

Management's Discussion and Analysis of Financial Condition and Results of Operations

Comparable Discussion of Changes in Financial Conditions and Results of Operations.

Sales revenue for the 1st quarter 2009 totaled Php13.6 million, a decrease of 10% over 4th quarter 2008, and a decrease of 55% over the 1st quarter of 2008. Customer sentiment continued negative throughout the 1st quarter and continues to date through 2nd quarter 2009. However, we are receiving some important signals from key customers that they may start buying again starting in 3rd quarter 2009. In addition, the Company has 14 new design wins of which three are hoped will go to production by 4th quarter 2009.

Gross profit in the 1st quarter 2009 was Php8.2 million, equal to 61% of sales. This improved margin was achieved through the actions begun in 3rd quarter 2008 to cease in-house production. The full impact of this action will be seen until 3rd quarter 2009 when all related cost savings will be fully realized.

Operating expenses in 1st quarter 2009 totaled Php5.4 million, a 55% decrease over the 1st quarter 2008 level of Php11.9 million. This significant reduction was made possible through the outsourcing strategy as well a centralization of world-wide finance and administration in Manila, and taking advantage of lower operating costs.

As a result of the above, income from operations in the 1st quarter 2009 was Php2.8 million, or 21% of sales, compared with 16% in the 1st quarter of 2008.

Net Other Income and Expense for 1st quarter 2009 was a net other income of Php0.2 million. This amount was composed of Finance costs of Php1.0 million, made up

principally of foreign currency losses (Php0.7 million), and interest expense. Other income (Php1.3 million) made up of gains in the settlement of company liabilities and foreign currency gains.

As a result of the above, net income for 1st quarter 2009 was Php3.0 million or 22% of sales which compares favorably to the 12% attained in the 1st quarter of 2008.

Causes of Material Changes in Balance Sheet accounts

Total assets at March 31st 2009 remained essentially unchanged at Php329.5 million, from the Php333.4 million level as of December 31st 2008. However current assets declined from Php78.8 million as of December 31st 2008 to Php70.3 million as of March 31st 2009, while non-current assets slightly increased.

Total liabilities again declined from Php51.6 million as of December 31st 2008 to Php44.0 million as of March 31st 2009.

As a result of these actions, total debt is now 15% of equity, compared with 81% at December 31st 2007 and net working capital is Php41.0 million.

Discussion and Analysis of Material Events and/or Uncertainties known to Management

Revenue levels meet or exceed \$5.0 million per year

The key to MUSIC's future success continues to lie in its ability to generate as soon as possible, annual revenues of at least \$5 million per year. The First of the two Flexcam projects is under development and is expected to yield five marketable products, with the first three products sampling to customers by the end of 2009. In the meantime the global economic problems continue to make sales of current products extremely difficult. Management hopes it can seamlessly execute the transition of sales revenues from the current products to the new products, but it will be touch and go, and Music will need some luck.

Timely and efficient fund raising for New Products

Funding the family of Flexcam Products will cost around Php230 million over 3 years. To date (through March 31st 2009) Php157 million has been raised, although not all for Flexcam development. The Company expects to continue fund raising through the end of 2010, to complete the funding necessary for the new product line. This is critical for the future growth potential of the Company.

In addition to the above, the Company has no other commitment.

Key Performance Indicators

The top 5 key performance indicators for the Company's business are shown below :

	Q1 2009	Q1 2008
Revenue Growth % - in units	(16%)	(9%)
Number of new design wins	4	2
New geographic markets entered	0	0
New applications for MUSIC products	0	0
Selling price reduction - %	(3%)	(1%)

For 2009 and beyond, the Company is intensifying its efforts to increase the number of new design wins for MUSIC products, subject of course to the constraints on the expansion of indirect expenses. These are the "grass roots" actions which, if successful, will undoubtedly lead to increasing growth of all aspects of the business.

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

The number of new designs wins is the number of new customer projects going into production that will use one of the Company's products in its systems. New geographic markets entered represents the appointment of an independent representative company to distribute MUSIC's products in a market MUSIC had no prior representation. New applications for MUSIC products mean applications other than networking.

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

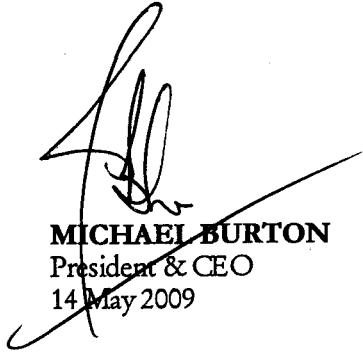
The last indicator is to track that portion of period-to-period change in average selling price which is due to price reductions, since this can have an impact on profit.

SIGNATURES

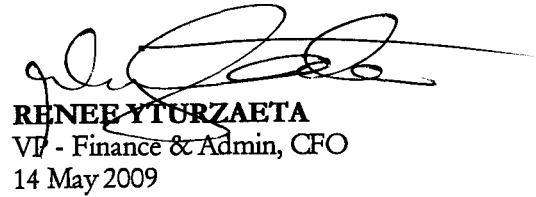
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MUSX CORPORATION
Issuer

By:



MICHAEL BURTON
President & CEO
14 May 2009



RENEE YTURZAETA
VP - Finance & Admin, CFO
14 May 2009

Music Semiconductors, Inc.
A/R Aged Trial Balance by Due Date (ARTBALSY)

Account Type [All Customers]
Age Transactions As Of [3/31/2009]
Cutoff By Year/Period [2009] [03]
Year: Period:
Print Customer Transactions In [Summary]
Contact/Phone/Credit [N]
Space For Comments [N]
Include Only Customers Over Their Credit Limits [N]
Print Zero-Balance Customers [N]
Print Amounts In [Functional Currency]

Customer No.	Customer Name	Currency	Current	1 To 30 Days	31 To 60 Days	61 To 90 Days	Over 90 Days	Total
ALA010	ALCATEL-LUCENT USA INC.	USD	0.00	26,817.75	0.00	0.00	0.00	26,817.75
APT001	APTECH	USD	2,836.80	0.00	1,790.91	0.00	0.00	4,627.71
ATG001	ATECOM GMBH	USD	3,355.20	0.00	0.00	0.00	0.00	3,355.20
BEN006	BENCHMARK ELECTRONICS B.V.	USD	1,497.60	0.00	0.00	0.00	0.00	1,497.60
CIS002	CISCO SYSTEMS INTERNATIONAL BV	USD	16,524.00	0.00	0.00	0.00	0.00	16,524.00
CEL016	DONGGUAN CELESTICA ELECTRONICS	USD	5,670.00	0.00	0.00	0.00	0.00	5,670.00
FLE011	FLEXTRONICS America, LLC	USD	0.00	4,392.00	0.00	0.00	0.00	4,392.00
FLE009	FLEXTRONICS INT LATIN AMERICA	USD	0.00	0.00	1,591.20	0.00	0.00	1,591.20
FLE012	FLEXTRONICS INTL USA, INC.	USD	2,928.00	0.00	0.00	0.00	0.00	2,928.00
FLE010	FLEXTRONICS TECH (SHANGHAI)	USD	6,451.20	3,225.60	0.00	0.00	0.00	9,676.80
JAB006	JABIL CIRCUIT SDN. BHD.	USD	11,232.00	0.00	0.00	0.00	0.00	11,232.00
TRL001	L-3 COMM. TRL TECHNOLOGY LTD.	USD	5,640.00	0.00	0.00	0.00	0.00	5,640.00
LGI001	LG ELECTRONICS INC.	USD	1,368.00	0.00	0.00	0.00	0.00	1,368.00
MIP001	MI COMMUNICATIONS PTE LTD	USD	30,000.00	11,580.00	0.00	0.00	0.00	41,580.00
MSC001	MICROCOMPUTER SYS COMPONENTS	USD	9,020.00	0.00	2,640.00	0.00	0.00	11,660.00
MIC001	MICROTEK INC.	USD	2,354.40	0.00	0.00	0.00	0.00	2,354.40
SIE004	NOKIA SIEMENS NETWORKS GMBH	USD	3,916.80	0.00	0.00	0.00	0.00	3,916.80
NOR001	NORTEL	USD	0.00	0.00	0.00	25,080.00	0.00	25,080.00
PLE002	PLEXUS MANUFACTURING SDN. BLVD	USD	1,612.80	1,612.80	0.00	0.00	0.00	3,225.60
PLE004	PLEXUS SERVICES CORP.	USD	-6,566.15	0.00	0.00	0.00	0.00	-6,566.15
SIA003	SANMINA SCI ESSC	USD	0.00	0.00	142.50	0.00	0.00	142.50
SIA006	SANMINA-SCI HUNGARY LTD.	USD	912.00	27,187.50	0.00	0.00	0.00	28,099.50
SIA005	SANMINA-SCI SINGAPORE PTE. LTD	USD	3,405.00	5,745.00	3,060.00	0.00	0.00	12,210.00
Report Total			102,158.00	80,561.00	9,224.00	25,080.00	0.00	217,023.00
Forex Rate: \$1:P48.419			4,946,393.00	3,900,683.00	446,617.00	1,214,349.00	0.00	10,508,042.00