SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) of THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 333-11528

PSi TECHNOLOGIES HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

REPUBLIC OF THE PHILIPPINES

(Jurisdiction of incorporation or organization)

Electronics Avenue,
FTI Industrial Complex,
Taguig, Metro Manila 1604, Philippines

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

None

Securities registered or to be registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Securities Exchange Act of 1934:

None

Number of outstanding shares of each of the Registrant's classes of capital or common stock as of December 31, 2000, the close of the period covered by the annual report:

Common shares of nominal value PHP $1^2/_3$ per share. 13,289,525

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☒

TABLE OF CONTENTS

All amounts listed in this annual report are stated in U.S. dollars, unless otherwise noted. Any discrepancy between the amounts listed and their totals in the tables included in this annual report are due to rounding.

In this annual report, we rely on and refer to information regarding the semiconductor market and our competitors that has been prepared by independent industry research firms, including Dataquest and the Semiconductor Industry Association, or compiled from market research reports and other publicly available information. We have not independently verified the accuracy and completeness of this information.

This annual report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements include statements about the following:

- the state of the semiconductor industry;
- demand for end-use applications;
- demand for end-use products such as communications equipment and personal computers;
- demand for the outsourcing of assembly and test services;
- trends in customer order, rescheduling and cancellation patterns;
- our product mix;
- our capacity utilization;
- our competition;
- pricing pressures;
- technological innovation; and
- acquisition and installation of new equipment.

You may find these statements under "Item 3–Key Information–Risk Factors" or "Item 4–Information on the Company," or by the use of forward-looking words such as "believe," "expect," "anticipate," "estimate," "plan," "project," "may," "will" or other similar words. We have based these forward-looking statements on our own information and on information from other sources that we believe are reliable. Our actual results may differ materially from those expressed or implied by these forward-looking statements as a result of the risk factors described elsewhere and other factors noted throughout this annual report. Given this level of uncertainty, you should not place undue reliance on the forward-looking statements included in this annual report.

.

PART I

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3 KEY INFORMATION

A. Selected Financial Data

You should read the following selected consolidated financial data in conjunction with "Item 5—Operating and Financial Review and Prospects" and our consolidated financial statements and related notes included elsewhere in this annual report. The summary consolidated statements of income data and summary consolidated balance sheet data in the table below as of and for the years ended December 31, 1996, 1997, 1998, 1999 and 2000 have been derived from our consolidated financial statements, which have been audited by Arthur Andersen, independent accountants. Our consolidated financial statements have been prepared and presented in accordance with U.S. GAAP.

	Year ended December 31,					Three months ended March 31,	
	1996	1997	1998	1999	2000	2000	2001
	(thousands of dollars, except per share data)						
Consolidated Statements of Income Data:							
Revenues	27,696	33,640	34,515	50,333	73,671	16,250	16,868
Cost of goods sold	22,754	26,959	27,135	39,836	59,382	12,760	14,463
Gross profit	4,942	6,681	7,380	10,497	14,289	3,490	2,405
General and administrative	2,140	2,311	2,763	3,302	5,178	968	1,535
Sales and marketing	449	380	499	869	850	215	214
Research and development	—	—	—	—	948	95	171
Income from operations	2,353	3,990	4,118	6,326	7,313	2,211	484
Interest and bank charges	(1,088)	(1,398)	(1,634)	(960)	681	(394)	123
Foreign exchange gains	(198)	(1,084)	(574)	(679)	739	(3)	94
Management fee	(77)	(68)	(142)	(194)	—	—	—
Equity in net loss of an investee	—	—	—	(4)	(3)	—	—
Income before income tax and minority interest	990	1,440	1,768	4,489	8,730	1,814	700
Provision for income tax-current	—	—	115	607	694	176	70
Provision for (benefit from) income tax-deferred	476	88	14	625	54	18	—
Income before minority interest	514	1,352	1,639	3,257	7,982	1,620	630
Minority interest	—	—	—	14	120	(7)	33
Net income	514	1,352	1,639	3,271	8,102	1,613	663
Weighted average number of common shares outstanding (1)	1,344	1,474	4,564	8,664	12,451	10,041	13,396
Basic earnings (loss) per common share (2)	0.38	0.92	0.36	0.38	0.65	0.16	0.05
Other Financial Data:							
EBITDA (3)	4,530	5,631	7,304	10,779	16,521	3,918	3,197
Depreciation and amortization	2,452	2,793	3,902	5,316	8,352	1,716	2,586
Capital expenditures	3,040	7,586	5,242	18,764	47,475	9,645	9,893
Cash flows from (used in) operating activities	340	5,876	3,754	12,465	14,818	1,723	6,470
Cash flows from (used in) investing activities	(3,173)	(7,430)	(5,431)	(18,778)	(48,888)	(10,106)	(10,030)
Cash flows from (used in) financing activities	1,628	2,001	1,491	5,948	45,836	50,687	(127)

	As of December 31,					As of March 31,	
	1996	1997	1998	1999	2000	2000	2001
Consolidated Balance Sheet Data:	(thousands of dollars)						
Cash and cash equivalents	329	776	592	226	11,992	42,530	8,305
Working capital (4)	(8,174)	(6,768)	(2,703)	(10,147)	13,136	42,011	6,195
Total assets	22,451	29,016	29,813	49,388	106,248	102,289	108,788
Long-term debt (5)	402	2,360	4,551	4,892	—	1,500	—
Total shareholders' equity	5,025	9,617	13,913	19,763	85,653	102,289	86,189

(1) Based on the number of common shares outstanding at the beginning of the period, adjusted by the number of common shares repurchased or issued during the period and after giving retroactive effect to the reverse stock split effected on February 14, 2000, multiplied by a time weighting factor equal to the number of days that the specific shares are outstanding as a proportion of the total number of days in the period.
(2) Diluted earnings per share are not presented because we had no potential common shares outstanding during the periods presented.
(3) EBITDA is defined as income before income tax, interest and, depreciation and amortization. We present EBITDA because we believe EBITDA is a widely accepted indicator of an entity's ability to incur and service debt. EBITDA should not be considered by an investor as an alternative to net income or income from operations, as an indicator of our operating performance or other combined operations or cash flow data prepared in accordance with U.S. GAAP, or as an alternative to cash flows as a measure of liquidity. Our computation of EBITDA may differ from similarly titled computations of other companies.
(4) Total current assets minus total current liabilities.
(5) Including current portions of long-term debt, obligations under capital lease and other long-term liabilities.

B. Capitalization and Indebtedness

Not applicable

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

An investment in our ADSs involves a high degree of risk. You should carefully consider the following information about these risks, together with the other information contained in this annual report, including our consolidated financial statements and related notes, before you decide to buy our ADSs. If any of the following risks actually occur, our business, financial condition and results of operations would likely suffer materially, the market price of our ADSs could decline, and you may lose all or part of the money you paid to buy our ADSs.

Our customers may stop or reduce their outsourcing which will reduce demand for our services and cause our revenue to decrease.

We depend on the trend towards increased outsourcing of assembly and test services by integrated device manufacturers. Integrated device manufacturers continually evaluate our services against their own in-house assembly and test services and may decide to shift some or all of their outsourced assembly and test services to their internal capacity at any time. Any shift or a slowdown in this outsourcing trend would reduce demand for our services and cause our revenue to decrease.

An overall decrease in demand for power semiconductors may significantly decrease the demand for our services and materially reduce our revenue.

We derive the majority of our revenue from assembly or test services for manufacturers of semiconductors used for power conversion or power management applications. Currently, many electronic devices use multiple power semiconductors but electronics manufacturers are aggressively seeking to decrease the number of components used in devices and simplify system design. Any significant decrease in the need for power semiconductors within electronic devices may decrease the demand for our services and materially reduce our revenue. In addition, the recent economic slowdown in the technology sector has caused a decrease in demand for electronic devices and semiconductors and, in turn, our services. These trends could have a negative impact on our business, operating results and financial condition.

The average selling price for electronic devices tends to decrease, which may force us to lower our prices and reduce our profitability.

The decreasing average selling price of most electronic devices places significant pressure on the prices of the components that are used in those devices. If the average selling price of electronic devices continues to decrease, the pricing pressure on our services may reduce our revenue and significantly reduce our gross profit. Pricing pressure on our assembly and test services is likely to continue and our ability to maintain or increase our profitability will depend in large part upon our ability to:

- reduce our raw material costs;
- improve production efficiency;
- increase the number of units assembled and tested; and
- shift to higher margin test and assembly services.

See "Item 5—Operating and Financial Review and Prospects" for a discussion of the historical decline of our average selling price.

We may not be able to develop the advanced technology and expanded services we need to maintain our competitive position and our profitability.

The semiconductor industry is characterized by rapid technological development. We must be able to provide our customers advanced assembly and testing capabilities and quick production time for their increasingly complex devices. In addition, we must continue to expand our selection of packages to remain competitive. If we rely on older products our margins and cash flow could be reduced because prices of older products tend to decrease when newer, higher performance products are introduced. Any failure on our part to advance our design and process technologies successfully and in a timely manner could materially harm our competitiveness and our profitability.

We may not be able to compete successfully in our industry because many of our competitors are much larger in size, have greater operating capacity and financial resources, have proven research and development and marketing capabilities.

The semiconductor assembly and testing industry is highly competitive. We face substantial competition from:

- the in-house assembly and test departments of major integrated device manufacturers;
- other independent companies such as Carsem, Fastech Microassembly & Test, Inc. and Team Pacific, Inc. that specialize in providing assembly and test services for power semiconductors; and
- a number of large companies, such as Amkor Technology, Inc., ASE Test Limited and Chip PAC Incorporated that focus primarily on non-power semiconductor assembly and test services.

These companies may be able to compete more aggressively over a longer period of time than we can. A number of these companies also have established relationships with many of our current or potential customers. We may also face increasing competition from competitors located in lower cost centers such as Vietnam and China. We cannot assure you that we will be able to compete successfully in the future against existing or potential competitors. See "Item 4—Information on the Company—Business Overview—Competition."

We depend on a small number of customers for a significant portion of our revenues and the loss of one or more of our significant customers could reduce our profitability.

Our top five customers accounted for approximately 61% in 1998, 54% in 1999 and 50% in 2000. Our largest customer accounted for approximately 15% in 1998, 14% in 1999 and 12% in 2000. It would be difficult for us to replace quickly a major customer that permanently discontinues or significantly reduces its commercial relationship with us as new customers usually require us to pass a lengthy and rigorous qualification process. Also, semiconductor companies generally rely on service providers with which they have established relationships to meet their assembly and testing needs for existing and future applications. If any one of our key customers was to reduce its purchases significantly, any inability on our part to attract new major customers or shift our excess capacity to production for our remaining customers could materially reduce our profitability.

The cyclical nature of the semiconductor industry and the periodic overcapacity that results from this may seriously harm our company.

The semiconductor industry has historically been highly cyclical and, at times, has experienced significant economic downturns characterized by production overcapacity, reduced product demand, and rapid erosion of average selling prices. Historically, companies in the semiconductor industry have expanded aggressively during periods of increased demand, as we and our competitors have done. As a result, periods of overcapacity in the semiconductor industry have frequently followed periods of increased demand. We expect this pattern to be repeated in the future. In addition, the markets for semiconductors are characterized by rapid technological change, evolving industry standards, intense competition and fluctuations in end-user demand. Our operating results for 2000 were adversely affected by a downturn in the semiconductor market. Future downturns in the semiconductor industry may be severe and could seriously harm our company. In particular, the combination of a sharp inventory correction in end markets and weakening economic performance, particularly in the United States, in 2000 and 2001 could seriously harm our industry and our company.

We may be unable to increase our production capacity to meet the demand for our products and services.

In 2000, we acquired and constructed two additional plants in Laguna, Philippines to accommodate the growth of our business. If we experience delays in fully utilizing our capacity at these facilities, we may be unable to meet our production goals, revenue objectives and profitability targets. We cannot assure you that we will succeed in achieving full utilization of our facilities due to the recent downturn in the semiconductor industry. Our inability to expand capacity could reduce our ability to meet customer needs and prompt our customers to place orders with our competitors.

Our profitability may decline if we do not maintain high utilization rates, as we may not be able to meet our high fixed costs.

Our operations are characterized by high fixed costs as a result of the capital intensive nature of our business. Our ability to maintain or increase our profitability will continue to depend, in large part, upon our ability to maintain high capacity utilization rates. Our capacity utilization rates may be affected by a number of factors and circumstances, including:

- our ability to acquire and install new equipment in anticipation of future business;
- overall industry conditions;
- our level of customer orders;
- our operating efficiencies;
- mechanical failure;
- a disruption of operations due to the expansion of operations, introduction of new packages or relocation of equipment;
- a disruption in electrical supply;
- a disruption in the supply of raw materials; and
- fire or other natural disasters.

In the past, overall industry conditions and decreased customer orders have affected our capacity utilization rates. Depreciation expense as a percentage of cost of goods sold was 13.6% in 1998 when overall industry conditions were down, 12.7% in 1999 and 13.4% in 2000.

We cannot assure you that we will be able to maintain a high capacity utilization rate. Our inability to maintain capacity utilization rates could increase our costs relative to the revenue that we generate.

We depend on a limited number of suppliers to provide us with sufficient quantities of raw materials on a timely basis in order to sustain our operations.

It is important to our operations and general competitiveness that we obtain raw materials from our vendors in a timely manner, in sufficient quantities and qualities and at competitive prices. We obtain most of our critical materials from a limited group of suppliers on a purchase order basis and without the benefit of long term contracts.

Shortages occur in our essential raw materials due to interruptions in supply or increased demand in the industry. While we believe that we have identified adequate alternative suppliers for our raw materials, any transition to a new supplier could take time and disrupt our business. In the past, we have experienced difficulty obtaining acceptable raw materials on a timely basis. Our inability to obtain satisfactory raw materials could limit our ability to fill our customer orders and/or increase our costs relative to the revenue that we generate.

We have experienced delays in the delivery of raw materials in the past but these have not significantly affected our operations nor led to any material dissatisfaction from our customers.

We depend on our customers to provide us with a satisfactory supply of wafers and shortages or disputes regarding our supply of wafers may reduce our ability to fill our customers' orders and reduce our revenue.

Our operations and general competitiveness depend on a satisfactory supply of wafers from our customers for assembly and test services. Shortages or shipments of defective wafers can result from supply chain interruptions, inferior third-party manufacturing or design flaws. Moreover, disputes as to the origin of defects and responsibility for defective wafers could strain our relationships with existing customers. An insufficient supply of wafers, defective wafers and any disputes could reduce our ability to fulfill our customers' orders and decrease our revenue.

We may be unable to obtain assembly or test equipment when we need it, which will prevent us from expanding our business and increasing our revenue.

Our operations and expansion plans are highly dependent upon our ability to obtain a significant amount of capital equipment which is manufactured by a limited number of suppliers. In periods of high demand, the lead time from order to delivery for assembly and test equipment can be between four and six months. If we cannot obtain equipment in a timely manner, we may be unable to fill our customers' orders or accept orders from new customers, which could reduce revenue and materially harm our business, financial condition and results of operations.

Generally, we have no binding supply agreements with any of our equipment suppliers and we acquire our equipment on a purchase order basis. Increased demand for the type of capital equipment required in our business may increase our equipment costs which could increase our costs of production. Since all of our revenues are in U.S. dollars, fluctuations in foreign currency exchange rates, particularly the Japanese yen, could also increase the price we pay for equipment, which could also increase our equipment costs.

Most of our customers are not obligated to purchase any minimum amount of our products or services and we do not have a significant backlog. We may not receive sufficient customer orders in the future to meet our costs and remain profitable.

Most of our customers are not obligated to purchase any minimum amount of our assembly and test services or to provide us with binding forecasts for any period. As a result, we have no significant backlog which makes it difficult for us to forecast our revenue for any future period. We expect that revenue in any quarter will continue to be substantially dependent on orders received during that quarter. The level of orders we receive from our customers has varied and may continue to vary significantly from quarter to quarter. Due to the large number of holidays in the Philippines, and a decrease in demand from one of our major customers, revenue decreased 5.3% from $8.8 million in the third quarter of 1998 to $8.3 million in the fourth quarter of 1998. Revenue decreased 10.1% from $14.8 million in the third quarter of 1999 to $13.3 million in the fourth quarter of 1999, primarily due to the number of holidays in the Philippines and 9.6% from $20.5 million in the third quarter of 2000 to $18.5 million in the fourth quarter of 2000, principally due to the large number of holidays in the Philippines and recent downturn in the semiconductor industry. We cannot assure you that any of our customers will continue to place orders with us in the future at the same levels as they have in prior periods.

We may be unable to recoup the cost of significant capital expenditures made in advance of increased sales, which would have a negative effect on our profitability.

We increased and plan on continuing to increase our assembly and test capacity in order to grow our business. This required and will require substantial capital expenditures, primarily for additional assembly and test equipment. We have already made and will continue to make these capital expenditures and we cannot assure you that our sales will increase or that our revenues are sufficient to cover these capital expenditures. Our failure to increase our revenue following significant capital expenditures could materially harm our business, financial condition and results of operations as we may not be able to offset our increased costs and related depreciation expense.

We may not be able to keep or replace the key executive officers and employees, which would impair our ability to implement our business plan and continue our assembly and test processes.

We depend on our key executive officers and employees to implement our business plan and oversee our assembly and test processes. It is difficult to attract and retain highly skilled technical, managerial and marketing personnel, and replace key personnel as competition for qualified personnel in the Philippines is intense. We cannot assure you that we will be successful in attracting and retaining the personnel we require to successfully develop new and enhanced assembly and test services and to continue to grow and operate profitably. We do not maintain insurance for any of our key personnel.

We may be unable to develop and protect the intellectual property needed to compete successfully with other assembly and test companies.

Our ability to compete successfully and achieve future growth in revenue will depend, in part, on our ability to develop and protect our proprietary technology and the proprietary technology of our customers entrusted to us during the assembly or testing process. We cannot assure you that we will be able to develop or protect proprietary technology or that our competitors will not develop, patent or gain access to similar know-how and technology. We cannot assure you that any confidentiality and non-disclosure agreements that we rely on to protect trade secrets and other proprietary information will be adequate to protect our or our customers' proprietary technology.

We may become subject to intellectual property rights disputes that may be costly and limit our ability to continue our business operations as planned.

Our ability to compete successfully will depend on our ability to operate without infringing on the proprietary rights of others. We have not established procedures to help prevent us from infringing the patented technology of our competitors or other parties. As a result, we may not be aware of the intellectual property rights of others or familiar with the laws governing intellectual property rights in countries where our products are sold. If we become aware that third party-owned intellectual property may affect our business, we intend to either avoid processes protected by existing patents, cross-license, or otherwise obtain the right to use the process or package technologies we require. We believe that companies in our industry will face more frequent patent infringement claims as the number and coverage of patents, copyrights and other third party intellectual property rights in our industry increases. In the event a valid claim was made against us, we may be required to:

- stop using critical assembly and test processes;
- cease manufacturing, using, importing or selling infringing packages;
- develop non-infringing technologies;
- acquire and pay for licenses to use the infringed technology; or
- pay substantial damages.

Although we may be required to seek licenses from or enter into agreements with third parties covering intellectual property, we cannot guarantee that any of those licenses could be obtained on acceptable terms, if at all. We may also have to commence lawsuits against companies who infringe our intellectual property rights. Those potential claims could result in substantial costs and diversion of our resources.

Our assembly and test processes are susceptible to human error which can reduce our productivity and harm our operations.

Our failure to maintain high training standards and monitor our operators could result in significant operator error which could reduce our production yields, damage our customer relationships and materially harm our business. Any lost customers, increased costs, production delays, substantial amounts of returned goods and claims by customers resulting from human error could materially harm our business, financial condition and results of operations.

We may be unable to maintain the clean room environment we need for our operations which can reduce our productivity and harm our operations.

Our assembly and test operations take place in areas where air purity, temperature and humidity are controlled. If we are unable to control our assembly and test environment, our equipment may malfunction or our products may be defective. See "Item 4—Information on the Company—Business Overview—Quality Management." Any prolonged interruption in our operations due to problems in our clean room environment could materially harm our business, financial condition and results of operations.

The recent global economic slowdown has negatively affected our business.

The Asian economic crisis, which took place between 1997 and 1999, and the recent economic slowdown which began in mid-2000, has adversely affected most countries in Asia, including the Philippines. Many Asian countries have experienced considerable currency volatility and depreciation, high interest rates and decreasing asset values and some have experienced political and social unrest, including a change of political leadership. These and other factors have reduced economic activity throughout Asia and restricted access to financing.

Effect on the Philippines. The Philippines has experienced many of these difficulties, including:

- negative GDP growth in 1998;
- a sharp depreciation in the value of the Philippine peso relative to the U.S. dollar and other foreign currencies;
- increased unemployment;
- a decrease in share prices on the Philippine Stock Exchange; and
- a higher than projected national budget deficit.

These events have created uncertainty as to the stability of the Philippine economy. The Philippine government has implemented a number of measures designed to mitigate the effects of the region's financial crisis on the Philippine economy. The Philippine government's stated objective has been to restore economic confidence and stability by strengthening economic fundamentals. We cannot assure you that the Philippines, which has suffered lower levels of economic disruption and reductions in growth and economic performance compared to other Asian countries, will not be subject to increased economic difficulties in the future or that the current trends will significantly improve in the near future.

Effect on us. Similar to other companies throughout Asia and the Philippines, we have experienced negative effects from the Asian economic crisis. These negative effects have included high debt service costs which totaled

$1.4 million in 1997, $1.6 million in 1998 and $1.0 million in 1999. Although we did not incur debt service costs in 2000 due to the cash infusion from our initial public offering in the United States, we cannot assure you that we will not incur high service costs in future years.

A continuation or worsening of the current financial and economic conditions in the Philippines could materially harm our business, financial condition and results of operations. In particular, our access to capital to finance our future expansion and development may be impaired.

Fluctuations in exchange rates could materially harm our business by increasing costs or affect the value of our ADSs.

All of our revenues are U.S. dollar denominated and our financial statements are prepared in U.S. dollars. The U.S. dollar also accounts for the largest share of our costs. All of our operating expenses are incurred in U.S. dollars and Philippine pesos while our capital expenditures are primarily denominated in U.S. dollars and Japanese yen. As a result, we are particularly affected by fluctuations in the exchange rate between the U.S. dollar and the Philippine peso and the Japanese yen and the U.S. dollar.

We are vulnerable to disasters and other disruptive events since most of our operations are conducted in facilities in Metro Manila and Laguna.

We currently conduct nearly all our assembly and test operations at our facilities in Metro Manila and Laguna. Significant damage or other impediments to these facilities as a result of:

- natural disasters such as earthquakes and typhoons;
- industrial accidents;
- power outages;
- equipment failure; or
- industrial strikes

could significantly increase our operating costs. To date, we have not experienced significant damage or other disruptions at our facilities as a result of these events, although we experienced considerable production delays and loss of revenue in 1998 when a supplier failed to deliver equipment necessary for us to complete customer orders.

We maintain insurance, including business interruption insurance, against some, but not all, of these events. We cannot assure you that our insurance will be adequate to cover any direct or indirect losses or liabilities we may suffer.

It may be difficult for you to enforce any judgment obtained in the United States against us or our affiliates.

Our company is incorporated under the laws of the Philippines and substantially all of our directors and executive officers reside outside the United States. In addition, virtually all of our assets and the assets of those persons are located outside the United States. As a result, it may be difficult to effect service of process upon us or one of those persons in the United States to enforce any judgment obtained in U.S. courts against us or any of these persons, including judgments based upon the civil liability provisions of the U.S. securities laws. If original actions are brought in courts in jurisdictions located outside the United States, it may be difficult for investors to enforce liabilities based upon U.S. securities laws. The Philippines is not a party to any international treaty concerning the recognition or enforcement of foreign judgments although the Philippine Rules of Court do provide that a foreign judgment may be enforced in the Philippines through an independent action filed to enforce the judgment. A foreign judgment may not be enforced, however, if there is evidence of lack of jurisdiction, absence of notice, collusion, fraud or clear mistake of law or fact or if it is found to be contrary to the laws, customs or public policy of the Philippines.

Our public shareholders may have more difficulty protecting their interests than they would as shareholders of a U.S. corporation.

Our corporate affairs are governed by our articles of incorporation and by-laws and by the laws governing companies incorporated in the Philippines. Legal principles such as a director's or officer's duty of care and loyalty, and the fiduciary duties of controlling shareholders exist in the Philippines. These principles are relatively untested in Philippine courts, and their application is uncertain in comparison to their application in U.S. courts. As a result, our public shareholders may have more difficulty in protecting their interests in connection with actions taken by our management, members of our board of directors or our controlling shareholders than they would as shareholders of a company incorporated in the United States.

We rely on Philippine income tax holiday incentives to preserve funds allocated for specific business purposes and a loss of these tax benefits would prevent us from using funds in accordance with our business plan.

We enjoy fiscal incentives which include income tax holidays for the manufacture of voltage regulators as well as for test services related to various semiconductor devices. These incentives extend for four years commencing in June 1999 and August 1999, respectively. The income tax holiday incentives we received in 2000 reduced our income tax and made available to us an additional $2,159,788 that we would have paid to the Philippine tax authorities. Our tax holidays require that we export a minimum of 70% of our production. If we fail to meet our export requirement and lose our fiscal incentives prematurely, we will be required to use funds earmarked for other business purposes to pay income taxes. This reallocation of funds could reduce the amount of funds available to us for our business activities.

Our existing principal shareholders own a large percentage of our voting shares and their interests may conflict with the interests of our company.

Our principal shareholders, Merrill Lynch Global Emerging Markets Partners, L.P. and NJI No. 2 Investment Fund, a fund managed by JAFCO Investment (Asia Pacific) Ltd., own, in the aggregate, approximately 68.5% of our voting securities. Acting together, our principal shareholders will be able to exercise significant influence over matters requiring shareholder approval, including the election of directors and the approval of significant corporate transactions. See "Item 10—Additional Information—Articles of Association and By-laws." Matters that require shareholder approval include, among other things:

- the election of directors;
- our merger or consolidation with any other entity;
- any sale of all or substantially all of our assets; and
- the timing and payment of dividends if any.

Our principal shareholders have entered into a Shareholders Agreement relating to their ownership, transfer and voting of our shares. As a result of the level of their shareholdings and the provisions of their shareholders agreement, our principal shareholders will have the power to determine the election of our directors and the approval of any other action requiring the approval of our shareholders, including any amendments to our articles of incorporation and by-laws. In addition, our principal shareholders could prevent us from entering into transactions that could be beneficial to us or the holders of our ADSs.

The market price of our ADSs could decrease as our principal shareholders sell their shares.

The market price of our ADSs could decrease if large numbers of ADSs are sold into the public market or if the public expects those sales to occur. These sales could make it difficult for us to sell equity securities in the future at a time and price that we deem appropriate. We have 13,289,525 common shares outstanding, including common shares represented by ADS. The 4,025,000 common shares represented by ADSs are freely tradeable in the public market unless purchased by our affiliates, as defined in Rule 144 under the Securities Act and which are natural persons or other entities that directly or indirectly control, are controlled by, or are under common control with us. The remaining 9,264,525 common shares are restricted securities, as defined in Rule 144 under the Securities Act, which means they may not be offered or sold unless pursuant to a registration statement that has been filed and declared effective by the Commission or pursuant to an available exemption from registration under the Securities Act. These common shares may be sold in the public market in the form of ADSs, upon a deposit of such shares with the depositary, but only if they are registered under the Securities Act or if they qualify for an exemption from the registration requirements of the Securities Act.

Your voting rights as ADS holders are limited by the terms of the deposit agreement for the ADSs. Your ability to participate in the management of our company is impaired relative to our common shareholders.

Holders of ADSs may exercise the voting rights of the common shares represented by ADSs only in accordance with the provisions of the deposit agreement relating to the ADSs. There are practical limitations on the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with the holders of ADSs. For example, our common shareholders receive notices of meetings directly from us and are able to exercise their voting rights by either attending the meeting in person or voting by proxy.

ADS holders, by comparison, do not receive notices directly from us. The deposit agreement provides that upon its receipt of notice from us of any meeting of holders of our common shares, the depositary will then mail to ADS holders as soon as practicable:

- the notice of the meeting;
- the voting instruction forms; and
- a statement explaining how instructions can be given by ADS holders.

To exercise voting rights, ADS holders must instruct the depositary how to vote their shares. Because of this extra procedural step involving the depositary, the process for exercising voting rights will take longer for ADS holders than for holders of our common shares. ADSs for which the depositary does not receive voting instructions will not be voted at any meeting.

Except as described in this annual report, ADS holders are not be able to exercise voting rights attaching to the ADSs. Please see "Item 10—Additional Information—Articles of Association and By-laws" for additional information relating to our common shares.

Your ability to participate in any rights offering of our company is limited, which may dilute your ownership of our company.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities under the deposit agreement relating to the ADSs. The depositary will not offer rights to holders of our ADSs unless both the rights and the securities to which those rights relate are either exempt from registration under the Securities Act or are registered under the provisions of the Securities Act. We are under no obligation to file a registration statement for any of those rights or underlying securities or to cause such a registration statement to be declared effective. As a result, holders of our ADSs may be unable to participate in rights offerings by us and may experience dilution of their holdings as a result.

ITEM 4 INFORMATION ON THE COMPANY

A. History and Development of our Company

Our legal name is PSi Technologies Holdings, Inc. We are a limited liability company incorporated in the Republic of the Philippines on December 10, 1999. Our current corporate form will expire on December 10, 2049 and may be extended by shareholder resolution. Our principal executive and registered offices are located at Electronics Avenue, FTI Complex, Taguig, Metro Manila 1604, Philippines. Our telephone number at that address is (632) 838-4966. We maintain an Internet web site at www.psitechnologies.com. Information contained in our web site does not constitute a part of this annual report. Our agent for service of process in the United States is Samuel A. Gomez, Vice President for North American Operations at PSi Technologies Holdings, Inc., 4633 Old Ironsides Drive, Suite 260, Santa Clara, CA 95054. Our telephone number at that address is (408) 982-0188.

The following material corporate events occurred in 2000 and 2001:

- In March 2000, we completed our initial public offering of 4,025,000 American Depositary Shares, or ADSs, at the offering price of $16.00 per ADS, in the United States on the Nasdaq National Market. The net proceeds from the offering amount was $57.8 million. See "Item 14—Material Modifications to the Rights of Security Holders and Use of Proceeds—Use of Proceeds."
- In September 2000, we began operation of our second facility in Carmelray Industrial Park in Calamba, Laguna province, which houses assembly and test manufacturing modules. See "—Property, Plants and Equipment—Facilities and Real Property."
- In November 2000, we began construction of our third assembly and test facility in the industrial park located near our facility in Laguna. We plan on continuing construction of this facility in 2001. See "—Property, Plants and Equipment—Facilities and Real Property."
- In 2000, a worldwide downturn in the semiconductor market took place. The downturn was caused by overcapacity, reduced product demand, increased competition and lower pricing. See "—The Semiconductor Industry" and "Item 5—Operating and Financial Review and Prospects—Overview."
- In May 2001, Merrill Lynch Global Emerging Markets Partners, L.P. (which we call Merrill Lynch) one of our principal shareholders, acquired an additional 4,580,910 shares of our company from RFM Corporation, representing approximately 34% of our share capital. As a result of the transaction, Merrill Lynch Global Emerging Markets Partners, L.P. currently owns 7,141,624 shares, representing approximately 54% of our share capital. See "Item 7—Major Shareholders and Related Party Transactions—Related Party Transactions—Shareholders' Agreement and Registration Rights Agreement."

Our principal capital expenditures for fiscal years 1998, 1999 and 2000 consisted mainly of the construction of new facilities and the purchase of semiconductor equipment. Our capital expenditures amounted to $5.2 million in 1998, $18.8 million in 1999 and $47.5 million in 2000. In 1998, our capital expenditures were incurred mainly for the acquisition of assembly and testing equipment. In 1999, our capital expenditures were incurred mainly for the purchase of additional assembly and testing equipment and land for expansion. In 2000, our capital expenditures were incurred mainly for the acquisition of additional assembly and testing equipment, the purchase of computer software and the construction of two facilities in the Philippines. In the first quarter of 2001, we did not make any material capital expenditures.

For the year 2000, our capital expenditures were financed mainly through the proceeds from our initial public offering in March 2000 and cash generated from operations. A more detailed discussion of the use of proceeds from our offerings and credit facilities can be found under "Item 5—Operating and Financial Review and Prospects—Liquidity and Capital Resources."

B. Business Overview

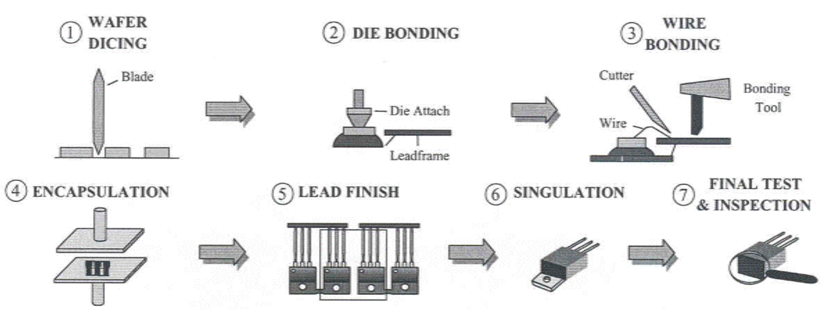
Power Semiconductor Assembly and Test Services

We provide comprehensive power semiconductor assembly, test and drop shipment services to meet the needs of our customers.

Assembly services. We provide a full array of assembly services for power conversion and power management semiconductors. Assembly services refers to the process by which power semiconductors are packaged. The semiconductor package is critical to a chip's performance and functionality and is the interface that allows the semiconductor device to connect to the end product. Packaging serves to protect the chip and facilitate electrical connections and heat dissipation.

We work exclusively with assembly processes that use leadframes or leaded assembly, the only assembly design that can accommodate the high voltage requirements of most power semiconductors. Power assembly differs from non-power assembly because it often requires special solder alloy die bonding machines and heavy-duty and wire bonding machines. Equipment designed for traditional non-power wire bonding cannot accommodate the large diameter wire required for power semiconductors. Power wire bonding equipment is also moderately more expensive than non-power wire bonding equipment, although the former has a longer useful life.

Although the outside appearance of power conversion packages has changed little over the years, packaging technology and know-how have continued to evolve to meet the requirements of increasingly complex semiconductors. The chart below illustrates the major steps in the assembly and test process.



Design services. We also offer our customers design services to address their power packaging needs. When implementing new or custom package orders, we interact with customers early in the design process to optimize package design and ensure manufacturability. After a design is finished, we provide quick-turn prototype services. By offering package design and prototype development, we help our customers reduce product development costs, accelerate time-to-volume production, and ensure that new designs are properly packaged at a reasonable cost.

Test services. We provide final test services for power semiconductors. Final test is the last stage in the back-end semiconductor production process before shipping the completed package. We use sophisticated test equipment owned by us, as well as those consigned to us by some of our customers, to test the electrical or product application attributes of each semiconductor.

We have the capability to test every power semiconductor we assemble. Outlined below is a brief description of our test capabilities.

- *Avalanche Testing or Unclamped Inductive Load Switching Testing*. Tests the capability of the device to handle high voltage applications such as motors and power supplies;

- *Reverse Recovery Time Testing*. Measures the time it takes for current to go to zero when switching the flow of electricity from forward to reverse. This test measures the time it takes for the device to completely turn off;

- *Integrated Serial Testing*. Incorporates various tests into one pass or insertion;

- *Package Isolation Testing*. Tests the ability of the package to withstand electricity flow from the leads to the mounting surface;

- *Embossed Carrier Taping*. Process of putting tested units into each pocket of the embossed carrier tape for automatic placement or mounting into the printed circuit board; and

Materials management and drop shipment services. We provide our customers with a full range of materials procurement services and work with key raw material and equipment suppliers to ensure reliable production readiness at reasonable cost. We are in the process of installing a materials resource planning system that will allow us to maximize the use of information technology in managing inventory. We also provide packaging for shipment, including specialized packaging called embossed carrier taping for surface-mount packages and paper-taping for standard packages. We provide drop shipment services, including the delivery of final tested semiconductors, to our customers' end-customers in most parts of the world.

Non-Power Semiconductor Assembly and Test Services

We provide assembly, test and special process services for standard non-power semiconductors to maintain long-established customer partnerships. We have assembly lines for a number of standard non-power packages that accommodate various customer requirements. Some of our non-power services are organized as dedicated business units such as:

- a captive assembly and test line for smart displays and motion controllers for Agilent Technologies (formerly Hewlett Packard); and

- a captive test line for various packages for Vishay/Siliconix and ON EG (formerly Cherry Semiconductor).

Packages

We offer semiconductor packages for both power semiconductor and standard non-power semiconductor applications. Historically, our first package offerings were for standard non-power applications including metal cans for devices such as field effect transistors, or FETs, which are devices where the main current is controlled by application of a small on/off voltage, and diodes, ceramics for amplifiers and smart displays for cellular phones. In 1994, we began offering semiconductor packages specifically for power semiconductor applications. Since 1995, we have focused primarily on providing power semiconductor assembly and test services and packaging, increasing that portion of our business to represent approximately 84% of revenue in 2000. Nevertheless, our standard non-power semiconductor assembly and test operations remain profitable, and we continue to offer a limited number of standard non-power semiconductor packages. The following table sets out for the periods indicated the percentage of our revenue by package type:

	Year ended December 31,			
	1997	**1998**	**1999**	**2000**
Power semiconductors	76%	75%	74%	84%
Non-power semiconductors	24%	25%	26%	16%
	100%	100%	100%	100%

Power Packages and Applications. Power semiconductors can be found in a vast array of everyday products. We believe we offer our customers the broadest line of power semiconductor packages in the industry. Our packages offer either standard or advanced thermal and electrical characteristics to accommodate varying power semiconductor applications. We focus our package development on producing incremental improvements to customer designs and providing packages that are both more durable and more cost effective for our customers.

All of our power packages are leaded packages. Leaded packages for power semiconductors are characterized by a semiconductor chip encapsulated in a special, non-conducting plastic mold compound with metal leads protruding from one or more edges of the package. The metal leads are designed to be attached to a printed circuit board, thereby integrating the semiconductor device into the ultimate end-product. We offer leaded packages that use traditional pin-through-hole technology as well as more advanced surface mount technology. Our pin-through-hole packages are designed to be plugged into printed circuit boards by inserting the leads through holes on the board and are generally used for applications with high power requirements and minimal space restrictions. Our surface mount technology packages are designed to be soldered to the surface of the printed circuit boards and are generally used for applications with tighter space restrictions.

Nearly all of our power semiconductor packages can accommodate more than one power semiconductor product application. Power semiconductors can serve a number of product applications, including input rectification, control, switching and output regulation. Input rectification generally refers to conditioning alternating current, AC, to direct current, DC. The control function measures incoming electricity and sends a signal to a switch. A switch divides the current into discrete units. Finally, output regulation reconfigures the power into a form usable by the electronic component.

Outlined below is a brief description of power semiconductors that we assemble and test:

- *Field Effect Transistors*. Depletion type transistor used as an input device for low and medium power applications.

- *Power MOSFETs*. Switching and control devices that combine fast switching, versatile design and low on-resistance in a cost effective design. They serve a large percentage of the need for power control devices. We have the capability to build power MOSFETs in a variety of packages.

- *Triacs, silicon controlled rectifiers and thyristors.* Commonly used as triggering and control switching devices. They are an essential element in the use and control of electrical motor speed in appliances, heaters and motors.

- *Voltage regulators*. Often used as a voltage protection and power control device in electronic systems. We have package offerings for a variety of voltage regulators, including DC/DC converters, AC/AC converters and inverters.

- *Transient suppressors*. Control devices used to provide voltage surge protection in non-power semiconductors. This device will safely protect sensitive equipment from sudden or abrupt changes in voltage supply that can damage the equipment or unit.

- *High power bipolar transistors*. Medium speed switches used for power supplies of a wide variety of electronic products ranging from computer peripherals to industrial equipment.

- *Insulated gate bipolar transistors*, or *IGBTs*. Advanced power control switches similar to high power bipolar transistors, but with an enhanced power saving feature designed so that the control power necessary to switch this device is considerably lower than that for a comparable bipolar transistor. We can build IGBTs in a number of different packages.

The following table lists the power packages we assemble and test:

Package Type and Lead Count	Product Application	End Market
SC-70 (5 leads)	voltage regulator bipolar, MOS	home appliances, office/industrial equipment, personal computers, communications equipment
SOT-23 (3 leads and 5 leads)	voltage regulator	home appliances, office/industrial equipment, personal computers, communications equipment,
SOT-2223 (3 leads)	voltage regulator, bipolar, diode	home appliances, office/industrial equipment, personal computers, communications equipment,
SOT-89 (3 leads)	voltage regulator	home appliances, office/industrial equipment, personal computers, communications equipment
TO-126/SOT-32 (3 leads)	thyristor, triacs	home appliances
TO-92/DO-92 (3 leads/2 leads)	transient suppressor, voltage regulator	office/communications equipment
TO-251/TO-252 (IPAK/DPAK) (3 leads/2 and 5 leads)	MOSFET, high power bipolar, voltage regulator, rectifier/diode, triacs	home appliances, personal computers, lighting, automotive
SOT-82 (3 leads)	thyristor, triacs	home appliances
PowerFlex™ (2, 3, 5, 7 leads)	voltage regulator	home appliances, office/industrial equipment, personal computers, communications equipment
TO-220/DO-220	voltage regulator, MOSFET,	home appliances, office/industrial personal computers,
(2, 3, 5, 7 leads)	thyristor, triacs, rectifier, diode, high power bipolar, power TC	consumer electronics
TO-263 (2, 3, 5 leads)	MOSFET, voltage regulator, high power bipolar	home appliances, personal computers
TO-220 full pack or isolated (3 leads/2 leads)	MOSFET, IGBT	home appliances, personal computers, automotive
SOT-93 (3 leads)	thyristor	home appliances
TO-247 (2 and 3 leads)	MOSFET, IGBT, diode	home appliances, personal computers, automotive
TO-264 (2 and 3 leads)	MOSFET, diode	home appliances, personal computers, lighting, automotive

Non-power packages and applications. We assemble and/or test a limited number of standard non-power semiconductor packages primarily for industrial, automotive and military use. The following table lists the non-power packages we assemble and/or test:

Package Type and Lead Count	Product Application	End Market
PDIP (8, 14, 16, 24, 48, 54, 64 leads)	digital signal processor, switch, amplifier	automotive, industrial, communications
SOIC (8, 20, 24, 28 leads)	amplifier	industrial
PLCC (28, 44 leads)	digital signal processor	communications
flatpacks (10, 14, 16 leads)	diode array	military/industrial
metal cans (2, 3, 4, 6, 7, 8, 10 leads)	field effect transistor, diode, amplifier	military/commercial, automotive, communication
ceramics (8, 14, 16, 18, 20 leads)	amplifier	military/industrial
motion controller	sensor	ink jet printers, plotters, photo copiers, office automation

Packages and processes under development. Power semiconductor form-factor and performance requirements continue to evolve to meet ever increasing demands of end-market applications. We are currently developing packages and related processes to address the need for:

- high power/thermal packages;
- patterned solder dispensing for large packages;
- thin wafer processing;
- wafer mapping;
- heavy/fine multiple wire bonding;
- gold to copper bonding;
- dual and multi-die packaging;
- low on-state resistance packaging for power MOSFET applications; and
- environmentally friendly assembly processing.

We also continue to increase our support functions for thermal, electrical, package stress and board level reliability characterization. We offer a full range of package functional testing and product analysis for all of our existing packages and packages under development. We have a full service reliability laboratory that can stress test assembled semiconductors.

The Semiconductor Industry

Semiconductors are critical components used in an increasingly wide variety of applications. They are used in telecommunications and networking systems, computers and computer peripherals, consumer electronics and home appliances, electronic office equipment, automotive systems and industrial products. According to the Semiconductor Industry Association, or SIA, revenue for the worldwide semiconductor device market increased from $125.5 billion in 1998 to $149.0 billion in 1999 to $203.0 billion in 2000. Although the semiconductor industry is highly cyclical, it has grown by a compounded annual growth rate of 17% over the past 20 years according to Semiconductor Business News. The industry's downturns were caused by a number of factors in the past: overcapacity, reduced product demand, increased competition and lower pricing. Many industry experts forecast such a downturn will continue throughout 2001.

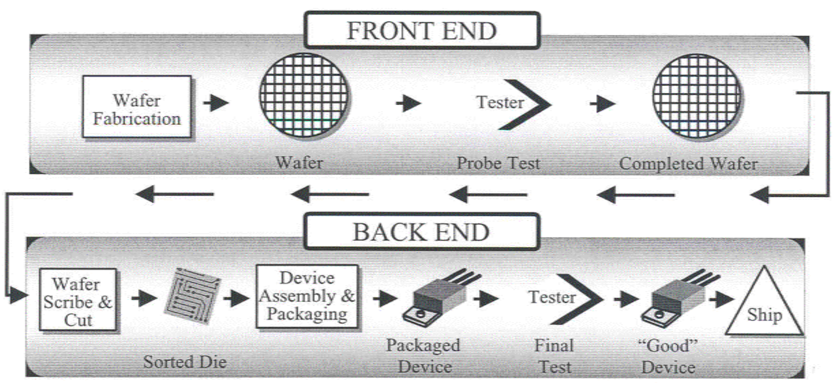
The power semiconductor market is a large and steadily growing segment of the semiconductor industry. Based on SIA Statistics, we estimate that the worldwide market for power semi-conductors increased from $13.7

billion in 1998 to $15.4 billion in 1999 to $20.7 billion in 2000. A number of factors contribute to the overall size and growth in this industry segment. The proliferation of consumer electronic devices, wireless communications, and mobile computing are factors driving demand for new generations of power semiconductors which are smaller, lighter and more efficient. At the same time, new automotive and industrial applications are creating demand for more powerful and reliable power semiconductors for which miniaturization is not a critical factor. Finally, electronics manufacturers are aggressively seeking to reduce manufacturing costs and time-to-market by simplifying system design. These factors continue to spur demand for increasingly advanced power semiconductor solutions.

Power semiconductors are easily distinguished from non-power integrated circuit semiconductors. Power semiconductors typically operate at high power levels and perform a discrete function within an electronic system by converting or managing electrical current. The capabilities of power semiconductors are defined largely by the level of power they can handle and their efficiency in converting electric current into a more useful form. In contrast, non-power integrated circuit semiconductors typically operate at lower power levels and integrate multiple functions such as processing and conveying complex information in electronic form. The performance of non-power semiconductors is defined largely by the number of functions that can be integrated within a fixed amount of space on a semiconductor, often referred to as circuit density. Circuit density for non-power semiconductors has increased rapidly over time as a result of improved semiconductor manufacturing and design technology. Rapid increases in circuit densities have led to shorter product life cycles for non-power semiconductors. Power semiconductors have undergone relatively less miniaturization and integration because they are required to manage and convert high levels of power which generate significant amounts of heat. The result is that the power semiconductor market has been characterized by longer product life cycles and less severe average selling price erosion than the market for non-power semiconductors.

Semiconductor Production Process: Front-end and Back-end

The semiconductor production process can be divided into two sequential sub-processes commonly referred to as front-end and back-end production, both of which contain many steps. The entire process, both front-end and back-end, is complex and requires sophisticated engineering and manufacturing expertise. The diagram below summarizes the process.



Front-end Production: Wafer Fabrication. Front-end production refers primarily to wafer fabrication. It starts with a clean disc-shaped silicon wafer that will ultimately become many silicon chips. First, a photomask that defines the circuit patterns for the transistors and interconnect layers is created. This mask is then laid on the clean silicon wafer and is used to map the circuit design. Transistors and other circuit elements are then formed on the wafer through photolithography. Photolithography involves a series of steps in which a photosensitive material is deposited on the wafer and exposed to light through a patterned mask; unwanted exposed material is then etched away, leaving only the desired circuit pattern on the wafer. By stacking the various patterns, individual elements of the semiconductor chip are defined. During the final phase of the front-end production process, each individual chip on the wafer is electrically tested to identify properly functioning chips for assembly.

Back-end Production: Assembly and Test. Back-end production refers to the assembly and test of individual semiconductors. The assembly process is necessary to protect the chip, facilitate its integration into electronic systems, limit electrical interference and enable the dissipation of heat from the device. Once the front-end production process is complete, the wafer is transferred to an assembly facility, where it is sawed into individual semiconductor chips. These semiconductor chips are then individually attached by means of an alloy or an adhesive to a leadframe, a metallic device used to connect the semiconductor to a circuit board. Leads on the leadframe are then connected by aluminum or gold wires to the input/output terminals on the semiconductor chip through the use of automated machines known as wire bonders. Each semiconductor device is then encapsulated in a plastic molding compound or ceramic case, forming the package.

After assembly, power semiconductors are tested for different operating specifications, including functionality, voltage, current and timing. The completed packages are then shipped to the customer or to their final end-user destination through drop shipment.

The Trend Toward Outsourcing

In the past, most semiconductors were produced internally by independent device manufacturers, or IDMs, who designed, manufactured and assembled semiconductors specifically for their own end products.

This required IDMs to have expertise and equipment for both front-end semiconductor design and fabrication and back-end assembly and test processes. Today, the trend is for IDMs to outsource as much of the manufacture and assembly process as possible. IDMs are increasingly focusing their efforts and resources on semiconductor design, where they can best differentiate their products from competitors. and away from the assembly and test process.

The principal economic rationale behind the semiconductor outsourcing model is that it reduces risk for both IDMs and independent semiconductor assembly and test service providers. For IDMs, outsourcing shifts manufacturing and utilization risk to the independent service providers, reduces their capital expenditure requirements and grants them access to new package technologies. For assembly and test service providers. outsourcing supplies them with a diversified customer base to ensure high equipment utilization rates, reduces dependence on the success of any single semiconductor offering and exposes them to the latest technologies employed by numerous leading IDMs. Additionally, outsourcing benefits both parties by enabling assembly and test service providers to develop a core competency and efficiency beyond that which an 1DM could maintain in-house.

A number of major power semiconductor companies, including Philips Semiconductor, ON Semiconductor and Texas Instruments, have indicated their intention to outsource an increasing percentage of their semiconductor manufacturing needs to independent manufacturing service providers. This trend is consistent with the general trend toward outsourcing in the power semiconductor industry. We believe that this trend towards increased outsourcing coupled with the overall market size for power semiconductors creates opportunities for independent power semiconductor assembly and test companies.

Suppliers

We have two primary categories of suppliers: equipment suppliers and raw materials suppliers. We periodically purchase equipment through several suppliers to meet our assembly and testing requirements. We have no binding supply agreements with any of our equipment suppliers. Typically, we are offered price discounts for volume purchases.

The principal raw materials used in our assembly process are leadframes, aluminum wire and molding compound. We have no significant supply contracts or arrangements with any supplier of materials. We generally purchase raw materials based on the non-binding forecasts provided to us by our customers. However, our customers are not generally responsible for any unused raw materials that result from a forecast exceeding actual orders. We work closely with our primary raw materials suppliers to insure that materials are available and delivered on time. We are not dependent on any one supplier for our leadframes, aluminum wire or molding compounds. We work with several mold manufacturers to produce mold tooling for the plastic packaging. Although we have a choice of manufacturers, once we have allocated a project to one manufacturer, we depend on delivery from that manufacturer since we would incur both increased cost and time delays to procure the same mold from another supplier. On one occasion, we experienced a considerable production delay and loss of revenue when a supplier failed to deliver a mold tooling within a reasonable time period.

Marketing and Sales

Our marketing strategy focuses on the power semiconductor market. Our customer marketing efforts are tailored to the needs of leading manufacturers of power semiconductors. Our strategy is to form a strategic customer relationship as the independent outsourcing service provider of choice for these semiconductor manufacturers, while never becoming over-dependent or committing a majority of our capacity to any one semiconductor manufacturer.

We offer our customers the opportunity to purchase only the assembly and test services they request without the obligation to purchase other services we offer. Our customers can also take advantage of our services on a back-end turnkey basis which includes assembly, final test and end-order fulfillment. In addition, we can work in conjunction with our customers to design cost effective, reliable packages to accommodate new chip designs.

The small number of existing and potential customers enables our primary market development efforts to be executed through executive-level discussions between us and potential customers. We support our market development efforts with customer- and product-specific technical teams assembled to address the specific needs of each customer design and order. We have an office in Santa Clara, California to liase with our U.S. customers. Our marketing initiatives include trade show attendance, product sampling, technical bulletins and brochures, industry publications and news releases and a web site for general information purposes. As of December 31, 2000, we employed 29 professionals in marketing, sales and customer service.

Competition

The independent semiconductor assembly and test business is very competitive, with competition both from other independent assembly and test businesses and the internal capacity of major integrated device manufacturers, or IDMs. We believe our primary competition is with the internal assembly and testing departments of many of our largest customers. The outsourcing of internal capacity by large IDMs represents the largest market opportunity. We compete to provide our customers with a lower-cost, turn-key outsourced solution to replace their internal capacity commitment. Our main independent competitors are those assembly and test businesses primarily engaged in the manufacturing of similar packages, including:

- Carsem;
- Cirtek Electronics Corp.;
- PT Omedata Electronics;
- Alphatec Semiconductor Packaging, Ltd.;
- Fastech Microassembly & Test, Inc.; and
- Team Pacific, Inc.

We also compete with two quasi-independent businesses focused on the power semiconductor market. Tesla Sezam, based in the Czech Republic, is partially owned by ON Semiconductor and Enoch Semiconductors (previously Korea Microsystems), based in Korea, has debt guaranteed by Samsung in relation to a business unit sold to Fairchild Semiconductor. We expect ON Semiconductor and Fairchild Semiconductor to continue to use independent service providers, such as us, given the industry's trend toward outsourcing.

We compete indirectly with businesses that focus primarily on non-power integrated circuit semiconductor assembly and test, including:

- Advanced Semiconductor Engineering, Inc.;
- Amkor Technology, Inc.;
- ASE Test Limited;
- ASAT, Ltd.;
- ChipPAC Incorporated;
- Siliconware Precision Industries Co., Ltd.;
- ST Assembly Test Services Pte., Ltd.; and
- Shinko Electric Industries Co. Ltd.

We believe the principal elements of competition in the overall independent semiconductor assembly market include technical competence, sophistication of design services, quality, time-to-market, array of assembly services, production yields, customer service and price. We believe that we compete favorably as a market leader in these areas within the independent power semiconductor assembly segment.

Our customers principally rely on at least two independent providers of assembly and test services. Independent providers of semiconductor assembly and test services must pass lengthy and rigorous qualification processes that can take up to three months for a typical leaded package. In addition, customers incur substantial costs in qualifying each new provider of semiconductor assembly and test services. Due to these factors and the heightened time-to-market demands of semiconductor end-users, semiconductor manufacturers incur significant costs in switching assemblers and are often reluctant to change or add assemblers.

Many of our primary independent competitors have significant assembly capacity, financial resources, research and development operations, marketing and other capabilities, and have been operating for some time. Many of these companies also have established relationships with the same semiconductor companies which are our current or potential customers.

Government Regulations

No local legislation has been passed which specifically regulates the semiconductor industry in the Philippines. However, we are subject to laws of general application in the Philippines, including the Corporation Code, the Local Government Code, the Tariff and Customs Code, the Securities Regulation Code, the National Internal Revenue Code, laws on environmental matters (see "—Property, Plants and Equipment—Environmental Matters"), rules and regulations issued by the Philippine securities authority, the Philippine Central Bank, the Board of Investments and the Bureau of Internal Revenue.

Our Approach and Strategy

We are a leading independent provider of power semiconductor assembly and test services to the power semiconductor market. We provide comprehensive assembly and test services to a diverse customer base which includes most of the major power semiconductor manufacturers in the world. Our top five power semiconductor customers represented 50% of our revenues in 2000:

- Philips Semiconductor;
- ON Semiconductor, formerly Motorola Semiconductor Components Group;
- Fairchild Semiconductor;
- Texas Instruments; and
- International Rectifier.

We provide our customers with a broad array of packages and services designed specifically for power semiconductors. We use our expertise in power assembly and test to benefit our customers and collaborate with them to design new power packages to address their enhanced thermal and electrical product performance requirements. We believe our focused assembly and test expertise in the power semiconductor segment, our broad package offerings and our turnkey service capability makes us the preferred service provider in the power semiconductor market.

We benefit from our location in the Philippines. In addition to being a low cost manufacturing center, the Philippines has become a hub for semiconductor assembly and test manufacturing services. Several major semiconductor manufacturers have located assembly and test facilities in the Philippines, including Intel, Fairchild Semiconductor, ON Semiconductor, Philips and Texas Instruments, as well as a number of independent assembly and test companies. We benefit from this concentration of assembly and test business in the Philippines because it has created a pool of professionals trained in assembly and test services and a community of businesses focused on packaging technology.

We intend to strengthen our position as a leading worldwide provider of assembly and test services targeted specifically at the power semiconductor market in the following ways:

- **Focus on the Power Semiconductor Market and Capitalize on the Trend Toward Outsourcing**

We plan on continuing to focus our expertise on the power semiconductor market. We intend to expand our business by capitalizing on the accelerating trend toward outsourcing in that market. The power semiconductor manufacturing services market is large and under penetrated by independent assembly and test service providers. However, the trend toward outsourcing is expected to accelerate as an increasing number of IDMs take advantage of the cost savings and strategic advantages of outsourcing. A number of our current customers already have indicated their intention to outsource an increasing portion of their semiconductor manufacturing needs to independent manufacturing service providers. We believe that our established, strategic customer relationships provide us with a competitive advantage in capturing these outsourcing opportunities.

- **Strengthen and Expand Our Strategic Customer Relationships**

We intend to strengthen our existing relationships with our key strategic customers to win an increasing percentage of their back-end production business. Our major IDM customers' in-house assembly and test capacity represents both our largest competition and our best opportunity for incremental growth. We intend to capture our key customers' outsourced assembly and test business by working closely with them to meet their product performance requirements, offering them the broadest array of power packages and services in the industry, and aggressively managing our supplier relationships and the manufacturing process to reduce costs.

- **Enhance Our Power Assembly and Test Technology and Design Services**

We plan on continuing to develop our power semiconductor assembly and test technology and design services to meet our customers' needs. We coordinate our development efforts with our customers to ensure that our packages and services meet their power design specifications and to increase the efficiency of our research and development efforts. We have hired and will continue to hire research and development professionals trained in semiconductor manufacturing. These employees will strengthen our design capability, particularly in thermal modeling and product applications. We intend to collaborate with our principal equipment and material suppliers to develop and access technical research.

- **Complete our Third Assembly and Test Facility to Serve Customer Demand**

We intend to complete construction of our third assembly and test facility in an industrial park located near our second facility in Laguna. However, to rationalize and maximize our capacity utilization, we do not plan on activating this plant until there is growth in semiconductor demand. We believe that we will be well positioned to meet the requirements of our customers when the current economic downturn ends.

- **Expand into New Geographic Markets and Maintain Diversified Global Customer Base**

We are in the process of expanding into new geographic markets while maintaining a diversified customer base. Specifically, we are in the process of expanding into the Japanese power semiconductor market. We believe the Japanese market complements our existing customer base and represents a significant outsourcing opportunity for power semiconductor assembly and testing services. While Dataquest estimates overall Japanese semiconductor revenues will increase from $30.2 billion in 1998 to $51.5 billion in 2003, a CAGR of 11.2%, according to industry data, Japan's share of global semiconductor capital equipment spending has decreased from over 50% in 1991 to approximately 18% in 1998. This discrepancy between growing output and decreasing capital equipment spending indicates an outsourcing opportunity for capital intensive services such as semiconductor assembly and test. Our efforts in Japan will complement our efforts in Europe, the United States and elsewhere in Asia where we have built a balanced customer list of top-tier power semiconductor manufacturing companies.

Our Customers

We provide power and non-power semiconductor assembly and test services to over 30 customers. Our power semiconductor customers include most of the major power semiconductor companies in the world.

Our five largest customers accounted for approximately 61% of our revenue in 1998, 54% of our revenue in 1999 and 50% of our revenue in 2000. In 1999, Philips accounted for 14.3% of our revenue, ON Semiconductor accounted for 10.6% of our revenue, Texas Instruments (Philippines) accounted for 10.4% of our revenue and Power Integrations accounted for 10.0% of our revenue. In 2000, Philips accounted for 12.2% of our revenue, ON Semiconductor accounted for 11.6% of our revenue, Fairchild Semiconductor accounted for 10.4% of our revenue, Texas Instruments (Dallas) accounted for 8.4% of our revenue, and International Rectifer accounted for 7.5% of our revenue. We anticipate that our five largest customers will continue to account for a high, but declining percentage of our revenue for the foreseeable future as we continue to diversify our customer base.

The table below sets out our significant power and non-power customers ranked in terms of our revenues for the year ended December 31, 2000:

Power Services	Non-Power Services
Philips Semiconductor	Texas Instruments (Philippines) Inc.
ON Semiconductor	Vishay / Siliconix
Fairchild Semiconductor	ON EG (formerly Cherry Semiconductor)
Texas Instruments (Dallas) Inc.	Linfinity Microelectronics
International Rectifier	Hewlett Packard
Infineon Technologies	Motorola Semiconductor
Power Integrations	Silicon Transitor Corp.
Texas Instruments (Philippines)	
Linfinity Microelectronics	
ST Microelectronics	

Our customers generally do not place their purchase orders far in advance. As a result, we do not typically operate with any significant backlog. We currently allocate approximately 5% of our assembly capacity to two of our customers under agreements that expire on different dates and can be terminated upon formal notice by the customer or upon mutual agreement depending on the specific terms of the agreement. Seven of our customers have placed equipment on consignment with us in our facilities and two have agreed to minimum volume contracts. We are also contractually obligated to make capacity available to selected customers.

Customer Support

We interact very closely with our customers throughout the qualification stage and production process. We assign a customer service person who coordinates with the account team composed of package development, process engineering, manufacturing and customer service and logistics support. We provide immediate technical assistance during the development stage and detailed electronic information of important indices relevant to their products' performance once in full production. We have received numerous awards from our customers, including:

- Motorola's Superior Performance Award;
- Texas Instruments' Cycle Time Award;
- Linfinity Microelectronics' Best Supplier Award; and
- Samsung Electronics' Outstanding Support Award.

These awards are regularly given by our customers to independent service providers who achieved outstanding performance in the area of service and support in a particular year. We have had no material customer dissatisfaction with our overall performance.

Quality Management

We are committed to delivering products and processes of consistently superior quality to our customers. We believe that our corporate-wide commitment to quality and our total quality management system are key elements of our semiconductor assembly and test operations. As of December 31, 2000, we employed 541 professionals, engineers, technicians and other employees dedicated to quality control.

Our facility in Taguig is ISO 9002, QS 9000, and Mil-PRF-l9500 and Mil-PRF-38535 certified. ISO 9002 is a worldwide manufacturing quality certification program regarding industrial quality systems that is administered by the Independent Standards Organization. QS 9000 is a manufacturing quality certification program administered by the Independent Standards Organization that is used primarily by U.S. automotive manufacturers. Mil-PRF-l9500 and Mil-PRF-38535 are certification programs administered by the Defense Supply Center Columbus and required in order to supply products for U.S. military use. In addition to our quality standards certifications, our quality systems have been approved or certified by our customers including Motorola, Texas Instruments and Mitel. We were also certified by Texas Instruments, Inc. for Underwriters Laboratory requirements.

Our commitment to quality helped us earn the 1999 and 2000 Philippine Quality Award, the Philippine equivalent of the U.S. Malcolm Baldridge Award, and one of the most prestigious national awards. We have also earned the 1997 Golden Shell Award for Manufacturing Excellence for being one of the outstanding export companies in the Philippines.

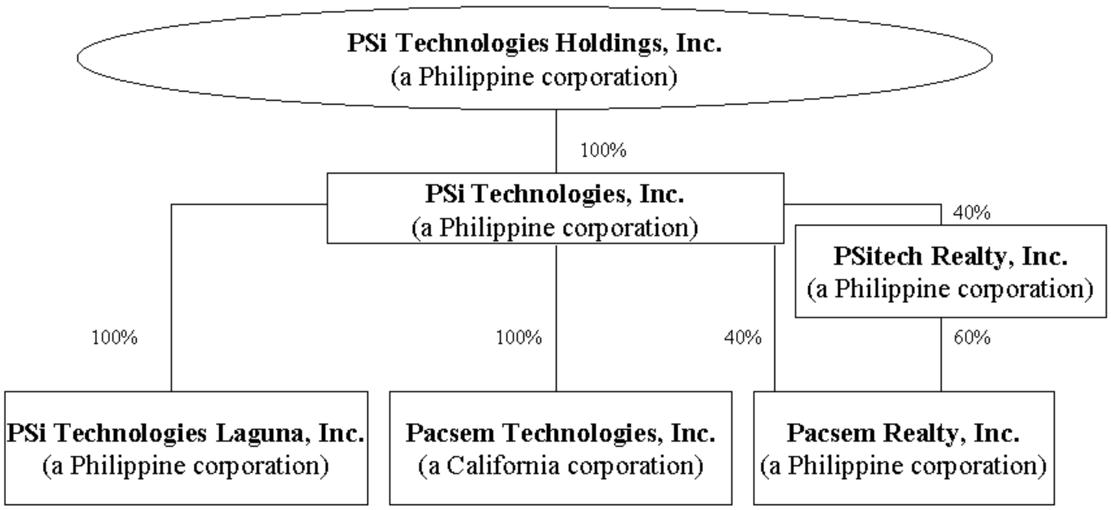
Insurance

We maintain insurance policies covering some types of losses, including losses due to business interruption and losses due to fire, which we consider to be adequate. Our insurance policies cover our buildings, machinery and equipment as well as the machinery and equipment of our customers. Significant damage to our production facilities, whether as a result of fire or other causes, would have a material adverse effect on our business, financial condition and results of operations. We are not insured against the loss of any of our key personnel.

C. Organizational Structure

In December 1999, we completed a corporate reorganization to provide us with enough shares to list on Nasdaq as part of our ADS offering in March, 2000. This reorganization entailed two steps: (i) our organization—that is, the organization of PSi Technologies Holdings, Inc.—as a Philippine corporation and (ii) the exchange by the shareholders of PSi Technologies, Inc., our principal operating subsidiary, of their common and preferred shares of PSi Technologies, Inc. for common shares of PSi Technologies Holdings, Inc., with the exception of specific nominee director qualifying shares. See "Item 7—Major Shareholders and Related Party Transactions."

The following chart shows our corporate structure immediately after the completion of the reorganization.



D. Property, Plants and Equipment

Facilities and Real Property

Our headquarters, administrative offices and principal assembly and operations are located at our Taguig facility in Metro Manila, Philippines. We have a second assembly operation at our Laguna facility located approximately 30 miles south of Manila. We also have a U.S. marketing office in Santa Clara, California. Our Philippine-based operations are close to major Asian semiconductor foundries and provide easy air, land and sea access and rapid customs processing and shipment.

We have occupied our Taguig facility since 1988. The building is approximately 125,000 square feet, with 75,000 square feet dedicated to assembly and test operations, and located on 182,000 square feet of land. This facility is designed to accommodate 20,235 square feet of test space and 54,437 square feet of assembly space. The buildings are owned by our company. The land is leased to us by Food Terminal Inc., a wholly-owned government entity. Additional land is sub-leased to us from Tierra Factors Corporation, an independent third party, which in turn leases the land from Food Terminal Inc. The lease arrangement expires in 2004 and the sub-lease arrangement expires in 2002.

We have occupied our Laguna facility since September 1999. The building is approximately 43,572 square feet, with 42,891 square feet dedicated to assembly and test operations, and located on 71,479 square feet of land. This facility is designed to accommodate 7,898 square feet of test space and 34,993 square feet of assembly space. We lease the land and building under an eight year lease from RBF Development Corporation, an independent third party. During the term of our lease, we have an option to purchase the building and, subject to foreign ownership restrictions under the Philippine Constitution, we also have an option to purchase the land.

We are also in the process of building a third facility at a site near our existing facility in Laguna. Although we plan on completing construction of the new plant in 2001, we do not anticipate activating it until market conditions improve.

Our affiliate, Pacsem Realty, Inc., has acquired two additional plots of land near our Laguna facilities for future expansion. Our current and planned capacity expansion capitalizes on several tax incentives offered by the Philippine government.

Equipment

We depend on a limited number of manufacturers for the assembly and test equipment we use in our assembly process. In periods of high demand, the lead times from order to delivery of our assembly and test equipment can be as long as four to six months. We work closely with our major equipment suppliers to ensure that equipment is delivered on time and such equipment meets our performance specifications.

The primary equipment used in assembly and test includes wire bonders, mold systems, plating and singulation systems and testers and handlers. Wire bonders are used to attach the silicon-based chip to the leadframes using gold or aluminum wire. The majority of our wire bonders are designed for aluminum wire used specifically in power semiconductor assembly. The mold systems are used to encapsulate each semiconductor using a molding compound. Plating systems are used to cover the leads and heat-sink with solder alloy materials to provide good soldering. Singulation systems are used to segregate encapsulated and plated semiconductors attached in strips into individual units. Testers and handlers are used to test the electrical and thermal characteristics of the product.

The following table lists the major assembly and test equipment by type, number in use and the principal supplier or manufacturer of the equipment we use:

Type of Equipment	Number in Use	Supplier/Manufacturer
wire bonders	193 (178 PSi-owned)	Delvotec ASM Orthodyne
die bonders	101 (83 PSi-owned)	Esec ASM
integrated DA-WB	1 (PSi-owned)	Shinkawa
mold systems		
- mold presses	60 (57 PSi-owned)	Fusei
- mold tools	91 (70 PSi-owned)	Korea Tooling Engineering
- auto mold system	2 (1 PSi-owned)	TOWA
plating systems	5 (all PSi-owned)	MECO
semi-auto and full-auto trim/form/singulation systems	65 (54 PSi-owned)	Hamamura Korea Tool Engineering Samil
testers	250 (126 PSi-owned)	Tesec Lorlin LTX
test handlers	218 (88 PSi-owned)	Tesec Ismeca

Environmental Matters

Our test and assembly operations do not generate significant pollutants. Our operations are subject to regulatory requirements and potential liabilities arising under Philippine laws and regulations governing among other things, air emissions, waste water discharge, waste storage, treatment and disposal, and remediation of releases of hazardous materials. We have programs on waste minimization, toxic and hazardous waste management, and air and water management. We believe that we are in compliance with all applicable environmental laws and regulations. Expenditures on environmental compliance currently represent an insignificant portion of our operating expenses. Both our Taguig and Laguna facilities are certified as ISO 14001 facilities. ISO 14001 is an environmental management system certification program of the independent International Standards Organization. This certification is awarded to companies which have an environmental management system that conforms with internationally accepted standards.

Our Philippine government regulatory compliance is covered by permits on pollution control or emission source installation and waste water effluent discharge from the Laguna Lake Development Authority, or LLDA. LLDA is the government implementing body pertaining to air and waste water discharges. Our license for radioactive materials is provided by the Philippine Nuclear Research Institute, another government implementing body. We are also a member and affiliated with Pollution Control Association of the Philippines, Association of Electronics and Semiconductors for Safety and Environmental Protection and Water Environment Association of the Philippines.

ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

General

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include those discussed in "Item 3—Key Information—Risk Factors" as well as those discussed elsewhere in this annual report. Our consolidated financial statements are reported in U.S. dollars and prepared in accordance with U.S. GAAP.

Overview

We are a leading independent provider of assembly and test services to the power semiconductor market. We provide comprehensive package design, assembly and test services for power semiconductors used in telecommunications and networking systems, computers and computer peripherals, consumer electronics, electronic office equipment, automotive systems and industrial products. We provide these assembly and test services to vertically-integrated semiconductor device manufacturers and semiconductor companies which do not have their own manufacturing facilities. Our customer base includes most of the major power semiconductor manufacturers in the world. We also provide assembly and test services for specialized non-power semiconductor packages used for industrial, automotive, military and computer peripheral applications. We generate revenue through the semiconductor assembly and test services we provide to our customers.

As a percentage of our revenue, revenue from power-related assembly and test services was approximately 75% in 1998, 74% in 1999 and 84% in 2000. We intend to increase the proportion of our revenue from power-related services in the future.

Our business is substantially affected by market conditions in the semiconductor industry as a whole and the power semiconductor market segment in particular. According to the Semiconductor Industry Association, or SIA, worldwide semiconductor device market revenue increased from $77.3 billion in 1993 to $125.5 billion in 1998, a compound annual growth rate, or CAGR, of 10.2%. Based on SIA statistics, we believe that the worldwide market for power semiconductors increased from $15.4 billion in 1999 to $20.7 billion in 2000, a CAGR of 35%. We believe that the assembly and testing market segments represent approximately one-third of the power semiconductor market segment, or approximately $5.0 billion in 1999 and $7.0 billion in 2000. We also believe that, in 2000, approximately $700.0 million, or 10%, of the assembly segments and testing market segments was outsourced to independent service providers like our company.

The semiconductor industry is highly cyclical. Although the semiconductor industry has grown overall since 1993, there were downturns in 1996, 1998 and, most recently, in 2000. Many industry experts forecast a continued downturn throughout 2001. These downturns were largely attributable to overcapacity, reduced product demand, increased competition and lower pricing. We, however, increased our profitability during these downturns. We believe that we were able to accomplish this result due to our focus on the power semiconductor market which, historically, has experienced longer product life cycles and less average selling price erosion than the market for non-power integrated circuit semiconductors.

Our results of operations are affected by the capital intensive nature of our business. A significant portion of our costs, principally relating to assembly and test equipment, are fixed. Increases or decreases in capacity utilization rates can have a significant effect on our gross margin and profitability since the unit cost of our services generally decreases as fixed costs, such as equipment depreciation expense, are spread over a larger number of units. Depreciation expense as a percentage of cost of goods sold was 9.9% in 1997, 13.6% in 1998, 12.7% in 1999 and 13.4% in 2000. Provision for inventory obsolescence increased 94.4% from $122,260 in 1997 to $237,679 in 1998, due to the write-off of spare parts for machinery no longer used in operations. Provision for inventory obsolescence decreased 77.3% from $237,679 in 1998 to $53,903 in 1999 due to the write-off of fewer remaining spare parts for machinery no longer used in operations.

Our results of operations also are affected by decreases in the average selling price of our packages. The erosion of the average selling price generally has been less severe in the power semiconductor market than the non-power integrated circuit semiconductor market. We attempt to offset these decreases in average selling price by developing and marketing larger and higher margin packages and services and taking advantage of economies of scale and higher productivity resulting from higher volumes. In the past, we have successfully negotiated volume discounts on raw materials as our production volumes have increased. We also operate captive assembly and test lines for four of our customers using equipment consigned to us by those customers. These arrangements tend to reduce our fixed costs and provide us with improved margins and profitability as a result of lower equipment depreciation expenses.

We do not charge a standard or uniform fee per semiconductor assembled and tested. The selling price of our packages is determined by the packaging materials used and the complexity of the device in terms of assembly and test operations. As the prices of different packages vary, the mix of packages produced and the contractual arrangements with the customers also affect revenue and profitability.

We conduct our operations almost exclusively in the Philippines through several subsidiaries. PSi Technologies, Inc. is our principal operating subsidiary and operates our main assembly and test facility located in Taguig, Metro Manila. We commenced commercial operations at our Taguig facility in 1988. PSi Technologies Laguna, Inc., our other operating subsidiary and a wholly-owned subsidiary of PSi Technologies, Inc., operates our second assembly and test facility located in Calamba, Laguna. We commenced commercial operations at our Laguna facility in late 1999, and expanded its capacity during 2000. In 2000, we also commenced construction of a third facility near our second plant. Although we plan on completing this facility in 2001, it will not be activated until market conditions improve. Pacsem Technologies, Inc., a wholly-owned subsidiary of PSi Technologies, Inc., is a California based corporation that conducts our marketing activities in the United States.

We use the U.S. dollar as our functional currency because all our revenue and substantially all our costs are in U.S. dollars. Accordingly, monetary assets and liabilities denominated in Philippine pesos and other foreign currencies have been translated into U.S. dollars using the exchange rates at the relevant balance sheet date. Non-monetary items are translated at historical rates and translation losses from those translations are credited or charged to current operations. We also experience foreign currency exchange gains and losses arising from transactions in currencies other than our functional currency. For example, labor costs are denominated in Philippine pesos and a small amount of our equipment and raw material costs are denominated in Japanese yen. Gains and losses from those foreign currency transactions are also credited or charged to current operations.

A. Operating Results

The following table presents selected operating data as a percentage of revenue for the periods indicated:

	Year ended December 31,			
	1997	1998	1999	2000
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	80.1	78.6	79.1	80.6
Gross margin	19.9	21.4	20.9	19.4
Operating expenses				
General and administrative	6.9	8.0	6.6	7.0
Sales and marketing	1.1	1.5	1.7	1.2
Research and development	—	—	—	1.3
Total operating expenses	8.0	9.5	8.3	9.5
Income from operations	11.9	11.9	12.6	9.9
Other income (expenses)–net				
Interest and bank charges	(4.2)	(4.7)	(1.9)	0.9
Foreign exchange losses	(3.2)	(1.7)	(1.4)	1.0
Management fees	(0.2)	(0.4)	(0.4)	—
Total other expenses	(7.6)	(6.8)	(3.7)	1.9
Income before income tax and minority interest	4.3	5.1	8.9	11.8
Income tax expense	(0.3)	(0.4)	(2.4)	(1.0)
Minority interest	—	—	—	0.2
Net income	4.0%	4.7%	6.5%	11.0%

Years ended December 31, 1999 and December 31, 2000

Revenue. Revenue includes the sale of semiconductors assembly and testing services. Revenue increased 46.4%, or $23.4 million, from $50.3 million in 1999 to $73.7 million in 2000, primarily due to a 54.8% increase in the volume of semiconductors shipped to existing customers and new customers. Our average selling price, however, decreased 5.5% due to a customary decline in selling prices to our customers as well as a higher mix of smaller packages, or protective packaging around a semiconductor, which have lower selling prices. The volume of power packages shipped increased 63% in 2000 compared to 1999. As a consequence, these packages accounted for 84.2% of our net sales in 2000 compared to 74% in 1999. By geographical market, our sales to Europe increased 101% from $10.9 million in 1999 to $22.0 million in 2000, primarily due to the increase in sales to ST Microelectronics, Infineon Technologies and Philips Semiconductor. Sales to our customers in the United States increased 36% from $25.5 million in 1999 to $34.5 million in 2000, but decreased as a percentage of revenue from 50.6% in 1999 to 46.9% in 2000 due to a higher rate of sales growth in Europe. Similarly, sales to our customers in Asia increased 23% from $13.9 million in 1999 to $17.1 million in 2000, but decreased as a percentage of revenue from 27.6% in 1999 to 23.2% in 2000 due to increased sales in Europe.

Cost of goods sold and gross margin. Cost of goods sold historically included raw materials used to assemble our packages, depreciation of assembly and test equipment, labor and attributed overhead and research and development. In 2000, cost of goods sold and gross margin no longer included research and development costs, as they were recorded as a separate line item under operating costs. Cost of goods sold increased 49.1% from $39.8 million in 1999 to $59.4 million in 2000, primarily due to increases in production volume. Gross profit increased 36.1% from $10.5 million in 1999 to $14.3 million in 2000. Our gross margin decreased from 20.9% in 1999 to 19.4% in 2000, principally due to an unfavorable sales mix and higher depreciation expense resulting from our investments in new equipment and capacity.

General and administrative expenses. General and administrative expenses historically consisted of salaries and benefits for administrative personnel, depreciation of office furniture and equipment, expenses for recruiting and training, expenses for office utilities and supplies. In 2000, general and administrative expenses also included expenses for investor relations activities, directors' fees and stock compensation costs resulting from the grant of employee stock options. General and administrative expenses increased 57% from $3.3 million in 1999 to $5.2 million in 2000, principally due to increases in administrative personnel, reflecting the growth of our operations as well as expenses related to our status as a publicly-listed company in the United States, in particular investor relations expenses, fees for our new directors, and stock compensation expenses. For details on the stock compensation expense incurred in 2000, see Note 14 of the notes to our audited financial statements included elsewhere in this annual report. General and administrative expenses as a percentage of revenue increased from 6.6% in 1999 to 7.0% in 2000, principally due to higher stock compensation expenses related to our stock option plan.

Sales and marketing expenses. Sales and marketing expenses consist primarily of salaries and benefits for sales and marketing personnel, expenses associated with our overseas marketing office in California, promotion costs, and provisions for doubtful accounts. Sales and marketing expenses decreased 2.1% from $868,331 in 1999 to $849,686 in 2000, principally due to a decrease in the expenses related to our U.S. marketing office. As a percentage of revenue, sales and marketing expenses decreased 1.7% in 1999 to 1.2% in 2000.

Research and development expenses. Research and development expenses consist of the salaries and benefits for process and package engineering personnel and the cost of materials used in developing and qualifying new packages for our customers. In 1999, research and development expenses were recorded as part of cost of goods sold. In contrast, in 2000, research and development expenses were recorded as a separate line item under operating expenses. Research and development expenses increased 163.2% from $360,075 in 1999 to $947,731 in 2000, principally due to efforts to develop higher-margin packages targeted at new markets.

Income from operations. In absolute terms, income from operations increased 15.6% from $6.3 million in 1999 to $7.3 million in 2000, primarily due to increased sales. As a percentage of revenue, income from operations decreased 2.7% from 12.6% in 1999 to 9.9% in 2000 primarily due to an erosion in gross margin, higher research and development costs and general and administrative expenses, offset by decreased sales and marketing expenses.

Interest and bank charges. Net interest and bank charges reversed from a net interest expense of $959,972 in 1999 to net interest income of $680,872 in 2000, primarily due to repayment of all of our bank loans with part of the proceeds from our March 2000 initial public offering in the United States and the placement of the remainder of the proceeds in interest-bearing instruments.

Foreign exchange losses. Foreign exchange losses result from movements in the exchange rates of foreign currencies between the date a monetary asset or liability arises and the balance sheet date or the date of settlement. We recognized foreign exchange losses of $679,117 in 1999, principally due to losses incurred on foreign currency derivative transactions which resulted from the fluctuation in the exchange rate between the Philippine peso and the U.S. dollar and currency losses related to the appreciation of the Japanese yen compared to the U.S. dollar. In 2000, we posted gains of $738,563, which resulted from currency gains related to the appreciation of the U.S. dollar compared to the Philippine peso.

Management fees. Management fees historically consisted of general management, corporate planning/corporate finance and legal services provided by RFM Corporation, our principal shareholder until May 2001. Management fees, which were $194,374 in 1999, were eliminated in 2000, due to the expiration and non-renewal of the management services agreement with RFM Corporation.

Provision for income tax. Provision for income tax decreased from $1.2 million in 1999 to $748,136 in 2000 despite an increase in net income due to the full-year application of new tax incentives resulting from the registration of two new projects with the Philippine Board of Investments. Our effective tax rate decreased from 27% in 1999 to 9% in 2000 as a result of these new tax incentives. See Note 12 of our audited financial statements included elsewhere in this annual report for more details.

Years ended December 31, 1998 and December 31, 1999

Revenue. Revenue increased 45.8% from $34.5 million in 1998 to $50.3 million in 1999, primarily due to an increase in the volume of semiconductors shipped to existing customers and to new customers. New customers for this period included STMicroelectronics, Infineon and Fairchild Semiconductor. Of the increase in volume, 71.7% was attributable to increased shipments of power semiconductors.

Our total average selling price decreased 3.2% in 1999 compared to 1998, primarily due to a higher mix of smaller packages which have lower selling prices and the worldwide decline in the average selling price of semiconductor packages. Our average selling price for power packages decreased 5.7% in 1999 compared to 1998.

Cost of goods sold and gross margin. Cost of goods sold increased 46.8% from $27.1 million in 1998 to $39.8 million in 1999, primarily due to increases in production volumes and incremental depreciation on additional equipment. We spent a total of $360,075 in 1999 for research and development and $147,784 in 1998. Gross margin decreased from 21.4% in 1998 to 20.9% in 1999, primarily due to our product mix and lower average selling price.

General and administrative expenses. General and administrative expenses increased 19.5% from $2.8 million in 1998 to $3.3 million in 1999. This increase was due primarily to increased administrative headcount and increases in salaries and benefits. General and administrative expenses as a percentage of revenue decreased from 8.0% to 6.6% over these same periods due to increased economies of scale.

Sales and marketing expenses. Sales and marketing expenses increased 74.0% from $499,002 in 1998 to $868,331 in 1999, principally due to the hiring of additional customer service personnel and a higher provision for receivables. Sales and marketing expenses as a percentage of revenue increased from 1.5% to 1.7% over these same periods. Provisions for receivables increased from $44,380 in 1998 to $64,306 in 1999, primarily due to our determination that receivables consisting of materials, spare parts and other costs purchased on behalf of customers had been outstanding for periods longer than four months.

Interest and bank charges. Net interest and bank charges decreased 41.2% from $1.6 million in 1998 to $959,972 in 1999, principally due to lower interest rates. Our level of borrowing was lower in the first six months of 1999 due to an equity infusion from existing shareholders.

Foreign exchange losses. We recognized foreign exchange losses of $574,318 in 1998 and $679,117 in 1999 due to losses incurred on foreign currency derivative transactions which resulted from the fluctuation in the exchange rate between the Philippine peso and the U.S. dollar over the period and currency losses related to the appreciation of the Japanese yen compared to the U.S. dollar.

Management fees. Management fees increased from $142,333 in 1998 to $194,374 in 1999, due to higher income before income tax and management fee in 1999.

Income tax expense. Income tax expense increased 853.1% from $129,248 in 1998 to $1.2 million in 1999, primarily due to the increase in net income over the same periods. This increase in provision for income tax expense also was due to the expiration of income tax holiday incentives in December 1998. Net income for 1999 would have been lower by $492,779 in the absence of any tax holidays. Our current tax holidays for voltage regulator and test services expire in 2003. See "—Special Tax Status."

B. Liquidity and Capital Resources

In 2000, we funded our operations and growth primarily through proceeds from our initial public offering in the United States and cash from operations. During this period, we raised approximately $57.8 million in net proceeds from the initial public offering. As of December 31, 2000, our principal sources of liquidity included $12.0 million in cash and cash equivalents, and approximately $30.0 million of unutilized banking and credit facilities consisting of short-term lines of credit and bank guarantees.

Net cash provided by operating activities totaled $12.5 million in 1999 and $14.8 million in 2000. The net cash generated in 1999 was attributable to net income and an increase in accounts payable and accrued expenses, offset by an increase in accounts receivable, inventories and other current assets. The net cash generated in 2000 was attributable to net income, offset by an increase in accounts payable, a decrease in trust receipts and acceptances payable, and increases in depreciation and amortization, accounts receivable and inventories.

Net cash used in investing activities totaled $18.8 million in 1999 and $48.9 million in 2000. In 1999, these investments consisted of capital expenditures related to the acquisition of assembly and testing equipment and the acquisition, by our subsidiary, Pacsem Realty, Inc., of land in Santo Tomas, Batangas for future expansion. In 2000, these investments consisted primarily of capital expenditures related to the acquisition of additional assembly and test equipment, the acquisition of computer software for our manufacturing enterprise system, and the construction of our second and third facilities in the Carmelray Industrial Park II in Calamba, Laguna.

Net cash provided by financing activities totaled $5.9 million in 1999 and $45.8 million in 2000. In 1997 to 1999, cash from financing activities was principally generated by the issuance of shares for an aggregate of $8.5 million and the incurrence of long-term debt, partially offset by the repayment of long- and short- term loans and other long-term liabilities. In 2000, cash from financing activities was primarily generated by the net proceeds of our initial public offering in the United States for an aggregate of $57.8 million, partially offset by the repayment of all long- and short-term debt.

As of December 31, 2000, we had no bank debt or outstanding credit facilities. All outstanding loans payable, trust receipts and acceptances payable, and long-term debt were extinguished from the proceeds of our initial public offering.

We expect our capital expenditures to be approximately $20.0 million in 2001. We believe that the net proceeds from our initial public offering in the United States, together with cash on hand, cash equivalents and credit facilities will be sufficient to meet our working capital requirements for the next 12 months. After 2001, we may require additional funds to support our working capital requirements or for other purposes. We may seek to raise additional funds through debt or equity financing or from other sources.

Special Tax Status

We benefit from tax incentives available in the Philippines. Projects undertaken at our new Taguig facility qualify for the following fiscal incentives granted by the Philippine Board of Investments:

- an income tax holiday for income attributable to the assembly of voltage regulators, a type of power semiconductor, for a four-year period beginning June 1999;
- an income tax holiday for income attributable to test services for various semiconductor devices for a four-year period beginning August 1999; and
- tax and duty-free importation of materials and spare parts.

During the income tax holiday, income derived from the sale of voltage regulators and test services are not subject to Philippine corporate income tax. Once the income tax holiday expires, we can apply for a one time three-year extension for that income. Where no income tax holiday is available, as of 2000, our income will be subject to the regular Philippine corporate income tax of 32.0%.

Our income tax holiday on income derived from the sale of power packages other than voltage regulators expired on December 31, 1998. As a result, our income generated from power packages other than voltage regulators is subject to the regular Philippine corporate income tax at a rate of 32.0% for 2000.

We are not required to pay value added tax otherwise imposed on the sale of goods and services in the Philippines. With respect to the importation of goods, such as machinery and equipment, we are able to apply to the Philippine Bureau of Customs for a refund, which is paid through the issuance of tax credit certificates. Tax credit certificates are convertible into cash or may be used as payment for income taxes and other forms of national internal revenue taxes or, in the case of tax credit certificates issued by the Bureau of Customs, for import duty payments. As of December 31, 2000, we had input value added tax credit of approximately $1.0 million. This amount is included in our other current assets account as of December 31, 2000.

Our Laguna facility is registered under R.A. No. 7916, otherwise known as the Special Economic Zone Act of 1995, which created the Philippine Export Zone Authority. This legislation grants fiscal incentives for new projects of non-pioneering status, which in our case includes:

- an income tax holiday for smart alphanumeric displays for four years beginning August 1999;
- an income tax holiday for rectifier devices for four years beginning July 2000;
- an income tax holiday for small signal transistors for four years beginning December 2000;
- tax and duty-free importation of capital equipment, raw materials and spare parts; and
- a special tax rate of 5.0% on gross income derived from the sale of products produced at that facility, in lieu of all national and local taxes after the expiration of the income tax holiday period.

We currently anticipate that our future expansion in the Philippines, if any, will take place in our Laguna facilities.

C. Research and Development, Patents and Licenses

Research and Development

We focus our research and development efforts on developing those packages and assembly and test services sought by our existing customers in order to service a greater variety of their power semiconductor production, as well as those packages and services required to attract new customers. In addition to the development of new products, we also focus on continuously maintaining and improving our high standards of production through extensive quality control efforts. One example of our innovation is the dual gauge DPAK package, a traditional power conversion package that we have made stronger and more reliable through three generations of improvements. Another example is the family of PowerFlex packages, a low profile lead frame assembly that is mounted flat rather than in the traditional upright position to save space that was invented by Texas Instruments, Inc. We worked closely with Texas Instruments, Inc. under a royalty-free, non-exclusive license to refine the package design, and make it more cost effective and reliable.

As of December 31, 2000, we employed 18 professionals dedicated to research and development. Our management and other operational personnel are also involved in research and development activities. We spent a total of $147,784 in 1998, $360,075 in 1999 and $947,731 in 2000 on our research and development.

Patents and Licenses

We depend in part on our ability to develop and protect our intellectual property and the intellectual property of our customers shared with us, and in part on the ability to apply our trade practices and know how to improve our customers' packaging design and implementation. We are in the process of determining which aspects of our operations might be proprietary in order to develop additional procedures and possibly file patent applications to protect our intellectual property rights. We currently do not own any patents with respect to our business.

We believe that our continued success depends in large part on the technological skills of our employees and their ability to continue to innovate. While we plan to file patent applications when appropriate to protect our proprietary technologies, we also will encourage our employees to continue to invent and innovate so as to maintain our competitiveness in the international marketplace.

ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

As of December 31, 2000, our directors and executive officers were as follows:

Name	Age	Position
Directors		
Jose A. Concepcion III	43	Director and Chairman of the Board (1)
Arthur J. Young, Jr.	44	Director
Felicisimo Nacino, Jr.	49	Director (1)
Ernest Fritz Server	57	Director (1)
Brian A. Renaud	37	Director
Dan I. Siazon	35	Director
Ramon del Rosario, Jr.	56	Director
Roberto de Ocampo	55	Director
Romeo L. Bernardo	46	Director
Executive officers		
Arthur J. Young, Jr.	44	President and Chief Executive Officer
Thelma G. Oribello	35	Chief Financial Officer and Treasurer
Helen G. Tiu	40	Corporate Secretary

(1) Resignation submitted on May 29, 2001.

Mr. Concepcion, Mr. Young, Mr. Nacino and Mr. Renaud were appointed directors on December 10, 1999. Mr. Server, Mr. Siazon, Mr. del Rosario, and Mr. Bernardo were appointed directors by our shareholders on February 4, 2000. Mr. de Ocampo was appointed on March 8, 2000.

On June 7, 2001, Ms. Mandakini Puri, Mr. Sung Min Cho and Ms. Carol Lee were appointed to our board of directors. Such appointments are contingent on the transfer of one of our shares to each individual. These transfers are expected to take place in July 2001.

All directors are elected annually by our shareholders. Interim vacancies may be filled by our board of directors. Our executive officers do not serve fixed terms of office and are appointed and serve at the discretion of the board of directors. The following sets out biographical information on our directors and executive officers.

Jose A. Concepcion III—Mr. Concepcion was the Chairman of PSi Technologies Holdings, Inc. and PSi Technologies, Inc. until May 2001. He is the President and Chief Executive Officer of RFM Corporation and Chairman and Chief Executive Officer of Swift Foods, Inc., Cosmos Bottling Corporation, Selecta Dairy Products Inc., Asia Food Franchising Corp., Philippine Townships, Inc. and Consumer Savings Bank. Mr. Concepcion studied business management at De La Salle University.

Arthur J. Young, Jr—Mr. Young is President and Chief Executive Officer of PSi Technologies Holdings, Inc. and PSi Technologies, Inc. He has been with us since 1988 and was appointed President and Chief Executive Officer of PSi Technologies Holdings, Inc. on February 4, 2000. Prior to working with us, Mr. Young founded and managed a diversified transportation business in Vancouver, Canada. Mr. Young received a bachelors degree in Political Science from the University of British Columbia in Canada. Mr. Young is a brother-in-law of Jose A. Concepcion, III.

Felicisimo Nacino, Jr. —Mr. Nacino is an Executive Vice President, Corporate Group, of RFM Corporation. Mr. Nacino was an Assistant Secretary in the Department of Trade and Industry in the Philippines from 1986 to 1991. He received a Bachelor of Arts in Economics and an M.B.A. from the University of the Philippines.

Ernest Fritz Server—Mr. Server is Vice Chairman of RFM Corporation, Vice Chairman of Cosmos Bottling Company, Vice Chairman of Consumer Savings Bank and holds various other positions within the RFM group of companies in addition to serving as a Director and in other capacities of real estate companies and cable TV/telecommunications companies. Mr. Server received a Bachelor of Arts in Economics from Ateneo University and an M.B.A. from The Wharton School of the University of Pennsylvania.

Brian A. Renaud—Mr. Renaud is a Managing Director at Merrill Lynch, Investment Banking. He has been with Merrill Lynch since 1990. He also serves as a director on the board of Wendeng Tianrun Crankshaft Co., Ltd. Mr. Renaud received a Bachelor of Science degree from Georgetown University and an MBA from Harvard University.

Dan I. Siazon—Mr. Siazon is the Chief Representative and General Manager in the Philippine office of JAFCO Investment (Hong Kong) Ltd., (formerly known as Nomura/JAFCO Investment (HK) Ltd.) where he has held several positions since 1995. Mr. Siazon was previously an Account Manager with Northern Telecom (Asia/Pacific) Ltd. from 1993 to 1994. Mr. Siazon received a bachelors degree in Mechanical Engineering from the University of Notre Dame, an MBA from The Wharton School of the University of Pennsylvania and an MA in International Studies from the University of Pennsylvania.

Ramon del Rosario, Jr.—Mr. del Rosario is Vice Chairman of Philippine Investment Management Consultants, Inc. (PHINMA), Vice Chairman of Mapfre Asian Insurance Corp., and serves as a director of Ayala Land, Inc. and other companies. He was formerly Chairman and Chief Executive Officer of AsianBank Corporation, served as Secretary of Finance of the Republic of the Philippines from 1992 to 1993 and was Executive Vice President and Chief Financial Officer of San Miguel Corporation from 1986 to 1989. Mr. del Rosario received bachelors degrees in Accounting and Social Science from De La Salle College and an MBA from Harvard University.

Roberto de Ocampo—Mr. de Ocampo is currently President of the Asian Institute of Management, a graduate school of business and management in Manila. He served as Secretary of Finance of the Republic of the Philippines from 1994 to 1998 during the presidency of Fidel V. Ramos and was previously President and Chief Executive Officer of the Development Bank of the Philippines. Mr. de Ocampo graduated from De La Salle College and Ateneo University, received an MBA from the University of Michigan and holds a post-graduate diploma from the London School of Economics.

Romeo L. Bernardo—Mr. Bernardo is a Managing Director and President of Lazaro Bernardo Tiu & Associates, Inc., a consultancy firm. He was a director of Bank of Philippine Islands and the Philippine Income Fund as well as an ex-officio director of Philippine Long Distance Telephone Company. Mr. Bernardo was an alternate director of the Asian Development Bank from 1997 to 1998 and Finance Undersecretary for International Finance, Privatization & Treasury Operations of the Department of Finance of the Republic of the Philippines from 1990 to 1996. Mr. Bernardo received a Bachelor of Science degree in Business Economics from the University of the Philippines and a masters degree in Development Economics from Williams College.

Thelma G. Oribello—Ms. Oribello is our Chief Financial Officer and Treasurer, and Chief Financial Officer of PSi Technologies, Inc. She joined us in 1995. Previously, she was an Assistant Vice President and Corporate Controller at RFM Corporation and an Audit Supervisor at SGV & Co. Ms. Oribello is a certified public accountant and has a bachelors degree in Business Administration, major in Accountancy, from the University of the East in Manila (cum laude) and studied for an MBA at the University of the Philippines.

Helen G. Tiu—Ms. Tiu is the Corporate Secretary of PSi Technologies Holdings, Inc. and its subsidiaries. She is a Managing Director of Lazaro Bernardo Tiu & Associates Inc., a consultancy firm, and practices law at H.G. Tiu Law Offices. Ms. Tiu was a partner at SGV & Co from 1994 to 1996, Head Executive Assistant at the Office of the Secretary, Department of Energy in the Philippines from 1993 to 1994, and a director of Petron Corporation from 1993 to 1994 and of Goodyear Corporation in 1994. She is a certified public accountant and a member of the

Philippine Bar. She received a Bachelor of Science in Business Administration and Accountancy (cum laude) and a Bachelor of Laws from the University of the Philippines and a Masters of Laws degree from Harvard University.

Additional Executive Officers of PSi Technologies, Inc.

The following sets out biographical information for additional executive officers of our principal operating subsidiary.

Randall M. Young—Mr. Young serves as the President and a Director of Pacsem Realty and Psitech Realty Inc. Previously, he was a director at Amon Securities Inc. and Treasurer at Tisdall Industrial Corporation. Mr. Young received a bachelors degree in Business Administration from Simon Frazer University. Mr. Young is also the brother of Arthur Young.

Mario M. Buencamino—Mr. Buencamino is our Senior Vice President for Operations as well as Chief Operating Officer of PSi Technologies Laguna, Inc. He joined us in 1988. Mr. Buencamino has 23 years experience in the semiconductor industry. Previously, he worked for ten years as Operations Manager at Semiconductor Devices, Inc. Mr. Buencamino received a degree in Electronics and Communications Engineering from the University of the East in Manila.

Bach Johann M. Sebastian—Mr. Sebastian is our Senior Vice President for Corporate Strategy and Communications. He joined us in May 2000. Prior to joining us, Mr. Sebastian was a Senior Vice President and Chief Planning Officer of RFM Corporation from 1991 to 2000, and Director for Planning and Chief Economist of the Philippine Department of Trade and Industry from 1984 to 1991. He holds a Bachelor of Arts degree in Economics from the University of the Philippines and a Masters in Business Management from the Asian Institute of Management in Manila.

Rizaldy F. Lanon—Mr. Lanon is our Vice President for Business and Technology Development. He joined us in 1994. Mr. Lanon has 20 years of experience in the semiconductor industry. Prior to joining us, Mr. Lanon was a Technical Manager at National Semiconductor Corporation and had primary responsibility of Process Engineering and Package Technology. Mr. Lanon received a degree in Electrical Engineering from FEATI University, Manila.

Ramon C. Magsaysay—Mr. Magsaysay is our Vice President for Reliability and Quality Assurance. He joined us in 1992. Mr. Magsaysay has 24 years of experience in the semiconductor industry. Previously, he was an Operations Manager at Motorola and an Assistant Vice President for Quality Assurance at Uniden Electronics Corporation. Mr. Magsaysay received a degree in Electronics and Communications Engineering from Don Bosco Institute of Technology and an M.B.A. from Philippine Christian University.

Erwin O. Manibog—Mr. Manibog is our Vice President for Manufacturing. He joined us in September 2000. Mr. Manibog has 19 years of experience in the semiconductor industry. Previously, he was an Offshore Operations Manager at International Microelectronics Products Inc. Mr. Manibog holds a Bachelor of Science degree in Electronics and Communications Engineering from FEATI University.

Alfredo M. Canlas—Mr. Canlas is our Assistant Vice President for Marketing and Sales. He joined us in 1999. Mr. Canlas has 21 years of experience in the semiconductor industry. Previously, he worked for six years as Manager of Advanced Technology Group at Philips Semiconductor. Mr. Canlas received a degree in Mechanical Engineering from Adamson University.

Medardo D. Chua—Mr. Chua is our Assistant Vice President for Equipment Engineering. He joined us in September 2000. Mr. Chua has over 20 years of experience in the semiconductor industry. Previously, he was Maintenance Department Manager at TSPIC Corp. Mr. Chua received a Bachelors of Science degree in Electrical Engineering from National University in Manila.

Arturo M. Macadangdang—Mr. Macadangdang is our Assistant Vice President for Manufacturing. He joined us in 1988 and was appointed to his present position in 2000. Mr. Macadangdang has 24 years of experience in the semiconductor industry. Before joining us, he was Production Manager at Semiconductor Devices Philippines

Inc. Mr. Macadangdang received a Bachelors of Science degree in Electronics and Communications Engineering from the University of the East in Manila.

Rolanda P. Paysu—Ms. Paysu is our Assistant Vice President for Human Resources Development and Administration. She joined us in February 2001. She has 13 years of experience in the industry. Previously, Ms. Paysu was Human Resources and Employee Relations Manager of Amkor Technologies Philippines and Texas Instruments Philippines. Ms. Paysu received a Bachelor of Arts degree in Psychology from Letran College in Manila, and a Masters of Science degree in Social Psychology from Ateneo De Manila University.

Cynthia E. Jose—Ms. Jose is our Assistant Vice President for Corporate Planning. She joined us in 1989 and was appointed to her present position in 2001. Ms. Jose has 12 years of experience in the semiconductor industry and holds a Bachelor of Science degree in Industrial Engineering from the University of Santo Tomas in Manila.

Edwin V. Valdez—Mr. Valdez is our Assistant Vice President for Special Business Units. He joined us in 1988 and was appointed to his current position in 2001. Mr. Valdez has 23 years of experience in the semiconductor industry. Previously, Mr. Valdez was Senior Process Supervisor and Quality Assurance Manager at Pricon Microelectronics and Stanford Microsystems Inc. Mr. Valdez holds a Bachelors of Science degree in Electronics and Communications Engineering from FEATI University in Manila.

Ligaya Anza-Zipagang—Ms. Zipagang is our Assistant Vice President for Customer Service. She joined us in 1988 and was appointed to her current position in 2001. Prior to joining our company, Ms. Zipagang worked with Signetics Filipinas, Semiconductor Devices Philippines Inc. and Stanford Microsystems. She holds a Bachelor of Science Degree in Chemical Engineering.

Except as otherwise noted, there is no relationship between any of our directors or executive officers and any other director or executive officer.

We have entered into a non-competition agreement with our Chief Executive Officer, Arthur J. Young, Jr., which provides, among other things, that if Mr. Young is no longer employed with us, he will not render services related to packaging and testing of power semiconductors to other companies for one or two years from the date of his departure depending on the circumstances.

Committees of Our Board of Directors

Our board of directors has an audit committee, a compensation committee, an executive committee and a related party transaction committee.

The audit committee is responsible for (1) selecting and engaging, on our behalf, independent public accountants to audit our annual financial statements, (2) reviewing and approving the planned scope and results of our annual audit, (3) approving the non-audit services provided by our independent public accountants, and (4) reviewing our internal controls and financial reporting process. We have three independent directors on the audit committee. As of December 31, 2000, Mr. del Rosario, Mr. de Ocampo and Mr. Bernardo served on the audit committee, with Mr. de Ocampo serving as Chairman.

The compensation committee is responsible for establishing remuneration levels for some of our officers and perform certain functions under our employee benefit programs. As of December 31, 2000, Mr. Concepcion, Mr. Nacino and Mr. Renaud served on the compensation committee.

The executive committee has and may exercise all the powers of the board of directors during intervals between the meetings of the full board. As of December 31, 2000, Mr. Concepcion, Mr. Renaud and Mr. Siazon served on the executive committee.

The related party transaction committee is responsible for reviewing the terms of the proposed transactions with related parties in accordance with the terms of our articles of incorporation and by-laws. As of December 31, 2000, Mr. del Rosario and Mr. Bernardo served on the related party transaction committee.

B. Compensation

We did not compensate our directors for their services in 2000. We paid an aggregate amount of $671,871 in compensation to our top eight officers in 2000. In addition, we have extended loans totaling $219,593 to our executive officers in 2000. These loans bear interest at prevailing market rates. As of March 31, 2001, the outstanding balance of these loans was $54,321.

Non-executive directors receive per diem compensation for their attendance at each board meeting. Directors are reimbursed for reasonable expenses incurred for attendance of meetings of the board and its committees. Directors may also receive compensation for performing additional or special duties at the request of the Board.

C. Board Practices

The following table sets forth the term of office for the members of our board of directors as of December 31, 2000.

Name	Commencement of First Term	Expiration of Current Term
Jose A. Concepcion III	December 1999	July 2001 (1)
Arthur J. Young, Jr.	December 1999	July 2001
Felicismo Nacino, Jr.	December 1999	July 2001 (1)
Ernest Fritz Server	February 2000	July 2001 (1)
Brian A. Renaud	December 1999	July 2001
Dan I. Siazon	February 2000	July 2001
Ramon del Rosario, Jr.	February 2000	July 2001
Roberto de Ocampo	March 2000	July 2001
Romeo L. Bernardo	February 2000	July 2001

(1) Resignation submitted on May 29, 2001.

On June 7, 2001, Ms. Mandakini Puri, Mr. Sung Min Cho and Ms. Carol Lee were appointed to our board of directors. Such appointments are contingent on the transfer of one of our shares to each individual. These transfers are expected to take place in July 2001.

We do not have directors' service contracts or other agreements that provide for benefits on termination of employment.

D. Employees

As of December 31, 2000, we had 4,041 employees worldwide of which 2,647 were operations personnel, 474 were engineering personnel, 541 were quality personnel, 29 were sales, marketing and customer service personnel and 350 were general, administrative and executive management personnel. We actively recruit to attract the highest quality personnel in our region. Our employees are not covered by any collective-bargaining arrangements. We believe that our relationship with our employees is good.

E. Share Ownership

Our director, president and chief executive officer, Arthur Young, Jr. owns, directly and indirectly, 164,907 shares or 1.24% of our shares. No other directors and executive officers listed in this Item 6 beneficially own more than one percent of our shares.

PSi Stock Option Plan

Pursuant to our stock option plan, options may be granted to certain of our directors, officers and employees for the purchase of up to an aggregate of 741,162 common shares. As of March 31, 2001, an aggregate of 637,100 options were granted. These options vest over five to seven years and expire three years from the vesting date.

In general, our stock option plan requires that options vest not more than ten years from the date of grant and that options expire not more than three years after the vesting date. The plan is administered by the compensation committee of our board of directors which determines, in its discretion, the number of common shares subject to each option granted and the related purchase price and option period. Upon the voluntary termination of employment by an option holder or termination of an option holder for cause, any options granted under our stock option plan to the option holder (whether or not vested) will terminate, unless otherwise authorized by the compensation committee. If termination was due to retirement, disability or involuntary separation other than for cause, the option holder or his successors have the remainder of the applicable term to exercise the option holder's vested options. If termination was due to death, vested options may be exercised for the remainder of their term. Options granted are non-transferable except by will or as otherwise authorized by the compensation committee.

Upon the occurrence of any change in our capital structure, including any merger, liquidation, reorganization or recapitalization, or any other event affecting our shares, our compensation committee may make adjustments to our stock option plan and any outstanding grants, as it may deem necessary or appropriate. Unless terminated earlier by our board, our stock option plan will terminate on February 4, 2010, the 10-year anniversary of the approval of the stock option plan by our board and shareholders.

We recognized share compensation expense for options granted to employees under our stock option plan. For each reporting period, compensation cost for shares granted under the scheme to employees was recorded over the requisite vesting period based on the current market value of our ordinary shares at the end of the relevant period. Total compensation cost is measured based on the difference between the fair value of the shares and the price at which the shares are offered under the plan at the time the shares are granted. Compensation expense is provided generally over the vesting period on a systematic basis. See Note 14 to our consolidated financial statements.

ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table describes the beneficial ownership of our common shares as of June 1, 2001, based on an aggregate of 13,289,525 common shares outstanding as of such date, by each person who is the beneficial owner of 5% or more of our capital stock.

Holders	Number of Common Shares Beneficially Owned	Percentage Beneficially Owned
Merrill Lynch Global Emerging Markets Partners, L.P.(1)	7,141,624	53.7%
NJI No. 2 Investment Fund(2)	1,955,741	14.7%

(1) Merrill Lynch Global Emerging Markets Partners, L.P. is a private investment fund.
(2) NJI No. 2 Investment Fund is a private investment fund.

B. Related Party Transactions

For the year ended December 31, 2000, there were no loans or transactions between our company and related parties other than those made on usual terms and conditions and in the ordinary course of business.

Shareholders' Agreement and Registration Rights Agreement

Shareholders' Agreement. On May 29, 2001, we, our principal operating subsidiary, PSi Technologies, Inc., Merrill Lynch Global Emerging Markets Partners, L.P. (which we call Merrill Lynch), JAFCO Investment (Asia Pacific) Ltd. (which we call JAFCO), acting as Investment Manager of NJI No. 2 Investment Fund, and Arthur Young, Jr. entered into a shareholders' agreement, relating to their ownership, transfer and voting of our common shares. Under the shareholders' agreement, all common shares owned by Merrill Lynch, JAFCO and Arthur Young, Jr. are subject to resale restrictions. Under certain circumstances, each of Merrill Lynch and JAFCO has a right of first refusal to purchase and a tag-along right to sell, when JAFCO or Merrill Lynch, as the case may be, elects to transfer its shares.

As a result of its shareholdings, and in accordance with the shareholders' agreement, Merrill Lynch may appoint and remove a majority of our board of directors and the board of directors of our principal operating subsidiary. Our board consists of nine directors. Merrill Lynch and JAFCO have agreed, subject to certain conditions, that they will vote to ensure that our board of directors will be comprised of:

- five directors nominated by Merrill Lynch: Arthur Young, Jr., Mandakini Puri, Brian Renaud, Sung Min Cho and Carol Lee;
- one director nominated by JAFCO: Dan I. Siazon; and
- three independent directors: Ramon del Rosario, Roberto de Ocampo and Romeo Bernardo.

We and our principal operating subsidiary have agreed to indemnify and hold harmless each member of our board of directors and each member of our principal operating subsidiary's board of directors to the fullest extent permitted under applicable law.

As a result of their shareholdings and related rights to representation on our board, Merrill Lynch and JAFCO may prevent us from taking certain actions as set forth in the shareholders' agreement. See "Item 10—Additional Information—Articles of Association and By-laws—Matters Requiring Shareholder Approval". As of the date of this annual report, purchasers of our ADSs owned in the aggregate 27.82% of our share capital. You may not be in a position to exercise any significant control or influence over the business and affairs of our company or any of our subsidiaries. In addition, without the consent of Merrill Lynch and JAFCO, acting through directors nominated by them or through their vote as shareholders, no amendments to any of our organizational documents or those of our subsidiaries may be made nor may we sell all or part of our shares or material assets or those of our subsidiaries.

The shareholders' agreement also prohibits us from taking any action that would cause taxable gain to be recognized by any partner of Merrill Lynch under Section 367 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, or under a gain recognition agreement filed by a partner of Merrill Lynch pursuant to U.S. Treasury Regulation Section 1.367(a)-8. During the five year period following our 1999 reorganization, the sale, transfer, or disposition of our shares in, or a substantial portion of the assets of, our principal operating subsidiary, would cause a partner of Merrill Lynch to recognize gain under Section 367 of the Code, and under Treasury Regulation 1.367(a)-8, and is therefore prohibited under the shareholders' agreement.

Registration Rights Agreement. We, Merrill Lynch and JAFCO are party to an agreement dated May 29, 2001, that grants Merrill Lynch and JAFCO certain registration rights. Each of Merrill Lynch and JAFCO has an option to cause us to effect up to three registrations of the shares owned by it, its affiliates and transferees. If one party exercises its registration rights, the other parties having registration rights may elect to include their shares in the registered offering. The registration rights agreement also provides that if we register any equity securities for a primary or secondary offering, we must permit each of Merrill Lynch and JAFCO, and anyone to whom they have transferred shares in a private placement, to include their shares in the offering. We have agreed to bear a portion of the expenses related to any of these registered offerings.

Additional Undertakings. We have agreed to comply with other covenants set forth in the shareholders' agreement and the registration rights agreement. Among other things, we have agreed to indemnify, hold harmless against and pay on behalf of or reimburse any losses which Merrill Lynch or JAFCO may suffer or become subject to as a result of breaches by us of the agreements, misrepresentations by us, or causes of action arising out of or in connection with our operations.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8 FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

1. Please refer to Item 18 for our consolidated financial statements.

2. Please refer to Item 18 for our comparative financial statements.

3. Please refer to Item 18 for the independent auditors' report given by Arthur Andersen.

4. The last year of audited financial statements are not older than 15 months.

5. Not applicable.

6. We do not have any income derived from non-Philippine sources for the year ended December 31, 2000**.**

7. **Legal Proceedings**

We are not a party to any material legal proceedings beyond proceedings within the ordinary course of business, individually or in the aggregate, which we believe would materially harm our business.

8. **Dividend Policy**

We have not paid dividends on our common shares for the past five years. We intend to retain any or all future earnings for use in our business and we do not intend to pay dividends on our common shares. The declaration of payment and amount of dividends, if any, on outstanding common shares will be subject to the discretion of our board of directors. The declaration of any stock dividend must also be approved by the vote of shareholders representing at least two-thirds of our outstanding capital stock at a shareholders meeting called for that purpose. See "Item 10—Additional Information—Articles of Association and By-laws—Matters Requiring Shareholder Approval." Cash dividends, if any, will depend upon our future operations and earnings, set-off of accumulated losses, financial condition, cash requirements and availability and other factors as may be deemed relevant by our board of directors.

Holders of our common shares will be entitled to receive such dividends as determined by the board of directors according to the number of common shares held. Dividends may be paid only out of our distributable profits. See " Item 10—Additional Information—Articles of Association and By-laws—Dividends." The retained earnings of our principal operating subsidiary, PSi Technologies, Inc., are reflected as part of our retained earnings but may be declared as a dividend by us only when declared as a dividend by PSi Technologies, Inc. to us.

Holders of our ADSs will be entitled to receive dividends distributed to the depositary, subject to the terms of the deposit agreement, to the same extent as holders of our common shares, less the fees and expenses payable under the deposit agreement, withholding tax and other governmental charges. Cash dividends will be paid to the depositary bank in Philippine pesos and will be converted by the depositary bank into U.S. dollars and paid to holders of ADSs. Stock dividends, if any, will be distributed to the depositary and will be distributed by the depositary in the form of additional ADSs, to holders of ADSs.

B. Significant Changes

Please see "Item 7—Major Shareholders and Related Party Transactions—Shareholders' Agreement and Registration Rights Agreement" for more information on significant events which have occurred since the date of our annual financial statements.

ITEM 9 THE OFFERING AND LISTING

A. Offer and Listing Details

The following table set forth, for the period indicated, the high and low sale prices per ADS since trading on March 16, 2000, as furnished by the Nasdaq National Market, or Nasdaq. The initial public offering price of our ADSs was $16.00 per ADS.

Annual high and low market prices

Year	High (date)	Low (date)
2000	$25.44 (on March 17)	$4.00 (on December 21)

Quarterly high and low market prices

Quarter	High (date)	Low (date)
Q1 2000	$25.44 (on March 17)	$14.88 (on March 30)
Q2 2000	$20.75 (on June 30)	$11.88 (on May 31)
Q3 2000	$23.50 (on July 17)	$12.50 (on September 27)
Q4 2000	$12.25 (on October 2)	$4.00 (on December 21)

Quarter	High (date)	Low (date)
Q1 2001	$10.06 (on January 30)	$4.62 (on March 5)

Monthly high and low market prices

Month	High (date)	Low (date)
December 2000	$ 9.50 (on December 12)	$4.00 (on December 21)
January 2001	$10.06 (on January 30)	$5.00 (on January 10)
February 2001	$ 9.69 (on February 1)	$5.75 (on February 26)
March 2001	$ 6.88 (on March 30)	$4.62 (on March 5)
April 2001	$ 8.06 (on April 20)	$4.75 (on April 9)
May 2001	$10.25 (on May 8)	$8.25 (on May 1)

The last reported sale price of our ADSs was $8.70 on June 15, 2001.

B. Plan of Distribution

Not applicable.

C. Markets

Our shares are listed on the Nasdaq National Market.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10 ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Articles of Association and By-laws

The following statements summarize the material provisions of our articles of incorporation and by-laws and the Corporation Code of the Philippines, or the Corporation Code, insofar as they relate to the material terms of our common shares.

Our primary purpose, as stated in our articles of incorporation, is to serve as a holding company. The primary purpose of our principal operating subsidiary is to engage in the business of manufacturing semiconductor products and components of all kinds and makes. We are not allowed to engage in the management of fund portfolios or to act as a stockbroker or dealer in securities.

Capital Structure

As of May 31, 2001, our authorized share capital consisted of 37,058,100 authorized common shares, having a par value of $1^2/_3$ Philippine pesos per share. As of May 31, 2000, we had 13,289,525 common shares outstanding, a total subscribed capital of PHP 22,149,208 and a total paid-up capital of PHP 2,736,161,980. We have reserved a total of 741,162 common shares to be issued upon the exercise of options that may be granted pursuant to our stock option plan. See "Item 6—Directors, Senior Management and Employees—Share Ownership—PSi Stock Option Plan."

Share Issuance

Under the Corporation Code, a corporation can issue shares of stock with such rights, privileges or restrictions as may be provided for in its articles of incorporation. In the absence of specific restrictions in the articles of incorporation, common shares have full voting and dividend rights. A corporation may not issue shares for consideration less than the par value of such shares as stated in its articles of incorporation. It may, however, issue shares for a consideration in excess of the par value of such shares. Where a corporation issues shares at a premium, an amount equal to the amount by which the subscription price exceeds the par value is credited to an account designated as paid-in surplus or additional paid-in capital.

Subject to the approval of PSEC, a corporation may increase or decrease its authorized capital stock with the approval of a majority of the board of directors and the affirmative vote of shareholders representing at least two-thirds of the outstanding capital stock of the corporation.

A corporation may repurchase its own shares of stock, provided that it has unrestricted retained earnings to pay for the shares to be acquired or purchased, for legitimate corporate purpose or purposes. These purposes include, but are not limited to the following:

- to eliminate fractional shares arising out of stock dividends;
- to purchase shares of dissenting shareholders exercising their appraisal right; and
- to collect or settle an indebtedness arising out of an unpaid subscription in a delinquent sale and to purchase delinquent shares sold during said sale.

The shares repurchased by the corporation become treasury shares which may again be sold for a reasonable price fixed by the board of directors. Shares do not have voting rights or dividend rights as long as they remain in the treasury.

Shares of stock which are offered to the public in the Philippines are required to be registered with the PSEC. The PSEC may deny registration of shares and refuse to issue a permit to sell shares if the registration statement for the shares is incomplete or inaccurate in any material respect. or includes any untrue statement of material fact, or omits to state a material fact required to be stated in the registration statement or necessary to make the statements therein not misleading. The PSEC may also deny registration for the shares if the issuer corporation or any of its officers or directors are not qualified under the standards of the Philippines Revised Securities Act or existing PSEC regulations.

Foreign Ownership Restrictions

We are not subject to any foreign equity ownership restrictions because we are not engaged in any business activity nor in possession of any asset that would attract the applicability of foreign ownership restrictions under Philippine law. Our foreign shareholders are not subject to any applicable limitations on voting their shares.

However, our affiliates, PSitech Realty Inc. and Pacsem Realty, Inc., being landholding companies, are subject to foreign ownership restrictions under the Philippine Constitution. The maximum foreign ownership percentage allowed for a landholding company is 40% of the company's capital stock. PSi Technologies, Inc. currently holds 40% of the capital stock of each of PSitech Realty, Inc. and Pacsem Realty, Inc. because it is considered to be a non-Philippine national due to the beneficial ownership of Merrill Lynch Global Emerging Markets Partners, L.P. and JAFCO Investment (Asia Pacific) Ltd., acting as investment manager of NJI No. 2 Investment Fund. To qualify as a Philippine national, a corporation must be organized under Philippine law with at least 60% of its capital stock outstanding and entitled to vote being owned and held by citizens of the Philippines.

Pre-emption Rights

The Corporation Code confers the right of pre-emption on shareholders of a Philippine corporation which entitles them to subscribe for all issues or other dispositions of shares by the corporation in proportion to their respective shareholdings, regardless of whether the shares proposed to be issued or otherwise disposed of are identical in all respects to the shares held. The pre-emption right conferred by the Corporation Code does not, however, apply to the issuance of shares made to ensure compliance with laws requiring share offerings or minimum share ownership by the public, in exchange for the acquisition of property required for corporate purposes, or in payment of a debt previously contracted.

The Corporation Code allows Philippine corporations to provide for the exclusion of the right of pre-emption in its articles of incorporation. Our articles of incorporation provide that, unless the right of preemption is granted from time to time by the board of directors in its discretion, our shareholders do not have the pre-emptive right to purchase or subscribe for:

- any unissued or re-issued shares of any class;
- any additional shares of any class to be issued by reason of any increase in our authorized capital
- stock; or
- any securities convertible into any class of our shares.

General Meeting of Shareholders

The Corporation Code requires all Philippine corporations to hold an annual general meeting of shareholders for the principal purpose of electing directors. Our annual general meeting of shareholders is required by our by-laws to be held on any day in the month of June each year.

Voting

Each holder of our common shares is entitled to one vote per common share during shareholders' meetings. However, in the election of directors, each shareholder is entitled to such number of votes as is equal to the product of the number of common shares owned by him and the number of directors to be elected. The shareholder may accumulate his votes in favor of one candidate or distribute these votes in such proportion and amount between as many of the candidates as the shareholder wishes. The election of directors may only be held at a meeting convened for that purpose at which shareholders representing a majority of our outstanding capital stock are present in person or by proxy. However, any vacancy on our board, other than by removal or expiration of term, may be filled by the majority of the remaining directors if still constituting a quorum.

Management

Our corporate powers are exercised by our board of directors. The members of our board of directors are elected for a one year term during the annual general meeting of our shareholders. The Corporation Code further requires that each of our directors must own at least one share of our company.

The Corporation Code incorporates the common law principle that every director owes his company the duties of obedience, diligence and loyalty. These duties are illustrated through certain specific provisions of the Corporation Code, including the following:

- A contract of the corporation with one or more of its directors is voidable at the option of such corporation unless all the following conditions are present: (1) that the presence of such director in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting; (2) that the vote of such director was not necessary for the approval of the contract; and (3) that the contract is fair and reasonable under the circumstances. Where any of the first two conditions set forth above is absent, in the case of a contract with a director, such contract may be ratified by the vote of shareholders representing at least two-thirds of the outstanding capital stock in a meeting called for the purpose, provided that full disclosure of the adverse interest of the director involved is made at such meeting and provided that the contract is fair and reasonable under the circumstances;

- Where a director, by virtue of his office acquires for himself a business opportunity which should belong to the corporation, thereby obtaining profits to the prejudice of such corporation, he must account to the latter for all such profits by refunding the same even if he risked his own funds in the venture, unless his act has been ratified by a vote of shareholders owning or representing at least two-thirds of the outstanding capital stock of the company; and

- Directors who willfully and knowingly vote for or assent to patently unlawful acts of the corporation, or who are guilty of gross negligence or bad faith in directing the affairs of the corporation, or who acquire any personal or pecuniary interests in conflict with their duty as such directors shall be liable jointly and severally for all damages resulting therefrom suffered by the corporation, its shareholders and other persons. Where a director attempts to acquire or acquires, in violation of his duty, an interest adverse to the corporation in respect of any matter which has been entrusted to him, as to which principles of equity imposes a duty to refrain from self-dealing, he shall be liable as a trustee for the corporation and must account for the profits which otherwise would have accrued to the corporation.

With respect to compensation of directors, our by-laws provide that directors may be reimbursed for expenses, if any, associated with the attendance of meetings of our board of directors and may be paid a fixed sum for such attendance.

Matters Requiring the Approval of Directors Selected by our Principal Shareholders.

Our by-laws currently provide that, in respect of the following matters, no resolution shall be passed by the board of directors of our company unless approved affirmatively by directors selected by Merrill Lynch Global Emerging Markets Partners, L.P. and JAFCO Investment (Asia Pacific) Ltd., acting as investment manager of NJI No. 2 Investment Fund:

- the amendment of the articles of incorporation and/or by-laws of our company or any of our subsidiaries;

- the pledge, sale, transfer or disposition, in one or a series of transactions, of (1) any shares of our principal operating subsidiary, PSi Technologies, Inc. (2) more than 50% of the assets of PSi Technologies, Inc. (including, without limitation, shares of PSi Technologies, Inc.'s subsidiaries), or (3) any shares of our affiliate, Psitech Realty, Inc.;

- any action that would cause gains to be recognized under Section 367 of the U.S. Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder (including, without limitation, under any gain recognition agreement pursuant to Treasury Regulation Section 1.367(a)-8) by any partner of Merrill Lynch Global Emerging Markets Partners, L.P., upon and after the exchange by RFM Corporation, Merrill Lynch Global Emerging Markets Partners, L.P. and JAFCO Investment (Asia Pacific) Ltd., acting as investment manager of NJI No. 2 Investment Fund of their shares in our company for shares pursuant to the Deed of Assignment dated November 19, 1999; and

- any action, directly or indirectly, in contemplation of any of the foregoing.

Matters Requiring Shareholder Approval

Some corporate acts may only be effected with the approval of our shareholders. Any amendment to our by-laws may only be effected with the approval of our shareholders representing at least a majority of our outstanding capital stock at a shareholders' meeting convened for that purpose. The approval of our shareholders representing at least two-thirds of our outstanding capital stock is required for each of the following corporate actions:

- any amendment to our articles of incorporation;
- the removal of any director;
- the ratification of contracts entered into by a director by virtue of his office under which contract the director acquired a business opportunity which should have belonged to the corporation;
- the ratification of corporate contracts entered into by us with any of our directors if:
    - the presence of the director in the board meeting at which the contract was approved was necessary to constitute a quorum for such meeting; or
    - the vote of the director was necessary for the approval of the contract;
- the sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of our assets;
- the investment of funds in any other corporation or business or for any purpose other than the primary purpose for which we were organized. The failure to obtain shareholder approved in these instances would render the transaction void;
- incurring, creating or increasing our bonded indebtedness;
- the extension or shortening of our term of corporate existence, which currently expires on December 10, 2049;
- the issuance of shares in exchange for property required for corporate purposes or in payment of a previously contracted debt;
- the declaration of stock dividends;
- the approval and amendment of any stock option plan;
- the conclusion of management contracts with another corporation if/in the event:
    - the shareholders representing the same interest of both the managing and the managed corporation own or control more than one-third of the total outstanding capital stock entitled to vote of the managing corporation; or
    - where a majority of our board of directors of the managing corporation also constitutes a majority of the board of directors of the managed corporation;
- the delegation to our board of directors of the power to amend or repeal the by-laws or to adopt new by-laws;
- any plan or agreement of merger or consolidation with any corporation, including any amendment thereof; and
- our voluntary dissolution.

Dividends

We may only pay dividends out of our unrestricted retained earnings. These represent our net accumulated earnings, with our capital unimpaired, which are not appropriated for any other purpose. We may pay dividends in cash, by the distribution of property, or by the issue of shares of stock. Dividends paid in the form of shares may only be paid with the approval of shareholders representing at least two thirds of our outstanding capital stock at a shareholders' meeting called for such purpose. The Philippine Securities and Exchange Commission, or PSEC, has also ruled that even in the absence of unrestricted retained earnings, stock dividends may be declared out of additional paid-in-capital.

Our board of directors has the discretion to declare cash or property dividends. The issuance of property dividends must conform with the following conditions:

- the property to be distributed as a dividend must consist of property that is no longer intended to be used in the operation of our business and practicable to be distributed as dividends;

- the issuance of property dividends must not result in an inequitable distribution of property to the shareholders in terms of the book value and market value, if any, of the property distributed;

- when the distribution of dividends is made where some shareholders will receive cash and the others will receive property, the prevailing market value of the property, as agreed upon by the shareholders, will be considered in determining the equitable distribution of the total dividends; and

- The distribution of property dividends must be approved by the PSEC.

Corporations with surplus profits in excess of 100% of their paid up capital are required to declare and distribute those profits as dividends, except:

- when retaining the profits is justified by definite corporate expansion projects or programs approved by the board of directors;

- when the consent of creditors is required under any loan agreement and the consent has not been secured; or

- when it can be clearly shown that retaining the profits is necessary under the special circumstances of the corporation, as when special reserves are required for probable contingent liabilities.

Rights of Minority Shareholders

The rights of a shareholder to institute proceedings on our behalf in a derivative suit is recognized in the Philippines. Derivative suits may be filed if we are unable or unwilling to institute the necessary proceedings to redress wrongs committed against us or to vindicate corporate rights. Derivative suits are filed with the PSEC. The PSEC has original and exclusive jurisdiction over intra-corporate disputes.

A shareholder has a right to dissent and demand payment of the fair value of his shares in any of the following instances:

- any amendment to our articles of incorporation which has the effect of changing or restricting rights attached to his shares or of authorizing preferences superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

- the sale, lease, mortgage, pledge or other disposition of all or substantially all of our assets;

- the investment of corporate funds for purposes other than to accomplish our primary purpose or investment in another corporation or business except when the investment is reasonably necessary to accomplish our primary purpose; and

- our merger or consolidation with another corporation.

The fair value for the shares of a dissenting shareholder sold to us may be agreed upon by the parties. If parties cannot reach an agreement, fair value will be determined by an independent committee. Payment for the shares of a dissenting shareholder may be made only if we have unrestricted retained earnings to purchase the shares.

Shareholders have the right to inspect our records at reasonable hours on business days. These records include minutes of all meetings of the board of directors and of the shareholders, and records of our business transactions. The right of inspection may be denied to shareholders seeking to examine our records if they have improperly used any information obtained through any prior examination of our records, or did not act in good faith or for a legitimate purpose in making a demand for inspection.

Accounting and Auditing

Philippine corporations are required to file copies of their annual financial statements with the PSEC. Shareholders are entitled to request from the PSEC or from us copies of our most recent financial statements which must include a balance sheet and a profit and loss statement as of the end of the last tax year.

The board of directors presents a financial report of our operations for the preceding year at the annual general meeting of shareholders. This report is included with our audited financial statements.

Transfer Agent

We have appointed The Bank of New York as the transfer agent and registrar for the common shares underlying our ADSs.

C. Material Contracts

We have no material contracts other than contracts entered into in the ordinary course of business.

D. Exchange Controls

Under current regulations of the Philippine Central Bank, an investment in Philippine securities must be registered with the Philippine Central Bank if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings which accrue thereon is to be sourced from the banking system.

In the case of Philippine securities not listed with the Philippine Stock Exchange such as our common shares held by the depositary bank, the Bank of New York, the application for registration must be filed by the investor or its representative directly with the Philippine Central Bank. Applications for registration of such investments must be accompanied by (i) credit advice or bank certification showing the amount of foreign currency inwardly remitted, and (ii) sworn certification of the officer of the investee firm concerned attesting to the number of shares and amount paid for the investment. Upon submission of the required documents, the Philippine Central Bank will issue a Bangko Sentral Registration Document, or BSRD. On October 9, 2000, the Philippine Central Bank issued a BSRD in relation to the Bank of New York's investment, as Depositary Bank, in our shares.

Proceeds of divestments as well as distributions or dividends derived from the registered investments are repatriable or remittable immediately and in full through the Philippine commercial banking system, net of applicable tax, without the need of Philippine Central Bank approval. Remittance is allowed upon presentation of the BSRD at the exchange rate applicable on the date of actual remittance. Pending registration or reinvestment, divestment proceeds as well as dividends of registered investments may be lodged temporarily in interest-bearing deposit accounts. Interest earned thereon, net of taxes, is also remittable in full. Remittance of divestment proceeds or dividends of registered investments may be reinvested in the Philippines if the investments are registered with the Philippine Central Bank.

Proceeds of divestments as well as distributions or dividends derived from investments not registered with the Philippine Central Bank may be converted into foreign exchange through non-bank sources of foreign exchange.

The foregoing is subject to the Philippine Central Bank's power, with the approval of the President of the Philippines, to restrict the availability of foreign exchange (1) during an exchange crisis when the international reserve of the Philippine Central Bank falls to levels which it considers inadequate to meet the prospective net demands on the Philippine Central Bank for foreign currencies, (2) whenever the international reserve appears to be in imminent danger of falling to such a level, or (3) whenever the international reserve is falling as a result of payments or remittances abroad which, in the opinion of the Philippine Central Bank, is contrary to the national welfare. Furthermore, we cannot assure you that current Philippine Central Bank regulations will not be made more restrictive.

E. Taxation

The following summary of the material Philippine and U.S. federal income tax consequences of the purchase, ownership and disposal of the common shares or ADSs is based upon circumstances, laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to the purchase, ownership and disposal of the common shares or ADSs, such as the tax consequences under state, local and other tax laws. Accordingly each prospective investor and holder, and particularly those prospective investors and holders subject to special tax rules, such as banks, dealers, insurance companies and tax exempt entities, should consult their own tax adviser regarding the tax consequences of an investment in and ownership of the common shares or ADSs.

Philippine Taxation

The following is the opinion of H. C. Tiu Law Offices, our Philippine counsel, on the material Philippine tax consequences resulting from the purchase, ownership and disposition of ADSs outside the Philippines and of direct investments in our common shares. This summary does not consider all possible Philippine tax consequences of the purchase, ownership and disposition of common shares or ADSs and is not intended to reflect the individual tax position of any beneficial owner. The summary is based upon our existing circumstances, the National Internal Revenue Code, as amended, commonly referred to as the NIRC, its legislative history, existing regulations, revenue memorandum circulars and revenue audit memorandum orders and published rulings issued by the Philippine Bureau of Internal Revenue, administrative practice, income tax conventions or treaties, and judicial decisions, all in effect, as of the date of this annual report, all of which are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively.

Taxation Regarding the Common Shares

Issuance and Exchange of ADSs. Our Philippine counsel, H.G. Tiu Law Offices, has expressed the opinion that no Philippine taxes are payable upon the issuance of the ADSs by the depositary bank to the holders of ADSs but that Philippine capital gains and documentary stamp taxes are payable upon the transfer of common shares to a holder of ADSs.

Taxation of Capital Gains. The NIRC provides that gain from the sale of shares in a Philippine corporation will be treated as derived entirely from sources within the Philippines, regardless of where the shares are sold. The rate of tax on such gain is 5% for gains not exceeding PHP100,000 and 10% for gains in excess of that amount. The rate of tax is the same for both non-resident individuals and non-resident non-Philippine corporations. The NIRC prohibits a transfer from being recorded in the books of the corporation unless the Philippine Commissioner of Internal Revenue, through his authorized representative, certifies that the capital gains and documentary stamp taxes have been paid or other conditions are met. The NIRC allows non-resident individuals and non-resident non-

Philippine corporations to net capital gains and losses during a taxable year in determining their total capital gains tax.

Under the Convention between the Government of the United States of America and the Government of the Republic of the Philippines with respect to Taxes on Income, or the US-RP Income Tax Treaty, capital gains derived by a U.S. resident from the sale of shares of a Philippine corporation will not be subject to the Philippine Income Tax unless the shares are those of a corporation over 50% of the assets of which consist of real property interest located in the Philippines or in a Philippine Real Property Corporation. PSi Technologies Holdings, Inc. is currently not a Philippine Real Property Corporation.

Our Philippine counsel has expressed the opinion that transfers of ADSs by persons who are not residents of the Philippines but are residents of the United States, Japan, Canada, the United Kingdom or France for purposes of taxation in those jurisdictions are not subject to Philippine capital gains tax pursuant to the tax treaties that the Philippines has entered into with those countries. The rules relating to the taxability of transfers of ADSs by non-resident alien individuals and non-resident non-Philippine corporations and the extra-territorial applicability of Philippine tax laws are complex. Prospective purchasers who do not belong to the categories of persons described above should consult their own tax advisor to determine whether and to what extent they would be entitled to tax treaty benefits, if any.

Taxation of Dividends. Under the NIRC, dividends paid by a Philippine corporation to non-resident alien individuals that are not engaged in trade or business in the Philippines are subject to withholding tax at the rate of 25%. Dividends paid to non-resident alien individuals that are engaged in trade or business in the Philippines are subject to withholding tax at the rate of 20%. Dividends paid by a Philippine corporation to non-resident non-Philippine corporations are subject to withholding tax at the rate of 32%. A non-Philippine corporation is a Philippine resident only if it engages in trade or business in the Philippines. The 32% rate for dividends paid to a non-resident non-Philippine corporation may be reduced to a special 15% rate if (1) the country in which the non-resident non-Philippine corporation is domiciled imposes no taxes on foreign source dividends (this condition is not satisfied in the case of corporations domiciled in the United States) or (2) the non-resident non-Philippine corporation is entitled to a credit against the tax due from such nonresident non-Philippine corporation for taxes deemed to have been paid in the Philippines in an amount equivalent to at least 17% of the dividends. This second condition may be difficult to satisfy in the case of a corporation domiciled in the United States if the corporation owns less than 10% of our voting stock.

In circumstances where our common shares are held directly, a preferential tax treaty rate may be available under treaties in force between the Philippines and the country of residence of a non-resident alien or non-resident non-Philippine corporation that does not engage in a trade or business in the Philippines. For example, U.S. holders would be eligible for a treaty rate of 25%. The 20% treaty rate and the special 15% rate described above are not applicable in the case of non-resident non-Philippine corporations which are domiciled in the United States and which own less than 10% of our voting stock.

Holders of our common shares will be required in all cases to establish their eligibility before they can take advantage of any treaty or other reduced rate available under Philippine law. Philippine tax authorities have prescribed, through an administrative issuance, procedures for seeking tax treaty relief.

Documentary Stamp Taxes. The Philippines imposes a documentary stamp tax on every original issue of shares by a Philippine corporation at the rate of PHP 2.00 on each PHP 200.00, or fraction thereof, of the par value of the shares. The Philippines also imposes a documentary stamp tax on transfers of shares of Philippine corporations at the rate of PHP 1.50 on each PHP 200.00, or fraction thereof, of the par value of the shares wherever the such transfers are made.

The documentary stamp tax is an excise tax that applies to transactions effected and consummated in the Philippines. Our Philippine counsel has expressed the opinion that no Philippine documentary stamp tax is payable on the transfer of ADSs outside the Philippines.

Estate and Donor's Taxes. The Philippines imposes estate taxes upon the transfer of the net estate of every decedent holding shares in a Philippine corporation, whether the decedent is a resident or nonresident of the Philippines. The schedule of rates of estate taxes ranges from 5% to 20% if the net estate is over PHP 200,000.

The Philippines also imposes a donor's tax on the basis of the total net gifts made during a calendar year. Individual and corporate registered holders, whether residents or non-residents of the Philippines, who transfer shares by way of gift or donation will be liable for Philippine donor's tax on those transfers at a flat rate of 30%. However, net gifts during the year exceeding PHP 100,000 made by an individual to a brother, sister, spouse, ancestor, lineal descendant or blood relative not more remote than first cousins, granduncles, grandaunts, grandnieces or grandnephews are subject to Philippine donor's tax at progressive rates ranging from 2% to 15%. Net gifts during the year not exceeding PHP 100,000 made by an individual to the same persons are not subject to donor's tax.

Shares of a deceased shareholder or shares that have been donated may not be transferred on the books of a Philippine corporation without a certificate from the Commissioner of Internal Revenue or his authorized representative that the corresponding estate or donor's taxes have been paid. In the case of ADSs, however, there is no corresponding requirement unless a transfer of the ADSs would also entail a change in the registration of the underlying common shares.

Estate and donor's taxes will not be collected on intangible personal property if the decedent at the time of his death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country. In addition, neither tax will be imposed if the laws of the foreign country of which the decedent or donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

U.S. Federal Income Taxation

The following is the opinion of Clifford Chance Rogers & Wells LLP, our United States counsel, on the material U.S. federal income tax consequences resulting from the purchase, ownership and disposition of the ADSs by a U.S. holder, as defined below. This summary does not purport to consider all the possible U.S. federal tax consequences of the purchase, ownership and disposition of the ADSs and is not intended to reflect the individual tax position of any specific beneficial owner. The summary is based upon the Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing and proposed U.S. Treasury regulations promulgated thereunder, published rulings by the U.S. Internal Revenue Service or, the IRS, and court decisions, all in effect as of the date hereof, all of which authorities are subject to change or differing interpretations, which changes or differing interpretations could apply retroactively.

This summary is limited to investors who hold the ADSs as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment), and does not purport to deal with investors in special tax situations, such as:

- financial institutions;
- tax exempt organizations;
- insurance companies;
- regulated investment companies;
- dealers in securities or currencies;
- persons holding ADSs as a hedge against currency risks or as a position in a straddle, conversion transaction, or constructive sale transaction for tax purposes;
- persons that own 10% or more of any class of our stock; or
- persons whose functional currency as defined in Section 985 of the Code, is not the U.S. dollar.

The summary does not include any description of the tax laws of any state, local or foreign governments that may be applicable to the ADSs. Persons who are holders of ADSs for federal income tax purposes will be treated as the owners of the common shares represented by those ADSs.

As used in this section, the term U.S. holder means a beneficial owner of ADSs who or which is:

- an individual who is a citizen or resident of the United States;
- a corporation created or organized in or under the laws of the United States or of any state, including the District of Columbia; or
- any other person who is subject to U.S. federal income taxation on its net income regardless of its source.

As used in this section, the term non-U.S. holder means a beneficial owner of ADSs that is not a U.S. holder. In the case of a beneficial owner of ADSs that is a partnership for United States tax purposes, each partner will take into account its allocable share of income or loss from the ADSs, and will take the income or loss into account under the rules of taxation applicable to the partner, taking into account the activities of the partnership and the partner.

Distributions. Distributions on ADSs, including the amount of any Philippine taxes withheld from the distributions to U.S. holders are included by the U.S. holders in gross income as a taxable dividend to the extent the distribution is paid from our current or accumulated earnings and profits as determined for U.S. federal income tax purposes. Distributions in excess of our current or accumulated earnings and profits will first be treated, for U.S. federal income tax purposes, as a nontaxable return on capital to the extent of the U.S. holder's basis in the ADSs and then as gain from the sale or exchange of a capital asset. Dividends paid by us will not be eligible for the corporate dividends received deduction that is applicable in certain cases to U.S. corporations. Dividends paid in Philippine pesos, including the amount of any Philippine taxes withheld from the dividends, will be included in the income of a U.S. holder in the U.S. dollar amount based on the exchange rate at the time of the receipt by the depositary, whether or not the dividends have been converted into U.S. dollars. Any gain or loss from a subsequent exchange of Philippine pesos will be ordinary income or loss from sources within the United States.

Foreign Tax Credit. Any dividends paid by us to a U.S. holder of our ADSs generally will be treated as foreign source income for U.S. foreign tax credit purposes. Subject to the limitations set out in the Code, a U.S. holder may elect to claim a foreign tax credit against its U.S. federal income tax liability for Philippine income tax withheld from dividends received in respect of ADSs. U.S. holders who do not elect to claim a foreign tax credit may instead claim a deduction for Philippine income tax withheld, but only for a year in which the U.S. holder elects to claim the deduction, instead of claiming the credit, which election must be made with respect to all foreign income taxes. Generally, a foreign tax credit may not be claimed if it is derived from withholding taxes imposed on short-term or hedged positions in securities or on arrangements where a U.S. holder's expected economic profit, after non-U.S. taxes, is insubstantial. The rules relating to the determination of the foreign tax credit are complex, and each prospective purchaser who would be a U.S. holder should consult its own tax advisor to determine whether and to what extent such purchaser would be entitled to a foreign tax credit.

For purposes of calculating a U.S. holder's foreign tax credit limitation, dividends paid by us will be treated as passive income or financial services income.

Dispositions of ADSs. Gain or loss realized by a U.S. holder on the sale or other disposition of the ADSs will be subject to U.S. federal income tax as capital gain or loss in an amount equal to the difference between the U.S. holder's basis in the ADSs and the amount realized on the disposition. The capital gain or loss will be long-term capital gain or loss if the U.S. holder has held the ADSs for more than one year at the time of the sale or exchange. Gain or loss realized by a U.S. holder generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes.

Transfer Reporting Requirements. Under recently promulgated Treasury regulations, a U.S. holder, including a tax exempt entity, that purchases any ADS for cash will be required to file an Internal Revenue Service, or IRS, Form 926 or similar form with the IRS, if (1) the U.S. holder owned, directly or by attribution, immediately after the transfer at least 10% by vote or value of us or (2) the purchase, when aggregated with all purchases made by the U.S. holder, or any related person thereto, within the preceding 12 month period, exceeds $100,000. If a U.S. holder fails to file the required form, the U.S. holder could be required to pay a penalty equal to 10% of the gross amount paid for the ADSs, subject to a maximum penalty of $100,000, except in cases involving intentional disregard. U.S. holders should consult their tax advisors for advice regarding this or any other reporting requirement which may apply to their acquisition of the ADSs.

Information Reporting and Backup Withholding. Payments that relate to the ADSs that are made in the United States or by a U.S.-related financial intermediary will be subject to information reporting. Information reporting will require each paying agent making payments, which relate to an ADS, to provide the IRS with information, including the beneficial owner's name, address, taxpayer identification number, and the aggregate amount of dividends paid to such beneficial owner during the calendar year. These reporting requirements, however, do not apply to all beneficial owners. Specifically, corporations, securities broker-dealers, other financial institutions, tax-exempt organizations, qualified pension and profit sharing trusts and individual retirement accounts are all excluded from reporting requirements.

The depositary participant or indirect participant holding ADSs on behalf of a beneficial owner, or paying agent making payments for an ADS, may be required to backup withhold a tax equal to 31% of each payment of dividends on the ADSs unless the beneficial owner of the ADSs (1) is a corporation or other exempt recipient and, when required, establishes its exemption, or (2) provides its correct taxpayer identification number, certifies that it is not currently subject to backup withholding and otherwise complies with the applicable requirements of the backup withholding rules.

This backup withholding tax is not an additional tax and may be credited against the beneficial owner's U.S. federal income tax liability if the required information is furnished to the IRS. Non-U.S. holders are not subject to information reporting or backup withholding, but may be required to provide certification of their non-U.S. status in connection with payments received within the United States or through U.S.-related financial intermediaries. Prospective investors are advised to consult their own tax advisors as to the applicability of the backup withholding rules to their acquisition, ownership and disposition of the ADSs.

F. Dividends and Paying Agents

Not applicable.

G. Statements by Experts

Not applicable.

H. Documents on Display

We have filed our Form F-1 registration statement with the U.S. Securities and Exchange Commission, or the Commission. This annual report does not contain all of the information included in the registration statement. You should refer to our registration statement and its exhibits if you would like to find out more about us, our ADSs and our common shares.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, or the Exchange Act, applicable to foreign private issuers. Under the Exchange Act, we are required to file reports and other information with the Commission. Specifically, we are required to file this annual report on Form 20-F within six months after the close of our fiscal year which is December 31st. You may inspect copies of our registration statement, its accompanying exhibits, and any other document we file with the Commission, without charge. You also may copy or obtain any of these documents at prescribed rates at the public reference facilities maintained by the Commission at the following locations:

- Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549
- Seven World Trade Center, New York, New York 10048; and
- Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661.

You may obtain information on the operation of the Commission Public Reference Room by calling the Commission at 1-800-SEC-0330. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish The Bank of New York, as our depositary bank, and our shareholders with annual reports. These reports will include a review of operations and annual audited combined financial statements prepared in conformity with U.S. GAAP. We also will furnish our depositary and our shareholders with unaudited financial information prepared in conformity with U.S. GAAP for the first six months of each fiscal year as soon as practicable following the end of each such period. When our depositary bank receives any reports from us, it will, upon our request, promptly mail the reports to our ADS holders of record.

I. Subsidiary Information

For more information on our subsidiaries, see "Item 4—Information on Our Company–Organizational Structure".

ITEM 11 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures About Market Risk

Our exposure to financial market risks derives primarily from the changes in interest rates and foreign exchange rates. To mitigate these risks, our company utilizes derivative financial instruments, the application of which is primarily for hedging purposes and not for speculative purposes.

Interest Rate Risk

Our exposure to market risk associated with changes in interest rates relates primarily to debt obligations which we may incur in the future. For the year ended December 31, 2000 and for the three months ended March 31, 2001, we had no bank debt or interest-rate exposure. Our policy is to manage interest rate risk by borrowing a combination of fixed and floating rate obligations based upon market conditions.

Foreign Currency Risk

Our foreign currency exposure gives rise to market risks associated with exchange rate movements against the Philippine peso, the Japanese yen and the U.S. dollar, our functional currency. All of our revenue was denominated in U.S. dollars for the year ended December 31, 2000 and the three months ended March 31, 2001, and as a result, we had less foreign currency exchange risk. For the year ended December 31, 2000, approximately 24.1% of our cost of goods sold was denominated in Philippine pesos.

To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, we utilize currency forward contracts to minimize the impact of foreign currency fluctuations on the results of our operations. We utilize, from time to time, currency forward contracts to hedge specific currency risks related to equipment purchase commitments, primarily in Japanese yen. In addition, we minimize our currency risk by purchasing most of our raw materials and equipment in U.S. dollars and borrowing in U.S. dollars. In the past, we have entered into foreign currency forward contracts to mitigate the effects to us of exchange rate fluctuations between the U.S. dollar and the Philippine peso related to our peso denominated expenditures. Our last outstanding currency forward contract amounted to $50,000 and matured on December 22, 1999. We did not enter into any currency forward contracts for the year ended December 31, 2000 and the three months ended March 31, 2001. Currently, we have no outstanding currency forward contracts.

ITEM 12 DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13 DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14 MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. Not applicable.

B. Not applicable.

C. Not applicable.

D. Not applicable.

E. Use of Proceeds

We completed our initial public offering of 4,025,000 American Depositary Shares, or ADSs, at the offering price of USD16.00 per ADS on March 15, 2000, after our American Depositary Receipts were registered under the Securities Act. The offering did not terminate before all of the shares offered were sold. The aggregate price of the offering amount registered and sold was $64.4 million. The effective date of our registration statement on Form F-1 (File number: 333-11528) was March 15, 2000. Chase H&Q was the global coordinator and sole book running manager for the global offering of our ordinary shares and ADSs.

The net proceeds from the sale of our ADSs in the offering was $57.8 million. Net proceeds are what we received after payment of all underwriting discounts and commissions and the expenses of the offering. We used approximately $18.8 million of the net proceeds to repay our outstanding debt. Of this amount, approximately $7.9 million was used to repay long-term loans, approximately $10.9 million was used to repay short-term loans from various banks and financing institutions. We also used approximately $34.0 million to fund capital expenditures, including the purchase of test and assembly equipment. The remaining proceeds were invested in various time deposits with various institutions and are part of the ending cash balance at the close of the year ended December 31, 2000. None of the proceeds were paid, directly or indirectly to our directors, officers or to any person owning ten percent or more of our ordinary shares or to our affiliates.

ITEM 15 RESERVED

Not applicable.

ITEM 16 RESERVED

Not applicable.

PART III

ITEM 17 FINANCIAL STATEMENTS

Please see Item 18.

ITEM 18 FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Shareholders and the Board of Directors
PSi Technologies Holdings, Inc.

We have audited the accompanying consolidated balance sheets of PSi Technologies Holdings, Inc. and Subsidiaries as of December 31, 1998, 1999 and 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000, expressed in U.S. dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PSi Technologies Holdings, Inc. and Subsidiaries as of December 31, 1998, 1999 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

Arthur Andersen
Hong Kong

January 30, 2001

PSi TECHNOLOGIES HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
as of December 31, 1998, 1999 and 2000

	As of December 31,		
	1998	1999	2000
ASSETS		(U.S. dollars)	
Current assets			
Cash and cash equivalents (Note 17)	591,735	226,485	11,992,329
Accounts receivable - net (Note 3)	5,573,275	8,279,494	9,897,005
Inventories – net (Note 4)	3,497,136	6,277,506	9,509,624
Other current assets - net (Note 12)	790,757	2,426,031	2,209,815
Total current assets	10,452,903	17,209,516	33,608,773
Property, plant and equipment - net (Notes 5 and 9)	18,259,173	31,706,879	70,829,965
Investments and advances (Notes 6 and 15)	–	144,140	168,055
Other assets (Note 12)	1,100,835	327,884	1,640,940
Total assets	29,812,911	49,388,419	106,247,733
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued expenses (Notes 8 and 13)	4,263,216	13,882,696	20,472,816
Loans payable (Notes 7 and 17)	4,629,589	7,027,495	–
Trust receipts and acceptances payable (Notes 4 and 17)	2,456,443	3,581,482	–
Current portion of long-term debt (Notes 9 and 17)	1,740,446	2,864,445	–
Current portion of obligations under capital leases (Notes 10 and 18)	7,153	–	–
Current portion of other long-term liabilities (Notes 11 and 18)	59,536	–	–
Total current liabilities	13,156,383	27,356,118	20,472,816
Long-term debt – net of current portion (Notes 9 and 17)	2,739,127	2,027,593	–
Obligations under capital leases-net of current portion (Notes 10 and 18)	4,492	–	–
Minority interest	–	241,454	121,677
Shareholders' equity (Notes 1, 10, 11 and 21)	13,912,909	19,763,254	85,653,240
Total liabilities and shareholders' equity	29,812,911	49,388,419	106,247,733

See accompanying Notes to Consolidated Financial Statements.

PSi TECHNOLOGIES HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME
for the years ended December 31, 1998, 1999 and 2000

	Year ended December 31,		
	1998	1999	2000
		(U.S. dollars)	
REVENUES (Note 18)	34,515,327	50,332,742	73,671,218
COST OF GOODS SOLD (Note 13)	27,135,378	39,835,743	59,382,382
GROSS PROFIT	7,379,949	10,496,999	14,288,836
OPERATING EXPENSES			
General and administrative (Notes 13, 14 and 15)	2,762,386	3,302,204	5,177,556
Sales and marketing	499,002	868,331	849,686
Research and development	–	–	947,731
Total operating expenses	3,261,388	4,170,535	6,974,973
INCOME FROM OPERATIONS	4,118,561	6,326,464	7,313,863
OTHER INCOME (EXPENSES)			
Foreign exchange gains (losses) – net	(574,318)	(679,117)	738,563
Interest and bank charges – net	(1,633,475)	(959,972)	680,872
Equity in net loss of an investee (Note 6)	–	(4,207)	(3,355)
Management fee (Note 15)	(142,333)	(194,374)	–
Total other expenses	(2,350,126)	(1,837,670)	1,416,080
INCOME BEFORE INCOME TAX AND MINORITY INTEREST	1,768,435	4,488,794	8,729,943
PROVISION FOR INCOME TAX (Note 12)			
Current	114,829	606,586	693,797
Deferred	14,419	625,259	54,339
Total provision for income tax	129,248	1,231,845	748,136
INCOME BEFORE MINORITY INTEREST	1,639,187	3,256,949	7,981,807
MINORITY INTEREST	–	13,828	119,777
NET INCOME (Notes 12 and 21)	1,639,187	3,270,777	8,101,584
Weighted average number of common shares outstanding (Note 21)	4,564,526	8,664,526	12,450,983
Basic earnings per common share (Note 21)	0.36	0.38	0.65

See accompanying Notes to Consolidated Financial Statements.

PSi TECHNOLOGIES HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
for the years ended December 31, 1998, 1999 and 2000

	Year ended December 31,		
	1998	1999	2000
		(U.S. dollars)	
CAPITAL STOCK (Note 10)			
Common shares - Philippine peso 1-2/3 par value			
Balance, beginning of year	87,854	323,309	426,788
Issuances	235,455	103,479	164,030
Balance, end of year	323,309	426,788	590,818
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	2,108,495	7,759,412	10,242,914
Issuances	5,650,917	2,483,502	57,591,980
Balance, end of year	7,759,412	10,242,914	67,834,894
DEPOSIT FOR FUTURE SHARE SUBSCRIPTIONS			
Balance, beginning of year	3,240,602	–	–
Application of deposit on future share subscriptions	(3,240,602)	–	–
Balance, end of year	–	–	–
OTHER COMPREHENSIVE INCOME (Note 13)			
Balance, beginning of year	(35,967)	(24,979)	(32,392)
Minimum pension liability adjustment	10,988	(7,413)	32,392
Balance, end of year	(24,979)	(32,392)	–
RETAINED EARNINGS (Note 11)			
Balance, beginning of year	4,215,980	5,855,167	9,125,944
Net income	1,639,187	3,270,777	8,101,584
Balance, end of year	5,855,167	9,125,944	17,227,528
Total shareholders' equity	13,912,909	19,763,254	85,653,240
COMPREHENSIVE INCOME			
Net income	1,639,187	3,270,777	8,101,584
Minimum pension liability adjustment	10,988	(7,413)	32,392
Total comprehensive income	1,650,175	3,263,364	8,133,976

See accompanying Notes to Consolidated Financial Statements.

PSi TECHNOLOGIES HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 1998, 1999 and 2000

	Year ended December 31,		
	1998	**1999**	**2000**
		(U.S. dollars)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	1,639,187	3,270,777	8,101,584
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,901,520	5,316,161	8,352,397
Minority interest	–	(13,828)	(119,777)
Provisions for:			
Deferred income tax	14,419	625,259	54,339
Doubtful accounts	44,380	64,306	–
Inventory obsolescence	237,679	53,903	–
Equity in net loss of an investee	–	4,207	3,355
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	(629,948)	(2,770,525)	(1,617,511)
Inventories	859,328	(2,834,273)	(3,232,118)
Other current assets	18,920	(1,617,829)	219,255
Increase (decrease) in:			
Accounts payable and accrued expenses	1,442,743	9,242,206	6,637,755
Trust receipts and acceptances payable	(3,773,675)	1,125,039	(3,581,482)
Net cash provided by operating activities	3,754,553	12,465,403	14,817,797
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property, plant and equipment	(5,241,643)	(18,763,867)	(47,475,483)
Investment and advances	–	(148,347)	(27,270)
Decrease (increase) in other assets	(188,859)	133,735	(1,385,677)
Net cash used in investing activities	(5,430,502)	(18,778,479)	(48,888,430)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of capital stock	2,645,770	2,586,981	57,756,010
Loans payable	–	14,334,184	3,878,650
Long-term debt	3,000,000	2,250,000	3,000,000
Payments of:			
Loans payable	(3,344,780)	(11,569,905)	(10,906,145)
Long-term debt and other long-term liabilities	(803,055)	(1,897,071)	(7,892,038)
Obligations under capital leases	(6,698)	(11,645)	–
Minority interest	–	255,282	–
Net cash provided by financing activities	1,491,237	5,947,826	45,836,477
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(184,712)	(365,250)	11,765,844
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	776,447	591,735	226,485
CASH AND CASH EQUIVALENTS AT END OF YEAR	591,735	226,485	11,992,329
SUPPLEMENTAL INFORMATION ON NON-CASH FINANCING ACTIVITIES			
Application of deposit on future share subscriptions to common shares issued	3,240,602	–	–
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	1,287,642	845,364	502,245
Income tax	–	556,529	744,524

See accompanying Notes to Consolidated Financial Statements.

PSi TECHNOLOGIES HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unless otherwise indicated, references to $ refer to U. S. dollars)

NOTE 1. GENERAL

Nature of Business
PSi Technologies Holdings, Inc. ("PSi Holdings") through two of its subsidiaries, PSi Technologies, Inc. ("PSi Technologies") and PSi Technologies Laguna, Inc. ("PSi Laguna") provides semiconductor assembly and test services primarily for power applications. It is also engaged in semiconductor packaging and test services for non-power applications, including plastics and hermetics. Approximately 75%, 74% and 84% of its revenues in 1998, 1999 and 2000, respectively, related to power packages.

Significant Customers
The Company’s customers are located in the United States of America, Europe and Asia. The Company’s top five customers collectively accounted for 61%, 54% and 50% of its revenues in 1998, 1999 and 2000, respectively. The Company anticipates that significant customer concentration will continue for the foreseeable future but the companies which constitute the Company’s largest customers may change.

Risks and Uncertainties
The Company’s future results of operations involve a number of risks and uncertainties. Factors that could affect the Company’s future operating results include, but are not limited to, dependence on the highly cyclical nature of the semiconductor industry, competitive pricing and declines in average selling prices, risks associated with reliance on a group of principal customers, timing and volume of orders relative to the Company’s production capacity, availability of manufacturing capacity and fluctuations in manufacturing yields, availability of financing, competition, dependence on raw materials and equipment suppliers, exchange rate fluctuations, dependence on key personnel, difficulties of managing growth, and enforcement of intellectual property rights and environmental regulations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles
The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) consistently applied for all years.

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of PSi Holdings and its subsidiaries (collectively referred to hereinafter as "PSi" or the “Company”), namely:

- PSi Technologies (wholly owned), the principal operating subsidiary is a Philippine corporation, engaged in the design, assembly and test of power semiconductor devices, and packaging and test services for non-power applications including plastics and hermetics;

- PSi Laguna (wholly owned through PSi Technologies), a Philippine Economic Zone Area (PEZA)-registered enterprise, engaged in the manufacture, assembly and test of semiconductor devices;

- PACSEM Technologies ("PACSEM") (wholly owned through PSi Technologies), a U. S. corporation engaged exclusively in marketing activities on behalf of PSi Technologies outside the Philippines; and,

- PACSEM Realty, Inc. ("PACSEM Realty") 40% owned through PSi Technologies and 24% owned through PSi Technologies' investee, PSitech Realty, Inc. (PSitech Realty), a Philippine corporation, organized to hold real estate properties in joint venture with a related party.

The PSi companies are interdependent companies involved in related businesses. PSi Holdings was incorporated and registered with the Philippine Securities and Exchange Commission ("SEC") on December 10, 1999 as part of a reorganization to facilitate its equity offering. On November 19, 1999, in order to organize PSi Holdings, the principal shareholders of PSi Technologies transferred to PSi Holdings all their PSi Technologies common and preferred shares (except for nominee director qualifying shares) in exchange for 15,440,876 PSi Holdings common shares. The proportion remained identical amongst shareholders. The creation of PSi Holdings and the issuance of shares to the existing shareholders of PSi Technologies are collectively referred to as the "Reorganization."

The Reorganization described in the foregoing paragraph was accounted for at historical cost in a manner similar to a pooling of interests as it represents an exchange of equity interests between companies under common control. Accordingly, the accompanying consolidated financial statements reflect the Reorganization as if the Reorganization occurred at the beginning of calendar year 1998.

The Reorganization entailed the following:

- Exchange by the principal shareholders of PSi Technologies of all their existing common and preferred shares in PSi Technologies for original common shares of PSi Holdings pursuant to a deed of assignment (with the exception of nominee director qualifying shares) executed among the parties on November 19,1999 at a ratio of one PSi Holdings share for 25 diluted PSi Technologies shares held; and

- Recognition of the difference between the par value of PSi Holdings shares issued and the net assets of PSi Technologies at date of exchange as additional paid-in capital.

On March 15, 2000, PSi Holdings offered to the public 4,025,000 American Depositary Shares (ADS) representing 4,025,000 common shares at $16 per ADS. The ADS were approved for quotation on the Nasdaq National Market.

The consolidated financial statements reflect the elimination of all significant intercompany accounts and transactions.

Foreign Currency Translations and Transactions

The Company uses the U. S. dollar as its functional currency because all its revenues and substantially all of its costs are denominated in U. S. dollars. Accordingly, monetary assets and liabilities denominated in Philippine pesos and other foreign currencies have been remeasured into U. S. dollars using the exchange rates at balance sheet date. Non-monetary items are remeasured at historical rates. Gains and losses from such remeasurement are credited or charged to current operations. Likewise, gains and losses from foreign currency transactions are credited or charged to current operations.

Dividends are declared in Philippine pesos, the currency of the country in which the Company is incorporated. These are translated in the U.S. dollar financial statements at historical rates. The U.S. dollar proceeds of the peso dividends will be based on the prevailing peso-U.S. dollar exchange rate in effect at the time of payment.

Cash and Cash Equivalents

All highly liquid debt instruments purchased with original maturities of three months or less from date of acquisitions are considered to be cash equivalents.

Inventories

Work in process and materials and supplies inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the following periods:

Machinery, equipment and accessories	8 years
Buildings and leasehold improvements	5 years
Office furniture, fixtures and equipment	5 years
Transportation equipment	5 years

No depreciation is provided on property, plant and equipment under installation or construction. The cost of maintenance and repairs is expensed as incurred; significant renewals and improvements are capitalized. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Investment in Shares of Stock

The Company carries its 40% ownership in the shares of PSitech Realty using the equity method. Under this method, the cost of the investment is increased or decreased by the Company's equity in net earnings or losses of the investee and reduced by dividends received since the date of acquisition. Unrealized intercompany profits and losses are eliminated to the extent of the Company's proportionate share thereof.

Income Tax

The Company accounts for income tax in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which requires the use of the liability method. If it is more likely than not that some or all of the deferred tax assets will not be realized, a valuation allowance is provided. The Company calculates its deferred income tax by comparing the U. S. GAAP peso tax basis (excluding any effects of indexing for inflation) to the peso book basis (excluding any effects of changes in exchange rates), applying the appropriate tax rates to any temporary difference and translating such deferred tax at the balance sheet exchange rate.

The Company reports certain income and expense items for income tax purposes on a basis different from that reflected in the accompanying consolidated financial statements. The principal differences relate to:
(i) provisions for inventory obsolescence and doubtful accounts, and recognition of accrued pension costs which are not deductible for income tax purposes until realized, written off and paid, respectively; (ii) recognition of net operating loss carry forward (NOLCO) benefit; and, (iii) the use of amortization method for pre-operating expenses for income tax reporting purposes.

Earnings Per Share (EPS)

Basic EPS is computed using the weighted average number of common shares outstanding during the year, adjusted for the equivalent number of common shares corresponding to the deposit for future share subscriptions, which shares are issuable upon passage of time, and after giving retroactive effect to the reverse stock split. On a diluted basis, shares outstanding are adjusted to assume the exercise of stock options.

Diluted EPS in 2000 was not presented on the face of the Consolidated Statements of Income because the difference vis-à-vis the basic EPS is insignificant.

Revenue Recognition

The Company recognizes revenue upon shipment of packaged semiconductors to its customers.

Research and Development Costs

Research and development costs are charged to income as incurred.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectibility of its receivables. Management, on the basis of factors that affect the collectibility of the accounts, evaluates the level of this allowance. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is made by the Company on a continuing basis.

Pension Plan

The Company has a trusteed, non-contributory defined pension plan covering substantially all regular employees. The annual expense is determined in accordance with SFAS No. 87, “Employers’ Accounting for Pension” and is charged to current operations. Any additional pension liability adjustment not yet recognized as net periodic pension cost is reported as other comprehensive income in the statements of changes in shareholders’ equity.

Impairment of Long Lived Assets and Long Lived Assets to be Disposed of

The Company reviews long lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Operating Leases

Rental payments under operating leases are charged to income on a straight-line basis over the periods of the respective leases.

Year 2000 Expenses

Internal and external costs associated with modifying the Company's computer hardware and software to comply with the Year 2000 requirements were charged as general and administrative expenses.

Employee Stock Option

The Company uses the fair value based method to account for employee stock options. Under the fair value based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the vesting period.

Stock Issuance Expenses

Direct costs incurred relative to the Company's initial public offering of ADS (representing common shares) were charged against the corresponding additional paid-in capital arising therefrom.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of the financial statements in conformity with U.S. GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3. ACCOUNTS RECEIVABLE

This account consists of:

	As of December 31,	
	1999	**2000**
	(U.S. dollars)	
Trade	7,323,332	9,226,206
Others	1,184,113	892,692
	8,507,445	10,118,898
Less allowance for doubtful accounts	227,951	221,893
Total accounts receivable - net	8,279,494	9,897,005

Other receivables consist primarily of receivables due for materials and spare parts purchased on behalf of customers. In addition, it includes outstanding market rate loans to certain officers totaling $431,206 and $219,593 in 1999 and 2000, respectively.

NOTE 4. INVENTORIES

Inventories consist of raw materials and purchased components which are used in the semiconductor packaging process. Components of inventories follow:

	As of December 31,	
	1999	**2000**
	(U.S. dollars)	
Work in process	1,178,607	1,547,678
Materials and supplies	5,605,591	8,385,948
	6,784,198	9,933,626
Less allowance for inventory obsolescence	506,692	424,002
Total inventories – net	6,277,506	9,509,624

Included in the inventories are raw materials and supplies purchased under trust receipt arrangements totaling $3.01 million in 1999. The Company used funds supplied by its banks to acquire certain inventories. The Company held these inventories in a "trust arrangement" with the banks, evidenced by a trust receipt. Until such time as amounts supplied by the banks had been repaid, the Company was accountable to the banks for the items entrusted or the proceeds generated from any sale of such inventories.

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

This account consists of:

	As of December 31,	
	1999	**2000**
	(U.S. dollars)	
Land	2,572,299	2,634,170
Machinery, equipment and accessories	46,166,002	89,740,706
Buildings and leasehold improvements	2,826,471	3,016,560
Office furniture, fixtures and equipment	1,572,087	3,081,760
Transportation equipment	382,903	490,876
	53,519,762	98,964,072
Less accumulated depreciation and amortization	21,960,280	29,444,281
	31,559,482	69,519,791
Construction in progress	147,397	1,310,174
Total property, plant and equipment - net	31,706,879	70,829,965

Certain of the Company's non-power customers provide equipment on a consignment basis. The value of the consigned equipment is not reflected among the Company's property, plant and equipment. Risk of loss and insurance for such assets are borne by the customers.

In January 2001, PSi Laguna entered into a deed of conditional sale (deed) to purchase a factory building located in Carmelray Industrial Park. In accordance with the terms of the deed, the total purchase price of the building is $1,887,800, payable on or before April 10, 2001.

ITEM 6. INVESTMENT AND ADVANCES

The details of this account follows:

	As of December 31,	
	1999	**2000**
	(U.S. dollars)	
Investment in shares of stock of an investee		
Acquisition cost	146,933	146,933
Accumulated equity in net loss:		
Balance at beginning of year	–	(4,207)
Equity in net loss of an investee	(4,207)	(3,355)
Balance at end of year	(4,207)	(7,562)
	142,726	139,371
Advances	1,414	28,684
Total investment and advances	144,140	168,055

NOTE 7. LOANS PAYABLE

This account in 1999 represented unsecured Philippine peso and U. S. dollar denominated loans obtained from Philippine banks which bear interest ranging from 8.00% to 10.00% for U. S. dollar denominated loans and 10.00% to 12.12% for Philippine peso denominated loans. These loans were fully paid in 2000.

NOTE 8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of:

	As of December 31,	
	1999	**2000**
	(U.S. dollars)	
Trade	12,145,523	18,563,834
Accrued expenses:		
Employee salaries and benefits	817,586	1,103,582
Taxes	137,452	253,233
Utilities	175,537	209,021
Interest	138,377	–
Others	468,221	343,146
Total accounts payable and accrued expenses	13,882,696	20,472,816

NOTE 9. LONG-TERM DEBT

This account in 1999 consisted of:

Loan I	$916,666
Loan II	2,000,000
Loan III	1,968,750
Other financing institutions	6,622
Total long-term debt	4,892,038
Less current portion	2,864,445
Total long-term debt - net of current portion	$2,027,593

Following is the summary of the principal terms of the loans:

	Loan I	Loan II	Loan III
Original Amount	$2.2 million	$3.0 million	$2.25 million
Date of Grant	December 29, 1997	October 7, 1998	July 27, 1999
Maturity Date	December 29, 2000	October 12, 2001	July 27, 2001
Interest	3-month $ LIBOR plus 1.875%	3-month $ LIBOR plus 2%	3-month $ LIBOR plus a margin of 1.75%
Payment Terms	Payable in equal quarterly amortization beginning on the first payment date and ending on the 12th interest payment date	Payable in equal quarterly amortization beginning on the first payment date and ending on the 12th interest payment date	After 12 months from drawdown date, the lender has the option to require the Company to fully pay the loan subsequent to at least 10 banking days prior to intended repayment date
Purpose	To refinance short-term loans	To finance acquisition of machinery and equipment	To refinance existing term loan obligation with another bank

Security	First mortgage lien over various properties, machinery and equipment pursuant to the Company's Mortgage Trust Indenture (MTI) Agreement	Secured by a participation in the Company's MTI Agreement	Secured by a participation to the Company's MTI Agreement covering the Company's machinery and equipment
Other Terms	Ranks and will rank at all times at least pari passu in priority of payment and in all other respects with the Company's other obligations, except intercompany advances Collateral to loan ratio should not be less than 1.5:1 calculated based on the Philippine Dealing System (PDS) weighted average exchange rate as of closing date	Collateral to loan ratio should not be less than 2.0:1 calculated based on the PDS weighted average exchange rate as of initial drawdown rate	

The terms of the loans provide for, among others, restrictions on PSi Technologies with respect to any material change in the nature or character of its business; consolidation with or merger into any other corporation, except when it is the surviving entity with controlling majority interest; any material change in the ownership or voting control which will materially and adversely affect the operations of the Company and the capacity of the Company to perform its obligations; sale, lease or disposal of all or substantially all its properties and assets; and, declaration or payment of dividend (other than preferred dividend), purchase, redemption or otherwise acquisition for value any of its capital stock, return any capital to its shareholders as such other than distributions payable in shares of its capital stock. The creditors for Loans I and II have granted the Company consent for the transfer of ownership of PSi Technologies to PSi Holdings pursuant to its Reorganization.

The loans obtained from other financing institutions were used for the acquisition of certain transportation equipment, and were collateralized by such transportation equipment. These loans were payable in various monthly installments ranging from 36 to 60 months until 2000 with interest at current rates.

In 2000, the Company used the proceeds of its ADS offering to pay off its long-term debt.

NOTE 10. CAPITAL STOCK

The summary of the number of common shares authorized, issued and outstanding follows:

	As of December 31,	
	1999	**2000**
	(number of shares)	
Common shares – PHP 1 2/3 par		
Authorized	37,058,100	37,058,100
Issued and outstanding	9,264,525	13,289,525

On February 4, 2000, the PSi Holdings' Board of Directors and shareholders approved a resolution effecting a reverse stock split of 3 shares for every 5 shares held. The reverse share split was approved by the Philippine SEC on February 14, 2000.

NOTE 11. RETAINED EARNINGS

Consistent with the accounting of the Company's Reorganization at historical cost in a manner similar to pooling of interests, this account represents inherited retained earnings from PSi Technologies.

The retained earnings determined for Philippine statutory reporting purposes, expressed in Philippine pesos, shall be the basis of any dividend declaration. As of December 31, 1999, the amount of the inherited retained earnings is PHP 385,662,686 (converted to U.S. dollars at year-end rate as $9,570,268). However, with special approval by the Philippine SEC, the inherited retained earnings may be carried forward to the holding company and be available for distribution as dividends once declared as such by PSi Technologies.

The retained earnings balance as of December 31, 2000 of PSi Holdings included accumulated equity in net income of subsidiaries of PHP 861,119,563 (inclusive of the foregoing inherited retained earnings). These are not available for dividend declaration until declared as dividends by the subsidiaries to PSi Holdings.

NOTE 12. INCOME TAX

The significant components of the Company's deferred tax assets, which are all Philippine income tax components, are as follows:

	As of December 31,	
	1999	2000
	(U.S. dollars)	
Deferred tax assets - current:		
Allowance for:		
Inventory obsolescence	147,924	104,035
Doubtful accounts	72,944	71,006
Accrual for employee benefits	–	48,866
Total deferred tax assets – current	220,868	223,907
Deferred tax assets – non-current:		
Accrual for retirement benefits	76,585	97,465
Unrealized foreign exchange losses for Philippine tax reporting	73,325	–
Preoperating expenses	17,975	13,042
Stock compensation	–	57,589
Others	15,243	–
	183,128	168,096
Less valuation allowance	–	57,589
Total deferred tax assets – non-current - net	183,128	110,507

Deferred tax assets - current and deferred tax assets–non-current are included in the "Other current assets" and "Other Assets" accounts, respectively, in the consolidated balance sheets.

All of the Company's income before income tax are generated from Philippine operations.

The reconciliation of provision for income tax computed at the statutory tax rate to provision for income tax as shown in the consolidated statements of income is as follows:

	Year ended December 31,		
	1998	1999	2000
Statutory income tax rate	34%	33%	32%
Income tax effects of:			
Tax holiday incentive on registered activities	(42)	(10)	(24)
Foreign exchange rate difference	15	–	7
Interest income subjected to final withholding tax	–	–	(7)
Adjustment due to change in applicable income tax rates for temporary differences in the expected years of recovery and others	–	4	1
Effective income tax rate	7%	27%	9%

On December 11, 1997, Philippine Republic Act No. 8424 entitled “An Act Amending the National Internal Revenue Code, As Amended, and For Other Purposes” (the “Act”) was passed into law effective January 1, 1998. Among others, the Act includes the following significant revisions to the current rules of taxation:

a. Change in the corporate income tax rate from 35% to 34% in 1998, 33% in 1999 and 32% in 2000 and onwards;

b. Imposition of minimum corporate income tax of 2% of gross income, as defined;

c. Imposition on the employer of a final tax on the grossed up monetary value of fringe benefits granted to employees (except rank and file) at the following rates: 34% in 1998, 33% in 1999 and 32% in 2000 and onwards;

d. Reduction of the interest expense allowed as deductible expense by an amount equivalent to a certain percentage of the interest income subjected to final tax as follows: 41% starting January 1, 1998, 39% starting January 1, 1999 and 38% starting January 1, 2000 and onwards; and,

e. Introduction of a three-year NOLCO.

PSi Technologies has registrations with the Philippine Board of Investments (BOI). Such registrations entitle the registered activities of the Company to benefit from tax and non-tax incentives such as income tax holiday (ITH), NOLCO, additional deductions for incremental labor expense, and exemptions from taxes and duties on imported supplies and spare parts. Under such registrations, the Company is also subject to certain conditions imposed by the BOI, principally relating to exportation of certain percentage of its production output.

The Company’s ITH incentive on the sale of power packages other than voltage regulators expired on December 31, 1998. As a result, income derived from power packages other than voltage regulators is subject to the regular Philippine corporate income tax rate of 33% in 1999 and 32% thereafter. As of December 31, 2000, the Company had registrations with the BOI as a (1) new export producer of voltage regulator on a preferred non-pioneer status, and (2) service exporter in the field of testing semiconductor devices on a non-pioneer status. Under the terms of these registrations, the Company is entitled to ITH for a period of four years until June 2003 as a new export producer of voltage regulator and until August 2003 as a service exporter in the field of testing semiconductor devices.

Had the Company not been entitled to the ITH incentive, the reported net income for the years ended December 31, 1998, 1999 and 2000 would have been lower by $760,729 ($0.17 per common share), $492,779 ($0.06 per common share), and $2,159,788 ($0.17 per common share), respectively.

NOTE 13. RETIREMENT BENEFIT PLAN

PSi Technologies has a defined retirement benefit plan that covers all of its officers and full-time employees. Retirement plan costs are charged to operations and are based on amounts computed by an independent actuary.

The components of net periodic pension cost for the defined benefit plan are as follows:

	As of December 31,		
	1998	**1999**	**2000**
	(U.S. dollars)		
Service cost of current period	38,842	27,910	96,459
Interest cost on projected benefit obligation	25,802	18,541	52,206
Actual return on plan assets	(466)	(335)	(13,948)
Net amortization and deferrals	5,414	3,890	5,451
Total pension expense	69,592	50,006	140,168

The following table sets forth the funded status and the amounts recognized in the consolidated balance sheets for the defined benefit retirement plan:

	Year ended December 31,	
	1999	**2000**
	(U.S. dollars)	
Change in benefit obligation		
Benefit obligation, beginning of year	279,915	330,256
Service cost	27,910	96,459
Interest cost	18,541	52,206
Amortization cost	3,890	5,451
Actuarial adjustment	–	(130,537)
Translation adjustment	–	(81,116)
Benefit obligation, end of year	330,256	272,719
Change in plan assets		
Fair value of plan assets, beginning of year	3,880	3,880
Actual return on plan assets	–	6,551
Employer contribution	–	106,254
Translation adjustment	–	(13,822)
Fair value of plan assets, end of year	3,880	102,863
Amounts recognized in the consolidated balance sheets consist of:		
Accumulated benefit obligation over plan assets	278,741	169,856
Accumulated other comprehensive income	47,635	–
Net amounts recognized	326,376	169,856

The discount rate, expected return on plan assets and rate of compensation increase are assumed to be 12%, 12% and 8%, respectively.

NOTE 14. STOCK OPTION PLAN

On February 22, 2000, the Company’s shareholders approved the stock option plan. Under the stock option plan, the total number of shares that may be distributed shall not exceed 741,162 common shares, and participation shall be limited to certain directors, officers and employees. On the same date, 637,100 options were granted at a weighted average exercise price of US$13.30 per share. These options vest over 5 to 7 years and will expire 3 years from the vesting date.

The stock option plan shall be administered by a committee that shall establish the exercise price at the time any stock option is granted at such amount as the committee shall determine, except that such exercise price shall not be less than 90% of the fair market value defined as the latest available price of the underlying shares of common stock on the day such stock option is granted.

The vesting period shall in no event be beyond 10 years from the date of grant of such stock option. Each stock option granted shall be exercisable within 3 years from the time the right to such stock option becomes vested, unless the necessary approval for such extension is first secured from the Philippine SEC.

For the year ended December 31, 2000, total stock compensation expense amounted to $179,965.

NOTE 15. RELATED PARTY TRANSACTIONS

On September 10, 1999, PSi Technologies and PACSEM Realty entered into a loan agreement, where PSi Technologies extended advances in Philippine pesos to PACSEM Realty up to PHP 50.8 million (US$1.26 million at the December 31, 1999 exchange rate of PHP 40.298 to US$1.00). The proceeds of the loan were used by PACSEM Realty to acquire a parcel of land from Philippine Township, Inc. The term of the loan shall be 10 years from the date of the initial availment and is subject to 15% interest per annum. Under the terms of the loan agreement, beginning on the 61st month after the date of the initial availment, PSi Technologies may, at its option and only to the extent permitted under Philippine law, elect to convert the principal amount of the loan to shares of stock of PACSEM Realty at the ratio of one common share with a par value of PHP 5 for every PHP 5 worth of unpaid principal.

Until September 1999, PSi Technologies has a five-year Management Services Agreement with RFM Corporation (RFM), its ultimate parent company, whereby RFM provided various services to PSi Technologies including, among others, general management, controllership, finance and treasury. PSi Technologies, in turn, paid RFM an annual fee of $142,333 and $194,374 in 1998 and 1999, respectively. The annual fee was equivalent to 5% of the Company's income before tax or PHP 2 million, whichever amount was higher. RFM and PSi Technologies have agreed not to renew the agreement since PSi Technologies has over time developed its own capabilities with respect to the foregoing functions.

NOTE 16. OPERATING LEASE COMMITMENT

The Company is a lessee to certain office spaces until 2002 and land until 2008. The following is a schedule of future annual minimum rental payments (converted at PHP 49.986 to US$1, the exchange rate as of December 31, 2000) required under the foregoing sub-leases as of December 31, 2000:

Year ending December 31,	Amount (U.S. dollars)
2001	502,313
2002	547,225
2003	539,884
2004	659,410
2005	716,611

Rent expense amounted to $136,538, $152,807 and $424,398 for the years ended December 31, 1998, 1999 and 2000, respectively.

NOTE 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments has been determined by the Company using available market information and standard discounting methodologies; however, considerable judgment is required in interpreting market data to develop the estimates for fair value. Accordingly, these estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange. Certain of these financial instruments are with major financial institutions and expose the Company to market and credit risks and may at times be concentrated with certain counterparties or groups of counterparties. The creditworthiness of counterparties is continually reviewed, and full performance is anticipated.

The methods and assumptions used to estimate the fair value of significant classes of financial instruments are as follows:

Cash and cash equivalents. The carrying amount approximates fair value because of the short maturity of those instruments.

Short-term borrowings (loans payable and trust receipts and acceptances payable). Short-term borrowings bear interest at variable rates that reflect currently available terms and conditions for similar borrowings. The carrying amount of this debt is a reasonable estimate of fair value.

Long-term debt. Long-term debt bears interest at variable rates that reflect currently available terms and conditions for similar debt. The carrying amount of this debt is a reasonable estimate of fair value.

NOTE 18. REPORTING SEGMENT

SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information,” requires that a public business enterprise report financial and descriptive information about its reportable segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief decision-maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

The Company is primarily engaged in one industry segment, semiconductor assembly and test services. Revenues summarized by geographic region (by customer domicile) are as follows:

	Year ended December 31,		
	1998	**1999**	**2000**
United States	62.7%	50.6%	46.9%
Europe	23.9%	21.8%	29.9%
Asia	13.4%	27.6%	23.2%

Revenues from major customers, as a percentage of total revenue, are as follows:

	Year ended December 31,		
	1998	**1999**	**2000**
Customer A	15.39%	14.26%	12.23%
Customer B	14.11	10.59	11.64
Customer C	1.23	9.17	10.40
Customer D	12.39	8.80	8.38
Customer E	5.03	4.15	7.51
Others	51.85	53.03	49.84
	100%	100%	100%

As a result of such concentration of the customer base, loss or cancellation of business from, or significant changes in scheduled deliveries or decreases in the prices of products sold to, any of these customers could materially and adversely affect the Company’s results of operations and financial position.

NOTE 19 SFAS NO. 133

SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended, was issued to establish accounting and reporting standards requiring that every derivative instrument (including certain instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative’s fair value be recognized currently in earnings unless specific hedges allow a derivative’s gain or loss to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting treatment. SFAS No. 133 became effective for fiscal years beginning after June 15, 2000 (January 1, 2001 for calendar year end). A company may also implement this as of the beginning of any fiscal quarter after issuance (that is, fiscal quarters beginning June 16, 1998 and thereafter). However, this cannot be applied retroactively. SFAS No. 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997 (and, at the company’s election, before January 1, 1998).

In 2000, the Company did not engage in any free-standing derivative transactions nor are there any outstanding derivative contracts.

The Company is taking steps to evaluate the potential impact and the necessary implementation requirements of SFAS No. 133.

NOTE 20. DENOMINATION OF MONETARY ASSETS AND LIABILITIES

The Company's monetary assets and liabilities and their U. S. dollar equivalent follow:

1999	In U.S. dollars	In Philippine pesos (translated into U.S. dollars at PHP 40.298 to $1.00)	Total
Assets	$7,631,927	$1,278,048	$8,909,975
Liabilities	27,028,107	2,355,604	29,383,711
Net liabilities	($19,396,180)	($1,077,556)	($20,473,736)

2000	In U.S. dollars	In Philippine pesos (translated into U.S. dollars at PHP 49.986 to $1.00)	Total
Assets	$21,283,779	$939,968	$22,223,747
Liabilities	17,555,994	2,916,822	20,472,816
Net assets (liabilities)	$3,727,785	($1,976,854)	$1,750,931

NOTE 21. COMPUTATION OF EARNINGS PER SHARE

		Year ended December 31,		
		1998	1999	2000
			(U.S. dollars)	
a.	Earnings	1,639,187	3,270,777	8,101,584
	Common shares at beginning of year	2,457,543	7,607,543	14,440,876
	Weighted number of common shares issued during the year	166,667	6,833,333	3,186,458
	Weighted equivalent number of common shares corresponding to deposit on future share subscriptions received during the year	4,983,333	–	–
b.	Adjusted weighted average number of common shares issued and outstanding during the year	7,607,543	14,440,876	17,627,334
c.	Effect of reverse stock split of 3 shares for every 5 shares held (see Note 10)	(3,043,018)	(5,776,351)	(5,176,351)
d.	Adjusted weighted average number of common shares issued and outstanding for the year	4,564,525	8,664,525	12,450,983
e.	Effect of dilutive stock option	–	–	64,583
f.	Adjusted weighted average number of common shares issued and outstanding plus assumed exercise of stock option	4,564,525	8,664,525	12,515,566
Basic EPS (a/d)		0.36	0.38	0.65
Diluted EPS (a/f)		–	–	0.65

ITEM 19 EXHIBITS

Exhibit Number	Description
1.1	Articles of incorporation of our company (incorporated herein by reference to Exhibits 3.1 and 3.2 to our registration statement on Form F-1, as amended (Registration Statement No. 333-9110)).
2.1	Registration rights agreement dated May 29, 2001 (incorporated herein by reference to Exhibit 3 to our filing on Schedule 13D dated May 29, 2001).
3.1	Shareholders' agreement dated May 29, 2001 (incorporated herein by reference to Exhibit 2 to our filing on Schedule 13D dated May 29, 2001).
4.1	Share purchase agreement dated May 29, 2001 (incorporated herein by reference to Exhibit 1 to our filing on Schedule 13D dated May 29, 2001).
8.1	Significant subsidiaries (please see "Item 4—Information on Our Company—Organizational Structure" of this Form 20-F).

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

PSi Technologies Holdings, Inc.

/S/ Arthur J. Young, Jr.
Name: Arthur J., Young, Jr.
Title: President & Chief Executive Officer

June 15, 2001
Date