

COVER SHEET

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SEC Registration Number

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

(Company's Full Name)

1 5 F , 6 7 5 0 A Y A L A O F F I C E T O W E R ,

A Y A L A A V E N U E , M A K A T I C I T Y

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

Mayette H. Tapia

(Contact Person)

(+632) 8250-3800

(Company Telephone Number)

0 9 3 0

Month Day
(2021)

1 7 - Q

(Form Type)

0 5 Any day

Month Day
(Annual Meeting)

Not applicable

(Secondary License Type, If Applicable)

CRMD

Dept. Requiring this Doc.

Article III

Amended Articles Number/Section

714

Total No. of Stockholders

Total Amount of Borrowings

nil

Domestic

nil

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

**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, 2021**
2. SEC Identification Number: **6609**
3. BIR Tax Identification No. **000-233-218**
4. Exact Name of the registrant as specified in its charter: **PAXYS, INC.**
5. Province, country or other jurisdiction of Incorporation or organization: **Manila, Philippines**
6. Industry Classification Code: (SEC Use Only)
7. Address of registrant's principal office: **15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City**
Postal Code: **1226**
8. Registrant's telephone number, including area code: **(+632) 8250-3800**
9. Former name, former address, and former fiscal year, if changed since last report
Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA
 - a) **Authorized Capital Stock**

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

Common shares, P1.00 par value	1,148,534,866 shares
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 - c) **Amount of Debt Outstanding as of September 30, 2021**

Short-term and Long-term loans	None
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11. Are any or all of the securities listed on the Philippine Stock Exchange
Yes [] No []

12. Indicate by check mark whether the registrant:

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

Yes No

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

Yes No

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

Subsidiaries	Place of Incorporation	Principal Activity	Percentage of Ownership			
			September 30, 2021		December 31, 2020	
			Direct	Indirect	Direct	Indirect
Paxys N.V.*	Curacao	Investment Holding	100.0%	–	100.0%	–
ScopeWorks Asia, Inc. (SWA)	Philippines	Business Process Outsourcing	100.0%	–	100.0%	–
Paxys Realty, Inc. (PRI)	Philippines	Real Estate	100.0%	–	100.0%	–
Paxys Global Services Pte Ltd (PGSPL)	Singapore	Business Process Outsourcing	100.0%	–	100.0%	–
Paxys Global Services Pte Ltd ROHQ (PGS ROHQ)	Philippines	Shared Services	–	100.0%	–	100.0%
Paxys Ltd.	Hong Kong	Investment Holding	100.0%	–	100.0%	–
Simpro Solutions Ltd.	Hong Kong	Regional Office	–	50%	–	50%
Simpro Solutions Philippines, Inc. (Simpro Phils)	Philippines	Contact Center	–	50%	–	50%
Paxys Global Services (Dalian) Ltd.	China	Contact Center	50%	–	50%	–

* As at September 30, 2020, Paxys N.V. owns 345,622,477 common shares of the Parent Company representing 30.09% of total outstanding capital stock

The unaudited consolidated financial statements as at and for the nine-month period ended September 30, 2021 has been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles in the Philippines (“Philippine GAAP”) for complete financial statements as set forth in the Philippine Financial Reporting Standards (PFRS) and are filed as Annex A of this report.

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

The MD&A is a discussion and analysis of the Group’s financial performance for the nine-month period ended September 30, 2021. The primary objective of this MD&A is to help the readers understand the dynamics of the Group’s business and the key factors underlying the Group’s financial results.

The MD&A for the nine-month period ended September 30, 2021 should be read in conjunction with the unaudited consolidated financial statements and the accompanying notes, and are filed as Annex B of this report.

Item 3. Aging of Trade Receivables

Please see Annex C.

PART II. SIGNATURES

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

Registrant: PAXYS, INC.

Tarcisio M. Medalla
Chairman of the Board and President
November 3, 2021

Mayette H. Tapia
Corporate Secretary
November 3, 2021

**PAXYS, INC.
AND SUBSIDIARIES**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

September 30, 2021 and December 31, 2020

and for the Nine-Month Period Ended September 30, 2021 and 2020

PAXYS, INC. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****As at September 30, 2021 and December 31, 2020****(Amounts in Thousands)**

	September 30 (Unaudited)	December 31 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱1,961,670	₱2,549,467
Short-term investments (Note 5)	1,766,677	1,049,800
Trade and other receivables (Note 6)	47,104	31,284
Other current assets (Note 7)	28,212	26,815
Total Current Assets	3,803,663	3,657,366
Noncurrent Assets		
Right-of-use (Note 18)	52,410	25,422
Property and equipment (Note 9)	2,161	2,928
Other noncurrent assets (Note 10)	8,848	7,576
Total Noncurrent Assets	63,419	35,926
	₱3,867,082	₱3,693,292
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	₱27,105	₱25,041
Lease liability – current portion (Note 17)	10,896	8,379
Income tax payable	–	13
Total Current Liabilities	38,001	33,433
Noncurrent Liabilities		
Lease liability (Note 17)	41,102	16,391
Retirement liability (Note 16)	11,647	11,647
Other noncurrent liability	1,802	1,802
Total Noncurrent Liabilities	54,551	29,840
Total Liabilities	92,552	63,273
Equity		
Capital stock (Note 12)	1,148,535	1,148,535
Additional paid-in capital (Note 12)	451,364	451,364
Parent shares held by a subsidiary (Note 12)	(1,149,886)	(1,149,886)
Other equity reserves	437,429	285,391
Retained earnings	2,887,088	2,894,615
Total Equity	3,774,530	3,630,019
	₱3,867,082	₱3,693,292

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

PAXYS, INC. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)****For the Nine-month Periods Ended September 30, 2021 and 2020****(Amounts in Thousands, except Basic/Diluted Earnings per share)**

	Nine Months		Three Months	
	2021	2020	2021	2020
SERVICE INCOME	₱35,904	₱43,842	₱12,675	₱17,809
COST OF SERVICES (Note 13)	(24,490)	(30,398)	(8,035)	(10,794)
GROSS PROFIT	11,414	13,444	4,640	7,015
GENERAL AND ADMINISTRATIVE EXPENSES (Note 14)	(56,726)	(69,815)	(18,437)	(21,364)
INTEREST INCOME (Note 15)	23,673	39,470	13,038	9,291
NET FOREIGN EXCHANGE GAIN (LOSS)	5,779	(3,369)	4,292	(2,171)
INTEREST EXPENSE	(1,007)	(996)	(562)	(296)
OTHER INCOME (Note 15)	9,340	3,228	412	(109)
LOSS BEFORE INCOME TAX	(7,527)	(18,038)	3,383	(7,634)
PROVISION FOR INCOME TAX	–	–	–	–
NET INCOME (LOSS)	(₱7,527)	(₱18,038)	₱3,383	(₱7,634)
LOSS PER SHARE				
Basic/Diluted Earnings Per Share	(₱0.009)	(₱0.02)	₱0.004	(₱0.01)

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

PAXYS, INC. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)****For the Nine-month Periods Ended September 30, 2021 and 2020****(Amounts in Thousands)**

	Nine Months		Three Months	
	2021	2020	2021	2020
NET LOSS	(₱7,527)	(₱18,038)	₱3,383	(₱7,634)
OTHER COMPREHENSIVE INCOME (LOSS)				
Translation gain (loss)	165,765	(118,445)	122,617	(73,991)
Net fair value changes on short-term investments at FVOCI	(13,727)	–	(14,079)	–
	152,038	(118,445)	108,538	(73,991)
TOTAL COMPREHENSIVE INCOME (LOSS)	₱144,511	(₱136,483)	₱111,921	(₱81,625)

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

PAXYS, INC. AND SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)

For the Nine-Month Periods Ended September 30, 2021 and 2020

(Amounts in Thousands)

	Total Equity Attributable to Equity Holders of the Parent Company							
	Capital Stock ₱1 Par Value (Note 12)	Additional Paid-in Capital (Notes 12)	Retained Earnings	Parent shares held by a subsidiary (Note 12)	Other Equity Reserve			Total
					Cumulative Translation Adjustments	Unrealized gains on financials assets at FVOCI	Actuarial gains (loss)	
At January 1, 2021	₱1,148,535	₱451,364	₱2,894,615	(₱1,149,886)	₱272,699	₱11,334	₱1,358	₱3,630,019
Total comprehensive income (loss) for the period	–	–	(7,527)	–	165,765	(13,727)	–	144,511
At September 30, 2021	₱1,148,535	₱451,364	₱2,887,088	(₱1,149,886)	₱438,464	(₱2,393)	₱1,358	₱3,774,530

	Total Equity Attributable to Equity Holders of the Parent Company							
	Capital Stock ₱1 Par Value (Note 12)	Additional Paid-in Capital (Notes 12)	Retained Earnings	Parent shares held by a subsidiary (Note 12)	Other Equity Reserve			Total
					Cumulative Translation Adjustments	Unrealized gains on financials assets at FVOCI	Actuarial gains (loss)	
At January 1, 2020	₱1,148,535	₱451,364	₱2,920,540	(₱1,149,886)	₱417,126	₱1,196	(₱1,896)	₱3,786,979
Total comprehensive loss for the period	–	–	(18,038)	–	(118,445)	–	–	(136,483)
At September 30, 2020	₱1,148,535	₱451,364	₱2,902,502	(₱1,149,886)	₱298,681	₱1,196	(₱1,896)	₱3,650,496

PAXYS, INC. AND SUBSIDIARIES**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
For the Nine-month Periods Ended September 30, 2021 and September 30, 2020
(Amounts in Thousands)**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	(₱7,527)	(₱18,038)
Adjustments for:		
Interest income	(23,673)	(39,470)
Depreciation and amortization	13,110	14,508
Unrealized foreign exchange (gain) loss	(5,779)	3,779
Provision for nonrecoverable input VAT	–	6
Operating loss before working capital changes	(23,869)	(39,215)
Decrease (increase) in:		
Trade and other receivables	(3,294)	(1,128)
Other current assets	(1,397)	(1,957)
Other noncurrent assets	(1,441)	(1,435)
Decrease in trade and other payables	2,051	1,321
Cash used for operations	(27,950)	(42,414)
Interest received	11,146	51,116
Net cash provided by (used in) operating activities	(16,804)	8,702
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in short-term investments	(730,604)	(333,252)
Acquisition of property and equipment and intangibles	(588)	(864)
Net cash used in investing activities	(731,192)	(334,116)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on lease liabilities	(12,353)	(11,828)
Interest expense on lease liabilities	1,007	996
Net cash used in financing activities	(11,346)	(10,832)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	171,545	(122,173)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(587,797)	(458,419)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
	2,549,467	3,287,798
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
	₱1,961,670	₱2,829,379

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

PAXYS, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Paxys, Inc. (“Paxys”, the “Company”, or the “Parent Company”) is an investment holding company incorporated in the Philippines and listed on the Philippine Stock Exchange (stock symbol: PAX). It was formerly known as Fil-Hispano Holdings Corporation and registered with the Philippine Securities and Exchange Commission (SEC) on February 14, 1952. At present, the Parent Company’s operating subsidiaries provide general transcription, data conversion, contact center and back-office outsourcing services. As of September 30, 2021, its major shareholders are All Asia Customer Services Holdings Ltd. (AACSHL), a privately-held company incorporated in Hong Kong, and Paxys NV, a wholly owned subsidiary of the Company, with 54.93% and 30.09% interests, respectively. The registered office address of Paxys is at 15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

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

Statement of Compliance

The unaudited interim condensed consolidated financial statements for the nine-month period ended September 30, 2021 have been prepared in accordance with PAS34, *Interim Financial Reporting*. Accordingly, the unaudited interim consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles in the Philippines (“Philippine GAAP”) for complete financial statements as set forth in the PFRS.

Adoption of New and Revised PFRS

The Group adopted the following new and revised PFRS effective January 1, 2021:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance—in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.
- Amendments to PFRS 3 - Definition of a Business – This amendment provides a new definition of a “business” which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, an integrated set of activities and assets must now include ‘an input and a substantive process that together significantly contribute to the ability to create an output’. The distinction is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets.

- Amendments to PAS 1, Presentation of Financial Statements and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material – The amendments clarify the definition of “material” and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS. Based on the new definition, an information is “material” if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

Deferred effectivity -

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

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

Basis of Consolidation

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

Subsidiaries	Place of Incorporation	Principal Activity	2021		2020	
			Direct	Indirect	Direct	Indirect
Paxys N.V.*	Curacao	Investment holding	100%	–	100%	–
ScopeWorks Asia, Inc. (SWA)	Philippines	Data conversion	100%	–	100%	–
Paxys Realty, Inc.	Philippines	Real Estate	100%	–	100%	–
Paxys Global Services Pte Ltd (PGSPL)	Singapore	Business Process Outsourcing	100%	–	100%	–
Paxys Global Services Pte Ltd ROHQ (PGS ROHQ)	Philippines	Shared services	–	100%	–	100%
Paxys Ltd.	Hong Kong	Investment holding	100%	–	100%	–

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

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

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

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

Foreign Currencies

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

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

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

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

Current versus Noncurrent Classification

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

- It is expected to be realized or intended to sold or consumed in normal operating cycle
- It is held primarily for the purpose of trading
- It is expected to be realized within twelve months after the reporting period, or
- It is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

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

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

The Company classifies all other liabilities as noncurrent.

Cash and Cash Equivalents

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

Financial Assets and Liabilities

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

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

“Day 1” Difference. Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation

technique whose variables include only data observable from the market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss unless it qualifies for recognition as some other type of asset. For each transaction, the Group determines the appropriate method of recognizing a “Day 1” difference amount.

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

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

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

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

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

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

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

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

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

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

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

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

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

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

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

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

Reclassification

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

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

Impairment of Financial Assets

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

Financial Assets Carried at Amortized Cost.

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

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

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

Derecognition of Financial Assets and Liabilities

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and benefits of the asset nor transferred control of the asset, the

asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset, if any, is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

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

Offsetting of Financial Instruments

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

Property and Equipment

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

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally recognized as expense in the period such costs are incurred. Depreciation commences once the property and equipment are available for use and is calculated on a straight-line basis over the estimated useful life of the asset as follows:

<u>Asset Type</u>	<u>Number of Years</u>
Computer equipment	3 to 5
Communication equipment	3 to 5
Leasehold improvements	5 or lease term, whichever is shorter
Office furniture, fixtures and equipment	2 to 5
Transportation equipment	5

Other Intangible Assets

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

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

Investments in Joint Ventures

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

Interest in a joint venture is initially recognized at cost and subsequently accounted for under the equity method of accounting. Under the equity method of accounting, the interest in a joint venture is carried at cost plus post-acquisition changes in the Group's share in the net assets of the joint venture, less any impairment in value. The share in the results of the operations of the joint venture is recognized in profit or loss. The Group's share of post-acquisition movements in the joint venture's equity reserves is recognized directly in equity. Profits or losses resulting from the transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated

as a reduction of the carrying value of the interest. If the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group discontinues recognizing its share of further losses.

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

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

Equity

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

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

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

Retained earnings represent accumulated earnings net of dividends declared.

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

Revenue Recognition

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

Service Income. Revenue is recognized as services are rendered.

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

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

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

Cost and Expense Recognition

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

Employee Benefits

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

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

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

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

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

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

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

Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset - this may be specified or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and,
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is predetermined, the Group has the right to direct the use of the asset if either:
 - The Group has the right to operate the asset; or
 - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently amortized using the straight-line method from the commencement date to earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use asset are determined on the same basis as those of property and equipment. In addition, the right of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability is mainly composed of fixed payments and variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise an extension or termination option. When the liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

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

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

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

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

Leases. Management applied PFRS 16 standard in classifying its leases. Right of use asset and lease liability for outstanding lease commitments were recognized starting January 2019.

Other Lease Commitments. The Company has entered into various lease agreements. These leases are classified as short-term lease (12 months or less) and/or the underlying assets have no significant value, thus, accounted for under operating lease principle.

Rent expense amounted to ₱188 thousand and ₱158 thousand for the nine-month period ended September 30, 2021 and 2020, respectively. See notes 13 and 14.

Provisions and Contingencies. The Group is involved in various labor disputes, litigations, claims and tax assessments that are normal to its business. Based on the opinion of the Group's legal counsels on the progress and legal grounds of certain claims and assessments, no provision is deemed necessary in 2021 and 2020. The Group has no outstanding provision for probable losses as at September 30, 2021 and December 31, 2020.

Estimates and Assumptions

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

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

Estimation of Useful Lives of Property and Equipment and Other Intangible Assets with Finite Useful Lives. The useful life of each of the Company's items of property and equipment and intangible assets with finite useful lives is estimated based on the period over which the assets are expected to be available for use. Such estimation is based on a collective assessment of similar business, internal technical evaluation and experience with similar assets. There is no change in the estimated useful lives of property and equipment and other intangible assets with finite useful lives in 2021 and 2020.

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

Allowance for impairment losses on trade and other receivables amounted to ₱96.6 million as at September 30, 2021 and December 31, 2020. The carrying values of trade and other receivables amounted to ₱47.1 million and ₱31.3 million as at September 30, 2021 and December 31, 2020, respectively (see Note 6).

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

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

The carrying value of input VAT, net of allowance, amounted to ₱24.9 million and ₱23.2 million as at September 30, 2021 and December 31, 2020, respectively (see Note 7). Allowance for non-recoverability of Input VAT amounted to ₱49.6 million as at September 30, 2021 and December 31, 2020, respectively.

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

The retirement liability amounted to ₱11.6 million as at September 30, 2021 and December 31, 2020 (see Note 16).

4. Cash and Cash Equivalents

	Sept 30, 2021	Dec 31, 2020
Cash on hand and in banks	₱273,805	₱55,263
Cash equivalents	1,687,865	2,494,204
	₱1,961,670	₱2,549,467

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

5. Short-term investments

This account consists of:

	Sept 30, 2021	Dec 31, 2020
Financial Assets at Fair Value		
Profit or Loss (FVPL)	₱51,260	₱522,517
Other Comprehensive Income (FVOCI)	849,946	371,021
Financial Assets at Amortized Cost	865,471	156,262
	₱1,766,677	₱1,049,800

Financial assets at FVPL are investments held at local and international banks. Financial assets at FVOCI pertains to investments managed by international banks which provides fixed interest income and capital appreciation. Financial assets at amortized cost consist of unquoted bonds with fixed interest rate and maturity.

6. Trade and Other Receivables

	Sept 30, 2021	Dec 31, 2020
Trade	₱16,086	₱16,153
Advances to related parties	88,701	84,091
Other receivables	38,936	27,659
	143,723	127,903
Allowance for impairment losses	(96,619)	(96,619)
	₱47,104	₱31,284

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

7. Other Current Assets

This account consists of:

	Sept 30, 2021	Dec 31, 2020
Input VAT, net of allowance for unrecoverability	₱24,929	₱23,227
Prepayments	3,283	2,147
Refundable deposits	-	1,441
	₱28,212	₱26,815

8. Investments in Joint Venture

Joint venture	Place of Incorporation	Principal Activity	Percentage of Ownership	
			Sept 30, 2021	Dec 31, 2020
PGS Dalian	China	Contact center	50%	50%
Simpro Solutions Limited	Hong Kong	Contact center	50%	50%

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

Investments in joint ventures as at September 30, 2021 and December 31, 2020 are nil. Due to accumulated losses, investment in PGS Dalian and Simpro Solutions Limited already depleted, thus, Paxys did not recognize further losses for the nine-month period ended September 30, 2021 and in 2020.

9. Property and Equipment

The movement of this account follows:

	September 30, 2021					
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost						
Balance at beginning of period	₱110,007	₱7,624	₱160,728	₱15,150	₱9,749	₱303,258
Additions	229	-	318	27	-	574
Balance at end of period	110,236	7,624	161,046	15,177	9,749	303,832
Accumulated Depreciation						
Balance at beginning of period	109,210	7,624	159,563	14,184	9,749	300,330
Depreciation for the period	557	-	372	412	-	1,341
Balance at end of period	109,767	7,624	159,935	14,596	9,749	301,671
Net Book Value	₱469	₱-	₱1,111	₱581	₱-	₱2,161

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

Computer equipment	3 to 5 years
Communication equipment	3 to 5 years
Leasehold improvements	5 years or lease term whichever is shorter
Office furniture, fixtures and equipment	2 to 5 years
Transportation equipment	5 years

December 31, 2020						
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost						
Balance at beginning of year	₱109,746	₱7,624	₱160,251	₱15,133	₱9,749	₱302,503
Additions	261	—	477	17	—	755
Balance at end of year	110,007	7,624	160,728	15,150	9,749	303,258
Accumulated Depreciation						
Balance at beginning of year	108,058	7,624	157,977	13,060	9,749	296,468
Depreciation for the year	1,152	—	1,586	1,124	—	3,862
Balance at end of year	109,210	7,624	159,563	14,184	9,749	300,330
Net Book Value	₱797	₱—	₱1,165	₱966	₱—	₱2,928

As of September 30, 2021 and December 31, 2020, fully depreciated property and equipment with aggregate cost amounting to ₱66.9 million are still being used in the operations.

10. Other Noncurrent Assets

This consist of:

	Sept 30, 2021	Dec 31, 2020
Rental and security deposits	₱3,592	₱2,151
Intangible assets	77	246
Others	5,179	5,179
	₱8,848	₱7,576

Rental and security deposits mainly pertain to cash deposits on lease agreements, which are refundable at the end of lease period. Intangible assets pertain to computer software and programs, which are amortized over three to five years.

Others pertain mainly to claims of tax refund expected to be received beyond 12 months after reporting date.

11. Trade and Other Payables

	Sept 30, 2021	Dec 31, 2020
Trade payables	₱445	₱604
Accrued expenses	12,210	9,701
Dividend payable	6,554	6,554
Statutory payable	6,105	6,423
Other current liabilities	1,791	1,759
	₱27,105	₱25,041

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

Accrued expenses mainly represent accruals for utilities, communications, and other employee benefits. Statutory payables represent withholding tax payable and other liabilities to the government.

12. Stockholders' Equity

Capital Stock

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

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

Parent Shares Held by a Subsidiary

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

Additional Paid-in Capital (APIC)

This account consists of:

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

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

13. Cost of Services

	Nine Months		Three Months	
	2021	2020	2021	2020
Personnel cost	₱10,389	₱14,162	₱3,392	₱5,238
Depreciation – right-of-use asset	5,348	5,311	1,782	1,770
Depreciation and amortization - property & equipment and intangibles	970	2,947	205	980
Communication	2,545	2,372	950	782
Utilities	2,190	2,295	732	826
Security and janitorial services	2,239	2,097	744	802
Rent	87	68	42	49
Others	722	1,146	188	347
	₱24,490	₱30,398	₱8,035	₱10,794

14. General and Administrative Expenses

	Nine Months		Three Months	
	2021	2020	2021	2020
Personnel cost	₱20,120	22,399	₱6,323	₱5,547
Professional fees	18,680	30,654	6,160	9,500
Depreciation and amortization on:				
Right-of-use	6,238	5,769	1,837	1,923
Property, equipment, and intangibles	554	481	191	166
Utilities	2,013	1,942	671	639
Bank charges	1,760	831	915	-
Supplies	1,102	328	186	168
Communication	1,141	1,298	281	407
Security and janitorial services	1,059	1,033	361	370
Taxes and licenses	553	589	184	142
Insurance	310	1,371	101	1,085
Entertainment, amusement and recreation	364	273	90	96
Transportation and travel	250	202	67	91
Rent	101	90	36	30
Provision for impairment losses on trade and other receivables	-	6	-	6
Others	2,481	2,549	1,034	1,194
	₱56,726	₱69,815	₱18,437	₱21,364

15. Interest Income (Expense), Foreign Exchange Gains and Losses, and Other Income

Interest Income

Interest income for the comparative periods was generated mainly from bank deposits, and short-term placements, and short-term bonds amounting to ₱23.7 million and ₱39.5 million as at September 30, 2021 and September 30, 2020, respectively.

Interest Expense

Interest Expense on leases amounted to ₱1.0 million as at September 30, 2021 and September 30, 2020.

Foreign Exchange

Net foreign exchange gain amounted to ₱5.8 million for the nine-month period ended September 30, 2021 and net foreign exchange loss amounted to ₱3.4 million for the nine-month period ended September 30, 2020.

Other Income - net

Other income for the nine-month period ended September 30, 2021 and September 30, 2020 pertains mainly to realized gains on fund redemption, rental and miscellaneous income.

16. Retirement Benefits

The Parent Company and SWA maintain separate unfunded, non-contributory, defined benefit plans covering all eligible employees. An independent actuary conducts an actuarial valuation of the retirement liability. The latest actuarial report was dated December 31, 2020.

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

	December 31, 2020
Current service cost	₱660
Interest cost	697
	₱1,357

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

	December 31, 2020
Balance at beginning of year	(₱1,896)
Remeasurement gain	3,254
Balance at end of year	₱1,358

Changes in the present value of obligation are as follows:

	December 31, 2020
Balance at beginning of year	₱13,544
Current service cost	660
Interest cost	697
Remeasurement gain recognized in OCI	(3,254)
Balance at end of year	₱11,647

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

Discount rate	3.96%
Salary increase rate	2.00%

17. Lease Commitments

The Parent Company has an existing lease agreement with a third party for the lease of office space and parking spaces for five years until April 30, 2021. The quarterly rent is subject to escalation rates ranging from 5% to 10% per annum. On May 2021, the lease was renewed for another five years up to April 30, 2026. The rental rate was reduced by 10% from the latest quarterly rate and fixed or without escalation for five years. As at September 30, 2021 and December 31, 2020, refundable security deposit, amounted to ₱1.4 million.

SWA has an existing non-cancellable five-year agreement with a third party for the lease of an office space until December 31, 2018. This was initially extended for one year up to December 31, 2019 and for another two years until December 31, 2021, with an option to extend for another two years and six months. The rental rate is subject to an escalation rate of 5% per annum. As at September 30, 2021 and December 31, 2020, refundable security deposit amounted to ₱2.7 million.

In 2018, SWA entered into a two-year lease agreement with a third party for the lease of an office space until October 20, 2020 and was extended for two years until October 20, 2022. The lease is renewable upon mutual consent of the parties to be covered by a separate and new lease agreement. The rental rate shall be subjected to an escalation rate of 5% per annum upon renewal. As at September 30, 2021 and December 31, 2020, refundable security deposit amounted to ₱0.3 million.

Movements in right-of-use assets and lease payments under leases as of September 30, 2021 are summarized below:

Right-of-use assets, January 1, 2021	₱25,422
Add: Additional right-of-use assets	38,574

Less: Amortizations under Cost of Service	(5,348)
Amortization under General and Administrative Expense	(6,238)
<u>Right-of-use assets, September 30, 2021</u>	<u>₱52,410</u>

Lease liabilities

Lease liability, beg	₱24,770
Add: additional lease liability	38,574
Less: Principal payments	(12,353)
Less: Interest payments	1,007
<u>Lease liability, end</u>	<u>51,998</u>
Current portion	10,896
<u>Noncurrent portion</u>	<u>41,102</u>

18. Segment Information

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

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

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

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

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

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

- Data Conversion - This segment includes data transcription and scoping services, voice-to-text message conversion and electronic data encoding and processing.
- Others - This segment includes the operations of the Parent Company and its non-operating subsidiaries.

Business Segment Data

The following table presents revenues and expenses information and certain assets and liabilities information regarding the business segments for the nine-month periods ended September 30, 2021 and 2020:

	September 30, 2021			
	Outsourcing	Others	Eliminations	Consolidated
Results of Operations				
Segment revenues from external customers	₱35,904	₱–	₱–	₱35,904
Segment expenses	(37,614)	(43,602)	–	(81,216)
Segment result	(1,710)	(43,602)	–	(45,312)
Interest income	3	23,670	–	23,673
Net foreign exchange gain (loss)	1,126	5,745	(1,092)	5,779
Interest expense	(618)	(389)	–	(1,007)
Other segment operating income – net	938	8,402	–	9,340
Net income (loss)	(₱261)	(₱6,174)	(1,092)	(₱7,527)
Assets and Liabilities				
Segment assets	₱66,871	₱5,457,707	(₱1,657,496)	₱3,867,082
Segment liabilities	85,311	200,334	(193,123)	92,522
Other Segment Information				
Capital expenditures:				
Property and equipment	₱466	₱108	₱–	₱574
Intangibles	14	–	–	14
Depreciation and amortization	6,554	6,556	–	13,110

	September 30, 2020			
	Outsourcing	Others	Eliminations	Consolidated
Results of Operations				
Segment revenues from external customers	₱43,842	₱–	₱–	₱43,842
Segment expenses	(49,041)	(51,172)	–	(100,213)
Segment result	(5,199)	(51,172)	–	(56,371)
Interest income	67	39,403	–	39,470
Net Foreign exchange gain (loss)	(675)	(2,999)	305	(3,369)
Interest expense on lease	(749)	(247)	–	(996)
Other segment operating income - net	865	2,363	–	3,228
Net income (loss)	(₱5,691)	(₱12,652)	305	(₱18,038)
Assets and Liabilities				
Segment assets	₱74,157	₱5,300,519	(₱1,653,547)	₱3,721,129
Segment liabilities	93,476	166,712	(189,555)	70,633
Other Segment Information				
Capital expenditures:				
Property and equipment	₱477	₱278	₱–	₱755
Intangibles	90	19	–	109
Depreciation and amortization	8,426	6,082	–	14,508

Geographical Segment Data

The following table presents the revenue and expenditure and certain asset information regarding geographical segments for the nine-month period ended September 30, 2021 and 2020:

	September 30, 2021			
	Philippines	Others	Eliminations	Consolidated
Revenue				
External revenue	₱35,904	₱-	₱-	₱35,904
Other Segment Information				
Segment assets	₱5,524,578	₱-	(1,657,496)	₱3,867,082
Capital expenditures:				
Property and equipment	574	-	-	574
Intangibles	14	-	-	14
	September 30, 2020			
	Philippines	Others	Eliminations	Consolidated
Revenue				
External revenue	₱43,842	₱-	₱-	₱43,842
Other Segment Information				
Segment assets	₱5,374,676	₱-	(1,653,547)	₱3,721,129
Capital expenditures:				
Property and equipment	755	-	-	755
Intangibles	109	-	-	109

19. Financial Assets and Financial Liabilities

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

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

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

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

20. Other Matters

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

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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited interim condensed consolidated financial statements of the Group as at and for the nine-month period ended September 30, 2021 (with comparative figures as at and for the nine-month period ended September 30, 2020). All necessary adjustments to present fairly the consolidated financial condition, results of operations, and cash flows of the Group for the nine-month period ended September 30, 2021, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited financial statements prepared in accordance with generally accepted accounting principles have been omitted.

ABOUT PAXYS GROUP

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

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

Paxys Realty, Inc. (formerly Paxys Global Services, Inc.) has recently amended its Articles of Incorporation to include real estate business among its primary purpose. These changes have been approved by Paxys Realty's Board of Directors on November 2017 and subsequently by the Securities and Exchange Commission on February 2018.

Simpro Solutions Limited (SSL) is a joint venture company engaged in call center and back office outsourcing activities thru its wholly-owned subsidiary, Simpro Solutions Philippines, Inc. (SSPI). In 2014, SSPI amended its Articles of Incorporation shortening the term of its existence up to June 2018. Said amendment has been approved by the Securities and Exchange Commission (SEC) on May 24, 2017. By the virtue of the Amended Articles of Incorporation, SSPI has dissolved its corporate existence on June 30, 2018.

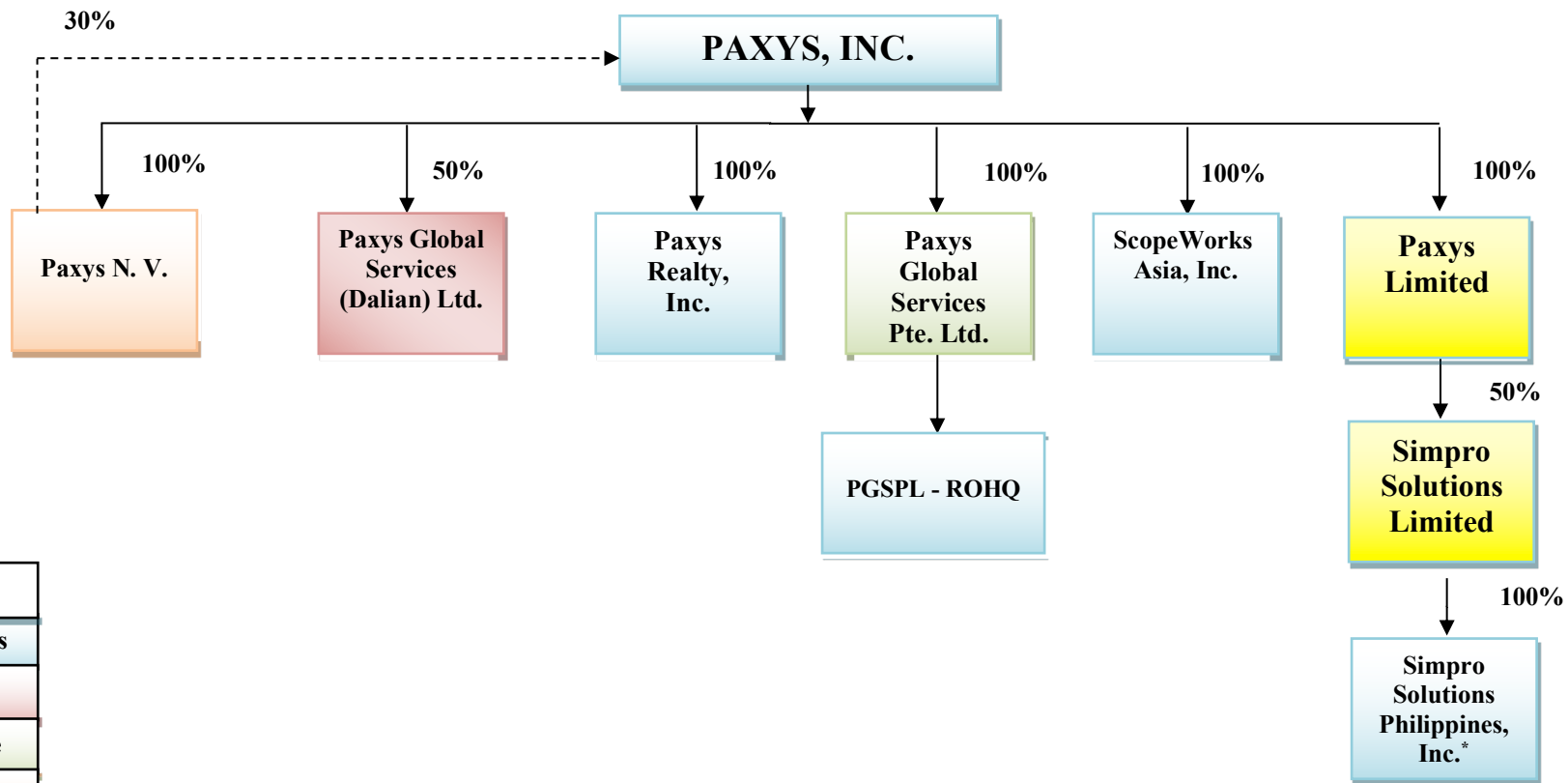
Key Performance Indicators (KPI)

The Company's management uses the following KPI:

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

Overview of Our Business

Below is the Group's corporate structure as of September 30, 2021:



Legend
Philippines
China
Singapore
Curacao
Hong Kong

* under dissolution and liquidation

RESULTS OF OPERATIONS AND DISCUSSION OF KPIs

Summary Profit and Loss

For the Nine-month Period Ended September 30, 2021 and 2020

(Amounts in Thousands)

	2021		2020	
	Amount	% to Sales	Amount	% to Sales
Service Income	₱35,904	100%	₱43,842	100%
Gross Profit	11,414	32%	13,444	31%
Loss from Operations	(45,312)	-126%	(56,371)	-129%
Net Income (Loss)	(7,527)	-21%	(18,038)	-41%
EBITDA	6,589	18%	(2,533)	-6%

FINANCIAL PERFORMANCE HIGHLIGHT

The Group generated **₱35.9** million revenues as of September 30, 2021 coming from the operations of Scopeworks Asia, Inc. (SWA). This is lower by 18% compared to prior year of the same period due to the decline in the volume for the data conversion program, as a result of overall change in consumer behaviour due to Covid-19 pandemic, and the continuous advancement in the technology. While the Group is aggressively pursuing other business opportunities, Management is continuously reviewing its people, systems, processes, and implemented changes to cope up with the global pandemic and the advances in the technology side. Operating losses slightly went down by 20% to **₱45.3** million in 2021. Overall result as of September 2021 is **₱7.5** million net loss.

Summary Financial Condition

For the Periods Ended September 30, 2021 and December 31, 2020

(Amounts in Thousands)

	September 30, 2021	December 31, 2020	% Change
Current Assets	₱3,803,663	₱3,657,366	4%
Noncurrent Assets	63,418	35,926	77%
Assets	3,867,082	3,693,292	5%
Current Liabilities	38,000	33,433	14%
Noncurrent Liabilities	54,551	29,840	83%
Equity	3,774,530	3,630,019	4%

The assets of the Group comprised mainly of cash and cash equivalents and short-term investments. Other than the net loss for the period, amortization of right of use assets and payments for lease liabilities, there are no other significant movement in the Group's balance sheet.

LIQUIDITY AND CAPITAL RESOURCES

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

For the Nine-Month Period Ended September 30	2021	2020	% change
Net Cash Provided by (used in) Operating Activities	(₱16,804)	₱8,702	-293%
Net Cash Provided by (used in) Investing Activities	(731,192)	(334,116)	-119%
Net Cash Provided by (used in) Financing Activities	(11,346)	(10,832)	-5%

Negative cash flows resulted from operating loss of the group and additional placement in short-term investments as at September 30, 2021. Nevertheless, the Group's current level of funds is more than sufficient to meet the Company's immediate and future cash requirements. The Group does not have loans and the Company does not anticipate any liquidity problems that may arise from its operating activities in the near future.

Financial Ratios

	Sept 30, 2021	Dec 31, 2020
Financial Ratios:		
Current Ratio	100.1	91.57
Debt to Equity Ratio	0.02	0.02
Return on Equity	-0.2%	0.6%
EBITDA Margin	18%	71%
Net Profit Margin	-21%	31%

FINANCIAL RISK

- **Foreign Currency risk**

The Group has transactional currency exposure. Such exposure arises from US\$ denominated service income of SWA and US\$ funds of Paxys NV. As at September 30, 2021, cash and cash equivalents of the Group consist of about 70% US\$.

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

The Group's primary strategy to address its forex exposures is to make use of hedging instruments including derivatives (i.e., currency forward contracts) to manage the effects of foreign exchange fluctuations on financial results. These hedging instruments or derivatives are not used for trading or speculative purposes. Counterparties to derivative contracts are carefully selected from major financial institutions which are assessed based on their industry standing and historical performance. As at September 30, 2021 and December 31, 2020, the Group does not have outstanding derivative instruments.

The Group adopted the following rates of exchange in translating foreign currency statement of comprehensive income and statement of financial position as of September 30, 2021 and December 31, 2020:

	September 30, 2021		December 31, 2020	
	Closing	Average	Closing	Average
Philippine Peso to 1 unit of: United States Dollar (US\$)	51.00	48.87	48.02	49.61

- **Credit Risk**

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

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

OTHER MATTERS

- a. There were no known events that trigger direct or contingent financial obligation that is material to the 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 cyclicalities on the operations of the Company's business are not material.
- i. There were no material changes in estimates of amounts reported in interim periods of the current year or changes in estimates of amounts reported in prior financial years.

Key Variable and Other Quantitative and Factors

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

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

Paxys, Inc. and Subsidiaries
Consolidated Trade Receivables Aging Schedule
As of September 30, 2021
(Amounts in Thousands)

Types of customers	Age of Receivables					Total
	<30 days	31-60 days	61-90 days	90-120 days	>120 days	
International	₱2,926	₱-	₱-	₱-	₱10,988	₱13,914
Local	290	-	-	-	-	290
	3,216	-	-	-	10,988	14,204
Allowance for impairment losses	-	-	-	-	(9,616)	(9,616)
	₱3,216	₱-	₱-	₱-	₱1,372	₱4,588