

6 November 2017

**THE PHILIPPINE STOCK EXCHANGE, INC.**

Disclosure Department  
4<sup>th</sup> Floor, Philippine Stock Exchange Centre  
PSE Centre, Exchange Road  
Ortigas Center, Pasig City

Attention: **MR. JOSE VALERIANO B. ZUÑO III**  
OIC – Head, Disclosure Department

Subject: 3<sup>rd</sup> Quarter Report for 2017  
(SEC Form 17-Q)

Gentlemen:

Enclosed is our Quarterly Report for the nine (9)-month period ending 30 September 2017 (SEC Form 17-Q).

We trust that you will find the attached document in order.

Very truly yours,

**PAXYS, INC.**

By:

  
**MAYETTE H. TAPIA**  
Corporate Information Officer



111062017003763



## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Information

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Company Type Stock Corporation

Document Information

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# COVER SHEET

SEC Registration Number

P A X Y S , I N C . A N D S U B S I D I A R I E S

(Company's Full Name)

1 5 F , 6 7 5 0 A Y A L A O F F I C E T O W E R ,  
A Y A L A A V E N U E , M A K A T I C I T Y

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

**Atty. Mayette H. Tapia**  
(Contact Person)

**(+632) 250-3800**  
(Company Telephone Number)

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*Month Day*  
(2017)

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*Month Day*  
(Annual Meeting)

**Not applicable**  
(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

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Amended Articles Number/Section

**716**  
Total No. of Stockholders

Total Amount of Borrowings  
- Domestic - Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

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

1. For the quarterly period ended: September 30, 2017
2. SEC Identification Number: 6609                      3. BIR Tax Identification No. 000-233-218
4. Exact Name of the registrant as specified in its charter: PAXYS, INC.
5. Province, country or other jurisdiction of Incorporation or organization: Manila, Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of registrant's principal office:                      Postal Code: 1226  
15<sup>th</sup> Floor, 6750 Avala Office Tower, Avala Avenue, Makati City
8. Registrant's telephone number, including area code:                      (+632) 250-3800
9. Former name, former address, and former fiscal year, if changed since last report  
**Not Applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA
- a) Authorized Capital Stock**
- |                                |                      |
|--------------------------------|----------------------|
| Common shares, P1.00 par value | 1,800,000,000 shares |
|--------------------------------|----------------------|
- b) Issued and Outstanding Shares**
- |                                |                      |
|--------------------------------|----------------------|
| Common shares, P1.00 par value | 1,148,534,866 shares |
|--------------------------------|----------------------|
- c) Amount of Debt Outstanding as of September 30, 2017**
- |                                |      |
|--------------------------------|------|
| Short-term and Long-term loans | None |
|--------------------------------|------|
11. Are any or all of the securities listed on the Philippine Stock Exchange  
Yes [x]    No [ ]

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the Revised Securities Act (RSA) Rule 11(a) – 1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes  No

- (b) Has been subject to such filing requirements for the past 90 days.

Yes  No

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

The consolidated financial statements include the accounts of Paxys, Inc. (“Paxys”, the “Company”, or the “Parent Company”) and the following subsidiaries and joint ventures (collectively referred to as the “Group”):

Subsidiaries	Place of Incorporation	Principal Activity	Percentage of Ownership			
			September 30, 2017		December 31, 2016	
			Direct	Indirect	Direct	Indirect
Paxys N.V.*	Curacao	Investment Holding	100.0%	–	100.0%	–
ScopeWorks Asia, Inc. (SWA)	Philippines	Data Conversion	100.0%	–	100.0%	–
Paxys Global Services, Inc. (PGS)	Philippines	Business Process Outsourcing	100.0%	–	100.0%	–
Paxys Global Services Pte Ltd (PGSPL)	Singapore	Business Process Outsourcing	100.0%	–	100.0%	–
Paxys Global Services Pte Ltd ROHQ (PGS ROHQ)	Philippines	Shared Services	–	100.0%	–	100.0%
Paxys Ltd.	Hong Kong	Investment Holding	100.0%	–	100.0%	–
Simpro Solutions Ltd.	Hong Kong	Regional Office	–	50%	–	50%
Simpro Solutions Philippines, Inc. (Simpro Phils)	Philippines	Contact Center	–	50%	–	50%
Paxys Global Services (Dalian) Ltd.	China	Contact Center	50%	–	50%	–

\* As at September 30, 2017 and December 31, 2016, Paxys N.V. owns 345,622,477 common shares of the Parent Company representing 30.09% of total outstanding capital stock

The unaudited consolidated financial statements as at and for the nine-month period ended September 30, 2017 has been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles in the Philippines (“Philippine GAAP”) for complete financial statements as set forth in the Philippine Financial Reporting Standards (PFRS) and are filed as Annex A of this report.

### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)

The MD&A is a discussion and analysis of the Group’s financial performance for the nine-month period ended September 30, 2017. The primary objective of this MD&A is to help the readers understand the dynamics of the Group’s business and the key factors underlying the Group’s financial results.

The MD&A for the nine-month period ended September 30, 2017 should be read in conjunction with the unaudited consolidated financial statements and the accompanying notes, and are filed as Annex B of this report.

### Item 3. Aging of Trade Receivables

Please see Annex C.

**PAXYS, INC.  
AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
September 30, 2017 and December 31, 2016  
and for the Nine-Month Period Ended September 30, 2017 and 2016

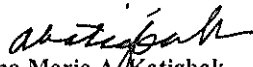
PART II. SIGNATURES

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

Registrant: PAXYS, INC.



Tarcisio M. Medalla  
Chairman of the Board and President  
November 6, 2017



Ana Maria A. Katigbak  
Assistant Corporate Secretary  
November 6, 2017



**PAXYS, INC. AND SUBSIDIARIES****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at September 30, 2017 and December 31, 2016

(Amounts in Thousands)

	September 30 (Unaudited)	December 31 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	₱2,652,175	₱2,856,866
Available-for-sale financial assets (Note 5)	320,554	231,560
Trade and other receivables (Note 6)	63,883	45,122
Held-to-maturity investments (Note 5)	744,435	581,388
Other current assets (Note 7)	15,140	13,504
<b>Total Current Assets</b>	<b>3,796,187</b>	<b>3,728,440</b>
<b>Noncurrent Assets</b>		
Property and equipment (Note 9)	1,877	2,340
Intangible assets (Note 10)	520	718
Other noncurrent assets (Note 11)	11,400	11,435
<b>Total Noncurrent Assets</b>	<b>13,797</b>	<b>14,493</b>
	<b>₱3,809,984</b>	<b>₱3,742,933</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 12)	₱31,579	₱33,644
Income tax payable	-	586
<b>Total Current Liabilities</b>	<b>31,579</b>	<b>34,230</b>
<b>Noncurrent Liabilities</b>		
Retirement liability (Note 17)	5,258	5,258
<b>Total Noncurrent Liabilities</b>	<b>5,258</b>	<b>5,258</b>
<b>Total Liabilities</b>	<b>36,837</b>	<b>39,488</b>
<b>Equity</b>		
Capital stock (Note 13)	1,148,535	1,148,535
Additional paid-in capital (Note 13)	451,364	451,364
Parent shares held by a subsidiary (Note 13)	(1,149,886)	(1,149,886)
Other equity reserves	450,691	386,158
Retained earnings	2,872,443	2,867,274
<b>Total Equity</b>	<b>3,773,147</b>	<b>3,703,445</b>
	<b>₱3,809,984</b>	<b>₱3,742,933</b>

*See accompanying Management Discussion and Analysis and Selected Notes to Interim Condensed Consolidated Financial Statements.*

**PAXYS, INC. AND SUBSIDIARIES****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

For the Nine-month and Three-month Periods Ended September 30, 2017 and 2016

[Amounts in Thousands, except Basic/Diluted Earnings (Loss) Per Share]

	Nine Months		Three Months	
	2017	2016	2017	2016
<b>SERVICE INCOME</b>	<b>₱58,769</b>	<b>₱68,246</b>	<b>₱17,306</b>	<b>₱23,107</b>
<b>COSTS OF SERVICES (Note 14)</b>	<b>(50,955)</b>	<b>(60,318)</b>	<b>(15,522)</b>	<b>(20,054)</b>
<b>GROSS PROFIT</b>	<b>7,814</b>	<b>7,928</b>	<b>1,784</b>	<b>3,053</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES (Note 15)</b>	<b>(57,076)</b>	<b>(65,952)</b>	<b>(23,120)</b>	<b>(25,923)</b>
<b>INTEREST INCOME (Note 16)</b>	<b>51,313</b>	<b>54,114</b>	<b>17,958</b>	<b>19,902</b>
<b>NET FOREIGN EXCHANGE GAIN (Note 16)</b>	<b>1,970</b>	<b>2,716</b>	<b>738</b>	<b>2,592</b>
<b>OTHER INCOME - net (Note 16)</b>	<b>1,148</b>	<b>14,716</b>	<b>256</b>	<b>923</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>5,169</b>	<b>13,522</b>	<b>(2,384)</b>	<b>547</b>
<b>PROVISION FOR INCOME TAX</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCOME (LOSS)</b>	<b>₱5,169</b>	<b>₱13,522</b>	<b>(₱2,384)</b>	<b>₱547</b>
<b>EARNINGS (LOSS) PER SHARE</b>				
Basic/Diluted Earnings (Loss) Per Share	<b>₱0.006</b>	<b>₱0.017</b>	<b>(₱0.003)</b>	<b>₱0.001</b>

*See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements.*

**PAXYS, INC. AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

For the Nine-month and Three-month Periods Ended September 30, 2017 and 2016

(Amounts in Thousands)

	Nine Months		Three Months	
	2017	2016	2017	2016
<b>NET INCOME (LOSS)</b>	<b>₱5,169</b>	<b>₱13,522</b>	<b>(₱2,384)</b>	<b>₱547</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Translation Gain	56,689	73,993	17,895	74,067
Unrealized Gain on fair value changes on Available for Sale financial assets	7,844	9,846	2,203	6,730
	<b>64,533</b>	<b>83,839</b>	<b>20,098</b>	<b>80,797</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱69,702</b>	<b>₱97,361</b>	<b>₱17,714</b>	<b>₱81,344</b>

*See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements.*

**PAXYS, INC. AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)**

For The Nine-Month Period Ended September 30, 2017 and 2016

(Amounts in Thousands)

	Total Equity Attributable to Equity Holders of the Parent Company							
	Capital Stock ₱1 Par Value (Note 13)	Additional Paid-in Capital (Notes 13)	Retained Earnings	Parent shares held by a subsidiary (Note 13)	Other Equity Reserve			Total
Cumulative Translation Adjustments					Unrealized gains on AFS	Actuarial gains/losses		
At January 1, 2017	₱1,148,535	₱451,364	₱2,867,274	(₱1,149,886)	₱374,827	₱7,820	₱3,511	₱3,703,445
Total comprehensive income for the period	–	–	5,169	–	56,689	7,844	–	69,702
At September 30, 2017	₱1,148,535	₱451,364	₱2,872,443	(₱1,149,886)	₱431,516	₱15,664	₱3,511	₱3,773,147

	Total Equity Attributable to Equity Holders of the Parent Company							
	Capital Stock ₱1 Par Value (Note 13)	Additional Paid-in Capital (Notes 13)	Retained Earnings	Parent shares held by a subsidiary (Note 13)	Other Equity Reserve			Total
Cumulative Translation Adjustments					Unrealized gains on AFS	Actuarial gains/losses		
At January 1, 2016	₱1,148,535	₱451,364	₱2,855,444	(₱1,149,886)	₱237,969	(₱2,298)	₱2,275	₱3,543,403
Total comprehensive income for the period	–	–	13,522	–	73,993	9,846	–	97,361
At September 30, 2016	₱1,148,535	₱451,364	₱2,868,966	(₱1,149,886)	₱311,962	₱7,548	₱2,275	₱3,640,764

See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements.

**PAXYS, INC. AND SUBSIDIARIES****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
**For the Nine-month Period Ended September 30, 2017 and 2016**  
**(Amounts in Thousands)**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	₱5,169	₱13,522
Interest income	(51,313)	(54,114)
Provision for doubtful accounts	5,023	6,175
Provision for impairment losses on Input Value Added Tax	2,205	1,797
Depreciation and amortization	1,122	1,693
Unrealized foreign exchange gain	(1,108)	(2,716)
Gain on redemption of AFS assets	-	(1,607)
Operating loss before working capital changes	(38,902)	(35,250)
Decrease (increase) in:		
Trade and other receivables	(17,139)	17,475
Other current assets	(1,636)	(3,006)
Other noncurrent assets	35	1,204
Decrease in:		
Trade and other payables	(2,651)	(12,672)
Accrued retirement	-	(71)
Other non-current liabilities	-	(605)
Cash used for operations	(60,293)	(32,925)
Interest received	42,463	41,417
Net cash provided by (used in) operating activities	(17,830)	8,492
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in:		
Investment in HTM Securities	(163,047)	(437,025)
Investment in Available-For-Sale (AFS) assets	(81,150)	92,967
Acquisition of property and equipment and intangibles	(461)	(938)
Net cash used in investing activities	(244,658)	(344,996)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	57,797	76,707
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(204,691)	(259,797)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	2,856,866	2,980,255
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	₱2,652,175	₱2,720,458

*See accompanying Management Discussion and Analysis and Selected Notes to Consolidated Financial Statements.*

**PAXYS, INC. AND SUBSIDIARIES**

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Corporate Information**

Paxys, Inc. (“Paxys”, the “Company”, or the “Parent Company”) is an investment holding company incorporated in the Philippines and listed on the Philippine Stock Exchange (stock symbol: PAX). It was formerly known as Fil-Hispano Holdings Corporation and registered with the Philippine Securities and Exchange Commission (SEC) on February 14, 1952. At present, the Parent Company’s operating subsidiary provide general transcription, proofreading, data conversion and contact center outsourcing services. As of September 30, 2017, its major shareholders are All Asia Customer Services Holdings Ltd. (AACSHL), a privately-held company incorporated in Hong Kong, and Paxys NV, a wholly owned subsidiary of the Company, with 54.93% and 30.09% interests, respectively. The registered office address of Paxys is at 15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines.

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

The unaudited interim consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine interpretations from the International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council.

The unaudited interim consolidated financial statements have been prepared on a historical cost basis, except for derivative instruments which have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company’s functional and presentation currency. All values are rounded to the nearest thousands (₱000), except when otherwise indicated.

Statement of Compliance

The unaudited interim consolidated financial statements for the nine-month period ended September 30, 2017 have been prepared in accordance with PAS34, *Interim Financial Reporting*. Accordingly, the unaudited interim consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles in the Philippines (“Philippine GAAP”) for complete financial statements as set forth in the PFRS.

Adoption of New and Revised PFRS

The Group adopted the following new and revised PFRS effective January 1, 2017:

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

The adoption of the foregoing new and revised PFRS did not have any material effect on the interim consolidated financial statements of the Group. Additional disclosures have been included in the notes to the interim consolidated financial statements, as applicable.

New and Amended PFRS Not Yet Adopted

Relevant new and amended PFRS, which are not yet effective for the quarter ended June 30, 2017 and have not been applied in preparing the interim consolidated financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* - this standard will replace PAS 39 (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will be no longer necessary for objective evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

- PFRS 15, *Revenue from Contracts with Customers* – This standard was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under PFRS. Either a full or a modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Effective for annual periods beginning on or after January 1, 2019 –

- PFRS 16, *Leases* – Significant change introduced by the new standard is that almost all leases will be brought onto lessees’ statements of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

Under prevailing circumstances, the adoption of the foregoing new and revised PFRS are not expected to have any material effect on the consolidated financial statements of the Group. Additional disclosures will be included in the consolidated financial statements, as applicable.

### Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

Subsidiaries	Place of Incorporation	Principal Activity	2017		2016	
			Direct	Indirect	Direct	Indirect
Paxys N.V.*	Curacao	Investment holding	100.0%	-	100.0%	-
ScopeWorks Asia, Inc. (SWA)	Philippines	Data conversion	100.0%	-	100.0%	-
Paxys Global Services, Inc. (PGS)	Philippines	Business Process Outsourcing	100.0%	-	100.0%	-
Paxys Global Services Pte Ltd (PGSPL)	Singapore	Business Process Outsourcing	100.0%	-	100.0%	-
Paxys Global Services Pte Ltd ROHQ (PGS ROHQ)	Philippines	Shared services	-	100.0%	-	100.0%
Paxys Ltd.	Hong Kong	Investment holding	100.0%	-	100.0%	-

\* Paxys N.V. owns 345,622,477 common shares of the Parent Company representing 30.09% of the total outstanding capital stock of the Parent Company

The Parent Company and its subsidiaries are collectively referred to as the “Group”.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting years as that of the Parent Company. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intercompany accounts, transactions and balances including intercompany profits, unrealized profits and losses and dividends are eliminated in full in the consolidated financial statements.

### Foreign Currencies

The Group’s interim consolidated financial statements are presented in Philippine peso, which is also the Parent Company’s functional and presentation currency. The Philippine peso is the currency of the primary economic environment in which the Company operates. This is also the currency that mainly influences the revenue rendering products and services. All the subsidiaries, associates and joint ventures evaluate their primary economic and operating environment and determine their functional currency. Items included in the financial statements of each entity are initially measured using that functional currency.

The functional currency of the Parent Company, SWA, Simpro Philippines, PGS and PGS ROHQ is the Philippine Peso. The functional currency of PGSPL is Singapore Dollar (SG\$). The functional currency of Paxys Ltd., Simpro Solutions Limited and Paxys N.V. is U.S. Dollar (US\$).

Transactions in foreign currencies are initially recorded in the functional currency spot rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional closing rate of exchange at the end of the reporting period. The exchange differences arising on settlement or translation of monetary items are recognized in profit or loss.

*Foreign operations.* On consolidation, the assets and liabilities of foreign operations are translated into Philippine pesos at the rate of exchange prevailing at the reporting date and their income statements are translated at weighted average exchange rates at the end of the year. The exchange differences arising on translation for consolidation are included in the cumulative translation adjustment, a separate component of equity under other equity reserves. Upon disposal of a foreign operation, the cumulative translation adjustment relating to that particular foreign operation is recognized in profit and loss.

### Current versus Noncurrent Classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when:

- It is expected to be realized or intended to sold or consumed in normal operating cycle
- It is held primarily for the purpose of trading



- It is expected to be realized within twelve months after the reporting period, or
- It is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as noncurrent. A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as noncurrent.

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid deposits that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

#### Financial Instruments

*Date of Recognition.* The Group recognizes a financial asset and liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Derivative instruments are recognized on a trade date basis.

*Initial Recognition and of Financial Instruments.* All financial assets and financial liabilities are recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale.

This category pertains to the Company's cash and cash equivalents, trade and other receivables (excluding statutory receivables and advances to suppliers and contractors), rental and security deposits.

*AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. These include equity investments, money market papers and other debt instruments. AFS financial assets are initially measured at fair value plus incremental direct transaction costs. The unrealized gains and losses arising from the fair valuation of AFS financial assets, except for the foreign exchange fluctuations on AFS debt securities and the related effective interest, are excluded, from reported earnings, and are reported in the consolidated statement of comprehensive income and in the equity section of the consolidated statement of financial position. These changes in fair values are recognized in equity until the investment is sold, collected, or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in profit or loss.

Where the Group holds more than one investment in the same security, these are deemed to be disposed on a first-in, first-out basis. Interest earned or paid on the investments is recognized as interest income or expense using the effective interest rate method. Dividends earned on investments are recognized in profit or loss when the right of payment has been established. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the end of reporting year.

The Group has classified its quoted equity investments as AFS financial assets.

*HTM Investments.* HTM Investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to

hold to maturity. When the Group sells more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category is tainted and should be reclassified as AFS financial assets.

After initial recognition, HTM investments are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in profit or loss.

Investments in bonds are included under this category.

*Other financial liabilities.* Issued financial instruments or their component where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

This accounting policy applies primarily to the Group's accounts payable and other current liabilities (except for statutory payables and unearned income) and dividends payable.

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost of property and equipment consists of its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes the cost of replacing the part of such property and equipment and borrowing costs for long-term construction projects when the recognition criteria are met.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally recognized as expense in the period such costs are incurred.

Depreciation commences once the property and equipment are available for use and is calculated on a straight-line basis over the estimated useful life of the asset as follows:

<u>Asset Type</u>	<u>Number of Years</u>
Computer equipment	3 to 5
Communication equipment	3 to 5
Leasehold improvements	5 or lease term, whichever is shorter
Office furniture, fixtures and equipment	5
Transportation equipment	5

#### Intangible Assets

Intangible assets with finite useful lives are composed of the Group's website and software packages. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization expense on intangible assets with finite lives is recognized under "Costs of services" and "General and administrative expenses" accounts in the consolidated statement of income.

#### Investments in Joint Ventures

The Parent Company has interests in joint ventures, whereby the venturers have a contractual arrangement that establishes joint control. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest.

Interest in a joint venture is initially recognized at cost and subsequently accounted for under the equity method of accounting. Under the equity method of accounting, the interest in a joint venture is carried

at cost plus post-acquisition changes in the Group's share in the net assets of the joint venture, less any impairment in value. The share in the results of the operations of the joint venture is recognized in profit or loss. The Group's share of post-acquisition movements in the joint venture's equity reserves is recognized directly in equity. Profits or losses resulting from the transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the interest. If the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group discontinues recognizing its share of further losses.

After the application of the equity method, the Group determines at the end of each reporting year whether there is any objective evidence that the investment is impaired. If this is the case, the amount of impairment is calculated as the difference between the carrying amount of the investment and recoverable amount and recognizes the difference in profit or loss.

After the Group's investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes the recognition of its share of those profits only after its share of the profits equals the share of losses not previously recognized.

#### Equity

*Capital Stock* is measured at par value for all shares issued. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of consideration received in excess of par value are recognized as additional paid-in capital (APIC).

*APIC on Stock Options* represents the cumulative compensation expense recognized from equity-settled share-based payment plan, net of cumulative compensation expense related to exercised and expired stock options.

*Parent Shares Held by a Subsidiary.* Where any entity of the Group purchases the Parent Company's shares (treasury stock), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effect, is included in equity attributable to the Parent Company's equity holders.

*Retained Earnings* represent accumulated earnings net of dividends declared.

*Other Equity Reserves* comprise items of income and expense, including reclassification adjustments, that are not recognized in consolidated statement of income as required or permitted by other PFRS.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and value-added tax or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

*Service Income.* Revenue is recognized as services are rendered.

*Interest Income.* Revenue is recognized as the interest accrues using the effective interest method, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

*Equity in Net Earnings (Losses) of Joint Ventures.* The Group recognizes its share in the net income (loss) of joint ventures proportionate to its interest in the joint ventures in accordance with the equity method of accounting for investments.

*Other Income.* Revenue is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Group through an increase in asset or reduction in liability and that can be measured reliably.

#### Cost and Expense Recognition

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized in the consolidated statement of income in the year these are incurred.

#### Leases

*Group as a Lessee.* Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease terms.

*Group as a Lessor.* Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income is recognized as income on a straight-line basis over the lease terms.

#### Employee Benefits

*Short-term Employee Benefits.* The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the year. Short-term employee benefits given by the Group to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

*Retirement Benefits.* Retirement benefit costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. The calculation of defined benefit obligations is performed annually by a qualified actuary.

Remeasurements of the retirement liability, which comprise actuarial gains and losses, are recognized immediately in Other Comprehensive Income. The Group determines the net interest expense to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability, taking into account any changes in the defined benefit liability during the year as a result of contributions and benefit payments.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The retirement liability recognized by the Group is the present value of the defined benefit obligation. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rate of government bonds that have terms to maturity approximating the terms of the related retirement and other long-term benefits liability.

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

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### 3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's interim consolidated financial statements in compliance with PFRS requires management to make judgment and estimates that affect certain reported amounts and disclosures. The judgment and estimates used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Accordingly, actual results could differ from those estimates, and such estimates will be adjusted accordingly.

#### Judgments

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

*Determination of Functional Currency.* Based on the economic substance of the underlying circumstances, the Group has determined that its functional currency is the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Parent Company and certain subsidiaries operate. It is the currency that mainly influences the sale of services and the costs of providing the services.

*Determination of Operating Segments.* Determination of operating segments is based on the information about components of the Group that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Parent Company's chief operating decision maker, which is defined to be the Parent Company's BOD, in order to allocate resources to the segment and assess its performance. The Parent Company reports separate information about an operating segment that meets any of the following quantitative thresholds: (a) its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; (b) the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and (c) its assets are 10% or more of the combined assets of all operating segments.

The Group determined that its operating segments are organized and managed separately based on the nature of the business segment, with each business representing a strategic business segment.

*Non-Recognition of Deferred Tax Liability (DTL) on Undistributed Income of a Foreign Subsidiary.* Since Paxys N.V., a company incorporated and domiciled in Curacao, is a wholly owned subsidiary by the Parent Company, management believes that the Parent Company can control the timing of the dividend distribution of Paxys N.V. to the Parent Company. Thus, no deferred tax liability was recognized on the undistributed income of Paxys N.V.

*Determination of the Classification of Leases.* Management exercises judgment in determining whether substantially all the significant risks and benefits over the ownership of the assets held for lease are retained by the Group. Lease contracts in which the Group retains substantially all the risks and benefits incidental to ownership of the leased item are accounted for as operating leases. Otherwise, these are considered as finance leases.

*Operating Lease Commitments.* The Group has entered into various lease agreements either as lessor or lessee. Management has determined that the significant risks and rewards are retained by the lessor and accounts for the lease as operating lease.

Rent expense amounted to ₱9.3 million and ₱8.8 million for the nine-month periods ended September 30, 2017 and 2016, respectively. See notes 14 and 15.

*Provisions and Contingencies.* The Group is involved in various labor disputes, litigations, claims and tax assessments that are normal to its business. Based on the opinion of the Group's legal counsels on the progress and legal grounds of certain claims and assessments, no provision is deemed necessary in

2017 and 2016. The Group has no outstanding provision for probable losses as at September 30, 2017 and December 31, 2016.

#### Estimates and Assumptions

The key assumptions concerning future and other key sources of estimation at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Determination of Fair Value of Financial Instruments.* PFRS require that certain financial assets and liabilities be carried at fair value. When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using degree of judgment required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

*Estimation of Useful Lives of Property and Equipment and Other Intangible Assets with Finite Useful Lives.* The useful life of each of the Company's items of property and equipment and intangible assets with finite useful lives is estimated based on the period over which the assets are expected to be available for use. Such estimation is based on a collective assessment of similar business, internal technical evaluation and experience with similar assets. There is no change in the estimated useful lives of property and equipment and other intangible assets with finite useful lives in 2017 and 2016.

*Estimation of Impairment Losses on Receivables.* The Group maintains allowance for doubtful accounts at a level based on the result of the individual and collective assessment. Under the individual assessment, the Group considers the payment history, past due status and term. The collective assessment would require the Group to group its receivables based on the credit risk characteristics (customer type, length of the Group's relationship with the customers, average age of accounts and collection experience) of the customers.

Allowance for impairment losses on trade and other receivables amounted to ₱83.3 million and ₱78.7 million as at September 30, 2017 and December 31, 2016, respectively. The carrying values of trade and other receivables amounted to ₱63.9 million and ₱45.1 million as at September 30, 2017 and December 31, 2016, respectively (see Note 6).

*Determination of Realizability of Input Value Added Tax (VAT).* The carrying amount of input tax is reviewed at each reporting date and reduced to the extent that it will be not be utilized. The carrying amount of the asset is reduced through the use of an allowance account.

An increase in provision for potential losses on input tax would increase the Group's recorded expenses and decrease current assets.

The carrying value of input VAT, net of allowance, amounted to ₱13.3 million and ₱12.0 million as at September 30, 2017 and December 31, 2016, respectively. Allowance for non-recoverability of Input VAT amounted to ₱51.1 million and ₱48.9 million as at September 30, 2017 and December 31, 2016, respectively (see Note 7).

*Determination of Retirement liability.* The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The retirement liability amounted to ₱5.3 million as at September 30, 2017 and December 31, 2016, respectively.

#### 4. Cash and Cash Equivalents

##### Cash and Cash Equivalents

	Sept. 30, 2017	Dec. 31, 2016
Cash on hand and in banks	P143,151	P61,587
Cash equivalents	2,509,024	2,795,279
	<b>P2,652,175</b>	<b>P2,856,866</b>

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

#### 5. AFS Financial Assets and HTM Investments

##### Investments in AFS Financial Assets

Fixed income investments consist of investment in funds managed by an international bank, which invest primarily in funds with absolute return investment strategies. Total investments in AFS financial assets amounted to P320.6 million and P231.6 million as at September 30, 2017 and December 31, 2016, respectively.

##### HTM Investments

HTM investments pertain to short-duration bonds purchased at international banks. As at September 30, 2017 and December 31, 2016, the amortized cost of these bonds amounted to P744.4 million and P581.4 million, respectively.

#### 6. Trade and Other Receivables

	Sept. 30, 2017	Dec. 31, 2016
Trade	P28,918	P27,461
Due from related parties	76,339	61,879
Nontrade	1,272	1,272
Others	40,701	33,179
	147,230	123,791
Allowance for impairment losses	(83,347)	(78,669)
	<b>P63,883</b>	<b>P45,122</b>

Trade receivables are noninterest-bearing and generally have 30 to 60 day terms. Other receivables which includes advances to employees, security deposits and other nontrade receivables are expected to be settled/liquidated within the year.

In 2016, receivables amounting to P4.6 million were written off (see Note 15).

#### 7. Other Current Assets

This account consists of:

	Sept. 30, 2017	Dec. 31, 2016
Input VAT, net of allowance for impairment loss	P13,341	P11,953
Prepaid expenses	1,799	1,551
	<b>P15,140</b>	<b>P13,504</b>

## 8. Investments in Joint Venture

Joint venture	Place of Incorporation	Principal Activity	Percentage of Ownership	
			Sept. 30, 2017	Dec. 31, 2016
PGS Dalian	China	Contact center	50.0%	50.0%
Simpro Solutions Limited	Hong Kong	Contact center	50.0%	50.0%

The Group recognizes its interest in these joint ventures using equity method of accounting.

Investments in joint ventures as at September 30, 2017 and December 31, 2016 are nil. Due to share of accumulated losses, investment in PGS Dalian and Simpro Solutions Limited already depleted, thus, Paxys did not recognize further losses for the nine-month period ended September 30, 2017 and in 2016.

## 9. Property and Equipment

The movement of this account follows:

	September 30, 2017					
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
<i>Cost (in thousands)</i>						
Balance at beginning of year	P109,289	P7,836	P161,610	P12,412	P13,649	P304,796
Additions	65	–	118	135	–	318
Disposal	–	–	–	–	–	–
Balance at end of period	109,354	7,836	161,728	12,547	13,649	305,114
<i>Accumulated Depreciation (in thousands)</i>						
Balance at beginning of year	108,928	7,836	161,090	11,462	13,140	302,456
Depreciation for the period	217	–	160	245	159	781
Disposal	–	–	–	–	–	–
Balance at end of period	109,145	7,836	161,250	11,707	13,299	303,237
<b>Net Book Value</b>	<b>P209</b>	<b>P–</b>	<b>P478</b>	<b>P840</b>	<b>P350</b>	<b>P1,877</b>

Property and equipment are depreciated using the economic lives as follows:

Computer equipment	3 to 5 years
Communication equipment	3 to 5 years
Leasehold improvements	5 years or lease term whichever is shorter
Office furniture, fixtures and equipment	5 years
Transportation equipment	5 years



December 31, 2016

	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
<i>Cost (in thousands)</i>						
Balance at beginning of year	₱109,168	₱7,836	₱161,610	₱12,089	₱13,649	₱304,352
Additions	121	—	—	323	—	444
Balance at end of year	109,289	7,836	161,610	12,412	13,649	304,796
<i>Accumulated Depreciation (in thousands)</i>						
Balance at beginning of year	108,592	7,836	160,849	11,177	12,928	301,382
Depreciation for the year	336	—	241	285	212	1,074
Balance at end of year	108,928	7,836	161,090	11,462	13,140	302,456
<b>Net Book Value</b>	<b>₱361</b>	<b>₱—</b>	<b>₱520</b>	<b>₱950</b>	<b>₱509</b>	<b>₱2,340</b>

As at September 30, 2017 and December 31, 2016, fully depreciated property and equipment with aggregate cost amounting to ₱71.9 million are still being used in the operations.

#### 10. Intangible Assets

Movements in this account are as follows:

	Sept. 30, 2017	Dec. 31, 2016
Balance at beginning of year - net of accumulated amortization	₱718	₱1,160
Amortization	(341)	(1,044)
Additions	143	602
Balance at end of year - net of accumulated amortization	₱520	₱718
Cost	₱14,855	₱14,724
Accumulated amortization	(14,335)	(14,006)
	₱520	₱718

Intangible assets include acquired website and software packages which are amortized over three to five years.

#### 11. Other Noncurrent Assets

Other current assets pertain to rental and security deposits pertain to cash deposits on lease agreements, which are refundable at the end of various lease periods. As at September 30, 2017 and December 31, 2016, the account amounted to ₱11.4 million.

#### 12. Trade and Other Payables

	Sept. 30, 2017	Dec. 31, 2016
Trade payables	₱3,798	₱5,786
Accrued expenses	13,953	14,329
Statutory payables	6,882	6,482
Dividends payable	6,554	6,554
Advances from related parties	53	53
Other current liabilities	339	440
	₱31,579	₱33,644

Trade payables are noninterest-bearing and are normally settled on a 90-day term.

Accrued expenses mainly represent accruals for utilities, communications, and other employee benefits.

Statutory payables represent withholding tax payable and other liabilities to the government.

### 13. Stockholders' Equity

#### Capital Stock

On June 27, 2008, the Company's Board of Directors authorized and approved the increase in authorized capital stock from ₱1,200 million to ₱1,800 million by way of a stock dividend declaration.

	Number of Shares Authorized	Number of Shares Issued and Outstanding	Cost
Balance as at and beginning and end of period	1,800,000,000	1,148,534,866	₱1,148,535

#### Parent Shares Held by a Subsidiary

In October 2014, Paxys N.V., a wholly-owned subsidiary of the Parent Company, completed the tender offer to acquire 345,622,477 common shares of the Parent Company representing 30.09% of its outstanding capital stock.

#### Additional Paid In Capital (APIC)

This account consists of:

Premium on issuance of shares of stocks	₱348,213
Premium on forfeited stock option	103,151
	<b>₱451,364</b>

Premium from issuance of shares of stocks represents the excess of paid capital over the par value of capital stock. Premium on forfeited stock option represents increase in equity arising from equity-settled share-based payment transactions.

### 14. Cost of Services

	Nine Months		Three Months	
	2017	2016	2017	2016
Personnel cost	₱33,319	₱40,818	10,359	₱13,228
Outside Services	5,459	6,413	1,125	2,507
Rent	4,251	4,037	1,417	1,350
Utilities	2,538	2,713	782	919
Security and janitorial services	2,018	1,689	686	578
Communication	1,550	2,196	495	672
Depreciation and amortization	897	883	294	299
Supplies	311	459	124	127
Association dues	33	33	11	11
Professional fees	-	474	-	168
Others	579	603	229	195
	<b>₱50,955</b>	<b>₱60,318</b>	<b>₱15,522</b>	<b>₱20,054</b>

## 15. General and Administrative Expenses

	Nine Months		Three Months	
	2017	2016	2017	2016
Professional fees	<b>₱18,316</b>	₱14,575	<b>₱8,424</b>	₱4,999
Personnel cost	<b>12,750</b>	10,920	<b>2,864</b>	3,111
Provision for doubtful accounts	<b>5,023</b>	6,175	<b>5,023</b>	6,175
Rent	<b>5,012</b>	4,756	<b>1,702</b>	1,616
Provision for non-recoverability of input VAT	<b>2,205</b>	1,797	<b>908</b>	495
Utilities	<b>1,714</b>	1,601	<b>542</b>	572
Bank charges	<b>1,644</b>	10,074	<b>621</b>	5,313
Transportation and travel	<b>1,544</b>	1,760	<b>515</b>	475
Insurance	<b>1,456</b>	2,057	<b>414</b>	697
Recruitment	<b>1,254</b>		<b>10</b>	
Communication	<b>1,274</b>	1,993	<b>436</b>	674
Security and janitorial services	<b>1,129</b>	1,129	<b>386</b>	392
Taxes and licenses	<b>776</b>	913	<b>332</b>	227
Entertainment, amusement and recreation	<b>626</b>	748	<b>267</b>	275
Repairs and maintenance	<b>515</b>	563	<b>136</b>	178
Supplies	<b>315</b>	314	<b>124</b>	189
Depreciation and amortization	<b>225</b>	810	<b>49</b>	191
Write-off of receivables	<b>-</b>	4,566	<b>-</b>	-
Others	<b>1,298</b>	1,201	<b>367</b>	344
	<b>₱57,076</b>	₱65,952	<b>₱23,120</b>	₱25,923

## 16. Interest Income, Foreign exchange gains and losses, and Other Income

### Interest Income

Interest income for the comparative periods was generated mainly from bank deposits, and short-term placements, and short-term bonds amounting to ₱51.3 million and ₱54.1 million for the nine-month period ended September 30, 2017 and 2016, respectively.

### Foreign exchange

Net foreign exchange gain amounted to ₱2.0 million and ₱2.7 million for the nine-month period ended September 30, 2017 and 2016, respectively.

### Realized Gain on Available-for-Sale Assets

Realized gain on the sale of Investment in AFS amounted to ₱1.6 million for the nine-month period ended September 30, 2016.

### Other Income - net

Other income pertains to reversal of long outstanding payables, one-time gain on sale of bonds, and miscellaneous income.

## 17. Retirement Liability

The Parent Company and SWA maintain individual and separate unfunded, non-contributory, defined benefit plans covering all eligible employees. An independent actuary conducts an actuarial valuation of the retirement liability. The latest actuarial report was dated December 31, 2016.

The retirement benefits recognized in the consolidated statement of income is as follows:

	December 31, 2016
Current service cost	P1,266
Adjustment due to curtailment	(1,173)
Interest cost	288
	<b>P381</b>

The cumulative remeasurement gain on retirement liability recognized as other comprehensive income follows:

	December 31, 2016
Balance at beginning of year	P2,275
Remeasurement gain	1,236
Balance at end of year	<b>P3,511</b>

Changes in the present value of obligation are as follows:

	December 31, 2016
Balance at beginning of year	P6,184
Current service cost	1,266
Remeasurement gain recognized in OCI	(1,236)
Curtailment gain	(1,173)
Interest cost	288
Retirement benefits paid	(71)
Balance at end of year	<b>P5,258</b>

The principal assumptions used in determining the cost of retirement benefits of the Group are shown below:

Discount rate	5.38%
Salary increase rate	3.50%

## 18. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services and serves different markets.

*Segment Assets and Liabilities.* Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, property and equipment and other intangible assets, net of allowances and provision. Segment liabilities include all operating liabilities and consist principally of accounts payable and other liabilities.

*Inter-segment Transactions.* Segment revenues, segment expenses and segment performance include transfers among business segments. Such transfers are eliminated in consolidation.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating income or loss and is measured consistently with operating income or loss in the consolidated financial statements.

Business segment information is reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources among operating segments.

For management purposes, the Company is organized into business units based on their products and services and has four reportable operating segments as follows:

- Data Conversion - This segment includes data transcription and scoping services, voice-to-screen message conversion and electronic data encoding and processing.
- Call Center - The call center segment offers an integrated mix of call center solutions including inbound (customer-initiated) and outbound teleservicing as well as email and web-based tools.
- Others - This segment includes the operations of the Parent Company and its holding companies.

**Business Segment Data**

The following table presents revenues and expenses information and certain assets and liabilities information regarding the business segments for the nine-month periods ended September 30, 2017 and 2016:

	September 30, 2017				
	Data Conversion	Call Center	Others	Eliminations	Consolidated
<b>Results of Operations</b>					
Segment revenues from external customers	₱58,769	₱-	₱-	₱-	₱58,769
Segment expenses	(59,589)	(98)	(48,344)	-	(108,031)
Segment result	(821)	(98)	(48,344)	-	(49,262)
Interest income	227	1	51,085	-	51,313
Net Foreign exchange gain	619	1	1,766	(416)	1,970
Other segment operating income	311	-	837	-	1,148
Net income (loss)	₱337	(₱96)	₱5,344	(416)	₱5,169
<b>Assets and Liabilities</b>					
Segment assets	₱56,768	₱295	₱5,406,301	(₱1,653,380)	₱3,809,984
Segment liabilities	69,419	77,770	80,556	(190,908)	36,837
<b>Other Segment Information</b>					
Capital expenditures:					
Property and equipment	₱78	₱-	₱240	₱-	₱318
Intangibles	11	-	132	-	143
Depreciation and amortization	997	-	124	-	1,122

September 30, 2016

	Data Conversion	Call Center	Others	Eliminations	Consolidated
<b>Results of Operations</b>					
Segment revenues from external customers	₱68,246	₱-	₱-	₱-	₱68,246
Segment expenses	(67,200)	(71)	(58,999)	-	(126,270)
Segment result	1,046	(71)	(58,999)	-	(58,024)
Interest income – net	173	1	53,940	-	54,114
Net Foreign exchange gain (loss)	577	1	2,351	(213)	2,716
Other segment operating income - net	795	-	13,921	-	14,716
Net income (loss)	₱2,591	(₱69)	₱11,213	(213)	₱13,522
<b>Assets and Liabilities</b>					
Segment assets	₱56,153	₱410	₱5,274,142	(₱1,651,490)	₱3,679,215
Segment liabilities	73,316	77,668	77,419	(189,952)	38,451
<b>Other Segment Information</b>					
Capital expenditures:					
Property and equipment	₱286	₱-	₱64	₱-	₱350
Intangibles	496	-	94	-	590
Depreciation and amortization	1,049	-	644	-	1,693

s  
Geographical Segment Data

The following table presents the revenue and expenditure and certain asset information regarding geographical segments for the nine-month period ended September 30, 2017 and 2016:

September 30, 2017				
	Philippines	Others	Eliminations	Consolidated
<b>Revenue</b>				
External revenue	P58,769	P-	P-	P58,769
<b>Other Segment Information</b>				
Segment assets	P5,463,365	P-	(1,653,380)	P3,809,985
Capital expenditures:				
Property and equipment	318	-	-	318
Intangibles	143	-	-	143

September 30, 2016				
	Philippines	Others	Eliminations	Consolidated
<b>Revenue</b>				
External revenue	P68,246	P-	P-	P68,246
<b>Other Segment Information</b>				
Segment assets	P5,330,705	P-	(1,651,490)	P3,679,215
Capital expenditures:				
Property and equipment	350	-	-	350
Intangibles	590	-	-	590



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**19. Financial Assets and Financial Liabilities**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Cash and Cash Equivalents, Trade and Other Receivables, Trade and Other Payable, and Dividends Payable.* Due to the short-term nature of transactions, the fair value approximates the carrying amounts at initial recognition.

*Refundable Deposits.* The estimated fair values of refundable deposits are based on the discounted values of future cash flows using as discount rate the prevailing MART1 rates that are specific to the tenor of the instruments' cash flows as of financial reporting date.

*AFS Investments.* Net asset value per unit have been used to determine the fair value of AFS investments.

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**20. Other Matters**

Detailed schedules have been omitted for purposes of preparing these interim financial statements as allowed by SRC Rule 68.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

**INTRODUCTION**

The following discussion should be read in conjunction with the attached unaudited interim consolidated financial statements of the Group as at and for the nine-month period ended September 30, 2017 (with comparative figures as at and for the nine-month period ended September 30, 2016). All necessary adjustments to present fairly the consolidated financial condition, results of operations, and cash flows of the Group for the nine-month period ended September 30, 2017, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited financial statements prepared in accordance with generally accepted accounting principles have been omitted.

**ABOUT PAXYS GROUP**

Paxys is an investment holding company registered with the SEC in February 14, 1952. Through its operating subsidiaries, Paxys has been engaged in diversified services such as business process outsourcing, data conversion. For the last four years, Paxys divested its salary packaging, call center, IT consulting and software solutions business.

Scopeworks Asia, Inc. (SWA) is a Philippine BPO company engaged in general transcription, editing, proofreading, and data conversion services with clients in the US, Australia and UK.

Paxys Global Services, Inc. (PGSI) is a business process-outsourcing provider for consumers, businesses and institutions. Its primary purpose is to engage in call center business that offers an integrated mix of call center solutions including inbound (customer-initiated) and outbound teleservicing.

Simpro Solutions Limited (SSL) is a joint venture company engaged in call center and back office outsourcing activities thru its wholly-owned subsidiary, Simpro Solutions Philippines, Inc.

The Group's corporate structure is shown in the next page.

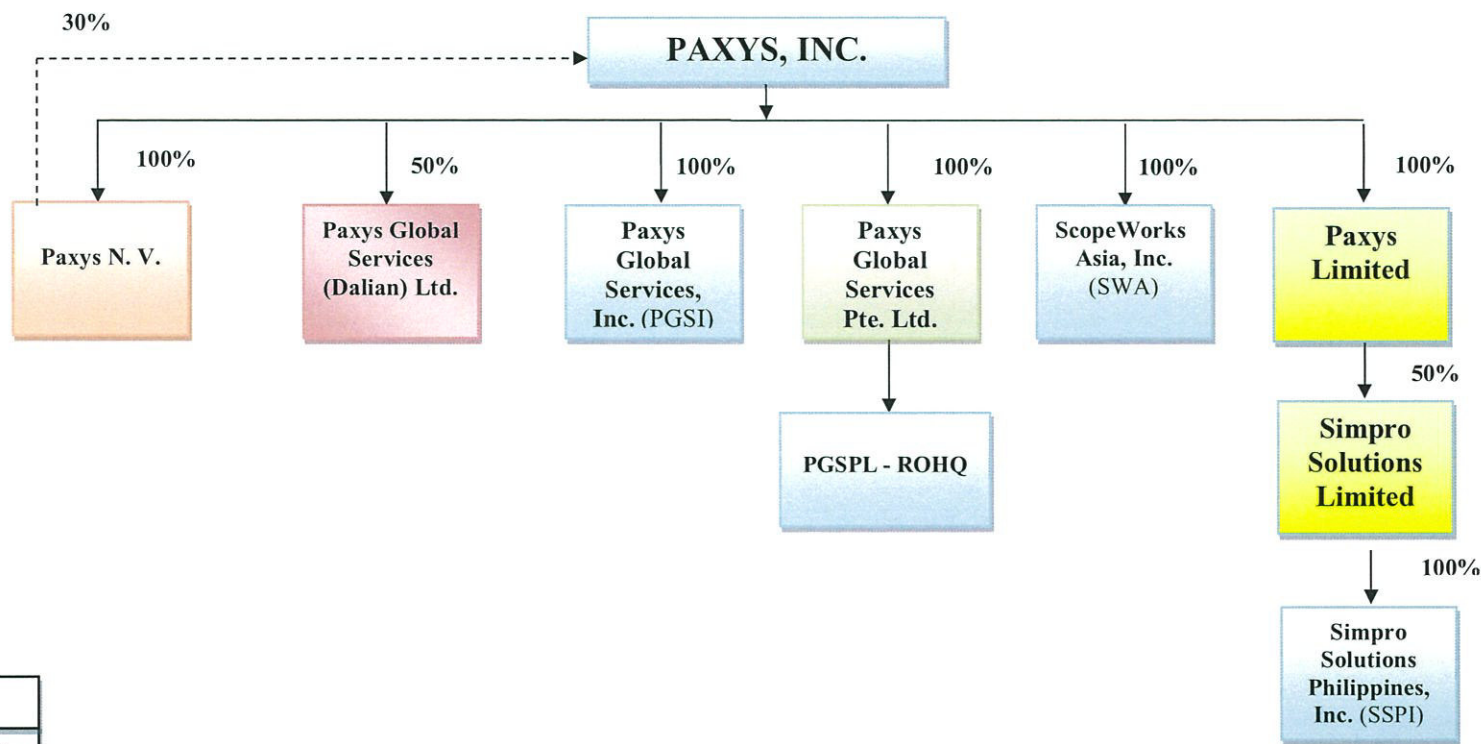
**Key Performance Indicators (KPI)**

The Company's management uses the following KPI:

- |                           |   |  |
|---------------------------|---|--|
| 1) Net Service Income     | : | Service Income less discounts and allowances                   |
| 2) Gross Profit Margin    | : | Gross profit/Service Income                                    |
| 3) EBITDA                 | : | Earnings Before Interest, Taxes, Depreciation and Amortization |
| 4) EBITDA Margin          | : | EBITDA/Service Income  |
| 5) Income from Operations | : | Gross Profit – Operating Expenses                              |
| 6) Net Income Margin      | : | Net Income/Service Income                                      |
| 7) Return on Equity       | : | Net Income/(Equity end + Equity beg – Net Income)/2            |
| 8) Current Ratio          | : | Current Assets/Current Liabilities                             |

**Overview of Our Business**

Below is the Group's corporate structure as of September 30, 2017:



Legend
Philippines
China
Singapore
Curacao
Hong Kong

**RESULTS OF OPERATIONS AND DISCUSSION OF KPIS**

Summary Profit and Loss (Unaudited)  
 For the Nine-month Period Ended September 30, 2017 and 2016  
 (Amounts in Thousands)

	2017		2016		% Change
	Amount	% to Sales	Amount	% to Sales	
Service Income	₱58,769	100%	₱68,246	100%	(14%)
Gross Profit	7,814	13%	7,928	12%	(1%)
Loss from Operations <sup>1</sup>	(49,262)	(84%)	(58,024)	(85%)	15%
Net Income	5,169	9%	13,522	20%	(62%)
EBITDA <sup>2</sup>	6,291	11%	15,215	22%	(59%)

**FINANCIAL PERFORMANCE HIGHLIGHT**

*Service Income*

The Group generated ₱58.8 million revenues for the period ended September 30, 2017. This is 14% or ₱9.5 million lower compared to ₱68.2 million revenues of prior period primarily due lower actual volume in the business of Scopeworks Asia, Inc. (SWA). As of reporting date, SWA remains the only operating subsidiary of the Group. SWA is continuously looking into potential revenue streams. Prospective growth from its existing client is seen towards fourth quarter as client has requested for additional agents' headcount.

*Gross Profit*

In spite of lower revenues, the Group maintained a positive Gross Profit in the amount of ₱7.8 million, which almost the same as prior year. This came mainly from reduction of direct costs due to site consolidation which resulted to lower direct premise costs and personnel expenses.

*Loss from Operations*

The Group incurred a Net Operating Loss of ₱49.3 million for the nine-month period ending September 2017. This is a 15% improvement versus prior year's ₱58.0 million as there is a one-off transaction in 2016 for the write-off of about ₱4.6 long-outstanding receivable.

*Net Income (Loss)*

Other Income which composed mainly of 1) interest income from the investment in short-term placements and bonds amounting to ₱51.3 million and 2) foreign exchange gain amounting to ₱2.0 million provided the Group with an overall Net Income of ₱5.2 million. This is 62% lower versus prior year as there is a one-time gain in prior year for the reversal of long-outstanding payables. Excluding 2016's one-off transaction variance is lower at 23%.

<sup>1</sup> Loss from Operations = Service Income – (Cost of Services + General and Administrative Expenses)

<sup>2</sup> EBITDA = Earnings Before Interest Expenses, Taxes, Depreciation and Amortization

Summary Financial Condition  
As at September 30, 2017 and December 31, 2016  
(Amounts in Thousands)

	September 30, 2017	December 31, 2016	% Change
Total Current Assets	₱3,796,187	₱3,728,440	2%
Total Noncurrent Assets	13,797	14,493	(5%)
Total Assets	3,809,984	3,742,933	2%
Total Current Liabilities	31,579	34,230	(8%)
Total Noncurrent Liabilities	5,258	5,258	-
Total Equity	3,773,147	3,703,445	2%

The major movements in the consolidated statements of financial position from December 31, 2016 to September 30, 2017 are as follows:

- The increase in the Group's Total Assets amounting to ₱67.7 million pertains mainly to the translation gain on USD funds of a foreign subsidiary. Decrease in Cash and Cash Equivalents and Available-for-Sale investments were due to purchase of additional bonds which resulted to an increase in the Held-to-Maturity investments account amounting to ₱163.0 million.
- The Total Liabilities as of September 30, 2017 has decreased by ₱2.6 million or 7% compared to December 31, 2016 due to lower expenses and accruals.
- The Total Equity of the Group as of September 30, 2017 amounted to ₱3,773.1 million. This has increased by ₱69.7 million compared to ₱3,703.4 million as of December 31, 2016 mainly due to the movements in translation adjustments of the USD funds of Paxys NV and unrealized marked to market valuation gain from investments in Available-for-Sale assets.

#### LIQUIDITY AND CAPITAL RESOURCES

The Group's primary source of liquidity are the surplus funds and additional cash generated from operations.

The following are the cash flow movements:

For the Nine-Month Period Ended September 30	2017	2016	% change
Net Cash Provided by (Used in) Operating Activities	(₱17,830)	₱8,492	310%
Net Cash Used in Investing Activities	(244,658)	(344,996)	(29%)

The funds invested in fixed income placements continue to generate additional funds to the Group to cover the overhead from operating and non-operating subsidiaries. The Group also received better yield in its investments to short-duration bonds which are classified as HTM investments in the Interim Consolidated Statements of Financial Position. As such, the Group bought additional short-duration bonds for the third quarter. Total cash used in investing activities amounted to ₱244.7 million.

The Group has strong liquidity and current level of funds and cash generated from operations are sufficient to meet the Company's immediate future cash requirements. The Company does not anticipate any liquidity problems that may arise from its operating activities in the near future.

**Financial Ratios**

	September 30, 2017	Dec 31, 2016	% change
Financial Ratios:			
Current Ratio	120.2	108.93	10%
Debt to Equity Ratio	0.01	0.01	(8%)
Return on Equity	0.1%	0.32%	57%
EBITDA Margin	11%	21%	49%
Net Profit Margin	9%	13%	32%

**FINANCIAL RISK**

- **Foreign Currency risk**

The Group has transactional currency exposure. Such exposure arises from US\$ denominated service income of SWA and US\$ funds of Paxys NV. As at September 30, 2017, cash and cash equivalents of the Group consist of 70% US\$.

In view of the above, the Group's consolidated financial performance and financial position can be affected significantly by movements in the US\$/Philippine Peso exchange rates.

The Company's primary strategy to address its forex exposures is to make use of hedging instruments including derivatives (i.e., currency forward contracts) to manage the effects of foreign exchange fluctuations on financial results. These hedging instruments or derivatives are not used for trading or speculative purposes. Counterparties to derivative contracts are carefully selected from major financial institutions which are assessed based on their industry standing and historical performance. As at September 30, 2017 and December 31, 2016, the Group does not have outstanding derivative instruments.

The Company adopted the following rates of exchange in translating foreign currency statement of comprehensive income and statement of financial position as of September 30, 2017 and December 31, 2016:

	September 30, 2017		December 31, 2016	
	Closing	Average	Closing	Average
Philippine Peso to 1 unit of : United States Dollar (US\$)	50.82	50.23	49.72	49.50

- **Credit Risk**

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

Since the Group trades only with recognized third parties, there is no requirement for collateral. Also the Group has an existing contract or master agreement with its key customer to protect itself from bad debt losses.

#### **OTHER MATTERS**

- a. There were no known events that trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.
- b. There were no material commitments of the Group.
- c. There were no material off-statement of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons during the reporting period.
- d. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows.
- e. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.
- f. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favourable or an unfavourable impact on net sales or revenue or income from continuing operation.
- g. The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".
- h. The effects of seasonality or cyclical on the operations of the Group's business are not material.
- i. There were no material changes in estimates of amounts reported in interim periods of the current year or changes in estimates of amounts reported in prior financial years.

#### **Key Variable and Other Quantitative and Factors**

##### *Trends, Events, Uncertainties or Contingent Financial Obligation with Material Impact on Liquidity*

The Group does not anticipate liquidity problem within the next twelve (12) months since it has adequate amount of cash to pay its maturing obligations and to support its working capital requirements.

**Paxys, Inc. and Subsidiaries**  
**Consolidated Trade Receivables Aging Schedule**  
**As of September 30, 2017**  
*(Amounts in Thousands)*

Types of customers	Age of Receivables					Total
	<30 days	31-60 days	61-90 days	90-120 days	>120 days	
Local	₱-	₱-	₱-	₱-	₱18,305	₱18,305
International	5,916	4,697	-	-	-	10,613
	5,916	4,697	-	-	18,305	28,918
Allowance for impairment losses	-	-	-	-	(14,205)	(14,205)
	₱5,916	₱4,697	₱-	₱-	₱4,100	₱14,713