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## SECURITIES AND EXCHANGE COMMISSION

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Company Information

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Company Type Stock Corporation

Document Information

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: September 30, 2012
2. SEC Identification Number: 6609
3. BIR Tax Identification No. 000-233-218
4. Exact Name of the registrant as specified in its charter: PAXYS, INC.
5. Province, country or other jurisdiction of Incorporation or organization: Manila, Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of registrant's principal office: 15<sup>th</sup> Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City  
Postal Code: 1226
8. Registrant's telephone number, including area code: (632) 908-7500
9. Former name, former address, and former fiscal year, if changed since last report  
Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA
  - a) **Authorized Capital Stock**

Common shares, P1.00 par value	1,800,000,000 shares
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  - b) **Issued and Outstanding Shares**

Common shares, P1.00 par value	1,148,534,866 shares
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  - c) **Amount of Debt Outstanding as of September 30, 2012**

Short-term and Long-term loans (continuing)	<del>P-</del>
Short-term and Long-term loans (discontinuing)	<del>P-</del>
11. Are any or all of the securities listed on the Philippine Stock Exchange  
Yes [x] No [ ]

12. Indicate by check mark whether the registrant:

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

Yes  No

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

Yes  No

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

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

Subsidiaries	Nature of Business	Ownership Interest
Paxys Australia and Subsidiaries <sup>1</sup>	Salary Packaging/ Fleet management business	-%
Paxys, N.V.	Holding Company	100.00%
ScopeWorks Asia, Inc. (SWA)	Data Transcription	100.00%
Paxys Global Services Pte Ltd. (PGSPL)	Marketing Company	100.00%
Paxys Global Services Pte Ltd. ROHQ	Regional Operating Headquarters	100.00%
Paxys Global Services, Inc. (PGSI)	Call Center	100.00%
Ubaldo Reidenbach Solutions, Inc. (URSI) <sup>2</sup>	IT Consultancy	63.51%
Paxys Ltd.	Holding Company	100.00%
Simpro Solutions Ltd. and Subsidiary	Call Center	50.00%
Dalian Advanced Contact Solutions Co. Ltd. (ACS Dalian)	Call Center	50.00%
Stellar Global Solutions Philippines, Inc. (SGSPI) and Subsidiary	Call Center	50.00%

The unaudited consolidated financial statements for the nine months ended September 30, 2012 have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles in the Philippines (“Philippine GAAP”) for complete financial statements as set forth in the Philippine Financial Reporting Standards (PFRS) and are filed as Annex A of this report.

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

The MD&A is a discussion and analysis of Paxys and its Subsidiaries’ financial performance for the nine months ended September 30, 2012. The primary objective of this MD&A is to help the readers understand the dynamics of the Group’s business and the key factors underlying the Group’s financial results.

The MD&A for the nine months ended September 30, 2012 should be read in conjunction with the unaudited consolidated financial statements and the accompanying notes, and are filed as Annex B of this report.

### Item 3. Aging of Accounts Receivables

Please see Annex C.

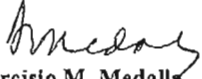
<sup>1</sup> The Share Sale Agreement for the sale of Paxys A.U. was signed on 30 March 2012 and all closing conditions were fulfilled as of June 7, 2012. PAU is reclassified as disposal group and discontinued operation as of December 31, 2011.

<sup>2</sup> The Deed of Absolute Sale of Shares for the sale of URSI was signed on 31 October 2012.

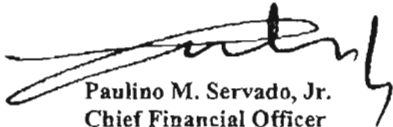
**PART II. SIGNATURES**

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

Registrant: PAXYS, INC.



**Tarcisio M. Medalla**  
**Chairman of the Board**  
November 14, 2012



**Paulino M. Servado, Jr.**  
**Chief Financial Officer**  
November 14, 2012



**Mark David P. Martinez**  
**Corporate Secretary**  
November 14, 2012

**PAXYS, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
September 30, 2012 and December 31, 2011  
And for the Nine Months Ended September 30, 2012 and 2011

**PAXYS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)**

(Amounts in Thousands)

	September 30, 2012	December 31, 2011 (As Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 5 and 16)	₱3,939,243	₱442,184
Trade and other receivables - net (Notes 6 and 16)	124,865	230,290
Input Tax and other current assets - net (Note 7)	372,072	98,418
Assets of disposal group classified as held for sale (Note 4)	-	3,824,468
<b>Total Current Assets</b>	<b>4,436,180</b>	<b>4,595,360</b>
<b>Noncurrent Assets</b>		
Property and equipment - net (Note 9)	108,465	160,498
Website and Software packages (Note 10)	9,597	10,941
Other noncurrent assets (Note 16)	16,585	17,721
<b>Total Noncurrent Assets</b>	<b>134,647</b>	<b>189,160</b>
	<b>₱4,570,827</b>	<b>₱4,784,520</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Notes 11 and 16)	₱176,453	₱179,314
Dividends payable	6,554	6,554
Income tax payable	192	894
Liabilities of disposal group classified as held for sale (Note 4)	-	2,307,761
<b>Total Current Liabilities</b>	<b>183,199</b>	<b>2,494,523</b>
<b>Noncurrent Liabilities</b>		
Accrued retirement costs (Note 15)	4,591	6,799
Derivative liability	316	316
<b>Total Noncurrent Liabilities</b>	<b>4,907</b>	<b>7,115</b>
<b>Equity (Note 12)</b>		
Capital stock	1,071,773	1,071,773
Additional paid-in capital (Note 12)	451,364	451,364
Retained earnings	3,001,659	591,390
Other comprehensive income reserve	(135,907)	(50,538)
Reserves of disposal group classified as held for sale (Note 4)	-	224,291
<b>Total equity attributable to equity holders of the Parent Company</b>	<b>4,388,889</b>	<b>2,288,280</b>
Non-controlling interests	(6,168)	(5,398)
<b>Total Equity</b>	<b>4,382,721</b>	<b>2,282,882</b>
	<b>₱4,570,827</b>	<b>₱4,784,520</b>

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



**PAXYS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

For the Nine Months Ended September 30, 2012 and 2011

(Amounts in Thousands except Earnings per share)

	For the Three Months Ended Sept 30		For the Nine Months Ended Sept 30	
	July - September		January - September	
	2012	2011 (As restated)	2012	2011 (As restated)
<b>SERVICE INCOME</b>	<b>₱109,111</b>	<b>₱212,251</b>	<b>₱404,927</b>	<b>₱669,819</b>
<b>COST OF SERVICES</b>	<b>96,428</b>	<b>179,716</b>	<b>379,104</b>	<b>531,283</b>
<b>GROSS PROFIT</b>	<b>12,683</b>	<b>32,535</b>	<b>25,823</b>	<b>138,536</b>
<b>OPERATING EXPENSES</b>	<b>63,172</b>	<b>103,972</b>	<b>234,017</b>	<b>248,661</b>
<b>LOSS FROM OPERATIONS</b>	<b>(50,489)</b>	<b>(71,437)</b>	<b>(208,194)</b>	<b>(110,125)</b>
<b>OTHER INCOME (CHARGES)</b>				
Interest expense	(312)	(1,028)	(968)	(4,278)
Interest income	26,922	5,204	36,057	9,108
Foreign exchange gain ( loss)	90,288	1,467	130,854	(5,919)
Marked-to-market gain on derivative instruments	676	2,189	2,034	4,641
Gain on sale of a subsidiary	—	1,046	2,274,363	1,046
Other income	5,931	5,526	9,556	21,158
Other expenses	(6,872)	(52,290)	(7,509)	(63,774)
	<b>116,633</b>	<b>(37,886)</b>	<b>2,444,387</b>	<b>(38,018)</b>
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX</b>	<b>66,144</b>	<b>(109,323)</b>	<b>2,236,193</b>	<b>(148,143)</b>
<b>PROVISION FOR INCOME TAX</b>	<b>230</b>	<b>71</b>	<b>467</b>	<b>492</b>
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS AFTER INCOME TAX</b>	<b>65,914</b>	<b>(109,394)</b>	<b>2,235,726</b>	<b>(148,635)</b>
<b>INCOME FROM DISCONTINUED OPERATION AFTER INCOME TAX</b>	<b>—</b>	<b>81,013</b>	<b>173,773</b>	<b>230,023</b>
<b>NET INCOME (LOSS)</b>	<b>₱65,914</b>	<b>(₱28,381)</b>	<b>₱2,409,499</b>	<b>₱81,388</b>
<b>Attributable To:</b>				
Equity holders of the Parent's Company from:				
Continuing operations	₱66,448	(₱107,015)	₱2,236,496	(₱144,488)
Discontinued operation	—	81,013	173,773	230,023
	66,448	(26,002)	2,410,269	85,535
Non-controlling interests	(534)	(2,379)	(770)	(4,147)
	<b>₱65,914</b>	<b>(₱28,381)</b>	<b>₱2,409,499</b>	<b>₱81,388</b>
<b>BASIC EARNINGS PER SHARE (Note 14)</b>				
Income from continuing operations	₱0.06	(₱0.09)	₱1.95	(₱0.13)
Income from discontinued operation	—	0.07	0.15	0.20
	<b>₱0.06</b>	<b>(₱0.02)</b>	<b>₱2.10</b>	<b>₱0.07</b>

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

For the Nine Months Ended September 30, 2012 and 2011

(Amounts in Thousands)

	For the Three Months Ended September 30 July – September		For the Nine Months Ended September 30 January – September	
	2012	2011 (As restated)	2012	2011 (As restated)
<b>NET INCOME</b>	<b>₱65,914</b>	<b>(₱28,381)</b>	<b>₱2,409,499</b>	<b>₱81,388</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Translation adjustments during the year	(30,327)	(117,081)	(85,369)	(66,123)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱35,587</b>	<b>(₱145,462)</b>	<b>₱2,324,130</b>	<b>₱15,265</b>
<b>Attributable to</b>				
Equity holders of the Parent Company				
Continuing Operations	₱36,121	(₱224,096)	₱2,151,127	(₱210,611)
Discontinuing Operation	–	81,013	173,773	230,023
	36,121	(143,083)	2,324,900	19,412
Non-controlling interests	(534)	(2,379)	(770)	(4,147)
	₱35,587	(₱145,462)	₱2,324,130	₱15,265

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

**PAXYS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(Amounts in Thousands)

	For the Nine Months Ended September 30	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) from continuing operations before income tax	₱2,236,193	(₱148,143)
Income from discontinued operation before income	252,562	335,879
Income before income tax	2,488,755	187,736
Adjustments for:		
Depreciation and amortization	212,156	276,009
Interest expense	6,468	37,291
Provision for (recovery) of doubtful accounts	22,831	(477)
Gain on sale of a subsidiary	(2,274,363)	—
Unrealized foreign exchange loss(gain)	(136,909)	2,312
Interest income	(65,708)	(65,781)
Marked-to-market gain on derivative instruments	(142)	(4,641)
Equity based compensation expense	—	5,673
Operating income before working capital changes	253,088	438,122
Decrease (increase) in:		
Trade and other receivables	257,564	(87,446)
Input tax and other current assets	(255,032)	(79,505)
Other noncurrent assets	(5,417)	(8,231)
Derivative assets	481	5,126
Increase (decrease) in:		
Accounts payable and other current liabilities	(1,663,987)	213,846
Short-term provisions	(71,571)	(6,455)
Long-term provisions	(33,251)	11,468
Income tax payable	(181,896)	(192,750)
Accrued retirement costs	(2,209)	(6,876)
Other noncurrent liabilities	(405)	(3,997)
Derivative liability	316	—
Cash generated from operations	(1,702,319)	283,302
Interest paid	(5,288)	(34,628)
Interest received	64,150	52,808
Net cash provided by (used in) operating activities	(1,643,457)	301,482
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Proceeds from sales of a subsidiary	3,739,659	350,720
Acquisition of property and equipment	(104,786)	(113,720)
Acquisition of intangibles	(1,808)	(7,079)
Decrease in property and equipment	—	(8,154)
Acquisition of net assets of new business, net of cash acquired	—	(356,754)
Net cash provided by (used in) investing activities	3,633,065	(134,987)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of short-term and long-term loans	(329,698)	(592,675)
Increase in advances from related parties	26,635	6,019
Net cash used in financing activities	(303,063)	(586,656)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	136,909	(1,926)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,823,454</b>	<b>(422,087)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,115,789</b>	<b>2,337,440</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>₱3,939,243</b>	<b>₱1,995,353</b>

**PAXYS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

	Total Equity Attributable to Equity Holders of the Parent Company		Other		Total	Non-controlling Interest	Total Equity	
	Comprehensive Income Reserve	Income Reserve	Comprehensive Income Reserve	Income Reserve				
At January 1, 2012	Capital Stock #1 Par Value (Note 14)	Additional Paid-in Capital (Note 14)	Retained Earnings (Note 14)	Cumulative Translation Adjustments	Reserves Held for Sale			
Total comprehensive income (loss) for the year	₱1,071,773	₱451,364	₱591,390	(₱50,538)	₱224,291	₱2,288,280	(₱5,398)	
Discontinued operations (Note 4)	-	-	2,410,269	(85,369)	-	2,324,900	(770)	
At September 30, 2012	₱1,071,773	₱451,364	₱3,001,659	(₱135,907)	₱- (224,291)	₱4,388,889	(₱6,168)	
	Total Equity Attributable to Equity Holders of Parent Company							
	Capital Stock #1 Par Value	Additional Paid-in Capital	Retained Earnings	Cumulative Translation Adjustments		Total	Non-controlling Interests	Total Equity
At January 1, 2011	₱1,071,773	₱492,786	₱462,912	₱143,260	₱2,170,731	(₱1,389)	₱2,169,342	
Total comprehensive income for the year	-	-	85,535	-	85,535	(4,147)	81,388	
Translation adjustments	-	-	-	(66,123)	(66,123)	-	(66,123)	
Total comprehensive income	-	-	85,535	(66,123)	19,412	(4,147)	₱15,265	
Sale of Minority Interest	-	-	-	-	-	433	433	
Share-based payment compensation expense	-	5,673	-	-	5,673	-	5,673	
At September 30, 2011	₱1,071,773	₱498,459	₱548,447	₱77,137	₱2,195,816	(₱5,103)	₱2,190,713	

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

**PAXYS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in Thousands, Except Par Value, Number of Shares and Earnings Per Share)**

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**1. Corporate Information**

Paxys, Inc. (Paxys or the "Parent Company") was incorporated in the Philippines on February 14, 1952. The Parent Company's and its subsidiaries' (collectively referred to as the "Company") principal activities are investment holding; and business process outsourcing, call center business that offers an integrated mix of call center solutions including inbound (customer-initiated) and outbound teleservicing, as well as email and web-based tools transcription, editing and proofreading services, and salary packaging. The Parent Company is a publicly listed company and its shares of stock are publicly traded in the Philippine Stock Exchange.

All Asia Customer Services Holdings Ltd (AACSH), a company incorporated in Hong Kong, owns 73.23% interest of the Parent Company as of September 30, 2012 and December 31, 2011, respectively.

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

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

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

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The Company's accounting policies are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS starting January 1, 2012. The adoption of these new and amended standards and interpretations did not have significant impact on Company's consolidated financial statements.

- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements* (effective for annual periods beginning on or after July 1, 2011)
- PAS 12, *Income Taxes - Recovery of Underlying Assets* (effective for annual periods beginning on or after January 1, 2012)

The adoption of the standards or interpretations is described below:

- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*  
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

- PAS 12, *Income Taxes – Recovery of Underlying Assets*  
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2012

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The adoption of the following Interpretation and Amendments to PFRS that came into subsequent December 31, 2012, as disclosed in the audited consolidated financial statements for the financial year ended December 31, 2011, did not have any significant impact on the unaudited condensed consolidated financial statements upon their initial application.

*Effective for Financial Year 2013*

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after January 1, 2013)
- PFRS 11, *Joint Arrangements* (effective for annual periods beginning on or after January 1, 2013)
- PFRS 12, *Disclosure of Interests with Other Entities* (effective for annual periods beginning on or after January 1, 2013)
- PFRS 13, *Fair Value Measurement* (effective for annual periods beginning on or after January 1, 2013)
- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after July 1, 2012)
- PAS 19, *Employee Benefits (Amendment)* (effective for annual periods beginning on or after January 1, 2013).
- PAS 27, *Separate Financial Statements* (as revised in 2011) (effective for annual periods beginning on or after January 1, 2013)
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011) (effective for annual periods beginning on or after January 1, 2013)
- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*, (effective for annual periods beginning on or after January 1, 2014)

*Effective in 2014*

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities*, (effective for annual periods beginning on or after January 1, 2014)

*Effective in 2015*

- PFRS 9, *Financial Instruments: Classification and Measurement* (effective for annual periods beginning on or after January 1, 2015)

PFRS 9 reflects the first phase of the IASBs work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial

assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a more comprehensive picture.

### Basis of Consolidation

*Basis of Consolidation from January 1, 2012.* The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries and the Parent Company's proportionate share in jointly controlled entities:

	Place of Incorporation	Principal Activity	Percentage of Ownership	
			2012	2011
<b>Subsidiaries</b>				
Paxys, N.V.	Curacao	Investment holding	100.0%	100.0%
Paxys Australia Pty Ltd (Paxys A.U.) <sup>(a)</sup>	Sydney, Australia	Investment holding	-%	100.0%
SmartSalary Pty Ltd (SmartSalary) <sup>(b)</sup>	Sydney, Australia	Salary packaging	-%	100.0%
SeQoya Pty Ltd (SeQoya) <sup>(c)</sup>	New South Wales, Australia	Salary packaging	-%	100.0%
PBI Benefits Solutions Pty Ltd (PBI) <sup>(d)</sup>	Sydney, Australia	Salary Packaging	-%	100.0%
SmartFleet Management Pty Ltd (SmartFleet) <sup>(e)</sup>	Sydney, Australia	Fleet management	-%	100.0%
Australian Vehicle Consultants Pty Ltd (AVC) <sup>(f)</sup>	Melbourne, Australia	Fleet management	-%	100.0%
Scopeworks Asia, Inc. (SWA)	Philippines	Data Transcription	100.0%	100.0%
Paxys Global Services, Inc. (PGS)	Philippines	Headquarters	100.0%	100.0%
Paxys Global Services Pte Ltd (PGSPL, formerly Global Idealogy Pte Ltd)	Singapore	Regional marketing office	100.0%	100.0%
Paxys Global Services Pte Ltd-ROHQ <sup>(g)</sup>	Philippines	Regional Operating Headquarter	100.0%	100.0%
Paxys Ltd. <sup>(h)</sup>	Hongkong	Investment Holding	100.0%	-%
Simpro Solutions Ltd. <sup>(i)</sup>	Hongkong	Investment Holding	50.0%	-%
Simpro Solutions Philippines, Inc. <sup>(k)</sup>	Philippines	Call Center	50.0%	-%
Ubaldo Reidenbach Solutions, Inc. (URSI) <sup>(h)</sup>	Philippines	Information Technology (IT), software development, licensing and consultancy	63.5%	63.5%
<b>Joint Ventures</b>				
Stellar Global Solutions Philippines, Inc. (Stellar)	Philippines	Call center	50.0%	50.0%
Dalian Advanced Contact Solutions Co. Ltd (ACS Dalian)	Dalian, Liaoning, China	Call center	50.0%	50.0%

<sup>(a)</sup> Classified as disposal group held for sale as at December 31, 2011. Sale was completed upon fulfillment of conditions effective June 7, 2012.

<sup>(b)</sup> Indirectly-owned through Paxys, A.U.

<sup>(c)</sup> Indirectly-owned through SmartSalary

<sup>(d)</sup> Indirectly-owned through SmartSalary.

<sup>(e)</sup> Indirectly-owned through Paxys A.U.

<sup>(f)</sup> Indirectly-owned through SmartFleet.

<sup>(g)</sup> Established on May 5, 2011 as ROHQ to PGSPL.

<sup>(h)</sup> Disposed on October 31, 2012 upon signing of Deed of Absolute Sale of Shares.

<sup>(i)</sup> Established on 13 September 2012.

<sup>(j)</sup> Indirectly owned through Paxys Ltd.

<sup>(k)</sup> Indirectly owned through Paxys Ltd.

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

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

Non-controlling interest represents the portion of profit or loss and net assets in URSI, not held by the Company and is presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity section of the consolidated statement of financial position, separate from equity attributable to equity holders of the Parent Company.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- a. Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- b. Derecognizes the carrying amount of any non-controlling interest;
- c. Derecognizes the cumulative translation differences, recorded in equity;
- d. Recognizes the fair value of the consideration received;
- e. Recognizes the fair value of any investment retained;
- f. Recognizes any surplus or deficit in profit or loss; and
- g. Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

At each reporting date, the assets and liabilities of subsidiaries whose functional currency is not the Philippine peso are translated into the presentation currency of the Parent Company using the prevailing closing rate at statement of financial position date and, the statement of income is translated at the weighted average daily exchange rates for the year. The exchange differences arising on the translation for each period are taken directly to the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognized under "Cumulative translation adjustments" account in the equity section of the consolidated statement of financial position relating to that particular foreign operation is recognized in the consolidated statement of income.

#### 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. Acquisition costs incurred are expensed and included in "General and administrative expenses" account in the consolidated statement of income.

When the Company 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 in accordance with PAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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 the consolidated statement of income.

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 Company'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.

Goodwill is shown as part of "Goodwill and other intangible assets" account in the consolidated statement of financial position.

If the initial accounting for business combination can be determined only provisionally by the end of the period by which the combination is effected because the fair values to be assigned to the acquiree's identifiable assets, liabilities can be determined only provisionally, the Company accounts for the combination using provisional fair values. Adjustments to those provisional fair values as a result of completing the initial accounting shall 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 shall be calculated as if its fair value at the acquisition date had been recognized from that date and goodwill or any gain recognized shall 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.

#### Acquisition or Disposal of Non-controlling Interest in a Subsidiary

Non-controlling interest represents the portion of profit or loss and the net assets not held by the Parent Company and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from total equity attributable to owners of the Parent Company. Starting January 1, 2010, any losses applicable to a non-controlling shareholder of a consolidated subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. Prior to January 1, 2010, losses incurred by the subsidiary were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the Parent Company, unless the non-controlling interest had a binding obligation to recognize the loss.

Starting January 1, 2010, transactions involving non-controlling interest in a subsidiary without a change of control is accounted for as an equity transaction in accordance with PAS 27 (Amended). Any excess or deficit of consideration paid over the carrying amount of non-controlling interest is recognized in equity of the Parent Company.

#### Noncurrent Assets (Disposal Group) Held for Sale and Discontinued Operations

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in the consolidated statement of income. Gains are not recognized in excess of any cumulative impairment loss.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that had been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of income and consolidated statement of comprehensive income are re-presented as if the operation had been discontinued from the start of the comparative period. In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from normal income and expenses down to the level of profit after taxes, even when the Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

#### Interests in Joint Ventures

The Company has interests in joint ventures which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of these entities. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Company recognizes its interest in the joint venture using proportionate consolidation method. The Company combines its share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. Adjustments are made where necessary to bring the accounting policies in line with those of the Company.

Adjustments are made in the Company's consolidated financial statements to eliminate the Company's share of intragroup balances, income and expenses and unrealized gains and losses on transactions between the Company and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Company ceases to have joint control over the joint venture.

#### Investments in Associates

Investments in associates are accounted for using the equity method of accounting. An associate is an entity in which the Company has significant influence.

Under the equity method, the investments in associates are carried in the consolidated statement of financial position at cost plus Company's share in the post acquisition changes in the net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortized or separately tested for impairment. The consolidated statement of income reflects the share of the financial performance of the associates. Where there has been a change recognized directly in the equity of the associates, the Company recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associates are eliminated to the extent of the interest in the associates against the respective investment account.

The share in net earnings or losses of associates is included in the consolidated statement of income. This is the earnings or losses attributable to equity holders of the associates and therefore is earnings after tax and non-controlling interest in the associates.

When the Company's share in the losses of associates equals or exceeds its interests in the associate, the Company provides for additional losses to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate to satisfy the obligations of the associate that the Company has guaranteed or otherwise committed. If the associate subsequently reports profits, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

After the application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investments in associates. The Company determines at each end of reporting period whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the investment in associate and its carrying value and recognizes the same in the consolidated statement of income.

The Company shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with PAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in PAS 31, "Interests in Joint Ventures."

The results and financial position of subsidiaries that have a different functional currency are translated into Philippine Peso as follows:

- Assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- Income and expenses are translated at average exchange rates for each date of statement of income; and
- All resulting exchange differences are recognized as a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated statement of income.

#### Cash and Cash Equivalents

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

#### Cash Held in Trust

Funds received from customers which shall be used to pay salary package benefits with maturity of nine months or less are included under cash held in trust. The Company recognized a corresponding liability for all funds received.

Interest earned from these funds accrues to the benefit of the Company and included in the consolidated statement of income.

#### Financial Assets and Financial Liabilities

*Date of Recognition.* The Company recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchase or sale of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date.

*Initial Recognition of Financial Assets and Financial Liabilities.* Financial assets and financial liabilities 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 fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

*Categories of Financial Assets and Financial Liabilities.* The Company classifies its financial instruments in the following categories: financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets and other financial liabilities. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

The Company has no financial assets at FVPL, HTM investments, and AFS financial assets as of September 30, 2012 and December 31, 2011.

*Other Financial Liabilities.* This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

This category includes the Company's short-term loans, accounts payable and other current liabilities (except for statutory payables), dividends payable, long-term loans and advances from related parties.

#### *Derecognition of Financial Assets and Financial Liabilities*

- *Financial Assets.* A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:
  - i. the rights to receive cash flows from the asset have expired;
  - ii. the Company 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
  - iii. the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

- *Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or 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 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 the consolidated statement of income.

*Impairment of Financial Asset.* The Company assesses at each statements of financial position date whether a financial asset or a group of financial assets is impaired.

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Cash flows from short-term placements and receivables are not discounted if the effect of discounting is immaterial. The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence that an impairment loss has been incurred in an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

*Determination of Fair Value.* The fair value for financial instruments traded in active markets at the statements of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

#### Derivative Financial Instruments

A derivative is a financial instrument or other contract with all three of the following characteristics:

- a. its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a nonfinancial variable that the variable is not specific to a party to the contract (sometimes called the "underlying");
- b. it requires no initial investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- c. it is settled in a future date.

The Company uses derivative financial instruments such as currency forwards, interest rate swaps and interest rate cap to hedge foreign currency risk on foreign exchange fluctuations and interest rate risks on variability of interest rates from loans. These derivative instruments provide economic hedges under the Company's policies but are not designated as accounting hedges. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the consolidated statement of income.

#### Embedded Derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid or combined instrument is not recognized as financial asset at FVPL.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. Reassessment is only done when there are changes in the terms of the contract that significantly modifies the contractual cash flows.

As at September 30, 2012 and December 31, 2011, the Company's derivative financial instruments pertain to currency forward contracts included under "Derivative assets" account in the consolidated statement of financial position.

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

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

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

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

Construction in-progress is stated at cost less any impairment in value. Construction in-progress is transferred to the related property and equipment when the construction or installation and related activities necessary to prepare the property and equipment for their intended use have been completed, and the property and equipment are ready for service. Construction in-progress is not depreciated until such time that the relevant assets are completed and available for its intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of income in the year the asset is derecognized.

The assets' residual values, useful lives and depreciation method are reviewed and adjusted if appropriate, at each financial year-end to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation are credited or charged to current operations.

#### Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that its investment in associates and property and equipment may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less cost to sell. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

In assessing impairment of investments in associates, the Company determines, after application of the equity method, whether it is necessary to recognize an additional impairment loss on the Company's investments in associates. The Company determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Company calculates the amount of impairment as being

the difference between the fair value of the associate and the carrying value and recognizes the amount in the consolidated statement of income.

The following criteria are also applied in assessing impairment of specific assets:

*Goodwill and Brand Name and Logo.* Goodwill and brand name and logo, the Company's intangible assets with indefinite useful lives, are tested for impairment annually and when circumstances indicate that the carrying values may be impaired. Impairment is determined by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which goodwill and brand name and logo relate. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill and brand name and logo cannot be reversed in future periods.

#### Other Intangible Assets

Other intangible assets with finite useful lives are composed of the Company's website and software packages, customer contracts, loan book/trail component and software and development costs.

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 any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. 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. Amortization expense on intangible assets with finite lives is recognized under "Costs of services" and "General and administrative expenses" accounts in the consolidated statement of income.

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 the consolidated statement of income when the asset is derecognized.

#### Software Development Costs

Software development costs, included under "Goodwill and other intangible assets" account in the consolidated statement of financial position, incurred on an individual project are carried forward when the project's future recoverability can be foreseen with reasonable assurance, and amortized over a suitable period in line with the sales from the related project. All other development expenditures are written off in the year of expenditure. Software development costs represent typical internally generated intangible assets with relevance to the Company. Costs incurred in relation to individual projects are capitalized only when the future economic benefit of the project is probable and the following main conditions are met: (a) the development costs can be measured reliably; (b) the technical feasibility of the product has been ascertained; (c) it is the intention of the management to complete the intangible asset and use or sell it; (d) the Company can demonstrate how the asset will generate future economic benefits; and (e) the availability of resources to complete the asset. Given its type of business and cumulative experience gained, the Company recognizes an intangible asset shortly before a product is launched into the market and with reasonable certainty that it will generate probable future economic benefits. Costs incurred before that point in time is not reinstated. Internally generated intangible assets primarily relate to internally developed software. Research costs are expensed as incurred.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) 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. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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.

#### Equity

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

APIC on stock options represents the cumulative compensation expense recognized from equity-settled share-based payment plan, net of cumulative compensation expense related to exercised and expired stock options. Where exercise of stock option is made or stock options expire, the portion attributable to such exercised or expired stock options are transferred to APIC.

Change in the ownership interest of a subsidiary, without a change of control, is accounted as an equity transaction and presented as accumulated earnings net of dividends declared.

Retained earnings represent accumulated earnings net of dividends declared.

Non-controlling interests represent the equity interest in URSI and GIC not held by the Parent Company.

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

#### Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete 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. Unallocated items comprise mainly of corporate assets (primarily the Company's main office), main office expenses, and income tax assets and liabilities.

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

#### Revenue Recognition

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

*Service Income.* Revenue is recognized as services are rendered. Payment received in advance is recognized as income as services are rendered. The unearned portion of advance payment is deferred and reflected as unearned income under "Accounts payable and other current liabilities" account in the consolidated statement of financial position.

*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 Company through an increase in asset or reduction in liability and that can be measured reliably.

#### Costs and Expenses Recognition

Costs and expenses other than those mentioned below are recognized as incurred.

#### Leases

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

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

#### Share-based Payment Transactions

Under the Fil-Hispano (previous name of Paxys) Employee Equity Plan (EEP) and Paxys A.U. Equity Stock Option Plan (ESOP), the Company's equity plans, employees and executives (including directors) of Paxys, ACS and Paxys A.U. receive remuneration in the form of share-based payment transactions, whereby employees and executives render services as consideration for equity instruments ("equity-settled transactions") of the Parent Company and Paxys A.U. The transactions under EEP and ESOP are administered centrally by the Parent Company and Paxys A.U., respectively.

#### Income Tax

*Current Income Tax.* Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred Income Tax.* Deferred income tax is provided, using the statement of financial position liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for certain taxable temporary differences.

Deferred tax assets are recognized for certain deductible temporary differences, carryforward benefits of minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of MCIT and NOLCO can be utilized.

*Value-added Tax (VAT).* Revenues, expenses and assets are recognized net of the amount of VAT .

The net amount of tax recoverable from, or payable to, the tax authority is included as part of "Input value-added tax and other current assets" account in the consolidated statement of financial position.

*Paxys A.U. Tax Consolidation Legislation.* Paxys A.U. and its wholly-owned Australian controlled entity have implemented the tax consolidation legislation as of August 1, 2006.

The head entity, Paxys A.U., and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Paxys A.U. Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Paxys A.U. also recognizes the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognized as amounts receivable from or payable to other entities in the group.

#### Contingencies

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

#### Events after the Reporting Period

Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events), if any, are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.



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

The judgment and estimates used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Accordingly, actual results could differ from those estimates, and such estimates will be adjusted accordingly.

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

#### Judgments

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

*Determination of Fair Value of Financial Instruments (Including Derivatives).* The Company initially records all financial instruments at fair value and subsequently carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgment. The amount of changes in fair values would differ if the Company uses different valuation assumptions or other acceptable methodologies. Any change in fair value of these financial instruments (including derivatives) would affect either the consolidated statement of income or consolidated statement of changes in equity.

Fair values of financial assets and financial liabilities are presented in Note 16.

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

*Functional Currency.* Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Parent Company, SWA, URSI, Stellar, PGS, PGSP and ROHQ has been determined to be the Philippine Peso while Paxys N.V. is US Dollar (US\$) and its subsidiary, Paxys A.U., is the Australian Dollar (AU\$). The functional currency of ACS Dalian is Chinese Yuan. The functional currency of PGSP is Singapore Dollar.

Functional currency is the currency of the primary economic environment in which each of the entities operates. It is the currency that mainly influences the revenue and cost of services. For consolidation purposes, Paxys N.V. and Subsidiary, ACS Dalian and PGSP were translated to the Philippine peso in accordance with PAS 21, "The Effects of Changes in Foreign Exchange Rates."

*Disposal Group and Discontinued Operation.* As at December 31, 2011, PAU is classified as a disposal group held for sale after management has assessed that it met the criteria of an asset held for sale following the provisions of PFRS 5.

The related net assets of PAU was carried at the lower of its carrying value and its fair value (less costs to sell).

#### Estimates and Assumptions

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

*Impairment of Goodwill and Brand Name and Logo.* The Company tests goodwill and brand name and logo, and other intangible assets with indefinite life for impairment at least annually or more frequently if there are indications that these may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit, to which goodwill has been allocated, an impairment loss is recognized.

*2011 Assessment of Goodwill allocated to salary packaging business segment (Paxys A.U. and Subsidiaries).* As discussed in Note 4, pursuant to PFRS 5, the net assets directly associated with disposal group classified as held for sale are measured at the lower of carrying amount and the fair value (equivalent to the selling price) less cost to sell. Based on management assessment, no impairment loss was recognized in 2011 since the initial selling price of AU\$ 88.3 million (equivalent to ₪3739.65 million as of December 31, 2011) is higher than the net asset of Paxys A.U. and Subsidiaries (including allocated goodwill).

*Goodwill allocated to other business segments.* The Company performed test of recoverability of goodwill applied to the asset group of transcription business and other business segments of the Company. The recoverable amount of these segments had been determined on the basis of value in use calculations using cash flow projections based on the financial budgets of the Company, covering a five year period from 2011 to 2015.

In 2011, the Company recognized impairment on goodwill from its subsidiaries, SWA and URSI, amounting to ₪4.84 million and ₪6.24 million, respectively

*Impairment of Other Nonfinancial Assets Including Other Intangible Assets with Finite Lives.* PFRS requires that an impairment review be performed when certain impairment indicators are present.

Investments in associates, property and equipment and other intangible assets, other than goodwill and brand name and logo, are subject to annual impairment test whenever there is a strong indication that the asset is impaired.

If there are indicators of impairment, management is required to make estimates and assumptions to determine the future cash flows to be generated from the continued use and ultimate disposition of these assets in order to determine the recoverable value of these assets. While the Company believes that the assumptions used are reasonable and appropriate, these estimates and assumptions can materially affect the consolidated financial statements. Future adverse events may cause management to conclude that the affected assets are impaired and may have a material impact on the financial condition and performance of the Company. There were no asset impairment in 2012 and 2011 as there were no indications of impairment.

The carrying values of nonfinancial assets subject to impairment review when impairment indicators are present as at September 30, 2012 and December 31, 2011 are as follows:

	2012	2011
	<i>(In Thousands)</i>	
Property and equipment (Note 9)	₪108,465	₪160,498
Website and Software packages (Note 10)	9,597	10,941

There is no change in the estimated useful lives of property and equipment and other intangible assets with finite useful lives in 2012 and 2011.

Property and equipment included under “Assets of disposal group classified as held for sale” amounted to ₪68.43 million as at December 31, 2011, respectively.

*Impairment of Receivables and Advances to Related Parties.* The Company maintains allowance for doubtful accounts at a level based on the result of the individual and collective assessment. Under the individual assessment, the Company considers the payment history, past due status and term. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (customer type, length of the Company’s relationship with the customers, average age of accounts and collection experience) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. The methodology and assumptions used for the individual and collective assessments are based on management’s judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

Allowance for doubtful accounts for trade and other receivables amounted to ₪23.29 million and ₪17.84 million as at September 30, 2012 and December 31, 2011, respectively. The carrying values of trade and other receivables amounted to ₪124.86 million and ₪230.3 million as at September 30, 2012 and December 31, 2011, respectively.

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

The allowance is established by charges to income in the form of provision for potential losses on input tax. The amount and timing of recorded expenses for any period would therefore differ based on the judgment or estimates made. An increase in provision for potential losses on input tax would increase the Company's recorded expenses and decrease current assets.

The carrying value of input tax, net of output tax, amounted to ₱31.4 million and ₱32.75 million as at September 30, 2012 and December 31, 2011, respectively.

*Retirement Cost.* The determination of the obligation and costs for retirement is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the Company's accrued retirement costs.

Accrued retirement costs amounted to ₱4.6 million and ₱6.78 million as at September 30, 2012 and December 31, 2011, respectively.

*Legal Contingencies.* The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company'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. A provision for probable losses arising from tax assessment amounting to ₱23.4 million and was included under "Accounts payable and other current liabilities" account in the Company's consolidated statement of financial position as at September 30, 2012. No provision for probable losses arising from contingencies was recognized in 2012.

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#### 4. Disposals

##### Paxys A.U and Subsidiaries

On 7 June 2012, the sale of Paxys N.V.'s 100% equity interest in Paxys Australia Pty Ltd to SmartGroup Investments Pty Ltd was completed following the fulfilment of closing conditions stipulated in the Share Sale Agreement dated 31 March 2012.

As a result of the completion, Paxys N.V. has received the amount of A\$77.2 million representing 87% of the purchase price. The remaining 13%, amounting to A\$11.1 million, was deposited in escrow and will be released to Paxys N.V. after a period of 12 to 18 months from completion or earlier, subject to certain conditions being fulfilled, and claims for breach of the Agreement, if any.

As at December 31, 2011, Paxys A.U. and Subsidiaries is classified as a disposal group held for sale and as a discontinued operation in accordance with PFRS 5.

The results of operations of Paxys A.U. and Subsidiaries are presented below:

	Jan – May 2012	For nine months ended Sept 30	
		2011	2010
		<i>(In Thousands)</i>	
Service income	₱1,047,489	₱1,536,003	₱1,121,049
Costs and expenses:			
Costs of services	358,763	514,232	388,910
General and administrative expenses	459,542	692,221	545,862
	818,305	1,206,453	934,772
	229,184	329,550	186,277

	Jan – May 2012	For nine months ended Sept 30	
		2011	2010
		<i>(In Thousands)</i>	
Interest income	₱29,652	₱56,673	₱24,128
Interest expense	(5,500)	(33,013)	(33,796)
Other expense– net	(774)	(17,331)	(14,664)
Income before income tax	252,562	335,879	161,945
Provision for (benefit from) income tax	(78,789)	(105,856)	(103,180)
Income after income tax	₱173,773	₱230,023	₱59,765

The major classes of assets and liabilities of Paxys A.U. and Subsidiaries classified as disposal group held for sale as at December 31, 2011 are as follows:

	December 31, 2011
	<i>(In Thousands)</i>
<b>Assets</b>	
Cash and cash equivalents	₱459,414
Cash held in trust	1,214,191
Trade and other receivables – net	191,645
Derivative assets	339
Other current assets – net	21,487
Property and equipment - net	68,432
Goodwill and other intangible assets	1,752,141
Deferred tax assets – net	116,819
Other noncurrent assets	-
Assets of disposal group classified as held for sale	3,824,468
<b>Liabilities</b>	
Accounts payable and other current liabilities	1,658,527
Income tax payable	99,830
Short-term provisions	71,571
Long-term loans	329,698
Deferred tax liabilities	114,884
Long-term provisions	33,251
Liabilities of disposal group classified as held for sale	2,307,761
<b>Reserves</b>	
Additional paid-in capital - stock options	48,771
Cumulative translation adjustment	175,520
Reserves of disposal group classified as held for sale	224,291
Net assets of disposal group	₱1,292,416

#### GIC Philippines

Effective August 31, 2011, Paxys has sold its 60.27% equity interest in GIC in favor of the Minority interest. As of the disposal date, the carrying value of assets and liabilities included in the consolidated balance sheet are as follows:

	<i>(In Thousands)</i>
<b>Assets</b>	
Cash and cash equivalents	₱6,336
Trade and other receivables	8,995
Input value-added tax and other current assets – net	3,912
Property and equipment	3,271
Software development costs	13,171
Other noncurrent assets	1,392
Goodwill	14,351
Total Assets	51,428

(In Thousands)

<b>Liabilities</b>	
Accounts payable and other current liabilities	14,349
Advances to related parties	20,479
Long-term provisions	2,928
Deferred tax liabilities <sup>1</sup>	429
Accrued retirement costs	130
<b>Total Liabilities</b>	<b>38,315</b>
Net assets as of August 31, 2011	₱13,113

The difference between the selling price and the Group's net assets plus the minority interest of ₱0.43 million resulted to a recognized loss of ₱8.5 million. Accordingly, the Group's recognized an impairment loss of ₱15.5 million from its advances to GIC.

Included in the 2011 consolidated net income is the Group's share of net loss from GIC for nine months amounted to ₱2.29 million.

#### Sale of WNS

On February 12, 2010, ACS declared its entire investment in WNS Philippines as property dividends. Upon approval of SEC and upon distribution of the property dividends on March 18, 2011, WNS Philippines became a direct associate of the Parent Company.

On October 31, 2011, Paxys and WNS Netherlands signed a Deed of Absolute Sale for the transfer of Paxys' 35% equity interests in WNS Philippines.

#### Sale of URSI

On October 31, 2012, Paxys signed a Deed of Absolute Sale of Shares for the transfer of 100% of Paxys' equity interests in URSI.

Pursuant to the sale, Paxys transferred 43,515 common shares of URSI, representing 63.51% of URSI's total share capital, in favor of the minority. As a result of the sale, URSI will cease from being a subsidiary of Paxys effective October 31, 2012.

### 5. Cash and Cash Equivalents; Funds Held on Behalf of Customers

#### Cash and Cash Equivalents

This account consists of:

	September 30, 2012	December 31, 2011
	(In Thousands)	
Cash on hand and in banks	₱2,320,809	₱68,134
Short-term deposits	1,618,434	374,050
	<b>₱3,939,243</b>	<b>₱442,184</b>

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

Cash Held in Trust

These pertain to funds received by the Company from the customers to be used to pay for salary package benefits. As funds are received, a corresponding liability is recorded for the same amount. Interests accruing to these funds are recorded in the Company's consolidated statement of income.

As at December 31, 2011, cash held in trust included in the Assets Held for Sale amounted to ₱1,214.19 million.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	September 30, 2012	December 31, 2011
<i>(In Thousands)</i>		
Cash on hand and in banks	₱2,320,809	₱68,134
Short-term deposits	1,618,434	374,050
Cash held in trust attributable to a disposal group classified as held for sale	-	1,214,191
Cash on hand and in banks and short-term deposits attributable to a disposal group classified as held for sale	-	459,414
	<b>₱3,939,243</b>	<b>₱2,115,789</b>

**6. Trade and Other Receivables - net**

This account consists of:

	September 30, 2012	December 31, 2011
<i>(In Thousands)</i>		
Trade	₱108,000	₱200,510
Advances to related parties	22,585	23,755
Advances to officers and employees	8,619	10,146
Receivable from GIC (Note 4)	1,007	5,000
Advances to suppliers and contractors	926	1,000
Statutory receivables	1,926	1,085
Others	5,096	6,630
	148,159	248,126
Less allowance for doubtful accounts	23,294	17,836
	<b>₱124,865</b>	<b>₱230,290</b>

Below are the terms and conditions of the above receivables:

Trade receivables are noninterest-bearing and generally have 30-60 days' terms.

Advances to officers and employees consist of noninterest-bearing cash advances which are normally liquidated within 30 days from availment date.

Advances to suppliers and contractors are noninterest-bearing and generally applied against Company's receipt of goods and services within 90 days.

Statutory receivables mainly include noninterest-bearing advances to employees relating to maternity and sickness benefits to be collected from government agencies.

**7. Input Tax and Other Current Assets**

This account consists of:

	September 30, 2012	December 31, 2011
<i>(In Thousands)</i>		
Escrow fund	₱301,241	₱50,216
Input value-added tax - net of allowance of ₱32.7 million and ₱26.9 million in 2012 and 2011, respectively	31,434	32,750
Advance rentals and other prepayments	13,080	14,829
Others	26,317	623
	<b>₱372,072</b>	<b>₱98,418</b>

As provided for in the sale purchase agreement for the sale of Alorica, \$1.25 million of the sales proceeds was deposited in an escrow fund which will be used for the settlement of taxes and other contingent expenses. This escrow fund was subsequently released to Paxys in February 2012.

In relation to the sale of Paxys A. U., 13% of the total sale proceeds amounting to A\$11.1Million, was deposited in escrow and will be released to Paxys N.V. after a period of 12 to 18 months from completion or earlier, subject to certain conditions being fulfilled, and claims for breach of the Agreement, if any. On 8 August 2012, A\$4.3million was released to Paxys N.V.

**8. Interests in Joint Venture**

The Company has 50.0% interest in both Stellar and ACS Dalian, jointly controlled entities. Stellar was incorporated in the Philippines while ACS Dalian was incorporated under the laws of China. Both entities are engaged in call center and offers BPO related services. The Company recognizes its interest in these companies using proportionate consolidation.

ACS declared as property dividend its investment in ACS Dalian to Parent Company thus upon approval of SEC and distribution of the property dividends, ACS Dalian became a direct joint venture of the Parent Company in 2011.

The Company's share on the assets, liabilities, income and expenses of these jointly controlled entities as at September 30, 2012 and December 31, 2011 and for the periods then ended, included in the consolidated financial statements, are as follows:

	September 30, 2012	December 31, 2011
<i>(In Thousands)</i>		
Current assets	₱104,662	₱143,894
Noncurrent assets	89,052	101,709
Current liabilities	71,847	78,790
Noncurrent liabilities	-	2,689
<b>For the Nine Months Ended September 30</b>		
	<b>2012</b>	<b>2011</b>
Revenue	₱249,827	₱372,400
Expenses	(279,815)	(325,288)
Net income (loss)	(29,988)	47,112

9. **Property and Equipment**

The movement of this account follows:

	September 30, 2012															
	Computer Equipment		Communication Equipment		Leasehold Improvements		Office Furniture, Fixtures and Equipment		Transportation Equipment		Software Pool		Construction In-Progress		Total	
	<i>(In Thousands)</i>															
Cost																
Balance at beginning of year	₱173,107		₱32,599		₱208,447		₱40,109		₱19,199		₱6,737		₱3,509			₱483,707
Additions	2,588		27		5,073		447		614		4,965		248			13,962
Disposals	(22)		—		—		—		—		—		(3,529)			(3,511)
Translation adjustments	(114)		(8)		(59)		(36)		—		(7)		—			(224)
Balance at end of year	175,559		32,618		213,461		40,520		19,813		11,695		428			493,894
Accumulated Depreciation																
Balance at beginning of year	122,784		19,665		152,308		16,430		10,580		1,442		—			323,209
Depreciation for the year	27,794		6,134		17,153		8,880		1,007		1,431		—			62,399
Translation adjustments	(68)		(4)		(88)		(15)		—		(4)		—			(179)
Balance at end of year	150,510		25,795		169,373		25,296		11,587		2,869		—			385,429
Net Book Value	₱25,049		₱6,823		₱44,088		₱15,225		₱8,226		₱8,826		₱428			₱108,465

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

- Computer equipment 5 years
- Communication equipment 3 – 5 years
- Leasehold improvements 5 years or lease term whichever is shorter
- Office furniture, fixtures and equipment 5 – 14 years
- Transportation equipment 5 years



December 31, 2011

Cost	Office Furniture, Fixtures and Equipment (In Thousands)									
	Computer Equipment	Communication Equipment	Leasehold Improvements	Equipment	Transportation Equipment	Software Pool	Construction In-Progress	Total		
Balance at beginning of year	₱334,512	₱82,197	₱285,861	₱136,918	₱15,910	₱58,480	₱19,896	₱933,774		
Distribution of dividends	(123,886)	(60,203)	(70,278)	(51,715)	7,519	127	(6,547)	(304,983)		
Effect of reclassification to disposal group										
held for sale (see Note 4)	(67,950)	-	(43,149)	(52,737)	(2,792)	(66,939)	(12,153)	(245,720)		
Additions	30,813	10,596	45,089	31,918	5,245	16,725	2,399	142,785		
Disposal of a subsidiary (see Note 4)	-	-	(8,547)	(24,050)	(3,283)	(1,259)	-	(37,139)		
Disposals	(80)	-	-	(20)	(3,390)	-	-	(3,490)		
Write-off	-	-	(266)	-	-	-	-	(266)		
Translation adjustments	(302)	9	(263)	(205)	(10)	(397)	(86)	(1,254)		
Balance at end of year	173,107	32,599	208,447	40,109	19,199	6,737	3,509	483,707		
Accumulated Depreciation										
Balance at beginning of year	246,882	69,687	258,222	100,674	7,816	40,300	-	723,581		
Distribution of dividends	(108,370)	(55,284)	(76,834)	(43,650)	3,784	1,272	-	(279,082)		
Effect of reclassification to disposal group										
held for sale (see Note 4)	(59,846)	-	(37,285)	(27,276)	(465)	(52,416)	-	(177,288)		
Depreciation for the year	44,555	5,260	14,797	10,423	3,553	13,933	-	92,521		
Disposal of a subsidiary (see Note 4)	-	-	(6,044)	(23,566)	(2,999)	(1,259)	-	(33,868)		
Disposals	(42)	-	-	(8)	(1,101)	-	-	(1,151)		
Write-off	-	-	(266)	-	-	-	-	(266)		
Reclassifications	-	-	(22)	22	-	-	-	-		
Translation adjustments	(395)	2	(260)	(189)	(8)	(388)	-	(1,238)		
Balance at end of year	122,784	19,665	152,308	16,430	10,580	1,442	-	323,209		
Net Book Value	₱50,323	₱12,934	₱56,139	₱23,679	₱8,619	₱5,295	₱3,509	₱160,498		



10. Website and Software Packages

	September 30, 2012	December 31, 2011
	<i>(In Thousands)</i>	
Cost	P29,625	P27,818
Less Accumulated amortization	20,028	16,877
	<b>P9,597</b>	<b>P10,941</b>

11. Accounts Payable and Other Current Liabilities

	September 30, 2012	December 31, 2011
	<i>(In Thousands)</i>	
Accrued expenses	P126,320	P121,385
Trade payables	12,333	21,797
Statutory payables	7,179	12,750
Advances from related parties	4,441	3,021
Unearned income	1,663	2,220
Other current liabilities	24,517	18,141
	<b>P176,453</b>	<b>P179,314</b>

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

Accrued expenses mainly represent accruals for utilities, communications, marketing expenses, salaries, wages and allowances and other employee benefits. Short-term employee benefits mainly represent provisions for employees' service leave. Accrued expenses are noninterest-bearing and are generally settled within two months.

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

Other current liabilities mainly represent reimbursable expenses from customers and are noninterest-bearing and have an average term of nine months.

12. Stockholders' Equity

Capital Stock

On June 27, 2008, the Company's BOD authorized and approved the increase in authorized capital stock from P1,200 million to P1,800 million by way of a stock dividend declaration.

On September 14, 2009 and August 30, 2008, the Parent Company issued 2,160,000 and 4,360,000 shares, respectively, related to the exercise of the options under the stock option. Uncollected amounts from the exercised options are included as part of "Subscription receivable."

	Number of Shares Authorized	Number of Shares Issued and Outstanding	Cost
	<i>(In Thousands)</i>		
At January 1, 2012	1,800,000,000	1,148,534,866	P1,148,534
Subscription receivable	-	-	(76,761)
<b>At September 30, 2012</b>	<b>1,800,000,000</b>	<b>1,148,534,866</b>	<b>P1,071,773</b>

	Number of Shares Authorized	Number of Shares Issued and Outstanding	Cost <i>(In Thousands)</i>
At January 1, 2011	1,800,000,000	1,148,534,866	₱1,148,534
Subscription receivable	—	—	(76,761)
<b>At December 31, 2011</b>	<b>1,800,000,000</b>	<b>1,148,534,866</b>	<b>₱1,071,773</b>

Disclosure under SRC Rule 68

In 2004, the principal shareholder of Advanced Contact Solutions, Inc. (ACS), a call center company established in the Philippines on November 27, 2003, acquired a controlling stake in Paxys, Inc. through a reverse takeover by injecting 100% of ACS into the Company, effectively making Paxys, Inc. the first call center firm to be listed in the PSE. On October 14, 2005, Securities and Exchange Commission (SEC) approved the Company's application for increase in authorized capital stock from ₱600 million to ₱1.2 billion from which the 300,000,000 rights offering shares were taken.

Paxys has 725 shareholders owning 100 or more shares as of September 30, 2012 and December 31, 2011, respectively.

APIC

This account consists of:

	<i>(In Thousands)</i>
Issuance of shares of stocks	<b>₱348,213</b>
Stock options	103,151
	<b>₱451,364</b>

APIC from issuance of shares of stocks represents the excess of paid capital over the par value of capital stock.

APIC from stock options represents increase in equity arising from equity-settled share-based payment transactions.

Retained Earnings

On June 27, 2008, the BOD resolved the declaration of stock dividend of one common share at a par value of ₱1.00 per share to be issued for every five common shares held, to stockholders of record as of the date of declaration. Subsequently on February 4, 2009, the Company issued 191,062,477 capital shares in relation to the 20.0% stock dividend declared.

**13. Segment Information**

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

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

*Inter-segment Transactions.* Segment revenues, segment expenses and segment performance include transfers among business segments. The transfers, if any, are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in consolidation.

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

- Call Center - The call center segment offers an integrated mix of call center solutions including inbound (customer-initiated) and outbound teleservicing as well as email and web-based tools.
- Salary Packaging - The salary packaging segment provides services to company employees to effectively structure their income through a combination of cash and approved employee benefits. The segment's services ensure the implementation of a well-aligned salary packaging policy and the delivery of a comprehensive tax management reporting suite. Following management's decision to divest its investment in Paxys A.U. and Subsidiaries, total assets and liabilities and income and expense of Paxys A.U. and Subsidiaries are presented under the "Discontinued operation" column in the segment report as of September 30, 2012 and December 31, 2011. Prior years information were restated.
- Data Transcription - This segment includes data transcription and scoping services, voice-to-screen message conversion and electronic data encoding and processing.
- Others - This segment includes software development and IT consultancy. It also includes the operation of the Parent Company.

#### Business Segment Data

The following table presents revenues and expenses information and certain assets and liabilities information regarding the business segments for the nine months ended September 30, 2012:

	September 30, 2012						Total
	Continuing Operations				Discontinued Operation		
	Call Center	Data Transcription	Others	Eliminations	Consolidated	Salary Packaging	
	<i>(In Thousands)</i>						
<b>Results of Operations</b>							
Segment revenues from external customers	P258,996	P123,933	P32,801	(P10,803)	P404,927	P1,047,489	P1,452,416
Segment expenses	(312,115)	(147,475)	(166,938)	13,407	(613,121)	(818,306)	(1,431,427)
Other segment operating income (expense)	(2,569)	249	3,167,112	(888,382)	2,276,410	(431)	2,275,979
Segment result	(55,688)	(23,293)	3,032,975	(885,778)	2,068,216	228,752	2,296,968
Mark-to-market gain (loss) on financial instruments	-	2,372	(339)	1	2,034	(342)	1,692
Interest expense	(82)	(1,679)	(1,816)	2,609	(968)	(5,500)	(6,468)
Interest income	87	276	38,304	(2,610)	36,057	29,652	65,709
Foreign exchange gain (loss) - net	(2,297)	(3,000)	124,053	12,098	130,854	-	130,854
Provision for income tax	(463)	(4)	-	-	(467)	(78,789)	(79,256)
Net income (loss)	(P58,443)	(P25,328)	P3,193,177	(873,680)	P2,235,726	P173,773	P2,409,499
<b>Assets and Liabilities</b>							
Segment assets	P149,502	P92,482	P4,411,332	(P82,489)	P4,570,827	-	P4,570,827
Segment liabilities	157,627	138,610	201,044	(309,174)	188,107	-	188,107
<b>Other Segment Information</b>							
Capital expenditures:							
Property and equipment	P9,509	P3,650	P802	-	P13,962	-	P13,962
Intangibles	826	365	617	-	1,808	-	1,808
Depreciation and amortization	20,326	11,294	33,916	-	65,536	146,620	212,156

September 30, 2011

	Continuing Operations					Discontinued	Total
	Data				Consolidated	Operation	
	Call Center	Transcription	Others	Eliminations		Salary Packaging	
	<i>(In Thousands)</i>						
<b>Results of Operations</b>							
Segment revenues from external customers	372,410	186,400	159,658	(48,649)	669,819	1,536,004	2,205,823
Segment expenses	(322,104)	(215,160)	(278,650)	35,970	(779,944)	(1,206,454)	(1,986,398)
Other segment operating income (expense)	(1,444)	(4,452)	(79,181)	43,899	(41,178)	(18,769)	(59,947)
Segment result	48,862	(33,212)	(198,173)	31,220	(151,303)	310,781	159,478
Mark-to-market gain (loss) on financial instruments	-	4,641	-	-	4,641	-	4,641
Interest expense	(160)	(1,685)	(3,355)	921	(4,279)	(33,012)	(37,291)
Interest income	219	26	8,079	41,259	49,583	16,198	65,781
Equity in net (losses) of associates	-	-	-	1,046	1,046	-	1,046
Foreign exchange gain (loss) – net	(1,600)	(1,601)	(2,526)	(192)	(5,919)	-	(5,919)
Provision for income tax	(198)	-	(292)	(2)	(492)	(105,856)	(106,348)
<b>Net income (loss)</b>	<b>47,123</b>	<b>(31,831)</b>	<b>(196,267)</b>	<b>74,252</b>	<b>(106,723)</b>	<b>188,111</b>	<b>81,388</b>
<b>Assets and Liabilities</b>							
Segment assets	261,502	122,227	2,306,943	(1,677,949)	1,012,723	3,589,971	4,602,694
Segment liabilities	100,421	118,139	518,841	(525,575)	211,826	2,200,156	2,411,982
<b>Other Segment Information</b>							
Capital expenditures:							
Property and equipment	79,787	6,079	3,365	-	89,231	4,430	93,661
Intangibles	-	3,431	3,648	-	7,079	-	7,079
Depreciation and amortization	(6,844)	(12,521)	(38,680)	-	(58,045)	(217,963)	(276,008)

**Geographical Segment Data**

The following table presents the revenue and expenditure and certain asset information regarding geographical segments for the nine months ended September 30, 2012:

September 30, 2012

	Continuing Operations				Discontinued	Total
	Philippines	China	Eliminations	Consolidated	Operation	
					Australia	
	<i>(In Thousands)</i>					
<b>Revenue</b>						
External revenue	₱411,797	₱3,933	(₱10,803)	₱404,927	₱1,047,489	₱1,452,416
<b>Other Segment Information</b>						
Segment assets	₱4,649,363	₱3,954	(₱82,489)	₱4,570,828	-	₱4,570,828
Capital expenditures:						
Property and equipment	13,962	-	-	13,962	-	13,962
Intangibles	1,808	-	-	1,808	-	1,808

September 30, 2011

	Continuing Operations				Discontinued	Total
	Philippines	China	Eliminations	Consolidated	Operation Australia	
<i>(In Thousands)</i>						
Revenue						
External revenue	₱715,699	₱2,769	(₱48,649)	₱669,819	₱1,536,004	₱2,205,823
Other Segment Information						
Segment assets	₱2,683,238	₱7,434	(₱1,677,949)	₱1,012,723	₱3,589,971	₱4,602,694
Capital expenditures:						
Property and equipment	93,817	-	-	93,817	19,904	113,721
Intangibles	7,079	-	-	7,079	-	7,079

#### 14. Earnings Per Share

Earnings per share are computed as follows:

	For the Nine Months Ended September 30	
	2012	2011 (As restated)
Net earnings attributable to Parent from:		
Continuing operations (a)	₱2,236,496	₱ (144,487)
Discontinuing operations (b)	173,773	230,023
Weighted average number of common shares outstanding (c)	1,148,534,866	1,148,534,866
Earnings per share		
Continuing operations (a/c)	₱1.95	(₱0.13)
Discontinuing operations (b/c)	0.15	0.20

#### 15. Retirement Benefits

The Parent company, SWA and Stellar used the projected unit credit actuarial cost method, prescribed by PAS19, in computing its retirement obligations.

This account consists of accrued retirement costs amounting to ₱4.6 million and ₱6.8 million as of September 30, 2012 and December 31, 2011, respectively.

## 16. Financial Assets and Financial Liabilities

A comparison by category of carrying and fair values of all of the Company's financial assets and financial liabilities financial instruments as of September 30, 2012 and December 31, 2011 are as follows:

	September 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents <sup>(a)</sup>	₱3,938,481	₱3,938,481	₱442,184	₱442,184
Trade and other receivables - net <sup>(b)</sup>	121,175	121,175	228,205	228,205
Escrow fund	301,241	301,241	50,216	50,216
Rental and security deposits <sup>(c)</sup>	16,181	16,181	17,708	18,553
	4,377,078	4,377,078	738,313	739,158
<b>Financial Liabilities</b>				
Other financial liabilities:				
Accounts payable and other current liabilities <sup>(d)</sup>	151,747	151,747	161,323	161,323
Dividends payable	6,554	6,554	6,554	6,554
Advances from related parties	4,441	4,441	3,021	3,021
Derivative Liability <sup>(e)</sup>	316	316	-	-
	163,058	163,058	₱170,898	₱170,898
	₱4,214,020	₱4,214,020	₱567,415	₱568,260

<sup>(a)</sup> Excluding cash on hand amounting to ₱0.76 million and ₱0.20 million as at September 30, 2012 and December 31, 2011, respectively.

<sup>(b)</sup> Excluding statutory receivables, unearned income, lease incentive and advances to suppliers and contractors amounting to ₱3.7 million and ₱5.16 million as at September 30, 2012 and December 31, 2011, respectively.

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

<sup>(d)</sup> Excluding statutory payables, unearned income and lease incentive amounting to ₱8.8 million and ₱92.37 million as at September 30, 2012 and December 31, 2011, respectively.

<sup>(e)</sup> Included under "Other noncurrent liabilities".

### Cash and Cash Equivalents, Trade and Other Receivables, Accounts Payable and Other Current Liabilities and Dividends Payable

Due to the short-term nature of transactions, the fair value approximates the carrying amounts at initial recognition.

### Advances to and from Related Parties and Rental and Security Deposits

Due to the short-term nature of transactions, the fair value approximates the carrying amounts at initial recognition.

## 17. Other Matters

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

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

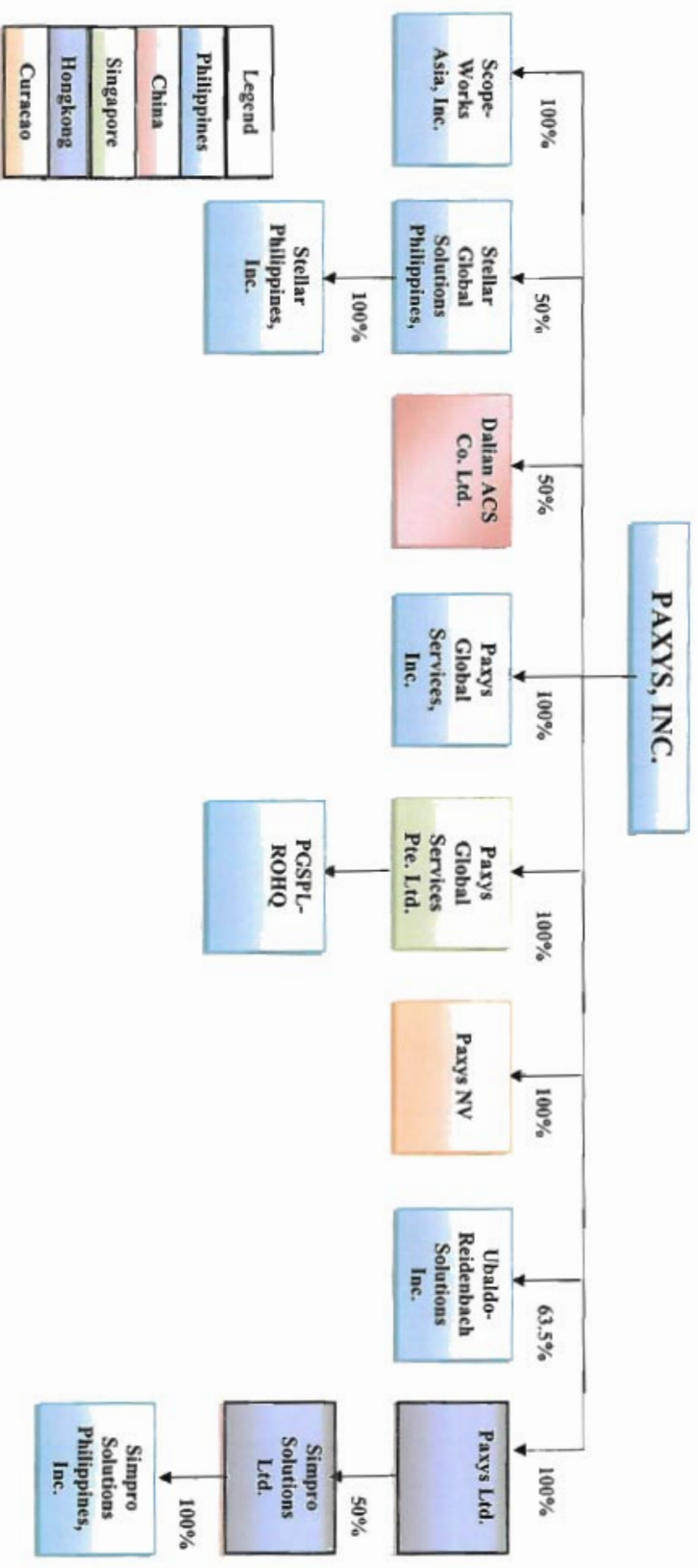
**INTRODUCTION**

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of the Company as of and for the period ended September 30, 2012 (with comparative figures as of September 30, 2011). All necessary adjustments to present fairly the consolidated financial condition, results of operations, and cash flows of the Company for the nine months ended September 30, 2012, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited financial statements prepared in accordance with generally accepted accounting principles have been omitted.



Overview of Our Business

Below is the Group's organizational structure as of September 30, 2012:



Paxys is an investment holding company registered with the SEC in 1997. Through its operating subsidiaries, Paxys has been engaged in diversified services such as business processing outsourcing, data conversion, salary packaging, IT Consulting and software solutions throughout the Philippines and internationally.

PGS is a shared services company which provides executive, marketing and operations shared services to Paxys' operating subsidiaries.

ScopeWorks Asia, Inc. is a Philippine BPO company engaged in general and legal transcription, editing, proofreading, mortgage processing and data conversion services with clients in the US and UK.

SGSPI is a Philippine joint venture company providing cost-effective offshore contact center and business process outsourcing solutions for Australian and UK clients across a variety of industries, including telecommunications, utilities, transport, finance, government, retail and manufacturing.

URSI is an information technology solutions provider. Based in the Philippines, URSI focuses on systems integration and related services such as business process enhancement, project implementation and management, IT consultancy, after sales support and outsourcing services.

#### **Key Performance Indicators (KPI's)**

The Company's management uses the following KPIs:

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

## RESULTS OF OPERATIONS AND DISCUSSION OF KPIS

- For the 1st Nine Months of 2012 vs 2011 (January to September) \*

Summary Profit and Loss  
For the nine months ended September 30  
In Million Pesos

	Nine Months (January - September)				% Change
	2012		2011 (As restated)		
	Amount	% to Sales	Amount	% to Sales	
Service Income	₱405	100%	₱670	100%	(40%)
Gross Profit	26	6%	139	21%	(81%)
Loss from Operations	(206)	(51%)	(149)	(22%)	(38%)
Net Loss**	(206)	(51%)	(149)	(22%)	(38%)
EBITDA	(148)	(37%)	(118)	(18%)	(25%)

\*Income from continuing operations only; excluding gain from sale of PAU income from discontinuing operations and forex gains from cash proceeds from sale of PAU

\*\*For purposes of comparison, 2011 results exclude PAU results of operations.

The Service Income from continuing operations decreased by 40% or ₱265 million over same period prior year due to decline in revenue of Stellar, SWA, URSI, and Paxys. The impact of sale of GIC was a decrease in revenue amounting to ₱34 million. GIC was effectively sold on September 1, 2011.

Stellar experienced a reduction of volume of its major US account starting late 2011. SWA continues to experience lower billable hours and lower FTEs during the first nine months of the year.

Gross Profit dropped by 81% due to decline in revenue which was not recovered by the decline in Cost of Services of 29% from ₱531million to ₱379 million

Operating expenses has decreased by ₱14.5 million or 6% compared same period prior year mainly due decrease in personnel cost of SWA, lower provision for doubtful accounts, and operating expenses savings in GIC and URSI. This was however offset by an increase in operating expense of Stellar due to increase in depreciation.

The consolidated net loss and EBITDA margin for the first nine months of 2012 dropped by 38% and 25% respectively due to decline in Gross Profit.

The following are the highlights of the performance of the individual business entities:

### A. Scopeworks Asia Inc.

The Scopeworks business contributed 31% of the consolidated revenue from continuing operations of the group for the first nine months of 2012.

SWA's profitability in the current year declined by 3ppts compared to the same period last year due to lower volume requirement.

SWA reported a net loss of ₱23.6 million for the nine months period ended September 30, 2012 mainly due to unfavourable variance in revenue.

B. Stellar Global Solutions Philippines Inc.

Stellar reported revenue of ₱492 million for the first nine months ended September 30, 2012, a decrease of 33% from previous year's ₱739 million. The Company uses proportionate consolidation for the joint venture and recognized revenue of ₱246 million and ₱369 million in the same period of 2012 and 2011, respectively for its 50% share. Decrease in revenue by 33% was brought about by the decline in revenue volume of its major US client and termination of its contract with one of its Australian client.

Cost of Sales decreased by ₱137 million due to reduction of agents in relation with the reduction in volume of its major US client and lower rent cost after maintaining only one site.

Stellar posted a net loss of ₱49.7 Million in the nine months ended September 30, 2012 of which, the Company's share is ₱24.8 Million brought by lower revenue. The net loss was mainly due to lower Gross Profit.

**FINANCIAL CONDITION**

	September 30, 2012	December 31, 2011 (As Audited)	Y12 vs Y11
<b>Balance Sheet Data:</b>			
<u>Continuing:*</u>			
Total Current Assets	₱ 4,436,180	770,892	475%
Total Noncurrent Assets	134,647	189,160	(29%)
Total Assets	4,570,827	960,052	376%
Total Current Liabilities	183,199	186,762	(2%)
Total Noncurrent Liabilities	4,907	7,115	(31%)
Total Equity	4,382,721	2,058,591	113%
<u>Discontinuing:</u>			
Assets held for sale	—	3,824,468	(100%)
Liabilities held for sale	—	2,307,761	(100%)
Reserves held for sale	—	224,291	(100%)
<i>*Excluded Paxys Australia's assets, liabilities and equity as of September 30, 2012 and December 31, 2011 as shown under discontinuing operation</i>			

The major changes in the statements of financial position items from December 31, 2011 to September 30, 2012 are as follows:

- Net increase in Cash and Cash equivalents is 791% or ₱3,497 million due to receipt of partial cash proceeds from sale of Paxys Australia, excluding restricted cash in escrow of \$7Million, amounting to \$81 million.
- Decrease in Trade and other receivables by 43% or ₱77.3 million was mainly due to collection of trade receivables of Stellar and SWA.
- Input tax and other current assets increased by 278% or ₱273.6 million mainly due to reclassification of the escrow fund from restricted current assets to unrestricted cash amounting to ₱50 million and receipt of portion of sale proceeds from sale of PAU as escrow fund amounting to ₱301 million.

**LIQUIDITY AND CAPITAL RESOURCES**

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

<b>For the nine months ended 30 September</b>	<b>2012</b>	<b>2011</b>	<b>Y12 vs Y11 % change</b>
Other Data:			
Net Cash Provided (Used) by Operating Activities	(₱1,643,457)	₱301,482	(645%)
Net Cash Provided (Used) by for Investing Activities	3,633,065	(134,987)	2592%
Net Cash Used for Financing Activities	(303,063)	(586,656)	(151%)

Operating activities resulted to net outflow due to the completion of sale of net assets of Paxys A.U. in June 2012.

Net Cash provided by investing activities mainly includes the sales proceeds from sale of Paxys A.U. amounting to ₱3,739.65 Million.

Net cash used in financing activities primarily includes the full loan repayment of Paxys A.U. amounting to AU\$7.43 Million or ₱329 Million.

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.

#### Financial Ratios

	<b>2012 (nine months)</b>	<b>2011 (full year)</b>	<b>Y12 vs Y11 % change</b>
Financial Ratios:			
Current Ratio	24.21:1	4.13:1	487%
Debt to Equity Ratio	4:96	9:91	(54%)
Return on Equity	0%	(2%)	(100%)
EBITDA Margin	(37%)	(12%)	(25pp)
Net Profit margin	(51%)	(20%)	(31pp)

## FINANCIAL RISK

- **Foreign Currency risk**

The Company has transactional currency exposure. Such exposure arises from services denominated in US Dollar (US\$) and AU\$. Service income of SWA is approximately 85% and 15% denominated in US\$ and AU\$, respectively, as at September 30, 2012. As a result, the Company's consolidated financial performance and financial position can be affected significantly by movements in the US\$/Philippine Peso and AU\$/Philippine Peso.

The Company's objective is to limit the impact of any appreciation of the Philippine Peso vis-a-vis with its foreign currency denominated revenues and receivables and ultimately on the financial performance. To the extent possible, the Company shall obtain debt financing in the currency in which majority of revenues are denominated in order to match as much as possible foreign currency denominated costs with foreign currency denominated revenues.

It is also the Company's policy to make use of hedging instruments including derivatives (i.e., currency forward contracts) to manage the effects of foreign exchange fluctuations on financial results. These hedging instruments or derivatives are not used for trading or speculative purposes. Counterparties to derivative contracts are carefully selected major financial institutions which are assessed based on their industry standing and historical performance.

The Company adopted the following rates of exchange in translating foreign currency statement of comprehensive income and statement of financial position as of September 30, 2012, September 30, 2011 and December 31, 2011:

	September 30, 2012		September 30, 2011		December 31, 2011	
	Closing	Average	Closing	Average	Closing	Average
Philippine Peso to 1 unit of foreign currency:						
United States Dollar (USD or US\$)	41.70	41.74	43.72	43.26	43.84	43.31
Australian Dollar (AU\$)	43.60	44.04	42.64	44.96	44.32	44.68
Singapore Dollars (SGD)	34.16	33.89	33.63	34.64	33.84	34.46

- **Interest Rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term loans with variable interest rates.

In order to protect against rising interest rates, the Group has previously entered into interest rate cap contracts. Under the interest rate cap contract, the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

As of December 31, 2011, long-term loans amounting to ₱259.30 million which is subject to interest rate cap is included as part of "Liabilities of disposal group held for sale".

- **Credit Risk**

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

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

## **OTHER MATTERS**

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

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

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

The Company does not anticipate 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 requirements.

PAXYS, Inc. and Subsidiaries  
 Consolidated Trade Receivables Aging Schedule  
 As of September 30, 2012  
 (Amounts in Thousands)

Types of customers	Age of Receivables					Total
	<30 days	31-60 days	61-90 days	90-120 days	>120 days	
Local	₱2,673	₱ -	₱6	₱115	₱-	₱2,794
International	84,050	9,317	57	-	11,782	105,206
	86,723	9,317	63	115	11,782	108,000
Less allowance for doubtful accounts	-	-	-	-	(9,987)	(9,987)
	₱86,723	₱9,317	₱63	₱115	₱1,795	₱98,013