

COVER SHEET

A S - 9 2 0 0 0 5 8 9

S.E.C. Registration Number

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

(Company's Full Name)

L 1 4 N e t C u b e C e n t r e 3 r d A v e n u e
 C o r 3 0 t h S t E - S q u a r e C r e s c e n t
 P a r k W e s t B o n i F a c i o G l o b a l
 C i T y o f T a g u i g P h i l s 1 6 3 4

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

Contact Person

Company Telephone Number

1 2 3 1

Month Day

1 7 - Q

FORM TYPE

0 6

Month Day

Annual Meeting

N A

Secondary License Type, If Applicable

S E C

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

MUSX CORPORATION

(Company's Full Name)

L14 Net Cube Centre, 3rd Ave. corner
30th Street, E-Square Crescent Park, West
Bonifacio Global City, City of Taguig
Philippines 1634

(Company's Address)

(02) 556-7425

(Telephone Number)

September 30, 2010

(Quarter Ending)
(month & day)

17-Q

Form Type

Amendment Designation (If applicable)

September 30, 2010

Period Ended Date

50

Number of Pages

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 2010
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 : L14 Net Cube Centre, 3rd Ave, corner 30th Street, E Square Crescent Park, West Bonifacio, Global City, City of Taguig, Philippines 1634
6. Industry Classification Code : _____
(SEC Use Only)
7. Address of Principal Office : **L14 Net Cube Centre, 3rd Ave, corner 30th Street, E Square Park, West Bonifacio, Global City, City of Taguig, Philippines**
Postal Code : **1634**
Mailing Address : **L14 Net Cube Centre, 3rd Ave, corner 30th Street, E Square Crescent Park, West Bonifacio, Global City, City of Taguig, Philippines**
Postal Code : **1634**
8. Issuer's telephone no. area code : **556 7425**
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
Common Shares PhP.10 par	3,450,000,000 (As of 30 September, 2010)
11. Are any or all of these securities listed on the Philippine Stock Exchange
Yes [] *No* [**x**]
2,326,747,774 out of the 3,450,000,000 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 STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2010

(With Comparative Figures for December 31, 2009)

		In U.S. Dollars (Functional Currency)		In Philippine Pesos (Presentation Currency)	
Notes	Sep. 30, 2010	Audited DEC. 31, 2009	Sep. 30, 2010	Audited DEC. 31, 2009	
<u>ASSETS</u>					
CURRENT ASSETS					
Cash	\$ 8,754	\$ 425,329	P 384,484	P 19,716,551	
Receivables - net	6 381,217	369,977	16,743,430	17,150,652	
Inventories - net	7 1,145,067	1,174,423	50,292,488	54,441,553	
Available-for-sale investment - net	8 867,505	1,113,604	38,101,687	51,622,227	
Prepayments and other current assets - net	9 26,724	49,688	1,173,746	2,303,337	
Total Current Assets	2,429,267	3,133,021	106,695,835	145,234,320	
NON-CURRENT ASSETS					
Receivables - net	6 233,478	221,214	10,254,598	10,254,598	
Property and equipment - net	10 25,501	-	1,120,029	-	
Intangible assets	11 4,322,175	3,930,230	189,834,248	182,189,742	
Deferred tax assets	1,495,475	1,577,745	65,682,757	73,137,947	
Total Non-current Assets	6,076,629	5,729,189	266,891,632	265,582,287	
	\$ 8,505,896	\$ 8,862,210	P 373,587,467	P 410,816,607	
<u>LIABILITIES AND EQUITY</u>					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	12 \$ 759,430	\$ 568,350	P 33,354,925	P 26,346,433	
Interest-bearing loans and borrowings	13 126,075	121,442	5,537,340	5,629,565	
Total Current Liabilities	885,505	689,792	38,892,265	31,975,998	
NON-CURRENT LIABILITY					
Retirement liability	22 197,904	293,264	8,692,142	13,594,546	
Total Liabilities	1,083,409	983,056	47,584,407	45,570,544	
EQUITY					
Capital stock	15 6,673,446	6,673,446	270,000,000	270,000,000	
Additional paid-in capital	1,122,577	1,123,903	60,259,968	60,321,971	
Deficit	(328,096)	(204,204)	(5,952,656)	(304,297)	
Reserves	(45,440)	286,009	1,695,748	35,228,389	
Total Equity	7,422,487	7,879,154	326,003,060	365,246,063	
	\$ 8,505,896	\$ 8,862,210	P 373,587,467	P 410,816,607	

See Notes to Consolidated Financial Statements.

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED September 30, 2010

(With Comparative Figures for the Period Ended September 30, 2009, September 30, 2008 and December 31, 2009)

	Notes	In U.S. Dollars (Functional Currency)				In Philippine Pesos (Presentation Currency)			
		Nine Months Ended			Audited	Nine Months Ended			Audited
		Sep. 30, 2010	Sep. 30, 2009	Sep. 30, 2008	Dec 31, 2009	Sep. 30, 2010	Sep. 30, 2009	Sep. 30, 2008	Dec 31, 2009
NET SALES	5	\$ 648,115	\$ 635,796	\$ 1,848,978	\$ 830,529	P 29,548,211	P 30,471,795	P 79,790,797	P 39,563,910
COST OF GOODS SOLD	16	<u>181,224</u>	<u>240,213</u>	<u>759,972</u>	<u>289,013</u>	<u>8,262,183</u>	<u>11,512,688</u>	<u>32,795,832</u>	<u>13,767,712</u>
GROSS PROFIT		466,891	395,583	1,089,006	541,516	21,286,028	18,959,107	46,994,965	25,796,198
EXPENSES	17	<u>528,883</u>	<u>730,575</u>	<u>784,698</u>	<u>1,153,530</u>	<u>24,112,305</u>	<u>35,014,267</u>	<u>33,862,857</u>	<u>54,950,709</u>
OPERATING PROFIT (LOSS)		<u>(61,992)</u>	<u>(334,992)</u>	<u>304,308</u>	<u>(612,014)</u>	<u>(2,826,277)</u>	<u>(16,055,160)</u>	<u>13,132,108</u>	<u>(29,154,511)</u>
OTHER INCOME (EXPENSES)									
Finance costs	20	(56,126)	(43,186)	(136,924)	(56,909)	(2,558,840)	(2,069,775)	(5,908,818)	(2,710,974)
Finance income	20	49,157	41,173	134,048	50,227	2,241,117	1,973,298	5,784,708	3,339,137
Reorganization costs - net	19	-	-	(32,990)	-	-	-	(1,423,650)	-
Others - net	21	<u>27,640</u>	<u>690,560</u>	<u>122,213</u>	<u>941,802</u>	<u>1,260,135</u>	<u>33,096,466</u>	<u>5,273,980</u>	<u>43,918,149</u>
		<u>20,671</u>	<u>688,547</u>	<u>86,347</u>	<u>935,120</u>	<u>942,412</u>	<u>32,999,989</u>	<u>3,726,220</u>	<u>44,546,312</u>
INCOME (LOSS) BEFORE TAX		(41,321)	353,555	390,655	323,106	(1,883,865)	16,944,829	16,858,328	15,391,801
INCOME TAX EXPENSE		<u>82,571</u>	<u>119,167</u>	<u>18,167</u>	<u>204,917</u>	<u>3,764,494</u>	<u>5,711,317</u>	<u>783,979</u>	<u>9,761,631</u>
NET INCOME (LOSS)		(\$ 123,892)	\$ 234,388	\$ 372,488	\$ 118,189	(P 5,648,359)	P 11,233,512	P 16,074,349	P 5,630,170
OTHER COMPREHENSIVE INCOME (LOSS)									
Net change in fair value of available-for-sale investment		(333,125)	(54,128)	-	321,708	(15,844,680)	(2,608,800)	-	15,340,000
Net change in fair value of available-for-sale investment transferred to profit or loss		-	441,295	-	441,295	-	21,236,000	-	21,236,000
Net change in foreign currency difference		<u>1,676</u>	<u>(1,171)</u>	<u>332</u>	<u>(798)</u>	<u>(17,687,961)</u>	<u>(131,484)</u>	<u>22,651,881</u>	<u>(9,167,943)</u>
		<u>(331,449)</u>	<u>385,996</u>	<u>332</u>	<u>762,205</u>	<u>(33,532,641)</u>	<u>18,495,716</u>	<u>22,651,881</u>	<u>27,408,057</u>
TOTAL COMPREHENSIVE INCOME (LOSS)		(\$ 455,341)	\$ 620,384	\$ 372,820	\$ 880,394	(P 39,181,000)	P 29,729,228	P 38,726,230	P 33,038,227
Earnings/(Loss) Per Share	25	(\$ 0.000036)	\$ 0.000100	\$ 0.000300	\$ 0.000050	(P 0.001637)	P 0.005300	P 0.012500	P 0.002200

See Notes to Consolidated Financial Statements.

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010

(With Comparative Figures for the Period Ended September 30, 2009, September 30, 2008 and December 31, 2009)

Notes	In U.S. Dollars (Functional Currency)				In Philippine Pesos (Presentation Currency)				
	Three Months Ended			Audited	Three Months Ended			Audited	
	Sep. 30, 2010	Sep. 30, 2009	Sep. 30, 2008	Dec 31, 2009	Sep. 30, 2010	Sep. 30, 2009	Sep. 30, 2008	Dec 31, 2009	
	NET SALES	\$ 212,905	\$ 154,283	\$ 592,754	\$ 830,529	P 9,630,332	P 7,428,521	P 26,975,049	P 39,563,910
16	COST OF GOODS SOLD	<u>60,168</u>	<u>42,195</u>	<u>241,430</u>	<u>289,013</u>	<u>2,721,579</u>	<u>2,031,647</u>	<u>11,810,873</u>	<u>13,767,712</u>
	GROSS PROFIT	<u>152,737</u>	<u>112,088</u>	<u>351,324</u>	<u>541,516</u>	<u>6,908,753</u>	<u>5,396,874</u>	<u>15,164,176</u>	<u>25,796,198</u>
17	EXPENSES	<u>156,704</u>	<u>491,704</u>	<u>202,117</u>	<u>1,153,530</u>	<u>7,088,192</u>	<u>23,674,891</u>	<u>9,197,940</u>	<u>54,950,709</u>
	OPERATING PROFIT (LOSS)	<u>(3,967)</u>	<u>(379,616)</u>	<u>149,207</u>	<u>(612,014)</u>	<u>(179,439)</u>	<u>(18,278,017)</u>	<u>5,966,236</u>	<u>(29,154,511)</u>
	OTHER INCOME (EXPENSES)								
20	Finance costs	(42,802)	(14,905)	(55,496)	(56,909)	(1,936,063)	(717,656)	(2,525,512)	(2,710,974)
20	Finance income	45,020	28,732	55,001	50,227	2,036,390	1,383,417	2,502,986	3,339,137
19	Reorganization costs - net	-		(10,727)	-	-	-	(488,164)	-
21	Others - net	<u>15,805</u>	<u>577,874</u>	<u>(38,658)</u>	<u>941,802</u>	<u>714,908</u>	<u>27,823,865</u>	<u>(935,372)</u>	<u>43,918,149</u>
		<u>18,023</u>	<u>591,701</u>	<u>(49,880)</u>	<u>935,120</u>	<u>815,235</u>	<u>28,489,626</u>	<u>(1,446,062)</u>	<u>44,546,312</u>
	INCOME (LOSS) BEFORE TAX	<u>14,056</u>	<u>212,085</u>	<u>99,327</u>	<u>323,106</u>	<u>635,796</u>	<u>10,211,609</u>	<u>4,520,174</u>	<u>15,391,801</u>
	INCOME TAX EXPENSE	<u>40,902</u>	<u>118,074</u>	<u>4,830</u>	<u>204,917</u>	<u>1,850,120</u>	<u>5,685,106</u>	<u>219,804</u>	<u>9,761,631</u>
	NET INCOME (LOSS)	(\$ <u>26,846</u>)	<u>\$ 94,011</u>	<u>\$ 94,497</u>	<u>\$ 118,189</u>	(P <u>1,214,324</u>)	P <u>4,526,503</u>	P <u>4,300,370</u>	P <u>5,630,170</u>
	OTHER COMPREHENSIVE INCOME (LOSS)								
	Net change in fair value of available-for-sale investment	(10,710)	(594,654)	-	321,708	(509,170)	(28,620,000)	-	15,340,000
	Net change in fair value of available-for-sale investment transferred to profit or loss	-	441,295	-	441,295	-	21,236,000	-	21,236,000
	Net change in foreign currency difference	(1,585)	(925)	2,491	(798)	(18,679,728)	(5,503,882)	33,541,935	(9,167,943)
		<u>(12,295)</u>	<u>(154,284)</u>	<u>2,491</u>	<u>762,205</u>	<u>(19,188,898)</u>	<u>(12,887,882)</u>	<u>33,541,935</u>	<u>27,408,057</u>
	TOTAL COMPREHENSIVE INCOME (LOSS)	(\$ <u>39,141</u>)	(\$ <u>60,273</u>)	\$ <u>96,988</u>	\$ <u>880,394</u>	(P <u>20,403,222</u>)	(P <u>8,361,379</u>)	P <u>37,842,305</u>	P <u>33,038,227</u>
25	Earnings/(Loss) Per Share	(\$ <u>0.000008</u>)	<u>\$ 0.000100</u>	<u>\$ 0.000100</u>	<u>\$ 0.000050</u>	(P <u>0.000352</u>)	P <u>0.002100</u>	P <u>0.003400</u>	P <u>0.002200</u>

See Notes to Consolidated Financial Statements.

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

(With Comparative Figures for the Period Ended September 30, 2009, September 30, 2008 and December 31, 2009)

	Capital Stock		Additional Paid-In Capital		Treasury Shares		Deposit for Future Subscription		Fair Value Reserve		Translation Reserve		Deficit		Total Equity	
	In USD	In PHP	In USD	In PHP	In USD	In PHP	In USD	In PHP	In USD	In PHP	In USD	In PHP	In USD	In PHP	In USD	In PHP
Balance, January 01, 2010	6,673,446	270,000,000	1,123,903	60,321,971	-	-	-	-	321,708	15,340,000	(35,699)	19,888,389	(204,204)	(304,297)	7,879,154	365,246,063
Transaction with owners directly recorded to Equity																
Expenses from issuance of common shares	-	-	(1,326)	(62,003)	-	-	-	-	-	-	-	-	-	-	(1,326)	(62,003)
Total transactions with owners	6,673,446	270,000,000	1,122,577	60,259,968	-	-	-	-	321,708	15,340,000	(35,699)	19,888,389	(204,204)	(304,297)	7,877,828	365,184,060
Total Comprehensive Income																
Net Income	-	-	-	-	-	-	-	-	-	-	-	-	(123,892)	(5,648,359)	(123,892)	(5,648,359)
Other Comprehensive income for the period																
Foreign currency translation difference	-	-	-	-	-	-	-	-	-	-	1,676	(17,687,961)	-	-	1,676	(17,687,961)
Net change in fair value of available-for-sale investment	-	-	-	-	-	-	-	-	(333,125)	(15,844,680)	-	-	-	-	(333,125)	(15,844,680)
Total other comprehensive income	-	-	-	-	-	-	-	-	(333,125)	(15,844,680)	1,676	(17,687,961)	(123,892)	(5,648,359)	(455,341)	(39,181,000)
Total other comprehensive income for the period	-	-	-	-	-	-	-	-	(333,125)	(15,844,680)	1,676	(17,687,961)	(123,892)	(5,648,359)	(455,341)	(39,181,000)
Balance, September 30, 2010	6,673,446	270,000,000	1,122,577	60,259,968	-	-	-	-	(11,417)	(504,680)	(34,023)	2,200,428	(328,096)	(5,952,656)	7,422,487	326,003,060
Balance, January 01, 2009	5,390,253	209,286,305	1,613,030	83,592,216	(270,096)	(12,960,000)	-	-	(441,295)	(21,236,000)	(34,901)	29,056,332	(322,393)	(5,934,467)	5,934,598	281,804,386
Transaction with owners directly recorded to Equity																
Issuance of shares	477,672	22,842,006	8,273	398,070	-	-	-	-	-	-	-	-	-	-	485,945	23,240,076
Payment of 25% subscription	-	-	-	-	-	-	520,833	25,000,000	-	-	-	-	-	-	520,833	25,000,000
Re-issuance of treasury shares at a loss	-	-	-	-	270,096	12,960,000	-	-	-	-	-	-	-	-	270,096	12,960,000
Effect of cancellation of subscribed shares originally issued at a premium	267,342	12,871,689	(267,342)	(12,871,689)	-	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	6,135,267	245,000,000	1,353,961	71,118,597	-	-	520,833	25,000,000	(441,295)	(21,236,000)	(34,901)	29,056,332	(322,393)	(5,934,467)	7,211,472	343,004,462
Total Comprehensive Income																
Net Income	-	-	-	-	-	-	-	-	-	-	-	-	234,388	11,233,512	234,388	11,233,512
Other Comprehensive income for the period																
Foreign currency translation difference	-	-	-	-	-	-	-	-	-	-	(1,171)	(131,484)	-	-	(1,171)	(131,484)
Net change in fair value of available-for-sale investment transferred to profit or loss	-	-	-	-	-	-	-	-	441,295	21,236,000	-	-	-	-	441,295	21,236,000
Net change in fair value of available-for-sale investment	-	-	-	-	-	-	-	-	(54,128)	(2,608,800)	-	-	-	-	(54,128)	(2,608,800)
Total other comprehensive income	-	-	-	-	-	-	-	-	387,167	18,627,200	(1,171)	(131,484)	234,388	11,233,512	620,384	29,729,228
Total other comprehensive income for the period	-	-	-	-	-	-	-	-	387,167	18,627,200	(1,171)	(131,484)	234,388	11,233,512	620,384	29,729,228
Balance, September 30, 2009	6,135,267	245,000,000	1,353,961	71,118,597	-	-	520,833	25,000,000	(54,128)	(2,608,800)	(36,072)	28,924,848	(88,005)	5,299,045	7,831,856	372,733,690

Forward

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

(With Comparative Figures for the Period Ended September 30, 2009, September 30, 2008 and December 31, 2009)

	Capital Stock		Additional Paid-In Capital		Treasury Shares		Fair Value Reserve		Translation Reserve		Deficit		Total Equity	
	In USD	In PHP	In USD	In PHP	In USD	In PHP	In USD	In PHP	In USD	In PHP	In USD	In PHP	In USD	In PHP
Balance, January 01, 2008	3,245,047	110,837,004	384,458	27,252,067	-	-	-	-	(36,155)	4,121,772	(600,691)	(18,311,768)	2,992,659	123,899,075
Transaction with owners directly recorded to Equity														
Issuance of shares	1,479,904	66,444,736	848,541	38,071,790	-	-	-	-	-	-	-	-	2,328,445	104,516,526
Reclassification during the period		7,010,571.0											-	7,010,571
Total transactions with owners	4,724,951	184,292,311	1,232,999	65,323,857	-	-	-	-	(36,155)	4,121,772	(600,691)	(18,311,768)	5,321,104	235,426,172
Total Comprehensive Income														
Net Income	-	-	-	-	-	-	-	-	-	-	372,488	16,074,349	372,488	16,074,349
Other Comprehensive income for the period														
Foreign currency translation difference	-	-	-	-	-	-	-	-	332	22,651,881	-	-	332	22,651,881
Total other comprehensive income	-	-	-	-	-	-	-	-	332	22,651,881	372,488	16,074,349	372,820	38,726,230
Total other comprehensive income for the period	-	-	-	-	-	-	-	-	332	22,651,881	372,488	16,074,349	372,820	38,726,230
Balance, September 30, 2008	4,724,951	184,292,311	1,232,999	65,323,857	-	-	-	-	(35,823)	26,773,653	(228,203)	(2,237,419)	5,693,924	274,152,402
Balance, January 01, 2009	5,390,253	209,286,305	1,613,030	83,592,216	(270,096)	(12,960,000)	(441,295)	(21,236,000)	(34,901)	29,056,332	(322,393)	(5,934,467)	5,934,598	281,804,386
Transaction with owners directly recorded to Equity														
Issuance of shares	1,283,193	60,713,695	(2,422)	(101,931)	-	-	-	-	-	-	-	-	1,280,771	60,611,764
Re-issuance of treasury shares at a loss	-	-	(71,258)	(3,394,500)	270,096	12,960,000	-	-	-	-	-	-	198,838	9,565,500
Effect of adjustment in subscription price of shares subscribed by employees in respect of the Stock Purchase Plan	-	-	(148,105)	(6,902,125)	-	-	-	-	-	-	-	-	(148,105)	(6,902,125)
Effect of cancellation of subscribed shares originally issued at a premium	-	-	(267,342)	(12,871,689)	-	-	-	-	-	-	-	-	(267,342)	(12,871,689)
Total transactions with owners	6,673,446	270,000,000	1,123,903	60,321,971	-	-	(441,295)	(21,236,000)	(34,901)	29,056,332	(322,393)	(5,934,467)	6,998,760	332,207,836
Total Comprehensive Income														
Net Income	-	-	-	-	-	-	-	-	-	-	118,189	5,630,170	118,189	5,630,170
Other Comprehensive income for the period														
Foreign currency translation difference	-	-	-	-	-	-	-	-	(798)	(9,167,943)	-	-	(798)	(9,167,943)
Net change in fair value of available-for-sale investment transferred to profit or loss	-	-	-	-	-	-	441,295	21,236,000	-	-	-	-	441,295	21,236,000
Net change in fair value of available-for-sale investment	-	-	-	-	-	-	321,708	15,340,000	-	-	-	-	321,708	15,340,000
Total other comprehensive income	-	-	-	-	-	-	763,003	36,576,000	(798)	(9,167,943)	118,189	5,630,170	880,394	33,038,227
Total other comprehensive income for the period	-	-	-	-	-	-	763,003	36,576,000	(798)	(9,167,943)	118,189	5,630,170	880,394	33,038,227
Balance, December 31, 2009 - Audited	6,673,446	270,000,000	1,123,903	60,321,971	-	-	321,708	15,340,000	(35,699)	19,888,389	(204,204)	(304,297)	7,879,154	365,246,063

See Notes to the Consolidated Financial Statements.

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

(With Comparative Figures for the Period Ended September 30, 2009, September 30, 2008 and December 31, 2009)

	In U.S. Dollars (Functional Currency)					In Philippine Pesos (Presentation Currency)										
	Notes	Nine Months Ended			Audited	Nine Months Ended			Audited							
		Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Dec. 31, 2009	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Dec. 31, 2009							
CASH FLOWS FROM OPERATING ACTIVITIES																
Income (Loss) before tax	(\$	41,321	\$	353,555	\$	390,655	\$	323,106	(P	1,883,865	P	16,944,829	P	16,858,328	P	15,391,801
Adjustments for:																
Finance costs	20	56,126	43,186	136,924	56,909	2,558,840	2,069,775	5,908,818	2,710,974							
Interest income	20	(1,040)	(1,022)	(24,187)	(3,857)	(47,415)	(48,981)	(1,043,766)	(183,736)							
Net gain on disposal of available-for-sale investment		-	-	-	(36,360)	-	-	-	(1,732,081)							
Depreciation and amortization	10	-	-	16,255	-	-	-	701,469	-							
Operating income before working capital changes		13,765	395,719	519,647	339,798	627,560	18,965,623	22,424,849	16,186,958							
Decrease (increase) in:																
Receivables		(54,056)	42,765	(562,876)	6,134	(985,674)	1,967,437	(26,975,660)	1,003,955							
Inventories		29,356	(550,127)	65,516	(527,987)	1,289,345	(26,181,644)	2,827,277	(24,475,365)							
Prepayment and other current assets		22,909	14,430	(471,931)	463,344	1,127,083	631,166	(22,398,857)	22,057,977							
Increase (decrease) in trade and other payables		190,190	(76,251)	(688,957)	(39,076)	6,969,402	(3,563,954)	(26,103,323)	(2,497,219)							
Increase (decrease) in retirement benefit obligation		(112,592)	94,899	41,538	(9,483)	(4,902,404)	4,548,228	1,792,520	(451,754)							
Cash generated from (used) in operations		89,572	(78,565)	(1,097,063)	232,730	4,125,312	(3,633,144)	(48,433,194)	11,824,552							
Income tax paid		(207)	(786)	(25,816)	(1,351)	(9,437)	(37,671)	(1,111,541)	(64,358)							
Interest received		1,040	1,022	24,187	3,857	47,415	48,981	1,043,766	183,736							
Net cash from (used in) Operating Activities		90,405	(78,329)	(1,098,692)	235,236	4,163,290	(3,621,834)	(48,500,969)	11,943,930							
CASH FLOWS FROM INVESTING ACTIVITIES																
Increases in intangible assets	11	(391,945)	(632,745)	(1,674,779)	(1,030,366)	(17,214,615)	(30,113,600)	(82,186,901)	(47,763,646)							
Acquisitions of available-for-sale investment		(87,026)	(875,067)	-	(1,666,963)	(3,987,450)	(42,175,600)	-	(79,935,600)							
Proceeds from sale of available-for-sale investment		-	790,385	-	1,701,812	-	38,034,900	-	81,942,100							
Additions to property and equipment		(25,501)	-	(4,815)	-	(1,120,029)	-	(225,905)	-							
Decrease in other non-current assets		-	212	209	212	-	10,067	7,064	10,067							
Net cash from Investing Activities		(504,472)	(717,215)	(1,679,385)	(995,305)	(22,322,094)	(34,244,233)	(82,405,742)	(45,747,079)							
CASH FLOWS FROM FINANCING ACTIVITIES																
Deposit on future stock subscription		-	520,833	-	-	-	25,000,000	-	-							
Net proceeds from issuance of common shares		-	756,041	2,328,445	1,064,162	-	36,200,076	104,516,526	50,403,450							
Expenses from issuance of common shares		(1,326)	-	-	-	(62,003)	-	-	-							
Payments of interest-bearing loans and borrowings		(6,512)	(115,566)	(824,728)	(115,826)	(286,014)	(5,500,000)	(35,590,312)	(5,500,000)							
Interest paid		(4,500)	(8,224)	(55,386)	(9,475)	(206,645)	(394,152)	(2,390,116)	(451,361)							
Proceeds from availment of interest-bearing loans and borrowings		8,154	-	46,895	53,930	358,132	-	2,023,707	2,500,000							
Net cash from (used in) Financing Activities		(4,184)	1,153,084	1,495,226	992,791	(196,530)	55,305,924	68,559,805	46,952,089							
EFFECT OF EXCHANGE RATES		1,676	(1,171)	332	(798)	(976,733)	(458,849)	13,271,651	(2,616,225)							
NET INCREASE (DECREASE) IN CASH		(416,575)	356,369	(1,282,518)	231,924	(19,332,067)	16,981,008	(49,075,255)	10,532,715							
CASH AT BEGINNING OF PERIOD		425,329	193,405	2,011,719	193,405	19,716,551	9,183,836	83,287,178	9,183,836							
CASH AT END OF PERIOD		\$ 8,754	\$ 549,774	\$ 729,201	\$ 425,329	P 384,484	P 26,164,844	P 34,211,923	P 19,716,551							

See Notes to Consolidated Financial Statements.

MUSX CORPORATION AND SUBSIDIARIES
(Formerly MUSIC Semiconductors Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With Comparative Figures for SEPTEMBER 30, 2010 and DECEMBER 31, 2009)

1. Reporting Entity

General

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

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

On March 2, 2009, the Board of Directors (BOD) approved the change in the principal office and place of business of the Company from 110 Excellence Avenue corner Accuracy Drive, Carmelray Industrial Park, Canlubang, Calamba, Laguna to L14 Net Cube Centre, 3rd Avenue corner 30th Street, E-Square Crescent Park, West Bonifacio Global City, Taguig City. The change of principal office and place of business under Article III of its articles of Incorporation was approved by shareholders on December 14, 2009 and the SEC on January 11, 2010.

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

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

The consolidated financial statements as of and for the period ended September, 2010 comprises the financial statements of the Company and its Subsidiaries (collectively referred to as the "Group").

Ownership Interest

As of September 30, 2010 and December 31, 2009, the Company holds direct interest in the following companies:

Name of Subsidiary	Percentage of Ownership
MUSIC Semiconductors Philippines, Inc (MSPI)	100.0%
Music Semiconductors, Inc (MSI)	90.8%
Musem Electronic N.V. (Musem)	99.99%
Protelcon, Inc.* (Protelcon)	52.6%

*Dormant Company.

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 interest in Innovative Technology LLC, through its subsidiary MSI which owns 100% of Innovative Technology LLC, an entity incorporated in the United States. It has been dormant since December 31, 2001.

The non-controlling 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 non-controlling interest is presented in the consolidated financial statements.

MSPI

MSPI was established to engage in manufacturing and testing of integrated circuits. MSPI was re-registered with the Philippine Economic Zone Authority (PEZA) as an "Ecozone Logistic Service Enterprise" from a non-pioneer manufacturing export enterprise, which entitles MSPI to a number of tax incentives.

On March 2, 2009, the BOD approved the change in the primary purpose of MSPI from manufacturing of semiconductors products to development, sales, marketing and logistics of semiconductors products. Relative to this, MSPI fully outsource to third party its manufacturing operation effective January 2009. On the same date, the BOD also approved the change in the principal address of MSPI from Canlubang, Laguna to Alabang, Muntinlupa City and for its logistic operation to Carmona, Cavite. The application for change in the primary purpose and principal address was approved by the SEC on June 19, 2009 and by PEZA on July 23, 2009.

MSI

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

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 interest of its creditors. Creditors were fully paid in the amount of \$9,453,799 during the bankruptcy process.

Musem

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

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 approved by the SEC on September 15, 2009.

2. Basis of Preparation of Financial Statements

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

In full compliance with Philippine Accounting Standards (PAS) 27, *Consolidated and Separate Financial Statements*, the Group has prepared consolidated financial statements in which the Company consolidates all its investments in subsidiaries in accordance with PFRS. Such consolidated financial statements provide information about the economic activities of the Group of which the Company is the parent company.

Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) investment, which has been measured at fair value.

Basis of Consolidation

The consolidated financial statements comprise the accounts of the Parent Company and its wholly-owned subsidiaries, MSPI and Musem, 90.8% owned MSI, and 52.6% owned Protelcon.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

Subsidiaries are entities controlled by the Parent Company. Control exists when the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that 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 statement of financial position at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

Minority interest represents interest in certain subsidiaries not held by the Parent Company. When cumulative losses applicable to minority interest exceed the minority's interest in the subsidiary's capital, the excess, and any further losses applicable to the minority, are charged against the Parent Company interest, except to the extent that the minority has a binding obligation to, and is able to, make good on such losses. If the subsidiary subsequently reports profits, the Parent Company interest is allocated all such profits until the minority's share of losses previously absorbed by the Parent Company has been recovered.

Transactions Eliminated on Consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial

statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Parent Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. 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.

Functional and Presentation Currency

The consolidated financial statements are presented both in U.S. dollar and Philippine peso, the Group's functional and presentation currencies, respectively. All values represent absolute amounts, unless otherwise stated.

Use of Estimates and Judgment

The preparation of consolidated financial statements in conformity with PFRS, requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about critical judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is as follows:

Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency has been determined to be the U.S. dollar, which is the currency of the primary economic environment in which the Group operates wherein revenues and expenses are routinely denominated in US dollars.

Evaluation of Lease Agreement

The Group has entered into a lease agreement as lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of the property which is leased out, hence, accounted for as operating lease.

Rent expense recognized in the profit or loss amounted to \$24,199 (P1.103 million), \$29,456 (P1.411 million) and \$28,918 (P1.247 million) in September 30, 2010, September 30, 2009 and September 30, 2008, respectively (see Note 26).

Estimating Impairment Losses on Receivables

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

As of September 30, 2010 and 2009, allowance for impairment losses amounted to \$65,052 (P2.8 million) and \$186,532 (P8.6 million), respectively (see Note 6).

Determining Net Realizable Value of Inventories

In determining the net realizable value of inventories, the Group considers inventory obsolescence and other factors based on specific identification and as determined by management for inventories estimated to be unsalable in the future. The Group adjusts the cost of inventory to recoverable value at a level considered adequate to reflect market decline in value of the recorded inventories. The Group reviews on a continuous basis the product movement, changes in consumer demands and introduction of new products to identify inventories which are to be written down to net realizable values.

The carrying values of inventories amounted to \$1,145,067 (P50.3 million) and \$1,174,423 (P54.4 million) as of September 30, 2010 and 2009, respectively (see Note 7).

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.

Impairment of Available-for-sale (AFS) Securities

The Group classifies certain financial assets as AFS equity securities and recognizes movements in fair value in other comprehensive income and equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss. Impairment may be appropriate when there is evidence of deterioration in the financial wealth of investee, industry and sector performance and operational and financing cash flows.

The Group treats AFS equity securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 20% or more of the original cost of the investment, and "prolonged", longer than 12 months. In addition, the Group evaluates other factors including normal volatility in share price for quoted securities and the future cash flows and the discount factors for unquoted securities.

Impairment of Non-financial Assets

In accordance with the Group's policy on impairment of assets, the Group performs an impairment test when certain impairment indicators are present. In determining the present value of future cash flows expected to be generated from the continued use of the assets, the Group makes estimates and assumptions that can materially affect the financial statements.

Capitalization of Development Costs

Careful judgment by management is applied when deciding whether recognition requirements for development costs for new CAM product, in contrast with research, have been met. 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 reporting date. In addition, all

internal activities related to the research and development of new products is continuously monitored by management.

The new CAM product being developed is currently at the pre-production stage. The total capitalized development cost as of September 30, 2010 and 2009 amounted to \$4.32 million (P189.8 million) and \$3.93 million (P182.2 million), respectively (see Note 11).

Useful Lives of Property and Equipment

The Group reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use 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. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned.

The carrying amounts of property and equipment as of December 31, 2008 were written off relative to the Group's total outsourcing of its manufacturing operations in January 2009 (see Note 10).

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 at the date of purchase, which demonstrate that the stock purchase plan does not have an award element for the employees (see Note 14).

Retirement and Other 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 22 of the financial statements and include, among others, discount rates, expected return on plan assets and salary increase rate. While the Group believes that the assumptions are reasonable and appropriate, significant difference between actual experience and assumptions may materially affect the cost of employee benefit and related obligations.

The retirement liability and unrecognized actuarial gains (losses) amounted to \$197,904 (P8.7 million) and (\$41,674) (P1.8 million) respectively, as of September 30, 2010 and \$293,264 (P13.6 million) and \$90,830 (P4.2 million) respectively, as of December 31, 2009 (see Note 22).

Estimating Realizability of Deferred Tax Assets

The Group reviews its deferred income taxes at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. The Group also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact of deferred tax accordingly.

As of December 31, 2009 and 2008, the Group has recognized deferred tax assets amounting to \$1,577,745 (P73.1 million) and \$1,780,612 (P84.6 million), respectively. The recognized deferred tax assets pertain to the future tax benefit that the Group expects to realize from MSIs net operating losses (see Note 24).

Also as of December 31, 2009 and 2008, the Group has unrecognized deferred tax assets pertaining to temporary differences of the Parent Company and MSPI amounting to \$416,837 (P19.3 million) and \$258,000 (P12.2 million), respectively (See Note 24).

Asset Retirement Obligations

Determining asset retirement obligations requires estimation of the cost of dismantling property and equipment and other costs of restoring the leased properties to their original condition. The Group determined that there are no significant asset retirement obligations as of September 30, 2010 and 2009.

Provisions and Contingencies

The Group, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risk and uncertainties into account.

3. Summary of Significant Accounting Policies

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Financial Reporting Standards Council, or FRSC, approved the adoption of new or revised standards, amendments to standards, and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as part of PFRSs.

Adopted effective January 1, 2009

The Group adopted the following revised standards, amendments to standards and improvements to standards:

- Revised PAS 1, *Presentation of Financial Statements* (2007), introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the statement of income and all non-owner changes in equity in a single statement), or in a statement of income and a separate statement of comprehensive income.

Accordingly, the Group applies Revised PAS 1, which became effective as of January 1, 2009. As a result, the Group presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- Amendments to PFRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*, require disclosures relating to fair value measurements

using a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values and provide more direction on the form of quantitative disclosures about fair value measurements and require information to be disclosed in a tabular format unless another format is more appropriate. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk.

- *Improvements to PFRSs 2008* – various standards (except as related to PFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*), discuss 35 amendment and is divided into two parts: (a) Part I includes 24 amendments that result in accounting changes for presentation, recognition or measurement purposes; and (b) Part II includes 11 terminology or editorial amendments that the FRSC expects to have either no or only minimal effects on accounting.

The adoption of the above revised standards, amendments to standards and improvements to standards did not have a material effect on the consolidated financial statements. Additional disclosures required by the standards were included in the consolidated financial statement, where applicable.

New Standard, Revised Standards, Amendment to Standards and Interpretations Not Yet Adopted

The Group will adopt the following revised standards, amendments to standards, improvements to standards and interpretations in the respective effective dates as applicable:

To be adopted in January 1, 2010

- Revised PFRS 3, *Business Combinations* (2008), effective for annual periods beginning on or after July 1, 2009, incorporates the following changes:
 - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
 - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
 - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
 - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
 - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
- Revised PAS 27, *Consolidated and Separate Financial Statements* (2008), effective for annual periods beginning on or after July 1, 2009, requires accounting for changes in ownership interests by the Parent Company in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Parent Company loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss.
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, which are effective for annual periods beginning on or after July 1, 2009, provide for the following: a) new application guidance to clarify the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedge relationship; and b) additional application guidance on qualifying items; assessing hedge effectiveness; and designation of

financial items as hedged items.

- Philippine Interpretation IFRIC 17 *Distributions of Non-cash Assets to Owners*, becomes effective for financial years beginning on or after July 1, 2009. This interpretation provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed.
- *Improvements to PFRSs 2008* – Amendment to PFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are effective for annual periods beginning on or after July 1, 2009, specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of PFRS 5 are met; this applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation.
- Amendments to PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions*, which are effective for annual periods beginning on or after January 1, 2010, clarify the scope of PFRS 2, that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and regardless of whether the transaction is equity-settled or cash-settled; and the interaction of PFRS 2 and other standards, that in PFRS 2, a "group" has the same meaning as in PAS 27, *Consolidated and Separate Financial Statements*, that is, it includes only a parent and its subsidiaries.
- *Improvements to PFRSs 2009*, which are generally effective for annual periods beginning on or after January 1, 2010, include 15 amendments to 12 standards. Some of these amendments may have significant implications for current practice, in particular the amendments to PAS 17 *Leases* may affect the classification of leases of land and buildings, particularly in jurisdictions in which such leases often are for a long period of time.

To be adopted in 2011

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*, which is effective for annual periods beginning on or after February 1, 2010, permits rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.
- Philippine Interpretation IFRIC-19, *Extinguishing Financial Liabilities with Equity Instruments*, which is effective for annual periods beginning on or after July 1, 2010, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41.

- Revised PAS 24, *Related Party Disclosures* (2009), which is effective for annual periods beginning on or after January 1, 2011, amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities.
- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC-14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)*, which are effective for annual periods beginning on or after January 1, 2011. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense.

Under the prevailing circumstances, the adoption of the above revised standards, amendments to standards, improvements to standards and interpretations are not expected to have significant impact on the consolidated financial statements.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied by the Group to all the years presented, unless otherwise stated.

Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Company's President and CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Financial Instruments

Financial instruments comprise cash, receivables, accounts payable and accrued expenses and interest-bearing loans and borrowings.

Date of Recognition. The Group recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction cost.

The Group classifies its financial assets in the following categories: held-to-maturity (HTM) financial assets, available-for-sale (AFS) investments, FVPL financial assets, and loans and receivables. The classification depends on the purpose for which the financial assets are acquired and whether they are quoted in an active market. Management

determines the classification of its financial assets at initial recognition and, where allowed and appropriate, reevaluates such designation at every reporting date.

The measurement of financial instruments subsequent to initial recognition is described below:

- *Cash and cash equivalents.* Cash includes cash in banks and on hand and is stated at its face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.
- *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 are not entered into with the intention of immediate or short-term resale and are designated as AFS investments or financial asset at FVPL. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest rate method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through amortization process.

The Group's financial assets categorized as loans and receivables include cash and receivables.

- *AFS Investments.* AFS investments are non-derivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS investments are measured and changes therein, other than impairment losses and foreign currency differences on AFS equity investments, which are recognized in profit or loss, are recognized in other comprehensive income and presented within equity under the "Fair value reserve" account.

When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Group's investment in ATN Holdings and Lodestar Investment Holdings Corporation, are classified under this category (see Note 8).

- *Other Financial Liabilities at Amortized Cost.* This category pertains to non-derivative financial liabilities that are not held or not designated as at FVPL at the inception of the liability. Other financial liabilities are initially measured at fair value plus transactions costs. Subsequently, these are measured at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

The Group's accounts payable and accrued expenses and interest-bearing loans and borrowings are included in this category (see Notes 12 and 13).

Derecognition of Financial Assets and Financial Liabilities

Financial assets are derecognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial

liabilities are derecognized if the Group's obligations specified in the contract expire or are discharged or cancelled.

Impairment of Assets

Financial Assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset is impaired.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Impairment losses on AFS investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented under the "Fair value reserve" account in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. If, in a subsequent period, the fair value of an impaired AFS investment increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired AFS investment is recognized in other comprehensive income.

Nonfinancial Assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the assets or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the cost to sell while value on use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

All impairment losses are recognized in profit or loss.

Recovery of impairment losses recognized is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in profit or loss. However, the increase in carrying amount of an asset due to a recovery of an impairment of loss is recognized to the extent that it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently

enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined by the moving average method. NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

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

Raw materials – landed cost (purchase price plus costs incurred in bringing each product to its present location) on a moving average method; and

Work in process – cost of direct materials and labor and a proportion of overhead expenses based on a moving average method.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, amortization and impairment losses, if any.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Group. The costs of day-to-day servicing of asset are recognized as an expense in the period in which they are incurred.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the property and equipment. Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the lease, whichever is shorter. The estimated useful lives are 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

The useful lives and depreciation and amortization method are reviewed at each reporting date to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposed, the cost and accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss arising from the retirement and disposal is recognized in profit or loss.

Intangible Assets

Intangible assets represent 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 consideration given to acquire an asset at the time of its acquisitions or production.

Cost associated with research activities are expensed in profit or loss as incurred. Costs that are directly attributable to the development phase of new Content Addressable Memory (CAM) products are recognized as intangible assets 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. Amortization commences upon completion of the asset and will be computed using the straight line method over the estimated useful life of the asset.

All other development costs are expensed as incurred.

Revenue and Cost Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

- a. Sale of goods - revenue is recognized when the risk and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.
- b. Interest is recognized in profit or loss 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 Group for goods supplied and services provided, excluding trade discounts.

Costs and expenses are recognized in profit or loss upon receipt of goods and utilization of service as of that date they incurred.

Finance Income and Finance Cost

Finance income comprises interest income and foreign currency gains.

Finance cost mainly comprises interest expense on loans and borrowings, impairment losses on financial assets and foreign currency losses.

Operating Lease Payments

Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Lease incentives received, if any, are recognized as an integral

part of the total lease expense, over the term of the lease.

Foreign Currency Transactions and Translations

The accounting records are maintained in both U.S. dollar and Philippine peso. Foreign currency transactions during the year are translated into the functional currency rate 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 end of exchange rates of monetary assets and liabilities denominated in foreign currencies are taken to profit or loss.

In translating the financial statement from functional currency to presentation currency, the denominated assets and liabilities are translated using the closing rate at each reporting date while income and expenses presented in profit or loss are translated using the average exchange rate for the year. All resulting exchange differences are recognized under the foreign currency translation difference account in other comprehensive income and in equity as part of translation reserves.

Related Parties

Related party relationships exist when one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities, which are under common control with the reporting entity, or between, and/or among the reporting entity and its key management personnel, directors, or its stockholders.

Employee Benefits

Retirement benefit Obligation

Pension benefits are provided to employee 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 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 Group's net obligation in respect to its retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets deducted. The calculation is performed by qualified actuary using the projected unit credit method.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in the profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the profit or loss.

In respect of actuarial gains and losses to the extent that any cumulative unrecognized actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognized in profit or loss over the expected average working lives of the employees. Otherwise, the actuarial gain or loss is not recognized.

Post-employment Benefit - Defined Contribution

A defined contribution plan is 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 plan are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

Termination Benefit

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

Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the reporting date. They are included in the accounts payable and accrued expenses account in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Income Taxes

Income tax expense comprises current and deferred tax and is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, or in other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and the carry forward tax benefits of the net operating loss carryover (NOLCO) and minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred income tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Provisions and Contingencies

Provision are recognized if, as a result of a past event, the Group has a present legal or

constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

Events After the Reporting Date

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

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 issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Fair value reserve comprises the cumulative net change in the fair value of available-for-sale investments until such investments are derecognized or impaired.

Translation reserve in the Philippine peso consolidated financial statements includes all exchange differences resulting from the translation of consolidated financial statements from functional currency to presentation currency.

Deficit includes all current and prior period results of operations recognized in profit or loss.

Earnings Per Share

Basic earnings per share is computed by dividing net earnings (losses) 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 (loss) per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. The Group does not have dilutive potential shares outstanding that would require disclosure of diluted earnings per share in the consolidated statement of comprehensive income.

4. Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables

The fair value of trade and other receivables are estimated as the present value of future

cash flows, discounted at the market rate of interest at the reporting date.

Available-for-sale-investments

The fair value of available-for-sale investments in shares of stock are based on the quoted price from the Philippine Stocks Exchange at the reporting date.

Non-derivative financial liabilities

The fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5. Segment Reporting

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

	In U. S. Dollars		In Philippine Pesos	
	Sept. 30, 2010	Audited Dec. 31, 2009	Sept. 30, 2010	Audited Dec. 31, 2009
Total assets				
MSI	\$2,174,217	\$2,284,385	P95,493,785	P105,894,951
MSPI	5,158,448	5,074,161	226,564,195	235,217,807
Total liabilities				
MSI	1,351,206	1,614,820	59,346,319	74,856,596
MSPI	1,576,006	1,241,986	69,219,760	57,573,503

	In U. S. Dollars			In Philippine Pesos		
	Nine months ended:			Nine months ended:		
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Net sales						
MSI	\$648,115	\$635,796	\$1,848,978	P29,548,211	P30,471,795	P 79,790,797
MSPI	132,834	138,954	542,655	6,056,035	6,659,648	23,417,734
Operating profit (loss)						
MSI	215,544	288,291	713,189	9,826,867	13,816,923	30,776,958
MSPI	(199,202)	(515,782)	(334,811)	(9,081,818)	(24,719,884)	(14,448,434)
Net income (loss)						
MSI	153,447	479,102	389,281	6,995,802	22,961,922	16,799,032
MSPI	(249,734)	(320,420)	259,858	(11,385,623)	(15,356,769)	11,213,912

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

	In U. S. Dollars			In Philippine Pesos		
	Nine months ended:			Nine months ended:		
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
North America	\$234,164	\$246,927	\$874,905	P10,675,771	P11,834,470	P37,755,651
Asia	311,462	209,307	739,594	14,199,864	10,031,457	31,916,439
Europe	102,489	179,562	234,479	4,672,576	8,605,868	10,118,707
	\$648,115	\$635,796	\$1,848,978	P29,548,211	P30,471,795	P79,790,797

6. Receivables

This account consists of:

	Note	In U. S. Dollars		In Philippine Pesos	
		Sept.30, 2010	Audited Dec 31, 2009	Sept. 30, 2010	Audited Dec 31, 2009
Current portion:					
Trade		\$124,501	\$112,609	P5,468,208	P5,220,123
Loans		58,369	55,303	2,563,626	2,563,626
Advances to officers and employees		746	133,136	32,765	6,171,652
Other receivables from:					
Lodestar Investment Holding Corporation	9	227,681	215,722	10,000,000	10,000,000
Vickers		-	14,202	-	658,332
Others		34,972	25,537	1,536,004	1,183,802
		446,269	556,509	19,600,603	25,797,535
Less: Allowance for impairment of receivables on:					
Trade		(25,080)	(25,080)	(1,101,539)	(1,162,608)
Advances to officers and employees		-	(117,632)	-	(5,452,949)
Lodestar	9	(11,384)	(10,786)	(500,000)	(500,000)
Vickers		-	(13,249)	-	(614,171)
Others		(28,588)	(19,785)	(1,255,634)	(917,155)
		(65,052)	(186,532)	(2,857,173)	(8,646,883)
Net current portion		\$381,217	\$369,977	P16,743,430	P17,150,652
Noncurrent portion:					
Loans		\$233,478	\$221,214	P10,254,598	P10,254,598

Loans Receivables

Loans receivables pertain to interest-bearing loans to eligible employees and directors in connection to the duly approved Stock Purchase Plan payable over a period of five years (see Note 14). The process of getting the subject shares sold under the stock purchase plan listed in the PSE is yet to be done and once the said shares are listed, the loan repayment will begin.

Impairment

All of the Group's receivables have been reviewed for indicators of impairment. Certain receivables were found to be impaired and losses have been recognized accordingly. The reconciliation of the allowance for impairment of receivables at the beginning and end of 2010 and 2009 is shown below.

		In U. S. Dollars		In Philippine Pesos	
		Sept. 30, 2010	Audited Dec 31, 2009	Sept. 30, 2010	Audited Dec 31, 2009
Balance at beginning of period		\$ 186,532	\$217,332	P8,646,883	P10,320,010
Impairment loss	20	9,743	5,494	444,193	261,718
Reversal of provision for returns		-	(32,730)	-	(1,559,159)
Reclassification from allowance for impairment of prepayments	9	-	10,786	-	500,000
Write-off		-	(16,522)	-	(765,910)
Reversal of allowance on written off receivables		(136,378)	-	(6,217,609)	
Effects of exchange rates		5,155	2,172	(16,294)	(109,776)
Balance at end of period		\$65,052	\$186,532	P 2,857,173	P8,646,883

Allowance for impairment on receivables is based on Group's 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 (P1.3 million). On January 29, 2009, the Group finalized the term 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 finance costs in the 2008 profit or loss.

7. Inventories

The components of inventories are as follows:

	In U. S. Dollars		In Philippine Pesos	
	Sept. 30, 2010	Audited Dec 31, 2009	Sept. 30, 2010	Audited Dec 31, 2009
Finished goods	\$574,047	\$602,839	P25,212,719	P27,945,205
Work-in-process	7,564	841	332,218	38,985
Raw materials	563,456	570,743	24,747,551	26,457,363
	\$1,145,067	\$1,174,423	P50,292,488	P54,441,553

The movements in the allowance to write-down inventories to NRV for 2009 are as follows:

	In U. S. Dollars		In Philippine Pesos	
	Sept. 30, 2010	Audited Dec 31, 2009	Sept. 30, 2010	Audited Dec 31, 2009
Balance at beginning of period	\$ -	\$1,298,179	P -	P61,644,030
Reversals	-	(611,745)	-	(29,141,697)
Write-off of finished goods	-	(401,592)	-	(19,130,638)
Write-off of work-in-process	-	(115,781)	-	(5,515,459)
Write-off of raw materials	-	(169,061)	-	(8,053,559)
Effects of exchange rates	-	-	-	197,323
Balance at end of period	\$ -	\$ -	P -	P -

The downturn of the market in the worldwide semiconductor and electronics industries resulted in the significant reduction of new orders and cancellation of placed orders in late 2008. As a result, inventories were written down to NRV for such products identified to be cancelled orders, non-moving and slow moving products and recognized a loss on inventory write-down amounting to \$1,298,179 (P57.7 million), which was presented as part of "other income (expense)" account in 2008 profit or loss.

In 2009, the Group reversed the portion of allowance to write-down inventories to NRV amounting to \$611,745 or (P29.1 million) since management has established that the said inventories are saleable for these are to be used for future production of new product (HARRP) wherein samples are introduced in the market. The remaining balance of allowance for inventories determined to be non-produceable or non-saleable amounting to \$686,434 (P32.7 million) was written off.

As of September 30, 2010 and December 31, 2009, the carrying amount of inventories stated at net realizable value amounted to \$1,145,067 (P50.3 million) and \$1,174,423 (P54.4 million), respectively.

8. Available-for-Sale Investments

Movements in this account are summarized as follows:

	In US Dollar		In Philippine Peso	
	Sept. 30, 2010	Audited Dec 31, 2009	Sept. 30, 2010	Audited Dec 31, 2009
Balance at beginning of period	\$1,113,604	\$349,090	P51,622,227	P16,576,539
Additions	87,026	1,666,963	3,987,450	79,935,600
Disposal	-	(1,224,157)	-	(58,974,500)
Fair value reserve – net	(333,125)	321,708	(15,844,680)	15,340,000
Effect of exchange rates	-	-	(1,663,310)	(1,255,412)
Balance at end of period	\$867,505	\$1,113,604	P38,101,687	P51,622,227

This account is composed of the following equity securities:

	In US Dollars		In Philippines Peso	
	Sept. 30, 2010	Audited Dec 31, 2009	Sept. 30, 2010	Audited Dec 31, 2009
Cost				
Investment in ATN Holdings Inc.	\$878,922	\$791,896	P41,747,450	P37,760,000
Fair value reserve – net	(11,417)	321,708	(504,680)	15,340,000
Effect of exchange rates	-	-	(3,141,083)	(1,477,773)
	\$867,505	\$1,113,604	P38,101,687	P51,622,227

In October 2008, the Group acquired about 13% (5.4 million shares) of the outstanding shares of stock of Lodestar, with shares listed in the Philippine Stock Exchange (PSE) amounting to \$790,385 (P38.0 million). On July 9, 2009, the Group sold the investment in the amount of \$890,153 (P42.8 million) and recognized a gain on disposal amounting to \$99,768 (P4.8 million).

Also on July 9, 2009, the Group acquired shares of stock of Abacus, with shares listed in the PSE amounting to \$875,067 (P42.1 million) and was subsequently sold in the same year for \$811,659 (P39.1 million), resulting to a loss on disposal amounting to \$63,408 (P3 million), which is reported as part of other income (expense) in the 2009 profit or loss.

The AFS investment as of September 30, 2010 pertains to investment in shares of stock of ATN Holdings, Inc. of 5.09 million shares which is equivalent to 2.54% interest.

The fair values of AFS investments have been determined directly by reference to quoted market price from the PSE as of September 30, 2010 and 2009.

9. Prepayments and Other Current Assets

This account consists of:

	In U. S. Dollars		In Philippine Pesos	
	Sept. 30, 2010	Audited Dec 31, 2009	Sept. 30, 2010	Audited Dec 31, 2009
Advances to S3	\$ -	\$31,761	P -	P1,472,312
Others	26,724	17,927	1,173,746	831,025
	\$26,724	\$49,688	P1,173,746	P2,303,337

The movements in impairment losses are as follows:

	In US Dollars		In Philippine Peso	
	Sept. 30, 2010	Audited Dec 31, 2009	Sept. 30, 2010	Audited Dec 31, 2009
Balance at beginning of period	\$ -	\$166,667	P -	P7,914,182
Reversal	-	(156,317)	-	(6,500,000)
Reclassified to receivables from Lodestar	-	(10,350)	-	(500,000)
Effects of exchange rate	-	-	-	(914,182)
Balance at end of period	\$ -	\$ -	P -	P -

Advances to and Deposit with S3

On February 5, 2008, the Company and Silicon and Software Systems Limited (S3) entered into an agreement whereby S3 will develop a CAM integrated Circuit (IC) for the Group's FlexCAM products. Under the agreement, the Company is required to deposit sum of €100,000 (\$139,510) (P6.6 million) with S3.

In 2009, an addendum to the agreement was made wherein: the Group shall pay to S3 the amount of €201,088 in two equal installments of €100,544 (\$144,469) (P6.9 million) upon the successful completion of the design review and database walkthrough on November 6, 2009. In addition, commencing January 1, 2012 and terminating on December 31, 2014, the Group shall pay to S3 a royalty fee of 5% of the Group's total gross profit arising from the S3 designed FlexCAM products on a quarterly basis.

As a result, the deposit made by the Company of €100,000 (\$139,510) (P6.6 million) in 2008 was applied against actual billings from S3 totaling €178,440 (\$256,418) (P12.3 million) on December 2, 2009. The Group made another payment on the same date amounting to €100,544 (\$144,469) (P6.9 million) of which the excess of payments over billings amounting to €22,104 (\$31,761) (P1.5 million) is presented as "Advances to S3".

Deposit with Abacus

On September 24, 2008, the Company and Lodestar entered into a Heads of Agreement with Abacus Consolidated Resources Holding, Inc. (Abacus) to co-invest for the 100% acquisition of the outstanding shares of stocks of Abacus Coal Exploration Development Corporation [(Abacoal), a wholly-owned subsidiary of Abacus, together with its assets and Coal Operating Contract (Coal Property) issued by the Department of Energy. Relative to this planned acquisition, the Company made a good-faith deposit with Abacus amounting to \$315,889 (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 will be refunded. In addition, the Company provided advances to its technical service contractor amounting to \$166,667 (P7.0 million). In 2008, the Company assessed that its advances to the technical service contractor was fully impaired.

On May 21, 2009, an amendment to the Heads of Agreement was made between the Company and Lodestar wherein the Company assigns its right to Lodestar to acquire its equity interest in Abacoal and the Coal Property, thus, giving the latter the right to acquire 100% of interest in exchange for certain considerations as stipulated in the agreement. As a result, by way of reimbursements of payment already made by the Company, Loadstar refunded the amount of \$267,270 (P12 million) which includes reimbursement on the advances made to technical service contractors amounting to

\$156,317 (P6.5 million) and considering that it is already fully impaired, the amount was recognized as income from reversal of allowance for impairment loss in profit or loss. As a result, the balance of deposits with Abacus and service contractor totaling \$221,141 (P10 million), which includes the balance of allowance for impairment loss amounting to \$11,057 (P.5 million) were reclassified to receivable from Lodestar as part of Receivable – Others (see note 6). It is scheduled to be paid on June 30, 2010 and was extended up to December 31, 2010.

10. Property and Equipment

As of September 30, 2010, a preliminary testing program was done by UTAC amounted to \$25,501 (P1.1 million) and booked under property and equipment. It will be used to test and ship new CAM products.

Write-off of Property and Equipment

In 2008, the Group wrote-off the remaining carrying amount of its property and equipment totaling to \$26,958 (P1,198,957), since these assets will no longer be used by the Group as it fully outsourced to third party its manufacturing operations effective January 2009 (see Note 1).

Depreciation and Amortization

The amount of depreciation and amortization is allocated in profit or loss as follows:

	<i>Note</i>	In U. S. Dollars			In Philippine Pesos		
		Nine months ended:			Nine months ended:		
		Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Cost of goods sold	16	\$ -	\$ -	\$ 10,267	P -	P -	P443,062
Other operating expenses	17	-	-	5,988	-	-	258,407
		\$ -	\$ -	\$ 16,255	P -	P -	P701,469

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 September 30, 2010, are still under development.

The movement in this account is presented below.

	In U. S. Dollars		In Philippine Pesos	
	Sept. 30, 2010	Audited Dec 31, 2009	Sept. 30, 2010	Audited Dec 31, 2009
Balance, beginning	\$3,930,230	\$2,899,864	P182,189,742	P137,700,042
Additions	391,945	1,030,366	17,214,615	47,763,646
Effects of exchange rates	-	-	(9,570,109)	(3,273,946)
Balance, ending	\$4,322,175	\$3,930,230	P189,834,248	P182,189,742

Intangible asset is subject to periodic impairment testing whenever there is an indication of impairment. No impairment losses were recognized in 2010, 2009 and 2008 as the estimated recoverable amount of the intangible asset is higher than its carrying value. Management intends to perform the next periodic testing within the 4th quarter 2010.

12. Accounts Payable and Accrued Expenses

This account consists of:

	Note	In U.S. Dollars		In Philippine Pesos	
		Sept. 30, 2010	Audited Dec 31, 2009	Sept. 30, 2010	Audited Dec 31, 2009
Accrued salaries and employee benefits	22	\$453,230	\$286,482	P19,906,315	P13,280,160
Trade		70,643	168,126	3,102,711	7,793,649
Accrued outside services		94,505	75,938	4,150,755	3,520,182
Accrued taxes and licenses		20,771	11,813	912,283	547,603
Accrued director's fee		3,825	2,380	167,998	110,327
Accrued interest		1,502	613	65,969	28,416
Accrued commission		17,997	6,063	790,446	281,056
Accrued and other liabilities		96,957	16,935	4,258,448	785,040
		\$759,430	\$568,350	P33,354,925	P26,346,433

Accrued and other liabilities include accrual of professional services, communication expenses, research and development expenses and other operating expenses.

13. Interest-Bearing Loans and Borrowings

This account consists of:

	In U. S. Dollars		In Philippine Pesos	
	Sept. 30, 2010	Audited Dec 31, 2009	Sept. 30, 2010	Audited Dec 31, 2009
Bank loans	\$61,000	\$67,512	P2,679,181	P3,129,586
Others	65,075	53,930	2,858,159	2,499,979
	\$126,075	\$121,442	P5,537,340	P5,629,565

Bank Loans

Bank loans represent U.S. dollar loans from a local bank.

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 \$23,103 and \$44,409, respectively. These loans, which are last renewed on December 7, 2009, due and payable not later than July 28, 2010, bear annual interest ranging from 6% to 6.5%. It was renewed and to be paid based on agreed terms. Loans outstanding as of September 30, 2010 and 2009 amounted to \$61,000 (P2.7 million) and \$67,512 (P3.1 million), respectively.

Finance Costs

Interest incurred on all bank loans and borrowings amounted to \$5,390 (P246 thousand), \$8,197 (P393 thousand) and \$39,016 (P1.7 million) in September 30, 2010, September 30, 2009 and September 30, 2008 respectively, and are shown as part of finance costs in profit or loss (see Note 20).

14. Stock Purchase Plan

On December 6, 2007, the Company's stockholders ratified the October 26, 2007 Board resolution approving the 2007 Purchase Plan. The Purchase Plan was established to promote the interests of the Group by providing a mechanism whereby its employees and

BOD (the Eligible Members) may borrow money from the Group for the express purpose of acquiring up to 10% of the total issued shares of the Group or about 123.2 million shares at prevailing market price. Under the stock purchase plan, the Group will grant interest bearing loans to the eligible members payable over five years. 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 Group filed the Purchase Plan with the SEC on April 14, 2008 and was approved 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

This account is composed of the following:

	Note	In U.S. Dollars		In Philippine Pesos	
		Sept. 30, 2010	Audited Dec 31, 2009	Sept. 30, 2010	Audited Dec 31, 2009
Capital stock		\$6,673,446	\$6,673,446	P270,000,000	P270,000,000
Additional paid-in capital		1,122,577	1,123,903	60,259,968	60,321,971
Deficit		(328,096)	(204,204)	(5,952,656)	(304,297)
Reserves:					
Fair value reserve	8	(11,417)	321,708	(504,680)	15,340,000
Translation reserve		(34,023)	(35,699)	2,200,428	19,888,389
		\$7,422,487	\$7,879,154	P326,003,060	P365,246,063

Capital stock consists of:

In U.S. Dollars

	Shares				Amount			
	Nine months ended:			Audited	Nine months ended:			Audited
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Dec. 31, 2009	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Dec. 31, 2009
Common shares - P0.10 per value								
Authorized	5,000,000,000	2,450,000,000	2,450,000,000	5,000,000,000				
Issued and outstanding								
Balance beginning of period	2,700,000,000	2,092,863,046	1,108,370,039	2,092,863,046	\$ 6,673,446	\$ 5,390,253	\$ 3,245,047	\$ 5,390,253
Issued during the period	-	228,420,066	664,447,357	607,136,954	-	477,672	1,479,904	1,283,193
Reclassification during the period	-	128,716,888	-	-	-	267,342	-	-
	2,700,000,000	2,450,000,000	1,772,817,396	2,700,000,000	\$ 6,673,446	\$ 6,135,267	\$ 4,724,951	\$ 6,673,446

In Philippine Pesos

	Shares				Amount			
	Nine months ended:			Audited	Nine months ended:			Audited
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Dec. 31, 2009	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Dec. 31, 2009
Common shares - P0.10 per value								
Authorized	5,000,000,000	2,450,000,000	2,450,000,000	5,000,000,000				
Issued and outstanding								
Balance beginning of period	2,700,000,000	2,092,863,046	1,108,370,039	2,092,863,046	P 270,000,000	P 209,286,305	P110,837,004	P209,286,305
Issued during the period	-	228,420,066	664,447,357	607,136,954	-	22,842,006	66,444,736	60,713,695
Reclassification during the period	-	128,716,888	-	-	-	12,871,689	-	-
	2,700,000,000	2,450,000,000	1,772,817,396	2,700,000,000	P 270,000,000	P 245,000,000	P177,281,740	P270,000,000

On March 17, 2009, the Company cancelled 239 million shares issued in 2008 amounting to P38.2 million. In relation to this, the Company issued additional 367.8 million shares to new shareholders for the same consideration as the cancelled shares.

Equity Restructuring

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

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

Increase in Authorized Capital Stock

On October 26, 2007, the BOD approved that, after the equity restructuring discussed in the preceding paragraphs, 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 amendments of the Company's Articles of Incorporation for this purpose. The shares are issued either through stock rights offering, private placement or a combination of both. The funds raised will be used for the Company's operations and product development. Relative to this, the BOD approved the issuance of 470 million shares of the total increase in authorized capital stock through a private placement. On March 26, 2008, the Company received \$442,216 (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 comply with their commitments under the Investment and Subscription Agreements (ISAs) and asked for the cancellation of their respective ISAs. The Group 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 (P 12.9 million) to capital stock.

The Company received additional stock subscriptions through private placement offerings, out of the un-issued capital stock of the Company in various dates in 2009 and 2008. The following are the summaries 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	P0.16	P18,800,000	\$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
	984,493,007		P157,518,881	\$3,432,330

*Debt to equity conversion.

** Treasury shares.

*** Subscription price was reduced to P0.104 per share on March 17, 2009.

Of the total amount of subscription for each reporting year, recognized additional paid-in capital, net of taxes and other subscription costs is as follows:

	In US Dollars	In Philippine Pesos
2009	\$49,660	P2,384,730
2008	1,228,572	56,340,149
2007	222,325	10,040,023

The decrease in subscription price from P0.16 to P0.104 on the employees purchased shares based on the Stock Purchase Plan resulted to a decrease of additional paid-in capital amounting to \$148,105 (P6,902,125).

Subscription Date	Number of Shares	Share Price	Amount of Subscription	
			In Philippine Pesos	In U.S. Dollars
March 17, 2009	128,716,888	P0.104	P -	\$ -
June 8, 2009	42,307,693	0.104	4,400,000	93,167
June 10, 2009	42,307,693	0.104	4,400,000	93,167
June 16, 2009	143,804,680	0.104	14,955,687	310,445
Oct. 15, 2009	1,000,000,000	0.100	*25,000,000	538,178
	1,357,136,954		P48,755,687	\$1,034,957

*Net of subscription receivable of P75 million.

Of the total amount of subscription in 2009, \$19,106 (P913,680) was recognized as additional paid-in capital. Related taxes and subscription cost charged against additional paid-in capital amounted to \$21,529 (P1,015,610).

On September 25, 2008, the BOD again 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 and by the SEC on October 15, 2009.

During the second quarter of 2009, the Company's Financial Consultant advised MUSX of the options on how to raise the funds out of the increase in share capital. It was

eventually decided on a private placement in the range of one (1) billion shares at P0.10 per share. The Financial Consultant was tasked in assisting the Company to locate investors.

The Company filed the application with SEC for this increase in authorized capital stock on September 22, 2009 and, the same was approved on October 15, 2009. In relation to this, the Company received the amount of \$525,928 (P25 million) on September 9, 2009 representing partial payment to the 1 billion subscribed shares at P0.10 per share through private placement offering.

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. 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). 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. 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 was approved on January 14, 2010.

Treasury Shares

This account represents 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 hence, accounted for as treasury shares in the consolidated financial statements. In 2008, 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 2009, MSPI sold the subject shares to third party; hence, no longer considered as treasury shares in the consolidated financial statements. The net proceeds from the sale amounts to \$198,838 (P9.6 million) resulting to a loss on disposal amounting to \$71,258 (P3.4 million), which is reported as part of additional paid-in capital in the statement of changes in equity.

16. Cost of Goods Sold

The details of this account are as follows:

	Note	In U.S. Dollars			In Philippine Pesos		
		Nine months ended:			Nine months ended:		
		Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Raw materials used	a,16	\$89,203	\$86,587	\$332,895	P4,066,854	P4,149,855	P14,365,751
Salaries and employee benefits	22	700	30,085	180,054	31,914	1,441,884	7,770,050
Manufacturing overhead:							
Outside services		-	7,974	12,641	-	382,170	545,510
Assembly/testing charges	18	33,073	39,459	87,138	1,507,831	1,891,151	3,760,353
Rent	26	2,475	14,955	24,933	112,838	716,748	1,075,959
Utilities		-	11,811	38,104	-	566,066	1,644,340
Freight		3,233	5,299	11,332	147,396	253,965	489,021
Communication		206	3,584	8,755	9,392	171,770	377,813
Operating supplies		3,539	1,864	10,874	161,347	89,336	469,257
Transportation and travel		277	2,213	11,392	12,629	106,062	491,610
Taxes and licenses		931	1,918	893	42,445	91,924	38,537
Repairs and maintenance		-	697	6,171	-	33,405	266,303
Depreciation and amortization	10	-	-	10,267	-	-	443,062
Others		733	4,867	11,459	33,417	233,261	494,502
Total manufacturing costs		44,467	94,641	233,959	2,027,295	4,535,858	10,096,267
Change in finished inventories	7	53,577	21,659	20,045	2,442,628	1,038,052	865,022
Change in work-in-process inventories	7	(6,723)	7,241	(6,981)	(306,508)	347,039	(301,258)
		\$181,224	\$240,213	\$759,972	P 8,262,183	P11,512,688	P32,795,832

a. Raw materials used is computed as follows:

	Note	In U.S. Dollars			In Philippine Pesos		
		Nine months ended:			Nine months ended:		
		Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Raw materials, beginning	7	\$570,743	\$767,879	\$826,527	P26,457,363	P36,462,735	P34,219,044
Add: Purchases		81,916	56,660	294,759	3,734,632	2,715,544	12,720,030
Raw materials available for use		652,659	824,539	1,121,286	30,191,995	39,178,279	46,939,074
Add (deduct):							
Raw materials, written off		-	(169,063)	-	-	(8,102,682)	-
Raw materials, ending	7	(563,456)	(568,889)	(788,391)	(24,747,551)	(27,074,565)	(36,988,941)
Effect of exchange rates		-	-	-	(1,377,590)	148,823	4,415,618
		\$89,203	\$86,587	\$332,895	P4,066,854	P4,149,855	P14,365,751

b. Change in work-in-process (WIP) is computed as follows:

	Note	In U.S. Dollars			In Philippine Pesos		
		Nine months ended:			Nine months ended:		
		Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
WIP, beginning	7	\$ 841	\$133,427	\$169,758	P 38,985	P6,335,781	P7,028,151
WIP, ending	7	(7,564)	(10,407)	(158,635)	(332,218)	(495,290)	(7,442,678)
Change in WIP before write-off		(6,723)	123,020	11,123	(293,233)	5,840,491	(414,527)
WIP, written off / writedown		-	(115,779)	(18,104)	-	(5,548,940)	(781,260)
Effect of exchange rate		-	-	-	(13,275)	55,488	894,530
		(\$ 6,723)	\$7,241	(\$ 6,981)	(P 306,508)	P347,039	(P 301,258)

17. Operating Expenses

The details of this account are as follows:

	Note	In U.S. Dollars			In Philippine Pesos		
		Nine months ended:			Nine months ended:		
		Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Salaries and employee benefits	22	<u>\$398,533</u>	\$535,450	\$582,639	<u>P18,169,518</u>	P25,662,512	P25,143,204
Other operating expenses:							
Outside services		50,437	83,702	69,724	2,299,474	4,011,586	3,008,870
Transportation and travel		3,151	21,261	7,711	143,657	1,018,976	332,760
Taxes and licenses		8,497	22,918	10,370	387,387	1,098,391	447,508
Rent	26	21,724	14,501	3,985	990,419	694,989	171,969
Communication		9,957	10,726	11,525	453,949	514,065	497,350
Asia expenses		1,363	9,564	19,521	62,140	458,374	842,408
Europe expenses		-	7,121	13,955	-	341,288	602,214
Bank charges		6,959	6,895	10,943	317,268	330,457	472,235
Selling expenses		11,935	6,247	33,291	544,129	299,400	1,436,640
Utilities		6,854	2,523	3,326	312,481	120,920	143,530
Office supplies		2,976	3,247	5,637	135,679	155,619	243,259
Repairs and maintenance		465	1,117	300	21,200	53,534	12,946
Depreciation and amortization	10	-	-	5,988	-	-	258,407
Freight		-	-	26	-	-	1,122
Others		6,032	5,303	5,757	275,004	254,157	248,435
		130,350	195,125	202,059	5,942,787	9,351,755	8,719,653
		\$528,883	\$730,575	\$784,698	P24,112,305	P35,014,267	P33,862,857

18. Costs and Expenses By Nature

The details of cost and expenses by nature are shown below:

	Note	In U.S. Dollars			In Philippine Pesos		
		Nine months ended:			Nine months ended:		
		Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Salaries and employee benefits	22	<u>\$399,233</u>	\$565,535	\$762,693	<u>P18,201,432</u>	P27,104,396	P32,913,254
Raw materials and other consumables	16	<u>89,203</u>	86,587	332,895	<u>4,066,854</u>	4,149,855	14,365,751
Manufacturing overhead/operating expenses:							
Outside services		50,437	91,676	82,365	2,299,474	4,393,756	3,554,380
Transportation and travel		3,428	23,474	19,103	156,286	1,125,038	824,370
Taxes and licenses		9,428	24,836	11,263	429,832	1,190,315	486,045
Rent	26	24,199	29,456	28,918	1,103,257	1,411,737	1,247,928
Assembly/testing charges	16	33,073	39,459	87,138	1,507,831	1,891,151	3,760,353
Communication		10,163	14,310	20,280	463,341	685,835	875,163
Utilities		6,854	14,334	41,430	312,481	686,986	1,787,870
Asia expenses		1,363	9,564	19,521	62,140	458,374	842,408
Europe expense		-	7,121	13,955	-	341,288	602,214
Bank charges		6,959	6,895	10,943	317,268	330,457	472,235
Freight		3,233	5,299	11,358	147,396	253,965	490,143
Operating/office supplies		6,515	5,111	16,511	297,026	244,955	712,516
Selling expenses		11,935	6,247	33,291	544,129	299,400	1,436,640
Repairs and maintenance		465	1,814	6,471	21,200	86,939	279,249
Depreciation and amortization	10	-	-	16,255	-	-	701,469
Others		6,765	10,170	17,216	308,421	487,419	742,937
Total manufacturing/operating costs		174,817	289,766	436,018	7,970,082	13,887,613	18,815,920
Change in finished goods inventories	16	53,577	21,659	20,045	2,442,628	1,038,052	865,022
Change in work-in-process inventories	16	(6,723)	7,241	(6,981)	(306,508)	347,039	(301,258)
		\$710,107	\$970,788	\$1,544,670	P32,374,488	P46,526,955	P66,658,689

The costs and expenses are allocated in profit or loss as follows:

	Note	In U.S. Dollars			In Philippine Pesos		
		Nine months ended:			Nine months ended:		
		Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Cost of goods sold	16	\$181,224	\$240,213	\$759,972	P8,262,183	P11,512,688	P32,795,832
Operating expenses	17	528,883	730,575	784,698	24,112,305	35,014,267	33,862,857
		\$710,107	\$970,788	\$1,544,670	P32,374,488	P46,526,955	P66,658,689

19. Reorganization Costs

Reorganization cost 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). The total reorganization costs for the period ended September 30, 2008 amounted to \$32,990 (P1.4 million) and is presented under the other income (expense) account in the profit or loss. No reorganization costs was incurred for the period ended September 30, 2010 and September 30, 2009.

Reorganization costs are recorded as they are incurred.

20. Finance Income (Costs)

This account consists of:

	In U. S. Dollars			In Philippine Pesos		
	Nine months ended:			Nine months ended:		
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Finance income:						
Foreign currency gain - net	\$48,117	\$40,151	\$109,861	P2,193,702	P1,924,317	P4,740,942
Interest income	1,040	1,022	24,187	47,415	48,981	1,043,766
	\$49,157	\$41,173	\$134,048	P2,241,117	P1,973,298	P5,784,708
Finance costs:						
Impairment loss from:						
Receivables	(\$ 9,743)	(\$ 2,660)	(\$ 4,097)	(P 444,193)	(P 127,486)	(P 176,802)
Interest expense from bank loans and other borrowings	(5,390)	(8,197)	(39,016)	(245,736)	(392,858)	(1,683,696)
Foreign currency loss	(40,993)	(32,329)	(91,215)	(1,868,911)	(1,549,431)	(3,936,292)
Others	-	-	(2,596)	-	-	(112,028)
	(\$56,126)	(\$43,186)	(\$136,924)	(P2,558,840)	(P2,069,775)	(P5,908,818)
Finance income (cost)	(\$ 6,969)	(\$ 2,013)	(\$ 2,876)	(P 317,723)	(P 96,477)	(P 124,110)

21. Other Income (Expenses)

This account consists of:

	In U. S. Dollars			In Philippine Pesos		
	Nine months ended:			Nine months ended:		
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Reversal of allowance for inventory write-down / scrappage - net	\$ -	\$608,956	(\$14,316)	P -	P29,185,434	(P617,793)
Income from reversal of accrued expenses	-	21,888	-	-	1,049,026	-
Reversal of Allowance for impairment on prepayment	-	135,939	-	-	6,515,148	-
Gain/Loss on sale of Investment in stock - Lodestar/MUSX	-	28,777	-	-	1,379,195	-
Gain on sale of property and equipment written off	-	31,163	-	-	1,493,549	-
Discount on full payment of loans payable to DB	-	-	300,000	-	-	12,946,200
Income from write-off of provisions and liabilities	36,161	1,226	(72,914)	1,648,616	58,759	(3,146,531)
Others	(8,521)	(137,389)	(90,557)	(388,481)	(6,584,645)	(3,907,896)
	\$27,640	\$690,560	\$122,213	P1,260,135	P33,096,466	P5,273,980

22. Salaries and Employee Benefits

Details of salaries and employee benefits recognized in profit or loss are presented below:

	In U. S. Dollars			In Philippine Pesos		
	Nine months ended:			Nine months ended:		
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Salaries and short-term benefits	\$373,643	\$262,826	\$720,714	P17,034,745	P12,596,462	P31,101,692
Post-employment:						
Defined contribution	-	146,055	-	-	6,999,978	-
Defined benefit	25,590	156,654	41,979	1,166,687	7,507,956	1,811,562
	\$399,233	\$565,535	\$762,693	P18,201,432	P27,104,396	P32,913,254

Post-employment – Defined Contribution

In 2009 and 2008, the Company recognized post-employment benefit under defined contribution for the retirement of its key management personnel, amounting to \$146,945 (P7 million) and \$134,907 (P6 million) respectively. The amount recognized in 2008 was paid in 2009 while the outstanding balance for 2009 and 2010 are recorded as part of accrued salaries and employee benefits account under accounts payable and accrued expenses amounting to \$140,219 (P6.5 million) and \$286,175 (P12.6 million), respectively (see Note 12).

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. The Group uses projected unit credit method of accounting for its retirement plan. Employees with age of 60 years or with 20 years of service, whichever is earlier are qualified for retirement pay of one-and-a-half times the monthly salary per year of service. Due to low headcount, actuarial valuations are usually made every two years to update the retirement benefit costs and the amount of contributions. The latest actuarial valuation was made on March 25, 2009.

The reconciliation of the retirement liability recognized in the statement of financial position is shown below:

	In U.S. Dollars		In Philippine Pesos	
	Sept. 30, 2010	Audited Dec. 31, 2009	Sept. 30, 2010	Audited Dec. 31, 2009
Present value of obligation	\$ 324,524	\$ 404,519	P 14,253,441	P 18,751,884
Fair value of plan assets	(84,946)	(202,085)	(3,730,936)	(9,367,876)
Net present value of obligation	239,578	202,434	10,522,505	9,384,008
Unrecognized actuarial gains(losses)	(41,674)	90,830	(1,830,363)	4,210,538
Retirement liability	\$ 197,904	\$ 293,264	P 8,692,142	P 13,594,546

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

The details of retirement expense recognized in profit or loss which is included as part of salaries and employee benefits account is as follows:

	In U. S. Dollars			In Philippine Pesos		
	Nine months ended:			Nine months ended:		
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Current service cost	\$6,842	\$100,915	\$ 18,612	P311,927	P4,836,561	P803,162
Interest cost	27,609	102,434	32,088	1,258,721	4,909,338	1,384,738
Expected return on plan assets	(6,165)	(23,623)	(7,986)	(281,036)	(1,132,186)	(344,640)
Net actuarial gains recognized	(2,696)	(23,072)	(735)	(122,925)	(1,105,757)	(31,698)
	\$25,590	\$156,654	\$41,979	P1,166,687	P7,507,956	P1,811,562

The retirement expense under salaries and employee benefits is allocated as follows:

	Notes	In U. S. Dollars			In Philippine Pesos		
		Nine months ended:			Nine months ended:		
		Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Cost of goods sold	16	\$ -	\$5,891	\$21,600	P -	P 282,338	P932,126
Operating expenses	17	25,590	150,763	20,379	1,166,687	7,225,618	879,436
		\$25,590	\$156,654	\$41,979	P 1,166,687	P7,507,956	P1,811,562

The plan assets held for funding the retirement benefit obligation do not include the Company's own shares. Actual return on plan assets amounted to \$2,492 \$2,996 and \$5,142 in September 30, 2010, September 30, 2009 and September 30, 2008, respectively.

The principal actuarial assumptions at reporting date are as follows:

	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Discount rate	8%	9%	8%
Expected rate of return on plan assets	3%	3%	3%
Expected rate of salary increases	5%	5%	3%

23. Related Party Transactions

The Group, in the normal course of business has transactions with its related parties which includes key management personnel and stockholder as described below.

Key Management Personnel Compensations

The salary of the Company's president and CEO is paid and shouldered by the Company and the two of its subsidiaries, MSI and MSPI in September 30, 2010, 2009 and 2008.

The compensation of the Group's key management personnel amounted to \$115,875, \$145,932, and \$160,975 for the nine months ended September 30, 2010, September 30, 2009 and September 30, 2008, respectively, representing the salary of the Company's president and CEO and the Board of Director's remunerations.

24. Taxes

Deferred Taxes

The Group did not recognize the net deferred tax assets (DTA) for the Company and MSPI in 2009 and 2008 because management believes that the DTA may not be recoverable. The amount of net DTA as of the end of 2009 and 2008 which have not been recognized are shown below:

In U.S. Dollars	Temporary Differences		DTA	
	2009	2008	2009	2008
Allowance for impairment	\$159,383	\$305,569	\$47,815	\$91,671
Inventory valuation allowance	-	570,557	-	28,528
NOLCO	1,431,385	947,762	429,416	284,328
MCIT	1,309	1,056	1,309	1,056
Retirement obligation	293,264	-	87,979	-
Unrealized foreign currency gain	(498,940)	(491,945)	(149,682)	(147,583)
	\$1,386,401	\$1,332,999	\$416,837	\$258,000

In Philippine Pesos	Temporary Differences		DTA	
	2009	2008	2009	2008
Allowance for impairment	P7,388,362	P14,509,960	P2,216,509	P4,352,988
Inventory valuation allowance	-	27,092,909	-	1,354,645
NOLCO	66,353,304	45,004,457	19,905,992	13,501,337
MCIT	60,649	50,141	60,649	50,141
Retirement obligations	13,594,544	-	4,078,363	-
Unrealized foreign currency gain	(23,128,874)	(23,360,008)	(6,938,662)	(7,008,002)
	P64,267,985	P63,297,459	P19,322,851	P12,251,109

Moreover, there is no tax benefit recognized on the fair value loss on AFS financial assets, presented as Fair Value reserve under Revaluation Reserves in the equity section of the 2009 consolidated statement of financial position, since the Company's AFS financial asset is subject to final tax transaction tax and not to regular income tax.

NOLCO and MCIT

The details of the Company's NOLCO which are available for offsetting against future taxable income as of December 31, 2009 are as follows:

In U.S. Dollars	Original	Expired	Remaining	Valid
Year	Amount	Balance	Balance	Until
2009	\$633,301	\$ -	\$633,301	2012
2008	229,815	-	229,815	2011
2007	630,015	-	630,015	2010
2006	162,999	(162,999)	-	2009
Effects of exchange rate	(51,985)	(9,761)	(61,746)	
	\$1,604,145	(\$172,760)	\$1,431,385	

In Philippine	Original	Expired	Remaining	Valid
Peso	Amount	Balance	Balance	Until
2009	P29,357,323	P -	P29,357,323	2012
2008	10,912,748	-	10,912,748	2011
2007	26,083,233	-	26,083,233	2010
2006	8,008,476	(8,008,476)	-	2009
	P74,361,780	(P8,008,476)	P66,353,304	

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, 2009 are as follows:

In U.S. Dollar

Year	Amount Incurred	Expired	Balance	Valid Until
2009	\$699	\$ -	\$699	2012
2008	70	-	70	2011
2007	583	-	583	2010
2006	461	(461)	-	2009
Effects of exchange rate	(16)	(27)	(43)	
	\$1,797	(\$488)	\$1,309	

In Philippine Peso

Year	Amount Incurred	Expired	Balance	Valid Until
2009	P33,171	P -	P33,171	2012
2008	3,339	-	3,339	2011
2007	24,139	-	24,139	2010
2006	22,663	(22,663)	-	2009
	P83,312	(P22,663)	P60,649	

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, 2009 are as follows:

<u>In U.S. Dollars</u>	Original Amount	Applied Balance	Remaining Balance	Valid Until
Year				
2005	\$457,681	\$ -	\$457,681	2025
2004	574,819	-	574,819	2024
2002	666,301	-	666,301	2022
2001	10,078,155	7,832,594	2,245,561	2021
1998	1,422,438	1,422,438	-	2018
1995	687,091	687,091	-	2015
	13,886,485	\$9,942,123	\$3,944,362	

<u>In Philippine Peso</u>	Original Amount	Applied Balance	Remaining Balance	Valid Until
Year				
2005	P21,216,260	P -	P21,216,260	2025
2004	26,646,310	-	26,646,310	2024
2002	30,887,049	-	30,887,049	2022
2001	467,182,953	363,087,727	104,095,226	2021
1998	65,938,536	65,938,536	-	2018
1995	31,850,790	31,850,790	-	2015
	P643,721,898	P460,877,053	P182,844,845	

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 MSI to utilize the NOL. Total NOL utilized by MSI for the year 2009 and 2008 amounted to \$202,687 (P9,663,976) and \$282,936 (P13,435,216) .

The deferred tax assets of MSI as of September 30, 2010 and 2009 amounted to \$1,495,475 (P65,682,757) and \$1,577,745 (P73,137,947) respectively.

New tax Regulations

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

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

In 2009, the Group opted to continue claiming itemized standard deductions.

Registration with the Philippine Economic Zone Authority (PEZA)

Starting January 1, 2002 up to July 22, 2009, MSPI was registered with PEZA under Omnibus Investment Code of 1987 and RA No. 7916 as a registered non-pioneer manufacturing enterprise which 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, and regular corporate income tax (RCIT) rate at the rate of 30% on taxable income or MCIT at the rate of 2% on gross income from income outside the registered operating activities.

Effective July 23, 2009, the Company was re-registered with PEZA as an “Ecozone Logistic Service Enterprise” which is subject to RCIT and MCIT whichever is higher.

25. Earnings (Loss) Per Share

Earnings (Loss) per share was computed as follows:

	In U.S. Dollars				In Philippine Pesos			
	Nine months ended:			Audited	Nine months ended:			Audited
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Dec. 31, 2009	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Dec. 31, 2009
Net income (Loss)	(\$123,892)	\$234,388	\$372,488	\$118,189	(P 5,648,359)	P 11,233,512	P 16,074,349	P 5,630,170
Divided by weighted average of shares outstanding	<u>3,450,000,000</u>	<u>2,116,498,667</u>	<u>1,283,189,149</u>	<u>2,527,339,209</u>	<u>3,450,000,000</u>	<u>2,116,498,667</u>	<u>1,283,189,149</u>	<u>2,527,339,209</u>
	<u>(\$ 0.000036)</u>	<u>\$ 0.000100</u>	<u>\$ 0.000300</u>	<u>\$ 0.000050</u>	<u>(P 0.001637)</u>	<u>P 0.005300</u>	<u>P 0.012500</u>	<u>P 0.002200</u>

The weighted average number of shares outstanding as of September 30, 2010 is computed as follows:

	Number of shares	Months outstanding	Weighted no. of shares
Beginning balance	2,092,863,046	12	25,114,356,552
Issuance on March 17, 2009	128,716,888	9.45	1,216,374,592
Issuance on June 8, 2009	42,307,693	6.73	284,730,774
Issuance on June 10, 2009	42,307,693	6.67	282,192,312
Issuance on June 16, 2009	143,804,680	6.47	930,416,280
Issuance on October 15, 2009	1,000,000,000	2.5	2,500,000,000
Total	3,450,000,000		30,328,070,510
Divided by total months as of December 31, 2009			12
Weighted average number of shares outstanding			2,527,339,209
Beginning balance	3,450,000,000	9	31,050,000,000
Divided by total months as of September 30, 2010			9
Weighted average number of shares outstanding			3,450,000,000

Diluted earning (loss) per share is not determined since the Group does not have potential dilutive common shares as of September 30, 2010, September 30, 2009 and September 30, 2008.

26. Commitments and Contingencies

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

The Group has the following operating lease commitments:

- The Group operated principally in 2008 on its previous leased land in Calamba, Laguna for a lease agreement commencing in July 2004, which was renewed in August 2006 and was further extended up to March 2009. This was not renewed thereafter.
- On May 29, 2009, the Group entered into a lease agreement with a new lessor for its lease office space in Ayala-Alabang, Muntinlupa City, for a period of two (2) years commencing on July 1, 2009 up to June 30, 2011.
- On September 30, 2009, the Group also entered into a sub-lease agreement with another lessor for warehousing of its inventories starting August 1, 2009, renewable upon mutual consent of the parties.

Total rent expense from these operating leases is recognized in profit or loss as follows:

	Note	In U.S. Dollars			In Philippine Pesos		
		Nine months ended:			Nine months ended:		
		Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008
Cost of goods sold	16	\$2,475	\$14,955	\$24,933	P112,838	P716,748	P1,075,959
Operating expenses	17	21,724	14,501	3,985	990,419	694,989	171,969
	18	\$24,199	\$29,456	\$28,918	P1,103,257	1,411,737	1,247,928

The future minimum non-cancelable lease commitments payable are as follows:

	In U. S. Dollars		In Philippine Pesos	
	Sept. 30, 2010	Dec. 31, 2009	Sept. 30, 2010	Dec. 31, 2009
Less than one year	\$23,185	\$27,902	P1,018,275	P1,293,425
Between 2 and 3 years	-	13,959	-	647,083
	\$23,185	\$41,861	P1,018,275	P1,940,508

Other operating lease cover office equipment.

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.

27. Risk Management Objectives and Policies

The Group is exposed to a variety of financial risk which results 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.

Foreign Currency Sensitivity

The Group operates internationally and is exposed to foreign currency risk 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.

Interest Rate Sensitivity

The Group's policy is to minimize interest rate cash flow risk exposure on long-term financing. At September 30, 2010 and 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 Note 13).

Market Risk

The Group's market price risk arises from its investments carried at fair value as of September 30, 2010 (available-for-sale investment). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

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.

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.

28. Capital Management Policies and Procedures

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

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

The Group monitors capital on the basis of the carrying amount of equity and interest-bearing loans and borrowings. The Group's debt-to-equity ratio for the year ended September 30, 2010 and 2009 is summarized below.

	In U.S. Dollars		In Philippine Pesos	
	Sept. 30, 2010	Dec. 31, 2009	Sept. 30, 2010	Dec. 31, 2009
Debt	\$126,075	\$121,442	P5,537,340	P5,629,565
Total equity	7,422,487	7,879,154	326,003,060	365,246,063
Debt-to-equity ratio	0.02:1	0.02:1	0.02:1	0.02:1

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 2010 totaled P9.63 million, an increase of 29.6% over the same period of 2009, but a decrease from the 2nd quarter 2010 level of P10.0 million. The decrease was entirely due to certain shipments to customers being held for slow payment reasons. Customer sentiment remains very soft as economic indicators are cloudy about future growth potentials. Reports of Networking companies such as Cisco, missing their target sales, is not a good sign. We remain cautious on any further growth this year, as market sentiment is clearly averse to taking any kind of inventory risk.

Gross profit in the 3rd quarter 2010 was P6.9 million, equal to 72% of sales. This result was due to a weighted mix of higher margin products and successful overhead cost containment when compared to prior years. The Company will continue to maintain pressure on overhead as well as direct material costs, in efforts to further lower costs.

Operating expenses in 3rd quarter 2010 totaled P7.1 million, some P3.2 million lower than the level of Q2 2010. Management continues to focus on Operating expense optimization as a way to offset any impact of further sales revenue tightness during the upcoming quarters.

As a result of the above, loss from operations in the 3rd quarter 2010 was P0.2 million. This compares to a profit in Q1 2010 of P0.3 million. Net Other Income and Expense for 3rd quarter 2010 was an income of P0.8 million.

As a result of the above, net profit before tax for 3rd quarter 2010 was P0.6 million.

Causes of Material Changes in Balance Sheet accounts

Total assets at September 30th 2010 were P374 million, a decline of P37 million from the level at December 31st 2009. This reduction occurred in the level of the current assets, and particularly in cash (P19 million reduction), available-for-sale investments (P14 million reduction), and inventory (P4 million reduction).

Total liabilities at September 30th 2010 increased slightly to P47.6 million from P45.6 million at Dec.31st 2009.

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

Revenue levels meet or exceed \$5.0 million per year

This minimum requirement challenge remains difficult given the state of the economies of the USA and the EEC, and the inability to-date of the company to raise further funds to put the FlexHARRP product into the market. The partial spin-out of the semicon business as disclosed in the November 11th 2010 disclosure will enable Management to begin to implement those actions necessary to grow the business, initially up to these minimal levels.

Timely and efficient fund raising for New Products

Funding the production of the FlexHARRP product remains critical for the future growth potential of the Company.

Key Performance Indicators

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

	Q3 2010	Q3 2009
Revenue Growth % - in units	6%	(13%)
Number of new design wins	2	1
New geographic markets entered	2	0
New applications for MUSIC products	0	0
Selling price reduction - %	(3%)	(1%)

For 2010 and beyond, the Company will continue to intensify its efforts to increase the number of new design wins, new geographic markets, and new applications for MUSIC products, using its new website (www.musicsemi.com) and sales promotions.

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:

A handwritten signature in black ink, appearing to be 'Michael Burton', written over a horizontal line.

MICHAEL BURTON
President
12 Nov 2010

MUSIC SEMICONDUCTORS INC.
A/R Aged Trial Balance by Due Date

Account Type [All Customers]
Age Transactions As Of [09/30/2010]
Cutoff By Year/Period [09] [2010]
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 Name/	Currency	Current	1 To 30 Days	31 To 60 Days	61 To 90 Days	Over 90 Days	Total
APTECH	USD	4,421	-	-	-	-	4,421
DONGGUAN CELESTICA ELECTRONICS	USD	1,075	1,501	-	-	-	2,576
CISCO SYSTEMS INTERNATIONAL BV	USD	-	5,508	-	-	-	5,508
FLEXTRONICS AMERICA, LLC	USD	-	13,770	-	-	-	13,770
FLEXTRONICS INTERNATIONAL EUROPE B.V. STH	USD	4,675	-	-	-	-	4,675
FLEXTRONICS TECH (SHANGHAI)	USD	-	3,226	4,838	-	-	8,064
FOCUS EDL	USD	-	-	-	-	390	390
INTRAROM S.A.	USD	-	-	-	46	2,365	2,411
JABIL CIRCUIT SDN. BHD.	USD	-	2,808	-	2,880	-	5,688
MI COMMUNICATIONS PTE LTD	USD	11,585	-	-	-	-	11,585
NORTEL	USD	-	-	-	-	25,080	25,080
PLEXUS MANUFACTURING SDN. BLVD	USD	538	1,075	1,613	1,075	-	4,301
PLEXUS SERVICES CORP.	USD	-	-	-	2,688	(12,093)	(9,405)
SANMINA-SCI SINGAPORE PTE. LTD	USD	34,395	-	-	-	375	34,770
SEGTEC	USD	-	4,050	1,350	-	1,350	6,750
NOKIA SIEMENS NETWORKS GMBH	USD	-	-	3,917	-	-	3,917
Report Total		56,689	31,938	11,718	6,689	17,467	124,501
Forex Rate: \$1:P43.921		2,489,837	1,402,749	514,666	293,788	767,168	5,468,208