

15 May 2013

**THE PHILIPPINE STOCK EXCHANGE, INC.**

Disclosure Department  
4<sup>th</sup> Floor, Philippine Stock Exchange Centre  
PSE Centre, Exchange Road  
Ortigas Center, Pasig City

Attention: **Ms. JANET ENCARNACION**  
Head, Disclosure Department  
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Subject: First Quarter Report for 2013  
(SEC Form 17-Q)  
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Gentlemen:

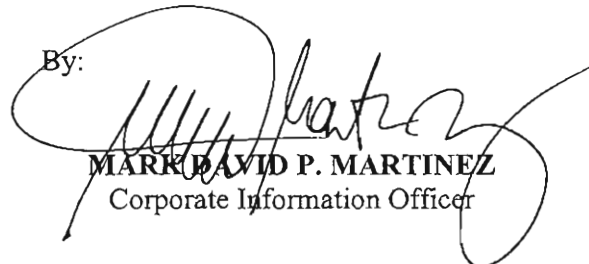
Enclosed is our Quarterly Report for the three (3) months ended 31 March 2013 (SEC Form 17-Q).

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

Very truly yours,

**PAXYS, INC.**

By:



**MARK DAVID P. MARTINEZ**  
Corporate Information Officer





**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

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

1. For the quarterly period ended: March 31, 2013
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 March 31, 2013**

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 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	Place of Incorporation	Principal Activity	Percentage of Ownership			
			March 31, 2013		December 31, 2012	
			Direct	Indirect	Direct	Indirect
Paxys N.V.	Curacao	Investment Holding	100.0%	–	100.0%	–
Scopeworks Asia, Inc. (SWA)	Philippines	Data Transcription	100.0%	–	100.0%	–
Paxys Global Services, Inc. (PGS)	Philippines	Contact Center	100.0%	–	100.0%	–
Paxys Global Services Pte Ltd (PGSPL)	Singapore	Regional Office	100.0%	–	100.0%	–
Paxys Global Services ROHQ (PGS ROHQ)	Philippines	Regional Headquarters	–	100.0%	–	100.0%
Paxys Ltd.	Hongkong	Investment Holding	100.0%	–	100.0%	–
Simpro Solutions Ltd.	Hongkong	Regional Office	–	50%	–	50%
Simpro Solutions Philippines, Inc. (Simpro Phils)	Philippines	Contact Center	–	50%	–	50%
Stellar Global Solutions Philippines, Inc. (Stellar)	Philippines	Contact Center	50%	–	50%	–
Stellar Philippines, Inc. (SPI)	Philippines	Contact Center	–	50%	–	50%
Paxys Global Services (Dalian) Ltd.	China	Contact Center	50%	–	50%	–

The unaudited consolidated financial statements for the three months ended March 31, 2013 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 three months ended March 31, 2013. The primary objective of this MD&A is to help the readers understand the dynamics of the Group’s business and the key factors underlying the Group’s financial results.

The MD&A for the three months ended March 31, 2013 should be read in conjunction with the unaudited consolidated financial statements and the accompanying notes, and are filed as Annex B of this report.

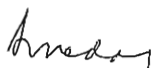
### Item 3. Aging of Accounts Receivables

Please see Annex C.

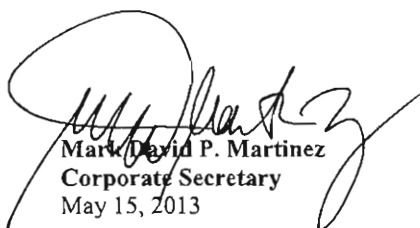
**PART II. SIGNATURES**

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 and President**  
May 15, 2013



**Mark David P. Martinez**  
**Corporate Secretary**  
May 15, 2013

**PAXYS, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
March 31, 2013 and December 31, 2012  
and for the Three Months Ended March 31, 2013 and 2012

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

	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 4 and 12)	<b>₱3,954,933</b>	₱3,900,094
Trade and other receivables - net (Notes 5 and 12)	<b>98,597</b>	84,237
Other current assets - net (Note 6)	<b>193,847</b>	303,298
Derivative assets	<b>1,358</b>	1,358
Total Current Assets	<b>4,248,735</b>	4,288,987
<b>Noncurrent Assets</b>		
Investments in joint ventures - at equity (Note 7)	<b>95,491</b>	105,046
Property and equipment - net (Note 8)	<b>14,620</b>	17,616
Website and software packages	<b>7,084</b>	8,170
Other noncurrent assets	<b>10,616</b>	10,416
Total Noncurrent Assets	<b>127,811</b>	141,248
	<b>₱4,376,546</b>	₱4,430,235
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Notes 9 and 12)	<b>₱71,136</b>	₱97,812
Dividends payable	<b>6,554</b>	6,554
Income tax payable	<b>3,837</b>	3,837
Total Current Liabilities	<b>81,527</b>	108,203
<b>Noncurrent Liability</b>		
Accrued retirement costs	<b>3,867</b>	3,867
<b>Equity</b>		
Capital stock (Note 10)	<b>1,071,773</b>	1,071,773
Additional paid-in capital (Note 10)	<b>451,364</b>	451,364
Retained earnings	<b>2,957,427</b>	2,963,402
Cumulative translation adjustments	<b>(189,412)</b>	(168,374)
Total Equity	<b>4,291,152</b>	4,318,165
	<b>₱4,376,546</b>	₱4,430,235

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



**PAXYS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

**For the Three Months Ended March 31, 2013 and 2012**

**(Amounts in Thousands except Earnings per share)**

	<b>For the Three Months Ended March 31</b>	
	<b>2013</b>	2012 (As restated)
<b>SERVICE INCOME</b>	<b>₱35,761</b>	₱78,620
<b>COSTS OF SERVICES</b>	<b>(31,525)</b>	(77,639)
<b>GROSS PROFIT</b>	<b>4,236</b>	981
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>(20,038)</b>	(55,825)
<b>INTEREST INCOME</b>	<b>12,698</b>	2,958
<b>INTEREST EXPENSE</b>	<b>–</b>	(289)
<b>FOREIGN EXCHANGE LOSS - net</b>	<b>(2,637)</b>	(2,660)
<b>EQUITY IN NET LOSSES OF JOINT VENTURES</b>	<b>(310)</b>	(16,485)
<b>OTHER INCOME - net</b>	<b>76</b>	751
<b>LOSS BEFORE INCOME TAX FROM CONTINUING OPERATIONS</b>	<b>(5,975)</b>	(70,569)
<b>PROVISION FOR INCOME TAX</b>	<b>–</b>	–
<b>LOSS AFTER INCOME TAX FROM CONTINUING OPERATIONS</b>	<b>(5,975)</b>	(70,569)
<b>INCOME FROM DISCONTINUED OPERATIONS</b>	<b>–</b>	88,971
<b>NET INCOME (LOSS)</b>	<b>(₱5,975)</b>	₱18,402
<b>Attributable To:</b>		
Equity holders of the Parent Company from:		
Continuing operations	<b>(₱5,975)</b>	(₱70,234)
Discontinued operations	<b>–</b>	88,971
	<b>(5,975)</b>	18,737
Non-controlling interests	<b>–</b>	(335)
	<b>(₱5,975)</b>	₱18,402
<b>EARNINGS (LOSS) PER SHARE</b>		
<b>Basic Earnings (Loss) Per Share</b>		
Loss from continuing operations	<b>(₱0.01)</b>	(₱0.06)
Income from discontinued operations	<b>–</b>	0.08
	<b>(₱0.01)</b>	₱0.02
<b>Diluted Earnings (Loss) Per Share</b>		
Loss from continuing operations	<b>(₱0.01)</b>	(₱0.06)
Income from discontinued operations	<b>–</b>	0.08
	<b>(₱0.01)</b>	₱0.02

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

**PAXYS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

**For the Three Months Ended March 31, 2013 and 2012**

**(Amounts in Thousands)**

	<b>For the Three Months Ended March 31</b>	
	<b>2013</b>	<b>2012</b>
	<b>(As restated)</b>	
<b>NET INCOME (LOSS)</b>	<b>(P5,975)</b>	<b>P18,402</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Translation adjustments during the year	<b>(21,038)</b>	<b>(4,420)</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(P27,013)</b>	<b>P13,982</b>
<b>Attributable to</b>		
Equity holders of the Parent Company		
Continuing Operation	<b>(P27,013)</b>	<b>(P74,654)</b>
Discontinuing Operation	<b>–</b>	<b>88,971</b>
	<b>(27,013)</b>	<b>14,317</b>
Non-controlling interests	<b>–</b>	<b>(335)</b>
	<b>(P27,013)</b>	<b>P13,982</b>

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

**PAXYS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)  
FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012**

	Total Equity Attributable to Equity Holders of the Parent Company							
	Capital Stock ₱1 Par Value (Note 10)	Additional Paid-in Capital (Notes 10)	Retained Earnings (Note 10)	Other Comprehensive Income Reserve Cumulative Translation Adjustments	Reserves Held for Sale	Total	Non- controlling Interests	Total Equity
At January 1, 2013	<b>₱1,071,773</b>	<b>₱451,364</b>	<b>₱2,963,402</b>	<b>(₱168,374)</b>	<b>₱-</b>	<b>₱4,318,165</b>	<b>₱-</b>	<b>₱4,318,165</b>
Total comprehensive loss for the year	-	-	(5,975)	(21,038)	-	(27,013)	-	(27,013)
At March 31, 2013	<b>₱1,071,773</b>	<b>₱451,364</b>	<b>₱2,957,427</b>	<b>(₱189,412)</b>	<b>₱-</b>	<b>₱4,291,152</b>	<b>₱-</b>	<b>₱4,291,152</b>

	Total Equity Attributable to Equity Holders of the Parent Company							
	Capital Stock ₱1 Par Value (Note 10)	Additional Paid-in Capital (Notes 10)	Retained Earnings (Note 10)	Other Comprehensive Income Reserve Cumulative Translation Adjustments	Reserves Held for Sale	Total	Non- controlling Interests	Total Equity
At January 1, 2012	₱1,071,773	₱451,364	₱591,390	(₱47,712)	₱224,291	₱2,291,106	(₱5,398)	₱2,285,708
Total comprehensive loss for the year	-	-	18,737	(4,420)	-	14,317	(335)	13,982
At March 31, 2012	₱1,071,773	₱451,364	₱610,127	(₱52,132)	₱224,291	₱2,305,423	(₱5,733)	₱2,299,690

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 Three Months Ended March 31**

	<b>2013</b>	2012 (As restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss from continuing operations before income tax	<b>(₱5,975)</b>	(₱70,569)
Income from discontinued operation before income tax	—	105,170
Income (loss) before income tax	<b>(5,975)</b>	34,601
Depreciation and amortization (Note 8)	<b>4,129</b>	13,154
Equity in net loss on joint ventures	<b>310</b>	16,485
Interest income	<b>(12,698)</b>	(2,958)
Unrealized foreign exchange loss (gain)	<b>(2,232)</b>	1,518
Interest expense	—	(289)
Marked-to-market gain on derivative instruments	—	(543)
Operating income (loss) before working capital changes	<b>(16,466)</b>	61,968
Decrease (increase) in:		
Trade and other receivables	<b>(14,360)</b>	19,294
Other current assets	<b>88,413</b>	34,432
Other noncurrent assets	<b>(200)</b>	1,078
Increase (decrease) in:		
Accounts payable and other current liabilities	<b>(17,431)</b>	3,046
Cash generated from operations	<b>39,956</b>	119,818
Interest received	<b>12,698</b>	2,958
Income tax paid	—	(448)
Net cash provided by operating activities	<b>52,654</b>	122,328
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	<b>(47)</b>	(4,070)
Acquisition of intangibles	—	(569)
Increase in net assets held for sale	—	(88,871)
Net cash used in investing activities	<b>(47)</b>	(93,510)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		
	<b>2,232</b>	(1,518)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>54,839</b>	27,300
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>3,900,094</b>	417,771
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>₱3,954,933</b>	₱445,071

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 “Company”) is a holding company incorporated in the Philippines and listed on the Philippine Stock Exchange (PSE). Paxys focuses on investments in the Business Process Outsourcing (BPO) industry.

Paxys and its subsidiaries (collectively called the “Group”) are engaged in diversified services such as contact center and data conversion. As of March 31, 2013, its major shareholder is All Asia Customer Services Holdings Ltd. (AACSHL), a company incorporated in Hong Kong, who owns 73.23% interest in the Company and the balance of 26.77% is owned by several shareholders.

The Company, which was incorporated in the Philippines on February 14, 1952, was originally engaged in manufacturing of ceramics. In 1999 to 2002, the Company closed its manufacturing operations and disposed of its land and other assets related to the ceramic business. The registered office address of the 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 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 issued by the Financial Reporting Standards Council.

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 unaudited consolidated financial statements for the three months ended March 31, 2013 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).

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the audited annual consolidated financial statements as of and for the year ended December 31, 2012. In addition, the following standards effective January 1, 2013 onwards were assessed to either be applicable or not applicable to the Group. The Group is currently evaluating the impact of each of the standards below based on its audited figures as of December 31, 2012.

- PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’, irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a. The gross amounts of those recognized financial assets and recognized financial liabilities;
- b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c. The net amounts presented in the statement of financial position;
- d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
  - i) Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii) Amounts related to financial collateral (including cash collateral); and
- e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 13, Fair Value Measurement - PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Group.
- PAS 27, Separate Financial Statements (as revised in 2011) - As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in the separate financial statements. Adoption of this standard did not have any material impact on the consolidated financial statements.
- PFRS 12, Disclosure of Interests in Other Entities - PFRS 12 includes all of the disclosures that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, Investments in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The adoption of the standard has no material impact on the financial position or performance of the Group.

#### Basis of Consolidation

Basis of Consolidation from January 1, 2013. 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:

Subsidiaries	Place of Incorporation	Principal Activity	Percentage of Ownership			
			March 31, 2013		December 31, 2012	
			Direct	Indirect	Direct	Indirect
Paxys N.V.	Curacao	Investment Holding	100.0%	–	100.0%	–
Scopeworks Asia, Inc. (SWA)	Philippines	Data Transcription	100.0%	–	100.0%	–
Paxys Global Services, Inc. (PGS)	Philippines	Contact Center	100.0%	–	100.0%	–
Paxys Global Services Pte Ltd (PGSPL)	Singapore	Regional Office	100.0%	–	100.0%	–
Paxys Global Services ROHQ (PGS ROHQ)	Philippines	Regional Headquarters	–	100.0%	–	100.0%
Paxys Ltd.	Hongkong	Investment Holding	100.0%	–	100.0%	–
Simpro Solutions Ltd.	Hongkong	Regional Office	–	50%	–	50%
Simpro Solutions Philippines, Inc. (Simpro Phils)	Philippines	Contact Center	–	50%	–	50%
Stellar Global Solutions Philippines, Inc. (Stellar)	Philippines	Contact Center	50%	–	50%	–

Subsidiaries	Place of Incorporation	Principal Activity	Percentage of Ownership			
			March 31, 2013		December 31, 2012	
			Direct	Indirect	Direct	Indirect
Stellar Philippines, Inc. (SPI)	Philippines	Contact Center		50%	–	50%
Paxys Global Services (Dalian) Ltd.	China	Contact Center	50%	–	50%	–

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 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

Non-controlling interest represents the portion of profit or loss in URSI for 2012, not held by the Company and is presented separately in the consolidated statement of income, consolidated statement of comprehensive. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

#### Foreign Currency-Denominated Transactions and Translations

The Company's 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 Company operates. This is also the currency that mainly influences the revenue from 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, URSI, PGS and PGS ROHQ is the Philippine Peso. The functional currency of PGSPL is Singapore Dollar (SG\$). The functional currency of Paxys Ltd. and Paxys N.V. is U.S. Dollar (US\$).

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional closing rate of exchange prevailing at the end of the reporting period. All differences are recognized in the consolidated statement of income except for foreign exchange differences that qualify as capitalizable borrowing costs for qualifying assets. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

#### 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.

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 Arrangements

The Company has interests in joint arrangements which are classified as joint ventures, whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The agreement requires unanimous agreement for financial and operating decisions among the venturers.

During the prior years, 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. The Company recognizes its interest in joint ventures as an investment and accounts for the investments using the equity method. Adjustments are made where necessary to bring the accounting policies in line with those of the Company.

#### 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.

#### Financial Instruments

**Date of Recognition.** The Company recognizes a financial asset and liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales 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. Derivative instruments are recognized on a trade date basis.

**Initial Recognition and of Financial Instruments.** All financial assets and financial liabilities are recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs.

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

This category pertains to the Company's cash and cash equivalents, cash held in trust, trade and other receivables (excluding statutory receivables and advances to suppliers and contractors), escrow fund and rental and security deposits.

**Other financial liabilities.** Issued financial instruments or their component where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

This accounting policy applies primarily to the Company's accounts payable and other current liabilities (except for statutory payables and unearned income) and dividends payable.

#### 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.

#### 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.

#### Equity

Capital stock is measured at par value for all shares issued. Proceeds and/or fair value of consideration received in excess of par value are recognized as additional paid-in capital (APIC).

Retained earnings represent accumulated earnings.

#### 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). The Company recognizes its share in the net income (loss) of joint ventures proportionate to the equity in the voting shares of such 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. Cost and equity are recognized in the consolidated statement of comprehensive income in the year these are incurred.

Leases

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

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

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

The preparation of the Company's consolidated financial statements in compliance with PFRS requires management to make judgment and estimates that affect certain reported amounts and disclosures. In preparing the Company's consolidated financial statements, management has made its best judgment and estimates of certain amounts, giving due consideration to materiality. 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 event that are believed to be reasonable under the circumstances,

**4. Cash and Cash Equivalents**

This account consists of:

	<b>March 31, 2013</b>	December 31, 2012
	In Thousands	
Cash on hand and in banks	<b>₱2,675,762</b>	₱2,717,999
Short-term deposits	<b>1,279,171</b>	1,182,095
	<b>₱3,954,933</b>	₱3,900,094

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.

**5. Trade and Other Receivables – net**

	<b>March 31, 2013</b>	December 31, 2012
	(In Thousands)	
Trade	<b>₱72,527</b>	₱71,930
Advances to related parties	<b>40,836</b>	27,805
Other receivables	<b>10,696</b>	9,964
	<b>124,059</b>	109,699
Less allowance for doubtful accounts	<b>25,462</b>	25,462
	<b>₱98,597</b>	₱84,237

Trade receivables are noninterest-bearing and generally have 30-60 day terms. Other receivables include receivables from GIC, advances to officers and employees and advances to suppliers and contractors which are noninterest-bearing and are expected to be settled/ liquidated within the year.

## 6. Other Current Assets

This account consists of:

	March 31, 2013	December 31, 2012
	In Thousands	
Escrow fund	P191,052	P298,808
Input value-added tax	265	-
Advance rentals and other prepayments	2,530	4,490
	<b>P193,847</b>	<b>P303,298</b>

In relation to the sale of Paxys A.U., 13% of the total sale proceeds amounting to AU\$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. On August 8, 2012, AU\$4.3 million was released to Paxys N.V. In February 2013, additional AU\$2.6 million was released to Paxys N.V. As at March 31, 2013, the balance of escrow fund amounted to AU\$4.2 million (P191.05 million).

## 7. Interests in Joint Venture

Joint venture	Place of Incorporation	Principal Activity	Percentage of Ownership	
			March 31, 2013	December 31, 2012
Stellar Global Solutions Philippines (Stellar)	Philippines	Contact center	50.0%	50.0%
Paxys Dalian	China	Contact center	50.0%	50.0%
Simpro Solutions Philippines, Inc. (Simpro Phils)	Philippines	Contact center	50.0%	50.0%

Details of investments in joint ventures as at March 31, 2013 and December 31, 2012 are as follows:

	March 31, 2013	December 31, 2012
	(In Thousands)	
Stellar	P113,170	P111,283
Paxys Dalian	(11,284)	(1,348)
Simpro	(6,395)	(4,889)
	<b>P95,491</b>	<b>P105,046</b>

The movement in the accumulated earnings in joint venture are as follows:

	March 31, 2013	December 31, 2012
Balance at beginning	60,169	105,937
Equity in net losses	(310)	(45,768)
Balance at end	59,859	60,169
	<b>P95,491</b>	<b>P105,046</b>

As a result of the Company's early adoption of PFRS 11 in 2012, the Company recognizes its interest in these joint ventures using equity method of accounting.

## 8. Property and Equipment

The movement of this account follows:

	March 31, 2013					
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
	(In Thousands)					
<b>Cost</b>						
Balance at beginning of year, as restated	₱148,522	₱12,052	₱166,385	₱19,179	₱17,709	₱363,847
Additions	47	—	—	—	—	47
Balance at end of year	148,569	12,052	166,385	19,179	17,709	363,894
<b>Accumulated Depreciation</b>						
Balance at beginning of year, as restated	141,469	11,884	162,514	15,622	14,742	346,231
Depreciation for the year	1,680	15	439	414	494	3,043
Balance at end of year	143,149	11,899	162,953	16,036	15,236	349,274
<b>Net Book Value</b>	<b>₱5,420</b>	<b>₱153</b>	<b>₱3,432</b>	<b>₱3,143</b>	<b>₱2,473</b>	<b>₱14,620</b>

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

Computer equipment	3 – 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, 2012							
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Software Pool	Construction In-Progress	Total
	(In Thousands)							
<b>Cost</b>								
Balance at beginning of year, as restated	₱149,113	₱12,051	₱163,033	₱19,052	₱17,106	₱31	₱2,279	₱362,665
Additions	1,475	–	3,361	298	620	–	(2,280)	3,474
Disposal of a subsidiary	(1,824)	–	–	(58)	–	–	–	(1,882)
Translation adjustments	(242)	1	(9)	(113)	(17)	(31)	1	(410)
Balance at end of year	148,522	12,052	166,385	19,179	17,709	–	–	363,847
<b>Accumulated Depreciation</b>								
Balance at beginning of year, as restated	117,277	9,127	149,252	13,532	9,649	31	–	298,868
Depreciation for the year	26,204	2,758	13,271	6,153	1,190	–	–	49,576
Disposal of a subsidiary	(1,759)	–	–	(54)	–	–	–	(1,813)
Translation adjustments	(253)	(1)	(9)	(4,009)	3,903	(31)	–	(400)
Balance at end of year	141,469	11,884	162,514	15,622	14,742	–	–	346,231
<b>Net Book Value</b>	<b>₱7,053</b>	<b>₱168</b>	<b>₱3,871</b>	<b>₱3,557</b>	<b>₱2,967</b>	<b>₱–</b>	<b>₱–</b>	<b>₱17,616</b>

## 9. Accounts Payable and Other Current Liabilities

	March 31, 2013	December 31, 2012
(In Thousands)		
Accrued expenses	₱51,020	₱55,637
Statutory payables	8,834	8,501
Trade payables	2,839	6,755
Advances from related parties	225	196
Other current liabilities	8,218	26,723
	<b>₱71,136</b>	<b>₱97,812</b>

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.

Other current liabilities mainly represent non-trade payables.

## 10. 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.

On September 14, 2009 and August 30, 2008, the Parent Company issued shares 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
(In Thousands)			
At January 1, 2013	1,800,000,000	1,148,534,866	₱1,148,534
Subscription receivable	-	-	(76,761)
<b>At March 31, 2013</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 723 shareholders owning 100 or more shares as of March 31, 2013 and December 31, 2012, respectively.

APIC

This account consists of:

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

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 Board of Directors resolved the declaration of stock dividend of one common share at a par value of ₱1.00 per share 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.

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## 11. 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. 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 three 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. Also, following management's decision to early adopt PFRS 11 in 2012, the total assets and liabilities were reclassified to investments in joint ventures and the income and expense of the joint ventures were reclassified to equity in net earnings of joint venture. Prior years' information was restated accordingly.
- 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 "Disposal Group Classified as Held for Sale" column in the business segment information as of March 31, 2013, and 2012.
- 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 the operations 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 three months ended March 31, 2013 and 2012:

	<b>March 31, 2013</b>				
	<b>Data</b>	<b>Call Center</b>	<b>Others</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>Transcription</b>				
	(In Thousands)				
<b>Results of Operations</b>					
Segment revenues from external customers	<b>₱26,926</b>	<b>₱8,835</b>	<b>₱-</b>	<b>₱-</b>	<b>₱35,761</b>
Segment expenses	<b>(29,179)</b>	<b>(5,987)</b>	<b>(16,396)</b>	<b>-</b>	<b>(51,563)</b>
Segment result	<b>(2,253)</b>	<b>2,848</b>	<b>(16,396)</b>	<b>-</b>	<b>(15,802)</b>
Interest income (expense) – net	<b>99</b>	<b>3</b>	<b>12,596</b>	<b>-</b>	<b>12,698</b>
Foreign exchange gain (loss) – net	<b>379</b>	<b>(146)</b>	<b>(4,659)</b>	<b>1,789</b>	<b>(2,637)</b>
Equity in net losses on joint ventures	<b>-</b>	<b>(310)</b>	<b>-</b>	<b>-</b>	<b>(310)</b>
Other segment operating income (expense) - net	<b>79</b>	<b>-</b>	<b>(4)</b>	<b>-</b>	<b>76</b>
Net income (loss)	<b>(₱1,696)</b>	<b>₱2,395</b>	<b>(₱8,463)</b>	<b>₱1,789</b>	<b>₱5,975</b>
<b>Assets and Liabilities</b>					
Segment assets	<b>₱71,823</b>	<b>₱24,043</b>	<b>₱5,010,605</b>	<b>(₱729,925)</b>	<b>₱4,376,546</b>
Segment liabilities	<b>(105,058)</b>	<b>(93,393)</b>	<b>(482,626)</b>	<b>595,683</b>	<b>(85,394)</b>
<b>Other Segment Information</b>					
Capital expenditures:					
Property and equipment	<b>₱-</b>	<b>₱-</b>	<b>₱47</b>	<b>₱-</b>	<b>₱47</b>
Depreciation and amortization	<b>1,969</b>	<b>348</b>	<b>1,812</b>	<b>-</b>	<b>4,129</b>

March 31, 2012

	Data Transcription	Call Center	Others	Eliminations	Consolidated	Disposal Group – Salary Packaging	Total
(In Thousands)							
<b>Results of Operations</b>							
Segment revenues from external customers	₱51,616	₱2,685	₱24,319	₱–	₱78,620	₱631,298	₱709,918
Segment expenses	(56,420)	(16,657)	(60,387)	–	(133,464)	(543,293)	(676,757)
Segment result	(4,804)	(13,972)	(36,068)	–	(54,844)	88,005	33,161
Interest income (expense) – net	(551)	7	2,813	400	2,669	1,287	3,956
Foreign exchange gain (loss) – net	(1,386)	(8)	(9,103)	7,837	(2,660)	–	(2,660)
Equity in net losses on joint ventures	–	(16,485)	–	–	(16,485)	–	(16,485)
Other segment operating income (expense) - net	618	63	70	–	751	15,878	16,629
Provision for income tax	–	–	–	–	–	(16,199)	(16,199)
Net income (loss)	(₱6,123)	(₱30,395)	(₱42,288)	₱8,237	(₱70,569)	₱88,971	₱18,402
<b>Assets and Liabilities</b>							
Segment assets	₱115,767	₱33,180	₱2,353,641	(₱1,612,064)	₱890,524	₱4,242,694	₱5,133,218
Segment liabilities	(129,762)	(60,637)	(675,962)	667,019	(199,342)	(2,681,585)	(2,880,927)
<b>Other Segment Information</b>							
Capital expenditures:							
Property and equipment	₱491	₱2,880	₱699	₱–	₱4,070	₱86,772	₱90,842
Intangibles	365	–	204	–	569	–	569
Depreciation and amortization	4,419	6,566	8,495	–	19,480	82,563	102,043

Geographical Segment Data

The following table presents the revenue and expenditure and certain asset information regarding geographical segments for the three months ended March 31, 2013 and 2012:

<b>March 31, 2013</b>				
<b>Continuing Operations</b>				
	<b>Philippines</b>	<b>China</b>	<b>Eliminations</b>	<b>Consolidated</b>
(In Thousands)				
<b>Revenue</b>				
External revenue	<b>₱35,761</b>	<b>₱-</b>	<b>₱-</b>	<b>₱35,761</b>
Equity in net losses on joint ventures	<b>382</b>	<b>(692)</b>	<b>-</b>	<b>(310)</b>
<b>Other Segment Information</b>				
Segment assets	<b>₱5,100,618</b>	<b>₱5,853</b>	<b>(₱729,925)</b>	<b>₱4,376,546</b>
Capital expenditures:				
Property and equipment	<b>47</b>	<b>-</b>	<b>-</b>	<b>47</b>

<b>March 31, 2012</b>						
<b>Continuing Operations</b>					<b>Discontinued Operation</b>	
	<b>Philippines</b>	<b>China</b>	<b>Eliminations</b>	<b>Consolidated</b>	<b>Australia</b>	<b>Total</b>
(In Thousands)						
<b>Revenue</b>						
External revenue	<b>₱78,620</b>	<b>₱-</b>	<b>₱-</b>	<b>₱78,620</b>	<b>₱631,298</b>	<b>₱709,918</b>
Equity in net losses on joint ventures	<b>(14,957)</b>	<b>(1,528)</b>	<b>-</b>	<b>(16,485)</b>	<b>-</b>	<b>(16,485)</b>
<b>Other Segment Information</b>						
Segment assets	<b>₱2,498,184</b>	<b>₱4,404</b>	<b>(₱1,612,064)</b>	<b>₱890,524</b>	<b>4,242,694</b>	<b>₱5,133,218</b>
Capital expenditures:						
Property and equipment	<b>4,070</b>	<b>-</b>	<b>-</b>	<b>4,070</b>	<b>86,772</b>	<b>90,842</b>
Intangibles	<b>569</b>	<b>-</b>	<b>-</b>	<b>569</b>	<b>-</b>	<b>569</b>

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## 12. 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 March 31, 2013 and December 31, 2012 are as follows:

	March 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>	(In Thousands)			
Loans and receivables:				
Cash and cash equivalents	<b>₱3,954,818</b>	<b>₱3,954,818</b>	₱3,899,963	₱3,899,963
Trade and other receivables - net <sup>(a)</sup>	<b>98,330</b>	<b>98,330</b>	83,990	83,990
Escrow fund <sup>(b)</sup>	<b>191,052</b>	<b>191,052</b>	298,808	298,808
Rental and security deposits <sup>(c)</sup>	<b>5,533</b>	<b>5,533</b>	5,347	5,154
Derivative assets	<b>1,358</b>	<b>1,358</b>	1,358	1,358
	<b>₱4,251,091</b>	<b>₱4,251,091</b>	₱4,289,466	₱4,289,273
<b>Financial Liabilities</b>				
Other financial liabilities:				
Accounts payable and other current liabilities <sup>(d)</sup>	<b>₱62,302</b>	<b>₱62,302</b>	₱89,311	₱89,311
Dividends payable	<b>6,554</b>	<b>6,554</b>	6,554	6,554
	<b>₱68,856</b>	<b>₱68,856</b>	₱95,865	₱95,865

<sup>(a)</sup>Excluding statutory receivable, and advances to suppliers and contractors amounting to ₱267 and ₱247 as at March 31, 2013 and December 31, 2012, respectively.

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

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

<sup>(d)</sup>Excluding statutory payables, unearned income and lease incentive amounting to ₱8,834 and ₱8,501 as at March 31, 2013 and December 31, 2012, respectively.

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

Cash and Cash Equivalents, Trade and Other Receivables, Advances to and from Related Parties, Accounts Payable, Other Current Liabilities and Dividends Payable

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

### Derivatives

These contracts are carried at fair value in the consolidated statements of financial position. The fair value of these contracts is based on valuations as provided by counterparty banks.

The Company entered into currency forward derivatives in 2012 and 2011 to manage foreign currency risks arising from its dollar denominated revenues. These derivatives are accounted for as transactions not designated as hedges.

In 2012, the Company entered into buy Peso and sell US Dollar forward contract with an aggregate notional amount of US\$4.40 million (of which US\$1.2 million is still outstanding as at December 31, 2012) and a weighted average contracted forward rate of ₱42.01 to US\$1.00. The forward contracts outstanding as at December 31, 2012 have various maturities in 2013. These contracts are carried at fair value in the statements of financial position. The fair value of these contracts is based on valuations technique using observable market inputs (Level 2). As at March 31, 2013 and December 31, 2012, the contracts have a positive fair value of ₱1.36 million. There were no fair value changes of all derivative instruments for the three months period ended March 31, 2013.

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## 13. Other Matters

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

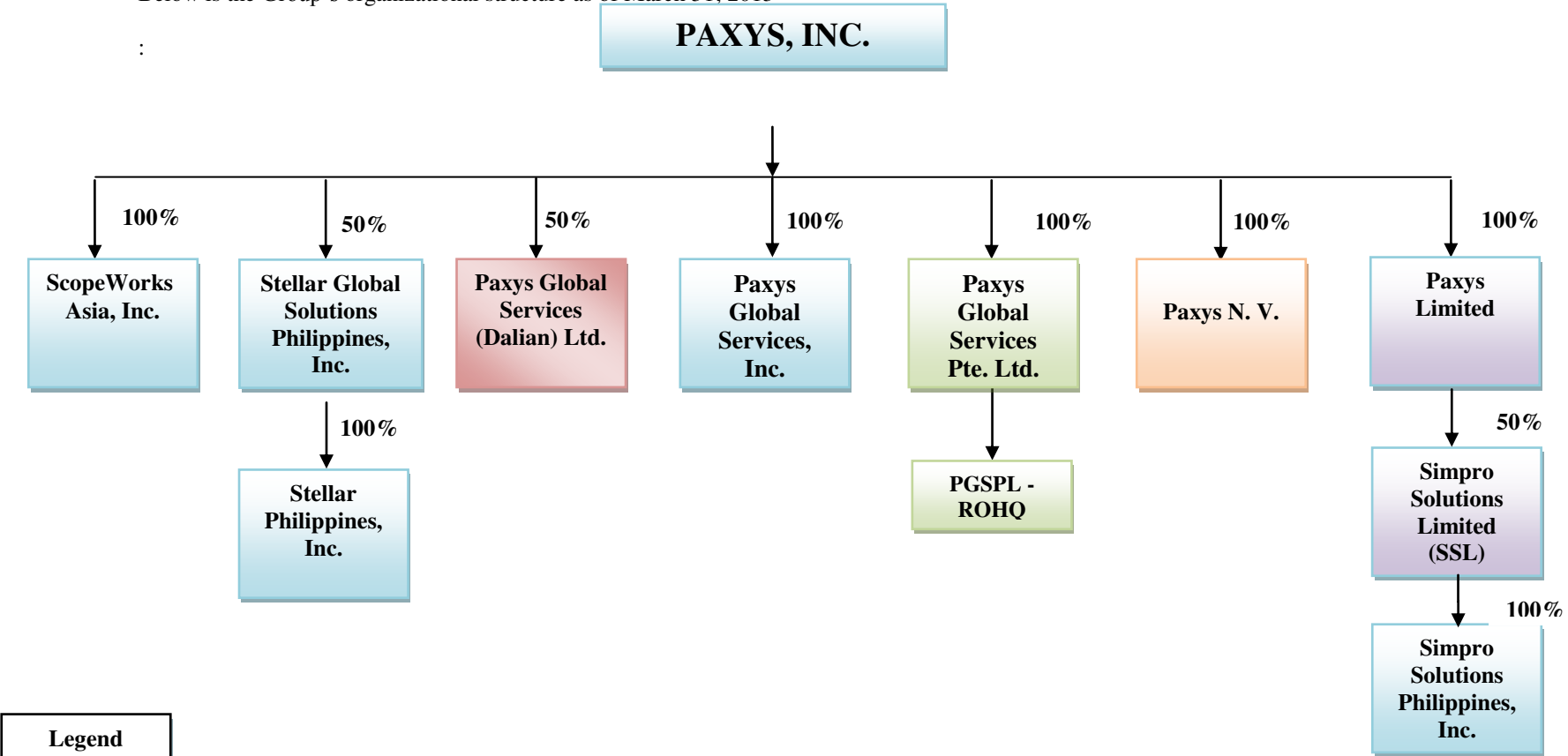
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

**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 March 31, 2013 (with comparative figures as of March 31, 2012). All necessary adjustments to present fairly the consolidated financial condition, results of operations, and cash flows of the Company for the three months ended March 31, 2013, 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 March 31, 2013



Legend
Philippines
China
Singapore
Curacao
Hong Kong

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. For the last three years, Paxys divested its salary packaging, IT consulting and software solutions business.

SWA 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.

Stellar 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.

SmartSalary is a salary packaging administration company based in Australia. It owns two major Australian providers of in-house salary packaging software solutions – Melbourne Systems Group Pty Ltd. and Seqoya Pty Ltd. SmartFleet is a provider of fleet management solutions in Australia and New Zealand. The sale of Smartsalary and its subsidiaries was completed with finality on June 7, 2012.

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. On October 31, 2012, Paxys transferred its 63.51% ownership in URSI to the minority shareholder.

Simpro Philippines is a joint venture company engaged in contact center and back office outsourcing activities.

#### **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

Summary Profit and Loss  
For the Three Months Ended March 31  
In Thousands Pesos

	Three Months (January - March)				% Change
	2013		2012 (As restated)*		
	Amount	% to Sales	Amount	% to Sales	
Service Income	₱35,761	100%	₱78,620	100%	(55%)
Gross Profit	4,236	12%	981	1%	332%
Loss from Operations	(18,673)	(52%)	(73,238)	(93%)	75%
Net Loss - continuing**	(5,975)	(17%)	(70,569)	(90%)	92%
EBITDA	(14,547)	(41%)	(60,084)	(76%)	76%

\*Results of 1Q 2012 is restated; Service income and Gross profit of joint ventures, Stellar and Paxys Dalian, are removed and is presented in the income statement as one line item "Share in net loss of joint ventures", which is included in the Loss from Operations.

\*\*Total Net Income for the 1Q 2012 amounted to ₱18,402, which includes income from SmartSalary, a disposal group of ₱88,971.

### FINANCIAL PERFORMANCE HIGHLIGHT

The Group's Net Loss from continuing operations significantly improved by 92% versus the same period in prior year. Despite further drop in the revenue by 55%, Gross Profit and gross profit margin improved by 332% or higher by 11 points, respectively, as personnel costs and premises costs significantly decreased due to lower agents and termination of Araneta site that was being sub-leased by Paxys to Stellar. 1Q 2013 has lower EBITDA loss versus 1Q 2012 as a result of lower operating loss this year.

### REVENUE

Service income decreased by 55% or ₱43 million versus same period in prior year due to decline in revenue of Paxys and SWA by ₱21 million and ₱25 million, respectively. Also, the impact of sale of URSI was a reduction in revenue amounting to ₱3 million. Revenue from its call center segment has improved by ₱6 million. SWA continues to experience lower billable hours and lower FTEs during the first quarter of the year.

### NET INTEREST INCOME

Interest earned stood at ₱13 million, an increased by ₱10 million versus same period in prior year, as proceeds from sale of Paxys Australia are used in interest-earning investing activities.

### OPERATING EXPENSES

Operating expenses decreased by ₱36 million or 64% from ₱56 million to ₱20 million this period as the effect of restructuring during the mid-year 2011 has started to affect expenses. Compensation and consultancy fees of ₱8 million is ₱22 million or 74% lower than the same period in prior year. Other expenses such as travel and representation, insurance expenses, taxes and licenses and other miscellaneous expenses also decreased by ₱13 million or 67%.



## FINANCIAL CONDITION

In Thousands Pesos	March 31, 2013	December 31, 2012 (As audited)	Y13 vs Y12
Balance Sheet Data:			
Total Current Assets	<b>₱4,248,735</b>	<b>₱4,288,987</b>	(1%)
Total Noncurrent Assets	<b>127,811</b>	<b>141,248</b>	(10%)
Total Assets	<b>4,376,546</b>	<b>4,430,235</b>	(1%)
Total Current Liabilities	<b>81,527</b>	<b>108,203</b>	(25%)
Total Noncurrent Liabilities	<b>3,867</b>	<b>3,867</b>	(0%)
Total Equity	<b>4,291,152</b>	<b>4,318,165</b>	(1%)

The major changes in the statements of financial position items from December 31, 2012 to March 31, 2013 are as follows:

- Net increase in Cash and Cash equivalents by 1% or ₱55 million due mainly to transfer of restricted cash under escrow fund to unrestricted cash.
- Increase in Trade and other receivables by 17% or ₱14 million mainly due to additional advances to related parties amounting to ₱13 million.
- Decrease in Investment in joint ventures by 9% or ₱10 million due to impairment of investment in ACS Dalian in prior year.
- Other current assets decreased by 36% or ₱109 million mainly due to realization into cash of the escrow fund from restricted current assets to unrestricted cash amounting to ₱109 million or \$2.6 million.
- Accounts payable and other current liabilities decreased 27% or ₱27 million due to various payments to trade vendors and statutory payments to government.

## 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:

For the Three Months Ended 31 March	2013	2012	Y13 vs Y12 % change
Net Cash Provided by Operating Activities	₱52,654	₱122,328	(57%)
Net Cash Used for Investing Activities	(47)	(93,510)	(100%)

Operating activities resulted to net inflow mainly because of realization of portion of escrow fund to cash, net of funds used for operating expenses.

Net Cash used for investing activities mainly includes minimal acquisition of property and equipment .

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>2013</b> <b>(Three months)</b>	2012 (Full year)	<b>Y13 vs Y12</b> <b>% change</b>
Financial Ratios:			
Current Ratio	<b>52:1</b>	40:1	31%
Debt to Equity Ratio	<b>2:98</b>	3:97	(23%)
Return on Equity (2012: three months)	<b>(0.03%)</b>	(1%)	(96%)
EBITDA Margin (2012: three months)	<b>(41%)</b>	(76%)	(47%)
Net Profit Margin from continuing operation (2012: three months)	<b>(17%)</b>	(90%)	(81%)

## 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 74% and 26% and 84% and 16% denominated in US\$ and AU\$, as at March 31, 2013 and December 31, 2012, respectively. 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 exchange rates.

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 March 31, 2013, March 30, 2012 and December 31, 2012:

	<b>March 31, 2013</b>		March 31, 2012		December 31, 2012	
	<b>Closing</b>	<b>Average</b>	Closing	Average	Closing	Average
Philippine Peso to 1 unit of foreign currency:						
United States Dollar ( US\$)	<b>40.80</b>	<b>40.70</b>	42.92	42.89	41.05	42.21
Australian Dollar (AU\$)	<b>42.80</b>	<b>42.24</b>	44.66	45.42	42.67	43.73

- **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 March 31, 2013**  
(Amounts in Thousands)

Types of customers	Age of Receivables					Total
	<30 days	31-60 days	61-90 days	90-120 days	>120 days	
Local	₱375	₱189	₱-	₱-	₱225	₱789
International	10,901	13,964	8,448	7	38,418	71,738
	11,276	14,153	8,448	7	38,643	72,527
Less allowance for doubtful accounts	-	-	-	-	11,457	11,457
	₱11,276	₱14,153	₱8,448	₱7	₱27,186	₱61,070