

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: 2016 Definitive Information Statement

Gentlemen:

Enclosed herewith is our 2016 Definitive Information Statement for the Annual Stockholders' Meeting on 6 December 2017, which was filed with the Securities and Exchange Commission.

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

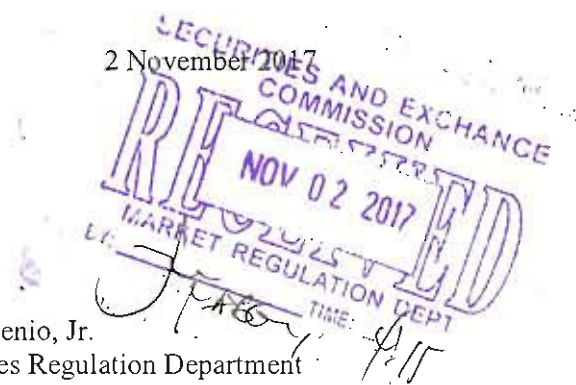
Very truly yours,

**PAXYS, INC.**

By:

  
**MAYETTE H. TAPIA**  
Corporate Information Officer

**SECURITIES AND EXCHANGE COMMISSION**  
 SEC Building, EDSA, Greenhills  
 Mandaluyong City



Attention: Mr. Vicente Graciano P. Felizmenio, Jr.  
 Director – Markets and Securities Regulation Department

Subject: Definitive Information Statement  
 (SEC Form 20-IS)

Gentlemen:

In compliance with the Securities and Exchange Commission’s (“SEC”) SRC Rule 20 and in connection with Annual Stockholders’ Meeting of **Paxys, Inc.** (“Company”), which will be held on 6 December 2017, we submit herewith our Definitive Information Statement (“DIS”), including the 2016 Audited Financial Statements and latest available Management Report for 2017.

We further provide our responses to the SEC’s comments on the Preliminary Information Statement (“PIS”) enclosed in the SEC Letter dated 25 September 2017.

	SEC Comments	Response
	Checklist of requirements: Submit signed copy of the Notice of Annual Stockholders’ Meeting	Signed copy of the Notice of Annual Stockholders’ Meeting is submitted herewith.
1	Security Ownership of Certain Record and Beneficial Owners of more than 5%. <i>Update information to a latest practicable date but not less than 90 days prior to the Annual Stockholders Meeting</i>	The Company is not aware of any beneficial owners of shares representing more than 5% of the outstanding capital stock currently held through PCD Participants. The information was updated to 30 September 2017. Please refer to page 8 of the DIS.
2	Security Ownership of Management <i>Update information to a latest practicable date but not less than 90 days prior to the Annual Stockholders Meeting</i>	The information was updated up to 30 September 2017. Please refer to page 9 of the DIS.
3	Identify Directors, including Independent Directors and Executive Officers <i>The Company is advised of SEC Memo. Circular No. 4, Series of 2017 re: Term Limit of Independent Directors. Submit Certification on the Qualifications and Disqualification of Independent Directors pursuant to SEC Memo. Circular No. 5, Series of 2017</i>	The Company hereby undertakes to submit the <i>Certification on the Qualifications and Disqualification of Independent Directors</i> not later than 30 days after the election of the Independent Directors during the stockholders’ meeting.
4.	Amendments of Charter, By-Laws & Other Documents <i>Comply and indicate brief reason for and the general effect of amendment</i>	The brief reason for and the general effect if the amendment are included in the information. Please refer to pages 4 of the Agenda and page 17 of the DIS.

5.	Signature Page <i>Comply signature and title</i>	Signature and title already provided. Please see page 19 of the DIS.
6.	Management's Discussion and Analysis (MD&A) or Plan of Operations <i>No revenues from operation in each of the last two (2) fiscal years, or the last fiscal year and any interim period in the current fiscal year, shall in addition to applicable items under subparagraph (2) provide the following information:</i> <i>(1) Describe the plan of operation for the next twelve (12) months.</i> <i>a. How long the registrant can satisfy its cash requirements and whether it will have to raise additional funds in the next twelve (12) months;</i> <i>b. Summary of any product research and development for the term of the plan;</i> <i>c. Any expected purchase or sale of plant and significant equipment; and</i> <i>d. Any expected significant changes in the number of employees.</i> <i>(2) Full fiscal years</i>	Based on the consolidated financial statements of the Registrant as at December 31, 2016 and 2015, the Group generated revenues of ₱92.1 million and ₱134.7 million, respectively, from the operations of its subsidiary, Scopeworks Asia, Inc. Nevertheless, additional disclosures were included regarding the Registrant's Plan of Operation. Please refer to page 27 of the attached Information Statement.  The requirements pursuant to Securities Regulation Code Part III (A)(2)(a)(i) to (vi) are likewise disclosed in the attached Information Statement. Please refer to pages 27, 30 and 33 of the attached Information Statement.
7.	Market Information <i>Comply and indicate the price information as of the latest practicable trading date</i>	The high and low closing prices of the Company's shares for the 3 <sup>rd</sup> quarter and the last traded price as of 30 September 2017 have been updated. Please refer to page 23 of the DIS.
8.	Approximate Number of Holders of Each Class of Common Security <i>Comply and update information to a latest practicable date but not less than 90 days prior to its Annual Stockholders Meeting</i>	The approximate number of stockholders of each class of common security as of 30 September 2017 has been updated. Please refer to page 23 of the DIS.

Copies of the Definitive Information Statement ("DIS"), including the 2016 Audited Financial Statements and latest available Management Report for 2017, will be distributed to the stockholders by 7 November 2017. The 3<sup>rd</sup> Quarter Report for 2017 (SEC Form 17-Q) will be distributed at the Annual Stockholders' Meeting.

We trust that you will find the attached documents in order. We hope to receive the SEC's clearance on or before the distribution date.

Very truly yours,

**PAXYS, INC.**

By:

  
**MAYETTE H. TAPIA**  
Corporate Information Officer

# COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

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

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

DEFINITIVE INFORMATION STATEMENT

1 2	3 1
<i>Month</i>	<i>Day</i>
(Fiscal Year)	

2	0	-	I	S
(Form Type)				

Any day in May
<i>Month    Day</i>
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

**716**

Total No. of Stockholders

Total Amount of Borrowings

<b>P-</b>	<b>P-</b>
Domestic	Foreign

To be accomplished by SEC Personnel concerned

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File Number

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## NOTICE OF ANNUAL STOCKHOLDERS' MEETING

To all Stockholders:

Please be advised that the annual meeting of the stockholders' of **PAXYS, INC.**, will be held on **6 December 2017** at the Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City, Philippines at 2:00 PM.

The agenda is as follows:

1. Call to Order
2. Proof of Notice and Certification of Quorum
3. Approval of Minutes of previous Stockholders' Meeting
4. Management Report and Audited Financial Statements for the year ended December 31, 2016
5. Ratification of Previous Corporate Acts
6. Amendment of Articles of Incorporation
7. Election of Directors
8. Appointment of External Auditors
9. Other Matters
10. Adjournment



For purposes of the meeting, stockholders of record as of 28 October 2017 are entitled to notice of and to vote at the said meeting. Registration for the said meeting begins at 12:30 PM. For convenience in registering your attendance, please have available some form of identification, such as a driver's license, voter's ID, TIN card, SSS card or passport.

If you will not be able to attend the meeting but would like to be represented thereat, you may submit your proxy form, duly signed and accomplished, to the Corporate Secretary at 15<sup>th</sup> Floor 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines on or before 26 November 2017. Beneficial owners whose shares are lodged with PDTC or registered under the name of a broker, bank or other fiduciary allowed by law must, in addition to the required ID, present a notarized certification from the owner of record that he is the beneficial owner, indicating thereon the number of shares. Corporate shareholders shall likewise be required to present a notarized secretary's certificate attesting to the authority of its representative to attend and vote at the stockholders' meeting. In accordance with Rule 20.11.2.18 of the 2015 Implementing Rules and Regulations of the Securities and Regulation Code, proxies executed by brokers shall be accompanied by a certification under oath stating that before the proxy was given to the broker, he had duly obtained the written consent of the persons in whose account the shares are held.

Validation of proxies will be held not later than 1 December 2017 at the office of the Company's stock transfer agent.

Makati City, Metro Manila, Philippines, 2 November 2017.

  
ANA MARIA A. KATIGBAK  
Assistant Corporate Secretary

**AGENDA**  
Details and Rationale

**1. Call to order**

The Chairman of the Board of Directors, Mr. Tarcisio M. Medalla, will call the meeting to order.

**2. Proof of notice and certification of quorum**

The [Corporate Secretary, Atty. Mayette H. Tapia], will certify that copies of the Notice have been sent to all stockholders of record as of 28 October 2017, and whether the attendees represented at the meeting hold a sufficient number of shares for quorum to exist for the valid transaction of business.

**3. Approval of the Minutes of Previous Stockholders' Meeting**

Copies of the draft minutes have been distributed together with the Notice of Stockholders' Meeting and Information Statement.

The stockholders will be requested to approve the draft minutes. The following is the proposed resolution:

*“RESOLVED, that the minutes of the Annual Stockholders' Meeting of Paxys, Inc. held on December 6, 2016 be, as it is hereby, approved.”*

**4. Management Report & Audited Financial Statements for the Year Ended 31 December 2016**

The Chairman and President, Mr. Tarcisio M. Medalla, will present the report of the Management to the stockholders, discuss initiatives undertaken and challenges faced by the Company in 2016, and share his personal perspective of the Company's future.

The audited financial statements for the year ended 31 December 2016 were prepared by the Company's independent auditors, Reyes, Tacandong & Co. and approved by the Company's Board of Directors. In compliance with the regulatory requirements, the audited financial statements have also been submitted to the Securities and Exchange Commission and Bureau of Internal Revenue.

Copies of the Management Report together with the audited financial statements for the year ended 31 December 2016 have been distributed with the Information Statement.

Questions will be entertained from the stockholders after the presentation.

The stockholders will be requested to approve the Management Report and the audited financial statements for the year ended 31 December 2016. The following is the proposed resolution:

*“RESOLVED, that the annual Management Report and the Corporation's audited financial statements for year ended December 31, 2016 be, as it is hereby, approved.”*

**5. Ratification of Previous Corporate Acts**

The Company's performance was the result of the acts, contracts, resolutions and actions of the Board of Directors and Management of the Company, and the stockholders will be requested to ratify the same. The following is the proposed resolution:

*“RESOLVED, that all acts, contracts, resolutions and actions of the Board of Directors and Management of the Corporation from the date of the last annual stockholders’ meeting up to the present be, as they are hereby, approved, ratified and confirmed.”*

## **6. Amendment of Articles of Incorporation**

The Sixth Article of the Company’s Articles of Incorporation provides for a total of nine (9) directors. It is proposed to amend the Articles of Incorporation to decrease the number of directors to seven (7). The purpose of the amendment is to enhance the efficiency and effectiveness of the management of the Company and the rights of the shareholders in electing the members of the Board of Directors. The proposed amendment was approved by the Company’s Board of Directors and has been endorsed to the stockholders for its approval, confirmation and ratification.

The following is the proposed resolution:

*“RESOLVED, that the first paragraph of the SIXTH Article of the Company’s Articles of Incorporation be amended to read as follows:*

*‘That the number of directors of the Corporation shall be seven (7) who will continue discharging their duties until the election of their successors in accordance with the By-Laws of the Corporation x x x’*

*RESOLVED, FURTHER, that the Directors and Officers of the Corporation be authorized to sign, execute and file with the Securities and Exchange Commission such documents and papers which may be required to give effect to the foregoing.*

*RESOLVED, FURTHER, that the proposed amendment be submitted to the stockholders for their approval at a stockholders’ meeting to be held on a date to be determined by the Board of Directors or the President of the Company, and/or any adjournments or postponements thereof.”*

## **7. Election of Directors**

The following individuals have been nominated as regular or independent directors and their respective nominations have been screened by the Nominations Committee:

### For Regular Directors

1. TARCISIO M. MEDALLA
2. ROGER LEO A. CARIÑO
3. CHRISTOPHER B. MALDIA
4. LIM GHEE KEONG
5. ROBERTO A. ATENDIDO

### For Independent Directors:

6. GEORGE Y. SYCIP
7. JOSE ANTONIO A. LICHAUCO

Voting may be done in person or by proxy. Proxy forms have been distributed to all stockholders of record together with this Notice. Signed and accomplished proxy forms are required to be submitted not later than 5:00 p.m. of 26 November 2017 and shall be validated no later than 1 December 2016. Votes may be cumulated as provided in the Corporation Code.

## **8. Appointment of External Auditors**

The proposal is to reappoint Reyes Tacandong & Co as external auditor for the current year 2017-2018. The following is the proposed resolution:

*“RESOLVED, that the accounting firm of Reyes Tacandong & Co. be reappointed external auditors of the Company for the current year 2017-2018.”*

#### **9. Other Matters**

Stockholders may propose to discuss other issues and matters.

#### **10. Adjournment**

After all matters in the agenda have been taken up, the Chairman shall entertain a motion to adjourn the meeting.



**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 20-IS  
INFORMATION STATEMENT  
PURSUANT TO SECTION 20 OF THE SECURITIES REGULATION CODE**



1. Check the appropriate box:

Preliminary Information Statement  
 **Definitive Information Statement**

2. Name of Registrant as specified in its charter: **PAXYS, INC.**

3. Province, country or other jurisdiction of incorporation or organization: **Metro Manila, Philippines.**

4. SEC Identification Number: **6609**

5. BIR Tax Identification Code: **000-233-218-000**

6. Address of principal office: **15<sup>th</sup> Floor 6750 Ayala Office Tower  
Ayala Avenue,  
Makati City  
Postal Code **1226****

7. Registrant's telephone number, including area code: **(+632) 250-3800**

8. Date, time and place of the meeting of security holders:  
Date: **December 6, 2017**  
Time: **2:00 PM**  
Place: **Manila Golf and Country Club  
Harvard Road, Forbes Park,  
Makati City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders:  
**November 7, 2017**

10. In case of Proxy Solicitations: **Not Applicable**

Name of Person Filing the Statement/Solicitor: \_\_\_\_\_  
Address and Telephone No.: \_\_\_\_\_

11. Securities registered pursuant to Sections 8 and 12 of the Securities Regulations Code (information on number of shares and amount of debt is applicable only to corporate registrants):

a. Authorized Capital Stock

Title of Each Class	Par Value	No. of Shares	Authorized Capital Stock
Common	Php1.00	1,800,000,000	Php1,800,000,000.00

b. No. of Common Shares Outstanding as of December 31, 2016: **1,148,534,866**

c. Amount of Debt Outstanding as of December 31, 2016: **nil**

12. Are any or all of registrant's securities listed on a Stock Exchange?  
**Yes  No**

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

**The Common Stock of the Company is listed at the Philippine Stock Exchange, Inc. (PSE)**

**PAXYS, INC.**  
**INFORMATION STATEMENT**

**A. GENERAL INFORMATION**

**Item 1. Date, Time and Place of Meeting of Security Holders:**

The annual stockholders' meeting of Paxys, Inc. (hereafter the "Registrant" or "Company" or "Paxys") will be held on **6 December 2017 at the Manila Golf and Country Club, Harvard Road, Forbes Park, Makati City at 2:00 PM.**

The complete mailing address of the principal office of the Registrant is 15<sup>th</sup> Floor 6750 Ayala Office Tower, Ayala Avenue, Makati City.

The approximate date when the information statement will be first sent to security holders will be on 7 November 2017.

**Item 2. Dissenters' Right of Appraisal**

There are no matters to be taken up during the annual stockholders' meeting with respect to which the law allows the exercise of the appraisal right by any dissenting stockholder. The Corporation Code limits the exercise of the appraisal right to the following instances:

- a. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence (Section 81);
- b. In case of the sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets (Section 81);
- c. In case of merger or consolidation (Section 81);
- d. In case of investments in another corporation, business or purpose (Section 42).

Since the matters to be taken up do not include any of the foregoing, the appraisal right will not be available.

However, if at any time after this Information Statement has been sent out, an action which may give rise to the right of appraisal is proposed at the meeting, any stockholder who voted against the proposed action and who wishes to exercise such right must make a written demand, within thirty (30) days after the date of the meeting or when the vote was taken, for the payment of the fair market value of his shares. Upon payment, he must surrender his certificates of stock. No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment.

**Item. 3 Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

The directors, officers, nominees for directors and their associates do not have a substantial interest, direct or indirect, in any matter to be acted upon, other than election to office.

The registrant has not been informed in writing by any person that he intends to oppose any action to be taken by the Company at the meeting.

## B. CONTROL AND COMPENSATION INFORMATION

### Item. 4 Voting Securities and Principal Holders Thereof

As of 30 September 2017 and the record date of 28 October 2017, there are 1,148,534,866 outstanding common shares entitled to notice and to vote at the meeting.

The record date for the purpose of determining the stockholders entitled to notice of, and to vote at, the Annual Meeting of Stockholders is 28 October 2017.

The election of the board of directors for the current fiscal year will be taken up and all stockholders have the right to cumulate their votes in favor of their chosen nominees for director in accordance with Section 24 of the Corporation Code. Section 24 provides that a stockholder, may vote such number of shares registered in his name as of the record date for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. The total number of votes cast by such stockholder should not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected.

### Security Ownership of Certain Record and Beneficial Owners and Management

#### (1) Persons Known to the Registrant to be Directly or Indirectly the Record or Beneficial Owner of More than 5% of Any Class of the Registrant's Voting Securities:

As of 30 September 2017, Paxys has no knowledge of any individual or any party who beneficially owns in excess of 5% of Paxys common stock except as set forth in the table below:

Title of Class	Name and Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	Number of Shares Held	Percent of Class
Common	All Asia Customer Services Holdings, Ltd. (AACSHL) Level 54, Hopewell Centre, 183 Queen's Road East Hong Kong	Expac Ltd. owns 100% of AACSHL. Paxys has neither corporate relationship nor information about Expac Ltd.	Hong Kong	630,844,038*	54.93%
Common	Paxys N.V.	Paxys, Inc. owns 100% equity of Paxys N.V.	Curaçao	345,622,477**	30.09%
Common	PCD Nominee Corp. G/F MSE Bldg., 6767 Ayala Ave., Makati City	Beneficial owners are the clients of the PCD participants' brokers. There are no beneficial owners owning more than 5% of the Registrant's capital stock.	Philippines	170,088,339	14.81%
<b>Total</b>				<b>1,146,551,894</b>	<b>99.83%</b>

\*This includes the 9,583,218 lodged shares of AACSHL under PCD Nominee Corporation (Non-Filipino)

\*\*The 345,622,477 shares of Paxys N.V. are currently lodged under PCD Nominee Corporation (Non-Filipino)

The right to vote the shares of AACSHL shall be exercised through its duly appointed proxy. AACSHL has previously appointed Mr. Tarcisio M. Medalla, Chairman and President of Paxys, Inc., as proxy for past stockholders' meetings. AACSHL shall appoint him as proxy again for this year's meeting.

The shares held by AACSHL include 3,970,818 shares lodged with AB Capital Securities, Inc. and 5,612,400 shares lodged with S.J. Roxas & Co., Inc.

In October 2014, Paxys N.V., a wholly-owned subsidiary of Paxys, completed the purchase of 345,622,477 shares of Paxys, by way of a tender offer. As of 30 September 2017, the public ownership level of Paxys is at 14.96%. Paxys N.V. has appointed Mr. Tarcisio M. Medalla, Chairman and President of Paxys, Inc., as proxy for this year's stockholders meeting.

**(2) Security Ownership of Management (as of 30 September 2017):**

Title of Class	Name of Beneficial Owner	Amount of Beneficial Ownership	Citizenship	Percent Owned
Common	<b>Tarcisio M. Medalla</b> Chairman & President	1,120	Filipino	0.0001%
Common	<b>Christopher B. Maldia</b> Director	129,520	Filipino	0.0113%
Common	<b>Ghee Keong Lim</b> Director	82,800	Malaysian	0.0072%
Common	<b>Roger Leo A. Carino</b> Director and Treasurer	1,120	Filipino	0.0001%
Common	<b>Roberto A. Atendido</b> Director	1,000	Filipino	0.0001%
Common	<b>George Y. Sycip</b> Independent Director	1,120	American	0.0001%
Common	<b>Jose Antonio A. Lichauco</b> Independent Director	1,120	Filipino	0.0001%
Common	<b>Sivam Kandavanam</b> Director	1,000	Malaysian	0.0001%
Common	<b>Ana Maria A. Katigbak</b> Assistant Corporate Secretary	0	Filipino	-
	<b>Total</b>	<b>218,800</b>		<b>0.0191%</b>

**(3) Voting Trust Holder of 5% or more**

There are no voting trust agreements or any other similar agreement which may result in a change in control of the Company of which the Company has any knowledge.

**(4) Changes in control**

No change in control of the Registrant has occurred since the previous fiscal year.

**Item 5. Directors and Executive Officers**

Below is the list of Company directors/independent directors and executive officers including their background information, experiences and positions held.

<b>Tarcisio M. Medalla</b> <i>Chairman and President</i>	Mr. Tarcisio M. Medalla, 68 years old, Filipino, has been a Director and President of the Company since 30 December 2003. He is concurrently a Director of UT Global Services Limited, a privately held company with an RHQ in Manila and affiliated with All Asia Customer Services Holdings Ltd., an investment holding company that owns the controlling equity interest in Paxys. He has been connected with the Group since 1983. He is also a director of Pacific Online Systems Corporation, a company listed with the Philippine Stock Exchange. He graduated with a BSC
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	degree, major in Accounting, from De La Salle University. He attended the Advanced Management Program (AMP) at the Harvard Business School. He is a Certified Public Accountant.
<b>Roger Leo A. Cariño</b> <i>Director</i> <i>Treasurer</i>	Mr. Roger Leo A. Cariño, 58 years old, Filipino, has been a Director of the Company since 30 December 2003. He is currently the Company's Treasurer, which he also held from 2004 to 2006 and 2009. He is concurrently a Director of UT Global Services Limited, a privately held investment company with an RHQ in Manila and affiliated with All Asia Customer Services Holdings Ltd. He has been connected with the Group since 1990. He graduated with a BSC degree, major in Accountancy, from Ateneo de Naga University and attended the MBA Program at Murdoch University and the Strategic Business Economics program at the University of Asia and the Pacific. He is a Certified Public Accountant.
<b>Christopher B. Maldia</b> <i>Director</i>	Mr. Christopher B. Maldia, 57 years old, Filipino, has been a Director of the Company since December 2003. He graduated with a Bachelor of Laws degree from the Ateneo de Manila University. He also has a Master of Laws in International Legal Studies from New York University School of Law. He is a member of the Philippine Bar and the New York Bar.
<b>Lim Ghee Keong</b> <i>Director</i>	Mr. Lim Ghee Keong, 49 years old, Malaysian, was appointed Director of the Company on 3 June 2005. He has more than 25 years of experience in finance, treasury and credit management. Prior to joining the Usaha Tegas Sdn. Bhd. (UTSB) Group in 1995, he was attached to General Electric Capital Corporation in the USA and Ban Hin Lee Bank in Malaysia. He is a Director and currently is the Chief Operating Officer of UTSB, and he serves on the boards of several other companies in which UTSB Group has significant interests, such as Maxis Berhad (listed on the Bursa Malaysia Securities Berhad (Bursa Securities)), Astro Malaysia Holdings Berhad (listed on Bursa Securities) and Bond Pricing Agency Malaysia Sdn. Bhd., a bond pricing agency registered with the Securities Commission Malaysia. He is also a Director of Yu Cai Foundation. He holds a Bachelor of Business Administration degree, majoring in Finance, from the University of Hawaii at Manoa, USA.
<b>Roberto A. Atendido</b> <i>Director</i>	Mr. Roberto A. Atendido, 69 years old, Filipino, has been a Director of the Corporation since 1 October 2004. He is currently the Vice Chairman/Director of Asian Alliance Investment Corp. and President/Director of Asian Alliance Holdings and Development Corp. He is currently a member of the board of the following companies: Philippine Business Bank, Picop Resources Corporation, Sinag Energy Philippines, Pharmarex Corporation, and Macay Holdings Inc. He holds a Masters Degree in Business Management from the Asian Institute of Management.
<b>Sivam Kandavanam</b> <i>Director</i>	Mr. Sivam Kandavanam, 60 years old, Malaysian, is concurrently a Director of MAI Sdn. Berhad and Pan Malaysian Sweeps Sdn. Bhd. He is an associate of the Institute of Chartered Accountants in England and Wales,

	and a Chartered Accountant of Malaysian Institute of Accountants and has over 25 years working experience in financial services. He has retired from the position Chief Financial Officer – Private Assets & Trusts of Usaha Tegas Sdn. Bhd. (UTSB) but continues as the Joint Treasurer of Malaysian Community & Education Foundation. Prior to joining UTSB, he was attached to Maika Holdings Berhad and KTM Distribution Sdn. Bhd.
<b>George Y. Sycip</b> <i>Independent Director</i>	Mr. George Y. Sycip, 61 years old, American, has been a Director of the Company since 1 October 2004. He advises a variety of companies in their cross-border endeavors between the US/Europe and Asia and serves on the corporate Boards of Alliance Select Foods International Inc., Asian Alliance Investment Corp., Bank of the Orient in San Francisco and Beneficial Life Insurance Company. He is also a Trustee or Director of the International Institute for Rural Reconstruction, Give2Asia, Global Heritage Fund and the California Southeast Asia Business Council. He holds a Masters Degree in Business Administration from Harvard Business School and a Bachelors degree in International Relations/Economics from Stanford University.
<b>Jose Antonio Lichauco</b> <i>Independent Director</i>	Mr. Jose Antonio Lichauco, 58 years old, Filipino, is concurrently the President of Asian Alliance Investment Corp., specializing in Investment Banking and Corporate Finance. He is also concurrently a Director of Automated Technology (Philippines), Inc. where he was previously Senior Vice-President and Chief Financial Officer. He also held positions at Insular Investment and Trust Corporation and at SGV & Co. He obtained his Masters Degree in Business Administration from Columbia University in New York, USA in 1989.
<b>Atty. Mayette H. Tapia*</b> <i>[Corporate Secretary], Corporate Legal Counsel and Corporate Information Officer</i>	Atty. Mayette H. Tapia, 31 years old, Filipino, is the new Corporate Legal Counsel and Corporate Information Officer of Paxys, Inc. Prior to joining Paxys, she worked as a General Counsel for a multinational company for almost two (2) years. As a member of the Association of Southeast Asian Nation (ASEAN) Law Association, Atty. Tapia's experience also incorporates previous work as an associate lawyer at Angara Abello Concepcion Regala & Cruz (ACCRA) Law Offices and a role as legal consultant for the Commission on Elections. She obtained her Bachelor of Laws degree from San Beda College of Law in Manila and became a member of the Philippine Bar on April 2013.
<b>Atty. Ana Maria A. Katigbak</b> <i>Assistant Corporate Secretary</i>	Atty. Ana Maria A. Katigbak, 48 years old, Filipino, is the Assistant Corporate Secretary of the Company and has held the office since 1997. She is a partner in Castillo, Laman, Tan, Pantaleon & San Jose Law Offices and also acts as Director of Mabuhay Holdings, Inc. and Vulcan Industrial and Mining Corp., Corporate Secretary of Energy Development Corporation, and Assistant Corporate Secretary of Paxys Inc., Premiere Horizon Alliance Corporation and Solid Group, Inc. She is a member of the Integrated Bar of the Philippines.

\* *Atty. Mark David P. Martinez, Director and Corporate Secretary, has resigned from the Company to pursue other endeavours. Effective date of resignation is 15 June 2017 as disclosed to the PSE on 22 May 2017.*

### Term of Office of Directors

Each director of the Company holds office for a period of one year and until the annual meeting of stockholders is held next after his election and/or his successor shall have been elected and qualified, except in case of death, resignation, disqualification or removal from office.

### Directors' Attendance

All directors met the SEC's requirements of more than 50% attendance. Directors' attendance for the board meetings held for the year 2016 are as follows.

Directors	Date of Board Meeting					
	5 Apr 2016 Regular	11 May 2016 Regular	10 Aug 2016 Regular	28 Oct 2016 Regular	2 Dec 2016 Regular	6 Dec 2016 Organizational
Tarcisio M. Medalla	✓	✓	✓	✓	✓	✓
Roger Leo A. Cariño	✓	✓	✓	✓	✓	✓
Roberto A. Atendido	✓	✓	✓	A	✓	✓
Christopher B. Maldia	✓	✓	✓	✓	✓	✓
Jose Antonio A. Lichauco	✓	✓	✓	✓	✓	✓
Lim Ghee Keong	✓	✓	✓	A	✓	A
Sivam Kandavanam	✓	✓	✓	A	✓	A
George Y. Sycip	✓	✓	✓	✓	✓	✓
Mark David P. Martinez	✓	✓	✓	✓	✓	✓

✓ - Present A - Absent

### Directorships in Other Companies

The following are directorships held by directors and executive officers in other companies during the last five years:

Name of Director	Name of Corporation	Position	Period
Tarcisio M. Medalla	Pacific Online Systems Corporation	Director	2007 to present
Roberto A. Atendido	Asian Alliance Investment Corp.	Vice Chairman/ Director	1996 to present
	Asian Alliance Holdings & Development Corp.	President/ Director	1996 to present
	Paper Industries Corp. of the Phils.	Director	2006 to present
	Sinag Energy Philippines, Inc.	Director/ Shareholder	2008 to present
	Myka Advisory & Consultancy Services, Inc.	Chairman/ Shareholder	2010 to present
	Pharmarex, Inc.	Director	2012 to present
	Macay Holdings, Inc.	Director	2013 to present
	Philippine Business Bank	Director	2006 to present
George Y. Sycip	Alliance Select Foods International, Inc.	Chairman and Director	2009 to present



## **Nomination for Election of Directors**

In view of the proposed amendment to the Company's Articles of Incorporation to decrease the number of directors from nine (9) to seven (7), there will be only seven (7) nominees for regular and independent directors. All nominees are currently incumbent directors.

## **Nominations for Independent Directors**

In compliance with SEC Memorandum Circular No. 16, series of 2002 (now SRC Rule 38), which provides for the guidelines on the nomination and election of independent directors, a Nomination Committee has been created with the following as members:

1. Mr. Tarcisio M. Medalla (Chairman)
2. Mr. George Y. Sycip (Independent Director)
3. Mr. Jose Antonio A. Lichauco (Independent Director)
4. Mr. Roger Leo A. Cariño (non-voting)

The Nomination Committee pre-screened in accordance with the criteria prescribed under SRC Rule 38 and the Company's Code of Corporate Governance, the nominations made by Mr. Tarcisio M. Medalla of the following persons as independent director:

- 1) George Y. Sycip (incumbent)
- 2) Jose Antonio A. Lichauco (incumbent)

The foregoing nominees are not related, whether by affinity or consanguinity, to the persons that nominated them.

## **Significant Employees**

All the employees are considered important assets of the Company who collectively make significant contributions to the Company.

## **Key Personnel**

*Tarcisio M. Medalla – Chairman and President* has been a Director and President of the Company since December 30, 2003. He is concurrently a Director of UT Global Services Limited, a privately held investment company with an RHQ in Manila and affiliated with All Asia Customer Services Holdings Ltd., an investment holding company that owns the controlling equity interest in Paxys. He has been connected with the Group since 1983. He is also a director of Pacific Online Systems Corporation, a company listed with the Philippine Stock Exchange. He graduated with a BSC degree, major in Accounting, from De La Salle University. He attended the Advanced Management Program (AMP) at the Harvard Business School. He is a Certified Public Accountant.

*Atty. Mark David P. Martínez – General Counsel and Corporate Secretary* joined the Company in October 2009 and was elected as director starting August 2012. He was the Company's Corporate Counsel, Corporate Secretary and Corporate Information Officer from 2012 until his resignation effective 15 June 2017.

## **Family Relationships**

None of the directors and executive officers is related to each other by affinity or consanguinity.

## **Involvement of Directors and Executive Officers in Certain Legal Proceedings**

None of the directors and executive officers was involved during the past five years and as of date of this report in any bankruptcy proceeding. Neither have they been convicted by final judgment in any criminal proceeding or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative body to have violated a securities or commodities law.

### Certain Relationships and Related Transactions

There has been no transaction during the last five years, nor is any transaction presently proposed, to which the Company was or is to be a party in which any director or executive officer of the Company, or nominee for election as a director, or owner of more than 10% of the Company's voting securities, or voting trust holder of 10% or more of any class of the Company's securities, or any member of the immediate family of any of the foregoing persons had or is to have a direct or indirect material interest. In the ordinary and regular course of business, the Company had or may have transactions with other companies in which some of the foregoing persons may have an interest.

### Resignation or Refusal to Stand for Re-election by Members of the Board of Directors

Other than the resignation of Atty. Mark David P. Martinez, as discussed above, no other director has resigned nor declined to stand for re-election to the Board since the date of last Annual Stockholders' Meeting because of a disagreement relating to the Company operations, policies and practices.

## Item 6. Compensation of Directors and Executive Officers

### Summary of Compensation of Directors and Executive Officers

The aggregate compensation paid or incurred during the last two fiscal years and estimated to be paid in the ensuing fiscal year to the four most highly compensated executive officers, as well as other directors and officers of the Company are as follows:

Name of Officer and Principal Position	Year	Salary	Bonus	Other Compensation
Chairman & President and Most Highly Compensated Officers*				
<b>1. Tarcisio M. Medalla,</b> <i>Chairman and President</i>				
<b>2. Atty. Mark David P. Martinez,</b> <i>Corporate Secretary**</i>				
<b>3. Atty. Mayette H. Tapia,</b> <i>Corporate Secretary**</i>				
Above named officers and all other directors unnamed as a group	Actual 2016	₱9.3	₱2.1	₱1.3
	Actual 2015	9.3	2.1	1.3
	Projected 2017	9.1	2.1	1.2

\*The Company has a lean organizational structure. There are no other highly compensated officers other than above named officers. \*\* Atty. Mark David P. Martinez resigned effective 15 June 2017. Atty. Mayette Tapia's formal appointment as Corporate Secretary is still being processed and will be effective once approved by the Board.

## **Employment Contracts and Termination of Employment and Change-in-Control Arrangements.**

There are no agreements between the registrant and its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the law.

## **Warrants and Options Outstanding: Repricing**

The Company has no outstanding warrants and options.

## **Item 7. Independent Public Accountants**

- a) The external auditor of the Company is Reyes, Tacandong & Co. (RT & Co.). The audit committee<sup>1</sup> recommends to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. The Board of Directors and stockholders approve the appointment of the external auditor.
- b) Representatives of RT & Co. for the current year and for the most recently completed fiscal year are expected to be present at the Annual Stockholders' Meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions. Pursuant to the general requirements of SRC Rule 68 Par 3(b)(iv) "Compliance with the Five (5) Year Rotation of External Auditor", Ms. Haydee M. Reyes is eligible as Partner-in-Charge for 2016 audit.
- c) There are no disagreements with our independent auditors on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure.
- d) The consolidated fees billed for the audit of the Company's annual financial statements amounted to ₱1.3 million, ₱1.2 million and ₱1 million 2016, 2015, and 2014 respectively.
- e) There are no professional services rendered by the external auditor for tax accounting, compliance, advice, planning and any other form of tax services for the last two fiscal years. There is no other assurance and related services rendered by the external auditor. There are no other services provided by the external auditor other than the services reported above.

## **Item 8. Compensation Plans**

No action is to be taken during the Annual Stockholders' Meeting with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

## **C. ISSUANCE AND EXCHANGE OF SECURITIES**

### **Item 9. Authorization or Issuance of Securities Other than for Exchange**

No action is to be taken during the Annual Stockholders' Meeting with respect to authorization or issuance of any securities.

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<sup>1</sup> Audit Committee members are: 1) Mr. Jose Antonio Lichauco – Chairman; 2) Mr. George Y. Sycip; 3) Mr. Roberto A. Atendido; and 4) Mr. Roger Leo A. Cariño.

#### **Item 10. Modification or Exchange of Securities**

No action is to be taken during the Annual Stockholders' Meeting with respect to modification of any class of securities or the issuance or authorization for issuance of one class of securities in exchange for outstanding securities of another class.

#### **Item 11. Financial and Other Information**

No action is to be taken during the Annual Stockholders' Meeting with respect to any matter specified in Items 9 or 10.

A copy of the Company's consolidated financial statements and a discussion by Management of its operations is included in the accompanying Management Report.

#### **Item 12. Mergers, Consolidations, Acquisitions and Similar Matters**

No action is to be taken during the Annual Stockholders' Meeting with respect to any transaction involving: (a) merger or consolidation into or with any other person or of any other person into or with Paxys; (b) acquisitions or any of its security holders of securities of another person; (c) acquisition of any other going business or of the assets thereof; (d) sale or other transfer of all or any substantial part of the assets of the Group; or (e) liquidation or dissolution.

#### **Item 13. Acquisition or Disposition of Property**

No action is to be taken during the Annual Stockholders' Meeting with respect to acquisition or disposition of any property.

#### **Item 14. Restatement of Accounts**

No action is to be taken during the Annual Stockholders' Meeting with respect to restatement of any asset, capital or surplus account.

### **D. OTHER MATTERS**

#### **Item 15. Action with Respect to Reports**

The Management Report, as set forth in the Annual Report, and the Minutes of the previous annual stockholders' meeting will be submitted for stockholder's approval.

Approval of the Annual Report constitutes a ratification of the Company's performance during the previous fiscal year as contained in the Annual Report.

Approval of the Minutes constitutes a ratification of the accuracy and faithfulness of the Minutes to the events that transpired during the meeting. This does not constitute a second approval of the same matters taken up at the annual stockholders' meeting, which was approved.

#### **Item 16. Matters Not Required to be Submitted**

No action is to be taken with respect to any matter that does not require the submission to a vote of security holders.

## Item 17. Amendment of Charter, By-Laws or Other Documents

The Sixth Article of the Company's Articles of Incorporation provides for a total of nine (9) directors. It is proposed to amend the Articles of Incorporation to decrease the number of directors to seven (7). The purpose of the amendment is to enhance the efficiency and effectiveness of the management of the Company and the rights of the shareholders in electing the members of the Board of Directors. The proposed amendment was approved by the Company's Board of Directors and has been endorsed to the stockholders for its approval, confirmation and ratification.

## Item 18. Other Proposed Actions

### *A. Approval of the Minutes of the 2016 Annual Stockholders' Meeting and 2016 Annual Report and Audited Financial Statements*

The minutes of the previous annual stockholders' meeting which includes the discussion of prior year's Annual and Management Reports will be presented to the stockholders for approval.

The Company's Audited Financial Statements as of 31 December 2016 is made part of the Company's 2016 Definitive Information Statement, copy of which is distributed to the stockholders of the Company at least 15 days prior to the Annual Stockholders' Meeting.

### *B. Ratification of Previous Corporate Acts*

Among the major corporate acts for ratification by the stockholders in the annual stockholders' meeting are the following which were previously disclosed in the following Current Report (SEC Form 17-C):

<b>Date Filed</b>	<b>Items Reported</b>
7 November 2016	The Company submitted the certified list of stockholders of Paxys, Inc. as of 28 October 2016, the record date of our Annual Stockholders' Meeting, which is scheduled on 6 December 2016.
7 December 2016	The Company submitted the Certificates of Completion for Corporate Governance Seminar for all the Directors and Officers of Paxys, Inc. in compliance with the SEC Memorandum Circular No. 20 Series of 2013.
7 December 2016	The Company advised the Exchange of the highlights and results of the Annual Stockholders' Meeting held on 6 December 2016.
7 December 2016	The Company submitted the copies of the notarized certifications which have been signed by the independent directors of Paxys, Inc.
4 January 2017	The Company submitted the Directors' Attendance for 2016.
14 February 2017	The Company provided the Exchange a copy of its written statement submitted to the Capital Markets Integrity Corporation regarding the unusual price movement which was observed on 13 February 2017.
31 March 2017	The Company submitted the Corporate Governance Guidelines for Listed Companies.
8 May 2017	The Company informed the Exchange that the annual meeting of

<b>Date Filed</b>	<b>Items Reported</b>
	the stockholders of Paxys, Inc. for the year 2017, which is scheduled to be held on any day in May, has been postponed to a later date. The purpose of the postponement is to provide the Board and management of Paxys with greater opportunity in determining the Company's strategic direction.
22 May 2017	The Company informed the Exchange that Atty. Mark David P. Martinez, a Director, Corporate Secretary, and Corporate Information and Compliance Officer of the Company, has resigned effective 15 June 2017 to pursue other endeavors.
11 August 2017	The Company informed the Exchange that the scheduled annual meeting of the stockholders of Paxys Inc. is on 6 December 2017 at the Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City.
28 September 2017	The Company submitted a copy of Ms. Ana Maria A. Katigbak's Certificate of Attendance issued by the Institute of Corporate Directors for the Corporate Governance Training Program she attended on 6 September 2017 at 8 Rockwell, Hidalgo Drive, Rockwell Center, Makati City.

A resolution to ratify the above acts, resolutions and proceedings of the Board of Directors, corporate officers and management shall be presented to the stockholders for approval.

### **C. Election of directors**

In accordance with the Company's Corporate Governance Manual, all nominations for director were reviewed and evaluated by the Nominations Committee. The final list of nominees for directors including their background information, experiences and positions held are included in the 2016 Information Statement.

### **D. Appointment of External Auditors**

A resolution for the appointment of the Company's external auditor for 2017 shall be presented to the stockholders for approval.

In line with good corporate governance practices, the Audit Committee provides recommendations to the Board of Directors of qualified auditing firms which can best provide assurance to the directors and stockholders on the fairness and integrity of the Company's financial statements and the adequacy of internal controls.

## **Item 19. Voting Procedures**

For the election of directors, the nine (9) nominees receiving the most number of votes will be elected to the Board of Directors. Cumulative voting will be applied.

For the approval of the amendment of the Articles of Incorporation, the affirmative vote of stockholders owning or representing at least two-thirds (2/3) of the outstanding capital stock shall be required.

For all other matters to be taken up, majority vote of the outstanding capital stock present or represented at the meeting where a quorum exists will be sufficient. Voting shall be done *via*


## CERTIFICATION

Upon the written request of the stockholders, the Company undertakes to furnish said stockholder with a copy of SEC Form 17-A free of charge. Any written request for a copy of SEC 17A shall be addressed to the following:

Attention: Atty. Mayette H. Tapia  
Corporate Information Officer  
15/F 6750 Ayala Office Tower  
Ayala Avenue, Makati City

After reasonable inquiry and to the best of my knowledge and belief, we certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on 9 October 2017.

**PAXYS, INC.**

  
By: **Tarcisio M. Medalla**  
Chairman and President

  
**Ana Maria Katigbak**  
Assistant Corporate Secretary

**PAXYS, INC.**  
**MANAGEMENT REPORT**  
**Pursuant to RSA Rule 20(B)**

**For the 2017 Annual Stockholders' Meeting**

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**General Nature and Business of the Company**

Paxys, Inc. (“Paxys” or the “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 14 February 1952. Its major shareholders are All Asia Customer Services 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.

In 2004, the Company’s principal shareholder undertook a reverse takeover of Paxys by injecting Advanced Contact Solutions, Inc. (“ACS”) in exchange for a controlling stake in the Company. ACS at that time was a major call center in the Philippines. Effectively, Paxys became the first call center firm to be listed on the Philippine Stock Exchange. Thereafter, Paxys made several other investments in the business processes outsourcing (BPO) industry and other related businesses by means of acquisitions and joint ventures. Due to exigencies of the business, Paxys sold all of its equity interests in ACS in January 2011 and henceforth divested most of its BPO assets. At present, the Company’s operating subsidiaries provide general transcription, proofreading, data conversion, contact center and back office outsourcing services. Previous investments of Paxys include the following:

- The Parent Company expanded its business and made several acquisitions in Australia through Paxys Australia Pty Ltd (“PAU”). The most significant acquisition was made in April 2006 when PAU acquired SmartSalary Pty Ltd (“SmartSalary”), a salary packaging company based in Australia. In 2009, SmartSalary acquired two major Australian providers of in-house salary packaging software solutions, namely, Melbourne System Group Pty Ltd and Seqoya Pty Ltd. In 2010, PAU incorporated a wholly-owned subsidiary, Smartfleet Management Pty Ltd (“Smartfleet”), for the purpose of engaging in fleet management-related business. Smartfleet further expanded by acquiring the assets of Webfleet Management Services Pty Ltd, a leading provider of software solutions for online fleet management. Smartfleet also acquired Australian Vehicle Consultants Pty Ltd, a fullservice fleet management company and a leading provider of vehicle maintenance services. Smartsalary also acquired PBI Benefit Solutions Pty Ltd, a company engaged in issuing credit card products to employees of public hospitals and public benevolent institutions in Australia. In June 2012, the Company, through Paxys N.V., sold its 100% interest in PAU and its subsidiaries to SmartGroup Investments Pty Ltd.
- In January 2007, Paxys, together with joint venture partner Stellar Global, Inc., established Stellar Global Solutions Philippines, Inc. (“SGSP”). SGSP was organized to provide cost-effective Philippine offshore outsourcing for the Australian and UK clients of the Stellar Community. In April 2011, SGSP formed a wholly-owned subsidiary – Stellar Philippines, Inc. (“Stellar Philippines”) to further expand Stellar’s operations in the Philippines. Paxys sold all of its equity interests in SGSP and Stellar Philippines to Stellar Global, Inc. in July 2013.



- In 2008, Paxys partnered with WNS Global Services Netherlands Cooperative U.A. (“WNS Global”) to form WNS Philippines, Inc. Based in Mumbai India, WNS Global is a leading provider of business process outsourcing for various services such as banking, travel, telecommunications, logistics, insurance, and healthcare. In October 2011, Paxys transferred all of its equity interests in WNS Philippines, Inc. to its foreign partner.
- To further improve its IT capabilities and expertise, the Company acquired a majority stake in Ubaldo Reidenbach Solutions, Inc. (“URSI”) in 2008. URSI is a Philippine company engaged in IT consultancy focusing on Linux, Open Source Software and Red Hat Software. In 2008, Paxys acquired majority ownership in Global Idealogy Corporation (“GIC”), a software solutions provider. In October 2012, Paxys transferred all of its equity interests in URSI in favor of URSI’s minority shareholders. In August 2011, Paxys sold all of its equity interests in GIC in favor of GIC’s minority shareholders.

In October 2014, Paxys N.V., a wholly-owned subsidiary of the Parent Company, completed a tender offer to acquire 345,622,477 common shares of the Parent Company representing 30.09% of its outstanding capital stock at the price of ₱3.20 per share. As of 31 December 2015, AACSHL remains the majority shareholder owning 54.93% of the Parent Company’s total issued and outstanding shares. The public ownership level of Paxys is at 14.96% as of 31 December 2016.

The registered office address of the Parent Company is at 15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines.

### **Competition**

Philippines is among the top 3 choices for offshore operations due to its strategic business location, steady supply of competent workers and world-class telecom infrastructure.

Our competition within the global BPO services industry includes U.S.-based outsourcing companies and offshore BPO companies.

### **Sources and Availability of Raw Materials and the Names of Principal Suppliers**

Paxys and its subsidiaries obtain equipment and other materials mostly from local suppliers. The Company is not dependent upon one or limited number of suppliers for essential equipment and other materials as it continuously looks for new suppliers that can satisfy the Company’s requirements.

### **Major Customers**

For the past year, the Company’s major customers include UK courtrooms for the legal transcription services, Asia-Pacific for the data document processing, customers, television contents in Singapore, healthcare services consumers in Canada.

### **Related Party Transactions**

Transactions between related parties in 2016 mainly include cash advances for working capital advances and are accounted for at arms-length prices. In 2016, the Group granted cash advances in support of working capital requirements of ACS Pacific Limited amounting to ₱10.1 million.

### **Licenses**

On 25 November 2009, SWA’s registration of its expanding business process outsourcing service in the field of data transcription activity was approved by the Board of Investments (BOI). This certification entitles SWA to a three-year Income Tax Holiday (ITH) starting December 2009 until November 2012. The ITH shall be limited only to the revenue generated from the registered expansion project. As a registered entity, SWA is required to export at least 70% of its total services,

among other requirements. The ITH incentive has expired in November 2012. Thus, starting 1 December 2012, SWA is subjected to 30% regular corporate income tax.

Simpro Philippines was registered with the Philippine Economic Zone Authority in October 2012 as an Ecozone Information Technology Enterprise. Under Simpro's registration conditions, Simpro's operations shall not be entitled to ITH, but shall be entitled only to the 5% Gross Income Tax (5% GIT) incentive, in lieu of all national and local taxes, including the additional deduction of training expenses, as provided in RA 7916, as amended, and to incentives under Article 77, Book VI of EO 226.

#### **Need for any government approval of principal products or services**

There are no products or services that need any government approval.

#### **Effect of existing or probable governmental regulations on the business**

The limitation and conditions on ScopeWorks imposed by BOI has already ended in November 2012. Starting calendar and taxable year 2013, ScopeWorks is subject to government regulations same as regular business entity. Simpro Philippines is subject to the export sales requirements prescribed for Economic IT Enterprises.

#### **Research and Development**

The Company has not spent any amount during the last three fiscal years on research and development activities.

#### **Environmental Matters**

The Company is not involved in any action or proceeding involving non-compliance in any material respect with relevant environmental laws and regulations of the Philippines.

#### **Employee and Labor Relations**

As of 31 December 2016, the Group has 270 employees, including regular, project-based and probationary employees. There are no existing bargaining agreements (CBA) covering the Company's employees nor its subsidiaries.

The Group provides its employees with medical insurance and leave benefits. For professional development, the Group provides for team building activities and offers training programs that address the specific needs of employees. To foster work-life balance, the Group sponsors among others, annual summer and year-end activities.

#### **Legal Proceedings**

There are no material pending legal proceedings to which the Company or any of its subsidiary or affiliates is a party, or of which any of their property is the subject.

## Market Price of and Dividends on Common Equity

### Market Information

The Company's common shares are traded on the Philippine Stock Exchange. As of 30 September 2017, last traded price was Php2.86 per share. Trading prices for each quarter within the last two fiscal years are set forth below:

	Closing Prices	
	High	Low
<b>2017</b>		
First quarter	4.83	3.00
Second quarter	3.15	2.90
Third quarter	3.44	2.85
<b>2016</b>		
First quarter	3.11	2.30
Second quarter	2.85	2.40
Third quarter	3.20	2.45
Fourth quarter	3.14	2.50
<b>2015</b>		
First quarter	3.30	2.52
Second quarter	3.39	2.80
Third quarter	4.00	2.90
Fourth quarter	4.00	2.90

### Shareholders

As of 30 September 2017, the number of stockholders of record in the Company's stock and transfer book is 716. The common shares issued is 1,148,534,866 based on the last Report on Number of Shareholders. The list of the top 20 stockholders of Paxys common shares as of 30 September 2017 are as follows:

Name	No. of Shares Held	Percentage to Total
All Asia Customer Services Holdings Ltd.*	621,260,820	54.09%
PCD Nominee Corporation (Non-Filipino)	465,747,305	40.55%
PCD Nominee Corporation (Filipino)	59,546,729	5.19%
Kho, Jimmy Jao	300,000	0.03%
Chua, Carmen	216,276	0.02%
Granados, Juan P.	158,112	0.01%
Yao Shiong Shio	95,184	0.01%
Kaw Sek & Company	86,088	0.01%
Lim, Ghee Keong	81,800	0.01%
Paredes, Antonio	79,728	0.01%
Urrutia, Kevin	75,000	0.01%
Willis, Hugh Warren	63,111	0.01%
Jalandoni, Rodegelio M.	62,052	0.01%
Celis, Angela	55,776	0.00%
Martinez, Emilio G.	55,236	0.00%
Santiago, Eduardo A.	37,920	0.00%
Tangco, Francisco F.	37,896	0.00%
Co, Victor C.	31,536	0.00%
Asiamerit Securities, Inc	24,000	0.00%
Reyes, Leopoldo T.	19,800	0.00%

Name	No. of Shares Held	Percentage to Total
<b>Total</b>	<b>1,148,031,409</b>	<b>99.96%</b>

*\*AACSHL 9,583,218 shares are currently lodged under PCD Nominee (Non-Filipino). Total ownership of AACSHL is at 630,844,038 which is 54.93% of the total outstanding shares.*

### **Dividends**

There were no dividends declared to public for the last three (3) years. As of 31 December 2016, there are no restrictions imposed on the Company on the declaration of cash or property dividends. There are no recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

### **Recent Sales of Unregistered or Exempt Securities**

- (a) Securities Sold - Not applicable.
- (b) Underwriters and Other Purchasers - Not applicable.
- (c) Consideration - Not applicable.
- (d) Exemption from Registration Claimed - Not applicable.

## Management's Discussion and Analysis of Financial Condition and Plan of Operations

The following discussion and analysis of the Company should be read in conjunction with the accompanying audited consolidated financial statements and the related notes as at and for the year ended December 31, 2016, 2015 and 2014, which form part of this report. All amounts are in thousand pesos unless otherwise stated.

### Year Ended December 31, 2016

#### *Financial and Operational Highlights*

The remaining operating subsidiary of the Group, ScopeWorks Asia (SWA), provided revenues for the group as at 31 December 2016 and 31 December 2015.

Below is a summary of the Group's operations as at 31 December 2016 and 2015:

<i>In Php'000, except percentage</i>	2016	2015	Y16 vs Y15
Service Income	92,073	134,700	(32%)
Gross Profit	12,258	15,767	(22%)
EBITDA <sup>1</sup>	19,739	(3,842)	614%
Loss from operations <sup>2</sup>	(49,145)	(51,588)	5%
Net Income (Loss) attributable to equity holders	11,830	(12,569)	194%

Service Income for the year 2016 went down to ₱92.1 million for a 32% or ₱42.6 million decrease versus 2015 mainly due to the lower volume in the business of SWA. However, there were savings in personnel because of the lower volume and lower premise costs due to site consolidation. Thus, the decrease in the Gross Profit was minimized at ₱3.5 million or 22% decrease versus prior year.

The Interest Income from surplus funds of the Group continue to generate additional cash flows. In 2016, surplus funds were invested in various local and international banks with higher yield rates (classified as Available-for-Sale financial assets and Held-to-Maturity Investments in the consolidated financial statements) resulting to an increase in Interest Income in the amount of ₱66.8 million or 54% versus prior year Interest Income of ₱43.3 million. This together with favorable gain in foreign exchange rate and cost efficiencies of the holding company and its operating subsidiary resulted in a 194% turnaround in the Group's Net Income of ₱11.8 million versus Net Loss of ₱12.5 million in 2015.

#### *Financial Condition*

Main movement in the Group's Balance Sheet is the increase in total assets and equity of ₱147.7 million and ₱160 million as at and for the year ended 31 December 2016 and 2015, respectively. This increase is driven mainly by the gain in translation of Paxys NV's dollar-denominated funds and the income generated from the operating subsidiary. The translation gain is shown in the Equity section of the audited consolidated statements of financial position under "Other Equity Reserves".

Following are the highlights of the Group's financial position as at December 31, 2016 and 2015:

<i>In Php'000, except percentage</i>	2016	2015	Y16 vs Y15
Current Assets	3,728,440	3,579,165	4%
Noncurrent Assets	14,493	16,037	(10%)
Assets	3,742,933	3,595,202	4%

<sup>1</sup> EBITDA is defined as Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization.

<sup>2</sup> Excludes Interest Income but includes Other Income and Net Foreign Exchange Gain

<i>In Php'000, except percentage</i>	2016	2015	Y16 vs Y15
Current Liabilities	34,230	45,010	(23%)
Noncurrent Liabilities	5,258	6,789	(23%)
Equity	3,703,445	3,543,403	4%

### ***Liquidity and Capital Resources***

The Company's total Cash and Cash Equivalents decreased by P265 million and P365 million, in 2016 and 2015, respectively. This decrease is due to additional investments in short-duration bonds and managed funds, which are classified as Held-to-Maturity investments as shown in the audited consolidated financial statements.

The management believes that the current level of cash generated from operations and the borrowing capability are sufficient to meet the Company's immediate future cash requirement. The Company does not anticipate any liquidity problems that may arise from its operating activities in the near future.

<i>In Php'000, except percentage</i>	2016	2015	Y16 vs Y15
Net Cash provided by (used in) Operating Activities	₱19,730	(₱16,597)	219%
Net Cash used in Investing Activities	(285,112)	(333,360)	14%
Net Cash used in Financing Activities	-	-	-
Net decrease in cash and cash equivalents	(265,382)	(349,957)	24%

### ***Updates on Operating Subsidiary - ScopeWorks Asia, Inc. (SWA)***

Service income has decreased year on year over the past three years because of lower demand for transcription service due to technological improvements. As such, SWA has taken serious measures to address lower revenue volume. One of the major changes implemented includes the consolidation of site operations. With this improvement, the total direct and general expenses went down by 36% or P51.7 million, resulting to higher bottomline of P5.9 million, i.e. 364% better than the previous year. EBITDA is positive for both years.

SWA's financial highlights as at 31 December 2016:

<i>In Php'000, except percentage</i>	2016	2015	Y16 vs Y15
Service Income	₱92,073	₱134,700	(32%)
Gross Profit	12,226	15,767	(22%)
EBITDA <sup>1</sup>	7,657	3,522	118%
Income from operations	6,238	1,734	259%
Net Income	5,911	1,273	364%

Despite lower revenues, SWA was able to maintain its good performance. SWA believes that hiring and training the right people combined with good management and leadership strategies are the recipe to have good returns in the BPO industry. In 2016, the team's efforts enabled the Company to earn financial rewards from the clients. Such rewards formed part of the revenues in 2016, but other than monetary inflows, the Management see that this consistent good performance will bring in more business opportunities to the Company.

### ***Key Performance Indicators***

The following are the major financial ratios of the Company for the year ended 31 December 2016 and year ended 31 December 2015:

	2016	2015	Y16 vs Y15
Current Ratio <sup>1</sup>	108.9:1	79.5:1	37%
Debt to Equity Ratio <sup>2</sup>	0.01:1	0.01:1	-
Return on Equity <sup>3</sup>	0.3%	(0.4%)	175%
EBITDA Margin	21%	(3%)	800%
Net Income margin	13%	(9%)	244%

### Plan of Operation

1. The Group is continuously evaluating other investment opportunities. There are prospects and potential investment partners but these are still at the very early stage and none has been finalized to date. Paxys will continue to provide updates to its shareholders once any of the prospective investment opportunities proceed to the next level.
2. Other than Cash, the Group's main assets consist of cash equivalents, investments in short duration bonds, and available-for-sale assets. These assets are highly liquid and are convertible to cash as soon as additional cash requirement arises. The Management believes that it has sufficient level of fund to meet its cash requirement in the next twelve (12) months. The Group does not anticipate any liquidity problems that may arise from its operating activities in the near future.
3. There are no expected purchase or sale of plant and significant equipment in the near term.
4. There are no expected significant changes in the number of employees in the Group.

### Others Matters

In general, there are no material known trends, demands, commitments, events, transactions, arrangements or items of, by or involving the Company that would require a disclosure pursuant to Part III (A)(2)(A)(i) to (vii) of "Annex C" of the Implementing Rules and Regulations Code, to wit:

1. There are no known trends or any demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's liquidity increasing or decreasing in any material way. The Company does not anticipate any cash flow or liquidity problems within the next 12 months. As discussed in the Management's Discussion and Analysis of Financial Conditions and Results of Operations above, the management believes that the current level of cash generated from Operations and borrowing capability are sufficient to meet the Company's immediate cash needs.
2. There are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
3. There were no material commitments for expansion or capital expenditures as of reporting period.
4. There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons during the reporting period.

<sup>1</sup> Current Assets/Current Liabilities

<sup>2</sup> Total Liabilities/Total Stockholders' Equity

<sup>3</sup> Net Income / [(Equity end + Equity beg - Net Income)/2]

5. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Conditions and Results of Operations.
6. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or an unfavorable impact on net sales or revenue or income from continuing operation.
7. The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".
8. The effects of seasonality or cyclicity on the operations of the Company's business are not material.
9. 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.

**Year Ended December 31, 2015**

***Consolidated Financial and Operational Highlights***

Service Income in 2015 pertains to the revenue of the remaining operating subsidiary of the Group, which is ScopeWorks Asia (SWA), while in 2014, it includes revenue from both SWA and Paxys Global Services, Inc. (PGSI). In early 2014, PGSI has discontinued its operations primarily due to non-renewal of its accounts. This, together with the lower volume of SWA account, resulted to 11% or ₱15.8 million decrease in the Group's Service Income.

At the Gross Profit level, the decrease in Service Income was offset by the savings in Direct Costs of SWA, particularly personnel costs, resulting to a minimal shortfall of ₱2.2 million in GP versus prior year. Despite lower Service Income for the year, the Group's Operating Loss has nonetheless improved by 8% or ₱4.5 million versus prior year mainly due to operating efficiencies and other cost-saving initiatives of SWA.

The surplus funds of the Group continue to provide a steady additional income for the Group. In 2015, some of the funds were moved to local banks with higher yield rates and short-term duration bonds (classified as Held to Maturity Securities in the consolidated financial statements) which resulted to a higher Other Income by at least ₱5.3 million. This, together with the favorable foreign exchange rate and cost efficiencies of SWA resulted in lower losses of the Group amounting to ₱12.6 million or a 40% turnaround versus prior year's loss of ₱20.8 million.

Financial highlights as at 31 December 2015 and 2014 are as follows:

<i>In Php'000, except percentage</i>	2015	2014	Y15 vs Y14
Service Income	₱134,700	₱150,509	(11%)
Gross Profit	15,767	17,982	(12%)
EBITDA <sup>1</sup>	(3,842)	(7,480)	49%
Loss from operations <sup>2</sup>	(51,588)	(56,061)	8%
Net Loss attributable to equity holders	(12,569)	(20,849)	40%

<sup>1</sup> EBITDA is defined as Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization

<sup>2</sup> Excludes Interest Income but includes Gain on Disposal of Investments and Equity Gain on Joint Ventures



### **Financial Condition**

The significant changes in the balance sheet items from 31 December 2015 to 31 December 2014 are as follows:

- The Group's total assets increased by 3% or about ₱100 million because of the gain in translation of Paxys NV's dollar-denominated funds. This translation gain is likewise shown in the Equity section of the consolidated statements of financial position under "Other Equity Reserves"
- Noncurrent liabilities in 2015 was lower by 39% compared to prior year mainly due to lower retirement liability as a result of gain on curtailment.

<i>In Php'000, except percentage</i>	2015	2014	Y15 vs Y14
Current Assets	₱3,579,165	₱3,478,780	3%
Noncurrent Assets	16,037	19,266	(17%)
Assets	3,595,202	3,498,046	3%
Current Liabilities	45,010	48,380	7%
Noncurrent Liabilities	6,789	11,122	39%
Equity	3,543,403	3,438,544	3%

### **Liquidity and Capital Resources**

In 2014, the net decrease in cash and cash equivalents pertain to the purchase of common shares through a tender offer made by Paxys N.V. The total consideration paid amounted to ₱1,149.9 million. Details about the tender offer were disclosed in the Philippine Stock Exchange and Securities and Exchange Commission, as well as in the related notes to the Financial Statements as at December 31, 2015 and 2014.

The cash used in investing activities pertain to investment in short-duration bonds. These are classified as Held-to-Maturity Securities and Available for Sale financial assets in the consolidated financial position. Following are the highlights of the company's cash flows:

<i>In Php'000, except percentage</i>	2015	2014	Y15 vs Y14
Net Cash provided by (used in) Operating Activities	(₱16,597)	₱145,696	(111%)
Net Cash used in Investing Activities	(333,360)	(1,848)	(17939%)
Net Cash used in Financing Activities	-	(1,073,226)	(100%)
Net decrease in cash and cash equivalents	(349,947)	(929,378)	62%

The Company's management believes that the current level of cash generated from operations and the borrowing capability are sufficient to meet the Company's immediate future cash needs. The Company does not anticipate any liquidity problems that may arise from its operating activities in the near future.

### **Updates on Operating Subsidiary - ScopeWorks Asia, Inc.**

SWA's service income has decreased versus prior year mainly due to the lower volume of its Voice-to-Text account. This decline has no direct correlation on the performance of the company but is principally due to improvement in technology and lower demand for the service. Nevertheless, the company has been proactive in looking for new revenue streams. Likewise, the financials of the Group remained strong and the ₱11.3 million decrease in the Service Income versus prior year has been reduced to a minimal amount of ₱1.8 million at the Net Income level. Financial highlights of SWA are as follows:

<i>In Php'000, except percentage</i>	2015	2014	Y15 vs Y14
Service Income	₱134,700	₱145,969	(8%)
Gross Profit	15,767	18,321	(14%)
EBITDA	3,522	5,989	(41%)
Income from operations	1,734	3,725	(53%)
Net Income	1,273	3,109	(59%)

#### ***Updates on Operating Subsidiary - Paxys Global Services, Inc. (PGS)***

The revenue contracts of PGS were terminated in April 2014 as such the company has discontinued its operations. Net losses in 2015 pertain mainly on statutory expenses of the company. There are no plans to liquidate the company and Management is continuously seeking for new business opportunities.

<i>In Php'000, except percentage</i>	2015	2014	Y15 vs Y14
Service Income	₱-	₱4,540	(100%)
Gross Profit	-	1,627	(100%)
EBITDA	(355)	2,293	(116%)
Loss from operations	(355)	(518)	(31%)
Net Loss	(355)	(562)	(37%)

#### ***Key Performance Indicators***

The following are the major financial ratios of the Company for the year ended 31 December 2015 and year ended 31 December 2014:

	2015	2014	Y15 vs Y14
Current Ratio <sup>1</sup>	79.5:1	71.9:1	(11%)
Debt to Equity Ratio <sup>2</sup>	0.01:1	0.02:1	16%
Return on Equity <sup>3</sup>	(0.4%)	(1%)	(41%)
EBITDA Margin	(3%)	(5%)	43%
Net Income margin	(9%)	(14%)	33%

#### ***Others Matters***

In general, there are no material known trends, demands, commitments, events, transactions, arrangements or items of, by or involving the Company that would require a disclosure pursuant to Part III (A)(2)(A)(i) to (vii) of "Annex C" of the Implementing Rules and Regulations Code, to wit:

1. There are no known trends or any demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's liquidity increasing or decreasing in any material way. The Company does not anticipate any cash flow or liquidity problems within the next 12 months. As discussed in the Management's Discussion and Analysis of Financial Conditions and Results of Operations above, Management believes that the current level of cash generated from Operations and borrowing capability are sufficient to meet the Company's immediate cash needs.
2. There are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

<sup>1</sup> Current Assets/Current Liabilities

<sup>2</sup> Total Liabilities/Total Stockholders' Equity

<sup>3</sup> Net Income/[(Equity end + Equity beg - Net Income)/2]

3. There were no material commitments for expansion or capital expenditures as of reporting period.
4. There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons during the reporting period.
5. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Conditions and Results of Operations.
6. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or an unfavorable impact on net sales or revenue or income from continuing operation.
7. The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".
8. The effects of seasonality or cyclicity on the operations of the Company's business are not material.
9. 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.

**Year Ended December 31, 2014**

***Consolidated Financial and Operational Highlights***

Service Income in 2014 includes revenue from two subsidiaries, SWA and PGS. Revenue and net results of joint ventures for both years are excluded and presented as one line item below the operating line. Service Income has decreased by 5% or ₱7.7 million versus prior year mainly due to the termination of revenue contracts of PGS accounts in April 2014. This resulted in a ₱17.2 million decrease in the Group's revenue but was partially recovered by the growing business in SWA which revenue has increased by ₱9.5 million compared to prior year.

The Gross Profit decreased by 27% in 2014 principally due to the increase in Cost of Sales for outside services contracted for the additional account of SWA.

The overall Net Loss has decreased from ₱73.9 million in 2013 to ₱20.8 million in 2014 primarily due to lower Operating Expenses of the Group and the stronger Peso performance for its USD-denominated funds as, in 2013, the Group has converted most of its AUD funds to USD. As a result of the conversion of the Group's fund from AUD to USD, the net foreign exchange loss has significantly dropped by 96% or ₱78.8 million. Meanwhile, the Operating Expenses has also decreased by 22% or ₱84.7 million in 2014 from ₱109.1 million in 2013.

***Financial Results Summary***

<i>In Php'000, except percentage</i>	2014	2013	Y14 vs Y13
Service Income	₱150,509	₱158,295	(5%)
Gross Profit	17,982	24,581	27%
EBITDA <sup>1</sup>	(7,480)	(99,721)	92%
Loss from operations	(56,061)	(113,480)	51%
Net Loss attributable to equity holders	(20,849)	(73,868)	72%

<sup>1</sup> EBITDA is defined as Earnings Before Interest, Income Taxes, Depreciation and Amortization.

## Financial Condition

Summary of the Group's financial position as at December 31, 2014 and 2013 are as follows:

<i>In Php'000, except percentage</i>	2014	2013	Y14 vs Y13
Current Assets	₱3,478,780	₱4,554,276	(24%)
Noncurrent Assets	19,266	24,030	(20%)
Assets	3,498,046	4,578,306	(24%)
Current Liabilities	48,380	57,223	16%
Noncurrent Liabilities	11,122	7,839	(42%)
Equity	3,438,544	4,513,244	(24%)

The significant changes in the balance sheet items above are as follows:

- The Group's total assets decreased by 24% or ₱1,080 million mainly due the purchase of common shares through a tender offer made by Paxys Inc.'s wholly-owned subsidiary, Paxys NV, in 2014. The total amount of consideration paid amounted to ₱1,149.9 million. This is further discussed in the Company's disclosures to the Philippine Stock Exchange and Securities and Exchange Commission and in the related notes to the Consolidated Financial Statements.
- The purchase of the common shares amounting to ₱1,149.9 million was presented as a reduction in the total paid-up capital, thus, the net decrease in the Total Equity of the Group.
- Non-current liabilities increased by 42% or ₱3.3 million principally due to adjustments in the retirement liability of the Group. Although there are no substantial increase in the headcount and salaries of the Group, the standard discount rate used in the latest actuarial valuation obtained has decreased, from 6.38% in 2013 to 4.49% in 2014, thus the inverse effect on the Present Value Amount of the Group's retirement liability

## Liquidity and Capital Resources

Cash and cash equivalents decreased in 2014 is mainly due to the purchase of common shares through a tender offer made by the Paxys N.V. in 2014. The total consideration paid amounted to ₱1,149.9 million.

<i>In Php'000, except percentage</i>	2014	2013	Y14 vs Y13
Net Cash used in Operating Activities	₱145,696	₱71,202	105%
Net Cash provided by Investing Activities	(1,848)	(36,361)	95%
Net Cash used in Financing Activities	(1,073,226)	-	(100%)
Net decrease in cash and cash equivalents	(929,378)	34,841	(2767%)

The Company's management believes that the current level of cash generated from operations and the borrowing capability are sufficient to meet the Company's immediate future cash needs. The Company does not anticipate any liquidity problems that may arise from its operating activities in the near future.

## Key Performance Indicators

The following are the major financial ratios of the Company for the year ended December 31, 2014 and year ended December 31, 2013:

	2014	2013	Y14 vs Y13
Current Ratio <sup>1</sup>	71.9:1	79.6:1	(10%)
Debt to Equity Ratio <sup>2</sup>	0.02:1	0.01:1	(100%)
Return on Equity <sup>3</sup>	(1%)	(2%)	50%
EBITDA Margin	(31%)	(63%)	51%
Net Income margin	(14%)	(47%)	70%

#### *Updates on Subsidiary - ScopeWorks Asia, Inc.*

The following table shows ScopeWorks financial performance as at December 31, 2014 and 2013:

<i>In Php'000, except percentage</i>	2014	2013	Y14 vs Y13
Service Income	145,969	136,517	7%
Gross Profit	18,321	12,563	46%
EBITDA	5,938	11,304	(47%)
Income from operations	3,725	5,651	(34%)
Net Income	3,109	5,533	(44%)

In spite of the 46% or ₱5.8 million improvement in the Gross Profit, the overall Net Income decreased by 44% or ₱2.4 million as compared to prior year mainly due to increased personnel costs for support employees and one-off expenditures to improve facilities and equipment of SWA.

#### *Updates on Subsidiary - Paxys Global Services, Inc.*

The revenue contracts of PGS were terminated in April 2014, which resulted to an overall drop in the financial performance of the company. As of 31 December 2014, PGS resulted in a net loss of ₱562k or a 107% reversal or decrease as compared to prior year's net income.

<i>In Php'000, except percentage</i>	2014	2013	Y14 vs Y13
Service Income	4,540	21,778	(79%)
Gross Profit	1,627	12,017	(86%)
EBITDA	2,293	9,948	(77%)
Income (loss) from operations	(518)	8,494	(106%)
Net Income(loss)	(562)	8,510	(107%)

There are no plans to liquidate the company and Management is continuously seeking for new business opportunities.

#### *Others Matters*

In general, there are no material known trends, demands, commitments, events, transactions, arrangements or items of, by or involving the Company that would require a disclosure pursuant to Part III (A)(2)(A)(i) to (vii) of "Annex C" of the Implementing Rules and Regulations Code, to wit:

1. There are no known trends or any demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's liquidity increasing or decreasing in any material way. The Company does not anticipate any cash flow or liquidity problems within the next 12 months. As discussed in the Management's Discussion and Analysis of Financial Conditions and Results of Operations above, Management believes that the current

<sup>1</sup> Current Assets/Current Liabilities

<sup>2</sup> Total Liabilities/Total Stockholders' Equity

<sup>3</sup> Net Income/[(Equity end + Equity beg - Net Income)/2]

level of cash generated from Operations and borrowing capability are sufficient to meet the Company's immediate cash needs.

2. There are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
3. There were no material commitments for expansion or capital expenditures as of reporting period.
4. There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons during the reporting period.
5. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Conditions and Results of Operations.
6. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or an unfavorable impact on net sales or revenue or income from continuing operation.
7. The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".
8. The effects of seasonality or cyclicity on the operations of the Company's business are not material.
9. 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.

## **Compliance with Corporate Governance Practices**

The Board of Directors and management, employees and shareholders of Paxys, Inc. firmly believe that good corporate governance is a key component of what constitutes sound strategic business management that will support its pursuit of sustainable long-term shareholder value. Our approach to governance is predicated on the belief that good governance is closely linked to the creation of long term shareholder value. The basic structures for the company's corporate governance are primarily contained in its Articles of Incorporation and By-laws, Manual on Corporate Governance and its Code of Ethics. The Board recognizes that it is accountable to the company's shareholders for good governance.

The Company continues to have four (4) Board Committees namely the Executive Committee, the Audit and Risk Management Committee, the Nominations Committee and the Compensation and Remuneration Committee. The Audit and Risk Management Committee, in keeping with regulatory requirements, has updated its Committee Evaluation and Rating System in 2012. Upon review of its charter and evaluation of its performance based on defined rating system, the Committee in 2012 assessed its performance to be satisfactory, able to engage the Board, management and other stakeholders in risk management, control and governance processes to bring about a positive impact while furthering the goals of the company.

Management and the Board continues to assess the company's risks and implements measures to curb and address its exposures while at the same time optimizing opportunities relative to these risks. The Company monetized several investments in 2012. The Company's strong liquidity allows it financial flexibility and prepared for future growth and business opportunities. Henceforth, the Company's Directors and management believes it has adequate resources to continue in operation and as such continue to adopt a going concern basis for the annual report.

Republic of the Philippines )  
Makati City ) S.S.

### UNDERTAKING

I, **ANA MARIA A. KATIGBAK**, of legal age, Filipino citizen, with office address at The Valero Tower, 122 Valero Street, Salcedo Village, Makati City, Philippines, after having been sworn under oath in accordance with law hereby depose and state that:

1. I am the Assistant Corporate Secretary of **PAXYS, INC.** (the "Company"), a corporation duly organized under Philippine law with principal office at 15<sup>th</sup> Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines;
2. I hereby undertake on behalf of the Company to submit to the Securities and Exchange Commission ("SEC") the Company's 3<sup>rd</sup> Quarter Report (SEC Form 17-Q) for 2017 and upload the same to the Company's website ([www.paxys.com](http://www.paxys.com)) once it becomes available. Copies of the report will also be distributed to the stockholders on or before the Annual Stockholders' Meeting on 6 December 2017; and
3. I am executing this Affidavit to attest to the truth of the foregoing and for whatever legal purpose it may serve.

**IN WITNESS WHEREOF**, I have signed this Affidavit on this SEP 22 2017 at Makati City.

  
**ANA MARIA A. KATIGBAK**  
Affiant

**SUBSCRIBED AND SWORN** on this SEP 22 2017 at MAKATI CITY affiant exhibiting to me the following competent evidence of identity:

Name	Competent Evidence of Identity	
	Type of ID and Number	Date and Place of Issue
Ana Maria A. Katigbak	Philippine Passport No. P1893381A	Issued on 7 February 2017 by DFA Manila which expires on 6 February 2022

Doc. No. 377 ;  
Page No. 68 ;  
Book No. VI ;  
Series of 2017.



  
**MA. FELORA A. MANGAWANG**  
Appointment No. M-438  
Notary Public for Makati City  
Until December 31, 2018  
Castillo Laman Tan Pantaleon  
& San Jose Law Firm  
The Valero Tower, 122 Valero Street  
Salcedo Village, Makati City  
PTR No. 5908597;01-03-2017; Makati City  
IBP Lifetime No. 013749;04-15-2015; Makati City Chapter  
Roll No. 64804



Republic of the Philippines )  
Makati City ) S.S.

**CERTIFICATION**

I, **ANA MARIA A. KATIGBAK**, of legal age, Filipino citizen, with office address at The Valero Tower, 122 Valero Street, Salcedo Village, Makati City, Philippines, after having been sworn under oath in accordance with law, hereby depose and state that:

1. I am the Assistant Corporate Secretary of **PAXYS, INC.** (the "Company"), a corporation duly organized under Philippine law with principal office at the 15<sup>th</sup> Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines;
2. I hereby certify that based on information provided to me, none of the following directors and officers of the Company, as of the date of this certification, are employed by nor work for the Philippine Government:
  - a) Tarcisio M. Medalla
  - b) Roger Leo A. Cariño
  - c) Christopher B. Maldia
  - d) Lim Ghee Keong
  - e) Roberto A. Atendido
  - f) Jose Antonio A. Lichauco
  - g) George Y. Sycip
  - h) Sivam Kandavanam
  - i) Mayette H. Tapia
  - j) Ana Maria A. Katigbak
3. I have executed this certification to attest to the truth of the foregoing facts as required by the Securities and Exchange Commission.

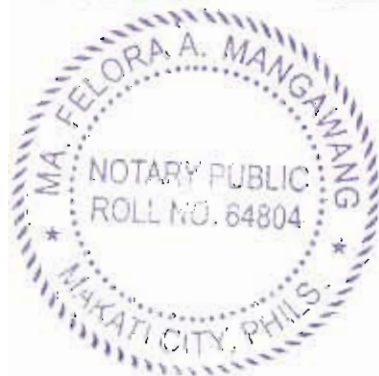
**IN WITNESS WHEREOF**, I have signed this Affidavit on this SEP 27 2017 at Makati City.

*ana maria a. katigbak*  
**ANA MARIA A. KATIGBAK**  
*Affiant*

**SUBSCRIBED AND SWORN** on this SEP 27 2017 at MAKATI CITY affiant exhibiting to me the following competent evidence of identity:

Name	Competent Evidence of Identity	
	Type of ID and Number	Date and Place of Issue
Ana Maria A. Katigbak	Philippine Passport No. P1893381A	Issued on 7 February 2017 by DFA Manila which expires on 6 February 2022

Doc. No. 325;  
Page No. 68;  
Book No. VI;  
Series of 2017.



*Felora A. Mangawang*  
**MA FELORA A. MANGAWANG**  
Appointment No. M-438  
Notary Public for Makati City  
Until December 31, 2018  
Castillo Laman Tan Pantaleon  
& San Jose Law Firm  
The Valero Tower, 122 Valero Street  
Salcedo Village, Makati City  
PTR No. 5908597;01-03-2017; Makati City  
Lifetime No. 013749;04-15-2015; Makati City Chamber of Commerce  
Roll No. 64804

Republic of the Philippines )  
Makati City ) S.S.

**UNDERTAKING**

I, **ANA MARIA A. KATIGBAK**, of legal age, Filipino citizen, with office address at The Valero Tower, 122 Valero Street, Salcedo Village, Makati City, Philippines, after having been sworn under oath in accordance with law hereby depose and state that:

1. I am the Assistant Corporate Secretary of **PAXYS, INC.** (the "Company"), a corporation duly organized under Philippine law with principal office at the 15<sup>th</sup> Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines;
2. On behalf of the Company, I hereby undertake to submit to the Securities and Exchange Commission the Company's Certification on the qualifications and disqualifications of its independent directors within thirty (30) days after the Company's annual shareholders' meeting; and
3. I have executed the foregoing to confirm the Company's undertaking as required by the Securities and Exchange Commission.

**IN WITNESS WHEREOF**, I have signed this Affidavit on this SEP 22 2017 at Makati City.

  
**ANA MARIA A. KATIGBAK**  
Affiant

**SUBSCRIBED AND SWORN** on this SEP 27 2017 at MAKATI CITY affiant exhibiting to me the following competent evidence of identity:

Name	Competent Evidence of Identity	
	Type of ID and Number	Date and Place of Issue
Ana Maria A. Katigbak	Philippine Passport No. P1893381A	Issued on 7 February 2017 by DFA Manila which expires on 6 February 2022

Doc. No. 734;  
Page No. 48;  
Book No. VI;  
Series of 2017.



  
**MA. FELORA A. MANGAWANG**  
Appointment No. M-438  
Notary Public for Makati City  
Until December 31, 2018  
Castillo Laman Tan Pantaleon  
& San Jose Law Firm  
The Valero Tower, 122 Valero Street  
Salcedo Village, Makati City  
PTR No. 5908597;01-03-2017; Makati City  
IRP Lifetime No. 013749;04-15-2015; Makati City Chapter  
Roll No. 64804

## Paxys, Inc. and Subsidiaries

Consolidated Financial Statements  
December 31, 2016, 2015 and 2014

With independent auditor's report provided by



**REYES TACANDONG & CO.**  
FIRM PRINCIPLES WISE SOLUTIONS

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of **Paxys, Inc. and Subsidiaries** (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, including the schedules attached therein, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements, including the schedules attached therein, and submits the same to the stockholders.

**Reyes Tacandong & Co.**, the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
\_\_\_\_\_  
**Tarcisio M. Medalla**  
Chairman of the Board and President

  
\_\_\_\_\_  
**Pablito O. Lim**  
Chief Financial Officer

Signed this 20<sup>th</sup> day of March 2017

APR 06 2017  
SUBSCRIBED AND SWORN TO BEFORE ME THIS \_\_\_\_\_  
AT \_\_\_\_\_ AFFIANT EXHIBITED TO ME HIS/HER  
ID No. \_\_\_\_\_  
**MAKATI CITY**

LOC. NO. 495  
PAGE NO. 106  
BLK. NO. 60  
SERIES OF 20 18

  
**ATTY. VIRGILIO R. BATALLA**  
NOTARY PUBLIC FOR MAKATI CITY  
APPL. NO. M-88  
UNTIL DEC. 31, 2018  
ROLL OF ATTY. NO. 48348  
MCLE COMPLIANCE NO. W-0016333-1/10/13  
I.B.P.O.R. No. 78674, REG. TIME MEMBER JAN 29, 2007  
FOR US 120-60-83 JAN. 3, 2017  
EXECUTIVE BLDG. CENTER  
MAKATI AVE. COR., JUPITER ST. MAKATI CITY



**REPORT OF INDEPENDENT AUDITOR  
TO ACCOMPANY CONSOLIDATED FINANCIAL STATEMENTS FOR FILING WITH THE  
SECURITIES AND EXCHANGE COMMISSION**

The Stockholders and the Board of Directors  
Paxys, Inc.  
15th Floor, 6750 Ayala Office Tower  
Ayala Avenue, Makati City

We have audited the consolidated financial statements of Paxys, Inc. (the Company) and Subsidiaries as at and for the year ended December 31, 2016, on which we have rendered our report dated March 20, 2017.

In compliance with the Securities Regulation Code Rule 68, as amended, we are stating that the Company has 499 stockholders owning 100 or more shares each.

**REYES TACANDONG & Co.**

**HAYDEE M. REYES**

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 0563-AR-2 Group A

Valid until April 14, 2017

BIR Accreditation No. 08-005144-6-2017

Valid until January 13, 2020

PTR No. 5908527

Issued January 3, 2017, Makati City

March 20, 2017  
Makati City, Metro Manila





## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Paxys, Inc.  
15th Floor, 6750 Ayala Office Tower  
Ayala Avenue, Makati City

### *Opinion*

We have audited the accompanying consolidated financial statements of Paxys, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016 and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audits of the consolidated financial statements of the current year. These matters were addressed in the context of our audits of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Group has significant amount of financial assets, which consist of cash equivalents, available-for-sale financial assets and held-to-maturity investments. This is significant to our audit because the aggregate balance of financial assets amounting to ₱3,608.2 million as at December 31, 2016 is substantial in relation to the consolidated financial statements as a whole.





We have assessed the propriety of recognition, classification and measurement, as well as management's assessment of impairment of financial assets.

*Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified in the foregoing when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

*Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

*Auditor's Responsibility for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, these could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.





As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the subsidiaries or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.







From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore considered the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Haydee M. Reyes.

REYES TACANDONG & Co.

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 0663-AR-2 Group A

Valid until April 14, 2017

BIR Accreditation No. 08-005144-6-2017

Valid until January 13, 2020

PTR No. 5908527

Issued January 3, 2017, Makati City

March 20, 2017

Makati City, Metro Manila



**PAXYS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*Amounts in Thousands*

		December 31	
	Note	2016	2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	R2,856,866	R2,980,255
Available-for-sale financial assets	6	231,560	380,061
Trade and other receivables	7	45,122	71,342
Held-to-maturity investments	6	581,388	135,905
Other current assets	8	13,504	11,602
Total Current Assets		3,728,440	3,579,165
<b>Noncurrent Assets</b>			
Property and equipment	10	2,340	2,970
Intangible assets	11	718	1,160
Other noncurrent assets	12	11,435	11,907
Total Noncurrent Assets		14,493	16,037
		R3,742,933	R3,595,202
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	13	R33,644	R44,565
Income tax payable		586	445
Total Current Liabilities		34,230	45,010
<b>Noncurrent Liabilities</b>			
Retirement liability	14	5,258	6,184
Refundable deposit	23	-	605
Total Noncurrent Liabilities		5,258	6,789
Total Liabilities		39,488	51,799
<b>Equity</b>			
Capital stock	15	1,148,535	1,148,535
Additional paid-in capital		451,364	451,364
Parent shares held by a subsidiary		(1,149,886)	(1,149,886)
Other equity reserves		386,158	237,946
Retained earnings		2,867,274	2,855,444
Total Equity		3,703,445	3,543,403
		R3,742,933	R3,595,202

See accompanying notes to consolidated financial statements.



**PAXYS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*Amounts in Thousands, except Basic/Diluted Loss per Share Data*

	Note	Years Ended December 31		
		2016	2015	2014
SERVICE INCOME		P92,073	P134,700	P150,509
COST OF SERVICES	17	(79,815)	(118,933)	(132,527)
GROSS PROFIT		12,258	15,767	17,982
GENERAL AND ADMINISTRATIVE EXPENSES	18	(77,328)	(79,608)	(84,727)
INTEREST INCOME	5	66,766	43,253	38,850
NET FOREIGN EXCHANGE GAIN (LOSS)		5,135	4,083	(3,336)
OTHER INCOME - Net	20	10,790	8,170	14,020
INCOME (LOSS) BEFORE INCOME TAX		17,621	(8,335)	(17,211)
CURRENT INCOME TAX EXPENSE	21	5,791	4,234	3,638
NET INCOME (LOSS)		11,830	(12,569)	(20,849)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Items to be reclassified to profit or loss</i>				
Translation gain		136,858	118,402	19,147
Net unrealized gain (loss) on fair value changes of available-for-sale financial assets	6	10,118	(4,404)	1,306
<i>Item not to be reclassified to profit or loss</i>				
Remeasurement gain (loss) on retirement liability	14	1,236	3,430	(1,180)
		148,212	117,428	19,273
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>P160,042</b>	<b>P104,859</b>	<b>(P1,576)</b>
<b>BASIC/DILUTED EARNINGS (LOSS) PER SHARE</b>	22	<b>P0.01</b>	<b>(P0.02)</b>	<b>(P0.03)</b>

*See accompanying Notes to Consolidated Financial Statements.*

**PAXYS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
*Amounts in Thousands*

	Note	Years Ended December 31		
		2016	2015	2014
<b>CAPITAL STOCK</b>				
	15			
Balance at beginning of year		₱1,148,535	₱1,148,535	₱1,071,773
Collection of subscription receivable		-	-	76,660
Reclassification		-	-	102
Balance at end of year		<u>1,148,535</u>	<u>1,148,535</u>	<u>1,148,535</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>				
Balance at beginning and end of year	15	451,364	451,364	451,364
<b>PARENT SHARES HELD BY A SUBSIDIARY</b>				
	15			
Balance at beginning of year		(1,149,886)	(1,149,886)	-
Purchase by a subsidiary		-	-	(1,149,886)
Balance at end of year		<u>(1,149,886)</u>	<u>(1,149,886)</u>	<u>(1,149,886)</u>
<b>OTHER EQUITY RESERVES</b>				
<b>Cumulative Translation Adjustment</b>				
Balance at beginning of year		237,969	119,567	100,420
Translation gain		136,858	118,402	19,147
Balance at end of year		<u>374,827</u>	<u>237,969</u>	<u>119,567</u>
<b>Fair Value Changes of Available-for-sale</b>				
<b>Financial Assets</b>				
	6			
Balance at beginning of year		(2,298)	2,106	800
Net unrealized gain (loss)		10,118	(4,404)	1,306
Balance at end of year		<u>7,820</u>	<u>(2,298)</u>	<u>2,106</u>
<b>Cumulative Remeasurement Gain (Loss)</b>				
<b>on Retirement Liability</b>				
	14			
Balance at beginning of year		2,275	(1,155)	25
Remeasurement gain (loss)		1,236	3,430	(1,180)
Balance at end of year		<u>3,511</u>	<u>2,275</u>	<u>(1,155)</u>
		<u>386,158</u>	<u>237,946</u>	<u>120,518</u>
<b>RETAINED EARNINGS</b>				
	15			
Balance at beginning of year		2,855,444	2,868,013	2,888,862
Net income (loss)		11,830	(12,569)	(20,849)
Balance at end of year		<u>2,867,274</u>	<u>2,855,444</u>	<u>2,868,013</u>
		<u>₱3,703,445</u>	<u>₱3,543,403</u>	<u>₱3,438,544</u>

See accompanying Notes to Consolidated Financial Statements.

**PAXYS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*Amounts in Thousands*

	Note	Years Ended December 31		
		2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income (loss) before income tax		P17,621	(P8,335)	(P17,211)
Adjustments for:				
Interest income	5	(66,766)	(43,253)	(38,850)
Provision for impairment losses on:				
Trade and other receivables	18	15,228	10,576	9,768
Input value-added tax	18	1,127	2,448	1,729
Reversal of payables	20	(10,166)	–	(760)
Net unrealized foreign exchange gain		(5,135)	(4,083)	(8,496)
Write-off of nontrade receivable	20	4,566	–	–
Gain on redemption of available-for-sale financial assets	20	(2,798)	(900)	–
Depreciation and amortization	10	2,118	4,493	9,732
Net retirement benefits (curtailment gain)	14	381	(905)	2,103
Gain on disposal of property and equipment	20	–	(982)	(1,873)
Operating loss before working capital changes		(43,824)	(40,941)	(43,858)
Decrease (increase) in:				
Trade and other receivables		3,297	5,275	169,724
Other current assets		(3,029)	(5,203)	(5,117)
Other noncurrent assets		472	(37)	(1,883)
Decrease in:				
Trade and other payables		(755)	(3,150)	(8,043)
Refundable deposit		(605)	–	–
Net cash generated from (used for) operations		(44,444)	(44,056)	110,823
Interest received		69,895	31,913	35,708
Income taxes paid		(5,650)	(4,454)	(835)
Retirement benefits paid	14	(71)	–	–
Net cash provided by (used in) operating activities		19,730	(16,597)	145,696
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to:				
Held-to-maturity investments		(706,432)	(135,905)	–
Intangible assets	11	(602)	(188)	(969)
Property and equipment	10	(444)	(1,039)	(2,921)
Available-for-sale financial assets		–	(248,200)	–
Proceeds from:				
Redemption of:				
Held-to-maturity investments	6	260,949	–	–
Available-for-sale financial assets	6	161,417	50,990	–
Disposal of property and equipment		–	982	2,042
Net cash used in investing activities		(285,112)	(333,360)	(1,848)

(Forward)

	Note	Years Ended December 31		
		2016	2015	2014
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Purchase of Parent shares by a subsidiary	15	R-	R-	(R1,107,646)
Collection of subscriptions receivable	15	-	-	34,420
Net cash used in financing activities		-	-	(1,073,226)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(265,382)</b>	<b>(349,957)</b>	<b>(929,378)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		<b>141,993</b>	<b>122,487</b>	<b>30,004</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>2,980,255</b>	<b>3,207,725</b>	<b>4,107,099</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>5</b>	<b>R2,856,866</b>	<b>R2,980,255</b>	<b>R3,207,725</b>

See accompanying Notes to Consolidated Financial Statements.

**PAXYS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Corporate Information**

Paxys, Inc. (“Paxys” or the “Parent Company”) is an investment holding company incorporated in the Philippines and listed (stock symbol: PAX) on the Philippine Stock Exchange (PSE). The Company was formerly known as Fil-Hispano Holdings Corporation and registered with the Philippine Securities and Exchange Commission (SEC) on February 14, 1952. The corporate life of the Company was extended for another 50 years until February 14, 2052.

As at December 31, 2016 and 2015, the major shareholders of the Company are All Asia Customer Services Holdings Ltd (AACSHL), a separately-held company incorporated in Hong Kong, and Paxys N.V., a wholly owned subsidiary of the Parent Company, with 54.93% and 30.09% equity interest, respectively, in the Parent Company.

At present, Scopeworks Asia, Inc. (SWA), the operating subsidiary, provides general transcription, data conversion, contact center and back office outsourcing services (see Note 2).

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

The registered office address of the Parent Company is at 15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City.

Approval of the Consolidated Financial Statements

The accompanying consolidated financial statements as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 were approved and authorized for issue by the Board of Directors (BOD) on March 20, 2017.

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council (FRSC) and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and the SEC provisions.

Measurement Bases

The consolidated financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Parent Company. All amounts are rounded to the nearest thousands, unless otherwise stated.

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for an asset.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured and/or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active market for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as discussed in the foregoing.

Information about the assumptions made in measuring fair value is included in the following notes to consolidated financial statements:

- Note 3 - Significant Judgments, Accounting Estimates and Assumptions
- Note 24 - Financial Instruments

#### **Adoption of New and Amended PFRS**

The accounting policies adopted are consistent with those of the previous years, except for the following new and amended PFRS that the Group adopted effective January 1, 2016.

- Amendment to PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts* – The amendment adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.
- Amendments to PFRS 10, IFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28 - *Investment Entities: Applying the Consolidation Exception* – The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* – The amendments require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in PFRS 3) to apply all of the business combinations accounting principles and disclosure in PFRS 3 and other PFRS, except for those principles that conflict with the guidance in PFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).



- Amendments to PAS 1, *Presentation of Financial Statements: Disclosure Initiative* – The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
- Amendments to PAS 16, *Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Amortization* – The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. However, these presumptions can be rebutted in certain limited circumstances.
- Amendments to PAS 19, *Employee Benefits - Discount Rate: Regional Market Issue* – The amendment clarifies that in determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where the liabilities arise. Thus, the assessment of whether there is a deep market in high quality corporate bonds is based on corporate bonds in that currency (not corporate bonds in a particular country), and in the absence of a deep market in high quality corporate bonds in that currency, government bond in the relevant currency should be used.
- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* – The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

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

#### **New and Amended PFRS Not Yet Adopted**

Relevant new and amended PFRS, which are not yet effective for the year ended December 31, 2016 and have not been applied in preparing the consolidated financial statements, are summarized below.

Effective for annual periods beginning on or after 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.

Effective for annual periods beginning on or after 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 their classification by reference to the business model within which these 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 no longer be necessary to have an 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 amended 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 accounts of the Parent Company and its subsidiaries, which it controls as at December 31 of each year. The Parent Company has control when it is exposed, or has right, to variable returns from its investment with the investee and it has the ability to affect those returns through its powers over the investee.

The wholly owned subsidiaries of the Parent Company are as follows:

	Line of Business	Principal Place of Business
Paxys N.V.	Investment holding	Curacao
Paxys Ltd.	Investment holding	Hong Kong
SWA	Data conversion	Philippines
Paxys Global Services, Inc. (PGS)*	Business process outsourcing	Philippines
Paxys Global Services Pte. Ltd. (PGSPL)*	Business process outsourcing	Singapore
Regional Operating Headquarters of PGSPL (PGS ROHQ)*	Shared services	Philippines

\* PGS and PGSPL (including PGS ROHQ) are currently not in operations.

Each entity determines its own functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity, and items include in the financial statements of each entity are measured using that functional currency.

The functional currency of all the subsidiaries, except Paxys N.V. and Paxys Ltd., is the Philippine Peso. The functional currency of Paxys N.V. and Paxys Ltd. is the United States Dollar (US\$). As at reporting date, the assets and liabilities of Paxys N.V. and Paxys Ltd. are translated into the functional and presentation currency of the Parent Company (the Philippine Peso) at the rate of exchange ruling at financial reporting date and, the profit and loss are translated at the average exchange rate for the year. The exchange differences arising on the translation are taken directly to "Cumulative translation adjustment," a separate component of equity included as part of "Other equity reserves".

Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Parent Company obtains control, and continue to be consolidated until the date such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Changes in the controlling equity ownership (i.e., acquisition of non-controlling interest or partial disposal of equity interest over a subsidiary) that do not result in a loss of control are accounted for as equity transactions.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; or
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position
- Recognizes any investment retained in the former subsidiary when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant PFRS. The remaining equity interest is remeasured and the remeasured value is regarded as the fair value on initial recognition of a financial asset, when appropriate, the cost on initial recognition of an investment in an associate or joint venture
- Recognizes the gain or loss associated with the loss of control attributable to the former controlling interest.

#### **Business Combinations and Goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are recognized as expense.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured. Subsequent settlement is accounted for within equity. In instance where the contingent consideration does not fall within the scope of PAS 39, it is measured in accordance with the appropriate PFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss. If the initial accounting for business combination can be determined only provisionally by the end of the year by which the

combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts the combination using provisional values. Adjustments to these provisional values as a result of completing the initial accounting should be made within 12 months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting should be calculated as if its fair value at the acquisition date had been recognized from that date and goodwill or any gain recognized should be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### **Financial Assets and Liabilities**

*Date of Recognition.* Financial assets and liabilities are recognized in the consolidated 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 assets and liabilities 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, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities.

The classification of financial instruments depends on the purpose for which these were acquired and whether these are quoted in an active market. The Group determines the classification of the financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group does not have financial instruments classified as financial assets or liabilities at FVPL as at December 31, 2016 and 2015.

*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 any impairment. 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 recognized in profit or loss.

Investments in bonds are classified under this category.

*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 earnings recognized in profit or loss, and are recognized as other comprehensive income 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 recognized 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 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 debt and equity investments as AFS financial assets.

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any allowance for impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" in profit or loss on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization, included as part of "Interest income," is recognized in profit or loss. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

Cash in banks, cash equivalents, trade and other receivables and rental and security deposits (included in "Other noncurrent assets" account in the consolidated statement of financial position) are classified as loans and receivables.

Cash and cash equivalents include cash on hand, cash in banks and cash equivalents with original maturities of three months or less from the date of acquisition.

Trade and other receivables include trade receivables, due from related parties, nontrade receivables and other receivables.

*Other Financial Liabilities.* Other financial liabilities pertain to financial liabilities that are not held for trading and are not designated at FVPL upon the inception of the liability. These include liabilities arising from operating and financing activities.

The Group has classified trade and other payables (excluding statutory liabilities) and other noncurrent liabilities as other financial liabilities at amortized cost.

#### **Impairment of Financial Assets**

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

##### **a. Financial assets carried at amortized cost**

If there is objective evidence that an impairment loss on loans and receivables and HTM investments has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, or the increasing probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment. The impairment assessment is performed at the end of each reporting year. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Loans and receivables and HTM investments, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

b. AFS financial assets

For equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below their cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on the financial asset previously recognized in profit or loss, is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in the other comprehensive income presented in the consolidated statement of changes in equity.

**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 rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards 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 rewards 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.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Group could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

*Offsetting of Financial Instruments.* Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

#### Other Current Assets

Other current assets, which consist of input value-added tax (VAT) and prepaid expenses, are carried at face value.

*Prepaid Expenses.* Prepaid expenses are expenses paid in advance and recorded as assets before these are utilized. Prepaid expenses are apportioned over the period covered by the payment and recognized in profit or loss when incurred. Prepaid expenses that are expected to be realized within 12 months after the reporting year are classified as current assets. Otherwise, these are classified as other noncurrent assets.

*VAT.* Revenue, expenses and assets are recognized, net of the amount of VAT, except where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority.

The net amount of VAT recoverable from the tax authority is included as part of "Other current assets" in the consolidated statement of financial position.

### **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 may be 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.

### **Property and Equipment**

Property and equipment are carried at historical cost less accumulated depreciation, amortization and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the asset, including borrowing costs on qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged to profit or loss in the year incurred.

Major renovations that qualify for capitalization are depreciated and amortized over the remaining useful life of the related asset or up to the date of the next major renovation, whichever is shorter.

Depreciation and amortization are calculated using the straight-line method to allocate the cost over the estimated useful lives of the assets 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

Depreciation and amortization commence when an asset is in its location or condition capable of being operated in the manner intended by management. Depreciation and amortization cease at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The assets' estimated useful lives and depreciation and amortization method are reviewed, and adjusted if appropriate, periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

Fully depreciated property and equipment are retained in the books until these are no longer being used in the operations.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation, amortization and any impairment are derecognized. Gains and losses on disposals or retirement are determined by comparing the proceeds with the carrying amount of the assets and are recognized in profit or loss.

#### **Intangible Assets**

Intangible assets are composed of the website and software packages.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and are recognized in profit or loss in the year in which the expenditures are incurred.

Intangible assets are amortized over the estimated economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets with finite lives are amortized over three to five years.

Intangible assets with indefinite useful lives are not amortized, but are assessed for impairment annually either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in economic life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

#### **Impairment of Nonfinancial Assets**

The carrying amount of investments in joint ventures, property and equipment, intangible assets and other nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell

and value-in-use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Nonfinancial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized. After such a reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount on a systematic basis over its remaining estimated useful lives.

### **Equity**

*Capital Stock.* 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.

*Additional Paid-in Capital.* Additional paid-in capital includes any premium received in the initial issuances of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of tax.

*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 tax effect, is included in equity.

*Retained Earnings.* Retained earnings represent the cumulative balance of net income or loss, dividend distributions, effects of the changes in accounting policy and other capital adjustments.

### **Other Comprehensive Income (Loss)**

Other comprehensive income (loss) comprise items of income and expenses (including items previously presented as other equity reserves under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year. Other comprehensive income (loss), which are presented as "Other equity reserves," includes cumulative translation adjustment, fair value changes on AFS financial assets and cumulative remeasurement gain or loss on retirement liability.

### **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 Group 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.

*Other Income.* Revenue is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Group.

#### **Cost and Expense Recognition**

Costs and expenses are decreases in economic benefits during the year in the form of outflows, decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

*Cost of Services.* Costs of services are recognized as expense when the related services are rendered.

*General and Administrative Expenses.* General and administrative expenses constitute cost of administering the business and cost incurred to sell and market the services. These expenses are recognized in profit or loss as incurred.

#### **Employee Benefits**

*Short-term Benefits.* The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the year. Short-term 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 by a qualified actuary.

The Group recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements; and interest cost or income in profit or loss. Net interest is calculated by applying the discount rate to the retirement liability or asset.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment; and the date that the Group recognizes restructuring-related costs.

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.

Remeasurements of the retirement liability, which comprise actuarial gains and losses, are recognized immediately in other comprehensive income.

The retirement liability 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.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

#### Leases

The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception on the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is substantial change to the asset.

Where a reassessment is made, lease accounting commences or ceases from the date when the change in circumstances gave rise to reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Leases where a significant portion of the risks and benefits of ownership over the leased properties are retained by the lessor, are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the period of the lease.

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

*The Group as a Lessee.* Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease terms.

#### Foreign Currencies

*Transactions and Balances.* Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item

*Foreign Operations.* The assets and liabilities of foreign operations are translated into Philippine Peso at the rate of exchange ruling at financial reporting date and, the profit and loss amounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to "Cumulative translation adjustment," a separate component of equity included as part of "Other equity reserves". Upon disposal of a foreign operation, the cumulative translation adjustment relating to that particular foreign operation is recognized in profit or loss.

### Income Taxes

*Current Tax.* Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting year.

*Deferred Tax.* Deferred tax is provided on all temporary differences at the end of reporting year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax liability is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss. Also, deferred tax liabilities are not provided on taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures when the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits (excess of minimum corporate income taxes or MCIT over regular corporate income taxes or RCIT) and unused tax losses (net operating loss carryover or NOLCO), to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at the end of each reporting year and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the end of reporting year.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off the deferred tax assets against the deferred tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax relating to items recognized outside profit or loss (either in other comprehensive income or directly in equity) is recognized outside profit or loss (either in other comprehensive income or directly in equity).

#### **Related Party Relationship and Transactions**

Related party transactions consist of transfers of resources, services or obligations between the Group and its related parties.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals who, by owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on legal form.

#### **Earnings (Loss) per Share**

The Group presents basic and diluted earnings (loss) per share. Basic and diluted earnings (loss) per share is calculated by dividing the net income (loss) by the weighted average number of common shares outstanding during the year, excluding parent shares held by a subsidiary.

There are no potential dilutive common shares.

#### **Segment Reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. The operating results of an operating segment are reviewed regularly by the chief operating decision maker, which is defined to be the Parent Company's BOD, to determine the resources to be allocated to the segment and assess its performance, and for which financial information is available.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property and equipment and intangible assets other than goodwill.

#### **Provisions and Contingencies**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.



Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

#### **Events after the Reporting Year**

Post year-end events that provide additional information about the Group's financial position at the end of reporting year (adjusting events) are reflected in the consolidated financial statements when material. Post year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements, when material.

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

The preparation of the consolidated financial statements requires the Group to exercise judgment, make estimates and use assumptions that affect the reported amounts of assets, liabilities, income, expenses and related disclosures. The Group makes estimates and uses assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as these become reasonably determinable.

Judgments, estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group believes the following represent a summary of significant judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, as well as to the related revenues and expenses, within the next year, and related impact and associated risk in the consolidated financial statements.

#### **Judgments**

In the process of applying the Group's accounting policies, management exercises judgment on the following items, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements.

*Determining 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.

*Determining 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 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 (see Note 4).

*Recognizing Deferred Tax Liability 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. Unrecognized deferred tax liability on undistributed income of a foreign subsidiary amounted to ₺883.8 million and ₺872.4 million as at December 31, 2016 and 2015, respectively (see Note 21).

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

The Group, as a lessor, has sublease agreements with third parties over its office space, where it has determined that the risks and benefits over the ownership of the properties are retained by the Group. Accordingly, these lease agreements are accounted for as operating leases.

Rent income included under "Other income" account amounted to ₺1.3 million, ₺6.2 million and ₺10.0 million in 2016, 2015 and 2014, respectively (see Note 23).

The Group, as a lessee, has an existing lease agreement with a third party covering a warehouse and office space, where it has determined that the risks and benefits over the ownership of the leased properties are retained by the lessors. Accordingly, these lease agreements are accounted for as operating leases.

Rent expense amounted to ₺12.0 million, ₺15.6 million and ₺15.4 million in 2016, 2015 and 2014, respectively (see Note 23).

*Evaluating Contingencies.* The Group is involved in various labor disputes, litigations, claims and tax assessments in the normal course of 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 2016, 2015, and 2014. The Group has no outstanding provision for probable losses as at December 31, 2016 and 2015.

### **Estimates and Assumptions**

The key assumptions concerning future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when these occur.

*Determining Fair Value of Financial Instruments.* Certain financial assets and liabilities are carried at fair value. When the fair values of financial assets and liabilities recorded in the consolidated statements of financial position cannot be measured based on quoted prices in active market, their fair value is measured using valuation techniques including the Discounted Cash Flow model. The inputs to this model are taken from observable market where possible, but where this is not feasible, a degree of judgment is 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.

Fair values of financial assets and liabilities are presented in Note 24.

*Assessing Impairment of AFS Financial Assets.* The Group determines when an asset is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the financial health and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

The Group considers AFS financial asset as impaired when there has been a significant or prolonged decline in the fair value below its costs or where there are objective evidence that impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group considers "significant" generally as 20% or more of the original cost of investments, and "prolonged" as greater than six months. In addition, the Group evaluates other factors including normal volatility in share prices for quoted securities and the future cash flows and discounted factors for unquoted securities. If assumptions are made regarding the duration and extent to which the fair value is less than cost, the Group would suffer an additional loss representing the write down of cost to its fair value.

No impairment losses were recognized for AFS financial assets in 2016, 2015 and 2014. AFS financial assets amounted to ₱231.6 million and ₱380.1 million as at December 31, 2016 and 2015, respectively (see Note 6).

*Assessing Impairment of HTM Investments.* The Group determines that HTM investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Group evaluates, among other factors, the future cash flows and the discount factor. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, dismal industry and sector performance, adverse changes in technology, and negative operational and financing cash flows.

No impairment losses on HTM investments were recognized in 2016, 2015 and 2014. The carrying amount of HTM investments amounted to ₱581.4 million and ₱135.9 million as at December 31, 2016 and 2015, respectively (see Note 6).

*Estimating Impairment Losses on Receivables.* The provision for impairment losses on receivables is estimated based on two methods. The amounts calculated using each of these methods are combined to determine the total amount of impairment losses to be recognized. First, specific accounts are evaluated based on information that certain customers may be unable to meet their financial obligations. In these cases, the Group applies judgment, in recording specific allowances against amounts due to reduce receivable amounts expected to be collected, based on the best available facts and circumstances, including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific allowances against amounts due to reduce receivable amounts expected to be collected. These specific allowances are re-evaluated and adjusted as additional information received impacts the amounts estimated. Second, a collective assessment of historical collection, write-off, experience and customer payment terms is determined. The amount and timing of recorded expenses for any year could therefore differ based on the judgments or estimates made. An increase in the Group's allowance for impairment losses on trade and other receivables would increase its recorded general and administrative expenses and decrease its current assets.

The carrying amount of trade and other receivables amounted to ₱45.1 million and ₱71.3 million as at December 31, 2016 and 2015, respectively (see Note 7). Allowance for impairment losses on receivables amounted to ₱78.7 million and ₱63.4 million as at December 31, 2016 and 2015, respectively (see Note 7).

*Assessing Impairment Losses on Input VAT.* The provision for impairment losses on input VAT is maintained at a level considered adequate to provide for potentially unrecoverable claims. The Group, on a continuing basis, makes a review of the status of the claims, designed to identify those to be provided with any impairment losses. In these cases, management uses judgment based on the best available facts and circumstances. The amount and timing of recorded expenses for any year would therefore differ based on the judgments or estimates made.

The carrying amount of input VAT amounted to ₱12.0 million and ₱9.9 million as at December 31, 2016 and 2015, respectively (see Note 8). Allowance for impairment losses on input VAT amounted to ₱48.9 million and ₱47.8 million as at December 31, 2016 and 2015, respectively (see Note 8).

*Estimating Useful Lives of Property and Equipment and Intangible Assets.* The estimated useful life of each of the items of property and equipment and intangible assets is estimated based on the year 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. The estimated useful life of each asset is reviewed at each financial year end and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A change in the estimated useful life on property and equipment and intangible assets would impact the recorded expenses and noncurrent assets.

There is no change in the estimated useful lives of property and equipment and intangible assets in 2016 and 2015.

The carrying amount of property and equipment and intangible assets are as follows:

	Note	2016	2015
Property and equipment	10	₱2,340	₱2,970
Intangible assets	11	718	1,160

*Assessing Impairment of Nonfinancial Assets.* The Group assesses at the end of each reporting year whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the Group estimates the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators. In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The carrying amount of nonfinancial assets that are subject to impairment assessment when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenue or other external indicators) are as follows:

	Note	2016	2015
Property and equipment	10	₱2,340	₱2,970
Intangible assets	11	718	1,160

*Determining Retirement Liability.* The determination of the cost of retirement benefits and related retirement liability is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. The assumptions, which include among others, discount rate and rate of salary increase are described in Note 14.

Actual results that differ from the assumptions are accumulated and are recognized as part of other comprehensive income. While management believes that the assumptions are reasonable and appropriate, significant differences in the Group's actual experience of significant changes in the assumptions may materially affect the retirement liability.

Retirement liability amounted to ₱5.3 million and ₱6.2 million as at December 31, 2016 and 2015, respectively (see Note 14). The net retirement benefits amounted to ₱0.4 million and ₱2.1 million in 2016 and 2014, respectively (see Note 14). Net retirement gain amounted to ₱0.9 million in 2015 (see Note 14).

*Assessing Realizability of Deferred Tax Assets.* The Group reviews the carrying amounts at the end of each reporting year and reduces the amount of deferred tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred tax assets as at December 31, 2016 and 2015 were not recognized because management believes that sufficient future taxable income may not be available against which the carry forward benefits of NOLCO, excess of MCIT over RCIT and other deductible temporary differences may be utilized. Unrecognized deferred tax assets amounted to ₱44.6 million and ₱45.8 million as at December 31, 2016 and 2015, respectively (see Note 21).

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#### 4. 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 market.

*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 intangible assets. Segment liabilities include all operating liabilities and consist principally of trade and other payables.

*Inter-segment Transactions.* Segment revenue, 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 Group is organized into business units based on the services rendered and has two 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.
- **Others** - This segment includes holding and investments, which consists of the Parent Company and Paxys N.V., and the financial information of the non-operating subsidiaries.

As a result of the cessation of operations of PGS in 2014, the Group changed the composition of its reportable segments to include the call center segment as part of other reportable segments. Accordingly, the Group changed the operating segment information as at and for the years ended December 31, 2015 and 2014.

### **Business Segment Information**

The following table presents the revenue and expenses and certain assets and liabilities information of the Group's business segments as at and for the years ended December 31, 2016, 2015 and 2014:

	2016			
	Data Conversion	Others	Eliminations	Consolidated
<b>Results of Operations</b>				
Revenue from external customers	P92,073	P-	P-	P92,073
Cost and expenses	(88,810)	(68,448)	115	(157,143)
Operating income (loss)	3,263	(68,448)	115	(65,070)
Interest income	250	66,516	-	66,766
Net foreign exchange gain	1,644	4,674	(1,183)	5,135
Other income - net	1,082	9,708	-	10,790
Income tax expense	(328)	(5,463)	-	(5,791)
<b>Net income (loss)</b>	<b>P5,911</b>	<b>P6,987</b>	<b>(P1,068)</b>	<b>P11,830</b>
<b>Assets and Liabilities</b>				
Assets	P57,829	P5,336,022	(P1,650,918)	P3,742,933
Liabilities	70,817	165,073	(196,402)	39,488
<b>Other Segment Information</b>				
Capital expenditures:				
Intangible assets	P495	P107	P-	P602
Property and equipment	305	139	-	444
Depreciation and amortization	1,418	700	-	2,118
<b>2015</b>				
	Data Conversion	Others	Eliminations	Consolidated
<b>Results of Operations</b>				
Revenue from external customers	P134,700	P-	P-	P134,700
Cost and expenses	(140,573)	(89,337)	31,369	(198,541)
Operating loss	(5,873)	(89,337)	31,369	(63,841)
Interest income	116	43,137	-	43,253
Net foreign exchange gain (loss)	1,469	3,192	(578)	4,083
Other income	6,020	82,250	(80,100)	8,170
Income tax expense	(461)	(3,773)	-	(4,234)
<b>Net income (loss)</b>	<b>P1,271</b>	<b>P35,469</b>	<b>(P49,309)</b>	<b>(P12,569)</b>
<b>Assets and Liabilities</b>				
Assets	P58,395	P5,187,257	(P1,650,558)	P3,595,202
Liabilities	78,147	170,955	(197,303)	51,799
<b>Other Segment Information</b>				
Capital expenditures:				
Property and equipment	P1,039	P-	P-	P1,039
Intangible assets	188	-	-	188
Depreciation and amortization	1,788	2,705	-	4,493
<b>2014</b>				
	Data Conversion	Others	Eliminations	Consolidated
<b>Results of Operations</b>				
Revenue from external customers	P145,969	P4,540	P-	P150,509
Cost and expenses	(154,804)	(62,523)	73	(217,254)
Operating loss	(8,835)	(57,983)	73	(66,745)
Interest income	50	38,800	-	38,850
Net foreign exchange gain (loss)	702	(7,386)	3,348	(3,336)
Other income	11,857	33,427	(31,264)	14,020
Income tax expense	(666)	(2,972)	-	(3,638)
<b>Net income (loss)</b>	<b>P3,108</b>	<b>P3,886</b>	<b>(P27,843)</b>	<b>(P20,849)</b>

	2016			
	Data Conversion	Others	Eliminations	Consolidated
<b>Assets and Liabilities</b>				
Assets	₱60,700	₱5,116,376	(₱1,679,030)	₱3,498,046
Liabilities	85,153	250,190	(275,841)	59,502
<b>Other Segment Information</b>				
Capital expenditures:				
Property and equipment	₱2,683	₱238	₱-	₱2,921
Intangible assets	565	404	-	969
Depreciation and amortization	2,213	7,519	-	9,732

The Data Conversion segment is managed and operated in the Philippines. Other reportable segments include Paxys N.V. funds, which are invested in corporate bonds and short-term deposits from various banks. Interest income from these investments amounted to ₱40.1 million, ₱24.6 million and ₱26.1 million in 2016, 2015 and 2014, respectively.

Inter-segment revenue and expenses are eliminated upon consolidation and reflected in the "Eliminations" column.

The revenue from transactions from each of its external customers accounting for 10.0% or more of the consolidated revenue from external customers pertain to revenue from services rendered to Nuance Communications Ireland Ltd. amounting to ₱92.1 million, ₱134.7 million and ₱146.0 million in 2016, 2015 and 2014, respectively.

## 5. Cash and Cash Equivalents

Cash and cash equivalents consists of:

	2016	2015
Cash on hand	₱55	₱55
Cash in banks	61,532	91,957
Cash equivalents	2,795,279	2,888,243
	<b>₱2,856,866</b>	<b>₱2,980,255</b>

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of up to 90 days depending on the immediate cash requirements of the Group. Cash equivalents earn interest at the short-term deposit rates.

Details of interest income are as follows:

	Note	2016	2015	2014
Cash and cash equivalents		₱53,603	₱39,396	₱38,653
HTM investments	6	8,462	3,009	-
AFS financial assets	6	4,701	848	-
Others		-	-	197
		<b>₱66,766</b>	<b>₱43,253</b>	<b>₱38,850</b>



## 6. AFS Financial Assets / HTM Investments

### AFS Financial Assets

This account consists of:

	2016	2015
Fixed income investment	P231,560	P278,983
Investments in Unit Investment Trust Fund (UITF)	-	101,078
	<b>P231,560</b>	<b>P380,061</b>

Fixed income investment consists of investment in funds managed by various international banks with absolute return investment strategies. Investments in UITF are managed by local banks.

The Group redeemed certain AFS financial assets with total redemption price of P161.4 million and P51.0 million in 2016 and 2015, respectively. The related gain on the redemption amounted to P2.8 million and P0.9 million in 2016 and 2015, respectively (see Note 20).

Details of the unrealized gain (loss) on fair value changes on AFS financial assets are as follows:

	2016	2015	2014
Balance at beginning of year	(P2,298)	P2,106	P800
Net unrealized gain (loss)	10,118	(4,404)	1,306
Balance at end of year	<b>P7,820</b>	<b>(P2,298)</b>	<b>P2,106</b>

Interest income on AFS investments amounted to P4.7 million and P0.8 million in 2016 and 2015, respectively (see Note 5).

### HTM Investments

As at December 31, 2016 and 2015, HTM investments pertaining to bonds purchased from international banks amounted to P581.4 million and P135.9 million, respectively, which will mature in varying dates in 2017. Interest income amounted to P8.5 million and P3.0 million in 2016 and 2015, respectively (see Note 5).

In 2016, the Group redeemed certain HTM investments with total redemption price of P260.9 million.

## 7. Trade and Other Receivables

This account consists of:

	Note	2016	2015
Trade		P27,461	P24,185
Due from related parties	16	61,879	55,735
Nontrade		1,272	28,202
Others		33,179	26,661
		<b>123,791</b>	<b>134,783</b>
Allowance for impairment losses		(78,669)	(63,441)
		<b>P45,122</b>	<b>P71,342</b>

Trade receivables are noninterest-bearing and have average credit terms of 15 to 90 days.

Nontrade receivables mainly pertain to the receivable from Alorica Pacific Rim, Inc. (APRI), formerly Advanced Contact Solutions (ACS), which was collected on March 3, 2016 for a negotiated settlement amount of ₱22.4 million (US\$0.5 million). The remaining receivable amounting to ₱4.6 million was written off.

Other receivables, which include advances to officers and employees and security deposits, are noninterest-bearing and are normally settled within one year.

Movements in the allowance for impairment losses follow:

		2016			
	Note	Trade Receivables	Due from Related Parties	Others	Total
Balance at beginning of year		₱11,053	₱38,337	₱14,051	₱63,441
Provision	18	19	15,209	-	15,228
Reclassification		-	(3,633)	3,633	-
Balance at end of year		₱11,072	₱49,913	₱17,684	₱78,669

		2015			
	Note	Trade Receivables	Due from Related Parties	Others	Total
Balance at beginning of year		₱11,053	₱27,761	₱14,051	₱52,865
Provision	18	-	10,576	-	10,576
Balance at end of year		₱11,053	₱38,337	₱14,051	₱63,441

#### 8. Other Current Assets

This account consists of:

	2016	2015
Input VAT, net of allowance for impairment losses	₱11,953	₱9,918
Prepaid expenses	1,551	1,684
	₱13,504	₱11,602

The movements in the allowance for impairment losses on input VAT are as follows:

	Note	2016	2015
Balance at beginning of year		₱47,768	₱50,019
Provision	18	1,127	2,448
Write-off		-	(4,699)
Balance at end of year		₱48,895	₱47,768

Prepaid expenses include prepaid rent, insurance, subscription, maintenance, taxes and licenses.

## 9. Investments in Joint Ventures

The following are the joint ventures of the Group as at December 31, 2016 and 2015:

	Place of Incorporation	Principal Activity	Percentage of Ownership
Paxys Global Services Dalian Ltd (PGS Dalian)	China	Call center	50.0%
Simpro Solutions Limited (Simpro)	Hong Kong	Call center	50.0%

The investments in joint ventures are fully provided with allowance for impairment losses as at December 31, 2016 and 2015.

Cumulative unrecognized share in net losses of the joint ventures amounted to ₱2.6 million and ₱7.1 million as at December 31, 2016 and 2015, respectively. The share in net earnings (losses) of the joint ventures that was not recognized amounted to ₱4.5 million in 2016 and (₱1.6 million) in 2015.

The Group has no outstanding commitments with the joint ventures as at December 31, 2016 and 2015. The joint ventures have no contingent liabilities or capital investments as at December 31, 2016 and 2015.

Summarized financial information of the joint ventures are as follows:

	2016	2015
Current assets	₱12,169	₱6,321
Noncurrent assets	747	770
Current liabilities	20,141	18,373
Revenue	35,860	30,342
Net income (loss)	4,511	(1,609)

## 10. Property and Equipment

Movements in this account are as follows:

	2016					Total
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	
<b>Cost</b>						
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
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	108,592	7,836	160,849	11,177	12,928	301,382
Depreciation and amortization	336	-	241	285	212	1,074
Balance at end of year	108,928	7,836	161,090	11,462	13,140	302,456
Net Book Value	₱561	₱-	₱520	₱950	₱509	₱2,340

	2015					
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
<b>Cost</b>						
Balance at beginning of year	₱108,882	₱7,836	₱161,319	₱11,627	₱16,170	₱305,834
Additions	286	-	291	462	-	1,039
Disposal	-	-	-	-	(2,521)	(2,521)
<b>Balance at end of year</b>	<b>109,168</b>	<b>7,836</b>	<b>161,610</b>	<b>12,089</b>	<b>13,649</b>	<b>304,352</b>
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	108,069	7,836	159,704	10,356	15,160	301,125
Depreciation and amortization	523	-	1,145	821	289	2,778
Disposal	-	-	-	-	(2,521)	(2,521)
<b>Balance at end of year</b>	<b>108,592</b>	<b>7,836</b>	<b>160,849</b>	<b>11,177</b>	<b>12,928</b>	<b>301,382</b>
<b>Net Book Value</b>	<b>₱576</b>	<b>₱-</b>	<b>₱761</b>	<b>₱912</b>	<b>₱721</b>	<b>₱2,970</b>

The Company disposed certain property and equipment, which resulted to a gain amounting to ₱1.0 million and ₱1.9 million in 2015 and 2014, respectively (see Note 20).

Depreciation and amortization recognized consist of:

	Note	2016	2015	2014
Property and equipment		₱1,074	₱2,778	₱6,333
Intangible assets	11	1,044	1,715	3,399
		<b>₱2,118</b>	<b>₱4,493</b>	<b>₱9,732</b>

Depreciation and amortization are allocated as follows:

	Note	2016	2015	2014
Cost of services	17	₱1,202	₱1,368	₱1,527
General and administrative expenses	18	916	3,125	8,205
		<b>₱2,118</b>	<b>₱4,493</b>	<b>₱9,732</b>

As at December 31, 2016 and 2015, fully depreciated property and equipment with aggregate cost amounting to ₱71.9 million and ₱70.1 million, respectively, are still being used in the operations by the Group.

## 11. Intangible Assets

Movements in this account are as follows:

	Note	2016	2015
<b>Cost</b>			
Balance at beginning of year		₱14,122	₱13,934
Additions		602	188
<b>Balance at end of year</b>		<b>14,724</b>	<b>14,122</b>
<b>Accumulated Amortization</b>			
Balance at beginning of year		12,962	11,247
Amortization	10	1,044	1,715
<b>Balance at end of year</b>		<b>14,006</b>	<b>12,962</b>
<b>Net Book Value</b>		<b>₱718</b>	<b>₱1,160</b>

Intangible assets pertain to website and software packages, which are amortized over three to five years.

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## 12. Other Noncurrent Assets

This account consists of:

	Note	2016	2015
Rental and security deposits	23	₱4,764	₱5,239
Others		6,671	6,668
		<b>₱11,435</b>	<b>₱11,907</b>

Rental and security deposits pertain to cash deposits on lease agreements, which are refundable at the end of various lease periods (see Note 23).

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## 13. Trade and Other Payables

This account consists of:

	Note	2016	2015
Dividends	15	₱6,554	₱6,554
Statutory payables		6,482	6,215
Trade		5,786	7,694
Accrued expenses:			
Salaries and wages		3,175	3,281
Professional fees		2,580	2,511
Taxes and licenses		2,353	2,353
Rent		787	514
Utilities		461	685
Subscriptions		367	667
Others		3,291	2,143
Nontrade		1,314	11,386
Others	16	494	562
		<b>₱33,644</b>	<b>₱44,565</b>

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

Statutory payables represent withholding tax payable, SSS, HDMF and PhilHealth premiums, and other liabilities to the government agencies.

Accrued expenses and other current liabilities, which consists mainly of reimbursable expenses from customers, are normally settled within 30 to 60 days.

#### 14. 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 as at December 31, 2016.

The retirement benefits expense (gain) recognized in the consolidated statements of comprehensive income is as follows:

	Note	2016	2015	2014
Current service cost		₱1,266	₱214	₱2,037
Curtailment gain		(1,173)	(1,190)	-
Interest cost		288	71	430
Reversal of retirement liability		-	-	(364)
	19	₱381	(₱905)	₱2,103

In 2016 and 2015, the Group incurred a curtailment gain due to a decrease in the number of employees covered.

In 2014, reversal of retirement liability amounted to ₱0.4 million due to discontinued operations of PGS.

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

	2016	2015	2014
Balance at beginning of year	₱2,275	(₱1,155)	₱25
Remeasurement gain (loss)	1,236	3,430	(1,180)
Balance at end of year	₱3,511	₱2,275	(₱1,155)

Changes in the present value of retirement liability are as follows:

	2016	2015
Balance at beginning of year	₱6,184	₱10,519
Current service cost	1,266	214
Remeasurement gain	(1,236)	(3,430)
Curtailment gain	(1,173)	(1,190)
Interest cost	288	71
Benefits paid	(71)	-
Balance at end of year	₱5,258	₱6,184

The principal assumptions used in determining the retirement liability are shown below:

	2016	2015
Discount rate	5.38%	4.89%
Salary increase rate	3.50%	2.50%

The sensitivity analysis based on reasonably possible changes of the assumptions as at December 31, 2016 is as follows:

	Change in Assumption	Effect on Retirement Liability
Discount rate	23.55%	₱607
	(18.60%)	(477)
Salary Rate	22.60%	586
	(18.25%)	(471)

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit liability at the end of each reporting date after adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The corresponding change in the defined benefit liability was expressed as a percentage change from the base defined benefit liability.

As at December 31, 2016, undiscounted benefit payments amounting to ₱0.7 million have expected maturity of more than five years.

The average duration of the defined benefit obligation at the end of the reporting year is between 20 to 24 years.

## 15. Equity

### Capital Stock

As at December 31, 2016 and 2015, this account consists of the following:

	Number of Shares	Amount
Common Stock "Class A" - ₱1 par value		
Authorized	1,800,000,000	₱1,800,000
Issued and outstanding -		
Balance at beginning and end of year	1,148,534,866	₱1,148,535

In 2014, Paxys N.V., through a tender offer, completed the purchase of 345,622,477 common shares of the Parent Company representing 30.09% of its outstanding capital stock for a total consideration of ₱1,149.9 million.

In 2014, the Parent Company collected the remaining balance of subscriptions receivables amounting to ₱34.4 million.

### Additional Paid-in Capital

This account consists of:

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

Premium on issuance of shares of stock represents the excess of paid-up 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.

### **Retained Earnings**

Undistributed retained earnings of a subsidiary amounting to ₱2,946.0 million and ₱2,908.1 million as at December 31, 2016 and 2015, respectively, are not available for dividend declaration until these are distributed by the subsidiary to the Parent Company.

Dividends payable of the Parent Company as at December 31, 2016 and 2015 amounted to ₱6.6 million, which pertain to dividends declared in prior years (see Note 13).

## **16. Related Party Transactions and Balances**

In the normal course of business, the Group has transactions and balances with related parties pertaining to noninterest-bearing advances as follows:

Related Party	Year	Transactions during the Year	Due from Related Parties (see Note 7)	Due to Related Parties (see Note 13)
<b>Joint Venture</b>				
PGS Dalian	2016	₱-	₱4,548	₱-
	2015	4,131	8,679	-
Simpro Solutions Philippines, Inc.*	2016	3,551	11,105	-
	2015	6,408	7,554	-
<b>Entities with Common Stockholders</b>				
NGL/UT Global Services Limited	2016	82	2,255	-
	2015	46	2,173	-
ACS Pacific Limited	2016	10,125	43,960	-
	2015	10,786	33,457	-
Others	2016	-	11	53
	2015	-	3,872	53
	2016		₱61,879	₱53
	2015		₱5,735	53

\* 50% effective interest through Simpro.

Outstanding balances are unsecured, noninterest-bearing with no fixed repayment terms and are normally settled in cash. No guarantees have been provided or received for these balances. Impairment assessment is undertaken each financial year.

Allowance for impairment losses related to these receivables amounted to ₱49.9 million and ₱38.3 million as at December 31, 2016 and 2015, respectively (see Note 7).

### **Compensation of Key Management Personnel of the Group**

	2016	2015	2014
Salaries and wages	₱10,743	₱10,587	₱10,256
Other short-term benefits	629	780	1,740
	₱11,372	₱11,367	₱11,996



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**17. Cost of Services**

This account consists of:

	Note	2016	2015	2014
Personnel cost	19	₱51,800	₱67,236	₱86,476
Outside services		9,620	18,021	10,947
Rent	23	5,398	10,246	10,220
Utilities		3,477	6,531	8,566
Communication		2,662	4,811	5,237
Security and janitorial services		2,248	3,911	3,976
Depreciation and amortization	10	1,202	1,368	1,527
Supplies		585	1,015	1,232
Association dues		45	2,170	2,170
Others		2,778	3,624	2,176
		<b>₱79,815</b>	<b>₱118,933</b>	<b>₱132,527</b>

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**18. General and Administrative Expenses**

This account consists of:

	Note	2016	2015	2014
Professional fees		₱19,989	₱19,372	₱16,667
Provision for impairment losses on:				
Trade and other receivables	7	15,228	10,576	9,768
Input VAT	8	1,127	2,448	1,729
Personnel cost	19	14,821	17,120	21,056
Rent	23	6,638	5,352	5,131
Insurance		2,742	2,743	2,030
Communication		2,691	5,107	5,456
Transportation and travel		2,296	1,756	1,852
Utilities		2,164	1,997	1,849
Security and janitorial services		1,495	1,399	1,552
Taxes and licenses		1,141	1,431	3,862
Entertainment, amusement and recreation		1,112	998	1,006
Depreciation and amortization	10	916	3,125	8,205
Repairs and maintenance		693	780	1,012
Others		4,275	5,404	3,552
		<b>₱77,328</b>	<b>₱79,608</b>	<b>₱84,727</b>

## 19. Personnel Costs

This account consists of:

	Note	2016	2015	2014
Salaries, wages and allowances		₱52,483	₱67,820	₱88,442
Training		1,268	1,215	2,224
Net retirement benefits (curtailment gain)	14	381	(905)	2,103
Other employee benefits		12,489	16,226	14,763
		<b>₱66,621</b>	<b>₱84,356</b>	<b>₱107,532</b>

Other employee benefits pertain to leave benefits, health care and insurance benefits, and other benefits granted to employees.

Personnel cost is classified as follows:

	Note	2016	2015	2014
Cost of services	17	₱51,800	₱67,236	₱86,476
General and administrative expenses	18	14,821	17,120	21,056
		<b>₱66,621</b>	<b>₱84,356</b>	<b>₱107,532</b>

## 20. Other Income (Charges)

This account consists of:

	Note	2016	2015	2014
Reversal of payables		₱10,166	₱-	₱760
Write-off of nontrade receivable	7	(4,566)	-	-
Gain on redemption of AFS financial assets	6	2,798	900	-
Rent	23	1,311	6,184	10,018
Gain on disposal of property and equipment	10	-	982	1,873
Others		1,081	104	1,369
		<b>₱10,790</b>	<b>₱8,170</b>	<b>₱14,020</b>

## 21. Income Tax

- a. The components of current income tax expense as presented in the consolidated statements of comprehensive income are as follows:

	2016	2015	2014
Final tax	₱5,164	₱3,594	₱2,558
MCIT	627	515	1,080
Special tax	-	125	-
	<b>₱5,791</b>	<b>₱4,234</b>	<b>₱3,638</b>

- b. The reconciliation of income tax expense (benefit) computed at statutory tax rate and income tax expense as shown in the consolidated statements of comprehensive income is as follows:

	2016	2015	2014
Income tax expense (benefit) at statutory income tax rate	₱5,310	(₱2,483)	(₱5,163)
Income tax effects of:			
Expired NOLCO	13,852	17,641	12,687
Nontaxable income	(12,565)	(10,448)	(8,050)
Interest income subjected to final tax	(2,846)	(2,006)	(1,279)
Nondeductible expenses	2,174	13,909	7,055
Net changes in unrecognized net deferred tax assets	(1,133)	(14,367)	(2,858)
Expired MCIT	999	1,988	1,246
	₱5,791	₱4,234	₱3,638

- c. Details of unrecognized net deferred tax assets relating to NOLCO, MCIT and other temporary differences are as follows:

	2016	2015
NOLCO	₱28,542	₱33,187
Allowance for impairment losses on receivables and input VAT	12,893	9,037
Retirement liability	3,706	3,615
Unrealized foreign exchange gain	(2,917)	(2,973)
Excess MCIT over RCIT	2,023	2,594
Accruals and provision	402	322
	₱44,649	₱45,782

Management believes that sufficient future taxable income may not be available against which the carry forward benefits of NOLCO, excess MCIT over RCIT and other deductible temporary differences may be utilized.

- d. Details of carry forward benefits arising from NOLCO and excess MCIT over RCIT are as follows:

NOLCO

Year Incurred	Balance as at December 31, 2015	Additions (Applied)	Expired	Balance as at December 31, 2016	Available Until
2013	₱46,174	₱-	(₱46,174)	₱-	2016
2014	21,900	-	-	21,900	2017
2015	42,549	(5,728)	-	36,821	2018
2016	-	36,454	-	36,454	2019
	₱110,623	₱30,726	(₱46,174)	₱95,175	

MCIT

Year Incurred	Balance as at December 31, 2015	Additions	Expired	Balance as at December 31, 2016	Available Until
2013	₱999	₱-	(₱999)	₱-	2016
2014	1,080	-	-	1,080	2017
2015	515	-	-	515	2018
2016	-	428	-	428	2019
	₱2,594	₱428	(₱999)	₱2,023	

## 22. Earnings (Loss) per Share

Basic/diluted earnings (loss) per share are computed as follows:

	2016	2015	2014
Net income (loss) (a)	₱11,830	(₱12,569)	(₱20,849)
Issued and outstanding shares	1,148,535	1,148,535	1,148,535
Parent shares held by a subsidiary	(345,622)	(345,622)	(345,622)
Number of shares issued and outstanding (b)	802,913	802,913	802,913
Basic/diluted earnings (loss) per share (a/b)	₱0.01	(₱0.02)	(₱0.03)

There are no potential dilutive common shares as at December 31, 2016 and 2015.

## 23. Lease Commitments

### a. The Group as a Lessee

- i. The Parent Company has an existing lease agreement with a third party for the lease of office space until April 30, 2021. The lease is renewable upon mutual consent of the parties.
- ii. SWA has an existing non-cancellable five-year agreement with a third party for the lease of a warehouse and an open space as extended until December 31, 2019. The monthly rent is subject to an annual escalation beginning in 2015. As at December 31, 2016 and 2015, refundable security deposit amounted to ₱1.3 million and ₱1.5 million, respectively.
- iii. In 2015, SWA terminated its contract with a third party for the lease of an office and parking spaces. Refundable deposit on such lease amounting to ₱1.3 million was refunded in 2016.

Outstanding rental and security deposits on lease commitments, presented under "Other noncurrent assets" account in the consolidated statements of financial position, amounted to ₱4.8 million and ₱5.2 million as at December 31, 2016 and 2015, respectively (see Note 12). The rental and security deposits are either refundable in cash or will be applied against unpaid rental upon termination of lease agreements.

Rent expense are allocated as follows:

	Note	2016	2015	2014
General and administrative expenses	18	₱6,638	₱5,352	₱5,131
Cost of services	17	5,398	10,246	10,220
		₱12,036	₱15,598	₱15,351

The future minimum lease payments under noncancellable operating leases are as follows:

	2016	2015
Within one year	₱11,522	₱7,196
After one year but not more than five years	34,860	11,618
	₱46,382	₱18,814

b. The Group as a Lessor

- i. The Parent Company subleases a portion of its office space to third parties for a period of six months to one year.
- ii. SWA had a sublease agreement with third parties for the office space in the Citibank Centre Condominium for a period of two years until December 31, 2015. The Company did not renew the sublease agreement. Security deposits amounting to ₱604,733 were refunded in 2016.

Rent income amounted to ₱1.3 million, ₱6.2 million and ₱10.0 million in 2016, 2015 and 2014, respectively (see Note 20).

## 24. Financial Instruments

### Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, AFS financial assets, HTM investments, trade and other receivables and trade and other payables, which arise directly from the operations. The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The BOD reviews and agrees policies for managing each of these risks and these are summarized below.

### Foreign Currency Risk

The Group has transactional currency exposure. Such exposure arises from services denominated in US\$. Service income of SWA is approximately 100% denominated in US\$ for the years ended December 31, 2016 and 2015. As a result, the Group's consolidated financial performance and financial position can be affected significantly by movements in the US\$/Philippine Peso and AU\$/Philippine Peso exchange rates.

The objective is to limit the impact of any appreciation of the Philippine Peso vis-a-vis with its foreign currency denominated revenue and receivables and ultimately on the financial performance.

The following rates of exchange have been used by the Group in translating foreign currency transactions.

	2016		2015	
	Closing	Average	Closing	Average
Philippine Peso to 1 unit of US\$	₱49.72	₱49.50	₱47.06	₱45.51

As at December 31, 2016 and 2015, the significant foreign currency-denominated monetary assets (translated in Philippine Peso) are as follows:

	2016		2015	
	In US\$	Philippine Peso Equivalent	In US\$	Philippine Peso Equivalent
Cash and cash equivalents	US\$37,000	₱1,839,656	US\$43,326	₱2,038,922
Trade and other receivables	306	15,214	511	24,028
AFS financial assets	4,657	231,560	8,076	380,061
HTM Investments	11,693	581,388	2,888	135,905
<b>Foreign currency-denominated monetary assets</b>	<b>US\$53,656</b>	<b>₱2,667,818</b>	<b>US\$54,801</b>	<b>₱2,579,516</b>

The following table demonstrates the sensitivity to a reasonably possible change in US\$ exchange rates to Philippine Peso with all other variables held constant, of the income (loss) before income tax (due to changes in the fair value of financial assets and liabilities). Reasonably possible change is based on net average movement of foreign currency closing rates for the last five years.

	2016		2015	
	Increase (Decrease) in Exchange Rates	Increase (Decrease) on Income before Tax	Increase (Decrease) in Exchange Rates	Increase (Decrease) on Loss before Tax
US\$	₱2.66 (2.66)	₱142,725 (142,725)	₱2.34 (2.34)	₱128,234 (128,234)

The decrease in Philippine Peso to US\$ means stronger Philippine Peso against the US\$ rates while increase in Philippine Peso to US\$ rate means stronger foreign exchange rates against Philippine Peso.

### Credit Risk

The Group trades only with recognized, creditworthy third parties. It is the 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 customers to protect itself from any bad debt losses.

The gross maximum exposure of the Group to credit risk corresponds to the total carrying values of the following financial assets:

	2016	2015
Loans and receivables:		
Cash and cash equivalents <sup>(a)</sup>	₱2,856,811	₱2,980,200
Trade and other receivables	45,122	71,342
Rental and security deposits <sup>(b)</sup>	4,764	5,239
AFS financial assets	231,560	380,061
HTM investments	581,388	135,905
	<b>₱3,719,645</b>	<b>₱3,572,747</b>

<sup>(a)</sup>Excluding cash on hand amounting to ₱55.

<sup>(b)</sup>Included under "Other noncurrent assets".

The analysis of the financial assets that were past due but not impaired as at December 31, 2016 and 2015 follows:

	2016						
	Neither Past Due nor Impaired	Past Due but not impaired			Total	Impaired	Total
		Less than 30 Days	30 to 60 Days	More than 60 Days			
Loans and Receivables							
Cash and cash equivalents <sup>(a)</sup>	₱2,856,811	P-	P-	P-	P-	P-	₱2,856,811
Trade and other receivables:							
Trade	7,700	-	-	8,689	8,689	11,072	27,461
Due from related parties	-	-	-	11,966	11,966	49,913	61,879
Nontrade	-	-	-	1,272	1,272	-	1,272
Others	15,495	-	-	-	-	17,684	33,179
Rental and security deposits <sup>(b)</sup>	4,764	-	-	-	-	-	4,764
AFS Financial Assets	231,560	-	-	-	-	-	231,560
HTM Investments	581,388	-	-	-	-	-	581,388
	<b>₱3,697,718</b>	<b>P-</b>	<b>P-</b>	<b>₱21,927</b>	<b>₱21,927</b>	<b>₱78,669</b>	<b>₱3,798,314</b>

<sup>(a)</sup>Excluding cash on hand amounting to ₱55.

<sup>(b)</sup>Included under "Other noncurrent assets".

	2015						
	Neither Past Due nor Impaired	Past Due but not Impaired			Total	Impaired	Total
		Less than 30 Days	30 to 60 Days	More than 60 Days			
<b>Loans and Receivables</b>							
Cash and cash equivalents <sup>(a)</sup>	P2,980,200	P-	P-	P-	P-	P-	P2,980,200
Trade and other receivables:							
Trade	13,132	-	-	-	-	11,053	24,185
Due from related parties	-	-	-	17,398	17,398	38,337	55,735
Nontrade	-	-	-	28,202	28,202	-	28,202
Others	-	2,743	4,114	5,753	12,610	14,051	26,661
Rental and security deposits <sup>(b)</sup>	5,239	-	-	-	-	-	5,239
AFS Financial Assets	380,061	-	-	-	-	-	380,061
HTM Investments	135,905	-	-	-	-	-	135,905
	<b>P3,514,537</b>	<b>P2,743</b>	<b>P4,114</b>	<b>P51,353</b>	<b>P58,210</b>	<b>P63,441</b>	<b>P3,636,188</b>

<sup>(a)</sup>Excluding cash on hand amounting to P55.

<sup>(b)</sup>Included under "Other noncurrent assets".

The table below shows the credit quality of the financial assets classified as neither past due nor impaired as at December 31, 2016 and 2015:

	2016			2015		
	Neither Past Due nor Impaired			Neither Past Due nor Impaired		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
<b>Loans and Receivables</b>						
Cash and cash equivalents <sup>(a)</sup>	P2,856,811	P-	P2,856,811	P2,980,200	P-	P2,980,200
Trade and other receivables	23,195	-	23,195	13,132	-	13,132
Rental and security deposits <sup>(b)</sup>	4,764	-	4,764	5,239	-	5,239
AFS Financial Assets	231,560	-	231,560	380,061	-	380,061
HTM Investments	581,388	-	581,388	135,905	-	135,905
	<b>P3,697,718</b>	<b>P-</b>	<b>P3,697,718</b>	<b>P3,514,537</b>	<b>P-</b>	<b>P3,514,537</b>

<sup>(a)</sup>Excluding cash on hand amounting to P55 as at December 31, 2016 and 2015.

<sup>(b)</sup>Included under "Other noncurrent assets".

### Credit Quality of Financial Assets

The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

*High Quality.* Pertains to receivables from counterparties who are not expected by the Group to default in settling its obligation. Thus, credit risk exposure is minimal. Financial assets with high credit quality are normally collected within the credit period and without history of default collection.

*Standard Quality.* Other financial assets not belonging to high quality financial assets are included in this category.

### Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatch of the maturities of financial assets and liabilities.

The Group's objective is to maintain continuity of funding. The Group's liquidity risk management policy is to measure and forecast its cash commitments, to match debt maturities with the assets being financed, to maintain a diversity of funding sources with its access to bank financing and the capital market and to hold a sufficient level of cash reserves.

The Group monitors its risk to shortage of funds by considering the maturity of both its financial assets and liabilities projected cash flows.

The table below summarizes the maturity profile of the Group's financial assets and liabilities (excluding statutory payables) used to manage liquidity as at December 31, 2016 and 2015 based on contractual undiscounted payments.

	2016					Total
	Within 30 Days	31 to 60 Days	61 to 90 Days	91 to 120 Days	More than 120 Days	
<b>Financial Assets</b>						
Cash and cash equivalents*	R2,856,811	R-	R-	R-	R-	R2,856,811
AFS financial assets	231,560	-	-	-	-	231,560
Trade and other receivables	23,195	-	21,927	-	-	45,122
HTM investments	-	509	-	-	580,879	581,388
Rental and security deposits	-	-	-	-	4,764	4,764
<b>Total undiscounted financial assets</b>	<b>3,111,566</b>	<b>509</b>	<b>21,927</b>	<b>-</b>	<b>585,643</b>	<b>3,719,645</b>
<b>Financial Liabilities</b>						
Trade payables	4,221	-	-	-	1,565	5,786
Accrued expenses	10,252	-	-	-	2,762	13,014
Other current liabilities	18	-	-	-	1,737	1,755
Due to related parties	-	-	-	-	53	53
Dividends payable	-	-	-	-	6,554	6,554
<b>Total undiscounted financial liabilities</b>	<b>14,491</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,671</b>	<b>27,162</b>
<b>Net undiscounted financial assets</b>	<b>R3,081,580</b>	<b>R509</b>	<b>R37,422</b>	<b>R-</b>	<b>R572,974</b>	<b>R3,692,485</b>

\*Excluding cash on hand amounting to R55.

	2015					Total
	Within 30 Days	31 to 60 Days	61 to 90 Days	91 to 120 Days	More than 120 Days	
<b>Financial Assets</b>						
Cash and cash equivalents*	R2,980,200	R-	R-	R-	R-	R2,980,200
Trade and other receivables	42,805	5,707	3,567	-	19,263	71,342
AFS financial assets	380,061	-	-	-	-	380,061
HTM Investments	64,098	-	-	47,299	24,508	135,905
Rental and security deposits	-	-	-	-	5,239	5,239
<b>Total undiscounted financial assets</b>	<b>3,467,164</b>	<b>5,707</b>	<b>3,567</b>	<b>47,299</b>	<b>49,010</b>	<b>3,572,747</b>
<b>Financial Liabilities</b>						
Trade payables	5,611	-	2	-	2,081	7,694
Accrued expenses	9,388	-	-	-	2,766	12,154
Other current liabilities	122	-	-	-	11,773	11,895
Due to related parties	-	-	-	-	53	53
Dividends payable	-	-	-	-	6,554	6,554
<b>Total undiscounted financial liabilities</b>	<b>15,121</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>23,227</b>	<b>38,350</b>
<b>Net undiscounted financial assets</b>	<b>R3,452,043</b>	<b>R5,707</b>	<b>R3,565</b>	<b>R47,299</b>	<b>R25,783</b>	<b>R3,534,397</b>

\*Excluding cash on hand amounting to R55.

### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group competes in an industry where opportunities for growth still abound. Projects are selected if their expected returns are higher than cost of capital. Fundings are sourced from a combination of retained earnings, debt and new capital. The Group aims for flexibility in the capital structure to meet changing conditions and adapt with minimum cost and delay. It looks at solvency by keeping its debt capacity within its ability to generate future cash flows.



The Group is not subject to externally imposed capital requirements. The table below summarizes the capital components of the Group.

	2016	2015
Capital stock	P1,148,535	P1,148,535
Additional paid-in capital	451,364	451,364
Parent shares held by a subsidiary	(1,149,886)	(1,149,886)
Other equity reserves	386,158	237,946
Retained earnings	2,867,274	2,855,444
	<b>P3,703,445</b>	<b>P3,543,403</b>

#### Fair Values

The following is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are reflected in the consolidated financial statements:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents*	P2,856,811	P2,856,811	P2,980,200	P2,980,200
AFS financial assets	231,560	231,560	380,061	380,061
Trade and other receivables	45,122	45,122	71,342	71,342
HTM investments	581,388	581,388	135,905	135,905
Rental and security deposits	4,764	4,764	5,239	5,239
	<b>P3,719,645</b>	<b>P3,719,645</b>	<b>P3,572,747</b>	<b>P3,572,747</b>
<b>Financial Liabilities</b>				
Trade and other payables:				
Dividends	P6,554	P6,554	P6,554	P6,554
Trade	5,786	5,786	7,694	7,694
Accrued expenses	13,014	13,014	12,154	12,154
Nontrade	1,314	1,314	11,386	11,386
Others**	494	494	509	509
	<b>P27,162</b>	<b>P27,162</b>	<b>P38,297</b>	<b>P38,297</b>

\* Excluding cash on hand amounting to P55 as at December 31, 2016 and 2015.

\*\* Excluding statutory payables amounting to P6,482 and P6,215 as at December 31, 2016 and 2015, respectively.

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, HTM Investments, Rental and Security Deposits and Trade and Other Payables.* Due to the short-term nature of the financial assets and liabilities, the fair value approximates the carrying amounts at initial recognition.

*AFS Financial Assets.* Quoted market prices have been used to determine the fair value of AFS financial assets. This is categorized under Level 1 of the fair value hierarchy.

For the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements.



**REPORT OF INDEPENDENT AUDITOR  
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
Paxys, Inc.  
15th Floor, 6750 Ayala Office Tower  
Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Paxys, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016 and notes to consolidated financial statements, including a summary of significant accounting policies, and have issued our report thereon dated March 20, 2017. Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary schedules as listed in the Index to the Consolidated Financial Statements, Financial Soundness Indicators and Corporate Structure are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, as amended, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

**REYES TACANDONG & CO.**

**HAYDEE M. REYES**

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 0663-AR-2 Group A

Valid until April 14, 2017

BIR Accreditation No. 08-005144-6-2017

Valid until January 13, 2020

PTR No. 5908527

Issued January 3, 2017, Makati City

March 20, 2017  
Makati City, Metro Manila



**PAXYS, INC. AND SUBSIDIARIES**  
**Index to Consolidated Financial Statements**  
**As at and For the Year Ended December 31, 2016**

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D	Intangible Assets - Other Assets	4
E	Long-term Borrowings	N/A
F	Indebtedness to Related Parties (Long-Term Loans from Related Companies)	N/A
G	Guarantees of Securities of Other Issuers	N/A
H	Capital Stock	5

N/A - Not applicable

## SCHEDULE A

## PAXYS, INC. AND SUBSIDIARIES

**FINANCIAL ASSETS**  
 AS AT DECEMBER 31, 2016  
 (Amounts in Thousands)

Description	Number of Shares or Principal Amount of Bonds	Amount Shown in the Statement of Financial Position	Income Received and Accrued
<b>Cash in Banks</b>			
J.P. Morgan Chase Bank (JPM)	–	₱27,104	₱2
Universal Bank of Switzerland (UBS)	–	17,619	147
BDO Unibank, Inc. (BDO)	–	10,572	25
Security Bank Corporation (SBC)	–	3,802	3
Bank of the Philippine Islands (BPI)	–	1,336	3
Metropolitan Bank and Trust Company (MBTC)	–	1,099	2
		61,532	182
<b>Cash Equivalents</b>			
SBC	–	1,263,787	25,278
Metrobank Card Corporation (MCC)	–	1,010,082	25,268
UBS	–	243,768	1,244
JPM	–	218,276	1,425
BPI	–	59,366	191
Union Bank of the Philippines (UBP)	–	–	15
		2,795,279	53,421
		2,856,811	53,603
<b>Available-for-Sale Financial Assets</b>			
Fixed Income Investments:			
UBS - Managed Funds	\$1,500	74,787	4,701
JPM - Managed Funds	\$3,000	156,773	–
		231,560	4,701
<b>Held-to-Maturity Investments</b>			
UBS - Bonds	\$8,384	429,153	6,872
JPM - Bonds	\$3,000	152,235	1,590
		581,388	8,462
<b>Trade and Other Receivables - Net</b>			
Trade	–	16,389	–
Due from related parties	–	11,966	–
Nontrade	–	1,272	–
Others	–	15,495	–
		45,122	–
<b>Rental and Security Deposits</b>	–	4,764	–
		₱3,719,645	₱66,766

## SCHEDULE B

## PAXYS, INC. AND SUBSIDIARIES

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**AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS  
(OTHER THAN RELATED PARTIES)**

AS AT DECEMBER 31, 2016  
(Amounts in Thousands)

	Balance at Beginning of Year	Additions	Amounts Collected	Amounts Written-off	Current	Noncurrent	Balance at end of year
Advances to officers and employees	P41	P135	P-	P-	P176	P-	P176

## SCHEDULE C

## PAXYS, INC. AND SUBSIDIARIES

**AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE  
ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2016  
(Amounts in Thousands)**

Related Parties	Balance at Beginning of Year	Additions	Amounts Collected	Current	Noncurrent	Balance at end of Year
<b>Due from Related Parties</b>						
Paxys Global Services, Inc.	P62,922	P389	P-	P63,311	P-	P63,311
Scopeworks Asia, Inc.	59,904	6,974	10,392	56,486	-	56,486
Paxys N.V.	16,868	953	-	17,821	-	17,821
Paxys Ltd.	10,752	152	-	10,904	-	10,904
Paxys Global Services Ltd. Regional Operating Headquarters	205	150	-	355	-	355
Paxys Global Services Ltd.	-	243	-	243	-	243
	<b>P150,651</b>	<b>P8,861</b>	<b>P10,392</b>	<b>P149,120</b>	<b>P-</b>	<b>P149,120</b>

**PAXYS, INC. AND SUBSIDIARIES**  
**INTANGIBLE ASSETS - OTHER ASSETS**  
AS AT DECEMBER 31, 2016  
(Amounts in Thousands)

Description	Beginning Balance	Additions at Cost	Amortization	Charged to Other Accounts	Other Changes Additions (Deductions)	Ending Balance
Website and software packages	\$1,160	\$602	(\$1,044)	R-	R-	\$718

## PAXYS, INC. AND SUBSIDIARIES

CAPITAL STOCK  
AS AT DECEMBER 31, 2016

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related consolidated statement of financial position caption	Number of shares reserved for options, warrants, conversion, and other rights	Number of shares held by related parties	Directors and officers	Others
Common shares - "Class A" at \$1 par value	1,800,000,000	1,148,534,866	—	976,466,515	219,800	171,848,551



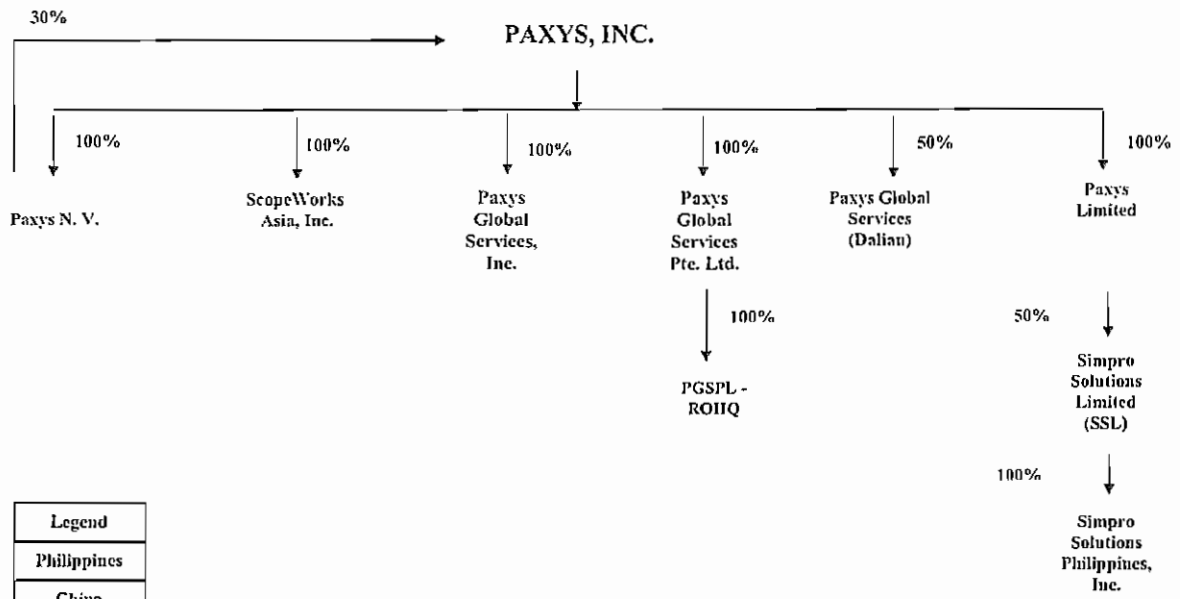
**PAXYS, INC. AND SUBSIDIARIES**

**FINANCIAL SOUNDNESS INDICATORS**

**AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>Liquidity ratio</b>		
Current ratio	108.93:1	79.52:1
<b>Solvency ratio</b>		
Debt to equity ratio	0.01:1	0.01:1
<b>Profitability ratio</b>		
Return on equity	0.32%	(0.35%)
Earnings (loss) before interest, tax, depreciation and amortization margin	21%	(3%)
Net income (loss) margin	13%	(9%)

**PAXYS, INC. AND SUBSIDIARIES**  
**CORPORATE STRUCTURE**  
**AS AT DECEMBER 31, 2016**



<b>Legend</b>
<b>Philippines</b>
<b>China</b>
<b>Singapore</b>
<b>Curacao</b>
<b>Hong Kong</b>

PAXYS, INC.

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS  
AVAILABLE FOR DIVIDEND DECLARATION  
FOR THE YEAR ENDED DECEMBER 31, 2016

Deficit at beginning of year	(P29,810,938)
Net unrealized foreign exchange gain in 2015	(3,660,677)
Deficit at beginning of year as adjusted	(33,471,615)
Net loss actually realized during the year	(30,244,938)
Unrealized foreign exchange gain in 2016	4,708,697
Unrealized foreign exchange gain in 2015 realized in 2016	2,822,654
Deficit at end of year	(P56,185,202)
Reconciliation:	
Deficit at end of year as shown in the separate financial statements	(P60,055,876)
Unrealized foreign exchange gain in 2016	4,708,697
Unrealized foreign exchange gain in 2015	(838,023)
Deficit at end of year	(P56,185,202)



**REPORT OF INDEPENDENT AUDITOR  
ON SUPPLEMENTARY SCHEDULE**

The Stockholders and the Board of Directors  
Paxys, Inc.  
15th Floor, 6750 Ayala Office Tower  
Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Paxys, Inc. and Subsidiaries (the Group) as at and for the year ended December 31, 2016, and have issued our report thereon dated March 20, 2017. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary Schedule of Adoption of Effective Accounting Standards and Interpretations is the responsibility of the Group's management. This schedule is presented for purposes of complying with Securities Regulation Code Rule 68, as amended, and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**REYES TACANDONG & Co.**

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

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Valid until January 13, 2020

PTR No. 5908527

Issued January 3, 2017, Makati City

March 20, 2017

Makati City, Metro Manila



**PAXYS, INC. AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF ADOPTION OF**  
**EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS**  
**DECEMBER 31, 2016**

Title	Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements			
Conceptual Framework Phase A: Objectives and qualitative characteristics	✓		
PFRSs Practice Statement Management Commentary		✓	

**Philippine Financial Reporting Standards (PFRS)**

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination	✓		
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures	✓		
PFRS 4	Insurance Contracts			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendment to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments: Classification and Measurement of Financial Assets		✓	
	Financial Instruments: Classification and Measurement of Financial Liabilities		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception	✓		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception	✓		
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers		✓	
PFRS 16	Leases		✓	

#### Philippine Accounting Standards (PAS)

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1 (Revised): Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1 (Revised): Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment	✓		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16: Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendment to PAS 16: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19 (Revised): Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendment to PAS 24: Key Management Personnel	✓		



PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Financial Instruments: Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Nonfinancial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets			✓
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Agriculture: Bearer Plants			✓

#### Philippine Interpretations

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓

#### PHILIPPINE INTERPRETATIONS - SIC

Interpretations	Title	Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓

Interpretations	Title	Adopted	Not Adopted	Not Applicable
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		

*(For Individual Shareholders)*

P R O X Y FORM

That I/We, the undersigned stockholder(s) of PAXYS, INC., a Philippine Corporation, do hereby nominate, constitute and appoint \_\_\_\_\_, as my/our true and lawful attorney or proxy, with full power of substitution and revocation, to represent me/us and vote all shares registered in my/our name(s) on the books of said Corporation, at the Annual Shareholders' Meeting of the Corporation to be held on 6 December 2017 at the Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City, Philippines, or any adjournments or postponements thereof, on any and all matters and things that may come at said meeting(s) as fully to all intents and purposes as I/We might or could do if personally present, hereby revoking any proxy or proxies heretofore given to vote such stock, and ratifying and confirming all that my/our above mentioned attorney or proxy or his/her/their substitute(s), may do or cause to be done by virtue of these presents.

In case of the non-attendance of my/our said attorney or proxy above named or his/her/their duly designated substitute(s) at any particular meeting, I/We hereby authorize and empower the Chairman of the meeting to fully exercise all rights as my/our attorney or proxy at such meeting. The power and authority hereby granted shall remain valid and effective until such time as the same is withdrawn by me/us through notice in writing delivered to the Corporate Secretary before the date of any such meeting or adjournment(s) or postponement(s) thereof, or until the last day of the fifth year from the date hereof, whichever comes first, but shall be deemed suspended and inapplicable in instances where I personally attend the meeting.

I/we have hereunto set my/our hand(s) this \_\_\_\_\_ day of \_\_\_\_\_  
\_\_\_\_\_ 2017, at \_\_\_\_\_.

\_\_\_\_\_  
Printed Name and Signature of Stockholder

\_\_\_\_\_  
Address

(For Corporate Shareholders)

### SECRETARY'S CERTIFICATION

I, \_\_\_\_\_, of legal age, Filipino, and with office address at \_\_\_\_\_, do hereby certify that:

1. I am the duly appointed Corporate Secretary of \_\_\_\_\_ (the "Corporation"), a corporation duly organized and existing under laws of the Republic of the Philippines, with office address at \_\_\_\_\_.

2. Based on the records, during the lawfully convened meeting of the Board of Directors of the Corporation held on \_\_\_\_\_, the following resolutions were passed and approved:

"RESOLVED, That \_\_\_\_\_ be authorized and appointed, as he is hereby authorized and appointed, as the Corporation's Proxy (the "Proxy") to attend the Annual Shareholders' Meeting of PAXYS, INC. ("PAXYS") to be held on 6 December 2017 at the Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City, Philippines or at any meeting postponed or adjourned therefrom, with full authority to vote the Corporation's shares of stock held in PAXYS and to act upon all matters and resolutions that may come before or be presented during such meeting(s) in the name, place and stead of the Corporation.

RESOLVED FURTHER, That PAXYS be furnished with a certified copy of this resolution and PAXYS may rely on the continuing validity of this resolution until receipt of written notice of its revocation."

3. The foregoing resolution has not been modified, amended or revoked, and is in accordance with the records of the Corporation presently in my custody.

\_\_\_\_\_  
Corporate Secretary

\_\_\_\_\_  
Date and Place of Execution