

12 April 2019

THE PHILIPPINE STOCK EXCHANGE, INC.

Disclosure Department

6th Floor PSE Tower

One Bonifacio High Street

28th Street corner 5th Avenue

Bonifacio Global City, Taguig City

Attention: **MS. JANET A. ENCARNACION**
Head, Disclosure Department

Gentlemen:

Enclosed herewith is our Annual Report for the year ended 31 December 2018 (SEC Form 17-A).

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

Very truly yours,

PAXYS, INC.

By:


MAYETTE H. TAPIA
Corporate Information Officer

6 6 0 9

SEC Registration Number

P A X Y S , I N C .

(Company's Full Name)

1 5 t h F l o o r , 6 7 5 0 A y a l a O f f i c e T o w e r , A y a l a A v e n u e , M a k a t i C i t y

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

Atty. Mayette H. Tapia

(Contact Person)

(+632) 250-3800

(Company Telephone Number)

1 2 3 1

(Calendar Year)

1 7 - A

(Form Type)

1 2 1 0

(Annual Meeting)

2018

(Secondary License Type, If Applicable)

CRMD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

714

Total No. of Stockholders

-

Domestic

-

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

**ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION
CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES**



1. For the calendar year ended **2018**
2. SEC Identification Number **6609**
3. BIR Tax Identification No. **000-233-218**
4. Exact Name of the registrant as specified in its charter **PAXYS, INC.**
5. Province, Country or other jurisdiction of incorporation: **Philippines**
6. Industry Classification Code: _____ (SEC Use Only)
7. Address of principal office: **15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City**
8. Issuer's telephone number, including area code: **(+632) 250-3800**
9. Former name, former address, and former fiscal year, if changed since last report: **Not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the SRC:

a) Authorized Capital Stock

Common shares, ₱1.00 par value 1,800,000,000 shares

b) Issued and Outstanding Shares

Common shares, ₱1.00 par value 1,148,534,866 shares

c) Amount of Debt Outstanding as of December 31, 2018:

nil

Are any or all of these securities listed on the Philippine Stock Exchange?

Yes [x] No []

11. Check whether the issuer:

(i) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [x] No []

(ii) has been subject to such filing requirements for the past 90 days.

Yes [x] No []

12. Aggregate market value of the voting stock held by non-affiliates:

₱558,514,290.75 (171,850,551 shares @ ₱3.25 per share as of December 31, 2018)

PAXYS, INC.

**SUPPLEMENTAL SCHEDULES
TO THE FINANCIAL STATEMENTS REQUIRED BY THE
SECURITIES AND EXCHANGE COMMISSION
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
AND INDEPENDENT AUDITORS' REPORT**

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Description of Business

Corporate Information

Paxys, Inc. (Paxys, the Company, or the Parent Company) is an investment holding company incorporated in the Philippines and listed on the Philippine Stock Exchange. Formerly known as Fil-Hispano Holdings Corporation, Paxys was registered with the Philippine Securities and Exchange Commission (SEC) on February 14, 1952. As at December 31, 2018, its major shareholders are All Asia Customer Services Holdings Ltd. (AACSHL), a privately-held company incorporated in Hong Kong, and Paxys NV, a wholly owned subsidiary of the Company, with 54.93% and 30.09% interests, respectively.

At present, the Parent Company's operating subsidiaries provide general transcription, data conversion, contact center and other 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 full-service 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 Ideology 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 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 December 31, 2018, 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 December 31, 2018.

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

Bankruptcy/Receivership for the Group

There has been no bankruptcy, receivership or similar proceeding for the Paxys Group.

Business Combinations and Discontinued Operations for the Last Three (3) Years

Paxys Ltd. and Simpro Solutions Limited (SSL)

In 2012, Paxys completed the purchase of one hundred percent (100%) equity in Paxys Limited, a company registered and incorporated in Hong Kong. Paxys Ltd. owns 50% of SSL, a company incorporated in Hong Kong; along with its joint venture partner, Simpro Solutions, Inc., a Canadian BPO company engaged in contact center and back office outsourcing activities.

SSL incorporated Simpro Solutions Philippines, Inc. (SSPI) in 2012 for its BPO business in the Philippines. Effectively, Paxys has joint control in SSPI through its wholly-owned subsidiary, Paxys Limited.

In 2015, SSPI terminated its Philippine operations due to non-renewal of its revenue contracts. With the approval of the Board, SSPI thereafter amended its Articles of Incorporation shortening the term of its existence up to June 30, 2018. Said amendment has been approved

by the Board of Directors on March 15, 2017 and by the Securities and Exchange Commission on May 24, 2017. By virtue of the Amended Articles of Incorporation, the corporate existence of SSPI was terminated on June 30, 2018.

Principal Products or Service

Paxys is an investment holding company. Through its operating subsidiaries, Paxys has been engaged in diversified services such as business process outsourcing and data conversion throughout the Philippines and internationally. For the past years, Paxys divested its call center, salary packaging, IT consulting, and software solutions business. At present, Scopeworks Asia, Inc. (SWA) is its only remaining operating subsidiary.

SWA is a Philippine BPO company engaged in business process outsourcing by providing outsourcing services including data transcription services, customer service, facilities and support services, and back office services to domestic and foreign institutions, as well as to multinational companies based in the Philippines and abroad.

Percentage of revenues contributed by foreign sales *(In Millions Php)*

| | 2018 | | 2017 | | 2016 | |
|--------------|--------------|-------------|--------|------------|--------|------------|
| | Amount | Percentage | Amount | Percentage | Amount | Percentage |
| Foreign | ₱82.5 | 95% | ₱79.2 | 100% | ₱92.1 | 100% |
| Local | 4.0 | 5% | - | - | - | - |
| Total | ₱86.5 | 100% | ₱79.2 | 100% | ₱92.1 | 100% |

Distribution methods of the products or services

To ensure that all of the clients' needs are properly addressed and met, the team has developed the Group's website (www.paxys.com). Through this site, clients can easily access all of the subsidiaries' services and individual websites.

SWA delivers the service to its clients using a proprietary system which integrates marketing, transcription upload and download, job monitoring, customer service, and customer payment all on its website.

Status of any publicly- announced new product or service

There are no new products nor services introduced in 2018.

Competition

The Company's competition within the global BPO services industry includes US-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

The revenues from external customers accounting for 10% or more of the consolidated revenue pertain to revenue from services rendered by its operating subsidiary to Nuance Communications Ireland Ltd.

Related Party Transactions

Paxys has established procedures to ensure the integrity and transparency of related party transactions between and among the Company and its joint venture partners, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by directors and officers. The arms-length principle is applied and these transactions are properly recorded and disclosed in the financial records.

There are no material related party transactions for year 2018 and 2017 nor any pending or proposed transactions, to which the Company was or is to be a party and/or in which any of its directors and officers, any close family members of such individuals, had or is to have a direct or indirect material interest except as provided hereunder.

Transactions between related parties for the year 2018 and 2017 pertain mainly to cash advances in support of working capital requirements of ACS Pacific Limited in the net amount of ₱3.9 million and ₱17 million, respectively.

Licenses

Scopeworks Asia, Inc. (SWA)

On November 25, 2009, SWA's registration of its expanding business process outsourcing service in the field of data transcription activity was approved by BOI. This certification entitles SWA to a three-year 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. SWA's ITH incentive has expired in 2012 and it is now subject to 30% regular corporate income tax.

Simpro Solutions Philippines, Inc. (SSPI)

SSPI was registered with the Philippine Economic Zone Authority in October 2012 as an Ecozone Information Technology Enterprise. Under SSPI's registration conditions, SSPI's

operations is not entitled to Income Tax Holiday (ITH), but only to 5% Gross Income Tax (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 provided that it complies with the export sales requirement prescribed for Ecozone IT Enterprises.

As at December 31, 2018, SSPI has not availed the 5% GIT incentive and has been subjected to regular corporate income tax rate of 30% following the termination of its registered activities in June 2015. Given the termination of the corporate existence of SSPI as of June 30, 2018, the Group is also processing the termination of SSPI's PEZA registration.

Effect of existing or probable governmental regulations on the business

The limitation and conditions on SWA imposed by BOI has ended in November 2012. Starting 2013, SWA is already subject to government regulations governing regular business entities.

Research and Development

The Company has not spent any amount during the last three calendar 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 December 31, 2018, the Group has 167 employees - including regular, project-based, and probationary employees. There are no existing collective bargaining agreements (CBA) covering Paxys 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.

Additional Requirements as to Certain Issues or Issuers

Debt Issues

The Company's net worth exceeds ₱25.0 million. There are no unsecured bonds to be issued.

Item 2. Properties

The Group's assets consist of computer and communication equipment, leasehold improvements, furniture and fixtures, transportation equipment and software licenses. None of these assets were held as collateral in 2018 and 2017.

Below is the list of leased properties of the Group, including conditions thereof as of December 31, 2018:

| PAXYS Location | Expiration of Lease | Term of Renewal |
|--|----------------------------|--------------------------------|
| 15 th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City | April 30, 2021 | Upon agreement of both parties |

| SWA Location | Expiration of Lease | Term of Renewal |
|--|----------------------------|--|
| Building No.1, Diode St., Light Industry & Science Park (LISP), Brgy. Diezmo, Cabuyao Laguna | December 31, 2019 | Lease was renewed for another two (2) years until 2021, with option to extend for another two years and six months |

| SWA Location | Expiration of Lease | Term of Renewal |
|--|----------------------------|--------------------------------|
| Mezzanine – (5 th Floor) /Penthouse Unit Yupangco Building #1606 Trade St. corner Investment Drive, Madrigal Business Park, Alabang Muntinlupa City | October 20, 2020 | Upon agreement of both parties |

Item 3. Legal Proceedings

There are no material pending legal proceedings to which the Company nor any of its subsidiary or affiliates is a party, or of which any of their property is the subject.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the year covered by this report.

PART II – SECURITIES

Item 5. Market for Registrant’s Common Equity and Related Stockholders Matters

Market Information

Principal market where common equity is traded: **Philippine Stock Exchange**

High and low sales prices for each quarter within the last two fiscal years:

The following are the high and low closing sales prices of the Corporation’s shares:

| | Closing Prices | |
|-------------------------|----------------|------|
| | High | Low |
| 2018 | | |
| 1 st quarter | 3.60 | 2.72 |
| 2 nd quarter | 3.91 | 2.74 |
| 3 rd quarter | 3.95 | 3.04 |
| 4 th quarter | 3.50 | 2.95 |
| 2017 | | |
| 1 st quarter | 4.83 | 3.00 |
| 2 nd quarter | 3.15 | 2.90 |
| 3 rd quarter | 3.44 | 2.85 |
| 4 th quarter | 4.21 | 2.76 |

Price information as of latest practicable trading date:

As of December 31, 2018, Paxys shares are traded on the Philippine Stock Exchange at the price of ₱3.25 per share.

Description of Registrant’s Securities

Common Stock

Common share with par value of ₱1.00 is the only class of shares of Paxys. As of December 31, 2018, total issued and outstanding shares of the Company amounted to 1,148,534,866 shares. The total authorized capital shares of stock is 1.8 billion shares.

Debt Securities

The Company does not have any debt securities to be registered.

Securities Subject to Redemption or Call

There are no securities subject to redemption or call.

Dividends

There were no dividends declared as at December 31, 2018, 2017, and 2016.

Holders

The number of stockholders of record as of December 31, 2018 in the Company's stock and transfer book was 714. The common shares issued as of December 31, 2018 were 1,148,534,866. The list of the top 20 stockholders of Paxys common shares as of December 31, 2018 is stated hereunder:

| Name | No. of Shares | % of Total |
|--|----------------------|-------------------|
| All Asia Customer Services Holdings Ltd. | 621,260,820* | 54.09% |
| PCD Nominee Corporation (Non-Filipino) | 464,687,402 | 40.46% |
| PCD Nominee Corporation (Filipino) | 60,627,632 | 5.28% |
| 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% |
| Total | 1,148,055,369 | 99.96% |

* This does not include the 9,538,218 shares lodged with AB Capital Securities, Inc. and SJ Roxas and Co., Inc. Therefore, the total number of shares owned by All Asia Customer Services Holdings Ltd. is 630,844,038, representing 54.93% of the total outstanding shares

PART III – FINANCIAL INFORMATION

Item 6. Management's Discussion and Analysis and Plan of Action

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF ACTION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

The following discussion and analysis of the financial condition and results of operations of Paxys, Inc. and its subsidiaries should be read in conjunction with the audited consolidated financial statements and other accompanying disclosures set forth elsewhere in this report.

Results of Operation

Consolidated Financial and Operational Highlights
(In Thousand Pesos unless otherwise stated)

| | 2018 | 2017 | YoY Change |
|---|----------|----------|------------|
| Service Income | ₱86,477 | ₱79,205 | 9% |
| Gross Profit | 20,971 | 12,684 | 65% |
| EBITDA ¹ | 22,805 | 8,993 | 154% |
| Loss from operations ² | (80,621) | (73,142) | (10%) |
| Net Income attributable to equity holders | 14,087 | 1,954 | 621% |

Service income of the Group, which pertains to the revenue from the remaining operating subsidiary - SWA, grew by 9% in 2018 as compared to 2017.

Revenue growth came mainly from organic increase in the volume of the business of SWA and additional revenue streams coming from its new site in Alabang, Muntinlupa. Coupled with cost efficiencies, the improvement resulted to a 65% improvement in the Group's Gross Profit in 2018 versus 2017.

The Group's Operations resulted to a loss of amounting to ₱80.6 million and ₱73.1 million as at December 31, 2018 and 2017, respectively. However, the Group earned Interest Income from its surplus funds amounting to ₱95.4 million and ₱74.9 million as at December 31, 2018 and 2017, respectively, or growth of about 27%. This, together with net foreign exchange gain and other income of the Group more than covered the Group's overhead and resulted to Net Income for the year of ₱14.1 million. Compared with prior year results, the Group's Net Income in 2018 is higher by 621%. EBITDA is also at positive ₱22.8 million.

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

² Operating Income (Loss) = Gross Profit - Gen & Admin Expenses. Exclusive of Other Income

Scopeworks Asia, Inc. (SWA)
(in Thousand Pesos unless otherwise stated)

| | 2018 | 2017 | YoY Change |
|-------------------------------------|---------|---------|---------------|
| Service Income | ₱86,477 | ₱79,205 | 9% |
| Gross Profit | 20,971 | 12,684 | 65% |
| EBITDA ¹ | 5,549 | 2,634 | 111% |
| Income from operations ² | 630 | 392 | 61% |
| Net Income | 3,228 | 1,311 | 146% |

Service Income of SWA grew by 9% in 2018 as compared to 2017. This revenue growth is mainly driven by the increase in the volume from its data conversion account for a UK client. SWA also had additional revenue streams in 2018 coming mainly from its new site in Alabang, Muntinlupa which provides facility and services to a client covering work-ready seats to be used for business process outsourcing and shared services.

In terms of operations, SWA's efficiency is better in 2018 as compared to 2017. The direct cost has further gone down from ₱66.5 million in 2017 to ₱65.5 million in 2018 resulting to a Gross Profit with a 61% growth or ₱21.0 million in 2018 versus ₱12.7 million in 2017.

SWA is continuously looking for additional opportunities to further increase its revenues.

Financial Position

Consolidated Financial and Operational Highlights
(in Thousand Pesos unless otherwise stated)

| | 2018 | 2017 | YoY Change |
|------------------------|------------|------------|---------------|
| Current Assets | ₱3,884,972 | ₱3,742,200 | 4% |
| Noncurrent Assets | 20,419 | 13,395 | 52% |
| Assets | 3,905,391 | 3,755,595 | 4% |
| Current Liabilities | 28,882 | 26,692 | 8% |
| Noncurrent Liabilities | 12,880 | 4,064 | 217% |
| Equity | 3,863,629 | 3,724,839 | 4% |

The Group's total assets as at December 31, 2018 has increased by ₱149.8 million. This is mainly due to the operating income of the Group and the gain on translation of Paxys NV's dollar-denominated funds which is shown in the Equity section of the audited consolidated statements of financial position under "Other Equity Reserves".

¹ EBITDA is defined as Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization

² Operating Income (Loss) = Gross Profit - Gen & Admin Expenses. Exclusive of Other Income

Liquidity and Capital Resources

Consolidated Financial and Operational Highlights (In Thousand Pesos unless otherwise stated)

| | 2018 | 2017 | YoY Change |
|---|---------|-----------|---------------|
| Net Cash provided by (used in) Operating Activities | ₱34,075 | (₱13,164) | 359% |
| Net Cash used in Investing Activities | 229,580 | (95,359) | 341% |
| Net decrease in Cash and Cash Equivalents | 263,655 | (108,523) | 343% |

The cash used in investing activities pertain mainly to translation gain on the dollar Investment Securities of the Group.

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.

Top Financial Ratios

The following are the major financial ratios of the Company for the year ended December 31, 2017 and year ended December 31, 2016:

| | 2018 | 2017 | YoY Change |
|----------------------|-------|-------|---------------|
| Current Ratio | 134.1 | 140.2 | (4%) |
| Debt to Equity Ratio | 0.01 | 0.01 | - |
| Return on Equity | 0.36% | 0.05% | 620% |
| EBITDA Margin | 26% | 11% | 136% |
| Net Income margin | 16% | 2% | 700% |

All KPI ratios are within the management's expectation within the periods under review.

1. Current ratio – Current ratio is a measurement of liquidity. It measures the Group's ability to cover its short-term liabilities with its current assets. This is derived by dividing the total current assets of the Group over total current liabilities. Higher ratio means higher liquidity.
2. Debt to equity ratio – indicates the relative proportion of the debt used to finance the Group's assets over its total shareholders' equity.
3. Return on equity ratio – Return on equity ratio is a profitability measure. This is computed by dividing the net income over total stockholders' equity.

4. EBITDA Margin – this is equal to the Group’s earnings before interest, tax, depreciation and amortization (EBITDA) divided by total revenue.
5. Net Income Margin – ratio of net profits to revenues

Other Matters

a. Subsequent event
None.

b. Contingencies
As of December 31, 2018, the Company has no material contingencies.

c. Commitments
There were no material commitments for expansion as of December 31, 2018.

d. 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.

e. 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.

f. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company’s liquidity.

g. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or an unfavorable impact on net sales or revenue or income from continuing operation.

h. The causes for any material change from period to period are stated under Management’s discussion and analysis section “financial condition”.

i. The effects of seasonality or cyclicalities on the operations of the Company’s business are not material.

j. 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.

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

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

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

The following discussion and analysis of the financial condition and results of operations of Paxys, Inc. and its subsidiaries should be read in conjunction with the audited consolidated financial statements and other accompanying disclosures set forth elsewhere in this report.

Results of Operation

Consolidated Financial and Operational Highlights (In Thousand Pesos unless otherwise stated)

| | 2017 | 2016 | YoY Change |
|---|----------|----------|---------------|
| Service Income | ₱79,205 | ₱92,073 | (14%) |
| Gross Profit | 12,684 | 12,258 | 3% |
| EBITDA ¹ | 8,993 | 19,739 | (54%) |
| Loss from operations ² | (73,142) | (65,070) | (12%) |
| Net Income attributable to equity holders | 1,954 | 11,830 | (83%) |

Service income as the December 31, 2017 and 2016 pertain to the revenue from the remaining operating subsidiary of the Group, SWA.

SWA revenues went down by 14% mainly due to lower volume. At the Gross Profit level, the impact of this shortfall was tempered by lower direct cost resulting primarily from effective planning and management of workforce in response to the decline in volume.

SWA continue to generate income from operations and recorded ₱1.3 million and ₱5.9 million Net Income as at December 31, 2017 and 2016, respectively. Meanwhile, the Group's total interest income from surplus funds are about ₱74.9 million and ₱66.8 million as at December 31, 2017 and 2016, respectively. These effectively offset the overhead costs of the Parent Company and results to a consolidated Net Income and positive EBITDA of ₱9.0 million and ₱19.7 million, respectively.

Compared with prior year results, the Group's Net Income went down by 83% due to one-off net gain in 2016 amounting to ₱6.8 million. Excluding one-off gain, Net Income has decreased by about 61% mainly due to higher operating expenses related to business development activities of the Parent Company.

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

² Operating Income (Loss) = Gross Profit - Gen & Admin Expenses. Excluding Other Income

Scopeworks Asia, Inc. (SWA)

(in Thousand Pesos unless otherwise stated)

| | 2017 | 2016 | YoY Change |
|------------------------|---------|---------|---------------|
| Service Income | ₱79,205 | ₱92,073 | (14%) |
| Gross Profit | 12,684 | 12,258 | 3% |
| EBITDA | 2,634 | 7,657 | (66%) |
| Income from operations | 392 | 3,263 | (88%) |
| Net Income | 1,311 | 5,911 | (78%) |

SWA's service income has decreased year on year over the last two years mainly due to the lower demand for the service and the improvement in the technologies.

In 2017, the ₱79.2 million Service Income decreased by 14% versus prior year Service Income of ₱92.1 million. While SWA is continuously looking for new business opportunities to increase its revenues, several mitigating measures have been put into place to ensure that the business will be able to address potential losses brought by volume decline. In 2016, SWA site operations were consolidated in Laguna and this has significantly reduced the operating expenses of the company.

As a result, SWA recorded a Net Income of ₱1.3 and ₱5.9 million as at December 31, 2017 and 2016, respectively. EBITDA is also positive at ₱2.6 million and ₱7.7 million for 2017 and 2016, respectively.

Financial Position

Consolidated Financial and Operational Highlights

(in Thousand Pesos unless otherwise stated)

| | 2017 | 2016 | YoY Change |
|------------------------|------------|------------|---------------|
| Current Assets | ₱3,742,200 | ₱3,728,440 | 0.4% |
| Noncurrent Assets | 13,395 | 14,493 | (7.6%) |
| Assets | 3,755,595 | 3,742,933 | 0.3% |
| Current Liabilities | 26,692 | 34,230 | (22.0%) |
| Noncurrent Liabilities | 4,064 | 5,258 | (22.7%) |
| Equity | 3,724,839 | 3,703,445 | 0.6% |

The Group's total assets as has increased by ₱12.7 million in 2018. This is mainly due to the operating income of the Group and the gain on translation of Paxys NV's dollar-denominated funds. The translation gain is shown in the Equity section of the audited consolidated statements of financial position under "Other Equity Reserves".

Liquidity and Capital Resources

Consolidated Financial and Operational Highlights (In Thousand Pesos unless otherwise stated)

| | 2017 | 2016 | YoY Change |
|---|-----------|-----------|------------|
| Net Cash provided by (used in) Operating Activities | (₱13,164) | ₱19,730 | (167%) |
| Net Cash used in Investing Activities | (95,359) | (285,112) | 67% |
| Net decrease in Cash and Cash Equivalents | (108,523) | (265,382) | 59% |

The cash used in investing activities pertain mainly to purchase of additional investments in short-duration bonds and managed funds. These are classified as Held-to-Maturity Investments and Available-for-Sale financial assets in the consolidated financial position.

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.

Top Financial Ratios

The following are the major financial ratios of the Company for the year ended December 31, 2017 and year ended December 31, 2016:

| | 2017 | 2016 | YoY Change |
|----------------------|-------|-------|------------|
| Current Ratio | 140.2 | 108.9 | 29% |
| Debt to Equity Ratio | 0.01 | 0.01 | - |
| Return on Equity | 0.05% | 0.32% | (84%) |
| EBITDA Margin | 11% | 21% | (47%) |
| Net Income margin | 2% | 13% | (81%) |

All KPI ratios are within the management's expectation within the periods under review.

1. Current ratio – Current ratio is a measurement of liquidity. It measures the Group's ability to cover its short-term liabilities with its current assets. This is derived by dividing the total current assets of the Group over total current liabilities. Higher ratio means higher liquidity.
2. Debt to equity ratio – indicates the relative proportion of the debt used to finance the Group's assets over its total shareholders' equity.
3. Return on equity ratio – Return on equity ratio is a profitability measure. This is computed by dividing the net income over total stockholders' equity.

4. EBITDA Margin – this is equal to the Group’s earnings before interest, tax, depreciation and amortization (EBITDA) divided by total revenue.
5. Net Income Margin – ratio of net profits to revenues

Other Matters

- a. Subsequent event
None.
- b. Contingencies
As of December 31, 2017, the Company has no material contingencies.
- c. Commitments
There were no material commitments for expansion as of December 31, 2017.
- d. 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.
- e. 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.
- f. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company’s liquidity.
- g. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or an unfavorable impact on net sales or revenue or income from continuing operation.
- h. The causes for any material change from period to period are stated under Management’s discussion and analysis section “financial condition”.
- i. The effects of seasonality or cyclicity on the operations of the Company’s business are not material.
- j. 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.

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

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

Year Ended December 31, 2016 Compared with Year Ended December 31, 2015

Consolidated Financial and Operational Highlights (In Thousand Pesos unless otherwise stated)

| | 2016 | 2015 | YoY Change |
|--|----------|----------|---------------|
| Service Income | ₱92,073 | ₱134,700 | (32%) |
| Gross Profit | 12,258 | 15,767 | (22%) |
| EBITDA ¹ | 19,739 | (3,842) | 614% |
| Loss from operations ² | (65,070) | (63,841) | (2%) |
| Net Income (Loss) attributable to equity holders | 11,830 | (12,569) | 194% |

Service income for both years pertain to the revenue from remaining operating subsidiary of the Group, Scopeworks Asia (SWA).

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 are savings in personnel and premise costs due to site consolidation, thus, the decrease in the Gross Profit was minimized at ₱3.5 million or 22%.

Interest Income from the Group's surplus funds continue to provide a stable additional source of income. In 2016, these 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 total Interest Income of ₱66.8 million or a 54% increase versus prior year Interest Income of ₱43.3 million. This together with favorable foreign exchange rate and cost efficiencies of the Parent Company and its operating subsidiary resulted to a 194% turnaround in the Group's Net Income of ₱11.8 million versus Net Loss of ₱12.6 million in 2015.

Scopeworks Asia, Inc. (SWA)

The following table shows key performance indicators of SWA, the remaining operating subsidiary of the Group:

(in Thousand Pesos unless otherwise stated)

| | 2016 | 2015 | YoY Change |
|--|---------|----------|---------------|
| Service Income | ₱92,073 | ₱134,700 | (32%) |
| Gross Profit | 12,258 | 15,767 | (22%) |
| EBITDA ¹ | 7,657 | 3,522 | 118% |
| Income (loss) from operations ² | 3,263 | (5,866) | 156% |
| Net Income | 5,911 | 1,273 | 364% |

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

² Operating Income (Loss) = Gross Profit - Gen & Admin Expenses

SWA's service income has decreased year on year over the past three years mainly due to the lower demand for the service and the improvement in the technology.

In 2016, SWA reported ₱92.1 million Service Income. This is a decrease of 32% versus 2015 Service Income of ₱134.7 million. SWA management has taken several measures to cope up with the decrease in its revenues which included consolidation of site operations. The result of which is a 36% or ₱51.7 million overall lower total direct and general expenses for the year.

In summary, 2016 has been better in terms of financials versus 2015 for a Net Income of ₱5.9 million or 364% improvement versus ₱1.3 million from 2015. EBITDA is also positive for both years.

Financial Condition

Consolidated Financial and Operational Highlights (in Thousand Pesos unless otherwise stated)

| | 2016 | 2015 | YoY Change |
|------------------------|------------|------------|------------|
| Current Assets | ₱3,728,440 | ₱3,579,165 | 4% |
| Noncurrent Assets | 14,493 | 16,037 | (10%) |
| Assets | 3,742,933 | 3,595,202 | 4% |
| Current Liabilities | 34,230 | 45,010 | (24%) |
| Noncurrent Liabilities | 5,258 | 6,789 | (23%) |
| Equity | 3,703,445 | 3,543,403 | 4% |

The Group's total assets and equity increased by 4% or ₱147.7 million mainly due to gain in translation of Paxys NV's dollar-denominated funds and the income of the operating subsidiary of the Group. The translation gain is shown in the Equity section of the audited consolidated statements of financial position under "Other Equity Reserves".

Liquidity and Capital Resources

Consolidated Financial and Operational Highlights (in Thousand Pesos unless otherwise stated)

| | 2016 | 2015 | YoY Change |
|---|-----------|-----------|------------|
| 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 decrease in cash and cash equivalents | (265,382) | (349,957) | 242% |

The cash used in investing activities for both years pertain mainly to investment in short-duration bonds and managed funds. These are classified as Held-to-Maturity Investments and Available-for-Sale financial assets in the consolidated financial position.

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.

Top Financial Ratios

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

| | 2016 | 2015 | YoY Change |
|----------------------|-------|--------|------------|
| Current Ratio | 108.9 | 79.5 | 37% |
| Debt to Equity Ratio | 0.01 | 0.01 | - |
| Return on Equity | 0.32% | (0.4%) | 180% |
| EBITDA Margin | 21% | (3%) | 800% |
| Net Income margin | 13% | (9%) | 244% |

All KPI ratios are within the management's expectation within the periods under review.

1. Current ratio – Current ratio is a measurement of liquidity. It measures the Group's ability to cover its short-term liabilities with its current assets. This is derived by dividing the total current assets of the Group over total current liabilities. Higher ratio means higher liquidity.
2. Debt to equity ratio – indicates the relative proportion of the debt used to finance the Group's assets over its total shareholders' equity.
3. Return on equity ratio – Return on equity ratio is a profitability measure. This is computed by dividing the net income over total stockholders' equity.
4. EBITDA Margin – this is equal to the Group's earnings before interest, tax, depreciation and amortization (EBITDA) divided by total revenue.
5. Net Income Margin – ratio of net profits to revenues

OTHER MATTERS

- a. Subsequent Event
None
- b. Contingencies
As of December 31, 2016, the Company has no material contingencies.
- c. Commitments
There were no material commitments for expansion as of December 31, 2016.

- d. 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.
- e. 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.
- f. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.
- g. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or an unfavorable impact on net sales or revenue or income from continuing operation.
- h. The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".
- i. The effects of seasonality or cyclicalities on the operations of the Company's business are not material.
- j. 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.

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

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

Item 7. Financial Statements

Please refer to the attached consolidated financial statements of Paxys Group (Exhibit C) as at and for the years ended December 31, 2018, 2017, and 2016.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Pursuant to the authorization made by the shareholders at the Group's Annual Shareholders Meeting held on December 5, 2014, the Group appointed Reyes Tacandong & Co. as its new external auditor for Paxys, Inc. and subsidiaries effective taxable year 2014. The Group's previous external auditor, SGV & Co. has served the Group for more than five taxable years and the change was made in line with the corporate governance policies of the Group. There are no disagreements with the current nor previous auditors regarding accounting and financial disclosure.

The consolidated fees billed for the audit of the Company's annual financial statements amounted to ₱1.6 million, ₱1.3 million, and ₱1.2 million in 2017, 2016 and 2015, respectively.

There are no other assurance and related services rendered by the external auditors.

The audit fees were approved by the Audit Committee based on the scope of work of external auditors and the complexity of accounting and audit issues identified. 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.

PART IV. MANAGEMENT AND CERTAIN SECURITY HOLDERS

Item 9. Directors and Executive Officers of the Registrant

Directors, including independent directors and executive officers:

| NAME | POSITION | AGE | CITIZENSHIP |
|---------------------------|-----------------------------------|-----|-------------|
| Tarcisio M. Medalla | Chairman & President | 70 | Filipino |
| Roger Leo A. Cariño | Director/ Treasurer | 59 | Filipino |
| Christopher B. Maldia | Director | 58 | Filipino |
| Ghee Keong Lim | Director | 51 | Malaysian |
| Roberto A. Atendido | Director | 71 | Filipino |
| George Y. SyCip | Independent Director | 62 | American |
| Jose Antonio Lichauco | Independent Director | 60 | Filipino |
| Mayette H. Tapia | Corporate Secretary / CIO | 32 | Filipino |
| Ana Maria A. Katigbak-Lim | Assistant Corporate Secretary/CIO | 50 | Filipino |
| Pablito O. Lim | Compliance Officer | 60 | Filipino |
| Sheri Inocencio | Chief Audit Executive | 53 | Filipino |
| Divine Grace M. Gandeza | Chief Risk Officer | 32 | Filipino |

Mr. Tarcisio M. Medalla, 70 years old, Filipino, has been the Chairman 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 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.

Mr. Roger Leo A. Cariño, 59 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 is also the Chairman and President of UT Foundation, Inc. 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.

Mr. Christopher B. Maldia, 58 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.

Mr. Lim Ghee Keong, 51 years old, Malaysian, was appointed as 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 Chief Operating Officer of UTSB and serves on the boards of several other companies in which UTSB Group has 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.

Mr. Roberto A. Atendido, 71 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 Sinag Energy Philippines, Inc. 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 Inc., Sinag Global Energy Corporation, Gyant Comida Corporation, West Palawan Premiere Development Corporation and Macay Holdings Inc. He holds a Masters Degree in Business Management from the Asian Institute of Management.

Mr. George Y. SyCip, 62 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 Asian Alliance Investment Corp., Cityland Development Corporation, FMF Development Corporation, Premiere Horizon Alliance Corporation and Bank of the Orient in San Francisco. 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.

Mr. Jose Antonio A. Lichauco, 60 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.

Atty. Mayette H. Tapia, 32 years old, Filipino, is the Corporate Secretary, General Counsel, Corporate Information Officer, and Investor Relations Officer beginning September 4, 2017. She previously served as a General Counsel of a multinational company and as an associate lawyer at Angara Abello Concepcion Regala & Cruz (ACCRA) Law Offices. She is currently a member of the Association of Southeast Asian Nation (ASEAN) Law Association and served as a corporate secretary of the San Beda Law Alumni Association Board of Trustees. She obtained her Bachelor of Laws degree from San Beda University-College of Law in Manila and became a member of the Integrated Bar of the Philippine on April 2013.

Atty. Ana Maria A. Katigbak, 50 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.

Mr. Pablito O. Lim, 60 years old, Filipino, is the Chief Financial Officer of the Group since 2013 and the Compliance Officer of the Company. He was the former CFO of Stellar Philippines, Inc. and Stellar Global Solutions Philippines, Inc. Prior to joining the Group, he was the CFO of Brightpoint Italy and served as an Audit Executive in Sycip Gorres Velayo & Co., a member firm of Ernst & Young. He is also concurrently a Director of some of the Company's subsidiaries such as Simpro Solutions Philippines, Inc., Scopeworks Asia, Inc. and Paxys Realty, Inc. (formerly known as Paxys Global Services, Inc.). He is a Certified Public Accountant and completed the Executive Development Program and the Management Development Program at the Asian Institute of Management.

Ms. Sheri A. Inocencio, 53 years old, Filipino, is the Group's Chief Audit Executive (CAE). Prior to joining the Group, she was the Vice President for Finance in BA Continuum Philippines, Inc. (a subsidiary of Bank of America) from August 2013 up to February 2015 and in Advanced Contact Solutions, Inc. from March 2003 up to November 2008. She also held several key finance and audit roles in C3/Customer Contact Channels, Inc., Prople, Inc., NGL Pacific Ltd., Pacific Cable & DTU Systems, Inc., and SGV & Co. Ms. Inocencio graduated cum laude from University of the Philippines with a degree in Business Administration and Accountancy and is a Certified Public Accountant.

Ms. Divine Grace M. Gandeza, 32 years old, Filipino, is the Group's Chief Risk Officer and has been with the Group since September 2012. She has extensive background in risk management, finance, and internal audit from her experience and various positions held within the Paxys group and other listed companies in diverse industries such as service, retail, freight and supply chain, transportation and logistics. She's a Certified Public Accountant and a Certified Information Systems Auditor.

KEY EMPLOYEES

All the employees are considered important assets of the Company who collectively make significant contributions to the Company. The key employees of the Company as at December 31, 2018 are as follows:

1. Mr. Tarcisio M. Medalla—Chairman and President
2. Atty. Mayette H. Tapia—Corporate Counsel, Corporate Secretary, and Corporate Information Officer
3. Mr. Pablito O. Lim—Chief Financial Officer and Compliance Officer

These key employees' details are exhaustively discussed in the first part of this Item 9.

Family Relationship

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

Involvement 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.

Item 10. Executive Compensation

| Year/ Top Highly Compensated Officers* (Amounts in Million Pesos) | Compensation and other benefits | Stock Options | Total |
|---|---------------------------------------|------------------|-------|
| 2018: Chairman and President, Corporate Counsel, and Compliance Officer | ₱25.5 | ₱- | ₱25.5 |
| 2017: Chairman and President, Corporate Legal Counsel, and Compliance Officer | 18.7 | - | 18.7 |
| 2016: Chairman and President and Corporate Legal Counsel | 11.4 | - | 11.4 |

**The Group has a lean organizational structure. There are no other highly compensated officers other than the above. The names are shown in Item 9 part of this report.*

Per diem fees, of the Group's executive officers and directors amounted to ₱812,000, ₱1.02 million, and ₱1.30 million for the latest years ending December 31, 2018, 2017, and 2016, respectively.

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

Not applicable. The Company has no outstanding warrants and options.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

As of December 31, 2018 the Company 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 Holdings Ltd. owns 100% of AACSHL. Paxys has neither corporate relationship nor information about Expac Holdings 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 | 170,109,339 | 14.81% |
| Total | | | | 1,146,575,854 | 99.83% |

* This includes 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)

Ownership Security of Management as of December 31, 2018:

| Title of Class | Name of Beneficial Owner | Amount of Beneficial Ownership | Citizenship | Percent of Class |
|-----------------------|--|---------------------------------------|--------------------|-------------------------|
| Common | Tarcisio M. Medalla Chairman & President | 1,120 | Filipino | 0.0001% |
| Common | Christopher B. Maldia Director | 129,520 | Filipino | 0.0113% |
| Common | Ghee Keong Lim Director | 82,800 | Malaysian | 0.0072% |
| Common | Roger Leo A. Carino Director | 1,120 | Filipino | 0.0001% |

| Title of Class | Name of Beneficial Owner | Amount of Beneficial Ownership | Citizenship | Percent of Class |
|-----------------------|---|---------------------------------------|--------------------|-------------------------|
| Common | Roberto A. Atendido Director | 1,000 | Filipino | 0.0001% |
| Common | George Y. SyCip Independent Director | 1,120 | American | 0.0001% |
| Common | Jose Antonio A. Lichauco Independent Director | 1,120 | Filipino | 0.0001% |
| Common | Mayette H. Tapia Corporate Secretary/ CIO | 0 | Filipino | - |
| Common | Ana Maria A. Katigbak Assistant Corporate Secretary | 0 | Filipino | - |
| Common | Pablito O. Lim Compliance Officer | 0 | Filipino | - |
| | Total | ₱217,800 | | 0.0189% |

The shareholdings of the above-named directors and officers aggregate to 217,800 shares or 0.0189% of the outstanding capital stock of the Company.

As reported in the Public Ownership Report as of December 31, 2018, 171,850,551 common shares are held by public shareholders, which is approximately 14.96% of the total issued and outstanding shares. The Company is compliant with the 10% minimum public ownership rule.

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.

Changes in control

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

Item 12. Certain Relationships and Related Transactions

Except from those mentioned in **Item 1 (viii)**, there has been no transaction during the last two 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.

PART V.
CORPORATE GOVERNANCE
(Please refer to the Company's I-ACGR)

This will be exhaustively discussed in the Integrated Annual Corporate Governance Report of the Group (I-ACGR).

Pursuant to SEC Memorandum Circular No. 15, Series of 2017, publicly-listed are mandated to provide disclosure on compliance/non-compliance with the recommendations provided under the Code of Corporate Governance requirements of the Securities and Exchange Commission and the Philippine Stock Exchange through the I-ACGR. The I-ACGR will be published and disclosed to the PSE on or before May 30, 2019.

PART VI.
EXHIBITS AND SCHEDULES
(Please refer to the following attachments)

Exhibit A - Report on SEC Form 17-C

Exhibit B – Directors’ Attendance of Board Meetings for the year 2018

Exhibit C – Audited Financial Statements as at December 31, 2018

PART VII.
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES

Item 14 – Supplementary Schedules required by Annex 68-E

Item 15 – Reconciliation of Retained Earnings Available for Dividend
Declaration

Item 16 – Schedule of Effective Standards and Interpretations

Item 17 – Map of the relationships of the Companies within the Group

The above schedules formed part of the Supplementary Schedules attached in the Audited Consolidated Financial Statements as at and for the year ending December 31, 2018, 2017 and 2016.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized, in the City of Makati on April ____, 2019

Issued By:
PAXYS, INC.


TARCISIO M. MEDALLA
Chairman & President



MAYETTE H. TAPIA
Corporate Secretary

SUBSCRIBED AND SWORN to before me this _____ day of APR 08 2019 2019 affiant(s) exhibiting to me their Passport Nos., as follows:

| NAMES | PASSPORT No. | VALID UNTIL | PLACE OF ISSUE |
|---------------------|--------------|---------------|---------------------|
| Tarcisio M. Medalla | P7548707A | June 13, 2028 | Manila, Philippines |
| Mayette H. Tapia | P0985037B | March 8, 2029 | Manila, Philippines |

NOTARY PUBLIC

Doc. No. 336
Page No. 6/9
Book No. _____
Series of 2019. 25


ATTY. VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPT. No. 11-07-UNIT 000 31, 2020
ROLL OF ATTY. 2019-2020
MCL COMPLIANCE No. 14021-2019/4-11-2018
IBP O.R No. 705762-LIFETIME MEMBER JAN. 29, 2007
PTR No. 7393020- JAN 03, 2019- MAKATI CITY
EXECUTIVE BLDG. CENTER MAKATI AVE., COR., JUPITER ST
MAKATI CITY

Reports on SEC Form 17-C

| Date Filed | Items Reported |
|-------------------|---|
| 9 February 2018 | The Company complied with the Commission's requirement on the amendment of the Article VI of Company's Articles of Incorporation. |
| 14 March 2018 | The Company advised the Exchange that one of its subsidiaries changed its corporate name and has amended its primary purpose. |
| 10 May 2018 | The Company informed the Exchange that the annual meeting of the stockholders of Paxys, Inc. for the year 2018, 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. |
| 13 August 2018 | The Company submitted the Certificates of Completion for Corporate Governance Seminar for all the Directors of Paxys, Inc. in compliance with the SEC Memorandum Circular No. 20 Series of 2013. |
| 14 August 2018 | 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. |
| 4 September 2018 | The Company informed the Exchange that the scheduled annual meeting of the stockholders of Paxys Inc. is on 10 December 2018 at the Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City. |
| 5 November 2018 | The Company provided the Exchange with the certified list of shareholders of Paxys Inc. as of 31 October 2018, the record date of our Annual Stockholders' Meeting, which was scheduled on 10 December 2018. |
| 9 November 2018 | The Company submitted to the Exchange the Certificate of Independent Directors of Messrs. Jose Antonio A. Lichauco and George Y. Sycip with undertaking. |
| 12 November 2018 | The Company submitted to the Exchange the consularized Certificate of Independent Director of Mr. George Y. Sycip. |
| 11 December 2018 | The Company informed the Exchange about the result of the Annual Stockholders' Meeting held on 10 December 2018. |

PAXYS INC.
DIRECTORS' ATTENDANCE OF BOARD MEETINGS FOR THE YEAR 2018

| Name of Directors | RM 27 March 2018 | RM 10 May 2018 | RM 10 August 2018 | RM 31 Oct. 2018 | OM 10 Dec. 2018 |
|--------------------------|------------------------|----------------------|-------------------------|-----------------------|-----------------------|
| Tarcisio M. Medalla | ✓ | ✓ | ✓ | ✓ | ✓ |
| Roger Leo A. Cariño | ✓ | ✓ | ✓ | ✓ | ✓ |
| Roberto A. Atendido | ✓ | ✓ | ✓ | A | ✓ |
| Christopher B. Maldia | ✓ | ✓ | ✓ | ✓ | ✓ |
| Jose Antonio A. Lichauco | ✓ | ✓ | ✓ | ✓ | ✓ |
| Lim Ghee Keong | ✓ | ✓ | ✓ | ✓ | A |
| George Y. Sycip | ✓ | ✓ | ✓ | ✓ | A |

Legend:

- ✓ - Present
- A - Absent
- R - Resigned
- RM - Regular Board Meeting
- OM - Organizational Board Meeting
- N.A. - Not Applicable

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

6 6 0 9

COMPANY NAME

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

PRINCIPAL OFFICE (No./Street/Barangay/City/Town/ Province)

1 5 t h F l o o r , 6 7 5 0 A y a l a O f f i c e T o w e r , A y
a l a A v e n u e , M a k a t i C i t y

Form Type

A A C F S

Department requiring the report

C R M D

Secondary License Type, If Applicable

N / A

COMPANY INFORMATION

Company's Email Address

-

Company's Telephone Number/s

(632) 250-3800

Mobile Number

-

No. of Stockholders

714

Annual Meeting (Month / Day)

December 10

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Atty. Mayette H. Tapia

Email Address

mayette.tapia@paxys.com

Telephone Number/s

(632) 250-3800

Mobile Number

-

CONTACT PERSON'S ADDRESS

15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt shall not excuse the corporation from liability for its deficiencies.

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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, 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

SUBSCRIBED AND SWORN TO
IN CITY OF MAKATI, PHILIPPINES
ISSUED ON _____

Signed this 29th day of March 2019

DOC. NO. 332
PAGE NO. 68
BOOK NO. 25
SERIES NO. 214

ATTY. VIRGILIO R. BATALLA

NOTARY PUBLIC FOR MAKATI CITY
APPT. NO. 11-87-UNTIL DEC. 31, 2020
RQM OF ATTY. NO. 4043

MCLE COMPLIANCE NO. V-02-0076/4-11-2018

IBP O.R No. 70676-IMPELIMS MEMBER JAN. 29, 2007

PTR No. 7333020- JAN 03, 2015- MAKATI CITY

15th Floor • 6750 Ayala Office Tower

Ayala Avenue, Makati City, Philippines 1226

Tel No. (02) 250-3800 • Fax No. (02) 250-3801

www.paxys.com



INDEPENDENT AUDITORS' 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, 2018 and 2017 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, 2018 and notes to consolidated 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, 2018 and 2017, and their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2018 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 *Auditors' 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 the audit 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 audit of the consolidated financial statements of the current year.

These matters were addressed in the context of our audit 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.

Accounting for Financial Assets

The Group has significant amount of financial assets, which mainly consist of cash equivalents and investment securities. This is significant to our audit because the aggregate balance of financial assets amounting to ₱3,864.8 million as at December 31, 2018 is substantial in relation to the consolidated financial statements as a whole. Further, the adoption of PFRS 9, *Financial Instruments*, effective January 1, 2018 requires significant judgment and estimate in determining the classification and measurement of the financial assets and assessing any impairment losses.



We have assessed the propriety of recognition, classification and measurement, as well as management's assessment of impairment of financial assets. Our audit procedures included, among others, (a) understanding of financial asset management and recording process; (b) verifying existence of financial assets by obtaining external confirmations from custodians and reviewing underlying documents; (c) evaluating propriety of classification of financial instruments based on a duly approved business model; (d) testing the reasonableness of recorded interest income and changes in fair values of financial assets measured at fair value through profit or loss and other comprehensive income; and (e) evaluating management's assessment of impairment losses on financial assets based on expected credit losses.

We also reviewed the adequacy of the Group's disclosures pertaining to information on the impact of the adoption of PFRS 9 as at January 1, 2018, credit and liquidity risk management, and judgment exercised and estimates made by management in relation to its financial assets. These disclosures are presented in Notes 3 and 24 to consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' 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.



Auditors' 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 auditors' 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 auditors' 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 auditors' 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 audit 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 key audit matters. We describe these matters in our auditors' 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.

REYES TACANDONG & Co.

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 0663-AR-3 Group A

Valid until August 30, 2020

BIR Accreditation No. 08-005144-006-2017

Valid until January 13, 2020

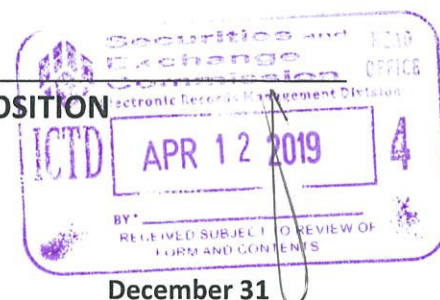
PTR No. 7334335

Issued January 3, 2019, Makati City

March 29, 2019

Makati City, Metro Manila

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



| | Note | 2018 | 2017 |
|------------------------------------|------|-------------|-------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 5 | ₱3,155,310 | ₱2,758,529 |
| Investment securities | 6 | 670,599 | 915,157 |
| Trade and other receivables | 7 | 38,904 | 53,643 |
| Other current assets | 8 | 20,159 | 14,871 |
| Total Current Assets | | 3,884,972 | 3,742,200 |
| Noncurrent Assets | | | |
| Property and equipment | 10 | 7,918 | 1,681 |
| Intangible assets | 11 | 610 | 420 |
| Other noncurrent assets | 12 | 11,891 | 11,294 |
| Total Noncurrent Assets | | 20,419 | 13,395 |
| | | ₱3,905,391 | ₱3,755,595 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities | | | |
| Trade and other payables | 13 | ₱28,674 | ₱26,502 |
| Income tax payable | | 208 | 190 |
| Total Current Liabilities | | 28,882 | 26,692 |
| Noncurrent Liabilities | | | |
| Retirement liability | 14 | 11,531 | 4,064 |
| Other noncurrent liabilities | | 1,349 | - |
| Total Noncurrent Liabilities | | 12,880 | 4,064 |
| Total Liabilities | | 41,762 | 30,756 |
| Equity | | | |
| | 15 | | |
| Capital stock | | 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 | | 517,358 | 405,598 |
| Retained earnings | | 2,896,258 | 2,869,228 |
| Total Equity | | 3,863,629 | 3,724,839 |
| | | ₱3,905,391 | ₱3,755,595 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Note | Years Ended December 31 | | |
|---|------|-------------------------|----------------|-----------------|
| | | 2018 | 2017 | 2016 |
| REVENUE | | P86,477 | P79,205 | P92,073 |
| COST OF SERVICES | 17 | (65,506) | (66,521) | (79,815) |
| GROSS PROFIT | | 20,971 | 12,684 | 12,258 |
| GENERAL AND ADMINISTRATIVE EXPENSES | 18 | (101,592) | (85,826) | (77,328) |
| INTEREST INCOME | 5 | 95,408 | 74,927 | 66,766 |
| NET FOREIGN EXCHANGE GAIN | | 4,436 | 321 | 5,135 |
| OTHER INCOME - Net | 20 | 1,103 | 5,425 | 10,790 |
| INCOME BEFORE INCOME TAX | | 20,326 | 7,531 | 17,621 |
| INCOME TAX EXPENSE (BENEFIT) | 21 | | | |
| Current | | 6,744 | 6,080 | 5,791 |
| Deferred | | (505) | (503) | - |
| | | 6,239 | 5,577 | 5,791 |
| NET INCOME | | 14,087 | 1,954 | 11,830 |
| OTHER COMPREHENSIVE INCOME | | | | |
| <i>Items to be reclassified to profit or loss</i> | | | | |
| Translation gain | | 138,161 | 10,275 | 136,858 |
| Unrealized gain (loss) on fair value changes of investment securities | 6 | (6,500) | 6,998 | 12,916 |
| Realized fair value gain on redemption | 6 | - | (53) | (2,798) |
| <i>Item not to be reclassified to profit or loss</i> | | | | |
| Remeasurement gain (loss) on retirement liability | 14 | (6,958) | 2,220 | 1,236 |
| | | 124,703 | 19,440 | 148,212 |
| TOTAL COMPREHENSIVE INCOME | | P138,790 | P21,394 | P160,042 |
| BASIC/DILUTED EARNINGS PER SHARE | 22 | P0.018 | P0.002 | P0.015 |

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 | | |
|--|------|-------------------------|-------------|-------------|
| | | 2018 | 2017 | 2016 |
| CAPITAL STOCK | | | | |
| Balance at beginning and end of year | 15 | P1,148,535 | P1,148,535 | P1,148,535 |
| ADDITIONAL PAID-IN CAPITAL | | | | |
| Balance at beginning and end of year | 15 | 451,364 | 451,364 | 451,364 |
| PARENT SHARES HELD BY A SUBSIDIARY | | | | |
| Balance at beginning and end of year | 15 | (1,149,886) | (1,149,886) | (1,149,886) |
| OTHER EQUITY RESERVES | | | | |
| Cumulative Translation Adjustment | | | | |
| Balance at beginning of year | | 385,102 | 374,827 | 237,969 |
| Translation gain | | 138,161 | 10,275 | 136,858 |
| Balance at end of year | | 523,263 | 385,102 | 374,827 |
| Cumulative Fair Value Changes of Investment | | | | |
| Securities | | | | |
| Balance at beginning of year | 6 | 14,765 | 7,820 | (2,298) |
| Realized fair value gain on redemption: | | | | |
| Transferred to retained earnings | | (12,943) | - | - |
| Reclassified to profit or loss | | - | (53) | (2,798) |
| Net unrealized gain (loss) on fair value changes | | (6,500) | 6,998 | 12,916 |
| Balance at end of year | | (4,678) | 14,765 | 7,820 |
| Cumulative Remeasurement Gain | | | | |
| on Retirement Liability | | | | |
| Balance at beginning of year | 14 | 5,731 | 3,511 | 2,275 |
| Remeasurement gain (loss) | | (6,958) | 2,220 | 1,236 |
| Balance at end of year | | (1,227) | 5,731 | 3,511 |
| | | 517,358 | 405,598 | 386,158 |
| RETAINED EARNINGS | | | | |
| Balance at beginning of year | 15 | 2,869,228 | 2,867,274 | 2,855,444 |
| Net income | | 14,087 | 1,954 | 11,830 |
| Transfer of realized gain on investment securities | 6 | 12,943 | - | - |
| Balance at end of year | | 2,896,258 | 2,869,228 | 2,867,274 |
| | | P3,863,629 | P3,724,839 | P3,703,445 |

See accompanying Notes to Consolidated Financial Statements.

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

| | | Years Ended December 31 | | |
|---|----------|-------------------------|-------------------|-------------------|
| | Note | 2018 | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Income before income tax | | P20,326 | P7,531 | P17,621 |
| Adjustments for: | | | | |
| Interest income | 5 | (95,408) | (74,927) | (66,766) |
| Provision for impairment losses on: | | | | |
| Trade and other receivables | 18 | 6,255 | 13,151 | 15,228 |
| Input value-added tax | 18 | 792 | 2,409 | 1,127 |
| Depreciation and amortization | 10 | 2,479 | 1,462 | 2,118 |
| Net retirement benefits | 14 | 509 | 1,026 | 381 |
| Gain on disposal of property and equipment | 20 | (406) | (357) | – |
| Net unrealized foreign exchange loss (gain) | | (268) | 89 | (5,135) |
| Gain on redemption of investment securities | 20 | (22) | (53) | (2,798) |
| Reversal of payables | 20 | – | (3,743) | (10,166) |
| Write-off of nontrade receivable | 20 | – | – | 4,566 |
| Operating loss before working capital changes | | (65,743) | (53,412) | (43,824) |
| Decrease (increase) in: | | | | |
| Trade and other receivables | | 2,490 | (16,135) | 3,297 |
| Other current assets | | (6,080) | (3,776) | (3,029) |
| Other noncurrent assets | | (597) | 141 | 472 |
| Increase (decrease) in: | | | | |
| Trade and other payables | | 4,297 | (3,399) | (755) |
| Other noncurrent liabilities | | 1,349 | – | (605) |
| Net cash used for operations | | (64,284) | (76,581) | (44,444) |
| Interest received | | 104,580 | 69,390 | 69,895 |
| Income taxes paid | | (6,221) | (5,973) | (5,650) |
| Retirement benefits paid | | – | – | (71) |
| Net cash provided by (used in) operating activities | | 34,075 | (13,164) | 19,730 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from: | | | | |
| Redemption of investment securities | 6 | 241,036 | 631,617 | 422,366 |
| Disposal of property and equipment | 10 | 406 | 357 | – |
| Additions to: | | | | |
| Property and equipment | 10 | (8,322) | (362) | (444) |
| Investment securities | 6 | (2,956) | (726,828) | (706,432) |
| Intangible assets | 11 | (584) | (143) | (602) |
| Net cash provided by (used in) investing activities | | 229,580 | (95,359) | (285,112) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 263,655 | (108,523) | (265,382) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | 133,126 | 10,186 | 141,993 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 2,758,529 | 2,856,866 | 2,980,255 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 5 | P3,155,310 | P2,758,529 | P2,856,866 |

See accompanying Notes to Consolidated Financial Statements.

PAXYS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Paxys, Inc. (Paxys or the Parent Company) is an investment holding company incorporated in the Philippines and listed (stock symbol: PAX) in 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.

As at December 31, 2018 and 2017, the major shareholders of the Parent Company are All Asia Customer Services Holdings Ltd (AACSHL), a 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.

At present, Scopeworks Asia, Inc. (SWA), the operating subsidiary, provides general transcription, data conversion, contact center and other outsourcing services.

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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 were approved and authorized for issue by the Board of Directors (BOD) on March 29, 2019, as reviewed and recommended for approval by the Audit, Risk Management, and Related Party Transactions Committee on the same date.

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 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 investment securities measured at fair value through profit or loss (FVPL) or fair value through other comprehensive income (FVOCI). Historical cost is generally based on the fair value of the consideration given in exchange for an asset or the fair value of the consideration received in exchange for incurring a liability.

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 reporting year, except for the adoption of the following new and amended PFRS which the Group adopted effective January 1, 2018.

- PFRS 9, *Financial Instruments* – This standard replaces PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and liabilities, impairment, hedge accounting, recognition, 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 its contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at FVPL 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; recognition of a credit loss should no longer wait for an objective evidence of impairment.

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.

Based on the Group’s analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at January 1, 2018, the Group has assessed that its financial assets and liabilities should be classified under the new classification categories of PFRS 9.

The following table shows the classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Group’s financial assets as at January 1, 2018.

| Classification under PAS 39 | Balance as at December 31, 2017 | Classification under PFRS 9 at January 1, 2018 | | |
|--|---------------------------------------|--|-----------------|-------------------|
| | | Financial Assets at | | |
| | | FVPL | FVOCI | Amortized cost |
| <i>Loans and receivables</i> | | | | |
| Cash and cash equivalents | R2,758,529 | R– | R– | R2,758,529 |
| Trade and other receivables | 53,643 | – | – | 53,643 |
| <i>Available-for-sale (AFS) financial assets</i> | | | | |
| Bonds | 652,063 | – | 152,478 | 499,585 |
| Investment in financial assets | 161,863 | – | 161,863 | – |
| Unit Investment Trust Fund (UITF) | 1,056 | 1,056 | – | – |
| <i>Held-to-maturity (HTM) investments</i> | | | | |
| Unquoted bonds | 100,175 | – | – | 100,175 |
| | R3,727,329 | R1,056 | R314,341 | R3,411,932 |

Financial assets at FVPL are acquired for the purpose of selling in the near term.

Bonds classified as financial assets at amortized cost are held within a business model whose objective is to collect contractual cash flows representing solely payments of principal and interest. Bonds classified as financial assets at FVOCI are held with the objective of realizing cash flows through collection of contractual cash flows and through sale.

Investment in financial assets pertain to investments in listed shares of stock, which are irrevocably designated by management as financial assets at FVOCI.

The impact of the adjustment from the adoption of PFRS 9 resulting from the reclassification of UITF from AFS financial assets to financial assets at FVPL is not significant. Accordingly, adjustment was recognized in 2018.

The Group assessed that the adoption of PFRS 9, specifically on determining impairment loss, has no impact on the carrying amounts of the Group's financial assets.

- PFRS 15, *Revenue from Contract with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).

The adoption of PFRS 15 has no impact in the timing of the Group's revenue recognition.

- Amendment to PFRS 15, *Revenue from Contract with Customers - Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.
- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Measuring an Associate or Joint Venture at Fair Value* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- *Philippine Interpretation IFRIC 22, Foreign Currency Transactions and Advance Consideration* – The interpretation provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

Except as discussed in the foregoing, the adoption of the 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 in Issue But Not Yet Effective

Relevant new and amended PFRS, which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning January 1, 2019:

- PFRS 16, *Leases* – This standard will replace PAS 17, *Leases* and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

For the Group's non-cancellable operating lease commitments as at December 31, 2018, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Group will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 - which might have a significant impact on the amounts recognized in the Group's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Group completes the review.

- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments allow entities to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive income (instead of at fair value through profit or loss) if a specified condition is met. It also clarifies the requirements in PFRS 9, *Financial Instruments* for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).
- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures* – The amendments clarify that long-term interests in an associate or joint venture that, in substance, form part of the entity's net investment but to which the equity method is not applied, are accounted for using PFRS 9, *Financial Instruments*.

Deferred effectivity -

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the consolidated financial statements of the Group.

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 Realty, Inc. (PRI) | Real estate | Philippines |
| Paxys Global Services Pte. Ltd. (PGSPL) | Business process outsourcing | Singapore |
| Regional Operating Headquarters of PGSPL (PGS ROHQ) | Shared services | Philippines |

PRI, PG SPL and PGS ROHQ are currently not in operations. PRI, formerly Paxys Global Services, Inc., changed its primary purpose to real estate business on November 27, 2017.

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 included 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. have been 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 Parent Company 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 separate financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using uniform 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; and

- 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 PFRS 9, 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. The Group recognizes a financial asset or liability in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those measured or designated at FVPL, includes transaction cost.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Group deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference.

Financial Assets

Classification. The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at FVOCI. The classification of a financial instrument largely depends on the Group's business model and its contractual cash flow characteristics.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting date, with any fair value gains or losses recognized in profit or loss to the extent these are not part of a designated hedging relationship.

This category includes investment in UITF, which was previously classified as AFS financial asset under PAS 39.

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

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

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

The Group classifies its cash and cash equivalents, trade and other receivables and investment in certain bonds under this category.

Under PAS 39, cash and cash equivalents and trade and other receivables were classified as loans and receivables while investment in bonds were classified as AFS financial assets and HTM investments.

Financial Assets at FVOCI. For debt instruments, financial assets should be measured at fair value through other comprehensive income if both of the following conditions are met:

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

For equity instruments, the Group irrevocably designates the financial asset to be measured at FVOCI notwithstanding the foregoing conditions.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When debt instruments carried at FVOCI are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent years.

This category includes investments in certain bonds and equity securities, which were previously classified as AFS financial assets under PAS 39.

Prior to adoption of PFRS 9, the Group classifies its financial assets into the following categories: financial assets at FVPL, loans and receivables, 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 does not have financial instruments classified as financial assets at FVPL as at December 31, 2017.

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 losses in value. 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. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

AFS Financial Assets. AFS financial assets are those non-derivative financial assets which are designated as such or are not classified in any other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial recognition, AFS financial assets are subsequently measured at fair value with unrealized gains and losses recognized as other comprehensive income until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported as other comprehensive income is recognized in profit or loss. The effective yield component of AFS financial assets, as well as the impact on foreign currency-denominated AFS financial assets, is recognized in profit or loss. Interest earned on holding AFS financial assets is recognized as "Interest income" using effective interest method.

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.

Financial Liabilities

Classification. The Group classifies its financial liabilities at initial recognition as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Group's business model and its contractual cash flow characteristics.

The Group does not have financial instruments classified as financial liabilities at FVPL.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost unless either the financial liability is held for trading and is therefore required to be measured at FVPL or the entity elects to measure the liability at FVPL. Financial liabilities are recognized when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. These financial liabilities are initially recognized at fair value less any directly attributable transaction costs.

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

The Group classifies its trade and other payables (excluding statutory payables) under this category.

Reclassification

The Group reclassifies its financial assets when, and only when, the Group changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting year following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income.

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

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

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.

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

For trade receivables, the Group calculates impairment based on lifetime ECL using a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets at amortized cost, which comprise cash equivalents, investment securities and other receivables (including due from related parties), ECL is based on 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

For a financial asset that is credit-impaired at the reporting date, an entity should measure the ECL as the difference between the asset’s gross carrying amount and the present value of estimated future cash flows discounted at the financial asset original effective interest rate. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events, among others: (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event or (c) the disappearance of an active market for that financial asset because of financial difficulties. It may not be possible to identify a single discrete event instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Prior to adoption of PFRS 9, an allowance for impairment losses is recognized when a financial asset or a group of financial assets is deemed to be impaired, i.e., if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For loans and receivables, evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred on debt instruments, the amount of the loss is measured as the excess of financial asset's carrying amount over its net realizable value, normally based on the present value of the estimated future cash flows from the financial asset.

For equity instruments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its 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.

Derecognition of Financial Assets and Liabilities

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

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

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

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

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 the 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.

Classification of Financial Instrument between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Other Current Assets

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

Input VAT. Input VAT represents the net amount of VAT recoverable from the tax authority. 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.

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.

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 these are 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 | 2 to 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 estimated useful lives and depreciation and amortization method of property and equipment 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 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 lives 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.

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.

Impairment of Nonfinancial Assets

The carrying amount of property and equipment, intangible assets and investments in joint ventures 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.

Creditable Withholding Tax (CWT)

CWT represents the amount of tax withheld the the lessees in relation to the Group's rent income. CWT can be utilized as payment for income taxes provide that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. CWT that is expected to be utilized as payment for income taxes within 12 months after the reporting year is classified as current assets. Otherwise, this is classified as other noncurrent asset.

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

Other comprehensive income 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, which is presented as "Other equity reserves," includes cumulative translation adjustment, fair value changes on investment securities and cumulative remeasurement gain or loss on retirement liability.

Revenue Recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Group perform its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has assessed that it acts as a principal in all of its revenue sources.

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.

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.

Actuarial valuations are made annually 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.

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.

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 per Share

The Group presents basic and diluted earnings per share. Basic and diluted earnings per share is calculated by dividing the net income 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 as at December 31, 2018 and 2017.

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.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, 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 have 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.

Recognizing Service Revenue. For revenue recognized over time, the Group recognizes revenue if any of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group performance as the entity performs.
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time.

The Group does not incur costs to obtain contracts with customers and does not provide ancillary services to the lessees under its sublease agreements.

Revenue, which consist of data transcription and facility service income, amounting to ₱86.5 million, ₱79.2 million and ₱92.1 million in 2018, 2017 and 2016, respectively, are recognized in profit or loss over time.

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 of 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 ₱913.7 million and ₱893.0 million as at December 31, 2018 and 2017, 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 lessee, has an existing lease agreement with a third party covering an 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 ₱13.6 million, ₱13.0 million and ₱12.0 million in 2018, 2017 and 2016, respectively (see Note 23).

The Group, as a lessor, has sublease agreements with third parties over its office space, which are accounted for as operating leases.

Rent income, including facility service income of SWA, amounted to ₱4.4 million, ₱0.9 million and ₱1.3 million in 2018, 2017 and 2016, respectively (see Note 23).

Determining Classification of Financial Instruments. Classification of financial instruments under PFRS 9 depends on the results of the business model test and “sole payment of principal and interest” (SPPI) test performed by the Group. The Group exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives.

The classification on various financial assets and liabilities of the Company are disclosed in Note 2.

Evaluating Contingencies. The Group is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Group’s management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

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 are carried at fair value. When the fair values of financial assets 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, *Financial Instruments*.

Assessing Impairment Losses on Financial Assets at Amortized Cost and FVOCI. Upon adoption of PFRS 9, impairment losses on financial assets are determined based on expected credit losses. In assessing the expected credit losses, the Group uses historical loss experience adjusted for forward-looking factors, as appropriate.

The Group's cash and cash equivalents are maintained at reputable financial institutions with good industry rating and score.

For investment securities, the Group estimates impairment based on 12-month expected credit loss. Investment securities at amortized cost and FVOCI, which have credit quality equivalent to "high grade" and have low credit risk at reporting date, are presumed to have no significant increase in credit risk since initial recognition.

The Group estimates impairment on trade receivables based on lifetime expected credit loss using a provision matrix that is based on days past due and takes into consideration historical credit loss experience, adjusted for forward-looking factors, as applicable. Management recognizes losses on credit-impaired receivables from related parties considering its ability to pay based on its available assets.

No provision for impairment losses on cash equivalents and investment securities at amortized cost and FVOCI were recognized in 2018. Provisions for impairment losses on trade and other receivables amounted to ₱6.3 million in 2018 (see Note 7).

The carrying amount of financial assets at amortized cost and FVOCI as at December 31, 2018 are as follows:

| | Note | Amount |
|-----------------------------|------|------------|
| Cash equivalents | 5 | ₱3,117,941 |
| Investment securities: | 6 | |
| At amortized cost | | 517,537 |
| At FVOCI | | 153,062 |
| Trade and other receivables | 7 | 38,904 |

Prior to adoption of PFRS 9, impairment losses is established when there is objective evidence or impairment based on events that affect future cash flows. For loans and receivables, the amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. AFS financial asset is impaired based on whether there has been a substantial or prolonged decline in the fair value of the investment (e.g. more than 20% and prolonged decline is defined as a period of more than six months). HTM investments carried at amortized cost are impaired when the carrying amount exceeds its recoverable amount, which requires judgment of the financial health of the investee.

Provision for impairment losses on trade and other receivables, including due from related parties amounted to ₱13.2 million and ₱15.2 million in 2017 and 2016, respectively (see Note 18).

No provision for impairment losses on AFS financial assets and HTM investments was recognized in 2017 and 2016.

The carrying amount of financial assets as at December 31, 2017 are as follows:

| | Note | Amount |
|-----------------------------|------|----------|
| AFS financial assets | 6 | ₱814,982 |
| HTM investments | 6 | 100,175 |
| Trade and other receivables | 7 | 53,643 |

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 ₱18.2 million and ₱13.8 million as December 31, 2018 and 2017, respectively. Allowance for impairment losses on input VAT amounted to ₱49.6 million and ₱48.8 million as at December 31, 2018 and 2017, 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 2018, 2017 and 2016.

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

| | Note | 2018 | 2017 |
|------------------------|------|--------|--------|
| Property and equipment | 10 | ₱7,918 | ₱1,681 |
| Intangible assets | 11 | 610 | 420 |

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 | 2018 | 2017 |
|------------------------|------|---------------|--------|
| Property and equipment | 10 | ₱7,918 | ₱1,681 |
| Intangible assets | 11 | 610 | 420 |

Investments in joint ventures are fully provided with allowance for impairment losses as at December 31, 2018 and 2017 (see Note 9).

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 ₱11.5 million and ₱4.1 million as at and December 31, 2018 and 2017, respectively. The net retirement benefits amounted to ₱0.5 million, ₱1.0 million and ₱0.4 million in 2018, 2017 and 2016, respectively (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, 2018 and 2017 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 ₱58.2 million and ₱51.8 million as at December 31, 2018 and 2017, respectively (see Note 21).

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 general transcription, data conversion, contact center, and other outsourcing services.
- Others - This segment includes holding and investment companies, which consists of the Parent Company, Paxys N.V., and other non-operating subsidiaries.

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, 2018, 2017 and 2016.

| | 2018 | | | Consolidated |
|----------------------------------|-----------------|------------|--------------|--------------|
| | Data Conversion | Others | Eliminations | |
| Results of Operations | | | | |
| Revenue from external customers | ₱86,477 | ₱- | ₱- | ₱86,477 |
| Cost and expenses | (85,847) | (81,340) | 89 | (167,098) |
| Operating income (loss) | 630 | (81,340) | 89 | (80,621) |
| Interest income | 361 | 95,047 | - | 95,408 |
| Net foreign exchange gain | 1,699 | 3,878 | (1,141) | 4,436 |
| Other income - net | 591 | 870 | (358) | 1,103 |
| Income tax expense | (53) | (6,186) | - | (6,239) |
| Net income | ₱3,228 | ₱12,269 | (₱1,410) | ₱14,087 |
| Assets and Liabilities | | | | |
| Assets | ₱61,815 | ₱5,500,090 | (₱1,656,514) | ₱3,905,391 |
| Liabilities | 69,001 | 165,845 | (193,084) | 41,762 |
| Other Segment Information | | | | |
| Capital expenditures: | | | | |
| Property and equipment | ₱7,840 | ₱482 | ₱- | ₱8,322 |
| Intangible assets | 264 | 320 | - | 584 |
| Depreciation and amortization | 2,267 | 212 | - | 2,479 |

| | 2017 | | | |
|----------------------------------|-----------------|------------|--------------|--------------|
| | Data Conversion | Others | Eliminations | Consolidated |
| Results of Operations | | | | |
| Revenue from external customer | ₱79,205 | ₱- | ₱- | ₱79,205 |
| Cost and expenses | (78,813) | (73,798) | 264 | (152,347) |
| Operating income (loss) | 392 | (73,798) | 264 | (73,142) |
| Interest income | 357 | 74,570 | - | 74,927 |
| Net foreign exchange gain (loss) | (242) | 753 | (190) | 321 |
| Other income - net | 832 | 4,593 | - | 5,425 |
| Income tax expense | (28) | (5,549) | - | (5,577) |
| Net income | ₱1,311 | ₱569 | ₱74 | ₱1,954 |
| Assets and Liabilities | | | | |
| Assets | ₱56,368 | ₱5,352,072 | (₱1,652,845) | ₱3,755,595 |
| Liabilities | 65,825 | 164,385 | (199,454) | 30,756 |
| Other Segment Information | | | | |
| Capital expenditures: | | | | |
| Property and equipment | ₱78 | ₱284 | ₱- | ₱362 |
| Intangible assets | 132 | 11 | - | 143 |
| Depreciation and amortization | 1,295 | 167 | - | 1,462 |
| | 2016 | | | |
| | Data Conversion | Others | Eliminations | Consolidated |
| Results of Operations | | | | |
| Revenue from external customer | ₱92,073 | ₱- | ₱- | ₱92,073 |
| 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) |
| Net income | ₱5,911 | ₱6,987 | (₱1,068) | ₱11,830 |
| Assets and Liabilities | | | | |
| Assets | ₱57,829 | ₱5,336,022 | (₱1,650,918) | ₱3,742,933 |
| Liabilities | 70,817 | 165,073 | (196,402) | 39,488 |
| Other Segment Information | | | | |
| Capital expenditures: | | | | |
| Intangible assets | ₱495 | ₱107 | ₱- | ₱602 |
| Property and equipment | 305 | 139 | - | 444 |
| Depreciation and amortization | 1,418 | 700 | - | 2,118 |

The Data Conversion segment is managed and operated in the Philippines. Other reportable segments include funds invested in foreign corporate bonds and other short-term deposits from various banks. Interest income from these funds amounted to ₱95.4 million, ₱74.9 million and ₱66.8 million in 2018, 2017 and 2016, respectively.

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

The revenue from external customers pertain to services rendered by SWA to its clients amounting to ₱86.5 million, ₱79.2 million and ₱92.1 million in 2018, 2017 and 2016, respectively.

5. Cash and Cash Equivalents

This account consists of:

| | 2018 | 2017 |
|------------------|-------------------|-------------------|
| Cash on hand | P65 | P65 |
| Cash in banks | 37,304 | 112,307 |
| Cash equivalents | 3,117,941 | 2,646,157 |
| | P3,155,310 | P2,758,529 |

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

Interest income on cash and cash equivalents and investment securities are as follows:

| | Note | 2018 | 2017 | 2016 |
|---------------------------|------|----------------|----------------|----------------|
| Cash and cash equivalents | | P75,622 | P56,023 | P53,603 |
| Investment securities: | 6 | | | |
| Financial assets at: | | | | |
| Amortized cost | | 13,431 | - | - |
| FVOCI | | 6,355 | - | - |
| AFS financial assets | | - | 9,831 | 4,701 |
| HTM investments | | - | 9,073 | 8,462 |
| | | P95,408 | P74,927 | P66,766 |

6. Investment Securities

The balances and movements in this account in 2018 are as follows:

| | Note | Financial Assets at | | | Total |
|-----------------------------------|------|---------------------|-----------------|-----------|-----------------|
| | | Amortized Cost | FVOCI | FVPL | |
| Balances at December 31, 2017 | | P100,175 | P814,982 | P- | P915,157 |
| Reclassifications | 2 | 499,585 | (500,641) | 1,056 | - |
| Balances at January 1, 2018 | | 599,760 | 314,341 | 1,056 | 915,157 |
| Additions | | - | - | 2,956 | 2,956 |
| Disposals/redemption | | (82,223) | (154,779) | (4,034) | (241,036) |
| Unrealized fair value gain (loss) | | - | (6,500) | 22 | (6,478) |
| Balances at December 31, 2018 | | P517,537 | P153,062 | P- | P670,599 |

Financial Assets at Amortized Cost. Financial assets at amortized cost consist of unquoted bonds with fixed interest rate and maturity date until 2019.

Interest income earned from these bonds amounted to P13.4 million in 2018 (see Note 5).

Financial Assets at FVOCI. Financial assets at FVOCI, which consist of bonds that are managed by various international banks, have fixed interest and varying maturity dates in 2019. Unrealized fair value gain recognized in other comprehensive income amounted to P6.5 million in 2018.

Investment in AFS amounting to ₱154.8 million were fully redeemed in 2018. Cumulative gain on fair value changes previously recognized in other comprehensive income amounting to ₱12.9 million were transferred to retained earnings.

Interest income from these financial assets amounted to ₱6.4 million in 2018 (see Note 5).

Financial Assets at FVPL. Financial assets at FVPL consist of investment in UITF amounting to ₱1.1 million, which was fully redeemed in 2018. Gain recognized in profit or loss amounted to ₱22 (see Note 20).

The balances and movements in 2017 are as follows:

| | AFS Financial Assets | HTM Investments | Total |
|-------------------------------|----------------------|-----------------|-----------|
| Balances at beginning of year | ₱231,560 | ₱581,388 | ₱812,948 |
| Additions | 626,653 | 100,175 | 726,828 |
| Disposals/redemption | (50,229) | (581,388) | (631,617) |
| Unrealized fair value gain | 6,998 | — | 6,998 |
| Balances at end of year | ₱814,982 | ₱100,175 | ₱915,157 |

AFS Financial Assets. AFS financial assets consist of bonds, investment in financial assets and investment in UITF.

The Group redeemed AFS financial assets with aggregate redemption price of ₱50.2 million and ₱161.4 million in 2017 and 2016, respectively. Gain on redemption recognized in profit or loss amounted to ₱53 and ₱2.8 million in 2017 and 2016, respectively (see Note 20).

Interest income from AFS financial assets amounted to ₱9.8 million and ₱4.7 million in 2017 and 2016, respectively (see Note 5).

HTM Investments. HTM investments consist of unquoted bonds with fixed interest rate and maturity date until 2019.

Interest income from HTM investments amounted to ₱9.1 million and ₱8.5 million in 2017 and 2016, respectively (see Note 5).

7. Trade and Other Receivables

This account consists of:

| | Note | 2018 | 2017 |
|---------------------------------|------|----------|----------|
| Trade | | ₱21,387 | ₱25,180 |
| Due from related parties | 16 | 83,174 | 78,881 |
| Accrued interest | | 12,057 | 21,133 |
| Others | | 18,905 | 20,269 |
| | | 135,523 | 145,463 |
| Allowance for impairment losses | | (96,619) | (91,820) |
| | | ₱38,904 | ₱53,643 |

Trade receivables are non-interest-bearing with average credit terms of 30 to 60 days.

Accrued interest are collectible within one year.

Other receivables, which include advances to officers and employees, suppliers and other nontrade receivables, are non-interest-bearing and are normally collected within one year.

Movements in the allowance for impairment losses are as follows:

| 2018 | | | | | |
|------------------------------|------|-------------|-----------------------------|---------|---------|
| | | Trade | Due from Related Parties | Others | Total |
| | Note | Receivables | (see Note 16) | | |
| Balance at beginning of year | | P11,072 | P63,064 | P17,684 | P91,820 |
| Provision | 18 | – | 6,255 | – | 6,255 |
| Write-off of receivable | | (1,456) | – | – | (1,456) |
| Balance at end of year | | P9,616 | P69,319 | P17,684 | P96,619 |

| 2017 | | | | | |
|------------------------------|------|-------------|-----------------------------|---------|---------|
| | | Trade | Due from Related Parties | Others | Total |
| | Note | Receivables | (see Note 16) | | |
| Balance at beginning of year | | P11,072 | P49,913 | P17,684 | P78,669 |
| Provision | 18 | – | 13,151 | – | 13,151 |
| Balance at end of year | | P11,072 | P63,064 | P17,684 | P91,820 |

In 2016, the Group directly wrote off nontrade receivables amounting to P4.6 million (see Note 20).

8. Other Current Assets

This account consists of:

| | 2018 | 2017 |
|---|----------------|----------------|
| Input VAT, net of allowance for impairment losses | P18,242 | P13,814 |
| Prepaid expenses | 1,917 | 1,057 |
| | P20,159 | P14,871 |

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

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

| | Note | 2018 | 2017 |
|------------------------------|------|---------|---------|
| Balance at beginning of year | | P48,793 | P46,384 |
| Provision | 18 | 792 | 2,409 |
| Balance at end of year | | P49,585 | P48,793 |

9. Investments in Joint Ventures

The following are the joint ventures of the Group:

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

The investments in joint ventures are fully provided with allowance for impairment losses as at December 31, 2018 and 2017.

The Group has no outstanding commitments with the joint ventures as at December 31, 2018 and 2017. The joint ventures have no contingent liabilities or capital investments as at December 31, 2018 and 2017.

On June 30 2018, Simpro Solutions Philippines, Inc. (SSPI), a wholly-owned subsidiary of SSL, has been dissolved and is currently in the process of liquidation. Prior to the dissolution, SSPI receivables amounting to ₱11.2 million from SSL were assigned to the Parent Company as payment of its payables to the latter (see Note 16).

10. Property and Equipment

The balances and movements in this account are as follows:

| | 2018 | | | | | Total |
|--|--------------------|-------------------------|------------------------|--|--------------------------|---------------|
| | Computer Equipment | Communication Equipment | Leasehold Improvements | Office Furniture, Fixtures and Equipment | Transportation Equipment | |
| Cost | | | | | | |
| Balances at beginning of year | ₱106,505 | ₱7,624 | ₱155,931 | ₱11,970 | ₱10,712 | ₱292,742 |
| Additions | 3,079 | – | 3,153 | 2,090 | – | 8,322 |
| Disposals | – | – | – | – | (963) | (963) |
| Balances at end of year | 109,584 | 7,624 | 159,084 | 14,060 | 9,749 | 300,101 |
| Accumulated Depreciation and Amortization | | | | | | |
| Balances at beginning of year | 106,304 | 7,624 | 155,512 | 11,210 | 10,411 | 291,061 |
| Depreciation and amortization | 669 | – | 617 | 598 | 201 | 2,085 |
| Disposals | – | – | – | – | (963) | (963) |
| Balances at end of year | 106,973 | 7,624 | 156,129 | 11,808 | 9,649 | 292,183 |
| Net Book Value | ₱2,611 | ₱– | ₱2,955 | ₱2,252 | ₱100 | ₱7,918 |
| | 2017 | | | | | |
| | Computer Equipment | Communication Equipment | Leasehold Improvements | Office Furniture, Fixtures and Equipment | Transportation Equipment | Total |
| Cost | | | | | | |
| Balances at beginning of year | ₱109,289 | ₱7,836 | ₱155,813 | ₱12,412 | ₱13,649 | ₱298,999 |
| Additions | 109 | – | 118 | 135 | – | 362 |
| Retirement | (2,893) | (212) | – | (577) | – | (3,682) |
| Disposals | – | – | – | – | (2,937) | (2,937) |
| Balances at end of year | 106,505 | 7,624 | 155,931 | 11,970 | 10,712 | 292,742 |
| Accumulated Depreciation and Amortization | | | | | | |
| Balances at beginning of year | 108,928 | 7,836 | 155,293 | 11,462 | 13,140 | 296,659 |
| Depreciation and amortization | 269 | – | 219 | 325 | 208 | 1,021 |
| Retirement | (2,893) | (212) | – | (577) | – | (3,682) |
| Disposals | – | – | – | – | (2,937) | (2,937) |
| Balances at end of year | 106,304 | 7,624 | 155,512 | 11,210 | 10,411 | 291,061 |
| Net Book Value | ₱201 | ₱– | ₱419 | ₱760 | ₱301 | ₱1,681 |

In 2018 and 2017, the Company sold certain fully depreciated property and equipment, resulting to a gain of ₱0.4 million (see Note 20).

Depreciation and amortization recognized consist of:

| | Note | 2018 | 2017 | 2016 |
|------------------------|------|---------------|--------|--------|
| Property and equipment | | ₱2,085 | ₱1,021 | ₱1,074 |
| Intangible assets | 11 | 394 | 441 | 1,044 |
| | | ₱2,479 | ₱1,462 | ₱2,118 |

Depreciation and amortization are allocated as follows:

| | Note | 2018 | 2017 | 2016 |
|-------------------------------------|------|---------------|--------|--------|
| Cost of services | 17 | ₱2,177 | ₱1,192 | ₱1,202 |
| General and administrative expenses | | 302 | 270 | 916 |
| | | ₱2,479 | ₱1,462 | ₱2,118 |

As at December 31, 2018 and 2017, fully depreciated property and equipment with aggregate cost of ₱58.1 million and ₱59.1 million, respectively, are still being used in the operations by the Group.

11. Intangible Assets

Movements in this account are as follows:

| | Note | 2018 | 2017 |
|---------------------------------|------|----------------|---------|
| Cost | | | |
| Balance at beginning of year | | ₱14,867 | ₱14,724 |
| Additions | | 584 | 143 |
| Balance at end of year | | 15,451 | 14,867 |
| Accumulated Amortization | | | |
| Balance at beginning of year | | 14,447 | 14,006 |
| Amortization | 10 | 394 | 441 |
| Balance at end of year | | 14,841 | 14,447 |
| Net Book Value | | ₱610 | ₱420 |

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

12. Other Noncurrent Assets

This account consists of:

| | Note | 2018 | 2017 |
|------------------------------|------|----------------|---------|
| Rental and security deposits | 23 | ₱5,008 | ₱4,625 |
| Others | | 6,883 | 6,669 |
| | | ₱11,891 | ₱11,294 |

Rental and security deposits pertain to cash deposits on lease agreements, which are refundable at the end of lease period.

13. Trade and Other Payables

This account consists of:

| | Note | 2018 | 2017 |
|--------------------|------|----------------|---------|
| Trade | | ₱2,250 | ₱1,766 |
| Statutory payables | | 7,143 | 6,643 |
| Dividends | 15 | 6,554 | 6,554 |
| Accrued expenses: | | | |
| Salaries and wages | | 3,001 | 2,996 |
| Professional fees | | 2,481 | 2,827 |
| Taxes and licenses | | 1,812 | 1,753 |
| Rent | | 1,743 | 1,412 |
| Others | | 2,961 | 2,143 |
| Others | | 729 | 408 |
| | | ₱28,674 | ₱26,502 |

Trade payables are noninterest-bearing and are normally settled on a 60-day term.

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

Accrued expenses 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 is as at December 31, 2018.

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

| | Note | 2018 | 2017 | 2016 |
|----------------------|------|-------------|--------|---------|
| Current service cost | | ₱285 | ₱751 | ₱1,266 |
| Interest cost | | 224 | 275 | 288 |
| Curtailment gain | | – | – | (1,173) |
| | 19 | ₱509 | ₱1,026 | ₱381 |

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

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

| | 2018 | 2017 | 2016 |
|------------------------------|-----------------|--------|--------|
| Balance at beginning of year | ₱5,731 | ₱3,511 | ₱2,275 |
| Remeasurement gain (loss) | (6,958) | 2,220 | 1,236 |
| Balance at end of year | (₱1,227) | ₱5,731 | ₱3,511 |

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

| | 2018 | 2017 |
|------------------------------|----------------|---------|
| Balance at beginning of year | ₱4,064 | ₱5,258 |
| Remeasurement loss (gain) | 6,958 | (2,220) |
| Current service cost | 285 | 751 |
| Interest cost | 224 | 275 |
| Balance at end of year | ₱11,531 | ₱4,064 |

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

| | 2018 | 2017 |
|----------------------|--------------|-------|
| Discount rate | 7.53% | 5.70% |
| Salary increase rate | 2.00% | 2.00% |

The sensitivity analysis based on reasonably possible changes of the assumptions as at December 31, 2018 is as follows:

| | Change in Assumption | Effect on Retirement Liability |
|---------------|----------------------|--------------------------------|
| Discount rate | 10.65% | ₱322 |
| | (8.60%) | (260) |
| Salary Rate | 11.20% | 337 |
| | (9.15%) | (275) |

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, 2018, undiscounted benefit payments are shown below:

| | |
|--------------------|---------------|
| Within one year | ₱8,066 |
| More than one year | 963 |
| | ₱9,029 |

The weighted average duration of the defined benefit obligation at the end of the reporting year is at 1.2 years.

15. Equity

Capital Stock

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 | 1,148,534,866 | 1,148,535 |

On March 22, 1971, the Parent Company's common shares with ₱1 par value per share were listed with the PSE.

Parent Shares Held by a Subsidiary

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.

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.

In 2005, the BOD and the stockholders of the Company, respectively, approved the Employee Equity Plan ("Plan") available to the executives and key employees of the Company. The Plan was approved by the SEC on June 1, 2006 and was terminated on May 1, 2015. All unexercised stock options were forfeited.

Retained Earnings

Undistributed retained earnings of a foreign subsidiary amounting to ₱3,045.7 million and ₱2,976.6 million as at December 31, 2018 and 2017, 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, 2018 and 2017 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) |
|-----------------------------------|------|------------------------------|---------------------------------------|
| Joint Venture | 2018 | ₱176 | ₱15,915 |
| | 2017 | - | 15,653 |
| Entities with Common Stockholders | 2018 | 3,918 | 67,259 |
| | 2017 | 17,027 | 63,228 |
| | 2018 | | ₱83,174 |
| | 2017 | | 78,881 |

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 at each reporting date.

The liquidation of SSPI resulted to the assignment of its related party receivables and payables. Receivables of SSPI amounting to ₱11.2 million from SSL were assigned to the Parent Company in 2018 as payment of its payables to the latter (see Note 9).

Allowance for impairment losses related to these receivables amounted to ₱69.3 million and ₱63.1 million as at December 31, 2018 and 2017, respectively (see Note 7).

Compensation of Key Management Personnel of the Group

| | 2018 | 2017 | 2016 |
|---------------------------|----------------|---------|---------|
| Salaries and wages | ₱13,325 | ₱11,646 | ₱10,743 |
| Professional fees | 7,452 | 6,426 | - |
| Other short-term benefits | 4,764 | 628 | 629 |
| | ₱25,541 | ₱18,700 | ₱11,372 |

17. Cost of Services

This account consists of:

| | Note | 2018 | 2017 | 2016 |
|----------------------------------|------|----------------|---------|---------|
| Personnel cost | 19 | ₱42,785 | ₱42,233 | ₱51,800 |
| Rent | 23 | 6,259 | 5,694 | 5,398 |
| Utilities | | 3,943 | 3,445 | 3,477 |
| Security and janitorial services | | 3,078 | 2,645 | 2,248 |
| Communication | | 2,494 | 2,084 | 2,662 |
| Depreciation and amortization | 10 | 2,177 | 1,192 | 1,202 |
| Outside services | | 1,263 | 6,315 | 9,620 |
| Supplies | | 438 | 415 | 585 |
| Association dues | | 102 | 45 | 45 |
| Others | | 2,967 | 2,453 | 2,778 |
| | | ₱65,506 | ₱66,521 | ₱79,815 |

18. General and Administrative Expenses

This account consists of:

| | Note | 2018 | 2017 | 2016 |
|--|------|-----------------|---------|---------|
| Professional fees | | ₱40,401 | ₱29,827 | ₱19,989 |
| Personnel cost | 19 | 29,591 | 14,010 | 14,821 |
| Provision for impairment losses on: | | | | |
| Trade and other receivables | 7 | 6,255 | 13,151 | 15,228 |
| Input VAT | 8 | 792 | 2,409 | 1,127 |
| Rent | 23 | 7,387 | 7,318 | 6,638 |
| Insurance | | 2,835 | 2,721 | 2,742 |
| Utilities | | 2,363 | 2,252 | 2,164 |
| Transportation and travel | | 2,096 | 2,067 | 2,296 |
| Security and janitorial services | | 1,835 | 1,522 | 1,495 |
| Communication | | 1,819 | 1,745 | 2,691 |
| Entertainment, amusement and recreation | | 1,311 | 1,315 | 1,112 |
| Bank charges | | 1,257 | 2,205 | 1,008 |
| Others | | 3,650 | 5,284 | 6,017 |
| | | ₱101,592 | ₱85,826 | ₱77,328 |

19. Personnel Costs

This account consists of:

| | Note | 2018 | 2017 | 2016 |
|--------------------------------|------|----------------|---------|---------|
| Salaries, wages and allowances | | ₱62,703 | ₱45,931 | ₱52,483 |
| Trainings | | 971 | 1,528 | 1,268 |
| Net retirement benefits | 14 | 509 | 1,026 | 381 |
| Other employee benefits | | 8,193 | 7,758 | 12,489 |
| | | ₱72,376 | ₱56,243 | ₱66,621 |

Other employee benefits pertain to statutory contributions, incentives, health care and insurance benefits, and other benefits granted to employees.

Personnel costs are classified as follows:

| | Note | 2018 | 2017 | 2016 |
|-------------------------------------|------|----------------|---------|---------|
| Cost of services | 17 | ₱42,785 | ₱42,233 | ₱51,800 |
| General and administrative expenses | 18 | 29,591 | 14,010 | 14,821 |
| | | ₱72,376 | ₱56,243 | ₱66,621 |

20. Other Income

This account consists of:

| | Note | 2018 | 2017 | 2016 |
|---|------|---------------|---------------|----------------|
| Rent | 23 | ₱367 | ₱859 | ₱1,311 |
| Gain on disposal of property and equipment | 10 | 406 | 357 | – |
| Gain on redemption of investment securities | 6 | 22 | 53 | 2,798 |
| Reversal of payables | | – | 3,743 | 10,166 |
| Direct write-off of nontrade receivable | 7 | – | – | (4,566) |
| Others | | 308 | 413 | 1,081 |
| | | ₱1,103 | ₱5,425 | ₱10,790 |

In 2016, the Company wrote off ₱4.6 million of long-outstanding receivables following the full settlement of outstanding receivable.

21. Income Tax

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

| | 2018 | 2017 | 2016 |
|-----------|---------------|---------------|---------------|
| Final tax | ₱6,031 | ₱5,384 | ₱5,164 |
| RCIT | 505 | 503 | – |
| MCIT | 208 | 193 | 627 |
| | ₱6,744 | ₱6,080 | ₱5,791 |

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

| | 2018 | 2017 | 2016 |
|--|-----------------|---------------|---------------|
| Income tax expense at statutory income tax rate | ₱6,098 | ₱2,259 | ₱5,286 |
| Income tax effects of: | | | |
| Nontaxable income | (15,732) | (14,342) | (12,565) |
| Expired NOLCO | 11,045 | 6,649 | 13,852 |
| Interest income subjected to final tax | (3,037) | (2,953) | (2,846) |
| Nondeductible expenses | 1,292 | 6,216 | 2,174 |
| Expenses subject to 10% preferential income tax rate | 53 | 53 | 24 |
| Net changes in unrecognized net deferred tax assets | 6,455 | 7,118 | (1,133) |
| Expired MCIT | 65 | 577 | 999 |
| | ₱6,239 | ₱5,577 | ₱5,791 |

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

| | 2018 | 2017 |
|--|----------------|----------------|
| NOLCO | ₱41,570 | ₱34,555 |
| Allowance for impairment losses on receivables and input VAT | 12,899 | 12,893 |
| Retirement liability | 4,166 | 4,014 |
| Unrealized foreign exchange gain | (1,863) | (1,414) |
| Excess MCIT over RCIT | 774 | 1,136 |
| Accruals and provision | 676 | 583 |
| | ₱58,222 | ₱51,767 |

Management has assessed 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, | | Expired | Balance as at December 31, | |
|---------------|-------------------------------|----------------|------------------|-------------------------------|-----------------|
| | 2017 | Additions | | 2018 | Available Until |
| 2015 | ₱36,821 | ₱- | (₱36,821) | ₱- | 2018 |
| 2016 | 36,454 | - | - | 36,454 | 2019 |
| 2017 | 42,230 | - | - | 42,230 | 2020 |
| 2018 | - | 60,315 | - | 60,315 | 2021 |
| | ₱115,505 | ₱60,315 | (₱36,821) | ₱138,999 | |

MCIT

| Year Incurred | Balance as at December 31, | | Applied/ Expired | Balance as at December 31, | |
|---------------|-------------------------------|-------------|---------------------|-------------------------------|-----------------|
| | 2017 | Additions | | 2018 | Available Until |
| 2015 | ₱515 | ₱- | (₱515) | ₱- | 2018 |
| 2016 | 428 | - | (55) | 373 | 2019 |
| 2017 | 193 | - | - | 193 | 2020 |
| 2018 | - | 208 | - | 208 | 2021 |
| | ₱1,136 | ₱208 | (₱570) | ₱774 | |

MCIT amounting to ₱505 and ₱503 were applied against RCIT in 2018 and 2017, respectively.

22. Earnings per Share

Basic/diluted earnings per share are computed as follows:

| | Note | 2018 | 2017 | 2016 |
|---|------|------------------|-----------|-----------|
| Net income (a) | | ₱14,087 | ₱1,954 | ₱11,830 |
| Issued and outstanding shares | 15 | 1,148,535 | 1,148,535 | 1,148,535 |
| Parent shares held by a subsidiary | 15 | (345,622) | (345,622) | (345,622) |
| Number of shares issued and outstanding (b) | | 802,913 | 802,913 | 802,913 |
| Basic/diluted earnings per share (a/b) | | ₱0.018 | ₱0.002 | ₱0.015 |

There are no potential dilutive common shares as at December 31, 2018 and 2017.

23. 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 an office space until December 31, 2019. The monthly rent is subject to annual escalation of 5%. On January 22, 2019, the lease is renewed for another two years until 2021, with an option to extend for another two years and six months. As at December 31, 2018 and 2017, refundable security deposit amounted to ₱1.5 million and ₱1.4 million, respectively.
- iii. In October 21, 2018, SWA entered into a two-year lease agreement with a third party for the lease of an office space until October 20, 2020. The rental rate is subject to 5% escalation rate upon renewal. As at December 31, 2018, refundable security deposit amounted to ₱0.3 million.

Outstanding rental and security deposits on lease commitments, presented under Other Noncurrent Assets account in the consolidated statements of financial position, amounted to ₱5.0 million and ₱4.6 million as at December 31, 2018 and 2017, 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 is allocated as follows:

| | Note | 2018 | 2017 | 2016 |
|-------------------------------------|------|----------------|----------------|----------------|
| General and administrative expenses | 18 | ₱7,387 | ₱7,318 | ₱6,638 |
| Cost of services | 17 | 6,259 | 5,694 | 5,398 |
| | | ₱13,646 | ₱13,012 | ₱12,036 |

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

| | 2018 | 2017 |
|---|----------------|----------------|
| Within one year | ₱13,938 | ₱12,099 |
| After one year but not more than five years | 10,619 | 22,761 |
| | ₱24,557 | ₱34,860 |

b. The Group as a Lessor

- i. The Parent Company subleased a portion of its office space to third parties for a period of six months to one year in 2017 and 2016.
- ii. SWA has subleased a portion of its office space in Laguna to a related party.

Rent income from sublease of the Parent Company and SWA amounted to ₱0.4 million, ₱0.9 million and ₱1.3 million in 2018, 2017 and 2016, respectively. This was recorded under the Other Income of the Group (see Note 20).

- iii. In October 2018, SWA entered into a Facilities and Support Services Agreement with a third party for work-ready seats for a period of two years until October 20, 2020. The agreement also covers for support services such as security and janitorial services, fiber internet connection, IT support for ISP connectivity issues, and utilities. Refundable deposit amounted to ₱1.3 million as at December 31, 2018.

Income from the facilities services of SWA, which is recorded as part of revenue, amounted to ₱4.0 million in 2018.

24. Financial Instruments

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, financial assets at FVOCI, debt investments at amortized cost, 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. The exposure arises from services denominated in US\$. Service income of SWA is denominated in US\$ for the years ended December 31, 2018 and 2017. As a result, the Group's consolidated financial performance and financial position can be affected significantly by movements in the US\$ to Philippine Peso exchange rate.

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

| | 2018 | | 2017 | |
|-----------------------------------|---------|---------|---------|---------|
| | Closing | Average | Closing | Average |
| Philippine Peso to 1 unit of US\$ | ₱52.58 | ₱52.69 | ₱49.93 | ₱50.40 |

As at December 31, 2018 and 2017, the significant foreign currency-denominated monetary assets are as follows:

| | 2018 | | 2017 | |
|--|------------|----------------------------|------------|----------------------------|
| | In US\$ | Philippine Peso Equivalent | In US\$ | Philippine Peso Equivalent |
| Cash and cash equivalents | US\$43,531 | ₱2,288,882 | US\$37,398 | ₱1,867,282 |
| Trade and other receivables | 336 | 17,656 | 512 | 25,564 |
| Investment securities: | | | | |
| Financial assets at: | | | | |
| Amortized cost | 7,770 | 408,537 | — | — |
| FVOCI | 2,911 | 153,062 | — | — |
| AFS financial assets | — | — | 14,118 | 704,912 |
| HTM investments | — | — | 2,006 | 100,160 |
| Foreign currency-denominated monetary assets | US\$54,548 | ₱2,868,137 | US\$54,034 | ₱2,697,918 |

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 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.

| | 2018 | | 2017 | |
|------|--|---|--|---|
| | Increase (Decrease) in Exchange Rates | Increase (Decrease) on Income before Tax | Increase (Decrease) in Exchange Rates | Increase (Decrease) on Income before Tax |
| US\$ | 2.65 (2.65) | ₱144,552 (144,552) | ₱0.21 (0.21) | ₱11,348 (11,348) |

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

Credit risk is the risk that the Group will incur a loss when its counterparties fail to discharge their contractual obligations

Receivables are monitored on an on-going basis to minimize Group's exposure to possible losses. The Group trades only with recognized, creditworthy third parties. It is Group policy to subject customers who trade on credit terms to credit verification procedures. Trade receivables pertain mainly to the account of Nuance Communications Ireland Ltd.

The credit risk for cash and financial instruments is considered negligible because the counterparties are reputable banks and investment institutions with high quality external credit ratings.

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

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Loans and receivables: | | |
| Cash and cash equivalents ^(a) | ₱3,155,245 | ₱2,758,464 |
| Trade and other receivables | 38,904 | 53,643 |
| Rental and security deposits ^(b) | 5,008 | 4,625 |
| Investment securities: | | |
| Financial assets at: | | |
| Amortized cost | 517,537 | — |
| FVOCI | 153,062 | — |
| AFS financial assets | — | 814,982 |
| HTM investments | — | 100,175 |
| | ₱3,869,756 | ₱3,731,889 |

^(a) Excluding cash on hand amounting to ₱65 as at December 31, 2018 and 2017.

^(b) Included under "Other noncurrent assets."

The analysis of the financial assets that were past due but not impaired as at December 31, 2018 and 2017 follows:

| | 2018 | | | | | | |
|---|-------------------------------------|---------------------------|------------------|----------------------|----------------|----------------|-------------------|
| | 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 ^(a) | ₱3,155,245 | ₱- | ₱- | ₱- | ₱- | ₱- | ₱3,155,245 |
| Trade and other receivables: | | | | | | | |
| Trade | 11,771 | - | - | - | - | 9,616 | 21,387 |
| Accrued interest | 12,057 | - | - | - | - | - | 12,057 |
| Due from related parties | - | - | - | 13,855 | 13,855 | 69,319 | 83,174 |
| Others | 1,221 | - | - | - | - | 17,684 | 18,905 |
| Rental and security deposits ^(b) | 5,008 | - | - | - | - | - | 5,008 |
| Investment securities: | | | | | | | |
| At amortized cost | 517,537 | - | - | - | - | - | 517,537 |
| At FVOCI | 153,062 | - | - | - | - | - | 153,062 |
| | ₱3,855,901 | ₱- | ₱- | ₱13,855 | ₱13,855 | ₱96,619 | ₱3,966,375 |

^(a)Excluding cash on hand amounting to ₱65.

^(b)Included under "Other noncurrent assets."

| | 2017 | | | | | | |
|---|-------------------------------------|---------------------------|------------------|----------------------|----------------|----------------|-------------------|
| | 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 ^(a) | ₱2,758,464 | ₱- | ₱- | ₱- | ₱- | ₱- | ₱2,758,464 |
| Trade and other receivables: | | | | | | | |
| Trade | 14,108 | - | - | - | - | 11,072 | 25,180 |
| Accrued interest | 21,133 | - | - | - | - | - | 21,133 |
| Due from related parties | - | - | - | 15,817 | 15,817 | 63,064 | 78,881 |
| Others | 1,313 | - | - | 1,272 | 1,272 | 17,684 | 20,269 |
| Rental and security deposits ^(b) | 4,624 | - | - | - | - | - | 4,624 |
| AFS financial assets | 814,982 | - | - | - | - | - | 814,982 |
| HTM investments | 100,175 | - | - | - | - | - | 100,175 |
| | ₱3,714,799 | ₱- | ₱- | ₱17,089 | ₱17,089 | ₱91,820 | ₱3,823,708 |

^(a)Excluding cash on hand amounting to ₱65.

^(b)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, 2018 and 2017:

| | 2018 | | | 2017 | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | High Grade | Standard Grade | Total | High Grade | Standard Grade | Total |
| Financial assets at amortized cost | | | | | | |
| Cash and cash equivalents ^(a) | ₱3,155,245 | ₱- | ₱3,155,245 | ₱2,758,464 | ₱- | ₱2,758,464 |
| Trade and other receivables | 25,049 | - | 25,049 | 36,554 | - | 36,554 |
| Rental and security deposits ^(b) | - | 5,008 | 5,008 | - | 4,624 | 4,624 |
| Investment securities: | | | | | | |
| Financial assets at: | | | | | | |
| Amortized cost | 517,537 | - | 517,537 | - | - | - |
| FVOCI | 153,062 | - | 153,062 | - | - | - |
| AFS financial assets | - | - | - | 814,982 | - | 814,982 |
| HTM investments | - | - | - | 100,175 | - | 100,175 |
| | ₱3,850,893 | ₱5,008 | ₱3,855,901 | ₱3,710,175 | ₱4,624 | ₱3,714,799 |

^(a)Excluding cash on hand amounting to ₱65 as at December 31, 2018 and 2017.

^(b)Included under "Other noncurrent assets."

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

High Grade. Financial assets with high credit quality are normally collected within the credit period and without history of default collection.

Investment securities and cash and cash equivalents are placed in or deposited with reputable banks, thus, are fully realizable. Probability of default is close to zero and significant change in credit risk is unlikely for these financial instruments.

Standard Grade. Standard grade financial assets pertain mainly to receivables from counter parties that have a strong capacity to meet contractual obligations in the near term and have acceptable probability of default.

Past due receivables from related parties are not impaired when management assesses that these are fully realizable based on the counter parties' available assets.

Receivables from related parties are considered credit-impaired when the counter parties have no liquid assets and/or available assets to pay the outstanding receivables. Thus, these are provided with allowance for impairment losses.

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 may arise 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, 2018 and 2017 based on contractual undiscounted payments.

| | 2018 | | | | 2017 | | | |
|--|------------------|-----------------|---------------|------------------|------------------|-----------------|---------------|------------------|
| | Upon Demand | Within One Year | Over One Year | Total | Upon Demand | Within One Year | Over One Year | Total |
| Financial Assets | | | | | | | | |
| Cash and cash equivalents | R3,155,245 | R- | R- | R3,155,245 | R2,758,529 | R- | R- | R 2,758,529 |
| Trade and other receivables | - | 38,904 | - | 38,904 | - | 53,643 | - | 53,643 |
| Investment securities: | | | | | | | | |
| Financial assets at: | | | | | | | | |
| Amortized cost | - | 517,537 | - | 517,537 | - | - | - | - |
| FVOCI | - | 153,062 | - | 153,062 | - | - | - | - |
| AFS financial assets | - | - | - | - | - | 814,982 | - | 814,982 |
| HTM investments | - | - | - | - | - | 100,175 | - | 100,175 |
| Rental and security deposits | - | - | 5,008 | 5,008 | - | - | 4,624 | 4,624 |
| Total undiscounted financial assets | 3,155,245 | 709,503 | 5,008 | 3,869,756 | 2,758,529 | 968,800 | 4,624 | 3,731,953 |

(Forward)

| | 2018 | | | | 2017 | | | |
|--|-------------|-----------------|---------------|------------|-------------|-----------------|---------------|------------|
| | Upon Demand | Within One Year | Over One Year | Total | Upon Demand | Within One Year | Over One Year | Total |
| Financial Liabilities | | | | | | | | |
| Trade payables | P- | P2,250 | P- | P2,250 | P- | P1,766 | P- | P1,766 |
| Accrued expenses | - | 11,998 | - | 11,998 | - | 11,131 | - | 11,131 |
| Other current liabilities | - | 729 | - | 729 | - | 408 | - | 408 |
| Dividends payable | 6,554 | - | - | 6,554 | 6,554 | - | - | 6,554 |
| Total undiscounted financial liabilities | 6,554 | 14,977 | - | 21,531 | 6,554 | 13,305 | - | 19,859 |
| Net undiscounted financial assets | P3,148,691 | P694,526 | P5,008 | P3,848,225 | P2,751,975 | P955,495 | P4,624 | P3,712,094 |

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 equity components of the Group.

| | 2018 | 2017 |
|------------------------------------|-------------|-------------|
| 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 | 517,358 | 405,598 |
| Retained earnings | 2,896,258 | 2,869,228 |
| | P3,863,629 | P3,724,839 |

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:

| | 2018 | | 2017 | |
|------------------------------|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Assets | | | | |
| Cash and cash equivalents | P3,155,310 | P3,155,310 | P2,758,529 | P2,758,529 |
| Investment securities: | | | | |
| Financial assets: | | | | |
| At amortized cost | 517,537 | 409,597 | - | - |
| At FVOCI | 153,062 | 153,062 | - | - |
| AFS financial assets | - | - | 814,982 | 814,982 |
| HTM investments | - | - | 100,175 | 100,175 |
| Trade and other receivables | 38,904 | 38,904 | 53,643 | 53,643 |
| Rental and security deposits | 5,008 | 5,008 | 4,624 | 4,624 |
| | P3,869,821 | P3,761,881 | P3,731,953 | P3,731,953 |

| | 2018 | | 2017 | |
|------------------------------|-----------------|----------------|-----------------|----------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Liabilities | | | | |
| Trade and other payables*: | | | | |
| Accrued expenses | ₱11,998 | ₱11,998 | ₱11,131 | ₱11,131 |
| Dividends | 6,554 | 6,554 | 6,554 | 6,554 |
| Trade | 2,250 | 2,250 | 1,766 | 1,766 |
| Other current liabilities | 729 | 729 | 408 | 408 |
| | ₱21,531 | ₱21,531 | ₱19,859 | ₱19,859 |

*Excluding statutory payables amounting to ₱7,143 and ₱6,643 as at December 31, 2018 and 2017, 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, Investment Securities at Amortized Cost, Trade and Other Receivables, Rental and Security Deposits and Trade and Other Payables (excluding statutory payables). Due to the short-term nature of the financial assets and liabilities, the fair value approximates the carrying amounts at initial recognition.

Financial Assets at FVOCI. The fair value of the Company's financial assets at FVOCI is estimated by reference to quoted bid price in an active market at the end of the reporting period and is categorized as Level 1.

For the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements.



**REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY SCHEDULES 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 in accordance with Philippine Standards on Auditing, the consolidated financial statements of Paxys, Inc. and Subsidiaries (the Group) as at December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, and have issued our report thereon dated March 29, 2019. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Supplementary Schedules for submission to the Securities and Exchange Commission are the responsibility of the Group's management.

These Group's supplementary schedules include the following:

- Schedule of Retained Earnings Available for Dividend Declaration for the year ended December 31, 2018
- Schedules Required by Annex 68-E of Securities Regulation Code (SRC) Rule 68 as at and for the year ended December 31, 2018
- Map of the Conglomerate as at December 31, 2018
- Schedule of Financial Soundness Indicators as at December 31, 2018 and 2017
- Schedule of Adoption of Effective Accounting Standards and Interpretations as at December 31, 2018

The supplementary schedules are presented for purposes of complying with SRC Rule 68, and are not part of the basic consolidated financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audit 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 August 15, 2021

SEC Accreditation No. 0663-AR-3 Group A

Valid until August 30, 2020

BIR Accreditation No. 08-005144-006-2017

Valid until January 13, 2020

PTR No. 7334335

Issued January 3, 2019, Makati City

March 29, 2019
Makati City, Metro Manila

PAXYS, INC. AND SUBSIDIARIES
LIST OF SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68

| | Page No. |
|---|----------|
| A Financial Assets | 1 |
| B Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties) | 2 |
| C Amounts Receivable from Related Parties which are eliminated during the consolidation of the financial statements | 3 |
| D Intangible Assets - Other Assets | 4 |
| E Long-term Borrowings | * |
| F Indebtedness to Related Parties | * |
| G Guarantees of Securities of Other Issuers | * |
| H Capital Stock | 5 |

Other Required Information

| | |
|---|--------|
| I Reconciliation of the Parent Company Retained Earnings Available for Dividend Declaration for the year ended December 31, 2018 | 6 |
| J Financial Soundness Indicators as at and for the years ended December 31, 2018 and 2017 | 7 |
| K Schedule of Adoption of Effective Accounting Standards and Interpretations as at December 31, 2018 | 8 - 14 |
| L Corporate Structure as at December 31, 2018 | 15 |

* *Not Applicable*

SCHEDULE A

PAXYS, INC. AND SUBSIDIARIES

FINANCIAL ASSETS

DECEMBER 31, 2018

(Amounts in Thousands)

| Financial Asset/Name of Issuing Entity | Number of Shares or Principal Amount of Bonds | Amount Shown in the Statement of Financial Position | Income Received and Accrued |
|--|---|---|-----------------------------------|
| Cash in Banks | | | |
| UBS Bank | – | P17,210 | P546 |
| Bank Julius Baer | – | 7,786 | 128 |
| J.P. Morgan Chase Bank | – | 5,184 | 6 |
| BDO Unibank, Inc. | – | 5,046 | 25 |
| Bank of the Philippine Islands | – | 1,163 | 18 |
| Security Bank Corporation | – | 837 | 2 |
| Metropolitan Bank and Trust Company | – | 78 | 2 |
| | | 37,304 | 727 |
| Cash Equivalents | | | |
| Bank Julius Baer | | 1,086,941 | 12,679 |
| UBS Bank | – | 672,273 | 12,185 |
| Bank of the Philippine Islands | – | 556,542 | 8,240 |
| J.P. Morgan Chase Bank | – | 440,987 | 6,968 |
| Metrobank Card Corporation | – | 302,800 | 23,822 |
| Security Bank Corporation | – | 58,398 | 11,001 |
| | | 3,117,941 | 74,895 |
| Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) | | | |
| UBS Bank | \$3,000 | 153,062 | 6,355 |
| Debt Investments at Amortized Cost | | | |
| Bank Julius Baer | \$4,750 | 250,680 | 5,752 |
| J.P. Morgan Chase Bank | \$3,000 | 157,857 | 2,682 |
| Bank of the Philippine Islands | – | 109,000 | 3,676 |
| UBS Bank | – | – | 1,321 |
| | | 517,537 | 13,431 |
| Trade and Other Receivables - Net | | | |
| Accrued interest | – | 12,057 | – |
| Trade | – | 11,771 | – |
| Due from related parties | – | 13,855 | – |
| Others | – | 1,221 | – |
| | | 38,904 | – |
| Rental and Security Deposits | | | |
| | – | 5,008 | – |
| Total Financial Assets | | P3,869,756 | P95,408 |

PAXYS, INC. AND SUBSIDIARIES

**AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS
(OTHER THAN RELATED PARTIES)**
DECEMBER 31, 2018

(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 | ₱1,431 | ₱1,614 | ₱1,558 | ₱- | ₱1,485 | ₱- | ₱1,485 |

PAXYS, INC. AND SUBSIDIARIES

**AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE
ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS**

AS AT DECEMBER 31, 2018
(Amounts in Thousands)

| Related Parties | Balance at Beginning of Year | Additions* | Amounts Collected | Current | Noncurrent | Balance at end of Year |
|---|------------------------------------|---------------|----------------------|-----------------|------------|---------------------------|
| Due from Related Parties | | | | | | |
| Paxys Global Services, Inc. | P66,831 | P94 | P515 | P66,410 | P- | P66,410 |
| Scopeworks Asia, Inc. | 58,123 | 2,546 | 2,520 | 58,149 | - | 58,149 |
| Paxys N.V. | 20,642 | 961 | - | 21,603 | - | 21,603 |
| Paxys Ltd. | 11,270 | 395 | 262 | 11,403 | - | 11,403 |
| Paxys Global Services Ltd. Regional Operating Headquarters | 13,275 | 618 | - | 13,893 | - | 13,893 |
| Paxys Global Services Pte. Ltd | 32,797 | 2,062 | - | 34,859 | - | 34,859 |
| | P202,938 | P6,676 | P3,297 | P206,317 | P- | P206,317 |

**inclusive of foreign currency translation adjustments*

PAXYS, INC. AND SUBSIDIARIES
INTANGIBLE ASSETS - OTHER ASSETS
AS AT DECEMBER 31, 2018
(Amounts in Thousands)

| Description | Beginning Balance | Additions at Cost | Amortization | Charged to Other Accounts | Other Changes Additions (Deductions) | Ending Balance |
|-------------------------------|----------------------|----------------------|--------------|------------------------------|--|----------------|
| Website and software packages | P420 | P584 | (P394) | P- | P- | P610 |

PAXYS, INC. AND SUBSIDIARIES
CAPITAL STOCK
AS AT DECEMBER 31, 2018

| 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 | 217,800 | 171,850,551 |

PAXYS, INC.

15th Floor 6750 Ayala Office Tower Ayala Avenue, Makati City

**RECONCILIATION OF PARENT COMPANY RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

| | |
|--|-----------------------|
| Deficit at Beginning of Year | (P89,748,632) |
| Net unrealized foreign exchange in 2017 | (124,690) |
| Effects of adjustments arising from transition to PFRS 9 | 3,657 |
| Deficit at Beginning of Year, as Adjusted | (89,869,665) |
| <hr/> | |
| Net Loss Actually Realized During the Year | |
| Net loss during the year closed to retained earnings | (42,769,057) |
| Unrealized foreign exchange gain in 2018 | (997,382) |
| Unrealized foreign exchange gain in 2017, realized in 2018 | 124,690 |
| | (43,641,749) |
| <hr/> | |
| Deficit at End of Year | (P133,511,414) |

PAXYS, INC. AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2018 AND 2017

| | 2018 | 2017 |
|--|--------|--------|
| Liquidity ratio | | |
| Current ratio ¹ | 134.51 | 140.20 |
| Solvency ratio | | |
| Debt to equity ratio ² | 0.01 | 0.01 |
| Profitability ratio | | |
| Return on equity | 0.36% | 0.05% |
| Net income (loss) margin ³ | 16.29% | 2.46% |
| Earnings (loss) before interest, tax, depreciation and amortization (EBITDA) margin ⁴ | 26.37% | 11.30% |

¹ Current assets divided by current liabilities

² Total liabilities divided by stockholders' equity

³ Net profit divided by revenue

⁴ EBITDA divided by revenue

PAXYS, INC. AND SUBSIDIARIES

**SUPPLEMENTARY SCHEDULE OF ADOPTION OF
EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS
DECEMBER 31, 2018**

| 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 | | ✓ | |
| PFRSs Practice Statement 2: Making Materiality Judgments | | ✓ | |

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 | | | ✓ |
| | Amendments to PFRS 1: First-time Adoption of Philippine Financial Reporting Standards - Deletion of Short-term Exemptions for First-time Adopters | | | ✓ |
| PFRS 2 | Share-based Payment | ✓ | | |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | ✓ | | |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | ✓ | | |
| | Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions | ✓ | | |
| PFRS 3 (Revised) | Business Combinations | ✓ | | |

| PFRS | Title | Adopted | Not Adopted | Not Applicable |
|---------|---|---------|-------------|----------------|
| | 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 | | | ✓ |
| | Amendments to PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PFRS 4: Applying PFRS 9, <i>Financial Instruments</i> with PFRS 4, <i>Insurance Contracts</i> | | | ✓ |
| 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: Aggregation of Operating Segments | ✓ | | |
| | Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets | ✓ | | |
| PFRS 9 | Financial Instruments | ✓ | | |
| PFRS 10 | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10: Transition Guidance | ✓ | | |
| | Amendments to PFRS 10: Investment Entities | ✓ | | |

| PFRS | Title | Adopted | Not Adopted | Not Applicable |
|---------|---|---------|-------------|----------------|
| | 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 | ✓ | | |
| | Amendment to PFRS 12: Clarification of the Scope of the Standard | ✓ | | |
| 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 | ✓ | | |
| | Amendments to PFRS 15: Clarifications to PFRS 15 | ✓ | | |

Philippine Accounting Standards (PAS)

| PAS | Title | Adopted | Not Adopted | Not Applicable |
|-----------------|--|---------|-------------|----------------|
| PAS 1 (Revised) | Presentation of Financial Statements | ✓ | | |
| | Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: 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 7 | Statement of Cash Flows | ✓ | | |
| | Amendments to PAS 7: Disclosure Initiative | ✓ | | |

| PAS | Title | Adopted | Not Adopted | Not Applicable |
|------------------|---|---------|-------------|----------------|
| PAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| PAS 10 | Events after the Reporting Period | ✓ | | |
| PAS 12 | Income Taxes | ✓ | | |
| | Amendments to PAS 12: Recovery of Underlying Assets | ✓ | | |
| | Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses | ✓ | | |
| 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 19 (Revised) | Employee Benefits | ✓ | | |
| | Amendment to PAS 19: 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 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 | Title | Adopted | Not Adopted | Not Applicable |
|------------------|---|---------|-------------|----------------|
| PAS 28 (Amended) | Investments in Associates and Joint Ventures | ✓ | | |
| | Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception | ✓ | | |
| | Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value | | | ✓ |
| 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 | | | ✓ |
| | Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities | | | ✓ |
| | Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report' | | | ✓ |
| PAS 36 | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial 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 | ✓ | | |
| | 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 | | | ✓ |

| PAS | Title | Adopted | Not Adopted | Not Applicable |
|--------|---|---------|-------------|----------------|
| | 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 | | | ✓ |
| | Amendments to PAS 40: Transfers of Investment 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 | | | ✓ |
| 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 | | | ✓ |

| Interpretations | Title | Adopted | Not Adopted | Not Applicable |
|-----------------|---|---------|-------------|----------------|
| IFRIC 13 | Customer Loyalty Programmes | | | ✓ |
| IFRIC 14 | PAS 19 - 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 | | | ✓ |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | | | ✓ |

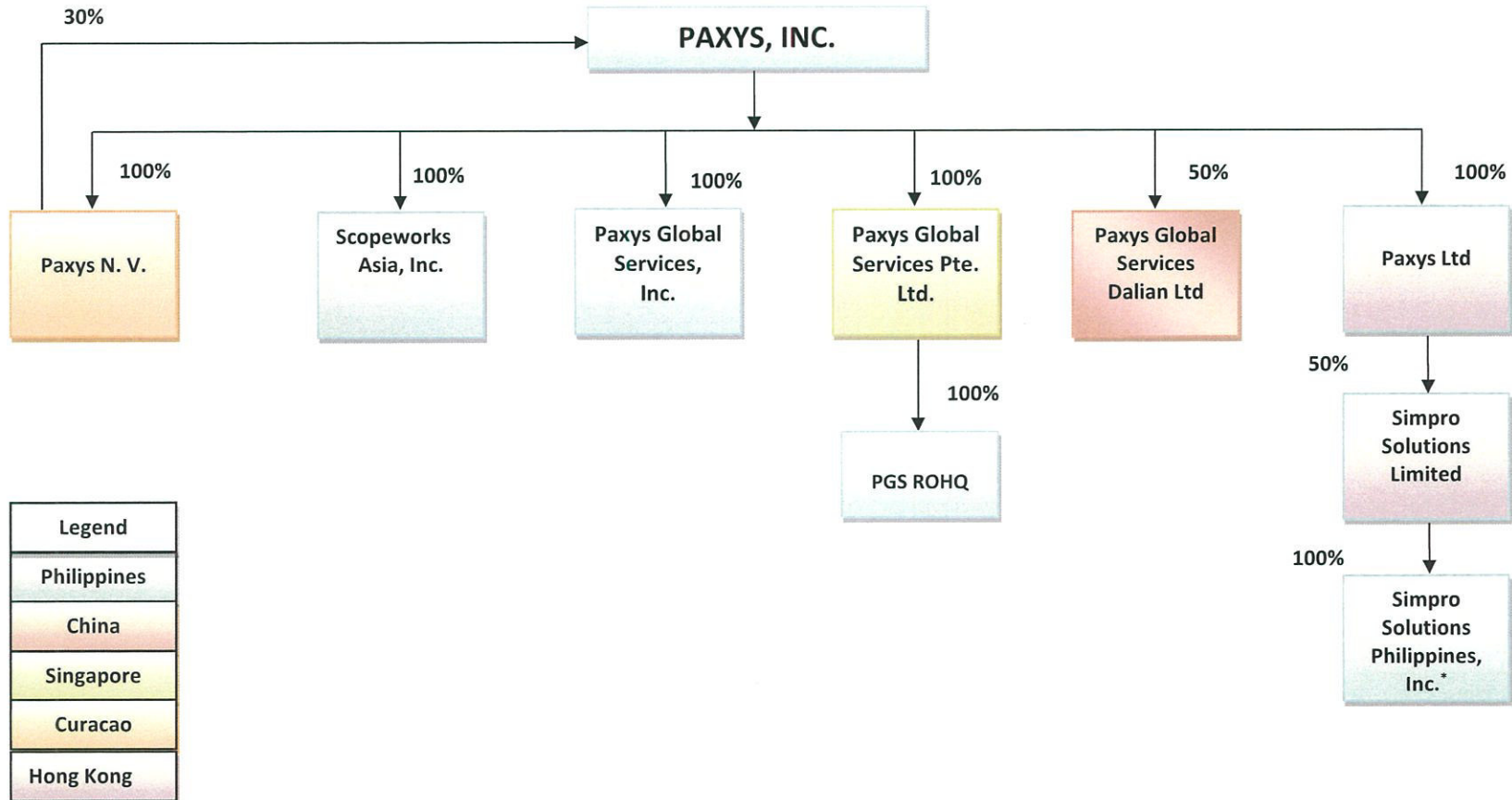
PHILIPPINE INTERPRETATIONS - SIC

| 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 | | | ✓ |
| SIC-31 | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| SIC-32 | Intangible Assets - Web Site Costs | ✓ | | |

PAXYS, INC. AND SUBSIDIARIES

CORPORATE STRUCTURE

AS AT DECEMBER 31, 2018



*Currently under dissolution and liquidation. See Notes to Consolidated Financial Statements