

15 May 2018

THE PHILIPPINE STOCK EXCHANGE, INC.

Disclosure Department

6th Floor PSE Tower

One Bonifacio High Street

28th Street corner 5th Avenue

Bonifacio Global City, Taguig City

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

Subject: 1st Quarter Report for 2018
(SEC Form 17-Q)

Gentlemen:

Enclosed is our Quarterly Report for the three (3)-month period ending 31 March 2018 (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

**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: March 31, 2018
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: 15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City
Postal Code: 1226
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
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b) Issued and Outstanding Shares

Common shares, P1.00 par value	1,148,534,866 shares
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c) Amount of Debt Outstanding as of March 31, 2018

Short-term and Long-term loans	None
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11. Are any or all of the securities listed on the Philippine Stock Exchange

Yes [] 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 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			
			March 31, 2018		December 31, 2017	
			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 March 31, 2018, 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 three-month period ended March 31, 2018 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 three-month period ended March 31, 2018. 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 three-month period ended March 31, 2018 should be read in conjunction with the unaudited consolidated financial statements and the accompanying notes, and are filed as Annex B of this report.

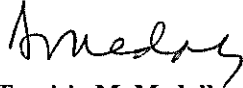
Item 3. Aging of Trade Receivables

Please see Annex C.

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
May 15, 2018



Mayette H. Tapia
Corporate Secretary
May 15, 2018

**PAXYS, INC.
AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

March 31, 2018 and December 31, 2017

and for the Three-Month Period Ended March 31, 2018 and 2017

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

As at March 31, 2018 and December 31, 2017

(Amounts in Thousands)

	March 31 (Unaudited)	December 31 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱2,958,370	₱2,758,529
Financial assets at Fair Value through Other Comprehensive Income (FVOCI) (Note 5)	685,781	814,982
Trade and other receivables (Note 6)	42,223	53,643
Held-to-maturity investments (Note 5)	262,155	100,175
Other current assets (Note 7)	17,206	14,871
Total Current Assets	3,856,735	3,742,200
Noncurrent Assets		
Property and equipment (Note 9)	2,360	1,681
Intangible assets (Note 10)	380	420
Other noncurrent assets (Note 11)	11,364	11,294
Total Noncurrent Assets	14,104	13,395
	₱3,870,839	₱3,755,595
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	₱25,559	₱26,502
Income tax payable	190	190
Total Current Liabilities	25,749	26,692
Noncurrent Liabilities		
Retirement liability (Note 17)	4,064	4,064
Total Noncurrent Liabilities	4,064	4,064
Total Liabilities	29,813	30,756
Equity		
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	518,864	405,598
Retained earnings	2,872,149	2,869,228
Total Equity	3,841,026	3,724,839
	₱3,870,839	₱3,755,595

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 Three-month Periods Ended March 31, 2018 and 2017

(Amounts in Thousands, except Basic/Diluted Earnings per share)

	For the Three Months Ended March 31	
	2018	2017
SERVICE INCOME	₱21,391	₱23,053
COSTS OF SERVICES (Note 14)	(18,565)	(19,659)
GROSS PROFIT	2,826	3,394
GENERAL AND ADMINISTRATIVE EXPENSES (Note 15)	(22,848)	(16,931)
INTEREST INCOME (Note 16)	18,527	15,976
NET FOREIGN EXCHANGE GAIN	4,279	779
OTHER INCOME (Note 16)	137	314
INCOME BEFORE INCOME TAX	2,921	3,532
PROVISION FOR INCOME TAX	–	–
NET INCOME	₱2,921	₱3,532
EARNINGS PER SHARE		
Basic/Diluted Earnings Per Share	₱0.004	₱0.004

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

PAXYS, INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

For the Three-month Periods Ended March 31, 2018 and 2017

(Amounts in Thousands)

	For the Three Months	
	Ended March 31	
	2018	2017
NET INCOME	₱2,921	₱3,532
OTHER COMPREHENSIVE INCOME		
Translation Gain	115,718	22,718
Net fair value changes on financial assets at FVOCI	(2,452)	2,663
	113,266	25,381
TOTAL COMPREHENSIVE INCOME	₱116,187	₱28,913

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

PAXYS, INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)

For the Three-Month Periods Ended March 31, 2018 and 2017

(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 financials assets at FVOCI	Actuarial gains	
At January 1, 2018	₱1,148,535	₱451,364	₱2,869,228	(₱1,149,886)	₱385,102	₱14,765	₱5,731	₱3,724,839
Total comprehensive income for the period	–	–	2,921	–	115,718	(2,452)	–	116,187
At March 31, 2018	₱1,148,535	₱451,364	₱2,872,149	(₱1,149,886)	₱500,820	₱12,313	₱5,731	₱3,841,026

	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 financials assets at FVOCI	Actuarial gains	
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 loss for the period	–	–	3,532	–	22,718	2,663	–	28,913
At March 31, 2017	₱1,148,535	₱451,364	₱2,870,806	(₱1,149,886)	₱397,545	₱10,483	₱3,511	₱3,732,358

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

PAXYS, INC. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**
For the Three-month Periods Ended March 31, 2018 and March 31, 2017
(Amounts in Thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱2,921	₱3,532
Adjustments for:		
Interest income	(18,527)	(15,976)
Provision for non-recoverability of input value-added tax	780	582
Depreciation and amortization	347	396
Unrealized foreign exchange gain	(3,476)	(596)
Operating loss before working capital changes	(17,955)	(12,062)
Decrease (increase) in:		
Trade and other receivables	2,935	(20,007)
Other current assets	(2,335)	(464)
Other noncurrent assets	(70)	(72)
Decrease in:		
Trade and other payables	(943)	(3,370)
Cash used for operations	(18,368)	(35,975)
Interest received	26,232	5,091
Net cash provided by (used in) operating activities	7,864	(30,884)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
HTM investments	(161,980)	25,098
Financial assets at FVOCI	126,749	(77,220)
Acquisition of property and equipment and intangibles	(986)	(77)
Net cash used in investing activities	(36,217)	(52,199)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	119,194	23,314
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	90,841	(59,769)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
	2,758,529	2,856,866
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
	₱2,958,370	₱2,797,097

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

PAXYS, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 subsidiaries provide general transcription, data conversion, contact center and back office outsourcing services. As of March 31, 2018, 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.

2. Summary of Significant Accounting Policies

Basis of Preparation

The unaudited interim condensed 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 condensed consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI), which have been measured at fair value. The unaudited interim condensed 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 condensed consolidated financial statements for the three-month period ended March 31, 2018 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, 2018:

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It contains 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 the classification by reference to the business model within which these are held and its 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 no longer be necessary for there to be 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.

- Amendments to PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions* – The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and condition of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.
- PFRS 15, *Revenue from Contract with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).
- Amendment to PFRS 15, *Revenue from Contract with Customers - Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.
- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Measuring an Associate or Joint Venture at Fair Value* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

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 Revised PFRS Not Yet Adopted

Relevant new and amended PFRS, which are not yet effective for the quarter ended March 31, 2018 and have not been applied in preparing the unaudited interim condensed consolidated financial statements, are summarized below.

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

- PFRS 16, *Leases* – The most significant change introduced by the new standard is that almost all leases will be brought onto lessees’ statement 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.

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides requirements in addition to those set in PAS 12, *Income Taxes*, by specifying how to determine the accounting tax position when there is uncertainty over tax treatments. It requires an entity to (a) determine whether uncertain tax positions are assessed separately or as a group, and (b) assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. If the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings. Otherwise, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty.

Deferred effectivity -

- Amendment to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, is now deferred indefinitely until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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 interim condensed consolidated financial statements, as applicable.

Basis of Consolidation

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

Subsidiaries	Place of Incorporation	Principal Activity	2018		2017	
			Direct	Indirect	Direct	Indirect
Paxys N.V.*	Curacao	Investment holding	100%	-	100%	-
ScopeWorks Asia, Inc. (SWA)	Philippines	Data conversion	100%	-	100%	-
Paxys Realty, Inc.	Philippines	Real Estate	100%	-	100%	-
Paxys Global Services Pte Ltd (PGSPL)	Singapore	Business Process Outsourcing	100%	-	100%	-
Paxys Global Services Pte Ltd ROHQ (PGS ROHQ)	Philippines	Shared services	-	100%	-	100%
Paxys Ltd.	Hong Kong	Investment holding	100%	-	100%	-

*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 interim condensed 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 condensed 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 Group operates. This is also the currency that mainly influences the revenue and cost of 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 PGSP 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 Company 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 Assets and Liabilities

Date of Recognition. Financial assets and liabilities are recognized in the statement of financial position when the Group becomes a party to the contractual provisions of a financial instrument. All regular way purchases and sales of financial assets are recognized on the trade date (i.e., the date that the Group commits to purchase the asset). Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the market place.

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

“Day 1” Difference. Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data observable from the market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss unless it qualifies for recognition as some other type of asset. For each transaction, the Group determines the appropriate method of recognizing a “Day 1” difference amount.

Classification. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are recognized in profit or loss. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax.

The Group classifies its financial assets into the following categories: financial assets at FVPL, financial assets at amortized cost and financial assets through other comprehensive income (FVOCI). The Group classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities at amortized cost.

The classification of financial instruments largely depends on the Group’s business model.

The Group does not have financial instrument classified as financial asset or financial liabilities at FVPL.

Financial Assets at Amortized Cost. A financial asset shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost 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. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

Financial assets at amortized cost are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

Cash and cash equivalents, trade and other receivables and held-to-maturity investments are classified under this category.

Financial Assets at FVOCI. For debt instruments, financial assets shall be measured at fair value through other comprehensive income if both of the following conditions are met:
the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and
the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity instruments, the Group may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, financial assets at FVOCI are measured at fair value with unrealized gains or losses recognized in OCI and are included under “Other equity reserves” account in the equity section of the unaudited interim consolidated statement of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

The Group classifies its quoted debt and equity instruments under this category.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when 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 settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired or through the amortization process.

Trade and other payables (excluding statutory payables) are classified under this category.

Reclassification

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

Impairment of Financial Assets

The Group assesses at the end of each reporting period whether a financial asset or a group of financial assets is impaired.

Financial Assets Carried at Amortized Cost.

The Group records an allowance for “expected credit loss”. Expected credit losses (ECL) are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The difference is then discounted at an approximation to the asset’s original effective interest rate.

For trade and other receivables, the Group has established a provision matrix that is based on the industry’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial Asset at FVOCI. For debt instruments classified as financial asset at FVOCI, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest income continues to be recognized on the reduced carrying amount using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed in profit or loss.

Derecognition of Financial Assets and Liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized by the Group when:

- The rights to receive cash flows from the asset has expired; or
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and benefits of the asset, or (b) has neither transferred nor retained substantially all the risks and benefits of the asset, but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and benefits of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset, if any, is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

Other Intangible Assets

Other intangible assets with finite useful lives are composed of the Company’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 Company 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 Company 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 Company 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 Company 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

Company 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.

Company as a Lessor. Leases where the Company 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.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's interim condensed 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 interim condensed 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 Company's accounting policies, management has made the following judgment which have the most significant effect on the amounts recognized in the interim condensed 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 Company 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 ₱3.2 million and ₱3.0 million for the three-month period ended March 31, 2018 and 2017, 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 2018 and 2017. The Group has no outstanding provision for probable losses as at March 31, 2018 and December 31, 2017.

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 2018 and 2017.

Estimation of Impairment Losses on Receivables. The Company maintains allowance for doubtful accounts at a level based on the result of the individual and collective assessment. Under the individual assessment, the Company considers the payment history, past due status and term. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (customer type, length of the Company'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 ₱92.1 million and ₱91.8 million as at March 31, 2018 and December 31, 2017, respectively. The carrying values of trade and other receivables amounted to ₱42.2 million and ₱53.6 million as at March 31, 2018 and December 31, 2017, 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 Company's recorded expenses and decrease current assets.

The carrying value of input VAT, net of allowance, amounted to ₱14.4 million and ₱13.8 million as at March 31, 2018 and December 31, 2017, respectively (see Note 7). Allowance for non-recoverability of Input VAT amounted to ₱49.6 million and ₱48.8 million as at March 31, 2017 and December 31, 2017, respectively.

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 ₱4.1 million as at March 31, 2018 and December 31, 2017, respectively (See Note 17).

4. **Cash and Cash Equivalents**

	Mar 31, 2018	Dec 31, 2017
Cash on hand and in banks	₱353,605	₱112,372
Cash equivalents	2,604,765	2,646,157
	<u>₱2,958,370</u>	<u>₱2,758,529</u>

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. **Financial Assets at FVOCI and HTM Securities**

Financial Assets at Fair Value through Other Comprehensive Income

This include fixed income investments managed by international banks, which invest primarily in funds with absolute return investment strategies. Total investments in AFS financial assets amounted to ₱685.8 million and ₱815.0 million as of March 31, 2018 and December 31, 2017, respectively.

HTM Securities

As at March 31, 2018 and December 31, 2017, HTM investments pertaining to bonds purchased from international banks amounted to ₱262.2 million and ₱100.2 million, respectively, with varying maturity dates until December 2018.

6. **Trade and Other Receivables**

	Mar 31, 2018	Dec 31, 2017
Trade	₱19,060	₱25,180
Advances to related parties	82,746	78,881
Other receivables	32,493	41,402
	<u>134,299</u>	<u>145,463</u>
Allowance for impairment losses	(92,076)	(91,820)
	<u>₱42,223</u>	<u>₱53,643</u>

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.

7. **Other Current Assets**

This account consists of:

	Mar 31, 2018	Dec 31, 2017
Input VAT, net of allowance for unrecoverability	₱14,382	₱13,814
Advance rentals and other prepayments	2,824	1,057
	<u>₱17,206</u>	<u>₱14,871</u>

8. Investments in Joint Venture

Joint venture	Place of Incorporation	Principal Activity	Percentage of Ownership	
			Mar 31, 2018	Dec 31, 2017
PGS Dalian	China	Contact center	50%	50%
Simpro Solutions Limited	Hong Kong	Contact center	50%	50%

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

Investments in joint ventures as at March 31, 2018 and December 31, 2017 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 three-month period ended March 31, 2018 and in 2017.

9. Property and Equipment

The movement of this account follows:

	March 31, 2018					
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost						
Balance at beginning of period	₱106,505	₱7,624	₱155,931	₱11,970	₱10,712	₱292,742
Additions	645	—	—	281	—	926
Balance at end of period	107,150	7,624	155,931	12,251	10,712	293,668
Accumulated Depreciation						
Balance at beginning of period	106,304	7,624	155,512	11,210	10,411	291,061
Depreciation for the period	49	—	59	88	51	247
Balance at end of period	106,353	7,624	155,571	11,298	10,462	291,308
Net Book Value	₱797	₱—	₱360	₱953	₱250	₱2,360

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, 2017						
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost						
Balance at beginning of year	₱109,289	₱7,836	₱155,813	₱12,412	₱13,649	₱298,999
Additions	109	—	118	135	—	362
Retirement	(2,893)	(212)	—	(577)	—	(3,682)
Disposals	—	—	—	—	(2,937)	(2,937)
Balance at end of year	106,505	7,624	155,931	11,970	10,712	292,742
Accumulated Depreciation						
Balance at beginning of year	108,928	7,836	155,293	11,462	13,140	296,659
Depreciation for the year	269	—	219	325	208	1,021
Retirement	(2,893)	(212)	—	(577)	—	(3,682)
Disposals	—	—	—	—	(2,937)	(2,937)
Balance at end of year	106,304	7,624	155,512	11,210	10,411	291,061
Net Book Value	₱201	₱—	₱419	₱760	₱301	₱1,681

As of March 31, 2018 and December 31, 2017, fully depreciated property and equipment with aggregate cost amounting to ₱59.1 million are still being used in the operations.

10. Intangible Assets

Movements in this account are as follows:

	Mar 31, 2018	Dec 31, 2017
Balance at beginning of period - net of accumulated amortization	₱420	₱718
Amortization	(100)	(441)
Additions	60	143
Balance at end of year - net of accumulated amortization	₱380	₱420
Cost	₱14,927	₱14,867
Accumulated amortization	(14,547)	(14,447)
	₱380	₱420

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

11. Other Noncurrent Assets

Other noncurrent 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 March 31, 2018 and December 31, 2017, the account amounted to ₱11.4 million and ₱11.3 million, respectively.

12. Trade and Other Payables

	Mar 31, 2018	Dec 31, 2017
Trade payables	₱2,924	₱1,766
Accrued expenses	9,593	11,131
Dividends payables	6,554	6,554
Statutory payable	6,025	6,643
Other current liabilities	463	408
	₱25,559	₱26,502

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
	₱451,364

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

14. Cost of Services

	Three Months	
	2018	2017
Personnel cost	₱11,153	₱11,738
Professional fees	2,784	1,102
Rent	1,488	1,417
Utilities	961	858
Security and janitorial services	612	643
Communication	527	535
Outside Services	348	2,787
Depreciation and amortization	286	309
Supplies	122	90
Others	284	180
	₱18,565	₱19,659

15. General and Administrative Expenses

	Three Months	
	2018	2017
Professional fees	₱9,049	₱3,235
Personnel expenses	7,567	6,832
Rent	1,720	1,631
Provision for unrecoverable input VAT	780	582
Utilities	562	565
Transportation and travel	482	516
Insurance	453	524
Bank charges	449	984
Communication	438	408
Security and janitorial services	392	381
Entertainment, amusement and recreation	243	126
Taxes and licenses	239	271
Supplies	102	114
Depreciation and amortization	61	87
Repairs and maintenance	52	200
Others	259	475
	₱22,848	₱16,931

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 ₱18.5 million and ₱16.0 million as at March 31, 2018 and March 31, 2017, respectively.

Foreign Exchange

Net foreign exchange gain amounted to ₱4.3 million for the three-month period ended March 31, 2018 and ₱0.8 million net foreign exchange loss for the three-month period ended March 31, 2017.

Other Income - net

Other income for the three-month period ended March 31, 2018 and March 31, 2017 pertains to rental and miscellaneous income.

17. Retirement Benefits

The Parent Company and SWA maintain 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, 2017.

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

	<u>December 31, 2017</u>
Current service cost	₱751
Interest cost	275
	<u>₱1,026</u>

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

	<u>December 31, 2017</u>
Balance at beginning of year	₱3,511
Remeasurement gain	2,220
Balance at end of year	<u>₱5,731</u>

Changes in the present value of obligation are as follows:

	<u>December 31, 2017</u>
Balance at beginning of year	₱5,258
Current service cost	751
Interest cost	275
Remeasurement gain recognized in OCI	<u>(2,220)</u>
Balance at end of year	<u>₱4,064</u>

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

Discount rate	<u>5.70%</u>
Salary increase rate	<u>2.00%</u>

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-text message conversion and electronic data encoding and processing.
- Others - This segment includes the operations of the Parent Company and its non-operating subsidiaries.

Business Segment Data

The following table presents revenues and expenses information and certain assets and liabilities information regarding the business segments for the three-month periods ended March 31, 2018 and 2017:

	March 31, 2018			
	Data Conversion	Others	Eliminations	Consolidated
Results of Operations				
Segment revenues from external customers	P21,391	P-	P-	P21,391
Segment expenses	(19,832)	(21,581)	-	(41,413)
Segment result	1,559	(21,581)	-	(20,022)
Interest income	69	18,458	-	18,527
Net foreign exchange gain	1,265	3,014	-	4,279
Other segment operating income – net	137	-	-	137
Net income (loss)	P3,030	(P109)	-	P2,921
Assets and Liabilities				
Segment assets	P57,869	P5,468,875	(P1,655,905)	P3,870,839
Segment liabilities	64,296	159,028	(193,511)	29,813
Other Segment Information				
Capital expenditures:				
Property and equipment	P281	P645	P-	P926
Intangibles	60	-	-	60
Depreciation and amortization	299	48	-	347

	March 31, 2017			
	Data Conversion	Others	Eliminations	Consolidated
Results of Operations				
Segment revenues from external customers	P23,053	P-	P-	P23,053
Segment expenses	(21,099)	(15,491)	-	(36,590)
Segment result	1,954	(15,491)	-	(13,537)
Interest income	52	15,924	-	15,976
Net Foreign exchange gain	143	636	-	779
Other segment operating income - net	102	212	-	314
Net income	P2,251	P1,281	-	P3,532
Assets and Liabilities				
Segment assets	P58,394	P5,361,974	(P1,651,892)	P3,768,476
Segment liabilities	69,132	156,260	(189,274)	36,118
Other Segment Information				
Capital expenditures:				
Property and equipment	P-	P66	P-	P66
Intangibles	-	11	-	11
Depreciation and amortization	358	38	-	396

Geographical Segment Data

The following table presents the revenue and expenditure and certain asset information regarding geographical segments for the three-month period ended March 31, 2018 and 2017:

March 31, 2018				
	Philippines	Others	Eliminations	Consolidated
Revenue				
External revenue	₱21,391	₱-	₱-	₱21,391
Other Segment Information				
Segment assets	₱5,526,744	₱-	(1,655,905)	₱3,870,839
Capital expenditures:				
Property and equipment	926	-	-	926
Intangibles	60	-	-	60
March 31, 2017				
	Philippines	Others	Eliminations	Consolidated
Revenue				
External revenue	₱23,053	₱-	₱-	₱23,053
Other Segment Information				
Segment assets	₱5,420,368	₱-	(1,651,892)	₱3,768,476
Capital expenditures:				
Property and equipment	66	-	-	66
Intangibles	11	-	-	11

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 MART 1 rates that are specific to the tenor of the instruments' cash flows as of financial reporting date.

Financial assets at FVOCI. Net asset value per unit have been used to determine the fair value of AFS investments.

20. Other Matters

Detailed schedules have been omitted for purposes of preparing these interim condensed 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 condensed consolidated financial statements of the Group as at and for the three-month period ended March 31, 2018 (with comparative figures as at and for the three-month period ended March 31, 2017. All necessary adjustments to present fairly the consolidated financial condition, results of operations, and cash flows of the Group for the three-month period ended March 31, 2018, 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. In the past years, it has divested its investments in 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 Realty, Inc. (formerly Paxys Global Services, Inc.) has recently amended its Articles of Incorporation to include real estate business among its primary purpose. These changes has been approved by Paxys Realty's Board of Directors on November 2017 and subsequently by the Securities and Exchange Commission on February 2018.

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. (SSPI). In 2014, SSPI amended its Articles of Incorporation shortening the term of its existence up to June 2018. Said amendment has been approved by the Securities and Exchange Commission (SEC) on May 24, 2017. By the virtue of the Amended Articles of Incorporation, SSPI will dissolve its corporate existence on June 30, 2018.

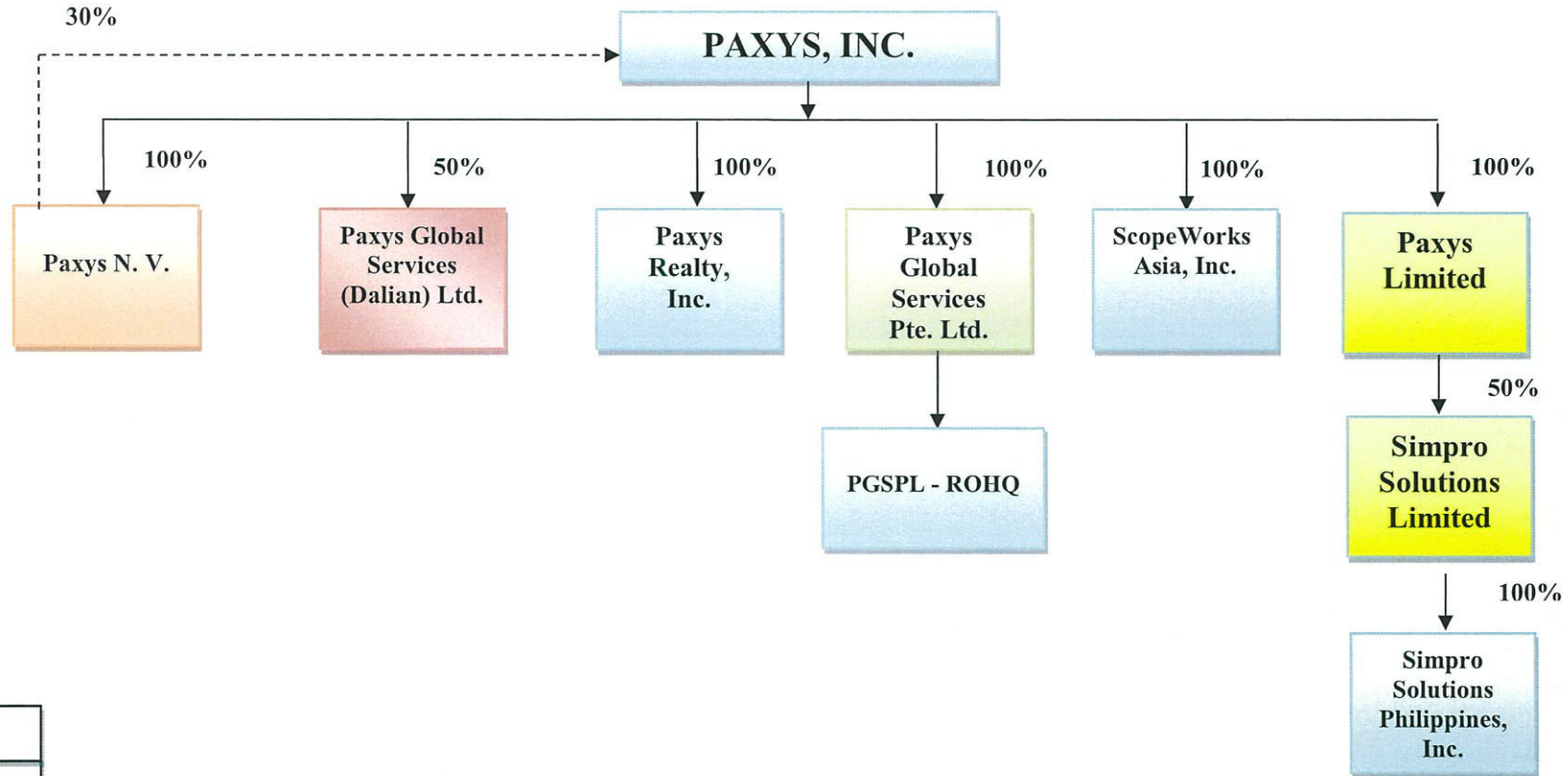
Key Performance Indicators (KPI)

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 March 31, 2018:



Legend
Philippines
China
Singapore
Curacao
Hong Kong

RESULTS OF OPERATIONS AND DISCUSSION OF KPIs

Summary Profit and Loss

For the Three-month Period Ended March 31, 2018 and 2017

(Amounts in Thousands)

	2018		2017		% Change
	Amount	% to Sales	Amount	% to Sales	
Service Income	₱21,391	100%	₱23,053	100%	(7%)
Gross Profit	2,826	13%	3,394	15%	(17%)
Loss from Operations	(20,022)	(94%)	(13,537)	(59%)	(48%)
Net Income	2,921	14%	3,532	15%	(17%)
EBITDA	3,268	15%	3,928	17%	(17%)

FINANCIAL PERFORMANCE HIGHLIGHT

Service Income

The Group generated ₱21.4 million revenues as of March 31, 2018. This is a slightly lower by 7% as compared to ₱23.1 million revenue 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.

Gross Profit (GP)

Gross Profit went down by about 17% or about ₱0.6 million. This is lower than the revenue shortfall mainly due to operational efficiencies at Scopeworks. As of March 31, 2018 and March 31, 2017, GP is about ₱2.8 million and ₱3.4 million, respectively.

Net Income

Despite lower volume in SWA, the Group posted a Net Income of ₱2.9 million as at March 31, 2018 mainly due to the Other Income earned from the Group's surplus funds amounting to ₱18.5 million. This is a little bit low as compared to ₱3.5 million Net Income in the first quarter of prior year but still an improvement given the higher operating expenses incurred in 2018.

Summary Financial Condition

For the Periods Ended March 31, 2018 and December 31, 2017

(Amounts in Thousands)

	March 31, 2018	December 31, 2017	% Change
Total Current Assets	₱3,856,735	₱3,742,200	3%
Total Noncurrent Assets	14,104	13,395	5%
Total Assets	3,870,839	3,755,595	3%
Total Current Liabilities	25,749	26,692	(4%)
Total Noncurrent Liabilities	4,064	4,064	0%
Total Equity	3,841,026	3,724,839	3%

The major movements in the interim condensed consolidated statements of financial position items from December 31, 2017 to March 31, 2018 are as follows:

- The assets comprised mainly of cash and cash equivalents, investments in available for sale financial assets, and held to maturity securities. The increase in the total assets of ₱115.2 million pertains mainly to the translation gain on USD funds of Paxys NV. There is about ₱2.23 increase in the USD to PHP foreign exchange rate or from 49.93 in December 31, 2017 to 52.16 as at March 31, 2018. Trade and other receivables decreased by about 21% mainly due to collection of SWA receivables and interest income received. Other movements in the current asset of the Group pertains to held-to-maturity investments which include short-duration bonds purchased from international banks.

- The Total Equity of the Group as of March 31, 2018 amounted to ₱3,841.0 million, an improvement of about ₱116.2 million versus December 31, 2017 mainly due to translation gain on the USD funds of Paxys N.V and operating income of Scopeworks. With this movement, the Group's Net Asset Value (NAV) per share has increased by about 14 basis points or up by 13% ie. 4.78 per share.

LIQUIDITY AND CAPITAL RESOURCES

The Group's primary source of liquidity is the cash generated from operations within the Group. The following are the cash flow movements:

For the Three-Month Period Ended March 31	2018	2017	% change
Net Cash Provided by (Used in) Operating Activities	₱7,864	(₱30,883)	125%
Net Cash Used by Investing Activities	(36,217)	(52,199)	31%

The revenue from SWA and interest income from the group's surplus funds contributed and helped generate positive cash flow from Operations as at March 31, 2018. The overall cash and cash equivalents of the Group has increased by ₱199.8 million mainly due to translation gain of dollar funds as shown in the Group's Interim Condensed Consolidated Statement of Financial Position.

The Group's management believes that the 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

	March 31, 2018	Dec 31, 2017	% change
Financial Ratios:			
Current Ratio	149.8	140.2	7%
Debt to Equity Ratio	0.01	0.01	-
Return on Equity	0.1%	0.05%	(0.52%)
EBITDA Margin	15%	11%	(39%)
Net Profit Margin	14%	3%	(446%)

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 March 31, 2018, cash and cash equivalents of the Group consist of 70% US\$.

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

The Group'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 March 31, 2018 and December 31, 2017, the Group does not have outstanding derivative instruments.

The Group adopted the following rates of exchange in translating foreign currency statement of comprehensive income and statement of financial position as of March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Closing	Average	Closing	Average
Philippine Peso to 1 unit of : United States Dollar (US\$)	52.16	51.51	49.93	50.40

- **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

- There were no known events that trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- There were no material commitments of the Company.
- There were no material off-statement of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons during the reporting period.
- There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows.
- There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.
- 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.
- The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".
- The effects of seasonality or cyclicity on the operations of the Company's business are not material.
- 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 Company 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 March 31, 2018
(Amounts in Thousands)

Types of customers	Age of Receivables					Total
	<30 days	31-60 days	61-90 days	90-120 days	>120 days	
Local	P-	P-	P-	P-	₱11,527	₱11,527
International	7,513	-	-	-	-	7,513
	7,513	-	-	-	11,527	19,040
Allowance for impairment losses	-	-	-	-	(10,571)	(10,571)
	₱7,513	P-	P-	P-	₱956	₱8,469