



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

Mailing Address:
L14 Net Cube Centre, 3rd Ave. corner 30th St.,
E-Square Crest Park, West Bonifacio Global City,
City of Taguig 1634, Philippines
Tel. 632 5567425
Fax. 632 5567442

November 16, 2009

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

Attention: Janet A. Encarnacion
Head – Disclosure Department

Gentlemen:

Attached herewith is MUSX Corporation 3rd quarter 2009 Financial Statement Report as of September 30, 2009 as approved by the Company's Board of Directors today.

If you should have any questions, please call us.

Very truly yours,

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

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

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)

September 30, 2009

(Quarter Ending)
(month & day)

17-Q

Form Type

Amendment Designation (If applicable)

September 30, 2009

Period Ended Date

57

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 : **30 September 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, Philippines**
- Postal Code : **4037**
- Mailing Address : **L14 Net Cube Centre, 3rd Ave. corner 30th St., E-Square Crest Park, West Bonifacio Global Ciy, City of Taguig, Philippines**
- Postal Code : **1634**
8. Issuer's telephone no. area code : **(02) 5567425**
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>	2,450,000,000 (As of 30 September, 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 2,450,000,000 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
SEPTEMBER 30, 2009
(With Comparative Figures for December 31, 2008)

		In U.S. Dollars (Functional Currency)		In Philippine Pesos (Presentation Currency)	
<u>Notes</u>	<u>SEPT. 30, 2009</u>	Audited <u>DEC. 31, 2008</u>	<u>SEPT. 30, 2009</u>	Audited <u>DEC. 31, 2008</u>	
<u>ASSETS</u>					
CURRENT ASSETS					
Cash	5	\$ 549,774	\$ 193,405	P 26,164,844	P 9,183,836
Trade and other receivables - net	6	228,597	306,018	10,879,386	14,531,265
Inventories - net	7	1,196,563	646,436	56,946,826	30,696,013
Refundable deposits	8	361,889	473,755	17,223,021	22,496,256
Prepayments and other current assets - net		134,741	39,349	6,412,594	1,868,487
		2,471,564	1,658,963	117,626,671	78,775,857
NON-CURRENT ASSETS					
Trade and other receivables - net	6	331,490	\$ 332,237	15,776,274	15,776,274
Available-for-sale financial assets - net	9	820,939	\$ 349,090	39,070,129	16,576,539
Intangible asset	11	3,532,609	2,899,864	168,123,928	137,700,042
Deferred tax assets	22	1,664,432	\$ 1,780,612	79,213,648	84,552,361
Other non-current assets		-	212	-	10,067
		6,349,470	5,362,015	302,183,979	254,615,283
		8,821,034	\$ 7,020,978	P 419,810,650	P 333,391,140
<u>LIABILITIES AND EQUITY</u>					
CURRENT LIABILITIES					
Interest-bearing loans and borrowings	12	\$ 67,512	\$ 183,338	P 3,213,031	P 8,705,805
Trade and other payables	13	530,959	607,237	25,269,401	28,834,649
		598,471	790,575	28,482,432	37,540,454
NON-CURRENT LIABILITY					
Retirement benefit obligation	20	390,707	295,805	18,594,528	14,046,300
		989,178	1,086,380	47,076,960	51,586,754
Net Cash From Financing Activities					
EQUITY					
Issued capital and reserves	15	7,831,856	5,934,598	372,733,690	281,804,386
		8,821,034	\$ 7,020,978	P 419,810,650	P 333,391,140

See Notes to Consolidated Financial Statements.

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)
CONSOLIDATED INCOME STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009
(With Comparative Figures for the Period Ended September 30, 2008 and September 30, 2007)

	Notes	In U.S. Dollars (Functional Currency)			In Philippine Pesos (Presentation Currency)		
		Nine Months Ended			Nine Months Ended		
		Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007
NET SALES		\$ 635,796	\$ 1,848,978	\$ 2,529,597	P 30,471,795	P 79,790,797	P 119,295,795
COST OF GOODS SOLD	16	(368,743)	774,288	971,615	(17,672,746)	33,413,624	45,821,363
GROSS PROFIT		1,004,539	1,074,690	1,557,982	48,144,541	46,377,173	73,474,432
OTHER OPERATING EXPENSES	16	730,575	784,698	956,826	35,014,267	33,862,857	45,123,914
OPERATING PROFIT		273,964	289,992	601,156	13,130,274	12,514,316	28,350,518
OTHER INCOME (CHARGES)							
Finance costs	19	(43,186)	(136,924)	(148,655)	(2,069,775)	(5,908,818)	(7,010,571)
Reorganization costs - net	18	-	(32,990)	(48,169)	-	(1,423,650)	(2,271,650)
Others - net	19	122,777	270,577	7,489	5,884,330	11,676,480	353,182
		79,591	100,663	(189,335)	3,814,555	4,344,012	(8,929,039)
INCOME BEFORE TAX		353,555	390,655	411,821	16,944,829	16,858,328	19,421,479
TAX EXPENSE		119,167	18,167	29,671	5,711,317	783,979	1,399,284
NET INCOME		\$ 234,388	\$ 372,488	\$ 382,150	P 11,233,512	P 16,074,349	P 18,022,195
Earnings Per Share	24	\$ 0.0001	\$ 0.0003	\$ 0.0005	P 0.0053	P 0.0125	P 0.0227

See Notes to Consolidated Financial Statements.

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)
CONSOLIDATED INCOME STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009
(With Comparative Figures for the Period Ended September 30, 2008 and September 30, 2007)

	Notes	In U.S. Dollars (Functional Currency)			In Philippine Pesos (Presentation Currency)		
		Three Months Ended			Three Months Ended		
		Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007
NET SALES		\$ 154,283	\$ 592,754	\$ 806,538	P 7,428,521	P 26,975,049	P 37,054,775
COST OF GOODS SOLD	16	(544,563)	259,534	306,586	(26,219,982)	11,810,873	14,085,481
GROSS PROFIT		698,846	333,220	499,952	33,648,503	15,164,176	22,969,294
OTHER OPERATING EXPENSES	16	491,704	202,117	303,955	23,674,891	9,197,940	13,964,605
OPERATING PROFIT		207,142	131,103	195,997	9,973,612	5,966,236	9,004,689
OTHER INCOME (CHARGES)							
Finance costs	19	(14,905)	(55,496)	(51,201)	(717,656)	(2,525,512)	(2,352,328)
Reorganization costs - net	18	-	(10,727)	(10,658)	-	(488,164)	(489,660)
Others - net	19	19,848	34,447	5,238	955,653	1,567,614	240,650
		4,943	(31,776)	(56,621)	237,997	(1,446,062)	(2,601,338)
INCOME BEFORE TAX		212,085	99,327	139,376	10,211,609	4,520,174	6,403,351
TAX EXPENSE		118,074	4,830	13,524	5,685,106	219,804	621,333
NET INCOME		\$ 94,011	\$ 94,497	\$ 125,852	P 4,526,503	P 4,300,370	P 5,782,018
Earnings Per Share	24	\$ 0.0001	\$ 0.0001	\$ 0.0002	P 0.0021	P 0.0034	P 0.0073

See Notes to Consolidated Financial Statements.

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009
(With Comparative Figures for the Period Ended December 31, 2008, September 30, 2009 and September 30, 2008)

	Note	In U.S. Dollars (Functional Currency)				In Philippine Pesos (Presentation Currency)			
		Nine Months Ended			Audited	Nine Months Ended			Audited
		Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	December 31, 2008	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	December 31, 2008
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		477,672	1,479,904	515,496	2,145,206	22,842,006	66,444,736	24,000,000	98,449,301
Reclassification during the period		267,342	-	-	-	12,871,689	7,010,571	-	-
Balance at end of period		<u>6,135,267</u>	<u>4,724,951</u>	<u>3,637,179</u>	<u>5,390,253</u>	<u>245,000,000</u>	<u>184,292,311</u>	<u>113,338,577</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 - Net		8,273	848,541	78,385	1,228,572	398,070	38,071,790	3,649,623	56,340,149
Reclassification during the period		(267,342)	-	-	-	(12,871,689)	-	-	-
Balance at end of period		<u>1,353,961</u>	<u>1,232,999</u>	<u>78,385</u>	<u>1,613,030</u>	<u>71,118,597</u>	<u>65,323,857</u>	<u>3,649,623</u>	<u>83,592,216</u>
DEPOSIT ON FUTURE SUBSCRIPTION		<u>520,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
TREASURY SHARES - At Cost	15	<u>-</u>	<u>-</u>	<u>-</u>	<u>(270,096)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,960,000)</u>
REVALUATION RESERVES	9	<u>(54,128)</u>	<u>-</u>	<u>-</u>	<u>(441,295)</u>	<u>(P 2,608,800)</u>	<u>-</u>	<u>-</u>	<u>(21,236,000)</u>
ACCUMULATED TRANSLATION ADJUSTMENTS	15	<u>(36,072)</u>	<u>(35,823)</u>	<u>(35,271)</u>	<u>(34,901)</u>	<u>28,924,848</u>	<u>26,773,653</u>	<u>14,757,777</u>	<u>29,056,332</u>
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		234,388	372,488	382,150	278,298	11,233,512	16,074,349	18,022,195	12,377,301
Balance at end of period		<u>(88,005)</u>	<u>(228,203)</u>	<u>(1,939,669)</u>	<u>(322,393)</u>	<u>5,299,045</u>	<u>(2,237,419)</u>	<u>(53,308,238)</u>	<u>(5,934,467)</u>
TOTAL EQUITY		<u>\$ 7,831,856</u>	<u>\$ 5,693,924</u>	<u>\$ 1,740,624</u>	<u>\$ 5,934,598</u>	<u>P 372,733,690</u>	<u>P 274,152,402</u>	<u>P 78,437,739</u>	<u>P 281,804,386</u>
Net Gain/(Loss) Directly Recognized in Equity		<u>(\$ 54,128)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 441,295)</u>	<u>(P 2,608,800)</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)
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009
(With Comparative Figures for the Period Ended September 30, 2008 and September 30, 2007)

913,961

Notes	In U.S. Dollars (Functional Currency)			In Philippine Pesos (Presentation Currency)		
	Nine Months Ended			Nine Months Ended		
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES						
	\$	\$	\$	P	P	P
Income before tax	353,555	390,655	411,821	16,944,829	16,858,328	19,421,479
Adjustments for:						
Finance costs	19 43,186	136,924	148,655	2,069,775	5,908,818	7,010,571
Interest income	19 (1,022)	(24,187)	(1,419)	(48,981)	(1,043,766)	(66,920)
Depreciation and amortization	-	16,255	19,380	-	701,469	913,961
Operating income (loss) before working capital changes	395,719	519,647	578,437	18,965,623	22,424,849	27,279,091
Decrease (increase) in trade and other receivables	42,765	(562,876)	(156,966)	1,967,437	(26,975,660)	(7,118,617)
Decrease (increase) in inventories	(550,127)	65,516	102,950	(26,181,644)	2,827,277	4,855,122
Decrease (increase) in other current assets	(97,436)	(7,730)	3,034	(4,642,069)	(488,482)	278,787
Decrease (increase) in refundable deposits	111,866	(464,201)	739	5,273,235	(21,910,375)	122,806
(Decrease) in trade and other payables	(76,251)	(688,957)	(259,575)	(3,563,954)	(26,103,323)	(17,096,683)
Increase in retirement benefit obligation	94,899	41,538	32,724	4,548,228	1,792,520	1,543,279
Cash generated from (used in) operations	(78,565)	(1,097,063)	301,343	(3,633,144)	(48,433,194)	9,863,785
Cash paid for taxes	(786)	(25,816)	(29,197)	(37,671)	(1,111,541)	(1,315,682)
Net Cash From (Used in) Operating Activities	(79,351)	(1,122,879)	272,146	(3,670,815)	(49,544,735)	8,548,103
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of intangible asset	11 (632,745)	(1,674,779)	(195,462)	(30,113,600)	(82,186,901)	(7,586,261)
Acquisitions of available-for-sale financial assets	9 (875,067)	-	-	(42,175,600)	-	-
Acquisitions of property and equipment	-	(4,815)	(12,750)	-	(225,905)	(601,290)
Sale of available-for-sale financial assets	9 790,385	-	-	38,034,900	-	-
Interest received	1,022	24,187	1,419	48,981	1,043,766	66,920
Decrease in other non-current assets	212	209	210	10,067	7,064	13,370
Net Cash Used in Investing Activities	(716,193)	(1,655,198)	(206,583)	(34,195,252)	(81,361,976)	(8,107,261)
CASH FLOWS FROM FINANCING ACTIVITIES						
Deposit on future stock subscription	15 520,833	-	-	25,000,000	-	-
Net proceeds from issuance of common shares	15 756,041	2,328,445.00	593,881.00	36,200,076	104,516,526	27,649,623.00
Payments of interest-bearing loans and borrowings	(115,566)	(824,728)	(188,906)	(5,500,000)	(35,590,312)	(8,512,657)
Interest paid	(8,224)	(55,386)	(116,041)	(394,152)	(2,390,116)	(5,472,494)
Proceeds from availment of interest-bearing loans and borrowings	-	46,895	58,000	-	2,023,707	2,613,654
Net Cash From Financing Activities	1,153,084	1,495,226	346,934	55,305,924	68,559,805	16,278,126
Effects of Exchange Rates	(1,171)	332	(1,857)	(458,849)	13,271,651	453,536
NET INCREASE (DECREASE) IN CASH	356,369	(1,282,518)	410,640	16,981,008	(49,075,255)	17,172,504
CASH AT BEGINNING OF PERIOD	193,405	2,011,719	327,394	9,183,836	83,287,178	16,085,522
CASH AT END OF PERIOD	\$ 549,774	\$ 729,201	\$ 738,034	P 26,164,844	P 34,211,923	P 33,258,026

See Notes to Consolidated Financial Statements.

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 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 semiconductor business being part of its secondary purposes. The Securities and Exchange Commission (SEC) approved these changes on December 15, 2008.

The registered office of the Company, 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 September 30, 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 September 30, 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 Technology LLC, through its subsidiary MSI which owns 100% of Innovative Technology LLC. 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 outsources to third parties its manufacturing operations 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 was approved by SEC on June 19, 2009, and by PEZA on July 23, 2009 (see Note 23).

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 this period, but particularly in 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, and on June 11, 2003, the Court approved the Plan of Reorganization filed by MSI.

As of November 30, 2008, MSI has fully paid all claims of creditors. The total payment to creditors since the bankruptcy began through November 30, 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 was submitted to SEC on July 27, 2009 and was approved on September 15, 2009.

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

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

- (i) Philippine Interpretation IFRIC 14, *PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides guidance on assessing the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group's adoption of this interpretation does not have any impact on the Group's financial statements, as it has a retirement benefit obligation and is not subject to any minimum funding requirements.
- (ii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurements* and PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective from July 1, 2008). The amendments permit an entity to:
 - Reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of fair value through profit or loss category in particular circumstances; and
 - Transfer from the available for sale category to the loans and receivable category those financial assets that would have met the definition of loans and receivables, provided that the entity has the intention and the ability to hold those financial assets for the foreseeable future.

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

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

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

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

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

(c) *Effective subsequent to 2008*

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

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

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

- (i) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Group will apply PAS 1 (Revised 2007) in its 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 demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

(d) Compensated Absences

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

2.16 Income Taxes

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

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

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

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

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

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

2.17 Equity

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

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

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

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

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

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

2.18 Earnings Per Share

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Operating Leases

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

Rental expense charged to operations amounted to \$29,456, \$28,918 and \$37,100 as of September 30, 2009, September 30, 2008 and September 30, 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.

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 September 30, 2009 and December 31, 2008 amounted to \$3,532,609 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 (\$1,196,563 and \$646,436 as of September 30, 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 September 30, 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 \$390,707 as of September 30, 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.

4. SEGMENT INFORMATION

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

	In U.S. Dollars			In Philippine Pesos		
	Sept. 30, 2009	Audited Dec. 31, 2008		Sept. 30, 2009	Audited Dec. 31, 2008	
Total assets						
MSI	\$ 2,413,258	\$	2,712,795	P 114,851,775	P	128,817,071
MSPI	4,573,031		4,714,314	217,639,691		223,859,200
Total liabilities						
MSI	1,722,069		2,500,708	81,956,708		118,746,119
MSPI	846,400		827,734	40,281,869		39,304,949

	In U.S. Dollars			In Philippine Pesos		
	Sept. 30, 2009	Nine months ended: Sept. 30, 2008		Sept. 30, 2009	Nine months ended: Sept. 30, 2008	
Net sales						
MSI	\$ 635,796	\$ 1,848,978	\$ 2,529,597	P 30,471,795	P 79,790,797	P 119,295,795
MSPI	138,954	542,655	1,134,790	6,659,648	23,417,734	53,516,696
Operating profit (loss)						
MSI	607,909	500,200	437,117	29,135,255	21,585,631	20,614,438
MSPI	(226,444)	(118,034)	235,972	(10,852,782)	(5,093,639)	11,128,440
Net income (loss)						
MSI	479,102	389,281	155,162	22,961,922	16,799,032	7,317,440
MSPI	(320,420)	259,858	305,795	(15,356,769)	11,213,912	14,421,292

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 sales and production logistics and sale of integrated circuits. The Group's net sales in different continents are as follows:

	In U.S. Dollars			In Philippine Pesos		
	Sept. 30, 2009	Nine months ended: Sept. 30, 2008		Sept. 30, 2009	Nine months ended: Sept. 30, 2008	
North America	\$ 246,927	\$ 874,905	\$ 1,260,683	P 11,834,470	P 37,755,651	P 59,453,810
Asia	209,307	739,594	750,229	10,031,457	31,916,439	35,380,800
Europe	179,562	234,479	518,685	8,605,868	10,118,707	24,461,185
	<u>\$ 635,796</u>	<u>\$ 1,848,978</u>	<u>\$ 2,529,597</u>	<u>P 30,471,795</u>	<u>P 79,790,797</u>	<u>P 119,295,795</u>

5. CASH

Cash as of September 30, 2009 includes the amount of \$525,298 (P25.0 million) received by the Company on September 9, 2009. This represents partial payment for the 1 billion subscribed shares out of the increase in authorized capital stocks from 2.45 billion shares to 5 billion shares (see Note 15.4).

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	
		Sept. 30, 2009	Audited Dec. 31, 2008	Sept. 30, 2009	Audited Dec. 31, 2008
Trade		\$ 150,967	\$ 265,092	P 7,184,831	P 12,587,894
Less allowance for impairment		<u>25,080</u>	<u>57,810</u>	<u>1,193,620</u>	<u>2,745,108</u>
		<u>125,887</u>	<u>207,282</u>	<u>5,991,211</u>	<u>9,842,786</u>
Current portion of Stock Loans	14	82,873	83,060	3,944,082	3,944,082
Advances to officers and employees		128,597	123,256	6,120,188	5,852,811
Less allowance for impairment		<u>116,052</u>	<u>116,633</u>	<u>5,523,147</u>	<u>5,538,318</u>
		<u>12,545</u>	<u>6,623</u>	<u>597,041</u>	<u>314,493</u>
Receivables from:					
Bureau of Internal Revenue (BIR)		15,961	16,158	759,616	767,263
Less allowance for impairment		<u>14,762</u>	<u>14,795</u>	<u>702,541</u>	<u>702,541</u>
		<u>1,199</u>	<u>1,363</u>	<u>57,075</u>	<u>64,722</u>
Vickers		13,833	13,864	658,332	658,332
Less allowance for impairment		<u>12,824</u>	<u>12,934</u>	<u>610,320</u>	<u>614,171</u>
		<u>1,009</u>	<u>930</u>	<u>48,012</u>	<u>44,161</u>
Others		23,460	21,920	1,116,516	1,040,893
Less allowance for impairment		<u>18,376</u>	<u>15,160</u>	<u>874,551</u>	<u>719,872</u>
		<u>5,084</u>	<u>6,760</u>	<u>241,965</u>	<u>321,021</u>
Total Trade and Other Receivables - Current		<u>\$ 228,597</u>	<u>\$ 306,018</u>	<u>P 10,879,386</u>	<u>P 14,531,265</u>
Non-current portion of Stock Loans					
Total Trade and Other Receivables - Non-Current	14	<u>\$ 331,490</u>	<u>\$ 332,237</u>	<u>P 15,776,274</u>	<u>P 15,776,274</u>

6.1 Stock Loans Receivables from Employees and Officers

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 September 30, 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 September 30, 2009 and December 31, 2008, input VAT was fully provided with allowance for impairment amounting to \$17,066 (P812,205) 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 September 30, 2009 and December 31, 2008 is shown below.

	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
	<u>Sept. 30, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>Sept. 30, 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	(2,661)	57,215	(127,534)	2,544,637
Provision/(reversal) for sales returns	(32,730)	15,730	(1,568,651)	699,592
Effects of exchange rates	<u>5,153</u>	<u>(9,813)</u>	<u>280,354</u>	<u>691,747</u>
Balance at end of period	<u>\$ 187,094</u>	<u>\$ 217,332</u>	<u>P 8,904,179</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	
		Audited		Audited	
		Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2009	Dec. 31, 2008
Finished goods	16.1	\$ 617,267	\$ 1,043,309	P 29,376,971	P 49,541,528
Less: Valuation allowance for inventory obsolescence		-	(724,000)	-	(34,379,140)
		<u>617,267</u>	<u>319,309</u>	<u>29,376,971</u>	<u>15,162,388</u>
Work-in-process	16.1	10,407	133,427	495,290	6,335,781
Less: Valuation allowance for inventory obsolescence		-	(107,971)	-	(5,127,003)
		<u>10,407</u>	<u>25,456</u>	<u>495,290</u>	<u>1,208,778</u>
Raw materials and supplies		568,889	767,879	27,074,565	36,462,734
Less: Valuation allowance for inventory obsolescence		-	(466,208)	-	(22,137,887)
		<u>568,889</u>	<u>301,671</u>	<u>27,074,565</u>	<u>14,324,847</u>
Total Gross Inventory		<u>1,196,563</u>	1,944,615	<u>59,946,826</u>	92,340,043
Less: Valuation allowance for inventory obsolescence		-	(1,298,179)	-	(61,644,030)
Total Net Inventory		<u>\$ 1,196,563</u>	<u>\$ 646,436</u>	<u>P 56,946,826</u>	<u>P 30,696,013</u>

The reconciliation of the inventory valuation allowance as of September 30, 2009 and December 31, 2008 is shown below.

	In U.S. Dollars		In Philippine Pesos	
	Audited		Audited	
	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2009	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
Reversals	(608,954)	-	(29,185,338)	-
Write-down	(318,974)	-	(15,287,467)	-
Write-off	(370,251)	-	(17,745,019)	-
Effects of exchange rates	-	-	573,794	4,573,892
Balance at end of period	<u>\$ -</u>	<u>\$ 1,298,179</u>	<u>P -</u>	<u>P 61,644,030</u>

In early 2001, the downturn of the market in the worldwide market for semiconductors and electronics industries resulted in a significant reduction of new orders for the Company, and some cancellations of placed orders. 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 (driven by the global economic crisis) as in 2001 occurred, which again resulted in a significant reduction, and some cancellations, of customer orders. This necessitated an increase in inventory valuation allowance to measure inventories at their net realizable values.

During the last 12 months, Management has been taking strategic actions in respect to its business and the way that it conducts its business. With these actions mostly complete, it has become clear that their success is impacting in an important way, the inventory and its value.

The first action was initiated in 4th quarter 2008, and was designed to eliminate all remaining in-house manufacturing operations, and move to a complete outsourcing model for semiconductor production. This required an upfront investment to be made in order to be able to re-create the product test software and hardware on the more modern test systems employed by MSPI's chosen outsource manufacturer. This action was flawlessly executed without any interruptions in the supply chain to it's customers.

The impact of this action has been to lower the cost base of MSPI's manufacturing. Since the full impact of this is now well understood, we have moved to reflect this in the value of the inventory. As a result the September 2009 inventory has been revalued to the new costs, resulting in a cost reduction of the value of the finished goods inventory of \$318,974, equal to 31% of the prior cost. This action gives MSPI a significant competitive opportunity to deliver to its customers much lower cost CAMs than ever before.

The second action is market-driven, and has evolved as a belief, confirmed by many industry participants, that there is a growing market, which may ultimately be huge, for small density, low power, green, super low cost CAM products in both the traditional networking markets, as well as, and perhaps more importantly, in new markets such as automobiles, medical equipment, communications devices (cell phones, pda's, gps, netbooks, laptops), and disk drives.

MUSIC believes it has effectively restructured itself (with the production outsourcing being almost the final step) to be able to deliver CAM products to these new markets at benchmark prices unheard of before, while still delivering acceptable ROI's to its shareholders.

In order to maximize success in these markets, Management had defined a number of products, which MUSIC has organized into 2 product lines, offering customers a selection of width, depth, environmental, and reliability options.

The chosen products will be offered in two different packages, both at very competitive prices. One package is the existing LQFP/PLCC and the other is a new, advanced technology HLA (high-density leadframe array) package. The product line of the LQFP/PLCC is called LCP CAMs, and the product line of the HLA packaged products is called ViiperCAMS.

The LCP CAM line has been substantially standardised as a part of this process. This has resulted in the Company offering, going forward, 28 different product varieties, compared with the existing 63 varieties.

Any existing inventory of a product, not being offered for sale going forward will be scrapped. Any existing inventory determined to be non-produceable, or non-saleable due to being too slow, not of industrial reliability standard, not green etc. will be scrapped. The cost of the elimination of this inventory is \$370,251.

What remains, are 2 standardised, and focused product lines that will be intensely promoted in the market through a variety of channels. There is no requirement for the Company to retain any reserves against the inventory of these product lines.

In summary, the effects of these two strategic actions as of September 2009 was the write down of the value of inventory by \$318,974, and the elimination of the inventories of those products no longer in the Company's future, amounting to \$370,251. The remaining inventory is of products that will be important to the Company's future, and that are expected to be produced and sold for many years to come.

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 (\$145,820) with S3. This deposit will be refunded upon the completion of the product design, approximately by the fourth 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 would 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 good-faith deposit with Abacus amounting to \$309,796 (P15 million), which closing was subject to the completion of satisfactory due diligence and a positive independent valuation. Should these expectations not be realized, this deposit was to be refunded. In addition, the Company provided advances to its technical service contractor amounting to \$166,667 (P7 million). This was recorded as part of Prepayment and other Current Assets in the 2008 consolidated balance sheet. This was fully provided with allowance for impairment and recorded under Finance costs in the 2008 consolidated income statement and partly provided amounting to \$10,350 (P0.5 million) in September 2009 consolidated Balance Sheet.

On May 21, 2009, a Heads of Agreement was signed by the Company and its deal partner, Loadstar. The Company agreed to assign its right to acquire the 100% equity interest in Abacoal and its assets and a Coal Operating Contract, to Lodestar. As a result, by way of reimbursements of payment already made by the Company, Loadstar refunded the amount of \$248,406 (P 12 million) on May 22, 2009, with the balance of \$210,119 (P 10 million) to be paid on or before December 31, 2009. This resulted to partial reduction of refundable deposit in September 2009 consolidated Balance Sheet.

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.

On July 9, 2009 the Group sold its 5.4 million shares for a total amount of \$886,191 (P42.8 million) and a net gain of \$92,748 (P4.4 million) over the purchase price of \$790,385 (P38.0 million).

Note	In U.S. Dollars		In Philippine Pesos	
	Sept. 30, 2009	Audited Dec. 31, 2008	Sept. 30, 2009	Audited Dec. 31, 2008
Equity shares	\$ -	\$ 790,385	P -	P 38,034,900
Fair value gain/(loss) 15.1	-	(441,295)	-	(21,236,000)
Effects of exchange rates	-	-	-	(222,361)
	<u>\$ -</u>	<u>\$ 349,090</u>	<u>P -</u>	<u>P 16,576,539</u>

Also, on July 9, 2009, the Company acquired 43.48 million shares of Abacus, a Philippine Company with shares listed in the PSE. A reconciliation of the carrying amount of AFS financial assets as of September 30, 2009 is as follows:

Note	In U.S. Dollars		In Philippine Pesos	
	Sept. 30, 2009	Audited Dec. 31, 2008	Sept. 30, 2009	Audited Dec. 31, 2008
Equity shares	\$ 875,067	\$ -	P 42,175,600	P -
Fair value gain/(loss) 15.1	(54,128)	-	(2,608,800)	-
Effects of exchange rates	-	-	(496,671)	-
	<u>\$ 820,939</u>	<u>\$ -</u>	<u>P 39,070,129</u>	<u>P -</u>

The fair values of AFS financial assets have been determined directly by reference to published prices in the PSE as of September 30, 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 Sept. 30, 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>Sept. 30, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>Sept. 30, 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	632,745	2,245,161	30,113,600	106,611,470
Effects of exchange rates	-	-	310,286	3,983,213
Balance at end of period	<u>\$ 3,532,609</u>	<u>\$ 2,899,864</u>	<u>P 168,123,928</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 September 30, 2009, September 30, 2008 and September 30, 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 September 30, 2009 is as follows:

	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
	<u>Sept. 30, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>Sept. 30, 2009</u>	<u>Audited Dec. 31, 2008</u>
Bank loans	\$ 67,512	\$ 183,338	P 3,213,031	P 8,705,805
	<u>\$ 67,512</u>	<u>\$ 183,338</u>	<u>P 3,213,031</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 September 30, 2009, only the US dollar-denominated loan from local bank remained outstanding.

The U.S. dollar-denominated 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. It 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 bore interest at rates averaging 8.63% as of June 30, 2009 and 8.65% in 2008. This loan was collateralized by the assets of a related party. It was fully paid on May 27, 2009 (see Note 21.2).

12.2 Finance Costs

Interests expense was paid on all bank loans and borrowings, and amounted to \$8,197, \$39,016, and \$78,161 as of September 30, 2009, September 30, 2008 and September 30, 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>Sept. 30, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>Sept. 30, 2009</u>	<u>Audited Dec. 31, 2008</u>
Trade		\$ 82,736	\$ 60,894	P 3,937,572	P 2,891,552
Accrued employee benefits	20.2, 20.3	220,489	366,915	10,493,512	17,422,959
Accrued outside services		71,133	46,460	3,385,362	2,206,153
Accrued taxes and licenses		8,610	10,538	409,767	500,397
Accrued director's fee		6,943	2,390	330,431	113,489
Accrued interest		366	393	17,419	18,662
Accrued commission		6,247	-	297,307	-
Accrued and other liabilities		134,435	119,647	6,398,031	5,681,437
		<u>\$ 530,959</u>	<u>\$ 607,237</u>	<u>P 25,269,401</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 Stock Purchase Plan. The Stock 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 Stock 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 Stock 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	
		Sept. 30, 2009	Audited Dec. 31, 2008	Sept. 30, 2009	Audited Dec. 31, 2008
Capital stock	15.2	\$ 6,135,267	\$ 5,390,253	P 245,000,000	P 209,286,305
Additional paid-in capital		1,353,961	1,613,030	71,118,597	83,592,216
Treasury shares	15.6	-	(270,096)	-	(12,960,000)
Deposit for future subscription		520,833	-	25,000,000	-
Revaluation reserves	9	(54,128)	(441,295)	(2,608,800)	(21,236,000)
Accumulated translation adjustments	15.7	(36,072)	(34,901)	28,924,848	29,056,332
Deficit		(88,005)	(322,393)	5,299,045	(5,934,467)
		<u>\$ 7,831,856</u>	<u>\$ 5,934,598</u>	<u>P372,733,690</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				Amount			
	Nine months ended:		Audited		Nine months ended:		Audited	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Dec. 31, 2008	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Dec. 31, 2008
Common shares - P0.10 per value for Sept 30, 2009, Sept 30, 2008 & Dec 31, 2008 and P1.00 per value for Sept 2007	<u>2,450,000,000</u>	<u>2,450,000,000</u>	<u>160,000,000</u>	<u>2,450,000,000</u>				
Authorized								
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	228,420,066	664,447,357	24,000,000	984,493,007	477,672	1,479,904	515,496	2,145,206
Reclassification during the period	128,716,888	-	-	-	267,342	-	-	-
	<u>2,450,000,000</u>	<u>1,772,817,396</u>	<u>113,338,577</u>	<u>2,092,863,046</u>	<u>\$ 6,135,267</u>	<u>\$ 4,724,951</u>	<u>\$ 3,637,179</u>	<u>\$ 5,390,253</u>

In Philippine Pesos

	Shares				Amount			
	Nine months ended:		Audited		Nine months ended:		Audited	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Dec. 31, 2008	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Dec. 31, 2008
Common shares - P0.10 per value for Sept 30, 2009, Sept 30, 2008 & Dec 31, 2008 and P1.00 per value for Sept 2007	<u>2,450,000,000</u>	<u>2,450,000,000</u>	<u>160,000,000</u>	<u>2,450,000,000</u>				
Authorized								
Issued and outstanding								
Balance beginning of period	2,092,863,046	1,108,370,039	89,338,577	1,108,370,039	P 209,286,305	P 110,837,004	P 89,338,577	P 110,837,004
Issued during the period	228,420,066	664,447,357	24,000,000	984,493,007	22,842,006	66,444,736	24,000,000	98,449,301
Reclassification during the period	128,716,888	-	-	-	12,871,689	-	-	-
	<u>2,450,000,000</u>	<u>1,772,817,396</u>	<u>113,338,577</u>	<u>2,092,863,046</u>	<u>P 245,000,000</u>	<u>P 177,281,740</u>	<u>P 113,338,577</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 amendments to the Company's Articles of Incorporation to implement its equity restructuring with the view to match the Deficit of the Company as of September 30, 2007 with the 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.

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 a majority of the BOD and by a 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 was subject to the condition that the remaining additional paid-in capital of P39.8 million would not be used to eliminate 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 were to be issued either through stock rights offering, private placement or a combination of both. The funds raised would 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 each, unable to follow through with their

commitments under the Investment and Subscription Agreements (ISAs) and asked for the cancellation of their respective ISAs. The Company retained the services of a Financial Consultant to help it find replacement subscribers. Investors were located but were only willing to invest at a discount to the then market price, which had declined substantially since June 2008 due to the world – wide economic crisis. On December 18, 2008, the BOD approved the cancellation of the ISAs executed with the original subscribers and approved the reduction of the original issue price of P0.16 per share to P0.104 per share for the new subscribers to 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.

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, 2008	117,500,000	P 0.16	P 18,800,000	\$ 422,216
June 24, 2008*	71,195,131	0.16	11,391,221	255,827
July 8, 2008	352,500,000	0.16	56,400,000	1,266,647
Sept. 29, 2008	123,252,226	0.16	19,720,356	423,156
Oct. 9, 2008***	117,795,650	0.16	18,847,304	395,437
Oct. 10, 2008***	31,250,000	0.16	5,000,000	105,139
Oct. 20, 2008*	81,000,000	0.16	12,960,000**	270,096
Oct. 30, 2008**	90,000,000	0.16	14,400,000	293,812
	<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.

During the second quarter 2009, the Company's Financial Consultant was advising of the options MUSX has to raise the funds out of the increase in share capital. It was eventually decided on a private placement in the range of 1 Billion shares at P0.10 per share. The Financial Consultant was tasked in assist the Company to locate investors.

The Company filed the application with SEC for this increase in authorized capital stock on September 22, 2009 and, same was approved on October 15, 2009. In relation to this, the Company received the amount of \$ 525,928 (P25.0 million) on September 9, 2009

representing partial payment to the 1 billion subscribed shares at P0.10 per share through private placement offering.

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 of MSC 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 both the 81 million 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, was filed with the PSE on August 4, 2009.

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. 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. In June 2009 the 81 million common shares were sold in the aggregate amount of \$195,656 (P9.5 million) (see Note 15.5).

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			
	Nine months ended			Audited	Nine months ended			Audited
	Sept. 30, 2009	Sept 30, 2008	Sept. 30, 2007	Dec. 31, 2008	Sept 30, 2009	Sept 30, 2008	Sept 30, 2007	Dec. 31, 2008
Translation adjustments arising from:								
Foreign entity financial statements	(\$ 36,072)	(\$ 35,823)	(\$ 35,271)	(\$ 34,901)	(P 1,716,739)	(P 1,680,708)	(P 1,589,417)	(P 1,657,274)
Presentation currency	-	-	-	-	30,641,587	28,454,361	16,347,194	30,713,606
	<u>(\$ 36,072)</u>	<u>(\$ 35,823)</u>	<u>(\$ 35,271)</u>	<u>(\$ 34,901)</u>	<u>P28,924,848</u>	<u>P 26,773,653</u>	<u>P 14,757,777</u>	<u>P 29,056,332</u>

The movement in this account is as follows:

	In U.S. Dollars				In Philippine Pesos			
	Nine months ended			Audited	Nine months ended			Audited
	Sept 30, 2009	Sept 30, 2008	Sept 30, 2007	Dec. 31, 2008	Sept 30, 2009	Sept 30, 2008	Sept 30, 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	(1,171)	332	(1,857)	1,254	(127,749)	22,851,312	(5,027,263)	25,154,527
Effects of exchange rates	-	-	-	-	(3,735)	(199,431)	135,962	(219,967)
	<u>(\$ 36,072)</u>	<u>(\$ 35,823)</u>	<u>(\$ 35,271)</u>	<u>(\$ 34,901)</u>	<u>P28,924,848</u>	<u>P 26,773,653</u>	<u>P 14,757,777</u>	<u>P 29,056,332</u>

16. COST OF GOODS SOLD AND OTHER OPERATING EXPENSES

16.1 Cost of Goods Sold

The details of this account follow:

	Notes	In U.S. Dollars			In Philippine Pesos		
		Nine months ended:			Nine months ended:		
		Sept 30, 2009	Sept 30, 2008	Sept 30, 2007	Sept 30, 2009	Sept 30, 2008	Sept 30, 2007
Raw materials used	17	\$ 86,587	\$ 332,895	\$ 392,296	P 4,149,855	P 14,365,751	P 18,500,679
Employee benefits		30,085	180,054	163,483	1,441,884	7,770,050	7,709,858
Manufacturing overhead:							
Assembly charges		39,459	87,138	101,766	1,891,151	3,760,353	4,799,285
Utilities		11,811	38,104	46,510	566,066	1,644,340	2,193,412
Rentals		14,955	24,933	21,529	716,748	1,075,959	1,015,308
Outside services		7,974	12,641	11,333	382,170	545,510	534,464
Transportation and travel		2,213	11,392	4,645	106,062	491,610	219,058
Freight		5,299	11,332	16,365	253,965	489,021	771,773
Operating supplies		1,864	10,874	13,801	89,336	469,257	650,855
Depreciation and amortization		-	10,267	13,335	-	443,062	628,879
Communication		3,584	8,755	10,472	171,770	377,813	493,860
Repairs and maintenance		697	6,171	19,194	33,405	266,303	905,189
Taxes and licenses		1,918	893	2,376	91,924	38,537	112,052
Others		4,867	11,459	20,884	233,261	494,502	984,889
		<u>94,641</u>	<u>233,959</u>	<u>282,210</u>	<u>4,535,858</u>	<u>10,096,267</u>	<u>13,309,024</u>
Total manufacturing costs		211,313	746,908	837,989	10,127,597	32,232,068	39,519,561
Change in finished goods inventories	7	426,042	233,034	664,616	20,418,915	10,056,349	31,343,291
Change in work-in-process inventories	7	123,020	(6,981)	(10,082)	5,895,980	(301,258)	(475,467)
Reversal of inventory Valuation allowance / RM scrappage - Net	7	(1,129,118)	(198,673)	(520,908)	(54,115,238)	(8,573,535)	(24,566,022)
		<u>(\$ 368,743)</u>	<u>\$ 774,288</u>	<u>\$ 971,615</u>	<u>(P17,672,746)</u>	<u>P 33,413,624</u>	<u>P 45,821,363</u>

16.2 Other Operating Expenses

The details of this account are presented below.

Note	In U.S. Dollars			In Philippine Pesos		
	Nine months ended:			Nine months ended:		
	Sept 30, 2009	Sept 30, 2008	Sept 30, 2007	Sept 30, 2009	Sept 30, 2008	Sept 30, 2007
Employee benefits	\$ 535,450	\$ 582,639	\$ 692,169	P 25,662,512	P 25,143,204	P 32,642,690
Other operating expenses:						
Outside services	83,702	69,724	45,994	4,011,586	3,008,870	2,169,077
Selling expenses	6,247	33,291	63,842	299,400	1,436,640	3,010,789
Asia expenses	9,564	19,521	12,120	458,374	842,408	571,579
Transportation and travel	21,261	7,711	21,034	1,018,976	332,760	991,963
Taxes and licenses	22,918	10,370	7,134	1,098,391	447,508	336,439
Europe expenses	7,121	13,955	42,293	341,288	602,214	1,994,538
Communication	10,726	11,525	17,009	514,065	497,350	802,144
Bank charges	6,895	10,943	9,046	330,457	472,235	426,609
Depreciation and amortization	-	5,988	6,045	-	258,407	285,082
Office supplies	3,247	5,637	5,684	155,619	243,259	268,057
Rentals	14,501	3,985	15,571	694,989	171,969	734,328
Utilities	2,523	3,326	4,044	120,920	143,530	190,715
Repairs and maintenance	1,117	300	411	53,534	12,946	19,383
Freight	-	26	585	-	1,122	27,589
Relocation expense	-	-	1,819	-	-	85,784
Others	5,303	5,757	12,026	254,157	248,435	567,148
	<u>195,125</u>	<u>202,059</u>	<u>264,657</u>	<u>9,351,755</u>	<u>8,719,653</u>	<u>12,481,224</u>
	<u>\$ 730,575</u>	<u>\$ 784,698</u>	<u>\$ 956,826</u>	<u>P 35,014,267</u>	<u>P 33,862,857</u>	<u>P 45,123,914</u>

17. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

Notes	In U.S. Dollars			In Philippine Pesos			
	Nine months ended:			Nine months ended:			
	Sept 30, 2009	Sept 30, 2008	Sept 30, 2007	Sept 30, 2009	Sept 30, 2008	Sept 30, 2007	
Employee benefits	20	\$ 565,535	\$ 762,693	\$ 855,652	P 27,104,396	P 32,913,254	P 40,352,548
Raw materials and other consumables	16.1	86,587	332,895	392,296	4,149,855	14,365,751	18,500,679
Manufacturing overhead/Other operating expenses:							
Outside services		91,676	82,365	57,327	4,393,756	3,554,380	2,703,541
Assembly charges		39,459	87,138	101,766	1,891,151	3,760,353	4,799,285
Utilities		14,334	41,430	50,554	686,986	1,787,870	2,384,127
Selling expenses		6,247	33,291	63,842	299,400	1,436,640	3,010,789
Rental	25	29,456	28,918	37,100	1,411,737	1,247,928	1,749,636
Transportation and travel		23,474	19,103	25,679	1,125,038	824,370	1,211,021
Asia expenses		9,564	19,521	12,120	458,374	842,408	571,579
Communication		14,310	20,280	27,481	685,835	875,163	1,296,004
Depreciation and amortization		-	16,255	19,380	-	701,469	913,961
Operating /office supplies		5,111	16,511	19,485	244,955	712,516	918,912
Taxes and licenses		24,836	11,263	9,510	1,190,315	486,045	448,491
Europe expenses		7,121	13,955	42,293	341,288	602,214	1,994,538
Freight		5,299	11,358	16,950	253,965	490,143	799,362
Bank charges		6,895	10,943	9,046	330,457	472,235	426,609
Repairs and maintenance		1,814	6,471	19,605	86,939	279,249	924,572
Relocation expense		-	-	1,819	-	-	85,784
Others		10,170	17,216	32,910	487,419	742,937	1,552,037
Balance brought forward		<u>289,766</u>	<u>436,018</u>	<u>546,867</u>	<u>13,887,613</u>	<u>18,815,920</u>	<u>25,790,248</u>

Notes	In U.S. Dollars			In Philippine Pesos		
	Nine months ended:			Nine months ended:		
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007
<i>Balance carried forward</i>	\$ 941,888	\$ 436,018	\$ 546,867	P 45,141,864	P 18,815,920	P 25,790,248
Change in finished goods inventories	7 426,042	233,034	664,616	20,418,915	10,056,349	31,343,291
Change in work-in-process inventories	7 123,020	(6,981)	(10,082)	5,895,980	(301,258)	(475,467)
Reversal of inventory Valuation allowance/ RM scrappage - Net	7 (1,129,118)	(198,673)	(520,908)	(54,115,238)	(8,573,535)	(24,566,022)
	<u>\$ 361,832</u>	<u>\$ 1,558,986</u>	<u>\$ 1,928,441</u>	<u>P 17,341,521</u>	<u>P 67,276,481</u>	<u>P 90,945,277</u>

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

Notes	In U.S. Dollars			In Philippine Pesos		
	Nine months ended:			Nine months ended:		
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007
Cost of goods sold	16.1 (\$ 368,743)	\$ 774,288	\$ 971,615	(P 17,672,746)	P 33,413,624	P 45,821,363
Other operating expenses	16.2 730,575	784,698	956,826	35,014,267	33,862,857	45,123,914
	<u>\$ 361,832</u>	<u>\$ 1,558,986</u>	<u>\$ 1,928,441</u>	<u>P 17,341,521</u>	<u>P 67,276,481</u>	<u>P 90,945,277</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 September 30, 2008 and September 30, 2007 amounted to \$32,990 and \$48,169, 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 September 30, 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		
	Nine months ended:			Nine months ended:		
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007
Foreign currency losses	\$ 32,329	\$ 91,215	\$ 42,762	P 1,549,431	P 3,936,292	P 2,016,656
Impairment losses on:						
Trade and other receivables	2,660	4,097	2,258	127,486	176,802	106,487
Interest expense from Bank loans and borrowings	8,197	39,016	78,161	392,858	1,683,696	3,686,073
Others	-	2,596	25,474	-	112,028	1,201,355
	<u>\$ 43,186</u>	<u>\$ 136,924</u>	<u>\$ 148,655</u>	<u>P 2,069,775</u>	<u>P 5,909,818</u>	<u>P 7,010,571</u>

19.2 Other Gains (Losses)

The breakdown of this account is as follows:

	In U.S. Dollars			In Philippine Pesos		
	Nine months ended:			Nine months ended:		
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007
Foreign currency gains	\$ 40,151	\$ 109,861	\$ 17,458	P 1,924,317	P 4,740,942	P 823,320
Interest income	1,022	24,187	1,419	48,981	1,043,766	66,920
Others	81,604	136,529	(11,388)	3,911,032	5,891,772	(537,058)
	<u>\$ 122,777</u>	<u>\$ 270,577</u>	<u>\$ 7,489</u>	<u>P 5,884,330</u>	<u>P 11,676,480</u>	<u>P 353,182</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		
	Nine months ended:			Nine months ended:		
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007
Salaries and short-term benefits	\$ 262,826	\$ 720,714	\$ 823,196	P 12,596,462	P 31,101,692	P 38,821,923
Termination benefit	-	-	-	-	-	-
Post-employment:						
Defined contribution	146,055	-	-	6,999,978	-	-
Defined benefit	156,654	41,979	32,456	7,507,956	1,811,562	1,530,625
	<u>\$ 565,535</u>	<u>\$ 762,693</u>	<u>\$ 855,652</u>	<u>P 27,104,396</u>	<u>P 32,913,254</u>	<u>P 40,352,548</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) as of December 31, 2008 is presented as part of Accrued employee benefits under Trade and other payables (see Note 13). This account was already settled as of September 30, 2009.

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 \$10,350 (P0.5 million) was accrued resulting to total post-employee benefit accrual of \$134,554 (P6.5 million) as of June 30, 2009, and this was fully funded as of June 30, 2009 resulting to a reduction of the same amount in the Trade and other payables as of June 30, 2009 consolidated Balance Sheet. Additional amount of \$136,578 (P6.5 million) was accrued as of September 30, 2009 consolidated Balance Sheet (see Note 13).

20.4 Post-employment – Defined Benefit

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

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

The 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>Sept. 30, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>Sept. 30, 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	156,654	40,744	7,507,956	1,812,107
Payment	(62,022)	-	(2,951,764)	-
Effects of exchange rates	270	(40,444)	(7,964)	(10)
Balance at end of period	<u>\$ 390,707</u>	<u>\$ 295,805</u>	<u>P 18,594,528</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>Nine months ended:</u>			<u>Nine months ended:</u>		
	<u>Sept. 30, 2009</u>	<u>Sept. 30, 2008</u>	<u>Sept. 30, 2007</u>	<u>Sept. 30, 2009</u>	<u>Sept. 30, 2008</u>	<u>Sept. 30, 2007</u>
Current service costs	\$ 100,915	\$ 18,612	\$ 17,619	P 4,836,561	P 803,162	P 830,912
Interest costs	102,434	32,088	23,001	4,909,338	1,384,738	1,084,727
Expected return on plan assets	(23,623)	(7,986)	(6,711)	(1,132,186)	(344,640)	(316,491)
Net actuarial gains recognized during the period	(23,072)	(735)	(1,453)	(1,105,757)	(31,698)	(68,523)
Retirement benefits	<u>\$ 156,654</u>	<u>\$ 41,979</u>	<u>\$ 32,456</u>	<u>P 7,507,956</u>	<u>P 1,811,562</u>	<u>P 1,530,625</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>Nine months ended:</u>			<u>Nine months ended:</u>		
	<u>Sept. 30, 2009</u>	<u>Sept. 30, 2008</u>	<u>Sept. 30, 2007</u>	<u>Sept. 30, 2009</u>	<u>Sept. 30, 2008</u>	<u>Sept. 30, 2007</u>
Cost of goods sold	\$ 5,891	\$ 21,600	\$ 16,766	P 282,338	P 932,126	P 790,685
Other operating expense	150,763	20,379	15,690	7,225,618	879,436	739,940
	<u>\$ 156,654</u>	<u>\$ 41,979</u>	<u>\$ 32,456</u>	<u>P 7,507,956</u>	<u>P 1,811,562</u>	<u>P 1,530,625</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 \$2,996, \$5,142 and \$10,416 for the nine months ended September 30, 2009, September 30, 2008 and September 30, 2007, respectively.

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

	<u>Sept. 30, 2009</u>	<u>Sept 30, 2008</u>	<u>Sept. 30, 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 September 30, 2009 and 2008 and by MSI in 2007.

The compensations of the Company's key management personnel amounted to \$145,932, \$173,225 and \$160,975 for the nine months ended September 30, 2009, September 30, 2008, and September 30, 2007, respectively, representing the salary of the Company's President and CEO and the Board of Directors' remuneration.

As of September 30, 2009 and in 2008, post-employment defined contribution of key management personnel amounted to \$146,055 (P7.0 million) and \$134,907 (P 6.0 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 was collateralized by the assets of a related party. It was fully paid on May 27, 2009 (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>
<u>In U.S. Dollars</u>				
Allowance for impairment	\$ 305,569	\$ 1,135,829	\$ 91,671	\$ 397,540
Inventory valuation allowance	570,557	249,223	28,528	12,461
NOLCO	947,762	898,089	284,328	314,331
MCIT	1,056	2,231	1,056	2,231
Unrealized foreign currency gain	(491,945)	-	(147,583)	-
	<u>\$ 1,332,999</u>	<u>\$ 2,285,372</u>	<u>\$ 258,000</u>	<u>\$ 726,563</u>

In Philippine Pesos

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

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

22.2 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	(58)	-	
	<u>\$ 1,056</u>	<u>P 50,141</u>	

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

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

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

In U.S. Dollars

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

In Philippine Pesos

<u>Year</u>	<u>Original Amount</u>	<u>Applied Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
2005	P 21,732,982	P -	P 21,732,982	2025
2004	27,295,280	-	27,295,280	2024
2002	31,639,303	-	31,639,303	2022
2001	478,561,190	347,847,901	130,713,289	2021
1998	67,544,468	67,544,468	-	2018
1995	<u>32,626,516</u>	<u>32,626,516</u>	<u>-</u>	2015
	<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) and as of September 30, 2009 amounted to \$1,664,432 (P79,213,648).

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

The Company's subsidiary, MSPI, is registered with PEZA under RA No. 7916 as a logistic service enterprise based on PEZA Certificate of Registration No. 09-14-L dated July 23, 2009 and is entitled to the following incentives (see Note 1):

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

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

Also the Company's subsidiary, MSPI, used to be 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 up to July 22, 2009 (see Note 1):

- (a) Income tax holiday (ITH), which is a continuation of the Company's unavailed ITH for the manufacture and testing of semiconductor products (integrated circuits) such as CAM and CAM complimentary semiconductors and the testing of board circuits. These registered activities were subsequently transferred to MSPI as a result of its takeover of the Company's business on September 29, 2000 (see Note 1). MSPI's ITH incentive expired, after a one year extension, on December 31, 2001. Consequently, MSPI is liable for the payment of 5% preferential tax on gross income earned, net of allowable deductions, in lieu of payment of national tax and local taxes starting January 1, 2002;
- (b) Exemption from the payment of duties and taxes on goods imported pursuant to MSPI's registered operations;
- (c) Exemption from export taxes and fees on importations;
- (d) Exemption from the payment of local taxes and fees, contractor's tax on gross receipts and wharfage fees; and,
- (e) Zero-rating of value-added tax on purchases of goods and services from local suppliers.

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

24. EARNINGS PER SHARE

Earnings per share were computed as follows:

	In U.S. Dollars			
	Sept. 30, 2009	Nine months ended:		Audited
	<u>Sept. 30, 2009</u>	<u>Sept. 30, 2008</u>	<u>Sept. 30, 2007</u>	<u>Dec. 31, 2008</u>
Net income	\$ 234,388	\$ 372,488	\$ 382,150	\$ 278,298
Divided by weighted average of shares outstanding	<u>2,116,498,667</u>	<u>1,283,189,149</u>	<u>793,370,039</u>	<u>1,438,605,540</u>
	<u>\$ 0.0001</u>	<u>\$ 0.0003</u>	<u>\$ 0.0005</u>	<u>\$ 0.0002</u>
	In Philippine Pesos			
	Sept. 30, 2009	Nine months ended:		Audited
	<u>Sept. 30, 2009</u>	<u>Sept. 30, 2008</u>	<u>Sept. 30, 2007</u>	<u>Dec. 31, 2008</u>
Net income	P 11,233,512	P 16,074,349	P 18,022,195	P 12,377,301
Divided by weighted average of shares outstanding	<u>2,116,498,667</u>	<u>1,283,189,149</u>	<u>793,370,039</u>	<u>1,438,605,540</u>
	<u>P 0.0053</u>	<u>P 0.0125</u>	<u>P 0.0227</u>	<u>P 0.0086</u>

The weighted average number of shares outstanding as of September 30, 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	9.00	17,377,767,414
Issuance in March 17, 2009		128,716,888	6.48	834,583,693
Issuance in June 3, 2009		84,615,386	3.93	332,820,518
Issuance in June 16, 2009		143,804,680	3.50	<u>503,316,380</u>
Total				19,048,488,005
Divided by total months as of September 30, 2009			<u>9</u>	
Weighted average number of shares as of September 30, 2009				<u>2,116,498,667</u>

Diluted earnings per share is not determined since the Company does not have potential dilutive common shares as of September 30, 2009, September 30, 2008 and September 30, 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 in Carmelray Industrial Park I, Canlubang, Calamba, Laguna 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 until the end of July 2009. On July 1, 2009 MSPI transferred its principal office to Alabang, Muntinlupa City on a leased space for a period of two years commencing on July 1, 2009 to June 30, 2011. Likewise, MSPI leases a space for its logistic operations at People's Technology Complex, Carmona, Cavite for a period of one year starting August 1, 2009 subject to renewal by both parties. Other operating lease cover office equipment. The future minimum rentals payable under these operating leases as of September 30, 2009 amounted to \$49,541.

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 September 30, 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 September 30, 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 September 30, 2009 and December 31, 2008 is summarized below.

	Note	<u>In U.S. Dollars</u>		<u>In Philippine Pesos</u>	
		<u>Sept. 30, 2009</u>	<u>Audited Dec. 31, 2008</u>	<u>Sept. 30, 2009</u>	<u>Audited Dec. 31, 2008</u>
Debt		\$ 67,512	\$ 183,338	P 3,213,031	P 8,705,805
Total equity	15.1	<u>7,831,856</u>	<u>5,934,598</u>	<u>372,733,690</u>	<u>281,804,386</u>
Debt-to-equity ratio		<u>0.01 : 1</u>	<u>0.03 : 1</u>	<u>0.01 : 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 3rd quarter 2009 totaled Php7.4 million, a decline of 26% from the level in 2nd quarter 2009. There are, however, encouraging signs that the 3rd quarter 2009 sales results may represent a bottom in the current economic crisis cycle. Although this "bottoming" cannot be confirmed for perhaps as much as perhaps two more quarters, we are seeing a clear improvement in sales activity so far in this, the 4th quarter of 2009. Although the overall situation still remains "spotty", we are seeing more market positivity at this time, more than at any other time this year.

Gross profit in the 3rd quarter 2009 was Php33.6 million. Of major influence in this result was the return to profit of unneeded inventory reserves amounting to Php29.2 million. This transaction has been covered in detail in Note 7 of this report. Excluding this item, operating GPM for the 3rd quarter 2009 was Php5.4 million equal to 73% of sales. This improved margin is a direct result of Management's initiatives with respect to moving to 100% outsourcing of manufacturing, and to the relocation of the facilities which has facilitated much cost reduction.

Operating expenses in the 3rd quarter 2009 totaled Php23.7million, Php16.2million of which are liability accruals covering mainly pension actuarials and legal expenses. The recurring Operating expenses in 3rd quarter 2009, total Php7.5 million which compares to Php6.0 million in 2nd quarter 2009. This increase is due to some exceptional expenses in 3rd quarter 2009 such as SEC filing fees for the company restructuring, expenses associated with the share buying and selling transactions, and an increase in audit fees. The Company believes that it is possible to maintain its expenses at around P6.0 million per quarter (in the current operating environment), which level represents a 50% drop from the actual expense levels of 2008.

As a result of the above, income from operations in the 3rd quarter 2009 was Php9.9million.

Net Other Income and Expense for 3rd quarter 2009 was a net other income of Php0.2 million. This amount was composed of Finance costs of Php0.7 million, more than offset by foreign currency gains.

Accrued tax expense in Q3 2009 was Php5.6 million and it represents tax provision for the Company's US based subsidiary to be applied from the Deferred Tax Assets.

As a result of the above, net income for 3rd quarter 2009 was Php4.5 million .

Causes of Material Changes in Balance Sheet accounts

Total assets at September 30th 2009 of P419.8 million grew by Php36.1 million over the level at June 30th 2009 of Php383.7 million. Current assets increased from Php76.7 million at June 30th 2009 to Php117.6 million at September 30th 2009. This change was principally in the inventory, which is covered in detail in Note 7. Non-current assets declined slightly from Php307.0 million at June 30th 2009, to Php302.2 million at September 30th 2009 due

to the reduction in the value of the Deferred Tax Asset of the Company's US based subsidiary .

Total liabilities increased from Php27.1 million at June 30th 2009 to Php47.1 million at September 30th 2009. This increase is based on actuarial estimates of pension liabilities , plus US tax accounting fees, and legal fees associated with the Company's technology development.

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 several marketable products, with the first products sampling to customers in 2010. 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 September 2009) Php169 million of new funds 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.

Other than 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 :

	Q3 2009	Q32008
Revenue Growth % - in units	(18%)	(5%)
Number of new design wins	0	1
New geographic markets entered	0	0
New applications for MUSIC products	0	0
Selling price reduction - %	(2%)	(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

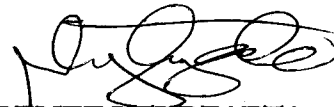
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MUSX CORPORATION
Issuer

By:



MICHAEL BURTON
President & CEO
13 November 2009



RENEE YTURZAETA
Treasurer/VP - Finance & Admin, CFO
13 November 2009

MUSIC SEMICONDUCTORS, INC.
A/R Aged Trial Balance by Due Date (ARTBAL01)

Account Type [All Customers]
Age Transactions As Of [09/30/2009]
Cutoff By Year/Period [2009] [09]
Year: Period:
Print Customer Transactions In [Detail by Document Date]
Contact/Phone/Credit [N]
Space For Comments [N]
Include Applied Details [N]
Print Zero-Balance Customers [N]
Print Amounts In [Functional Currency]

Customer No.	Customer Name	Document No.	Currency	Current	1 To 30 Days	31 To 60 Days	61 To 90 Days	Over 90 Days	Total
CEL016	DONGGUAN CELESTICA ELECTRONICS		USD	1,612.80	12,567.50	-	2,088.00	-	16,268.30
CSM001	CONSYSTEM S.R.L.		USD	5,212.00	-	-	-	-	5,212.00
FLE009	FLEXTRONICS INT LATIN AMERICA		USD	1,700.00	2,125.00	-	-	-	3,825.00
FLE010	FLEXTRONICS TECH (SHANGHAI)		USD	3,225.60	4,838.40	-	3,225.60	-	11,289.60
FOC001	FOCUS EDL		USD	-	-	-	-	390.00	390.00
JAB006	JABIL CIRCUIT SDN. BHD.		USD	2,808.00	-	-	-	-	2,808.00
MIC001	MICROTEK INC.		USD	(8,816.52)	-	2,745.00	-	-	(6,071.52)
MIP001	MI COMMUNICATIONS PTE LTD		USD	41,815.00	3,860.00	-	-	-	45,675.00
NOR001	NORTEL		USD	-	-	-	-	25,080.00	25,080.00
NUV001	ONCORE MANUFACTURING SERVICES		USD	942.50	-	-	-	471.25	1,413.75
PLE004	PLEXUS SERVICES CORP.		USD	1,503.00	(12,092.73)	-	-	-	(10,589.73)
SEG001	SEGTEC		USD	5,400.00	-	-	-	-	5,400.00
SIA003	SANMINA SCI ESSC		USD	8,494.16	2,736.00	1,824.00	-	-	13,054.16
SIA005	SANMINA-SCI SINGAPORE PTE. LTD		USD	4,590.00	4,215.00	225.00	5,715.00	1,530.00	16,275.00
SIE004	NOKIA SIEMENS NETWORKS GMBH		USD	5,875.20	1,958.40	-	-	-	7,833.60
SUN001	SUN-WA TECHNOS (S) PTE. LTD.		USD	13,104.00	-	-	-	-	13,104.00
Report Total:				87,466.00	20,208.00	4,794.00	11,028.00	27,471.00	150,967.00
Forex Rate: \$1:P47.592				4,162,691.00	961,739.00	228,156.00	524,845.00	1,307,400.00	7,184,831.00