

12 August 2013

THE PHILIPPINE STOCK EXCHANGE, INC.

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

Attention: **Ms. JANET ENCARNACION**
Head, Disclosure Department

Gentlemen:

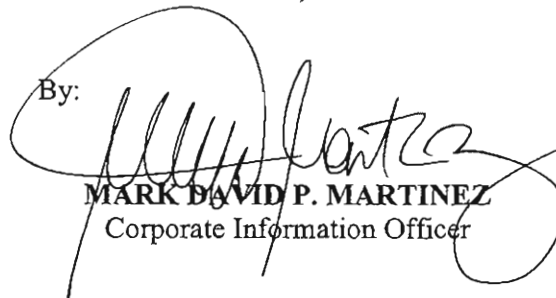
Enclosed is our Amended Annual Report for the fiscal year ended 31 December 2012 (SEC Form 17-A). The amendments were based on the comments received from the Securities and Exchange Commission. The amended portions of the Report are found in pages 11 and 39.

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

Very truly yours,

PAXYS, INC.

By:



MARK DAVID P. MARTINEZ
Corporate Information Officer



108122013002490



SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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WITH LETTER

12 August 2013

Securities and Exchange Commission
SEC Building, EDSA
Mandaluyong City

Attention: **Atty. Justina F. Callangan**
Corporate Finance Department

Re: Response to Letter dated 9 July 2013

Gentlemen:

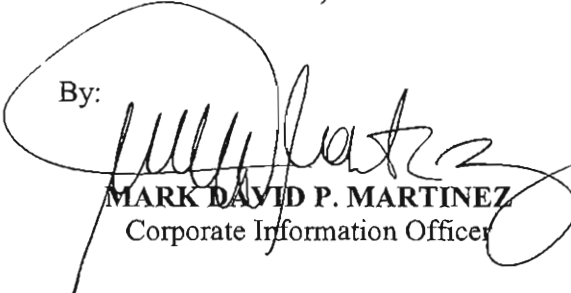
We provide herewith our Amended Annual Report for the fiscal year ended 31 December 2012 (SEC Form 17-A). The amendments are based on the comments received from the Commission through the Letter dated 9 July 2013 which was received on 31 July 2013. The amended portions of the Report are found in pages 11 and 39.

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

Very truly yours,

PAXYS, INC.

By:


MARK DAVID P. MARTINEZ
Corporate Information Officer

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SEC Registration Number

[illegible]

(Company's Full Name)

[illegible]

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

Paulino M. Servado , Jr.

(Contact Person)

908-7500

(Company Telephone Number)

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(Fiscal Year)

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(Form Type)

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(Annual Meeting)

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(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles
Number/Section

Total Amount of Borrowings

723

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

[illegible]

File Number

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended 2012 (Amended)
2. SEC Identification Number 6609
3. BIR Tax Identification No. 000-233-218
4. Exact Name of the registrant as specified in its charter PAXYS, INC.
5. Province, Country or other jurisdiction of incorporation: Philippines
6. Industry Classification Code: _____ (SEC Use Only)
7. Address of principal office: 15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City
8. Issuer's telephone number, including area code: (632) 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 SRC, or Sections 4 and 8 of the RSA

a) Authorized Capital Stock

Common shares, ₱1.00 par value	1,800,000,000 shares
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b) Issued and Outstanding Shares

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

c) Amount of Debt Outstanding as of December 31, 2012:

₱-

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

Yes ☒ No ☐

11. Check whether the issuer:

(i) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder 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 ☐

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

Yes ☒ No ☐

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

₱885,377,445.92 (299,114,002 shares @ ₱2.96 per share as of December 31, 2012)

PAXYS, INC.

**SUPPLEMENTAL SCHEDULES
TO THE FINANCIAL STATEMENTS REQUIRED BY THE
SECURITIES AND EXCHANGE COMMISSION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012
AND AUDITORS' REPORT**

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Description of Business

Business Development

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 December 31, 2012, its major shareholder is All Asia Customer Services Holdings Ltd. (ACSH), 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.

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. On the same date, SEC also approved the Company’s application for a change in name from Fil-Hispano Holdings Corporation to Paxys, Inc. which is more descriptive of its current activities.

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 through a reverse takeover by injecting 100% of ACS into the Company, effectively making Paxys the first call center firm to be listed in the PSE.

In 2010, Paxys sold its 100% stake in ACS to Alorica International Ltd. (Alorica). Alorica owns Precision Response Corporation, LC, the major customer of ACS.

In 2005, Paxys entered into a joint venture with Questronix Corporation in establishing ScopeWorks Asia, Inc. (SWA) with Paxys owning 60% interest. SWA provides general and legal transcription, editing, proofreading, and audio-to-text conversion and data conversion services. On March 3, 2008, Questronix assigned its 40% share to Paxys and agreed to withdraw from the joint venture agreement. Effective March 3, 2008, Paxys has 100% ownership interest in SWA.

On April 19, 2006, the Company acquired 19,724 shares of Paxys NV (formerly Zircon International Investments N.V.), a company established in Curacao, Netherlands at a purchase price of US\$20,000.00. The Paxys NV shares have a par value of US\$1.00. On September 1, 2006, Paxys and Paxys NV agreed to convert US\$7,948,890 advances into equity of Paxys NV. The conversion brings Paxys NV paid-in capital to US\$7,968,614.

On April 21, 2006, Paxys NV incorporated Paxys Australia Pty Ltd (PAU) with a capital stock of AU\$100 divided into 100 ordinary shares or AU\$1.00 par value per share.

On August 29, 2006, Paxys NV and PAU entered into an agreement to convert the receivable of Paxys NV from PAU amounting to AU\$15 million into equity in AUD equivalent to 15,000,000 shares bringing the latter’s paid-in capital to AU\$15,000,100.

To further diversify the Group's business, the Company through its wholly owned subsidiary, PAU acquired SmartSalary Pty Ltd. (SmartSalary), a salary packaging company, on June 5, 2006 for a consideration of AU\$37 million or about ₱1.5 billion. SmartSalary was incorporated in May 2001 in New South Wales, Australia.

SmartSalary acquired two major Australian providers of in-house salary packaging software solution during 2009. In March 2009, SmartSalary acquired the business of Melbourne Systems Group Pty Ltd through a 100% asset acquisition. Seqoya Pty Ltd becomes a subsidiary of SmartSalary in September 2009 through 100% sale of its share capital.

On March 3, 2010, the Company through PAU, incorporated a new wholly-owned subsidiary, Smartfleet Management Pty Ltd. (Smartfleet). Smartfleet has been incorporated for the general purpose of engaging in fleet-management-related business.

On March 23, 2010, SmartFleet acquired the assets and trading name of Webfleet Management Services Pty Ltd (Webfleet), a leading provider of software solutions for online fleet management.

On July 18, 2011, SmartFleet completed the purchase of 100% of the share capital of Australian Vehicle Consultants (AVC) at an acquisition cost of AU\$2.1 million or ₱80.78 million. AVC is a full service fleet management company and also the leading provider of vehicle maintenance authorization services to the salary packaging industry with over 20,000 vehicles under management.

SmartSalary acquired 100% share capital of PBI Benefit Solutions (PBI) on June 1, 2011. PBI is a company engaged in issuing credit card products to employees of public hospitals and public benevolent institutions in Australia who are granted fringe benefits.

On June 7, 2012, Paxys N.V. and SmartGroup Investments Pty. Ltd. completed the negotiations and signed a Share Purchase Agreement for the sale of Paxys N.V.'s 100% stake in PAU and subsidiaries.

In 2006, Paxys entered into a Purchase Agreement with shareholders of Global Ideology Corporation (GIC), a software solutions provider, to acquire 31.50% interest in GIC. In September 2007, Paxys acquired additional shares that brought the total equity of the Company to 50.45%. In July 2008, Paxys subscribed additional shares of GIC which effectively increased the Company's ownership to 60.26%.

On August 31, 2011, Paxys sold its 60.26% equity interest in GIC in favor of GIC's minority shareholders.

On January 18, 2007, Paxys together with joint venture partner Stellar Holdings, Inc. (SHI) incorporated Stellar Global Solutions Philippines, Inc. (Stellar) to provide cost-effective Philippine offshore outsourcing for the Australian and UK outsourcing clients of the Stellar Community. The Stellar Community encompasses 18 outsourcing centers across the globe, including nine centers in Australia, five centers in Canada, one center in the US, two centers in the UK, and one center in the Philippines.

On April 7, 2008, Paxys, Stellar and SHI entered into a Subscription Agreement whereby the Company and SHI each subscribed to additional 260,000 common shares of Stellar at ₱100 per share. Stellar issued new common shares totalling 520,000 shares as a result of the agreement. Ownership structure of Stellar after the additional subscription of the Company and SHI is maintained at 50.0% each.

On April 30, 2009, the BOD of Stellar resolved the declaration of stock dividends of 150,000 common shares at par value of ₱100 per share. Paxys received 75,000 common shares or ₱7.50 million from the stock dividends.

On April 18, 2011, SGSP established a wholly-owned subsidiary – Stellar Philippines, Inc. (“Stellar Philippines”). Stellar Philippines was established to provide an array of offshore contact centre and business process outsourcing solutions, and serves companies across a variety of industries, including telecommunications, utilities, transport, finance, government, retail and manufacturing.

To further improve its IT capabilities and expertise, the Company entered into an Investment Agreement on March 18, 2008 with Ubaldo Reidenbach Solutions, Inc. (URSI) to subscribe to 41,670 shares of URSI representing at least 62.50% ownership interest of URSI. The subscription was divided in two tranches as follows:

- Tranche A – Paxys subscribed for 27,100 common shares or 52.00% interest at a price of ₱240 per share or total consideration of ₱6.50 million; and
- Tranche B – Paxys has agreed to subscribe for 14,570 common shares at consideration price of ₱240 or an aggregate price of ₱3.49 million. The agreement includes a condition that the number of shares to be subscribed shall be decreased to 8,742 subscribed shares at a subscription price of ₱400 per share in the event that URSI’s gross profit as of December 31, 2008 is at ₱5.15 million.

Both parties executed the Agreement to subscribe for Tranche B through a new subscription agreement dated December 20, 2009. Paxys subscribed for 16,412 common shares at a total price of ₱3.49 million.

URSI was established in the Philippines on March 3, 2004 as a vendor of Retail Point of Sales (POS) solutions. In 2006, it shifted its core business into IT consultancy focusing on Linux and Open Source software and Red Hat Software came in 2010.

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

On June 17, 2010, the Company transferred its head office to 15th floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City 1226.

On October 19, 2010, the Company subscribed to 37,500 common shares of Paxys Global Services, Inc. (“PGS”) for the price of P1.00 per share and also acquired 12,500 common shares from the incorporating shareholders of PGS for the price of P1.00 per share. PGS was created to provide executive, marketing and operations shared services to Paxys subsidiaries most able to benefit in accordance with their respective service offerings.

On May 5, 2011, Paxys Global Services Pte Ltd (PGSPL, the Home Office), a company organized and existing under the laws of Singapore, was duly licensed by SEC to establish its regional operating headquarters in the Philippines under the name of Paxys Global Services Pte. Ltd. ROHQ (the ROHQ).

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

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

On September 13, 2012, Paxys completed the purchase of 100% equity in Paxys Limited, a company incorporated in Hong Kong. Paxys Ltd. owned 50% of Simpro Solutions Ltd. (SSL), a joint venture incorporated in Hong Kong. The joint venture partner of Paxys Limited is Simpro Solutions, Inc., a Canadian BPO company engaged in contact center and back office outsourcing activities. On August 3, 2012, SSL incorporated Simpro Solutions Philippines, Inc. (Simpro Philippines). Simpro Philippines will carry out the BPO business of Simpro in the Philippines.

Bankruptcy/Receivership for the Group

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

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

Sale of ACS

In 2011, Paxys sold its 100% stake in ACS to Alorica International Ltd. Alorica owns Precision Response Corporation, LC, the major customer of ACS.

Sale of GIC

On August 31, 2011, Paxys sold its 60.26% equity interest in GIC in favor of GIC's minority shareholders.

Sale of WNS Philippines

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

Paxys Limited and Simpro Solutions Limited

On September 13, 2012, Paxys completed the purchase of 100% equity in Paxys Limited, a company incorporated in Hong Kong. Paxys Ltd. owned 50% of Simpro Solutions Ltd. (SSL), a joint venture incorporated in Hong Kong. The joint venture partner of Paxys Limited is Simpro Solutions, Inc., a Canadian BPO company engaged in contact center and back office outsourcing activities. On August 3, 2012, SSL incorporated Simpro Solutions Philippines, Inc. (Simpro Philippines). Simpro Philippines will carry out the BPO business of Simpro in the Philippines.

Sale of URSI

On October 31, 2012, Paxys signed a Deed of Absolute Sale of Shares for the transfer of 100% equity interests in URSI. Pursuant to the sale, Paxys transferred 43,515 common shares to URSI, representing 63.51% of URSI's total share capital, in favor of the minority shareholder.

Incorporation of Stellar Philippines

On April 18, 2011, Stellar established a wholly-owned subsidiary – Stellar Philippines. Stellar Philippines was established to provide an array of offshore contact centre and business process outsourcing solutions, and serves companies across a variety of industries, including telecommunications, utilities, transport, finance, government, retail and manufacturing.

Incorporation of PGS

On October 19, 2010, Paxys acquired 100% of the issued and unsubscribed shares of PGS. With this acquisition, PGS will provide executive, marketing and operations shared services to Paxys subsidiaries most able to benefit in accordance with their respective service offerings.

Acquisition of PGSPL from GIC

On February 16, 2010, ownership of the 1,000 PGSPL ordinary shares, equivalent to the entire issued capital of PGSPL, was transferred to Paxys from its subsidiary, GIC. The acquisition resulted to a 100% direct ownership of the Company over PGSPL from a 60.26% effective ownership through GIC. PGSPL registered a regional operating headquarters (PGSPL-ROHQ) in the Philippines on May 5, 2011.

Acquisition of PBI

SmartSalary acquired 100% share capital of PBI on June 1, 2011. PBI is a company engaged in issuing credit card products to employees of public hospitals and public benevolent institutions in Australia who are granted fringe benefits.

Acquisition of AVC

On July 18, 2011, SmartFleet, has completed the purchase of 100% of the share capital of AVC. AVC is a full service fleet management company and also the leading provider of vehicle maintenance authorization services to the salary packaging industry with over 20,000 vehicles under management.

Acquisition of Webfleet by Smartfleet

On March 3, 2010, the Company through PAU, incorporated a new wholly-owned subsidiary, Smartfleet. Smartfleet was incorporated for the general purpose of engaging in fleet management-related business. On March 23, 2010, SmartFleet acquired the assets and trading name of Webfleet, a leading provider of software solutions for online fleet management.

Sale of PAU

Paxys NV signed a Share Sale Agreement with SmartGroup Investments Pty Ltd. whereby Paxys NV sold 100% of its equity interest in PAU on March 30, 2012. The sale includes all of the subsidiaries of PAU consisting of SmartSalary Pty Ltd, Smartfleet Management Pty. Ltd., SeQoya Pty. Ltd., PBI Benefit Solutions Pty. Ltd and Australian Vehicle Consultants Pty Ltd.

Principal Products or Service

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.

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, however, was completed with finality on June 7, 2012.

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.

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.

Percentage of sales or revenues contributed by foreign sales (In Mil Php)

Revenue	2012		2011 (As restated)		2010 (As restated)	
	Amount	%	Amount	%	Amount	%
Continuing						
Foreign	₱165	13%	₱254	10%	₱298	8%
Local	38	3%	118	5%	96	3%
Subtotal	202		372		394	
Discontinuing						
Foreign	1,047	84%	2,100	85%	3,137	89%
Local	-	-	-	-	-	-
Subtotal	1,047		2,100		3,137	
Total	₱1,250	100%	₱2,473	100%	₱3,633	100%

Distribution methods of the products or services

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

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

Status of any publicly- announced new product or service

There is no new product or service introduced in 2012.

Competition

BPO remains to be a strong industry in the Philippines fueled mostly by customer care, legal and medical transcription, software development, animation and shared services. Over the past years, the dynamic growth for BPO has taken place specifically for offshore call centers which are estimated to account significantly of the total BPO sector.

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

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

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

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

Major Customers

Due to the Company's drive to be a global BPO service provider, the Company ventured into different kinds of BPO services and obtained a wide base of customers.

Related Party Transactions

Transactions between related parties are accounted for at arms-length prices. As of December 31, 2012, major transactions with related parties include the following:

- a. Paxys generated rental income from Stellar related to the provision of facilities. Fees for these services amounted to ₱22.6 million in 2012.
- b. In 2012, Paxys granted cash advances in support of working capital requirements of Simpro Philippines. Net cash advances granted to Simpro Philippines amounted to ₱9.9 million.

Licenses

On January 4, 2008, Stellar was registered with the BOI under the Omnibus Investments Code of 1987 as a pioneer of new information technology export service firm in the field of operation of a call center. As a registered enterprise, the Company is entitled to certain tax and non-tax incentives which include, among others, ITH for four years from August 1, 2008.

On May 12, 2011, Stellar Philippines was registered as an Ecozone Information Technology Enterprise with the Philippine Economic Zone Authority ("PEZA"). Stellar Philippines was granted a four (4)-year income tax holiday commencing on October 1, 2011 and ends on September 30, 2015.

On November 25, 2009, SWA's application to register with BOI of its expanding business processing service in the field of data transcription was approved. The certification entitles SWA to a three year income tax holiday starting December 2009.

On August 31, 2012, Simpro Philippines was registered with PEZA.

Effect of existing or probable governmental regulations on the business

Stellar, Stellar Phils., SWA and Simpro Philippines are required to, among others, export at least 70% of its total services, and secure prior BOI approval before they can invest in, extend loans, or buy bonds, in substantial amount, from any enterprise either in the Philippines or abroad, issue stock convertible into voting stocks, buy their own stocks, expand its capacity (with or without incentives), appoint or replace their general manager, engage in an undertaking other than the preferred project covered by the registration and transfer ownership and/or control of the Company.

Research and Development

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

Environmental Matters

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

Employee and Labor Relations

On a consolidated basis, the Group has 1,705 employees, including regular, project-based and trainees as of December 31, 2012.

Within the ensuing twelve (12) months, on a consolidated basis, the number of employees of the Group is estimated to be 1,655 (including regular, project-based and trainees). There are no employees subject to Collective Bargaining Agreements or employees on strike in the past three (3) years.

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

Additional Requirements as to Certain Issues or Issuers

Debt Issues

The Company's net worth exceeds ₱25 million. There are no unsecured bonds to be issued.

Item 2. Properties

The Company's consolidated assets consist of computer equipment, communication equipment, leasehold improvements, office furniture, fixtures and equipment, transportation equipment and software pool. No property and equipment were pledged as collateral in 2012.

The Company has no plans to acquire real property (by purchase or a new lease) in the next twelve (12) months.

The existing leases of ScopeWorks Asia (a wholly-owned subsidiary of Paxys) at Citibank and LISP Cabuyao, which will expire in 2013, are likely to be renewed.

Below is the list of leased properties and the conditions thereof as of December 31, 2012:

PAXYS' Location	Expiration of Lease	Term of Renewal
15 th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City	April 30, 2016	Annual

SWA's Location	Expiration of Lease	Term of Renewal
18 th Floor Citibank Center, 8741 Paseo de Roxas, Salcedo Village, Makati City	November 30, 2013	Option of both parties
Building No.1, Diode St., Light Industry & Science Park (LISP), Bo.Diezmo, Cabuyao Laguna	December 31, 2013	Option of both parties

Stellar's Location	Expiration of Lease	Term of Renewal
22nd/23rd/24th MDC 100 Bldg E. Rodriguez (C-5 Road) corner Eastwood Ave, Bagumbayan Quezon City	September 23, 2016	Option of both parties

Item 3. Legal Proceedings

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

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

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

PART II – SECURITIES OF THE REGISTRANT

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

Market Information

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

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

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

	Closing Prices	
	High	Low
2012		
4 th quarter	3.37	2.73
3 rd quarter	3.27	2.64
2 nd quarter	3.01	2.45
1 st quarter	3.21	1.36
2011		
4 th quarter	1.36	1.34
3 rd quarter	1.25	1.13
2 nd quarter	1.59	1.51
1 st quarter	1.78	1.71

Price information as of latest practicable trading date:

As of April 29, 2013, Paxys shares traded on the Philippine Stock Exchange at the price of ₱2.90 per share.

Holders

The number of stockholders of record as of December 31, 2012 in the Company's stock and transfer book was 723. The common shares issued as of December 31, 2012 were 1,148,534,866. The list of the top 20 stockholders of Paxys common shares as of December 31, 2012 is stated hereunder:

Name	No. of Shares Held	% To Total
All Asia Customer Service Holdings Ltd.	841,125,384 ¹	73.23
PCD Nominee Corporation	300,210,471	26.14
Yan, Lucio W. Yan &/or Clara Y.	5,088,000	0.44
Kho, Jimmy Jao	300,000	0.03
Chua, Carmen	216,276	0.02
Granados, Juan P.	158,112	0.01
Yao Shiong Shio	95,184	0.01
Kaw Sek & Co.	86,088	0.01
Co, Daniel Y.	85,968	0.01
Lim, Ghee Keong	81,800	0.01

¹ This includes 95,612,400 shares of ACSH Ltd held by S. J. Roxas & Co., Inc.

Name	No. of Shares Held	% To Total
Paredes, Antonio	79,728	0.01
Urrutia, Kevin	75,000	0.01
Willis, Hugh Warren	63,111	0.01
Jalandoni, Rodegelio M.	62,052	0.01
Celis, Angela	55,776	0.00
Martinez, Emilio G.	55,236	0.00
Santiago, Eduardo A.	37,920	0.00
Tangco, Francisco F.	37,896	0.00
Co, Victor C.	31,536	0.00
Asiamerit Securities, Inc.	24,000	0.00
Total	1,147,969,538	99.95%

Dividends

There were no dividends declared to public for the last three (3) years. As of year-end 2012, there are no restrictions imposed on the Company on the declaration of cash or property dividends. There are no recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

Description of Registrant's Securities

Common Stock

Common share with par value of ₱1.00 is the only class of shares of Paxys. As of December 31, 2012, total issued and outstanding shares of the Company amounted to 1,148,534,866 shares. Total authorized capital shares of stock are 1.8 billion shares.

Debt Securities

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

Stock Options

On June 2, 2005 and May 27, 2005, the BOD and the stockholders of the Company, respectively, approved the EEP available to the executives and key employees ("Employees" or "Recipient" or "Participant") of the Company. The Plan is being managed by a committee appointed by the Company's BOD. Recipients will be determined on the basis of their service years rendered, position/role in the Company and performance. The committee, in its sole discretion, shall determine the number and other parameters of options granted to eligible employees. The maximum number of shares that may be issued under the EEP is 50 million shares (from authorized but unissued, reacquired, or both or acquired from a third party). The Plan shall terminate on the 10th anniversary after the effective date on May 1, 2005. The employees may not claim any eligibility or other legal rights for future grants or other benefits after the Company terminates the EEP. Vested stock options may be exercised at any time, up to a maximum of four years from the date of grant, depending on the program type. The Committee has the authority to grant options with a shorter duration than four years. All unexercised stock options after this period are considered forfeited. On June 1, 2006, the Plan was approved by the SEC. There were no stock options granted in 2012, 2011 and 2010.

Securities Subject to Redemption or Call

There are no securities subject to redemption or call.

PART III - FINANCIAL INFORMATION

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Year Ended December 31, 2012 Compared with Year Ended December 31, 2011

The following discussion should be read in conjunction with the accompanying audited consolidated financial statements and notes (presented as Exhibit "C") thereto and is qualified in its entirety by reference thereto.

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

For the full year ended 31 December	2012	2011 (As restated)	Y12 vs Y11
Profit & Loss Data:			
<u>Continuing Operations</u>			
Service Income	₱202,375	₱425,633	(52%)
Gross Profit	(24,958)	28,584	(187%)
EBITDA ²	(69,984)	(116,298)	40%
Loss from operations*	(123,782)	(173,869)	29%
Net Income attributable to equity holders	(75,867)	(170,027)	55%
<u>Discontinuing Operations</u>			
Net Income attributable to equity holders	2,448,135	298,505	720%

*The Company's 50% share in net earnings of Stellar, ACS Dalian and Simpro, which are joint ventures, is presented in one line item as Equity in Net Earnings of Joint Ventures and included under Loss from Operations above. The 2011 results of operations is restated to be comparative versus 2012.

As a result of the change in accounting treatment of Investment in Joint Ventures, the consolidated comparative Service income includes revenue from data transcription of SWA; call center revenue of PGS; rental revenue of Paxys and sales of software/hardware and IT services of URSI. Revenue and net results of joint ventures are excluded and presented as one line item below the operating line.

Service income from continuing operations has decreased by 52% or ₱223 million due mainly to SWA's decline in business of its data transcription business, pre-termination of the Company's sub-lease of office premises to a joint venture and divestment of its software and IT-consulting development business segment in the third quarter of 2011.

Gross revenue from data transcription business decreased by 37% or ₱89 million from ₱242 million in 2011 to ₱153 million in 2012 due to reduction in volume requirement of the client.

The sublease agreement between Paxys and Stellar was pre-terminated in April 2012. This resulted to a reduction in revenue by 81% or ₱97 million from ₱120 million in 2011 to ₱23 million in 2012.

² EBITDA is defined as Earnings Before Interest, Income Taxes, Depreciation and Amortization.

In 2011, consolidated service income includes IT-consulting and software development revenue from GIC amounting to ₱34 million. GIC was sold in August 2011.

Gross profit margin is down to negative 12% in 2012 from positive 7% in 2011. This is mainly due to decline in revenue net of increase in cost of sales margin from 93% in 2011 to 112% in 2012.

Cost of Sales

Direct costs declined by ₱170 million or 75% from ₱397 million in 2011 to ₱227 million in 2012. However, direct costs margin increased to 112% in 2012 versus 93% in 2011. The main cause of decline in direct costs is personnel costs by ₱86 million; premises costs by ₱59 million; licenses by ₱8 million; communication expenses by ₱4 million and other expenses by ₱9 million.

Personnel costs declined due to decline in manpower requirement as volume declined in SWA and PGS. Premises costs declined due to pre-termination of lease in Araneta facilities in April 2012. Licenses costs decreased due to sale of GIC in August 2011. Other expenses decreased mainly due to lower professional fees, lesser travels and representation and repairs and maintenance.

Operating Expenses

Operating expenses decreased by ₱30 million or 11% from ₱266 million in 2011 to ₱236 million. However, Opex margin increased to 116% in 2012 versus 62% in 2011. Opex mainly decreased due to net impairment in GIC and WNS amounting to ₱15 million, termination of lease of one office site of SWA causing the decline in premises costs by ₱5 million, and decrease in personnel costs due to restructuring that occurred during mid-year of 2011.

EBITDA margin drops to negative 35% in 2012 from negative 27% in 2011 despite improvement in EBITDA by ₱46 million from negative ₱116 million in 2011 to negative ₱70 million in 2012. Improvements in direct costs and Opex and favorable foreign exchange gains net of share in net loss on joint ventures are lower than the drop in revenue versus prior year.

Net loss is lower in 2012 due to lower direct costs and Opex and ₱191 million gain on foreign exchange for cash and cash equivalents.

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

Scopeworks Asia, Inc.

The following table shows key performance indicators of Scopeworks:

(In Php Thousands)

For the full year ended 31 December	2012	2011	Y12 vs Y11
Profit & Loss Data:			
Service Income	₱153,295	₱242,174	(37%)
Gross Profit	3,216	15,300	(79%)
EBITDA	(27,324)	(24,615)	(11%)
Income from operations	(42,530)	(41,210)	(3%)
Net Income	(42,133)	(47,227)	11%

Decline in revenue resulted from lower billable hours mainly from SWA's main program. Volume requirement by the client was cut almost half versus 2011. Gross profit margin declined by 4 points from 6% in 2011 to 2% in 2012. Direct costs was managed to reduce personnel costs and premises costs versus 2011 by 40% and 23%, respectively. In Q1 2012, SWA did not renew the lease of one floor of its Makati site.

Opex margin increased by 9 points from 25% in 2011 to 34% in 2012 though declined in amount by ₱8 million. The main cause of the decline is the decrease in personnel costs as SWA implemented a restructuring during the mid-year of 2011.

For comparative management reporting of 2012 and 2011, SWA recognized allocated costs from its affiliate, PGS, representing its share in management and overhead costs.

Stellar Global Solutions Philippines, Inc and Subsidiary

The following table shows key performance indicators of Stellar at 100%:

(In Php Thousands)

For the full year ended 31 December	2012	2011	Y12 vs Y11
Profit & Loss Data:			
Service Income	₱664,878	₱955,003	(30%)
Gross Profit	168,744	261,130	(35%)
EBITDA	8,798	109,414	(92%)
Income from operations	(61,429)	88,316	(170%)
Net Income	(70,597)	88,141	(180%)

Stellar's service income from continuing operations decreased by 30% or ₱290 million due to the following:

- Stellar's revenue from its relay services decreased by about ₱170 million due to decrease in call volume and reduction in billing rate.
- Stellar lost an account in 2012 which posted ₱130 million revenue in 2011.
- The directory assistance segment decreased in revenue by about ₱43 million as call volume trend from these types of accounts decline.

Gross profit margin decreased by 2 points from 27% in 2012 to 25% in 2011. Direct costs decreased by ₱198 million mainly due to decrease in personnel costs and facilities costs. With the reduction in call volume, a number of employees have been reduced. In 2012, Stellar offered a retirement program for the relay service account. The average 2011 headcount is 1,597 while 1,282 in 2012. Stellar migrated the operations in its new site in 4th quarter of 2011, which is completed in the first quarter of 2012. Facilities cost on the older site is higher because it includes complete utilities and other general administration costs.

Opex margin increased by 18 points from 18% in 2011 to 36% in 2012 mainly due to increase in depreciation and amortization. Stellar incurred leasehold improvements costs which drive the depreciation expense to be higher in 2012.

As a result of revenue declining and increase in Opex, EBITDA margin and Net income margin dropped to 1% and negative 11% in 2012 from 11% and 9% in 2011, respectively.

Paxys Global Services, Inc. (PGS)

The following table shows key performance indicators of PGS:

For the full year ended 31 December	2012	2011	Y12 vs Y11
Profit & Loss Data:			
Service Income	₱13,655	₱15,156	(10%)
Gross Profit	1,057	2,718	(61%)
EBITDA	(37,260)	(12,162)	(206%)
Income from operations	(40,044)	(12,767)	(214%)
Net Income	(40,382)	(12,752)	(217%)

Revenue declined due to lower sales volume of SingTel, the outbound voice account of PGS versus 2011. Income from operations and EBITDA are much lower in 2012 versus 2011 due to commission income of PGS from Paxys' associate in 2011 and higher Opex in 2012.

FINANCIAL CONDITION

The following discussion should be read in conjunction with the accompanying audited consolidated *financial statements and notes (presented as Exhibit "C") thereto and is qualified in its entirety by reference thereto.*

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

As of 31 December	2012	2011 (As restated)	Y12 vs Y11
Balance Sheet Data:			
<u>Continuing:</u>			
Total Current Assets	₱4,288,987	₱635,276	575%
Total Noncurrent Assets	141,248	238,265	(41%)
Total Assets	4,430,235	873,541	407%
Total Current Liabilities	108,203	100,113	8%
Total Noncurrent Liabilities	3,867	4,427	(13%)
Total Equity	4,318,165	2,061,417	109%
<u>Discontinuing:</u>			
Assets held for sale	-	3,824,468	(100%)
Liabilities held for sale	-	2,307,761	(100%)
Reserves held for sale	-	224,291	(100%)

*2011 is restated due to change in consolidation process of Investment in joint ventures from proportionate consolidation to equity accounting.

The major changes in the balance sheet items from December 31, 2012 to December 31, 2011 are as follows for continuing operations:

- Proceed from sale of PAU causes the significant net increase in Cash and cash equivalents versus 2011 by 834% or ₱3,482.3 million.
- Trade and other receivables decreased by 38% or ₱52.7 million. Trade accounts decreased by ₱30.0 million or 30% as lower services are coming in from clients. In 2012, additional ₱10.9 million of advances to affiliates and other receivables are provided with allowance for non-collectability.
- Other current assets increased by 276% or ₱222.7 million. Restricted funds are recognized in an escrow account as part of the proceeds from the sale of PAU and ACS in June 2012 and October 2011, respectively. As of December 31, 2012 and 2011, the balance of escrow fund is ₱298.8 million and ₱50.2 million, respectively. The escrow fund from the sale of ACS was collected in January 2012.
- Investment in joint ventures was reduced by ₱45.8 million in 2012, which is the amount of Paxys' 50% share in net loss of joint ventures.
- Property and equipment posted a net decrease of 72% or ₱46.2 million due mainly to depreciation and amortization for the year amounting to ₱49.6 million.
- Accounts payable and other current liabilities has a minimal increase versus 2011 by 5% amounting to ₱4.9 million
- Assets, liabilities and reserves held for sale is reduced to nil in 2012 as the sale of PAU is completed in June 2012.
- Non-controlling interests of negative ₱5.4 million in 2011 pertains to minority interests in URSI. The balance is reduced to nil in 2012 as URSI was sold in October 2012.

LIQUIDITY AND CAPITAL RESOURCES

The following discussion should be read in conjunction with the accompanying audited consolidated financial statements and notes (presented as Exhibit "C") thereto and is qualified in its entirety by reference thereto.

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

(In Thousand Pesos unless otherwise stated)

For the full year ended 31 December	2012	2011 (As restated)	Y12 vs Y11
Net Cash used in Operating Activities	(₱258,752)	(₱1,448,446)	(82%)
Net Cash provided by Investing Activities	3,734,834	78,451	4661%
Net Cash used in Financing Activities	-	(501,456)	100%
Net increase in cash and cash equivalents	3,476,082	(1,871,451)	286%

The significant increase in cash and cash equivalents is due mainly to divestment of PAU. The proceeds from the said divestment amounted to ₱3,739.6 million.

Net cash used in investing activities includes the following:

- a) Proceeds from divestment of Paxys Australia amounting to ₱3,739.6 million;
- b) Acquisition of property and equipment and intangible assets amounting to ₱121.4 million and ₱626 million, respectively.

Net cash used in financing activities in 2011 includes full repayment of short-term bank loan of Paxys amounting to ₱282.4 million

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

Key Performance Indicators (KPIs)

The Company's management uses the following KPIs:

- 1) Net Service Income : Service Income less discounts and allowances
- 2) Gross Profit Margin : Gross profit/ Net Service Income
- 3) EBITDA : Earnings Before Interest, Taxes, Depreciation and Amortization
- 4) EBITDA Margin : EBITDA/ Net Service Income
- 5) Income from Operations : Gross Profit – Operating Expenses
- 6) Net Income Margin : Net Income/ Net 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

The following are the major financial ratios of the Company for the year ended December 31, 2012 and year ended December 31, 2011:

As of and for the full year ended 31 December	2012	2011 As restated	Y12 vs Y11
Financial Ratios:			
Current Ratio	39.64:1	1.85:1	2040%
Debt to Equity Ratio	3:97	51:49	98%
Return on Equity	(1%)	(2%)	(70%)
EBITDA Margin*	(35%)	(27%)	(27%)
Net Income margin*	(37%)	(40%)	6%

*Excludes 2012 and 2011 income from discontinuing operations.

OTHER MATTERS

a. Subsequent event

None.

b. Contingencies

As of December 31, 2012, the Company has no material contingencies.

c. Commitments

There were no material commitments for expansion as of 2012.

- d. There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons during the reporting period.
- e. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Conditions and Results of Operations.
- f. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.
- g. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or an unfavorable impact on net sales or revenue or income from continuing operation.
- h. The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".
- i. The effects of seasonality or cyclicalities on the operations of the Company's business are not material.
- j. There were no material changes in estimates of amounts reported in interim periods of the current year or changes in estimates of amounts reported in prior financial years.

Key Variable and Other Qualitative and Quantitative 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 capital requirements.

Year Ended December 31, 2011 Compared with Year Ended December 31, 2010

The following discussion should be read in conjunction with the previously reported audited consolidated financial statements and notes. Accompanying financial statements (Exhibit C) is restated to reclass net assets and results of operations of Joint Ventures to Investment in Joint Ventures and Equity in Net Earnings/ Losses in Joint Ventures.

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

For the full year ended 31 December	2011	2010	Y11 vs Y10
Profit & Loss Data*:			
Service Income	₱854,768	₱774,707	10%
Gross Profit	158,432	233,648	(32%)
EBITDA ³	(104,426)	(10,293)	(915%)
Income (Loss) from operations	(173,797)	(52,039)	(234%)
Net Income attributable to equity holders	(170,028)	(61,197)	(178%)

*Excludes results of operations of discontinuing operations

RESULTS OF OPERATIONS

Service income from continuing operations improved due to Stellar's new revenue account that commenced in 2011. Despite new revenue stream from rental revenue of the Company and call centre operations of the newly-established PGS, this offsetted the revenue decline from SWA.

The total Costs of services margin in ratio to total revenue increased by 11 points (ppts) against prior year's 70%. Costs of services increased mainly due to rental of new facilities, ramp-up costs for new accounts and increase in premises costs. Increase in costs decreased the gross profit margin by the same rate against prior year.

Versus 2010, Opex margin increased by 6% from 36% in 2010 to 42% in 2011, mainly due to increase in manpower costs, recruitment costs and employee benefits due to ramp-up of Stellar and set-up of shared service, higher depreciation expense due to new site, parent company's full year rental to main office, capital gains taxes on sale of ACS, and increased travel and representation expenses.

EBITDA margin further dropped to negative 12% in 2011 from negative 1% in 2010.

2011 net income margin is down by 12 ppts from previous year's negative 8%. This was largely due to unfavorable variance in Gross Profit and Opex.

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

³ EBITDA is defined as Earnings Before Interest, Income Taxes, Depreciation and Amortization.

Paxys Australia Group

Paxys Australia posted revenue of AU\$47.0 million in 2011 versus last year's AU\$37.5 million. The Group's favorable variance versus prior year mainly came from its vehicle leasing, increased salary packages and increased revenue from fleet business. The acquisition of PBI and AVC business contributed to the increase amounting to AU\$0.80 million and AU\$0.95 million, respectively.

Net income increased by 53% from Php181.3 million to Php298.5 million mainly due to increase in revenue. EBITDA margin increased by 3 pts this year in line with the increase in revenue.

The following table shows key performance indicators of SmartSalary (at P44.32=AU\$1.0):

For the full year ended 31 December	2011	2010	Y11 vs Y10
Profit & Loss Data:			
Service Income	₱2,100,483	₱1,555,266	35%
EBITDA	741,112	502,889	47%
Income from operations	458,248	271,577	69%
Net Income	298,505	181,336	65%

Scopeworks Asia, Inc.

The following table shows key performance indicators of Scopeworks:

(In Php Thousands)

For the full year ended 31 December	2011	2010	Y11 vs Y10
Profit & Loss Data:			
Service Income	₱242,174	₱298,459	(19%)
Gross Profit	15,300	51,277	(70%)
EBITDA	(24,615)	26,503	(193%)
Income from operations	(41,210)	16,910	(344%)
Net Income	(47,227)	8,669	(645%)

Lower billable hours and full-time equivalents (FTEs), together with the unfavorable forex rates posted a decline in 2011 revenue by 19%. The decline in revenue resulted to a 70% decline in gross profit despite of a favorable improvement in the cost of service by 8.2%

Opex went up by 76% due to increase in manpower cost, IT expenses and additional provision for non-recoverability of input tax.

For management reporting in 2011, SWA recognized allocated costs from its affiliate, PGS, representing share in management and overhead costs.

Global Idealogy Corporation

The following table shows key performance indicators of GIC:

(In Php Thousands)

For the 8 months ended 31 August	2011	2010	Y11 vs Y10
Profit & Loss Data:			
Service Income	₱34,113	₱51,524	(34%)
Gross Profit	1,333	4,449	(70%)
EBITDA	(572)	(1,798)	68%
Loss from operations	(7,303)	(11,867)	38%
Net Loss	(7,421)	(10,072)	26%

GIC recognized an improved result versus prior year was due to lower Opex spending as a result of restructuring effected in Q1 2011.

The shares in GIC were sold effective August 31, 2011 in favor of the minority interest.

Stellar Global Solutions Philippines, Inc.

The following is the table showing key performance indicators of Stellar:

(In Php Thousands)

For the full year ended 31 December	2011	2010	Y11 vs Y10
Profit & Loss Data:			
Service Income	₱955,003	₱757,087	26%
Gross Profit	261,130	263,625	(1%)
EBITDA	109,414	203,605	(46%)
Income from operations	88,316	193,228	(54%)
Net Income	88,141	193,365	(54%)

The Company used proportionate consolidation for its share in the joint venture with Stellar. The Group's share on 2011 revenues was ₱477.5 million representing its 50% share in the venture, posting an improvement of 26% from ₱378.5 million in 2010 revenue. The net increase on the 2011 revenue was due to the deployment of a new account which contributes ₱ 113.5million or 24% and was reduced by the decline in other program's revenue.

Gross Profit went down by 1% due to increase in personnel costs and recruitment costs as a result of ramp-up for new account and increase in premise costs due to new site in Eastwood.

Opex likewise increased by 117% due to increase in manpower costs, recruitment, depreciation, travel and representation expense and additional provision for non-recoverability of input vat. The increase in Opex decreases the Net Income and EBITDA by 54% and 46% versus 2010, respectively.

FINANCIAL CONDITION

The following discussion should be read in conjunction with the previously reported audited consolidated financial statements and notes. Accompanying financial statements (Exhibit C) is restated to reclass net assets and results of operations of Joint Ventures to Investment in Joint Ventures and Equity in Net Earnings/ Losses in Joint Ventures.

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

As of 31 December	2011	2010 (As restated)	Y11 vs Y10
Balance Sheet Data:			
<u>Continuing:</u>			
Total Current Assets	₱770,892	₱784,831	(2%)
Total Noncurrent Assets	189,160	221,756	(15%)
Total Assets	960,052	1,006,587	(5%)
Total Current Liabilities	186,764	401,219	(53%)
Total Noncurrent Liabilities	7,115	8,713	(18%)
Total Equity	2,058,588	1,945,873	6%
<u>Discontinuing:</u>			
Assets held for sale	3,824,468	4,290,208	(11%)
Liabilities held for sale	2,307,761	2,717,521	(15%)
Reserves held for sale	224,291	223,468	0.4%

**Excluded Paxys Australia's assets, liabilities and equity as of December 31, 2010.*

The major changes in the balance sheet items from December 31, 2011 to December 31, 2010 are as follows for continuing operations:

- Cash and cash equivalents decreased by 10% or ₱46.5 million due mainly to the additional capex spending of Stellar in 2011.
- Trade and other receivables decreased by 22% or ₱50.0 million due to the loan collection received from WNS Philippines amounting to ₱30.7 million. Trade receivables likewise decreased by ₱12.0 million due to increased collection efforts.
- Advances to related parties went down by ₱0.20 million
- Input tax and other current assets increased by 404% or ₱78.9 million. The increase was due to the reclassification of the ACS escrow fund amounting to ₱50.2 million to current asset as its maturity falls in Jan 2012. Net input VAT increased by ₱22.6 million in 2011 arising from regular purchases during the year.
- The Investment in Associate was reduced to nil from ₱11.6 million in 2010 due to divestments of WNS in September 30, 2011.
- Property and equipment posted a net increase of 11% or ₱16.3 million due to additional capex acquisitions and property dividend received from ACS. Fixed assets amounting to ₱107.6 million were acquired in 2011, which was reduced by depreciation and amortization for the year amounting to ₱60.7 million, net disposal of ₱4.8 million and net decrease of fair value from distribution of property dividend from ACS in September 2011 amounting to ₱26.2 million.

- Goodwill and Other intangible assets reported a net decrease of 78% or P38.8 million. Acquisition of software packages during the year amounted to P8.9 million and was reduced with amortization expense of P8.7 million and impairment of Goodwill of SWA, URSI amounting to P11.1 million. Divestment of GIC resulted to a decreased of P59.7 million in goodwill and software development costs. Other noncurrent assets increased by 37% or P4.8 million mainly due to the security deposits incurred by Stellar for the new site.
- The short-term loan of the Company amounting to P284.9 million was fully paid in 2011.
- Accounts payable and other current liabilities increased by 224% or P69.8 million. Trade payables increased by 45% or P6.8 million; while accrued expense payable went up by 59% or P53.2 million due to increase in accrual of leave benefits, communication costs, provisions for 2011 taxes and due diligence related-expenses.

LIQUIDITY AND CAPITAL RESOURCES

The following discussion should be read in conjunction with the previously reported audited consolidated financial statements and notes. Accompanying financial statements (Exhibit C) is restated to reclass net assets and results of operations of Joint Ventures to Investment in Joint Ventures and Equity in Net Earnings/ Losses in Joint Ventures.

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

(In Thousand Pesos unless otherwise stated)

For the full year ended 31 December	2011	2010	Y11 vs Y10
Net Cash from Operating Activities	(P31,125)	(P35,482)	(12%)
Net Cash from Investing Activities	327,369	(85,056)	485%
Net Cash from Financing Activities	(283,020)	(4,287)	(6501%)

The decrease in net cash provided by operating activities for the period by 12% is attributed to the loss from operating activities registered by the Group.

Net cash used in investing activities includes the following:

- Proceeds from divestment of ACS amounting to P350.7 million;
- Proceeds from divestment of WNS Philippines amounting to P90.9 million;
- Acquisition of new fixed assets of the Group aggregating to P107.6 million;
- Acquisition of softwares and other intangibles amounting to P8.9 million;

Net cash used in financing activities in 2011 includes full repayment of short-term bank loan of the Company amounting to P 282.4 million.

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

Key Performance Indicators (KPIs)

The Company's management uses the following KPIs:

- 1) Net Service Income : Service Income less discounts and allowances
- 2) Gross Profit Margin : Gross profit/ Net Service Income
- 3) EBITDA : Earnings Before Interest, Taxes, Depreciation and Amortization
- 4) EBITDA Margin : EBITDA/ Net Service Income
- 5) Income from Operations : Gross Profit – Operating Expenses
- 6) Net Income Margin : Net Income/ Net 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

The following are the major financial ratios of the Company for the year ended December 31, 2011 and year ended December 31, 2010:

As of and for the full year ended 31 December	2011	2010	Y11 vs Y10
Financial Ratios:			
Current Ratio	4.13:1	1.23:1	236%
Debt to Equity Ratio	9:91	54:46	(96%)
Return on Equity	(2%)	1%	(298%)
EBITDA Margin*	(12%)	(1%)	(1,122%)
Net Income margin*	(20%)	(8%)	(149%)

*Restated excluding 2011 and 2010 PAU operating results

OTHER MATTERS

a. Subsequent event

On March 30, 2012, PNV signed a Share Sale Agreement whereby PNV sold 100% of its equity interest in Paxys Australia to SmartGroup Investments Pty Ltd. The sale includes all of the subsidiaries of Paxys Australia consisting of SmartSalary Pty Ltd, Smartfleet Management Pty Ltd, SeQoya Pty Ltd, PBI Benefit Solutions Pty Ltd and Australian Vehicle Consultants Pty Ltd.

b. Contingencies

As of December 31, 2011, the Company has no material contingencies.

c. Commitments

There were no material commitments for expansion as of 2011.

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

Key Variable and Other Qualitative and Quantitative 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 capital requirements.

Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

The following discussion should be read in conjunction with the previously reported audited consolidated financial statements and notes. Accompanying financial statements (Exhibit C) is restated to reclass net assets and results of operations of Joint Ventures to Investment in Joint Ventures and Equity in Net Earnings/ Losses in Joint Ventures.

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

For the full year ended 31 December	2010	2009	Y10 vs Y09
Profit & Loss Data*:			
Service Income	₱2,329,973	₱2,163,432	8%
Gross Profit	1,244,136	1,089,098	14%
EBITDA ⁴	493,751	573,504	(14%)
Income (Loss) from operations	220,693	357,636	(38%)
Net Income attributable to equity holders	128,295	391,421	(67%)

*Excludes results of operations of discontinuing operations

RESULTS OF OPERATIONS

Revenues from SmartSalary continued to post double-digit growth (30%) compared to year-ago levels, adding up to the contribution of fleet revenue of Smartfleet that started operations in the second quarter of 2010. The effect of appreciation of AUD against PHP (from ₱38 to ₱41) accounted for the 21% increase or ₱127 million. Stellar revenue, likewise increased 18% due to its Australian revenue accounts. The revenue increases of SmartSalary and Stellar was offset by drop in production revenue of Scopeworks (14%) and GIC (18%) due to drop in volume.

Total costs of services margin in ratio to total revenue improved by 3 percentage points (ppts) against prior year's 50%. Decrease in costs increased the gross profit margin by 3 ppts against prior year.

Versus 2009, Opex margin increased by 11% from 34% in 2009 to 45% in 2010, mainly due to increase in manpower costs and employee benefits, higher amortization expense and marketing costs of SmartSalary.

With Opex exceeding the growth in total revenue, consolidated EBITDA declined by 14% from ₱573.5 million to ₱493.7 million. EBITDA is mainly attributed to combined salary packaging and fleet-management business.

2010 net income margin is down by 12 ppts from previous year's 18%. This was largely due to unfavorable variance in operating expenses and SmartSalary's tax refund in 2009.

⁴ EBITDA is defined as Earnings Before Interest, Income Taxes, Depreciation and Amortization.

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

Advanced Contact Solutions, Inc.

As of December 31, 2010, ACS was classified as a disposal group held for sale and as a discontinued operation. The results of ACS as a disposal group are presented below:

For the full year ended 31 December	2010	2009	Y10 vs Y09
Profit & Loss Data:*			
Service Income	₱1,581,871	₱1,469,290	8%
EBITDA	184,856	256,719	(28%)
Loss from operations	(122,397)	(120,815)	(1%)
Net Loss	(373,140)	(146,442)	(11%)

*PRC-related business

SmartSalary Pty Ltd.

SmartSalary posted revenue of AU\$37.6 million in 2010 versus last year's AU\$29.6 million. SmartSalary's favorable variance versus prior year mainly came from its vehicle leasing segment and addition of Smartfleet business to the Group that commenced in March 2010.

SmartSalary's revenue grew 39% versus prior year, or an increase of ₱433.9M, was 11% growth driven by the appreciation of the AUD vs Php from Php38.04=AUD1 in 2009 to Php41.42=AUD1 in 2010, and 27% growth came from vehicle leasing, salary packaging and fleet business.

Net income, however, declined by 9% from ₱198.8 million to ₱181.3 million due to increase in taxes by 194% or ₱154.0 million accounted for by income tax benefit in 2009 amounting to AU\$3 million from a tax refund after resubmitting tax returns on years 2006-2008.

EBITDA increased by 55% this year in line with the increase in revenue. The ratio of revenue from salary packaging and vehicle leasing to consolidated service income in 2010 increased to 67% from 31% in 2009.

The following table shows key performance indicators of SmartSalary (at ₱41.42=AU\$1.0):

For the full year ended 31 December	2010	2009	Y10 vs Y09
Profit & Loss Data:			
Service Income	₱1,555,266	₱1,121,369	39%
EBITDA	502,889	324,928	55%
Income from operations	271,577	150,489	80%
Net Income	181,336	198,779	(9%)

Scopeworks Asia, Inc.

The following table shows key performance indicators of Scopeworks:

(In Php Thousands)

For the full year ended 31 December	2010	2009	Y10 vs Y09
Profit & Loss Data:			
Service Income	₱298,459	₱345,219	(14%)
Gross Profit	51,277	73,962	(31%)
EBITDA	26,503	30,901	(14%)
Income from operations	16,910	24,020	(30%)
Net Income	8,669	23,083	(62%)

SWA revenue decreased by 14% during 2010 due to decreased billable hours and lower full-time equivalents (FTEs) in current year of 696 versus 811 FTEs in 2009.

Though SWA has favorable variance in cost of services by 9.7% due to savings in rental premises and internet charges, gross profit still declined by 31% due to decline in revenues and unfavorable foreign exchange rates in 2010 versus 2009.

The same factors mentioned above impacted the net income unfavorably by 62%.

Global Idealogy Corporation

The following table shows key performance indicators of GIC:

(In Php Thousands)

For the full year ended 31 December	2010	2009	Y10 vs Y09
Profit & Loss Data:			
Service Income	₱71,562	₱87,145	(18%)
Gross Profit	(3,775)	1,893	(299%)
EBITDA	(25,467)	(11,105)	(129%)
Loss from operations	(44,655)	(23,721)	(88%)
Net Loss	(55,381)	(24,197)	(129%)

Decrease in Revenue by 18% and higher Opex of 53% caused the GIC's net loss of ₱55.4 million in 2010. This is inspite of favorable variance in cost of services by 12%. Among its business segments, software development business contributed the least in terms of revenue in 2010.

Stellar Global Solutions Philippines, Inc.

The following is the table showing key performance indicators of Stellar:

(In Php Thousands)

For the full year ended 31 December	2010	2009	Y10 vs Y09
Profit & Loss Data:			
Service Income	₱757,087	₱640,218	18%
Gross Profit	263,625	185,595	42%
EBITDA	203,605	116,401	75%
Income from operations	193,228	109,082	77%
Net Income	193,365	107,848	79%

The Company uses proportionate consolidation for its share in the joint venture with Stellar. Recognized revenues of ₱378.5 million in 2010 representing its 50% share shows an improvement from ₱320.1 million in 2009. Revenues from Australian accounts caused the favorable variance as it is higher by 440% from ₱58.5 million to ₱257.4 million in 2010.

Increase in Revenue has impacted Stellar's Gross Profit, EBITDA, and Net Income favorably.

FINANCIAL CONDITION

The following discussion should be read in conjunction with the previously reported audited consolidated financial statements and notes. Accompanying financial statements (Exhibit C) is restated to reclass net assets and results of operations of Joint Ventures to Investment in Joint Ventures and Equity in Net Earnings/ Losses in Joint Ventures.

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

As of 31 December	2010	2009	Y10 vs Y09
Balance Sheet Data:			
<u>Continuing:</u>			
Total Current Assets	₱ 2,755,095	₱ 3,297,104	(16%)
Total Noncurrent Assets	1,929,124	2,483,600	(22%)
Total Assets	4,684,219	5,780,704	(19%)
Total Current Liabilities	2,246,124	2,696,118	(17%)
Total Noncurrent Liabilities	619,473	759,031	(18%)
Total Equity	2,169,342	2,325,555	(7%)
<u>Discontinuing:</u>			
Total Current Assets	616,446	-	100%
Total Current Liabilities	265,726	-	100%

The major changes in the balance sheet items from December 31, 2009 to December 31, 2010 are as follows for continuing operations:

- Cash and cash equivalents increased by 21% or ₱192.7 million attributed to the favorable cash inflow from operations particularly positive cash inflow of Paxys Australia group and Stellar.

- Cash held for customers decreased by 9% or ₱124.4 million due to efficiencies in processing of claims of salary packaged. ₱18.9 million of which is attributable to the depreciation of Php against AU\$.
- Trade and other receivables decreased by 38% or ₱199.9 million due to reclassification of significant amount of trade and other receivables to assets held for sale. At the level of the Group's trade receivables and other receivables including discontinued operations, it has increased by 13% or ₱69.6 million, mainly due to acquisition of Webfleet business trade debtors.
- Advances to related parties decreased by 58% or ₱69.3 million due to reclassification of ₱5.9 million to assets held for sale and collection of receivables from WNS Philippines, WNS Global UK and Stellar Philippines with a total amount of ₱68.0 million.
- Derivative assets of ₱5.8 million recognized in 2010 came from marked-to-market valuation of the interest rate cap entered into by SmartSalary and forward contracts by SWA.
- Input Tax and other current assets decreased by 89% or ₱308 million. In 2010, the total input VAT of ACS provided with an allowance amounted to ₱123.82 million and its remaining input vat and other current assets ₱124.32 million is classified as Assets held for Sale. Additional allowance for non-recoverability of Input VAT of Stellar and SWA was provided amounting to ₱15.52 million.

Cash amounting to ₱32.5 million that was restricted in 2009 was released to the vendor of SeQoya Pty. Ltd. in 2010 upon finalization of the purchase price of SeQoya.

- Investment in Associate has increased by 165% or ₱7 million due to additional investment of ₱29.75 million and gain on cash flow hedge of ₱4.7 million, net of equity in net losses of WNS amounting to ₱27.2 million.
- Property and equipment decreased by 68% or ₱437.6 million was due to several transactions. Fixed assets amounting to ₱93.9 million were acquired in 2010; however, this was offset by significant decreases such as depreciation and amortization expense for the year of ₱352.4, disposal of ₱13.4 and reclassification of book value of fixed assets of ACS to assets held for sale amounting to ₱182.2 million.
- Goodwill and Other intangible assets has decreased by 4%. Decreases in the account includes amortization of ₱219.2 million and impairment of Goodwill and reclassification to assets held for sale amounting to ₱242.9 million and ₱2.0, respectively. Due to the acquisition of Webfleet business, the Group recognized additional goodwill and intangible assets amounting to ₱290.1 million and external purchases of ₱3.9 million worth of software packages. An upward translation adjustment of ₱107.4 was recognized arising from the depreciation of Peso against AU\$ from ₱41.1 in 2009 to ₱44.6 as of end of 2010.
- Other noncurrent assets decreased by 81% or ₱49.8 million mainly due to reclassification of ACS' rental and security deposits (₱23.2 M) and business tax credit (₱58.7 M) to assets held for sale.
- The decrease in short-term loans by 62% or ₱465.8 million was due to principal repayments of USD loan of ACS amounting to \$6.7 million or ₱300.3 million. The unpaid portion of ACS bank loan amounting to ₱142.5 million was reclassified as Liabilities held for Sale.

- Decrease in Accounts payable and other current liabilities by 7% or ₱124.7 million pertains to trade payables and accrued expenses of ACS reclassified to liabilities held for sale.
- SmartSalary was in tax receivable position in 2009 due to resubmission of prior year tax returns; tax payable position was recorded in 2010.

LIQUIDITY AND CAPITAL RESOURCES

The following discussion should be read in conjunction with the previously reported audited consolidated financial statements and notes. Accompanying financial statements (Exhibit C) is restated to reclass net assets and results of operations of Joint Ventures to Investment in Joint Ventures and Equity in Net Earnings/ Losses in Joint Ventures.

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

(In Thousand Pesos unless otherwise stated)

For the full year ended 31 December	2010	2009	Y10 vs Y09 % change
Net Cash from Operating Activities	₱769,651	₱1,487,623	(48%)
Net Cash from Investing Activities	(308,247)	(272,467)	13%
Net Cash from Financing Activities	(381,088)	(148,325)	(156%)

The decrease in net cash provided by operating activities for the period by 48% is attributed to the loss from operating activities registered by the Group.

Net cash used in investing activities includes the following:

- a) acquisitions of businesses of Webfleet by Smartfleet in 2010 amounting to ₱210.9 million;
- b) additional investment in WNS Philippines, an associate of ACS amounting to ₱29.8 million;
- c) acquisition of new fixed assets of the Group aggregating to ₱92.6 million;
- d) receipt of claim for income tax refund by SmartSalary amounting to ₱38.7 million;
- e) decrease of advances to related parties (₱69.2 M); proceeds from disposal of fixed assets of ACS (₱5.3 M)
- f) additional post-acquisition consideration of SeQoya amounting to ₱17.7 million.

Net cash used in financing activities in 201- includes payment of bank loans made by ACS and Paxys Australia, net of proceeds of refinanced term loan of Paxys Australia, amounting to an aggregate of ₱384.7 million.

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

The following are the major financial ratios of the Company for the year ended December 31, 2010 and year ended December 31, 2009:

As of and for the full year ended 31 December	2010	2009	Y10 vs Y09 % change
Financial Ratios:			
Current Ratio	1.23:1	1.22:1	1%
Debt to Equity Ratio	54:46	60:40	10%
Return on Equity	1%	10%	(90%)
EBITDA Margin	21%	20%	5%
Net Income margin	6%	7%	(14%)

OTHER MATTERS

a. Subsequent event

On January 31, 2011, Paxys signed an SPA with Alorica for the sale of Paxys' 100% stake in the ACS to Alorica.

b. Contingencies

As of December 2010, the Company has no material contingencies.

c. Commitments

There were no material commitments for expansion as of 2010.

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

Key Variable and Other Qualitative and Quantitative 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 capital requirements.

Item 7. Financial Statements

Financial statements (Exhibit C) are restated from originally reported in 2011 Audited FS. In 2011 and 2010, Joint Ventures are consolidated using proportionate consolidation. The Company adopted the new accounting treatment on Investment in Joint Venture. Investment in Joint Ventures is presented in one line item in the comparative balance sheet and results of operations of joint ventures are presented in one line item in the comparative income statement as Equity in Net Earnings of Joint Ventures.

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

There are no disagreements with Auditors on accounting and financial disclosure.

The consolidated fees billed for the audit of the Company's annual financial statements amounted to ₱1.9 million, ₱6.9 million, and ₱8.5 million in 2012, 2011 and 2010, respectively.

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

The audit fees were approved by the Audit Committee based on the scope of work of external auditors and the complexity of accounting and audit issues identified. There are no professional services rendered by the external auditor for tax accounting, compliance, advice, planning and any other form of tax services for the last two fiscal years.

PART IV. MANAGEMENT AND CERTAIN SECURITY HOLDERS

Item 9. Directors and Executive Officers of the Registrant

Directors, including independent directors and executive officers:

NAME	POSITION	AGE	CITIZENSHIP
Tarcisio M. Medalla	Chairman & President	64	Filipino
Roger Leo A. Cariño	Director/ Treasurer	54	Filipino
Christopher B. Maldia	Director	52	Filipino
Ghee Keong Lim	Director	46	Malaysian
Roberto A. Atendido	Director	66	Filipino
George Y. SyCip	Independent Director	56	American
Jose Antonio Lichauco	Independent Director	54	Filipino
Sivam Kandavanam	Director	54	Malaysian
Mark David P. Martinez	Corporate Secretary/ CIO	32	Filipino
Ana Maria A. Katigbak-Lim	Assistant Corporate Secretary/CIO	44	Filipino

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

Roger Leo A. Cariño has been a Director of the Company since December 30, 2003. He is currently the Company's Treasurer, which he also held from 2004 to 2006 and 2009. He is concurrently a Director of UT Global Services Limited, a privately held investment company with an RHQ in Manila and affiliated with All Asia Customer Services Holdings Ltd. He has been connected with the Group since 1990. He graduated with a BSC degree, major in Accountancy, from Ateneo de Naga University and attended the MBA Program at Murdoch University and the Strategic Business Economics program at the University of Asia and the Pacific. He is a Certified Public Accountant.

Christopher B. Maldia has been a Director of the Company since December 2003. He graduated with a Bachelor of Laws degree from the Ateneo de Manila University. He also has a Master of Laws in International Legal Studies from New York University School of Law. He is a member of the Philippine Bar and the New York Bar.

Ghee Keong Lim was appointed Director of the Company on June 3, 2005. He has more than 20 years of experience in treasury and credit management. Prior to joining the Usaha Tegas Sdn Bhd ("UTSB") Group in 1995, he was attached to General Electric Capital Corporation in the US and the former Ban Hin Lee Bank in Malaysia. He is currently the Chief Financial Officer of UTSB and serves on the Boards of several other companies in which UTSB Group has interests such as Astro Malaysia Holdings Berhad (listed on Bursa Malaysia Securities Berhad) in which he is an alternate director, Bumi Armada Berhad (listed on Bursa Malaysia Securities Berhad) and Bond Pricing Agency Malaysia Sdn Bhd, a bond pricing agency registered with the Securities Commission Malaysia. He is also a director of Yu Cai Foundation. He holds a Bachelor of Business Administration degree, majoring in Finance, from the University of Hawaii at Manoa, US.

Roberto A. Atendido has been a Director of the Company since October 1, 2004. He is currently the President/Director of Asian Alliance Investment Corp. and Asian Alliance Holdings and Development Corp. He is currently an advisor to the board of Philippine Business Bank. He is a member of the board of the following companies: Beneficial Life Insurance Corporation, Picop Resources Corporation, MarcVentures Holdings, Sinag Energy Philippines, and Carac-An Development Corporation. He holds a Masters Degree in Business Management from the Asian Institute of Management.

George Y. SyCip has been a Director of the Company since October 1, 2004. He advises a variety of companies in their cross-border endeavors between the US/Europe and Asia and serves on the corporate Boards of Alliance Tuna International, Inc., Asian Alliance Investment Corp., Bank of the Orient in San Francisco, Beneficial Life Insurance Company and MacroAsia Corporation. He is also a Trustee or Director of the International Institute for Rural Reconstruction, Give2Asia, and the California Southeast Asia Business Council. He holds a Masters Degree in Business Administration from Harvard Business School and a Bachelors degree in International Relations/Economics from Stanford University.

Jose Antonio A. Lichauco is concurrently a Director of Asian Alliance Investment Corp., specializing in Investment Banking and Corporate Finance. He is also concurrently a Director of Automated Technology (Philippines), Inc. where he was previously Senior Vice-President and Chief Financial Officer. He also held positions at Insular Investment and Trust Corporation and at SGV & Co. He obtained his Masters Degree in Business Administration from Columbia University in New York, USA in 1989.

Sivam Kandavanam is concurrently a Director of Astro Holdings Sdn Bhd and MAI Sdn Berhad and Measat Global Networks Sdn Bhd. He is an associate of the Institute of Chartered Accountants in England and Wales, and a Chartered Accountant of Malaysian Institute of Accountants and has over 25 years working experience in financial services. He is currently the Chief Financial Officer – Private Assets & Trusts of Usaha Tegas Sdn Bhd. He is also the Treasurer of Malaysian Community & Education Foundation. Prior to joining Usaha Tegas, he was attached to Maika Holdings Berhad and KTM Distribution Sdn Bhd.

Mark David P. Martinez joined the Company in October 2009 and was elected as director in August 2012. He is concurrently the Company's Corporate Counsel, Corporate Secretary and Corporate Information Officer. Prior to joining the Company, he worked as an associate attorney at Angara Abello Concepcion Regala & Cruz (ACCRALAW) for three (3) years. Mark is a member of the Philippine Bar and a Certified Public Accountant. He obtained his Bachelor of Laws degree from the San Beda College of Law, Mendiola, Manila in 2006.

Key Employees

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

Significant employees of PGS ROHQ as of December 31, 2012:

Paulino M. Servado, Jr. – Chief Financial Officer, 56, joined the Company in July 2010. In the last 30 years, he has worked in FMCG, Healthcare, Fast Food, Consumer Battery and Professional Consultancy businesses spanning Asia, Eastern Europe, Africa, South Asia and the Middle East. For over two (2) decades, he worked with the Gillette Company in various senior roles in Finance & IT, Business Development and Management in the United Kingdom, Poland, Czech Republic, India, Dubai, Indonesia, and the Philippines. For a two (2) year stint, Bambi handled the Renal business of Baxter International in the Philippines. Prior to joining the Company, he was the Senior Vice-President and Chief Financial Officer of The Ramcar Group of Companies. He started his career at SGV/EY as an Auditor. Bambi is a Certified Public Accountant (CPA), MBE (candidate) of the University of Asia & the Pacific, and was a Magna Cum Laude/Ten Outstanding graduate of the University of San Carlos.

Gina B. Santos – Chief Audit Executive, 46. Prior to joining the Company, she was Chief Audit Executive of Aboitiz Transport Systems Corp. and has also worked for Duty Free Phils. Gina is a Certified Public Accountant (CPA) and a Certified Information Systems Auditor (CISA). She was President of Information Systems Audit and Control Association (ISACA), Philippine Chapter in 2006-2007 and has been a Board member of the Institute of Internal Auditors since 2010 and is currently its Corporate Secretary. She has over 23 years of experience in various fields of internal audit.

Key employees of Stellar Global Solutions Philippines, Inc. as of December 31, 2012:

Name	Position
Edmundo Miguel D. Macaso	Chief Executive Officer/ President
Pablito O. Lim	Chief Financial Officer
Venetia Sarmiento	Vice President – Human Resources/ Operations
Cornelio Rigolo Waje	Vice President – Information Technology

Edmundo Miguel D. Macaso, 47, With over 18 years of senior management experience as a member of the Management Committee for various companies and industries, Edmund has work experience in world-class companies in the areas of Project Management, Systems Development & Implementation, IT Operations, Network/Telecommunications and Systems Administration. He was the IT Director of Paxys Inc prior to Stellar.

Pablito O. Lim, 56, Since 1996, Lito has handled the senior executive role in Finance for a number of major companies such as Radio Communications of the Philippines, Inc. (RCPI), Bayan Telecommunications (Bayantel), Philippine Associated Smelting and Refining Corporation (PASAR). He was the CFO of Brightpoint Italy, before he joined Stellar.

Cornelio Rigolo Waje, 48, A highly versatile IT professional with over 20 years of dynamic management career and a consistent record in creating robust IT infrastructure. Reggie was the Assistant Vice President of IT for Access Worldwide Philippines Inc before joining Stellar.

Venetia “Niza” Sarmiento, 52, With over 12 years of work experience in the field of HR and Training; and almost ten years of call center management experience, Niza was the Director for Operations of Teleperformance Australia before joining Stellar.

Family Relationship

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

Involvement in Certain Legal Proceedings

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

Item 10. Executive Compensation

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

Summary Compensation Table

For Executive Officers and Directors of Paxys:

Year	Salary	Bonus and Other Compensation	Per Diem	Stock Options	Total
<i>(in Millions)</i>					
2013 (Estimated)	₱-	₱-	₱1.68	₱-	₱1.68
2012	-	-	1.44	-	1.44
2011	-	-	1.08	-	1.08
2010	-	-	0.64	-	0.64

For Significant Employees of Paxys and its subsidiaries:

Year/ Top Highly Compensated Officers*	Compensation and other benefits	Stock Options	Total
<i>(in Millions)</i>			
2013 (Estimated): Chairman and President Paxys, CEO - Stellar, Chief Audit Executive (CAE), Corp. Secretary, and CFO – Stellar	₱72.5	₱-	₱72.5
2012: Chairman and President Paxys, CFO, CAE, Corp. Secretary and VP-Operations	114.1	-	114.1
2011: Chairman and President Paxys, CFO, CAE, Corp. Secretary and VP-Operations	212.3	5.9	218.2
2010: Chairman and President Paxys, CFO, CAE, Corp. Secretary	163.9	15.0	178.9

*Names of the Top Highly Compensated Officers are shown in Item 9 above.

Paxys A.U. Employee Share Option Plan (ESOP)

Paxys Australia also grants Employee Share Option plan (ESOP) to selected employees to reward and motivate them. The exercise price is determined by the BOD of Paxys Australia at the time of each offer.

During the year ended December 31, 2008, the BOD of Paxys Australia made two separate grants of share options under the ESOP. On January 1, 2008, 1,041,340 share options were granted to 16 employees at exercise price of AU\$1.23 per option. On July 1, 2008, 104,184 share options were granted to five employees at exercise price of AU\$2.02 per option. 838,937 share options were issued during the year ended 31 December 2010 and nil in 2009. No shares were granted in 2011 and 2012.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

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

Warrants and Options Outstanding: Repricing

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

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

As of December 31, 2012 the Company has no knowledge of any individual or any party who beneficially owns in excess of 5% of Paxys common stock except as set forth in the table below:

Title of Class	Name and Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	Number of Shares Held	Percent of Class
Common	All Asia Customer Service Holdings, Ltd. Level 28, Three Pacific Place, 1 Queen's Road East, Hong Kong	Expac Ltd. is the controlling shareholder of ACSH. Expac Ltd. has no other relationship with Paxys. Paxys has no information on the ownership of Expac Ltd.	Hong Kong	841,125,384	73.23%
Common	PCD Nominee Corp. G/F MSE Bldg., 6767 Ayala Ave., Makati City	Beneficial owners are the clients of the PCD participants' brokers. There are no beneficial owners owning more than 5% of the Registrant's capital stock.	Philippines	300,210,471	26.14%
Total				1,141,335,855	99.37%

Ownership Security of Management as of December 31, 2012:

Title of Class	Name of Beneficial Owner	Amount of Beneficial Ownership	Citizenship	Percent of Class
Common	Tarcisio M. Medalla Chairman & President	6,144,560	Filipino	0.53500%
Common	Christopher B. Maldia Director	1,082,800	Filipino	0.0943%
Common	Ghee Keong Lim Director	504,000	Malaysian	0.0439%
Common	Roger Leo A. Carino Director	232,000	Filipino	0.0202%
Common	Roberto A. Atendido Director	216,000	Filipino	0.0188%
Common	George Y. SyCip Independent Director	116,000	American	0.0101%
Common	Jose Antonio Lichauco Independent Director	120	Filipino	0.0000%
Common	Mark David P. Martinez Corporate Secretary/ CIO	-	Filipino	-
Common	Ana Maria A. Katigbak Assistant Corporate Secretary	-	Filipino	0.0000%
	Total	8,295,480		0.7223%

The shareholdings of the above-named directors and officers aggregate to 8,558,800 shares or 0.74519% of the outstanding capital stock of the Company.

As reported in the Public Ownership Report as of December 31, 2012, 299,114,002 common shares are held by public shareholders, which is approximately 26.04% of the total issued and outstanding shares. The Company is compliant with the 10% minimum public ownership rule.

Voting Trust Holder of 5% or more

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

Changes in control

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

Item 12. Certain Relationships and Related Transactions

Except from those mentioned in **Item 1 (viii)**, there has been no transaction during the last two years, nor is any transaction presently proposed, to which the Company was or is to be a party in which any director or executive officer of the Company, or nominee for election as a director, or owner of more than 10% of the Company's voting securities, or voting trust holder of 10% or more of any class of the Company's securities, or any member of the immediate family of any of the foregoing persons had or is to have a direct or indirect material interest. In the ordinary and regular course of business, the Company had or may have transactions with other companies in which some of the foregoing persons may have an interest.

PART V. CORPORATE GOVERNANCE

Compliance with Corporate Governance Practices

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

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

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

PART VI- EXHIBITS AND SCHEDULES

Item 13. Exhibits

- Exhibit A - Report on SEC Form 17-C;
- Exhibit B – Summary of Attendance during Board Meetings for the year 2012
- Exhibit C – Audited Financial Statements

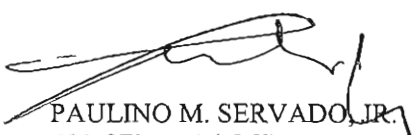
SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned; thereunto duly authorized, in the City of Makati on April 29, 2013.

Issued By:
PAXYS, INC.


TARCISIO M. MEDALLA
President & Chairman of the Board


MARK DAVID P. MARTINEZ
Corporate Secretary


PAULINO M. SERVADO, JR.
Chief Financial Officer

MAKATI CITY

SUBSCRIBED AND SWORN to before me this APR 29 day of 2013 2013 affiant(s)
exhibiting to me his/their Passport Nos., as follows:

NAMES	PASSPORT No.	VALID UNTIL	PLACE OF ISSUE
Tarcisio M. Medalla	XX4215737	July 22, 2014	Manila, Philippines
Paulino M. Servado, Jr.	XX2507252	November 14, 2013	Manila, Philippines
Mark David P. Martinez	XX4823748	October 22, 2014	Manila, Philippines

NOTARY PUBLIC
Doc. No. 361
Page No. 74
Book No. 183
Series of 2013.

ATTY. VIRGILIO R. BATAILIA
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-35
UNTIL DECEMBER 31, 2014
ROLL OF ATTORNEY 48348
MCLE COMPLIANCE NO. III - 21854
IBF NO. 703762 - LIFETIME MEMBER
PTR NO. 366 - 4329 JAN 2 2013
EXECUTIVE BLDG. CENTER
MAKATI AVE., COR JUPITER ST

Reports on SEC Form 17-C

Date Filed	Items Reported
2 April 2012	Disclosure to PSE dated April 2, 2012, informing PSE the postponement of the annual meeting of stockholders of Paxys, Inc. The deferment was made to allow the Board of Directors and management of Paxys to formulate Paxys' corporate strategy and develop a strategic business plan in light of Paxys NV's divestment of its 100% equity interest in Paxys Australia Pty Ltd.
2 April 2012	This is to inform the Exchange of additional information regarding the sale of Paxys Australia: • Board of Directors passed a resolution on March 30, 2012 to approve the sale of Paxys N.V.'s 100% equity interest in Paxys Australia to SmartGroup. • The sale of Paxys Australia will allow the Company to monetize its investment and provide the Company with greater flexibility to expand its interests in the business process outsourcing industry and other investment opportunities. • The subject of the sale is 15,000,100 ordinary shares of Paxys Australia representing 100% of Paxys N.V.'s equity interests in Paxys Australia. The consideration of the sale is A\$84.9 Million, subject to the fulfillment of closing conditions.
June 8, 2012	This is to inform the Exchange of additional information regarding the sale of Paxys Australia: • The terms of payment are as follows: approximately 87% will be received upon fulfillment of closing and other conditions, while the remainder will be received after a period of 12 to 18 months from closing or earlier, subject to certain conditions being fulfilled and claims for breach of the agreement, if any. The significant closing conditions for the sale include the following: -All approvals for client contracts having change of control provisions have been obtained -Contracts with certain customers are reviewed or extended -There is no material adverse change in the business of Paxys Australia and its subsidiaries -Paxys Australia and its subsidiaries are discharged from external debts. The conditions have been complied with at the time of the letter except for the discharge of external debts which was eventually occurred after within thirty days.

Date Filed	Items Reported
June 7, 2012	The sale of Paxys N.V.'s 100% equity interest in Paxys Australia Pty Ltd to SmartGroup Investments Pty Ltd was completed following the fulfillment of closing conditions stipulated in the Share Sale Agreement dated 30 March 2012. As a result of the completions, Paxys N.V. has received the amount of A\$74.2 Million representing 87% of the purchase price. The remaining 13% amounting to A\$11 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.
June 29, 2012	This is to inform the Exchange of additional information regarding the sale of Paxys Australia: • Paxys N.V., a company based and incorporated in Netherlands Antilles (now Curacao), is a wholly-owned subsidiary of the Company. In turn, Paxys N.V. owns 100% of the share capital of Paxys Australia, an investment holding company based and incorporated in Australia. SmartGroup is a privately-held company incorporated in Australia and a majority of its shares owned by an affiliate of the Company, the Malaysian-based Usaha Tegas Group. The monetization of the Company's investment in Paxys Australia will immediately translate into an increase in the net asset value of the Company by about 103% per share.
July 12, 2012	Paxys Inc. signed a Joint Venture Agreement with Simpro Solutions Inc. Simpro is a business process outsourcing company based in Toronto, Canada which focuses on contact center and back office services. It has operations in Canada, India and Mexico. Paxys and Simpro will each have a 50% interest in the joint venture, which will engage in business process outsourcing activities through a new Philippine company – Simpro Solutions Philippines, Inc.
July 19, 2012	This is to inform the Exchange of additional information regarding the joint venture agreement with Simpro Solutions, Inc: • On July 9, 2012, the Paxys Board passed a resolution delegating to the Chairman and President of Paxys, Mr. Tarcisio M. Medalla, the authority to approve, negotiate and finalize the terms of the joint venture with Simpro, and to sign and execute the joint venture agreement on behalf of Paxys. As of the date of the board meeting, the negotiations for the final terms of the joint venture agreement were still ongoing. The parties reached a definite agreement on the terms of the joint venture on 11 July 2012, which was the same day on which the joint venture agreement was signed and executed by authorized

Date Filed	Items Reported
	representatives of Paxys and Simpro. • Paxys and Simpro will each have 50% stake in the joint venture. Under the terms of the joint venture agreement, Paxys will manage the operations and administration of the joint venture while Simpro will provide business and client development. The joint venture is expected to commence operations by mid-September 2012. Aside from the customary registrations with the Securities and Exchange Commission, Bureau of Internal Revenue, Social Security System and other regulatory offices, there are no other registrations expected for the operation of the joint venture. • Paxys intends to leverage Simpro's presence in Canada for seeking out target clients in the region. Market research confirms potential for growth in select industry segments and distinct client groups with providers, like Paxys, which offer a platform solution customized for clients' needs. There are synergies for both parties in the Canadian and Asian markets. Paxys will invest into the joint venture over the next 4-6 months for projects that fit the target growth profile. We are pleased to be able to leverage our flexible infrastructure in the Philippines while in the process creating a platform of opportunity for job creation in the Philippines. • The parties' initial investment in the joint venture is approximately US\$500,000, with each party investing US\$250,000 for a 50% stake in the joint venture. The initial investment is intended to support the joint venture's operations up to the end of 2012. The Philippine company would be registered with SEC under the name of Simpro Solutions Philippines, Inc. The parties' profit sharing will be based on their respective shares in the joint venture, which is 50% for each party. • Simpro is a Canadian BPO Company engaged in contact center and back office outsourcing activities. Simpro is part of the Sigma Group of Companies, a privately- held global IT product and services company headquartered in Toronto, Canada. • Prior to the execution of the joint venture agreement, there has been no material relationship between Paxys and Simpro. • Paxys initial investment of US\$250,000 represents only about 0.2% of Paxys' stockholders' equity base of approximately Php4.5 Billion as of June 30, 2012. Hence, in terms of materiality, the joint venture will not have a significant impact on the financial position and operating results of Paxys for this year.
September 3, 2012	The letter is to advise PSE the directors and officers elected during the Annual Stockholders' Meeting and Organizational Board Meeting held on August 31, 2012. DIRECTORS: 1. Tarcisio M. Medalla 2. Roger Leo A. Cariño 3. Christopher B. Maldia 4. Lim Ghee Keong 5. Roberto A. Atendido 6. Jose Antonio A. Lichauco (Independent Director)

Date Filed	Items Reported
	7. George Y. SyCip (Independent Director) 8. Sivam Kandavanam 9. Mark David P. Martinez OFFICERS: Chairman and President: Tarcisio M. Medalla Treasurer: Roger Leo A. Cariño Corporate Secretary/CIO/ Compliance Officer: Mark David P. Martinez Asst. Corporate Secretary/ Asst. CIO: Ana Maria A. Katigbak-Lim MEMBERS OF THE COMMITTEES: <u>Executive Committee</u> 1. Tarcisio M. Medalla 2. Lim Ghee Keong 3. Roger Leo A. Cariño 4. Roberto A. Atendido 5. Sivam Kandavanam <u>Audit and Risk Management Committee</u> 1. Jose Antonio A. Lichauco (Independent Director) 2. George Y. SyCip (Independent Director) 3. Roberto A. Atendido 4. Roger Leo A. Cariño <u>Compensation Committee</u> 1. Tarcisio M. Medalla, Chairman 2. Roger Leo A. Cariño 3. George Y. SyCip (Independent Director) <u>Nominations and Governance Committee</u> 1. Tarcisio M. Medalla, Chairman 2. George Y. SyCip (Independent Director) 3. Jose Antonio A. Lichauco (Independent Director) 4. Roger Leo A. Cariño (non-voting)
September 14, 2012	The letter is about the formation of the joint venture with Simpro Solutions, Inc. On September 13, 2012, the corporate ownership structure for this joint venture has been completed. The Company that will carry out the BPO business in the Philippines is Simpro Solutions Philippines, Inc. (Simpro Philippines). Simpro Philippines is a wholly-owned by Simpro Solutions Limited (SSL), a limited liability company incorporated in Hong Kong. In turn, SSL is ultimately owned 50/50 by Paxys Inc. and Simpro Solutions, Inc. The maximum amount that has been approved by the Paxys Board for investment in this joint venture is US\$250,000. This is less than 1% of the net worth of Paxys, Inc. Paxys holds its 50% equity in SSL through Paxys Limited, a wholly-

Date Filed	Items Reported
	owned subsidiary incorporated in Hong Kong. Paxys completed the acquisition of the entire share capital of Paxys Limited on September 13, 2012.
October 5, 2012	This letter is to provide the Exchange with a copy of the Report on the Audit Committee Charter and Assessment which was submitted to the Securities and Exchange Commission pursuant to SEC Memorandum Circular No.4, Series of 2012.
November 5, 2012	On October 31, 2012, Paxys Inc. signed a Deed of Absolute Sale of Shares for the transfer of 100% of Paxys' equity interests in Ubaldo-Reidenbach Solutions, Inc. (URSI). The consideration for the sale is Php100,000. Pursuant to the sale, Paxys transferred 43,515 common shares of URSI, representing 63.52% of URSI's total share capital, in favor of Mr. Patrick D. Reidenbach. Mr. Reidenbach is the incumbent President of URSI. Prior to the sale, Mr. Reidenbach owned, together with his relatives, 36.48% of the equity in URSI. As a result of the sale, URSI has ceased from being a subsidiary of Paxys. As of the latest available figures on August 30, 2012, the net book value of Paxys' investment in URSI constitutes less than 1% of Paxys consolidated net assets.
December 6, 2012	The letter is to inform the Exchange that Mr. Paulino "Bambi" Servado, Jr., the Chief Financial Officer of Paxys Inc., would be leaving the Company effective January 3, 2013. He would be a holdover capacity through April 30, 2013 for purposes of completing the company's annual financial reporting and tax requirements.

PAXYS, INC.
SUMMARY OF ATTENDANCE DURING BOARD MEETINGS FOR THE YEAR 2012

Name of Directors	Date of Board Meeting								
	1.18. 2012	2.21. 2012	3.30. 2012	5.14. 2012	7.09. 2012	8.03. 2012	8.31. 2012	11.09. 2012	12.14. 2012
Tarcisio M. Medalla	√	√	√	√	√	√	√	√	√
Roger Leo A. Cariño	√	√	√	√	√	√	√	√	√
Roberto A. Atendido	√	√	√	√	A	√	√	√	√
Christopher B. Maldia	√	√	√	√	√	√	√	√	√
Jose Antonio A. Lichauco	√	√	√	√	√	√	√	√	√
Lim Ghee Keong	A	√	√	√	√	A	√	√	A
Sivam Kandavanam	√	√	√	√	√	√	A	√	√
George Y. SyCip	√	√	√	√	√	√	√	A	√
Mark David P. Martinez	NA	NA	NA	NA	NA	NA	√	√	√

Legend:

√ - Present

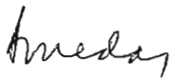
A – Absent**NA** - Resigned

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

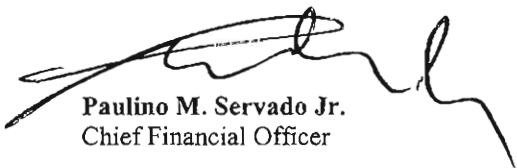
The Management of **Paxys, Inc.** is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with **Philippine Financial Reporting Standards**. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

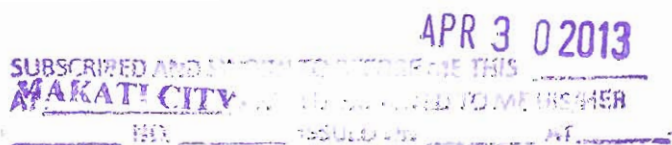


Tarcisio M. Medalla
Chairman of the Board and President



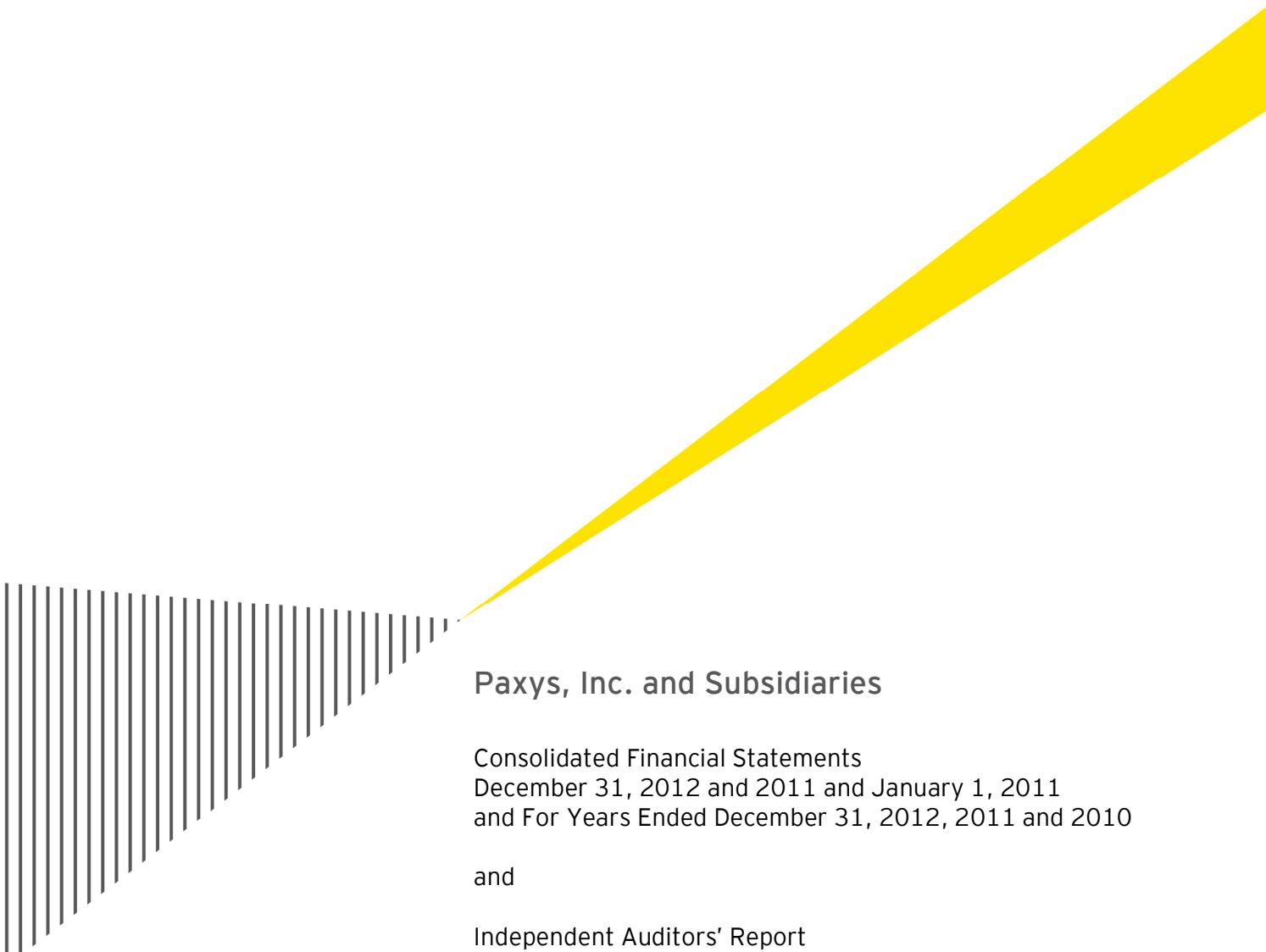
Paulino M. Servado Jr.
Chief Financial Officer

Signed in this 22nd day of March 2013



DOC. NO. 376
PAGE NO. FF
BOOK NO. 183
SERIAL NO. 2012

ATTY. VIRGILIO R. BATAILLA
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. 24-35
UND. SEC. 2071, CIR. 91, 2014
IND. SEC. 2071, CIR. 91, 2014
MCLEB REG. NO. 1, 3, 91-91, 954
IBP NO. 2071-1, 3, 91-91, 954
PTR NO. 2071-1, 3, 91-91, 954
EXECUTIVE BLDG. 2ND FLOOR
MAKATI AVE., COR JUPITER ST.



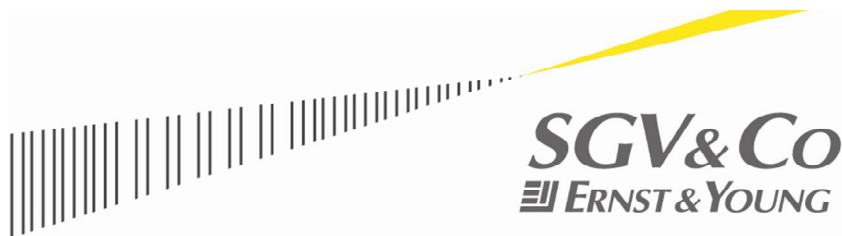
Paxys, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2012 and 2011 and January 1, 2011
and For Years Ended December 31, 2012, 2011 and 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.



SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Paxys, Inc.

We have audited the accompanying consolidated financial statements of Paxys, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and January 1, 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Paxys, Inc. and its subsidiaries as at December 31, 2012 and 2011 and January 1, 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Editha V. Estacio
Partner

CPA Certificate No. 91269

SEC Accreditation No. 1136-A (Group A),

July 6, 2011, valid until July 5, 2014

Tax Identification No. 178-486-845

BIR Accreditation No. 08-001998-94-2011,

February 4, 2011, valid until February 3, 2014

PTR No. 3669679, January 2, 2013, Makati City

March 22, 2013



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

		December 31, 2011 (As restated - Note 2)	January 1, 2011 (As restated - Note 2)
	December 31, 2012		
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 5, 7, 26 and 27)	₱3,900,094	₱417,771	₱1,040,255
Cash held in trust (Notes 7 and 15)	—	—	1,244,391
Trade and other receivables - net (Notes 5, 8, 18, 26 and 27)	84,237	136,902	307,152
Other current assets - net (Notes 9, 26 and 27)	303,298	80,603	23,948
Derivative assets (Notes 26 and 27)	1,358	—	5,779
Assets of disposal group classified as held for sale (Note 5)	—	3,824,468	616,446
Total Current Assets	4,288,987	4,459,744	3,237,971
Noncurrent Assets			
Investments in joint ventures - at equity (Note 10)	105,046	150,814	106,761
Investments in associates - at equity (Note 10)	—	—	11,556
Property and equipment - net (Note 11)	17,616	63,797	194,585
Goodwill and other intangible assets - net (Note 12)	8,170	10,941	1,679,624
Other noncurrent assets (Notes 13, 26 and 27)	10,416	12,713	14,810
Total Noncurrent Assets	141,248	238,265	2,007,336
	₱4,430,235	₱4,698,009	₱5,245,307

LIABILITIES AND EQUITY**Current Liabilities**

Accounts payable and other current liabilities (Notes 5, 15, 18, 26 and 27)	₱97,812	₱92,857	₱1,809,243
Dividends payable (Notes 17, 26 and 27)	6,554	6,554	8,211
Income tax payable (Note 25)	3,837	702	102,091
Short-term loans (Note 14)	—	—	284,960
Liabilities of disposal group classified as held for sale (Note 5)	—	2,307,761	265,726
Total Current Liabilities	108,203	2,407,874	2,470,231

Noncurrent Liabilities

Accrued retirement costs (Note 23)	3,867	4,111	7,103
Derivative liability (Notes 26 and 27)	—	316	22,771
Long-term loans - net of current portion (Note 14)	—	—	546,194
Other noncurrent liabilities	—	—	29,107
Total Noncurrent Liabilities	3,867	4,427	605,175

(Forward)



	December 31, 2012	December 31, 2011 (As restated - Note 2)	January 1, 2011 (As restated - Note 2)
Equity			
Capital stock (Note 17)	₱1,071,773	₱1,071,773	₱1,071,773
Additional paid-in capital (Note 17)	451,364	451,364	492,786
Retained earnings	2,963,402	591,390	462,912
Cumulative translation adjustments	(168,374)	(47,712)	143,818
Reserves of disposal group classified as held for sale (Note 5)	–	224,291	–
Total equity attributable to equity holders of the Parent Company	4,318,165	2,291,106	2,171,289
Non-controlling interests	–	(5,398)	(1,388)
Total Equity	4,318,165	2,285,708	2,169,901
	₱4,430,235	₱4,698,009	₱5,245,307

See accompanying Notes to Consolidated Financial Statements.



PAXYS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in Thousands Except Earnings (Loss) per Share)

	Years Ended December 31		
	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
SERVICE INCOME (Notes 4 and 18)	₱202,375	₱425,633	₱402,124
COSTS OF SERVICES (Notes 11, 12, 19 and 24)	(227,333)	(397,049)	(331,411)
GROSS PROFIT (LOSS)	(24,958)	28,584	70,713
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8, 9, 11, 12, 20 and 24)	(245,017)	(265,986)	(249,104)
INTEREST INCOME (Note 22)	56,667	8,405	3,032
INTEREST EXPENSE (Notes 14 and 22)	(25)	(2,719)	(18,659)
FOREIGN EXCHANGE GAIN (LOSS)	191,185	(677)	20,550
EQUITY IN NET EARNINGS (LOSSES) OF JOINT VENTURES/ASSOCIATE (Note 10)	(45,768)	37,545	61,379
OTHER INCOME - net (Note 22)	776	26,665	10,784
LOSS BEFORE INCOME TAX FROM CONTINUING OPERATIONS	(67,140)	(168,183)	(101,305)
PROVISION FOR INCOME TAX (Note 25)	8,983	6,286	19,643
LOSS AFTER INCOME TAX FROM CONTINUING OPERATIONS	(76,123)	(174,469)	(120,948)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS (Note 5)	2,448,135	298,505	(149,936)
NET INCOME (LOSS)	₱2,372,012	₱124,036	(₱270,884)
Attributable To:			
Equity holders of the Parent Company from:			
Continuing operations	(₱75,867)	(₱170,027)	(₱94,909)
Discontinued operations	2,448,135	298,505	(149,936)
	2,372,268	128,478	(244,845)
Non-controlling interests	(256)	(4,442)	(26,039)
	₱2,372,012	₱124,036	(₱270,884)
EARNINGS (LOSS) PER SHARE (Note 28)			
Basic Earnings (Loss) Per Share			
Loss from continuing operations	(₱0.07)	(₱0.15)	(₱0.08)
Income (loss) from discontinued operations	2.13	0.26	(0.13)
	₱2.06	₱0.11	(₱0.21)
Diluted Earnings (Loss) Per Share			
Loss from continuing operations	(₱0.07)	(₱0.15)	(₱0.08)
Income (loss) from discontinued operations	2.13	0.26	(0.16)
	₱2.06	₱0.11	(₱0.21)

See accompanying Notes to Consolidated Financial Statements.



PAXYS, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Amounts in Thousands)**

	Years Ended December 31		
	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
NET INCOME (LOSS)	₱2,372,012	₱124,036	(₱270,884)
OTHER COMPREHENSIVE INCOME (LOSS)			
Translation adjustments during the year	(120,662)	(16,010)	102,456
Share in net gain from cash flow hedges of an associate	—	—	4,658
	(120,662)	(16,010)	107,114
TOTAL COMPREHENSIVE INCOME (LOSS)	₱2,251,350	₱108,026	(₱163,770)
Attributable To:			
Equity holders of the Parent Company from:			
Continuing operations	(₱196,529)	(₱186,037)	₱12,205
Discontinued operations	2,448,135	298,505	(149,936)
	2,251,606	112,468	(137,731)
Non-controlling interests	(256)	(4,442)	(26,039)
	₱2,251,350	₱108,026	(₱163,770)

See accompanying Notes to Consolidated Financial Statements.

PAXYS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Thousands, Except Par Value)

	Total Equity Attributable to Equity Holders of the Parent Company							Non-controlling Interests	Total Equity
	Capital Stock ₱1 Par Value (Note 17)	Additional Paid-in Capital (Note 17)	Retained Earnings	Other Comprehensive Income Reserve			Total		
				Cumulative Translation Adjustments (As restated - Note 2)	Share in net gains from cash flow hedges	Reserves of Disposal Group Classified as Held for Sale (Note 5)			
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 income (loss) for the year	–	–	2,372,268	(120,662)	–	–	2,251,606	(256)	2,251,350
Discontinued operations (Note 5)	–	–	–	–	–	(224,291)	(224,291)	–	(224,291)
Disposal of a subsidiary (Note 5)	–	–	(256)	–	–	–	(256)	5,654	5,398
At December 31, 2012	₱1,071,773	₱451,364	₱2,963,402	(₱168,374)	₱–	₱–	₱4,318,165	₱–	₱4,318,165
At January 1, 2011, as previously reported	₱1,071,773	₱492,786	₱462,912	₱138,601	₱4,658	₱–	₱2,170,730	(₱1,388)	₱2,169,342
Adoption of PFRS 11(Note 2)	–	–	–	559	–	–	559	–	559
At January 1, 2011, as restated	₱1,071,773	₱492,786	₱462,912	₱139,160	₱4,658	₱–	₱2,171,289	(₱1,388)	₱2,169,901
Total comprehensive income (loss) for the year	–	–	128,478	(16,010)	–	–	112,468	(4,442)	108,026
Share-based payment compensation expense (Note 17)	–	7,349	–	–	–	–	7,349	–	7,349
Discontinued operations (Note 5)	–	(48,771)	–	(175,520)	–	224,291	–	–	–
Disposal of a subsidiary (Note 4)	–	–	–	–	–	–	–	432	432
Disposal of an associate	–	–	–	4,658	(4,658)	–	–	–	–
At December 31, 2011	₱1,071,773	₱451,364	₱591,390	(₱47,712)	₱–	₱224,291	₱2,291,106	(₱5,398)	₱2,285,708
At January 1, 2010, as previously reported	₱1,071,633	₱480,152	₱707,757	₱41,362	₱–	₱–	₱2,300,904	₱24,651	₱2,325,555
Adoption of PFRS 11(Note 2)	–	–	–	(4,658)	–	–	(4,658)	–	(4,658)
At January 1, 2010, as restated	₱1,071,633	₱480,152	₱707,757	₱36,704	₱–	₱–	₱2,296,246	₱24,651	₱2,320,897
Total comprehensive income (loss) for the year	–	–	(244,845)	102,456	4,658	–	(137,731)	(26,039)	(163,770)
Collection of subscription receivable (Note 17)	140	–	–	–	–	–	140	–	140
Share-based payment compensation expense (Note 17)	–	12,634	–	–	–	–	12,634	–	12,634
At December 31, 2010	₱1,071,773	₱492,786	₱462,912	₱139,160	₱4,658	₱–	₱2,171,289	(₱1,388)	₱2,169,901

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss from continuing operations before income tax	(P67,140)	(P168,183)	(P101,305)
Income (loss) from discontinued operations (Note 5)	2,448,135	298,505	(149,936)
	2,380,995	130,322	(251,241)
Adjustments for:			
Loss (gain) on sale of a subsidiaries/associate - net (Notes 5 and 22)	(2,272,692)	(1,697)	–
Unrealized foreign exchange loss (gain) - net	(126,000)	(5,275)	10,735
Interest income (Notes 5 and 22)	(56,667)	(8,405)	(3,032)
Depreciation and amortization (Notes 5, 11, 12, 19 and 20)	53,798	340,435	563,287
Equity in net losses (earnings) of associates (Note 10)	45,768	(37,545)	(61,379)
Unrealized mark-to-market loss (gain)	(1,674)	(27,895)	4,425
Movement in retirement cost (Note 23)	(244)	(66)	(45,046)
Interest expense (Notes 5 and 22)	25	2,719	18,659
Gain on fair value of dividend received (Note 22)	–	(12,383)	–
Impairment loss on goodwill (Notes 6 and 22)	–	11,080	242,870
Equity-based compensation expense (Note 16)	–	7,349	15,394
Loss on disposal of property and equipment	–	–	3,012
Working capital adjustments:			
Decrease (increase) in:			
Net asset of disposal group classified as held for sale	(173,773)	(1,516,707)	–
Other current assets	(223,667)	(81,626)	185,215
Trade and other receivables	49,258	41,615	90,138
Investment in joint ventures	–	(6,508)	65,000
Other noncurrent assets	2,396	5,384	(1,195)
Income tax refund receivable	–	–	38,772
Increase (decrease) in:			
Accounts payable and other current liabilities	12,931	(145,607)	(13,755)
Dividends payable	–	(1,657)	–
Other noncurrent liabilities	–	(133,255)	(7,788)
Net cash provided by (used in) operations	(309,546)	(1,439,722)	854,071
Income taxes paid	(5,848)	(14,410)	(64,248)
Interest received	56,667	8,405	3,032
Interest paid	(25)	(2,719)	(18,659)
Net cash provided by (used in) operating activities	(258,752)	(1,448,446)	774,196

(Forward)



	Years Ended December 31		
	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Divestment of a subsidiary (Note 5)	₱3,739,759	₱350,720	₱–
Sale of an associate (Note 5)	–	90,878	–
Disposal of property and equipment	–	2,862	5,313
Acquisitions of:			
Property and equipment (Note 11)	(3,474)	(50,086)	(85,115)
Intangible assets (Note 12)	(1,451)	(8,975)	(3,879)
Business, net of cash acquired (Note 5)	–	(306,948)	(227,897)
Investments in associates (Note 10)	–	–	(29,750)
Decrease (increase) in:			
Advances to related parties	–	–	69,251
Other noncurrent assets	–	–	(28,694)
Net cash provided by (used in) investing activities	3,734,834	78,451	(300,771)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Long-term loans	–	(216,496)	(690,713)
Short-term loans	–	(284,960)	(434,355)
Proceeds from:			
Short-term loans	–	–	134,055
Long-term loans	–	–	606,343
Collection of subscription receivable (Note 17)	–	–	140
Net cash used in financing activities	–	(501,456)	(384,530)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,476,082	(1,871,451)	88,895
EFFECTS OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	6,241	4,576	(12,536)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	417,771	2,284,646	2,208,287
CASH AND CASH EQUIVALENTS AT END OF YEAR	neq	₱417,771	₱2,284,646

See accompanying Notes to Consolidated Financial Statements.



PAXYS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Paxys, Inc. (Paxys or the “Parent Company”) was incorporated in the Philippines on February 14, 1952. The Parent Company’s corporate life was extended for another fifty (50) years from February 14, 2002. The Parent Company and its subsidiaries (collectively referred to as the “Company”) are primarily involved in investment holding; business process outsourcing, call center business that offers an integrated mix of call center solutions including inbound (customer-initiated) and outbound teleservicing, as well as email and web-based tools transcription, editing and proofreading services. The Parent Company is a publicly listed company and its shares of stock are publicly traded in the Philippine Stock Exchange.

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

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

The accompanying consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors (BOD) on March 22, 2013.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

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.

Changes in Accounting Policies and Disclosures

The Company’s accounting policies are consistent with those of the previous financial year, except for the following amended PFRS which were adopted as of January 1, 2012. The adoption of these standards did not have an impact on the consolidated financial statements.

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)*
- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendments)*



The Company also early adopted in 2012 the following standards which are effective January 1, 2013.

- PFRS 10, *Consolidated Financial Statements* - PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. Adoption of this standard did not have any impact on the consolidated financial statements.
- PFRS 11, *Joint Arrangements* - PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly-Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly-controlled entities that meet the definition of a joint venture must be accounted for using the equity method.

Upon adoption of PFRS 11, the Company's investments in joint ventures primarily accounted for based on the proportionate consolidation were accounted for under the equity method. Consequently, the 2011 and 2010 financial statements were restated as required by PFRS 11. The changes in the accounting for joint ventures are as follows:

Consolidated statements of financial position

	December 31, 2011			December 31, 2010		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
Current Assets						
Cash and cash equivalents	₱442,184	(₱24,413)	₱417,771	₱1,093,049	(₱52,794)	₱1,040,255
Cash held in trust	—	—	—	1,244,391	—	1,244,391
Trade and other receivables - net	230,290	(93,388)	136,902	374,422	(67,270)	307,152
Other current assets - net	98,418	(17,815)	80,603	37,454	(13,506)	23,948
Derivative assets	—	—	—	5,779	—	5,779
Assets of disposal group classified as held for sale	3,824,468	—	3,824,468	616,446	—	616,446
Total Current Assets	4,595,360	(135,616)	4,459,744	3,371,541	(133,570)	3,237,971
Noncurrent Assets						
Investments in joint ventures - at equity	—	150,814	150,814	—	106,761	106,761
Investments in associates - at equity	—	—	—	11,556	—	11,556
Property and equipment - net	160,498	(96,701)	63,797	210,193	(15,608)	194,585
Goodwill and other intangible assets - net	10,941	—	10,941	1,679,624	—	1,679,624
noncurrent assets	17,721	(5,008)	12,713	14,928	(118)	14,810
Total Noncurrent Assets	189,160	49,105	238,265	1,916,301	91,035	2,007,336
Total Assets	₱4,784,520	(₱86,511)	₱4,698,009	₱5,287,842	(₱42,535)	₱5,245,307
Current Liabilities						
Accounts payable and other current liabilities	₱179,314	(₱86,457)	₱92,857	₱1,850,653	(₱41,410)	₱1,809,243
Dividends payable	6,554	—	6,554	8,211	—	8,211
Income tax payable	894	(192)	702	102,300	(209)	102,091
short-term loans	—	—	—	284,960	—	284,960
Liabilities of disposal group classified as held for sale	2,307,761	—	2,307,761	265,726	—	265,726
Total Current Liabilities	2,494,523	(86,649)	2,407,874	2,511,850	(41,619)	2,470,231



	December 31, 2011			December 31, 2010		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
Noncurrent Liabilities						
Accrued retirement costs	₱6,799	(₱2,688)	₱4,111	₱8,578	(₱1,475)	₱7,103
Derivative liability	316	—	316	22,771	—	22,771
Long-term loans - net of current portion	—	—	—	546,194	—	546,194
Other noncurrent liabilities	—	—	—	29,107	—	29,107
Total Noncurrent Liabilities	7,115	(2,688)	4,427	606,650	(1,475)	605,175
Equity						
Capital stock	1,071,773	—	1,071,773	1,071,773	—	1,071,773
Additional paid-in capital	451,364	—	451,364	492,786	—	492,786
Retained earnings	591,390	—	591,390	462,912	—	462,912
Other comprehensive income reserve	(50,538)	2,826	(47,712)	143,259	559	143,818
Reserves of disposal group classified as held for sale	224,291	—	224,291	—	—	—
Total equity attributable to equity holders of the Parent Company	2,288,280	2,826	2,291,106	2,170,730	559	2,171,289
Non-controlling interests	(5,398)	—	(5,398)	(1,388)	—	(1,388)
Total Equity	2,282,882	2,826	2,285,708	2,169,342	559	2,169,901
	₱4,784,520	(₱86,511)	₱4,698,009	₱5,287,842	(₱42,535)	₱5,245,307

Consolidated statements of comprehensive income

	For the Years Ended December 31					
	2011			2010		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
Service income	₱854,768	(₱429,135)	₱425,633	₱774,707	(₱372,583)	₱402,124
Cost of services	(696,336)	299,287	(397,049)	(541,059)	209,648	(331,411)
Gross profit (loss)	158,432	(129,848)	28,584	233,648	(162,935)	70,713
General and administrative expenses	(360,655)	94,669	(265,986)	(293,812)	44,708	(249,104)
Interest income	8,767	(362)	8,405	3,398	(366)	3,032
Interest expense	(2,953)	234	(2,719)	(18,670)	11	(18,659)
Foreign exchange gain (loss) - net	(3,117)	2,440	(677)	21,038	(488)	20,550
Equity in net loss of associates and joint venture	—	37,545	37,545	(27,210)	88,589	61,379
Gain on sale of subsidiaries	—	1,697	1,697	—	—	—
Other income (expense) - net	31,544	(6,576)	24,968	14,296	(3,512)	10,784
Loss before income tax from continuing operations	(167,982)	(201)	(168,183)	(67,312)	(33,993)	(101,305)
Provision for income tax	6,487	(201)	6,286	19,924	(281)	19,643
Income (loss) after income tax from continuing operations	(174,469)	—	(174,469)	(87,236)	(33,712)	(120,948)
Income (loss) after income tax from discontinued operations	298,505	—	298,505	(183,648)	33,712	(149,936)
Net income (loss)	₱124,036	₱—	₱124,036	(₱270,884)	₱—	(₱270,884)

- 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 additional disclosures required by PFRS 12 are presented in Note 10 to the consolidated financial statements.



- 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 impact on the consolidated financial statements.
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011) - As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The impact of the application of the equity method to joint venture is discussed in the table above.

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended standards and interpretations to have significant impact on its consolidated financial statements.

- 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 to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013.

- 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. The standard becomes effective for annual periods beginning on or after January 1, 2013.



- PAS 1 (Amendments), *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (OCI)* - The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.
- PAS 19, *Employee Benefits* (Revised) - Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Company has to apply the amendments retroactively to the earliest period presented.

The Company reviewed its existing employee benefits and obtained the services of an external actuary to compute the impact to the consolidated financial statements upon adoption of the standard. The effects are detailed below:

	Increase (Decrease)	
	As at 31 December 2012	As at 1 January 2012
	<i>(In Thousands)</i>	
<u>Consolidated financial position</u>		
Accrued retirement costs	₱4,556	₱4,557
Other comprehensive income	51	—
Retained earnings	(4,505)	(4,557)
	For the years ended December 31	
	2012	2011
	<i>(In Thousands)</i>	
<u>Consolidated statements of comprehensive income</u>		
Accrued retirement costs	(₱52)	(₱53)
Profit for the year	52	53
Other comprehensive income	51	—

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* - This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after January 1, 2013.
- PAS 32, *Financial Instruments Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments) - The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.



- PFRS 9, *Financial Instruments* - PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss (FVPL). All equity financial assets are measured at fair value either through (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge and accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. PFRS 9 effective for annual periods beginning on or after January 1, 2015.

The Company decided not to early adopt PFRS 9 for the 2012 reporting ahead of its effective date on January 1, 2015. The adoption of the first phase will have an impact on the classification and measurement of financial assets but will potentially have no impact on classification and measurement of financial liabilities. Based on initial evaluation, loans and receivables (which include cash and cash equivalents, trade and other receivables and advances to related parties) which are carried at amortized cost will continue to be carried at their amortized cost, thus, will not be significantly affected. For financial assets at FVPL, the Company is still in the process of evaluating the full impact of the adoption of PFRS 9 on the consolidated financial statements upon adoption in 2015.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate* - This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted. The Company expects that the amendments will not have any impact on its financial position or performance upon adoption.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs* - The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance



with PAS 23, *Borrowing Costs*. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information* - The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required.
- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment* - The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise.
- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity instruments* - The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.
- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities* - The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment.

Basis of Consolidation

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

Subsidiaries	Place of Incorporation	Principal Activity	Percentage of Ownership			
			2012		2011	
			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	Headquarters	100.0%	–	100.0%	–
Paxys Global Services Pte Ltd (PGSPL) formerly Global Ideology Pte Ltd)	Singapore	Regional marketing office	100.0%	–	100.0%	–

(Forward)



Subsidiaries	Place of Incorporation	Principal Activity	Percentage of Ownership			
			2012		2011	
			Direct	Indirect	Direct	Indirect
Paxys Global Services ROHQ (PGS ROHQ)	Philippines	Regional headquarters	–	100.0%	–	100.0%
Paxys Ltd. ^(a)	Hongkong	Holding office	100.0%	–	–	–
Simpro Solutions Ltd.	Hongkong	Call center	–	50%	–	–
Simpro Solutions Philippines, Inc. (Simpro Phils)	Philippines	Call center	–	50%	–	–
Ubaldo Reidenbach Solutions, Inc. (URSI) ^(b)	Philippines	Information Technology (IT), software development, licensing and consultancy	–	–	63.5%	–
Paxys Australia Pty Ltd (Paxys A.U.) ^(c)	Sydney, Australia	Investment holding	–	–	–	100.0%
SmartSalary Pty Ltd (SmartSalary) ^(c)	Sydney, Australia	Salary packaging	–	–	–	100.0%
SeQoya Pty Ltd (SeQoya) ^(c)	New South Wales, Australia	Salary packaging	–	–	–	100.0%
SmartFleet Management Pty Ltd (SmartFleet) ^(c)	Sydney, Australia	Fleet management	–	–	–	100.0%
PBI Benefit Solutions Pty Ltd (PBI) ^(c)	Sydney, Australia	Salary packaging	–	–	–	100.0%
Australian Vehicle Consultants Pty Ltd (AVC) ^(c)	Melbourne, Australia	Fleet management	–	–	–	100.0%

^(a) Acquired in September 2012.

^(b) Sold in October 2012 (see Note 5).

^(c) Directly owned by Paxys N.V. Classified as disposal group held for sale as at December 31, 2011 (see Note 5)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent 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 period 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.

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;



- f. Recognizes any surplus or deficit in statement of income; and
- g. Reclassifies the Parent Company share of components previously recognized in other comprehensive income to statement of profit or loss or retained earnings, as appropriate.

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

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in “General and administrative expenses” account in the consolidated statement of income.

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

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



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

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

Non-controlling Interest

Non-controlling interest represents the portion of profit or loss and the net assets not held by the Parent Company and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from total equity attributable to owners of the Parent Company.

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

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

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

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



retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

Interests in Joint 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. In 2012, 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.

Investments in Associates

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

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

Unrealized gains and losses resulting from transactions between the Company and the associates are eliminated to the extent of the interest in the associates against the respective investment account.

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

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

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in consolidated statement of income.



Where the reporting period of the associate is different from that of the Company and the difference is more than three months, for purposes of applying the equity method, the Company uses the financial statements of the associate as at and for the year ended December 31 where necessary adjustments are made to bring the accounting policies in line with those of the Company.

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, Advanced Contact Solutions, Inc. (ACS), SWA, URSI and PGS 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\$). The functional currency of Paxys A.U., is Australian Dollar (AU\$).

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.

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.

Cash Held in Trust

Funds received from customers which shall be used to pay salary package benefits with maturity of three months or less are included under cash held in trust. The Company recognized a corresponding liability for all funds received and recorded as part of "Accounts payable and other current liabilities" in the consolidated statement of financial position. Interest earned from these funds accrues to the benefit of the Company and is included in the consolidated statement of income.

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.

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

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

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;

Level 2: those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: those with inputs for asset or liability that are not based on observable market data (unobservable inputs).

'Day 1' Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value ('Day 1' difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Classification and Subsequent Measurement of Financial Instruments

The Company classifies its financial instruments in the following categories: financial assets and liabilities at FVPL, loans and receivables or borrowings, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets and derivatives designated as hedging instruments in an effective hedge. The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Company has no HTM investments and AFS financial assets as at December 31, 2012, 2011 and 2010.



Financial Assets or Liabilities at FVPL. Financial assets or liabilities at FVPL include financial assets or liabilities held for trading and financial assets or liabilities designated upon initial recognition as at FVPL. Financial assets or liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives (including separated embedded derivatives) are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract.

Financial assets at FVPL are carried in the statement of financial position at fair value with gains or losses recognized in the consolidated statement of income. Financial assets or liabilities designated upon initial recognition at FVPL are designated at their initial recognition date and only if the criteria under PAS 39 are satisfied. As of December 31, 2012, 2011 and 2010, the Company's derivatives are designated as financial asset or liability at FVPL.

Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded separately in the consolidated statement of income when the right of payment has been established.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as financial asset at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

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 and are not designated as AFS financial asset or financial asset at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the "Interest income" account in the consolidated statement of income. The losses arising from impairment of such loans and receivables are recognized in the consolidated statement of income under "General and administrative expenses" account. Loans and receivables are considered current assets if maturity is within 12 months from the statement of financial position date. Otherwise, these are classified as noncurrent assets.

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 components, which are not designated at FVPL are classified as other financial liabilities 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. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other 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 integral parts of the effective interest. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.



This accounting policy applies primarily to the Company's short-term loans, accounts payable and other current liabilities (except for statutory payables, unearned income and lease incentive), dividends payable and long-term loans.

Derivative Financial Instruments

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

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

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

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized as financial asset at FVPL. The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. Reassessment is only done when there are changes in the terms of the contract that significantly modifies the contractual cash flows.

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

Impairment of Financial Assets

The Company assesses at each statement of financial position date whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or



other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables. The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Company to group its receivables based on credit characteristics (customer type, payment history, past due status of the customers and term). Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring impairment loss is the current effective interest rate. Cash flows from short-term placements and receivables are not discounted if the effect of discounting is immaterial. The carrying amount of the asset shall be reduced through the use of an allowance account and the amount of loss is charged to the consolidated statement of income under "General and administrative expenses" account. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans together with associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has transferred to the Company. The amount of loss shall be recognized in the consolidated statement of income.

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

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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



When the Company has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. In that case, the Company recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or assumed is recognized in the consolidated statement of income.

Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Office Supplies Inventory

Software and office supplies inventory, presented under “Other current assets” account in the consolidated statement of financial position, are valued at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method. NRV of office supplies is the replacement cost.

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. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the property and equipment.



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.

Property and equipment are depreciated using the following estimated useful lives:

Computer equipment	5 years
Communication equipment	3-5 years
Leasehold improvements	5 years or lease term, whichever is shorter
Office furniture, fixtures and equipment	5-14 years
Transportation equipment	5 years
Software pool	2.5 years

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

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

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

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

Impairment of Nonfinancial Assets

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

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.



Except for goodwill and brand name and logo, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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

Other Intangible Assets

Other intangible assets with finite useful lives are composed of the Company's website and software packages.

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

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization expense on intangible assets with finite lives is recognized under "Costs of services" and "General and administrative expenses" accounts in the consolidated statement of income.



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

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

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.

Retained earnings represent accumulated earnings net of dividends declared.

Non-controlling interests as of December 31, 2011 represent the equity interest in URSI not held by the Parent Company.

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

Operating Segments

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

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets (primarily the Company's main office), main office expenses, and income tax assets and liabilities.

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

Revenue Recognition

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



Service Income. Revenue is recognized as services are rendered.

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 associates and joint ventures proportionate to the equity in the voting shares of such associates and 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

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

Share-based Payment Transactions

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



Equity-settled Transactions. Share-based transactions in which the Parent Company grants rights to equity to the Company's employees and executives (including directors) are accounted for as equity-settled transactions.

The cost of equity-settled transactions is measured by reference to the fair value of an award at the date on which they are granted. The fair value is determined using the Black-Scholes-Merton Option Pricing Model, further details of which are given in Note 16. In valuing equity-settled transactions, no account is taken of any performance conditions, other than those linked to the price of the shares of the Parent Company and Paxys A.U. ("market condition"), if applicable. The cost of EEP and ESOP is measured by reference to the market price at the time of the grant less subscription price.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees and executives become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense charged for the year represents the movement in cumulative expense recognized as at the beginning and end of that year.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. If the modification increases the fair value of the equity instruments granted, as measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognized for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.



If the modification reduces the number of equity investments granted, the reduction shall be treated as a cancellation. Essentially this has the effect that any previously unrecognized cost of the cancelled instruments is immediately recognized in full over the remaining vesting period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Retirement Cost

The liability for retirement benefits relates to government-mandated retirement benefits as provided by Republic Act No. 7641 for active employees of the PGS ROHQ, SWA and PGSI. The retirement is computed as certain percentage of the employee's monthly salary for every year of service. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when net cumulative unrecognized actuarial gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Any past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less part of past services costs and actuarial gains and losses not yet recognized, out of which the obligations are to be settled.

Taxes

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

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

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

Income tax relating to items recognized directly in equity is recognized in equity and as part of other comprehensive income in the consolidated statement of comprehensive income. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the tax authority is included as part of "Other current assets" account in the consolidated statement of financial position.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the



reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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

Events after the Reporting Period

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

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

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 consolidated financial statements.

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

Rent expense from continuing operations amounted to ₱25.27 million, ₱44.77 million and ₱21.36 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Notes 19, 20 and 24).

Functional Currency. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Parent Company, SWA, URSI, PGS and PGS ROHQ has been determined to be the Philippine Peso while Paxys Ltd. and Paxys N.V. is US Dollar (US\$). The functional currency of Paxys A.U., which was disposed in June 2012, is the Australian Dollar (AU\$).

Functional currency is the currency of the primary economic environment in which each of the entities operates. It is the currency that mainly influences the revenue and cost of services.



Disposal Group and Discontinued Operation. As at December 31, 2011 and 2010, Paxys A.U. and Subsidiaries and ACS, respectively, are classified as a disposal group held for sale after management has assessed that they will recover the carrying amount of these assets through sale rather than continuing use.

Paxys A.U. and Subsidiaries

On March 30, 2012, Paxys N.V. and SmartGroup Investments Pty. Ltd. (SmartGroup) completed the negotiations and signed a Share Purchase Agreement (SPA) for the sale of Paxys N.V.'s 100.0% stake in Paxys A.U. and Subsidiaries. The sale was completed on June 7, 2012 following the fulfillment of the closing conditions (see Note 5).

ACS

On January 31, 2011, the Parent Company and Alorica completed the negotiations and signed an SPA for the sale of its 100.0% stake in ACS (see Note 5).

Estimates and Assumptions

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

Determination of Fair Value of Financial Instruments (Including Derivatives). PFRS require that certain financial assets and liabilities be carried at fair value, which requires the use of accounting estimates and judgments. While significant components of fair value measurement are determined using verifiable objective evidence, the timing and amount of changes in fair value would differ with the valuation methodology. Any change in fair value of these financial instruments (including derivatives) would affect either the consolidated statement of income or consolidated statement of changes in equity.

Fair values of financial assets and financial liabilities are presented in Note 27.

Impairment of Goodwill and Brand Name and Logo. The Company's business acquisitions have resulted in goodwill and brand name and logo with indefinite useful life which are subject to periodic impairment test. The Company determines whether these intangible assets are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the intangible assets are allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The assumptions used in the impairment test performed are disclosed in Note 6.

Due to the disposal of the subsidiaries and impairment of goodwill in SWA, the Company has no goodwill and brand name and logo as at December 31, 2012.

Goodwill and brand name and logo included under "Assets of disposal group classified as held for sale" account in the consolidated statement of financial position amounted to ₱1,311.99 million as at December 31, 2011. As discussed in Note 5, pursuant to PFRS 5, the net assets directly associated with disposal group classified as held for sale are measured at the lower of carrying amount and the fair value (equivalent to the selling price) less cost to sell. Based on management assessment, no impairment loss was recognized in 2011 since the selling price of



AU\$84.90 million (equivalent to ₱3,763.06 million as at December 31, 2011) is higher than the net asset of Paxys A.U. and Subsidiaries (including allocated goodwill) (see Note 5).

Impairment loss on goodwill amounting to ₱11.08 million from acquisition of SWA and URSI (part of loss from continuing operations) and ₱242.87 million from acquisition of ACS (part of loss on discontinued operations) was recognized in 2011 and 2010, respectively (see Notes 5 and 6).

Impairment of Other Nonfinancial Assets Including Other Intangible Assets with Finite Lives. PFRS requires that an impairment review be performed when certain impairment indicators are present. Investments in joint ventures, property and equipment and other intangible assets other than goodwill and brand name and logo are subject to annual impairment test whenever there is a strong indication that the asset is impaired.

If there are indicators of impairment, management is required to make estimates and assumptions to determine the future cash flows to be generated from the continued use and ultimate disposition of these assets in order to determine the recoverable value of these assets. While the Company believes that the assumptions used are reasonable and appropriate, these estimates and assumptions can materially affect the consolidated financial statements. Future adverse events may cause management to conclude that the affected assets are impaired and may have a material impact on the financial condition and performance of the Company. There were no asset impairment in 2012, 2011 and 2010.

The carrying values of nonfinancial assets subject to impairment review when impairment indicators are present as at December 31, 2012 and 2011 and January 1, 2011 are as follows:

	December 31		January 1,
	December 31,	December 31,	2011
	2011	2011	2011
	(As restated -	(As restated -	(As restated -
	see Note 2)	see Note 2)	see Note 2)
	December 31,	December 31,	January 1,
	2012	2011	2011
	<i>In Thousands</i>		
Investments in joint ventures (see Note 10)	₱105,046	₱150,814	₱106,761
Property and equipment (see Note 11)	17,616	63,797	194,585
Other intangible assets (see Note 12)	8,170	10,941	554,757

Estimated 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 (website and software packages, customer contracts, loan/book trail component and software development costs) 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. The estimated useful life of each asset is reviewed at each financial year end and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment and other intangible assets would increase the recorded depreciation and amortization expenses and decrease the carrying value of property and equipment and other intangible assets.



There is no change in the estimated useful lives of property and equipment and other intangible assets with finite useful lives in 2012, 2011 and 2010.

Recoverability of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable the future taxable income will allow the deferred tax to be recovered.

Deferred tax assets as at December 31, 2012 and 2011, were not recognized because management believes that sufficient future taxable income will not be available against which deductible temporary differences will be utilized. Unrecognized deferred tax assets amounted to ₱109.02 million and ₱283.02 million as at December 31, 2012 and 2011, respectively (see Note 25).

Impairment of Trade and Other 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. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

Allowance for doubtful accounts for trade and other receivables amounted to ₱25.46 million, ₱14.48 million and ₱18.87 million as at December 31, 2012 and 2011 and January 1, 2011, respectively. The carrying values of trade and other receivables amounted to ₱84.24 million, ₱136.90 million and ₱307.15 million as at December 31, 2012 and 2011 and January 1, 2011, respectively (see Note 8).

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

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

The carrying value of input tax, net of allowance and output tax, amounted to nil, ₱17.03 million and nil as at December 31, 2012 and 2011 and January 1, 2011, respectively. Allowance for nonrecoverability of Input VAT amounted to ₱44.82 million, ₱13.08 million and ₱6.40 million as at December 31, 2012, 2011 and 2010, respectively (see Note 9).



Retirement Cost. The determination of the obligation and costs for retirement is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions, which include among others, discount rates, rates of compensation increase and average remaining service years are described in Note 23. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the Company's accrued retirement costs.

Unrecognized actuarial loss amounted to ₱4.56 million as at December 31, 2012 and 2011 and ₱1.77 million as at January 1, 2011. Accrued retirement costs amounted to ₱3.87 million, ₱4.11 million and ₱7.10 million as at December 31, 2012 and 2011 and January 1, 2011, respectively (see Note 23).

Legal Contingencies. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements. Adequate provision for probable losses arising from these claims and assessments are recognized in the Company's consolidated financial statements as at December 31, 2012, 2011 and 2010.

As allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, some information has not been disclosed as the management believes that the disclosure of such shall prejudice seriously its position regarding the case filed against the Company.

Share-based Payments. Paxys A.U. measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 16. Paxys A.U. recognizes expenses based on the estimated number of grants that will ultimately vest and will require settlement. The Company's average turnover rate over the past few years is used to determine the attrition rate in computing the benefit expense and the estimated liability.

Equity-based compensation expense recognized in 2011 and 2010 amounted to ₱7.35 million and ₱12.63 million, respectively, and is included in the income (loss) from discontinued operations (see Note 16).

4. 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 four reportable operating segments as follows:

- Call Center - The call center segment offers an integrated mix of call center solutions including inbound (customer-initiated) and outbound teleservicing as well as email and web-based tools. Following management's decision to divest its investment in ACS, total assets and liabilities and income and expense of ACS are presented under the "Disposal Group Classified as Held for Sale" column in the business segment information as of December 31, 2010. 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 December 31, 2012, 2011 and 2010.
- Data Transcription - This segment includes data transcription and scoping services, voice-to-screen message conversion and electronic data encoding and processing.
- Others - This segment includes software development and IT consultancy. It also includes the operations of the Parent Company.



Business Segment Information

The following table present revenues and expenses and certain assets and liabilities information regarding the Company's business segments as at and for the years ended December 31, 2012, 2011 and 2010:

2012							
	Continuing Operations				Disposal Group Classified as Held for Sale		
	Call Center	Data Transcription	Others	Eliminations	Consolidated	Salary Packaging	Total
	(In Thousands)						
Results of Operations							
Segment revenues from external customers	₱13,655	₱153,295	₱35,425	₱—	₱202,375	₱1,047,489	₱1,249,864
Segment expenses	(62,587)	(194,856)	(347,077)	132,170	(472,350)	(818,306)	(1,290,656)
Segment result	(48,932)	(41,561)	(311,652)	132,170	(269,975)	229,183	(40,792)
Gain (loss) on sale of subsidiaries	—	—	(1,670)	—	(1,670)	2,274,362	2,272,692
Interest income (expense) - net	20	472	55,120	1,030	56,642	24,152	80,794
Foreign exchange gain (loss) - net	(162)	695	197,565	(6,913)	191,185	—	191,185
Equity in net losses on joint ventures	(45,768)	—	—	—	(45,768)	—	(45,768)
Other segment operating income (expense)	891	6,363	(1,964)	(2,844)	2,446	(773)	1,673
Provision for income tax	(4)	(175)	(8,804)	—	(8,983)	(78,789)	(87,772)
Net income (loss)	(₱93,955)	(₱34,206)	(₱71,405)	₱123,443	(₱76,123)	₱2,448,135	₱2,372,012
Assets and Liabilities							
Segment assets	₱16,875	₱75,301	₱5,061,432	(₱723,373)	₱4,430,235	₱—	₱4,430,235
Segment liabilities	(90,744)	(105,134)	(521,033)	604,841	(112,070)	—	(112,070)
Other Segment Information							
Capital expenditures:							
Property and equipment	₱1,287	₱1,379	₱—	₱—	₱2,666	₱118,748	₱121,414
Intangibles	—	365	261	—	626	—	626
Depreciation and amortization	1,216	16,839	35,743	—	53,798	146,619	200,417



2011 (As restated - see Note 2)

	Continuing Operations					Disposal Group Classified as Held for Sale	
	Call Center (As restated see Note 2)	Data Transcription	Others	Eliminations	Consolidated	Salary Packaging	Total
<i>(Amounts In Thousands)</i>							
Results of Operations							
Segment revenues from external customers	₱15,156	₱242,174	₱173,856	(₱5,553)	₱425,633	₱2,100,483	₱2,526,116
Segment expenses	(46,215)	(287,488)	(433,829)	104,497	(663,035)	(1,661,215)	(2,324,250)
Segment result	(31,059)	(45,314)	(259,973)	98,944	(237,402)	439,268	201,866
Interest income (expense) - net	16	(2,214)	7,617	267	5,686	38,084	43,770
Foreign exchange gain (loss) - net	3,143	(2,861)	1,398	(2,357)	(677)	—	(677)
Equity in net gains on joint ventures - net	37,545	—	—	—	37,545	—	37,545
Other segment operating income (expense)	18,578	6,965	(73,774)	74,896	26,665	(36,186)	(9,521)
Provision for income tax	—	(3,803)	(2,483)	—	(6,286)	(142,661)	(148,947)
Net income (loss)	₱28,223	(₱47,227)	(₱327,215)	₱171,750	(₱174,469)	₱298,505	₱124,036
Assets and Liabilities							
Segment assets	₱21,234	₱115,767	₱2,334,874	(₱1,598,334)	₱873,541	₱3,824,468	₱4,698,009
Segment liabilities	46,953	123,738	600,908	(667,059)	104,540	2,307,761	2,412,301
Other Segment Information							
Capital expenditures:							
Property and equipment	₱2,986	₱8,463	₱3,445	₱—	₱14,894	₱35,191	₱50,085
Intangibles	—	3,680	5,295	—	8,975	—	8,975
Depreciation and amortization	605	16,596	40,371	—	57,572	282,863	340,435



2010 (As restated – see Note 2)

	Continuing Operations					Disposal Group Classified as Held for Sale			
	Call Center (As restated - see Note 2)	Salary Packaging	Data Transcription	Others	Eliminations	Consolidated	Salary Packaging	Call Center	Total
	<i>(In Thousands)</i>								
Results of Operations									
Segment revenues from external customers	P–	P–	P298,459	P115,824	(P12,159)	P402,124	P1,555,266	P1,615,584	P3,572,974
Segment expenses	–	–	(281,549)	(306,678)	7,712	(580,515)	(1,294,624)	(1,635,325)	(3,510,464)
Segment result	–	–	16,910	(190,854)	(4,447)	(178,391)	260,642	(19,741)	62,510
Interest income (expense)	–	–	22	(8,718)	(6,931)	(15,627)	39,345	(6,333)	17,385
Equity in net gains on joint ventures - net	61,379	–	–	–	–	61,379	–	–	61,379
Foreign exchange gain (loss) - net	–	–	(5,762)	2,176	24,136	20,550	–	(2,528)	18,022
Other segment operating income (expenses)	–	–	(95)	538,311	(527,432)	10,784	(35,718)	(309,286)	(334,220)
Provision for income tax	–	–	(2,406)	(17,237)	–	(19,643)	(74,777)	(1,540)	(95,960)
Net income (loss)	P61,379	P–	P8,669	P323,678	(P514,674)	(P120,948)	P189,492	(P339,428)	(P270,884)
Assets and Liabilities									
Segment assets	P1,818	P3,659,963	P134,099	P1,238,548	(P405,567)	P4,628,861	P–	P616,446	P5,245,307
Segment liabilities	8,412	2,452,694	98,443	743,766	(493,635)	2,809,680	–	265,726	3,075,406
Other Segment Information									
Capital expenditures:									
Property and equipment	P–	P25,360	P21,246	P15,427	P–	P62,033	P–	P23,082	P85,115
Intangibles	–	–	3,652	227	–	3,879	–	–	3,879
Depreciation and amortization	–	(231,312)	(15,450)	(19,959)	–	(266,721)	–	(296,566)	(563,287)



Geographical Segment Data

The following tables present the revenues and expenses and certain assets information regarding the Company's geographical segments as at and for the years ended December 31, 2012, 2011 and 2010:

December 31, 2012				
	Continuing Operations	Disposal Group Classified as Held for Sale		
	Philippines	Australia	Australia	Total
Revenue				
External revenue	₱202,375	₱—	₱1,047,489	₱1,249,864
Equity in net losses of joint ventures	(45,768)	—	(45,768)	(45,768)
Other Segment Information				
Segment assets	₱4,430,235	₱—	₱—	₱4,430,235
Capital expenditures:				
Property and equipment	2,666	—	118,748	121,414
Intangibles	626	—	—	626
December 31, 2011 (As restated - see Note 2)				
	Continuing Operations (As restated - see Note 2)	Disposal Group Classified as Held for Sale		
	Philippines	Australia	Australia	Total
Revenue				
External revenue	₱425,633	₱—	₱2,100,483	₱3,572,974
Equity in net earnings of joint ventures	37,545	—	—	37,545
Other Segment Information				
Segment assets	₱873,541	₱—	₱3,824,468	₱4,698,009
Capital expenditures:				
Property and equipment	14,894	—	35,191	50,085
Intangibles	8,975	—	—	8,975
January 1, 2011 (As restated - see Note 2)				
	Continuing Operations (As Restated - Note 2)	Disposal Group Classified as Held for Sale		
	Philippines	Australia	Philippines	Total
Revenue				
External revenue	₱402,124	₱1,555,266	₱1,615,584	₱3,572,974
Equity in net earnings of joint ventures and associates - net	61,379	—	—	61,379
Other Segment Information				
Segment assets	₱4,628,861	₱—	₱616,446	₱5,245,307
Capital expenditures:				
Property and equipment	62,033	—	23,082	85,115
Intangibles	3,879	—	—	3,879

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



The Company's revenue from transactions from each of its external customers accounting for 10.0% or more of the consolidated revenues from external customers for the years ended December 31, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
		(In Thousands)	
SpinVox*	₱126,190	₱207,198	₱278,071
Precision Response Corporation, LLC (PRC)**	—	—	1,402,942
*Included under service income under continuing operations			
**Included under income from discontinued operations			

5. Acquisitions, Disposal Group and Discontinued Operation

URSI

On October 31, 2012, Paxys signed a Deed of Absolute Sale of Shares for the transfer of 100% of Paxys' equity interests in URSI. Pursuant to the sale, Paxys transferred 43,515 common shares of URSI, representing 63.51% of URSI's total share capital, in favor of the minority. As a result of the sale, URSI ceased from being a subsidiary of Paxys effective October 31, 2012. Loss on disposal of subsidiary included in the 2012 consolidated statement of income from continuing operations amounted to ₱1.67 million (see Note 22).

Included in the consolidated net income from continuing operations are the following balances from URSI for the ten-month period ended October 31, 2012:

	Amount
	(In Thousands)
Service income	₱12,839
Costs and expenses	(12,492)
Interest expense - net	(24)
Other income - net	5
Income before income tax	328
Provision for income tax	—
Income after income tax	₱328

Paxys A.U. and Subsidiaries

On June 7, 2012, the sale of Paxys N.V.'s 100% equity interest in Paxys A.U. to SmartGroup Investments Pty Ltd was completed following the fulfillment of closing conditions stipulated in the Share Sale Agreement dated March 31, 2012. As a result of the completion, Paxys N.V. received the amount of AU\$74.2 million representing 87% of the purchase price. The remaining 13% amounting to AU\$11.0 million, was deposited in escrow and would be released to Paxys N.V. after a period of 12 to 18 months from completion date 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. (see Note 9). In addition to the purchase price, on June 29, 2012, the Company received additional AU\$3.0 million. Gain on sale of Paxys A.U. and subsidiaries in the 2012 consolidated statements of income from discontinued operations amounted to ₱2,274.36 million.



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

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

	Five-months ended May 2012	For the years ended December 31	
		2011	2010
		<i>(In Thousands)</i>	
Service income (see Note 4)	₱1,047,489	₱2,100,483	₱1,555,266
Costs and expenses	(818,306)	(1,661,215)	(1,294,624)
Interest income	29,652	76,671	78,783
Interest expense	(5,500)	(38,587)	(39,438)
Other expense - net	(773)	(36,186)	(35,718)
Income before income tax	252,562	441,166	264,269
Provision for income tax	(78,789)	(142,661)	(74,777)
Income after income tax	₱173,773	₱298,505	₱189,492

Income from discontinued operations in 2012 as presented in the consolidated statement of income includes the following:

	Amount
	<i>(In Thousands)</i>
Gain on sale of Paxys A.U.	₱2,274,362
Income from discontinued operations after income tax	252,562
Income before income tax	2,526,924
Provision for income tax	(78,789)
Income after income tax	₱2,448,135

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

	Amount
	<i>(In Thousands)</i>
Assets	
Cash and cash equivalents	₱459,414
Cash held in trust (see Note 7)	1,214,191
Trade and other receivables - net	191,645
Derivative assets	339
Other current assets - net	21,487
Property and equipment - net (see Note 11)	68,432
Goodwill and other intangible assets (see Note 12)	1,752,141
Deferred tax assets - net	116,819
Assets of disposal group classified as held for sale	3,824,468
Liabilities	
Accounts payable and other current liabilities	1,658,527
Income tax payable	99,830
Short-term provisions	71,571
Long-term loans (see Note 14)	329,698

(Forward)



	Amount
Long-term provisions	₱33,251
Deferred tax liabilities	114,884
Liabilities of disposal group classified as held for sale	2,307,761
Reserves	
Additional paid-in capital - stock options	₱48,771
Cumulative translation adjustment	175,520
Reserves of disposal group classified as held for sale	224,291
Net assets of disposal group	₱1,292,416

The net cash flows incurred by Paxys A.U. and Subsidiaries are as follows:

	2012	2011	2010
		(In Thousands)	
Operating activities	₱207,537	₱447,820	₱308,183
Investing activities	(117,402)	(289,610)	(273,235)
Financing activities	(314,589)	(321,408)	(247,322)
Effects of exchange rate changes	77,243	11,946	(144,967)
Net cash outflows	(₱147,211)	(₱151,252)	(₱357,341)

PBI. PBI is part of Paxys A.U. and Subsidiaries that was disposed in 2012. SmartSalary acquired 100% share capital of PBI on June 1, 2011 at an acquisition cost of AU\$6.18 million or ₱287.26 million.

PBI is a company engaged in issuing credit card products to employees of public hospitals and public benevolent institutions in Australia who are granted fringe benefits.

The fair value of identifiable assets and liabilities of PBI as at acquisition date were:

	Fair Value Recognized on Acquisition (In Thousands)
Assets	
Cash and cash equivalents	₱358
Trade and other receivables	6,559
Deferred tax assets	379
Customer contracts	183,424
Software	6,969
	197,689
Liabilities	
Trade and other payables	7,822
Deferred tax liabilities	55,027
	62,849
Fair value of identifiable net assets	134,840
Goodwill arising from acquisition	152,415
Consideration, settled in cash	₱287,255

(Forward)



	Fair Value Recognized on Acquisition <i>(In Thousands)</i>
Cash Flow on Acquisition	
Cash paid	₱287,255
Less cash received on acquisition	358
Net cash outflow	₱286,897

Identifiable intangible assets acquired from the combination and recorded at fair value at acquisition date pertain to software and customer contracts. These identifiable intangible assets have been deemed to have a useful life of five years and will be amortized on a straight-line basis.

Goodwill arising from the acquisition comprises the expectation of future growth in earnings and taking advantage of business synergies that cannot be recognized separately as identifiable intangible assets at the date of acquisition.

Following the disposal of Paxys A.U. and Subsidiaries, the related net income of PBI for the year ended December 31, 2011 of ₱18.42 million is included in the income (loss) from discontinued operations. If the acquisition of PBI had taken place at the beginning of the year, the net income from PBI included in the income (loss) from discontinued operations would have been higher by ₱2.21 million.

AVC. AVC is part of Paxys A.U. and Subsidiaries that was disposed in 2012. SmartFleet has completed the purchase of 100% of the share capital of AVC at an acquisition cost of AU\$2.1 million or ₱80.48 million in 2011.

The fair values of the identifiable assets and liabilities of AVC as at the acquisition date were:

	Fair Value Recognized on Acquisition <i>(In Thousands)</i>
Assets	
Cash and cash equivalents	₱60,426
Trade and other receivables	68,524
Other current assets	428
Deferred tax assets	2,750
Property and equipment	4,679
Customer contracts	2,132
Software	21,318
	160,257
Liabilities	
Trade and other payables	97,457
Income tax payable	9,903
Provisions and accruals	3,602
Deferred tax liabilities	640
	111,602

(Forward)



	Fair Value Recognized on Acquisition (In Thousands)
Fair value of identifiable net assets	₱48,655
Goodwill arising from acquisition	31,822
Consideration, settled in cash	₱80,477
Cash Flow on Acquisition	
Cash paid	₱80,477
Less cash received on acquisition	60,426
Net cash outflow	₱20,051

Identifiable intangible assets acquired from the combination and recorded at fair value at acquisition date, pertain to software and customer contracts. These identifiable intangible assets have been deemed to have a useful life of five years and will be amortized on a straight-line basis.

Goodwill arising from the acquisition comprises the expectation of future growth in earnings and taking advantage of business synergies that cannot be recognized separately as identifiable intangible assets at the date of acquisition.

Following the disposal of Paxys A.U. and Subsidiaries, the related net income of AVC for the year ended December 31, 2011 of ₱4.96 million is included in the income (loss) from discontinued operations. If the acquisition of AVC had taken place at the beginning of the year, the net income from AVC included in the income (loss) from discontinued operations would have been higher by ₱2.77 million.

ACS

On January 31, 2011, the Parent Company signed an SPA with Alorica for the sale of its interest in ACS. Alorica owns PRC, the major customer of ACS. Total selling price amounted to US\$8.00 million (equivalent to ₱350.72 million as of December 31, 2010).

For the year-ended December 31, 2010, ACS was classified as a disposal group held for sale and as a discontinued operation in accordance with PFRS 5. The results of operations of ACS are presented below:

	October 31, 2010 (Ten Months)
Service income	₱1,615,584
Costs and expenses	(1,635,326)
Interest income	7,609
Interest expense (see Note 22)	(13,942)
Other income (expense) - net	(68,943)
Loss before income tax	(95,018)
Provision for income tax	1,540
Loss after income tax	(₱96,558)



The major classes of assets and liabilities of ACS classified as disposal group held for sale as at December 31, 2010 are as follows:

	Amount
	<i>(In Thousands)</i>
Assets	
Trade and other receivables	P228,354
Input value-added tax and other current assets – net	124,318
Property and equipment (see Note 11)	183,234
Goodwill (see Note 12)	1,993
Deferred tax assets - net	51
Other noncurrent assets	78,496
<u>Assets of disposal group classified as held for sale</u>	<u>616,446</u>
Liabilities	
Accounts payable and other current liabilities	P123,246
Short-term loans	142,480
<u>Liabilities of disposal group classified as held for sale</u>	<u>265,726</u>
<u>Net assets of disposal group</u>	<u>P350,720</u>

Pursuant to PFRS 5, assets held for sale shall be measured at the lower of carrying amount and fair value less costs to sell. The Parent Company recognized impairment loss amounting to P242.87 million for the year ended December 31, 2010, allocated to the Parent Company's goodwill from the acquisition of ACS.

Loss from discontinued operation of ACS for 2010 as presented in the consolidated statement of income includes the following:

	Amount
	<i>(In Thousands)</i>
Loss from discontinued operation after income tax	P96,558
Impairment of goodwill allocated to net assets of disposal group (see Note 6)	242,870
	<u>P339,428</u>

Declaration of Dividends by ACS

On February 12, 2010, ACS declared its entire investment in WNS Philippines, Inc. (WNS Philippines) as property dividends at the investment's carrying value of P4.36 million.



On October 31, 2010, the BOD of ACS approved the declaration of cash and property dividends to the Parent Company which relates to non-PRC related assets and contracts as described in the SPA, details of which are shown below:

	October 31, 2010 <i>(In Thousands)</i>
Cash dividends	₱194,813
Property dividends:	
Due from related parties - net of deferred output VAT	119,267
Property and equipment	95,092
Loan and interest receivables	31,512
Investment in a joint venture	13,892
Investment in WNS Philippines (see Note 10)	11,330
Refundable deposits and other current assets	4,690
	275,783
	₱470,596

Accordingly, the aforementioned assets were not included in the asset of disposal group classified as held for sale in 2010.

On March 18, 2011, the SEC approved the distribution of property dividends from ACS to Paxys consisting of 1.4 million common shares of WNS Philippines. By reason of the SEC approval, Paxys recognized direct ownership of the 1.4 million WNS Philippines shares as of March 18, 2011. The investment in WNS Philippines was recorded at its fair value at date of dividend declaration which increased the investment amount by ₱41.92 million.

On October 31, 2011, Paxys and WNS Netherlands signed a Deed of Absolute Sale for the transfer of Paxys' 35% equity interests in WNS Philippines for a consideration of ₱90.88 million. Gain on sale of disposal included in other income amounted to ₱38.02 million in 2011 (see Note 22).

On September 15, 2011, the SEC approved the distribution of property dividends from ACS to Paxys with an aggregate book value of ₱275.78 million. By reason of the SEC approval, Paxys recognized ownership of the declared properties on September 15, 2011. The property and equipment and investment in a joint venture was recorded at its fair value at date of dividend declaration which decreased the property and equipment and investment in a joint venture by ₱26.43 million and ₱3.11 million, respectively.

Global Ideology Corporation Philippines

Paxys sold its 60.27% equity interest in GIC in favor of its minority shareholders for a consideration of ₱5.00 million effective August 31, 2011. Loss on disposal of subsidiary included in the 2011 consolidated statement of income from continuing operations amounted to ₱8.50 million. Allocated goodwill to GIC amounting to ₱14.35 million was also written-off in 2011.



Included in the consolidated net income from the continuing operations are the following balances from GIC Philippines for the eight month period ended August 31, 2011:

	Amount
	<i>(In Thousands)</i>
Service income	₱34,113
Costs and expenses	(37,873)
Interest income	6
Interest expense	(55)
Other income - net	3,166
Loss before income tax	(643)
Provision for income tax	69
Loss after income tax	₱712

Paxys expects to collect ₱5.00 million out of the outstanding advances of Paxys to GIC amounting to ₱20.50 million. Loss on write-off of receivable included in the 2011 consolidated statement of income from continuing operations amounted to ₱15.50 million. As of December 31, 2012, the remaining balance of receivable from GIC amounted to ₱1.00 million.

Total loss on divestment of GIC (see Note 22) consists of the following:

	Amount
	<i>(In Thousands)</i>
Loss on write-off of receivables	₱15,500
Loss on write-off of goodwill	14,351
Loss on sale	8,547
Income on write-off of payable	(2,080)
	₱36,318

Acquisition of Webfleet . On March 23, 2010, SmartFleet acquired the business and trading name of Webfleet Management Services Pty Ltd (Webfleet), a leading provider of software solutions for online fleet management, to support the motor vehicle leasing and financial planning of SmartSalary. The total cost of the acquisition was AU\$5.25 million or ₱210.15 million.

	Fair Value Recognized on Acquisition (As restated)
	<i>(In Thousands)</i>
Assets	
Other prepayments	₱206
Deferred tax assets	1,009
Property and equipment (see Note 11)	5,502
Intangible asset - software (see Note 12)	134,566
Intangible asset - customer contracts (see Note 12)	37,252
	178,535

(Forward)



	Fair Value Recognized on Acquisition (As restated) <i>(In Thousands)</i>
Liabilities	
Deferred tax liabilities	₱11,176
Provisions and accruals (see Note 15)	27,429
	38,605
Fair value of identifiable net assets	139,930
Goodwill arising from acquisition (see Note 12)	70,225
Consideration, settled in cash	₱210,155
Cash Flow on Acquisition	
Cash paid	₱210,155
Less cash received upon acquisition	206
Net cash outflow	₱209,949

Identifiable intangible assets, except brand name and logo, acquired from the combination, recorded at fair value at acquisition date, pertain to software and customer contracts which have been deemed to have a useful life of five years and will be amortized on a straight-line basis. Brand name and logo are identified to have an indefinite life.

Goodwill arising from the acquisition comprises the expectation of future growth in earnings and taking advantage of business synergies that cannot be recognized separately as identifiable intangible assets at the date of acquisition.

The consolidated statement of income includes revenue and net income for the year ended December 31, 2010 of ₱110.88 million and ₱15.27 million, respectively, as a result of the acquisition. If the acquisition of Webfleet had taken place at the beginning of the year, the net income of the Company would have been higher by ₱6.32 million and revenue would have been higher by ₱32.13 million.

6. Impairment Testing of Goodwill and Brand Name and Logo

Goodwill arising from Company's acquisition of the following subsidiaries as a result of business combinations as of December 31, 2011 and January 1, 2011 follows (see Note 12):

Acquired Subsidiary	December 31, 2011	January 1, 2011
	<i>(In Thousands)</i>	
SmartSalary	₱983,489	₱990,514
PBI	145,410	—
Webfleet	73,819	73,832
AVC	33,081	—
SeQoya	28,445	28,648

(Forward)



Acquired Subsidiary	December 31, 2011	January 1, 2011
	<i>(In Thousands)</i>	
MSG	₱6,395	₱6,441
SWA	6,243	6,243
URSI	4,837	4,837
GIC	—	14,352
	1,281,719	1,124,867
Less: Goodwill under assets held for sale (see Notes 5 and 12)	1,270,639	—
Accumulated impairment loss (see Note 22)	11,080	—
	₱—	₱1,124,867

Goodwill as of December 31, 2012 is nil due to the disposal of the subsidiaries to which these goodwill relate.

The Company tests goodwill and brand name and logo for impairment at least annually or more frequently if there are indications that these may be impaired.

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

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

In 2011, the Company recognized impairment loss on goodwill from its subsidiaries, SWA and URSI, amounting to ₱4.84 million and ₱6.24 million, respectively (see Note 22).

2011 Assessment of Goodwill allocated to salary packaging business segment (Paxys A.U. and Subsidiaries). As discussed in Note 5, pursuant to PFRS 5, the net assets directly associated with disposal group classified as held for sale are measured at the lower of carrying amount and the fair value (equivalent to the selling price) less cost to sell. Based on management assessment, no impairment loss was recognized in 2011 since the selling price of AU\$84.9 million (equivalent to ₱3,763.06 million as of December 31, 2011) is higher than the net asset of Paxys A.U. and Subsidiaries (including allocated goodwill) (see Note 5).

2010 Assessment of Goodwill allocated to call center business segment (ACS). As discussed in Note 5, pursuant to PFRS 5, the net assets directly associated with disposal group classified as held for sale are measured at the lower of carrying amount and the fair value (equivalent to the selling price) less cost to sell. The excess of the carrying amount of the net assets over the fair value less cost to sell amounting to ₱242.87 million, was attributed to goodwill, hence, goodwill from the acquisition of ACS of the same amount was recognized as an impairment loss in 2010 and included under “Loss from discontinued operation after income tax” account in the consolidated statement of income (see Note 5).



2010 Assessment of Goodwill allocated to salary packaging business segment. The test for recoverability of the Paxys A.U.'s goodwill from the acquisition of SmartSalary, MSG, SeQoya and Webfleet and brand name and logo was applied at the salary packaging. This represents the lowest level for which identifiable cash flows are largely dependent on the cash inflows of other group's assets and liabilities.

The value in use was based on the cash flow projections on the most recent financial budgets and forecast of SmartSalary. For the impairment testing conducted for the year ended December 31, 2010, average growth rate used was 3% for the forecast period of five years. The discount rate applied in 2010 was 14%, which was based on the weighted cost of capital. As a result of the impairment analysis, management did not identify an impairment loss for the cash-generating unit to which the goodwill was allocated.

7. Cash and Cash Equivalents and Cash Held in Trust

Cash and Cash Equivalents

	December 31, 2012	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
		<i>In Thousands</i>	
Cash on hand and in banks	₱2,717,999	₱43,721	₱744,508
Short-term deposits	1,182,095	374,050	295,747
	₱3,900,094	₱417,771	₱1,040,255

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

Cash Held in Trust

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

As at December 31, 2011, cash held in trust included under "Assets of disposal group held for sale" amounted to ₱1,214.19 million (see Note 5). As at January 1, 2011, cash held in trust amounted to ₱1,244.39 million.

Interest income earned on cash and cash equivalents and from funds held in trust included in the income from continuing operations amounted to ₱56.37 million, ₱6.82 million and ₱0.33 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 22).



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

	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
December 31, 2012		
<i>(In Thousands)</i>		
Cash on hand and in banks	₱2,717,999	₱43,721
Short-term deposits	1,182,095	374,050
Cash held in trust	—	—
	₱3,900,094	₱417,771
		₱2,284,646

8. Trade and Other Receivables

	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
December 31, 2012		
<i>(In Thousands)</i>		
Trade	₱71,930	₱102,234
Advances to related parties (see Note 18)	27,805	32,599
Loans and interest receivables	—	—
Other receivables (see Note 5)	9,964	16,544
	109,699	151,377
Less allowance for doubtful accounts	25,462	14,475
	₱84,237	₱136,902
		₱307,152

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

Loan and interest receivables include the loans extended to WNS Philippines, an associate, which amounted to US\$0.70 million with interest of 5.25% per annum. The loan is due in one year and was used for capital requirements of the associate. This loan was collected in 2011

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.

The terms and conditions relating to related party receivables are disclosed in Note 18.



The movements in the allowance for doubtful accounts are as follows:

	2012			2011			2011		
	Trade Receivables	Others	Total	Trade Receivables	Others	Total	Trade Receivables	Others	Total
Balance at beginning of year	₱14,072	₱403	₱14,475	₱18,676	₱193	₱18,869	₱51,717	₱29,624	₱81,341
Provision for the year (see Note 20)	1,620	9,367	10,987	6,955	210	7,165	15,335	7,948	23,283
Recoveries	-	-	-	(1,521)	-	(1,521)	(5,313)	(1,967)	(7,280)
Written-off	-	-	-	-	-	-	(6,203)	(21,263)	(27,466)
Disposal of a subsidiary	-	-	-	(7,407)	-	(7,407)	-	-	-
Translation adjustments	-	-	-	11	-	11	308	-	308
Reclassified to Disposal Group Held for Sale (see Note 5)	-	-	-	(2,642)	-	(2,642)	(37,168)	(14,149)	(51,317)
Balance at end of year	₱15,692	₱9,770	₱25,462	₱14,072	₱403	₱14,475	₱18,676	₱193	₱18,869

Provision for doubtful accounts in 2010 amounting to ₱13,018 is included as part of loss on discontinued operations.

9. Other Current Assets

	December 31, 2012	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
		<i>In Thousands</i>	
Escrow fund (see Note 5)	₱298,808	₱50,216	₱-
Input value-added tax - net of allowance of ₱44.82 million, ₱13.08 million and ₱6.40 million in 2012, 2011 and 2010, respectively	-	17,026	-
Advance rentals and other prepayments	4,490	13,361	23,948
	₱303,298	₱80,603	₱23,948

The movements in the allowance for nonrecoverability of input VAT are as follows:

	December 31, 2012	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Balance at beginning of year	₱13,084	₱6,395	₱2,213
Provisions for nonrecoverability of input VAT (see Note 20)	31,735	6,689	4,182
Balance at end of year	₱44,819	₱13,084	₱6,395

As provided for in the SPA with Alorica for the sale of ACS, \$1.25 million of the sales proceeds will be deposited in an escrow fund which will be used for the settlement of taxes and other contingent expenses. This escrow fund of ₱50.22 million as at December 31, 2011 was subsequently released to Paxys in February 2012.



In relation to the sale of Paxys A.U., 13% of the total sale proceeds amounting to 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 December 31, 2012, the balance of escrow fund amounted to AU\$4.30 million (₱298.81 million).

10. Investments in Joint Ventures and Associates

Investments in Joint Ventures

Joint venture	Place of Incorporation	Principal Activity	Percentage of Ownership		
			2012	2011	2010
Stellar Global Solutions Philippines (Stellar)	Philippines	Call center	50.0%	50.0%	50.0%
ACS Dalian	China	Call center	50.0%	50.0%	50.0%
Simpro Solutions Philippines, Inc. (Simpro Phils)	Philippines	Call center	50.0%	—	—

Details of investments in joint ventures as at December 31, 2012 and 2011 and January 1, 2011, respectively, are as follows:

	December 31, 2012	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Stellar	₱111,283	₱145,844	₱102,344
ACS Dalian	(1,348)	4,970	4,417
Simpro	(4,889)	—	—
	₱105,046	₱150,814	₱106,761

The movement in the investment in joint venture are as follows:

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
Cost		<i>(In Thousands)</i>	
Balance at beginning	₱44,877	₱38,369	₱38,369
Additional investment	—	6,508	—
Balance at end	44,877	44,877	38,369
Accumulated earnings in net earnings			
Balance at beginning	105,937	68,392	44,803
Equity in net earnings (losses)	(45,768)	37,545	88,589
Dividends	—	—	(65,000)
Balance at end	60,169	105,937	68,392
	₱105,046	₱150,814	₱106,761



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.

The Company's share of the assets, liabilities, income and expenses of these jointly controlled entities as at December 31, 2012, 2011 and 2010 and for the years then ended, included in the consolidated financial statements, are as follows:

100% Net assets of material joint venture (Stellar)

	2012	2011	2010
	<i>(In Thousands)</i>		
Current assets	₱187,658	₱265,899	₱280,485
Noncurrent assets	142,332	197,934	24,117
Current liabilities	(107,424)	(166,767)	(96,964)
Noncurrent liabilities	–	(5,378)	(2,950)
Investment in Joint Ventures	₱222,566	₱291,688	₱204,688
Share in Net Assets of Stellar	₱111,283	₱145,844	₱102,344

100% Earnings of material joint venture (Stellar)

	2012	2011	2010
	<i>(In Thousands)</i>		
Revenue	₱664,878	₱955,003	₱757,087
Cost of sales	(496,134)	(693,873)	(493,461)
Administrative expenses	(238,511)	(169,719)	(78,261)
Other income (charges)	322	(2,868)	8,561
Profit (loss) before tax	(69,445)	88,543	193,926
Income tax expense	(1,152)	(402)	(561)
Profit (loss) for the year	(₱70,597)	₱88,141	₱193,365
Share in equity in net earnings	(₱35,299)	₱44,071	₱96,683

50% Aggregate net assets of other joint ventures (ACS Dalian and Simpro Phils)

	2012	2011	2010
	<i>(In Thousands)</i>		
Current assets	₱5,619	₱3,605	₱1,526
Noncurrent assets	1,910	2,742	3,666
Current liabilities	(13,766)	(1,377)	(775)
Investment in Joint Ventures	(₱6,237)	₱4,970	₱4,417

50% Earnings of other joint ventures (ACS Dalian and Simpro Phils)

	2012	2011	2010
	<i>(In Thousands)</i>		
Revenue	₱8,014	₱5,274	₱769
Cost of sales	(10,849)	(5,991)	(3,290)
Administrative expenses	(7,571)	(5,794)	(5,646)
Other income (charges)	(63)	(15)	73
Profit (loss) before tax	(10,469)	(6,526)	(8,094)
Income tax expense	–	–	–
Profit (loss) for the year	(₱10,469)	(₱6,526)	(₱8,094)



The Company has no outstanding commitments with the joint ventures as at December 31, 2012, 2011 and 2010.

Investments in Associates

The Company's investments in associates accounted for under equity method of accounting are as follows:

Associates	Place of Incorporation	Principal Activities	Percentage of Ownership		
			2012	2011	2010
WNS Philippines ^(a)	Philippines	Call center	—	—	35.0%
WNS Global Services Philippines, Inc. (WNS Global) ^(b)	Philippines	Call center	—	—	35.0%

^(a) Indirectly-owned through ACS.

^(b) Indirectly-owned through WNS Philippines.

	December 31, 2012	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
Acquisition costs:			
Balance at beginning of year	P—	P75,950	P46,200
Disposal	—	(75,950)	—
Additional investment	—	—	29,750
Balance at end of year	—	—	75,950
Accumulated equity in net losses:			
Balance at beginning of year	—	(69,052)	(41,842)
Disposal	—	69,052	—
Equity in net losses of associates	—	—	(27,210)
Balance at end of year	—	—	(69,052)
Share in net gain from cash flow hedges			
Balance at beginning of year	—	4,658	—
Disposal	—	(4,658)	—
Gain on cash flow hedge	—	—	4,658
Balance at end of year	—	—	4,658
	P—	P—	P11,556



11. Property and Equipment

	2012							
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Software Pool	Construction In-Progress	Total
	<i>(In Thousands)</i>							
Cost								
Balance at beginning of year, 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 (see Note 5)	(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
Accumulated Depreciation								
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 (see Note 5)	(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
Net Book Value	₱7,053	₱168	₱3,871	₱3,557	₱2,967	₱–	₱–	₱17,616



2011 (As restated - see Note 2)								
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Software Pool	Construction In-Progress	Total
	<i>(In Thousands)</i>							
Cost								
Balance at beginning of year	₱326,977	₱72,043	₱283,018	₱133,319	₱14,606	₱56,940	₱18,786	₱905,689
Distribution of dividends (see Note 5)	(123,886)	(60,203)	(70,278)	(51,715)	7,519	127	(6,547)	(304,983)
Effect of reclassification to disposal group held for sale (see Note 5)	(67,950)	—	(43,149)	(52,737)	(2,792)	(66,939)	(12,153)	(245,720)
Additions	14,484	211	2,587	14,503	4,456	11,566	2,279	50,086
Disposal of a subsidiary (see Note 5)	—	—	(8,547)	(24,050)	(3,283)	(1,259)	—	(37,139)
Disposals	(80)	—	—	(20)	(3,390)	—	—	(3,490)
Write-off	—	—	(266)	—	—	—	—	(266)
Translation adjustments	(432)	—	(332)	(248)	(10)	(404)	(86)	(1,512)
Balance at end of year	149,113	12,051	163,033	19,052	17,106	31	2,279	362,665
Accumulated Depreciation								
Balance at beginning of year	244,480	62,865	257,605	99,098	7,291	39,763	—	711,102
Distribution of dividends (see Note 5)	(108,370)	(55,284)	(76,834)	(43,650)	3,784	1,274	—	(279,080)
Effect of reclassification to disposal group held for sale (see Note 5)	(59,846)	—	(37,285)	(27,276)	(465)	(52,416)	—	(177,288)
Depreciation for the year	41,489	1,546	12,372	9,110	3,147	13,057	—	80,721
Disposal of a subsidiary (see Note 5)	—	—	(6,044)	(23,566)	(2,999)	(1,259)	—	(33,868)
Disposals	(42)	—	—	(8)	(1,101)	—	—	(1,151)
Write-off	—	—	(266)	—	—	—	—	(266)
Reclassifications	—	—	(22)	22	—	—	—	—
Translation adjustments	(434)	—	(274)	(198)	(8)	(388)	—	(1,302)
Balance at end of year	117,277	9,127	149,252	13,532	9,649	31	—	298,868
Net Book Value	₱31,836	₱2,924	₱13,781	₱5,520	₱7,457	₱—	₱2,279	₱63,797



2010 (As restated - see Note 2)								
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Software Pool	Construction In-Progress	Total
<i>(In Thousands)</i>								
Cost								
Balance at beginning of year	₱937,631	₱442,327	₱738,923	₱211,940	₱17,443	₱39,416	₱25,332	₱2,413,012
Additions	40,306	2,810	12,222	10,150	3,894	15,732	–	85,114
Disposals	(44,358)	(125)	(147,913)	(11,420)	(4,027)	(2,590)	–	(210,433)
Reclassifications	10,253	–	–	(2,575)	–	–	(7,678)	–
Effect of business combination (see Note 5)	693	–	–	2,557	2,254	–	–	5,504
Effect of reclassification to disposal group held for sale (see Note 5)	(622,129)	(372,969)	(322,970)	(80,801)	(5,042)	–	–	(1,403,911)
Translation adjustments	4,581	–	2,756	3,468	84	4,382	1,132	16,403
Balance at end of year	326,977	72,043	283,018	133,319	14,606	56,940	18,786	905,689
Accumulated Depreciation								
Balance at beginning of year	687,781	357,187	547,831	148,013	11,472	26,907	–	1,779,191
Depreciation for the year	121,550	46,015	131,576	29,969	3,666	10,541	–	343,317
Disposals	(43,727)	(100)	(147,090)	(9,138)	(1,327)	(735)	–	(202,117)
Reclassifications	427	–	–	(427)	–	–	–	–
Effect of reclassification to disposal group held for sale (see Note 5)	(525,692)	(340,237)	(276,567)	(71,636)	(6,545)	–	–	(1,220,677)
Translation adjustments	4,141	–	1,855	2,317	27	3,050	–	11,390
Balance at end of year	244,480	62,865	257,605	99,098	7,293	39,763	–	711,104
Net Book Value	₱82,497	₱9,178	₱25,413	₱34,221	₱7,313	₱17,177	₱18,786	₱194,585

Depreciation expense included in income (loss) from discontinued operations amounted to ₱33.80 million, ₱30.14 million and ₱322.56 million in 2012, 2011 and 2010, respectively.



12. Goodwill and Other Intangible Assets

	2012	2011 (As restated – see Note 2)	January 1, 2011 (As restated – see Note 2)
	<i>(In Thousands)</i>		
Goodwill	₱–	₱–	₱1,124,867
Website and software packages	8,170	10,941	306,781
Other intangible assets	–	–	247,976
	₱8,170	₱10,941	₱1,679,624

	December 31, 2012	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
	<i>(In Thousands)</i>		
Goodwill	₱–	₱–	₱1,124,867
Website and software packages	8,170	10,941	306,781
Other intangible assets	–	–	247,976
	₱8,170	₱10,941	₱1,679,624

Website and software packages

	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
Balance at beginning of year - net of accumulated amortization	₱10,941	₱306,781	₱242,240
Effect of business combination (see Note 5)	–	28,287	134,566
Amortizations	(4,222)	(117,744)	(95,370)
Additions	1,451	8,975	3,879
Disposal	–	(523)	–
Effect of reclassification to disposal group held for sale (see Notes 5 and 6)	–	(214,942)	–
Translation adjustments	–	107	21,466
Balance at end of year - net of accumulated amortization	₱8,170	₱10,941	₱306,781
Cost	₱12,392	₱27,818	₱644,536
Accumulated amortization	(4,222)	(16,877)	(337,755)
	₱8,170	₱10,941	₱306,781



Goodwill and other intangible assets

2011 (As restated - see Note 2)				
	Goodwill	Brand Name and Logo	Customer Contracts and Software Development Costs	Total
<i>(In Thousands)</i>				
Balance at beginning of year - net of accumulated amortization	₱1,124,867	₱41,857	₱206,119	₱1,372,843
Effect of reclassification to disposal group held for sale (see Notes 5 and 6)	(1,270,639)	(41,354)	(225,206)	(1,537,199)
Effect of business combination (see Note 5)	184,237	—	185,556	369,793
Amortizations	—	—	(141,970)	(141,970)
Impairment (see Notes 6 and 22)	(11,080)	—	—	(11,080)
Disposal of a subsidiary (see Note 5)	(14,351)	—	(13,172)	(27,523)
Translation adjustments	(13,034)	(503)	(11,327)	(24,864)
Balance at end of year - net of accumulated amortization	₱—	₱—	₱—	₱—

2010 (As restated - see Note 2)				
	Goodwill	Brand Name and Logo	Customer Contracts and Software Development Costs	Total
<i>(In Thousands)</i>				
Balance at beginning of year - net of accumulated amortization	₱1,199,126	₱38,383	₱275,346	₱1,512,855
Impairment (see Notes 5 and 6)	(242,870)	—	—	(242,870)
Amortizations	—	—	(124,599)	(124,599)
Effect of business combination (see Note 5)	70,225	—	37,252	107,477
Effect of reclassification to disposal group held for sale (see Notes 5 and 6)	(1,993)	—	—	(1,993)
Additions	—	—	—	—
Translation adjustments	100,379	3,474	18,120	121,973
Balance at end of year - net of accumulated amortization	₱1,124,867	₱41,857	₱206,119	₱1,372,843
Cost	₱1,124,867	₱41,857	₱755,102	₱1,921,826
Accumulated amortization	—	—	(548,983)	(548,983)
	₱1,124,867	₱41,857	₱206,119	₱1,372,843

Amortization of intangibles included in income (loss) from discontinued operations amounted to ₱252.73 million in 2011 and ₱205.31 in 2010.



13. Other Noncurrent Assets

	December 31, 2012	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
	<i>In Thousands</i>		
Rental and security deposits (see Note 24)	₱5,347	₱12,701	₱11,444
Others	5,069	12	3,366
	₱10,416	₱12,713	₱14,810

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

Amortization of rental and security deposits from continuing operations, recorded under "Interest income" account in the consolidated statements of income, amounted to nil, ₱1.42 million and ₱3.00 million in 2012, 2011 and 2010, respectively (see Note 22).

14. Bank Loans

Short-term Loans

This account consists of unsecured dollar-denominated loans with peso equivalent amounting to ₱284.96 million (US\$6.50 million) as at December 31, 2010 obtained from local bank. These loans bear average annual interest rates ranging from 6.3% to 6.5% in 2010 with maturity date of less than 360 days.

The interest-bearing, short-term loans availed in 2010 were paid in 2011.

Interest expense on short-term loans from continuing operations, recorded under "Interest expense" account in the consolidated statements of income amounted to ₱2.66 million and ₱18.56 million in 2011 and 2010, respectively (see Note 22).

Long-term Loans

As at December 31, 2011 and January 1, 2011, the details of loan payable to a foreign bank are as follows (see Note 5):

	December 31, 2011*		January 1, 2011	
	(In Thousands)			
Long-term loan	AU\$7,438	₱329,698	AU\$14,436	₱644,401
Less current portion	2,200	97,511	2,200	98,207
Long-term loan - net of current portion	AU\$5,238	₱232,187	AU\$12,236	₱546,194

*Included as part of "Liabilities of a disposal group held for sale" (see Note 5)



The loan is subject to interest rate of the Bank Bill Swap Rate – Average Bid (“BBSY”) + Margin. Thereafter, the Margin will be determined in accordance with the following grid based on the leverage ratio as follows:

Leverage Ratio	Margin
> or = 1.50 times	1.75%
< 1.50 times	1.50%

A fixed and floating charge over all assets of Paxys A.U. is held as security for the facility agreement.

The loan is subject to financial covenants (leverage ratio, interest cover ratio and debt service coverage ratio) which will be tested quarterly on a rolling 12 month basis. Paxys A.U. is in compliance with the financial covenants with its creditors as at December 31, 2011 and 2010.

Interest expense on long-term loans included as part of income from discontinued operations amounted to ₱5.50 million, ₱38.59 million and ₱39.44 million in 2012, 2011 and 2010, respectively (see Note 5).

15. Accounts Payable and Other Current Liabilities

	December 31, 2012	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Accrued expenses	₱55,637	₱60,210	₱207,876
Statutory payables	8,501	5,053	45,780
Trade payables	6,755	14,098	92,175
Advances from related parties (see Note 18)	196	2,959	3,088
Cash held on behalf of customers (see Note 7)	—	—	1,244,391
Current portion of long-term loans (see Note 14)	—	—	98,207
Unearned income	—	2,220	34,817
Other current liabilities	26,723	8,317	82,909
	₱97,812	₱92,857	₱1,809,243

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

Accrued expenses mainly represent accruals for utilities, communications, salaries, wages and allowances and other employee benefits. Accrued expenses are noninterest-bearing and are generally settled within two months.

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

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



16. Share-based Payment Plan

Paxys, Inc. and ACS Employee Equity Plan

On June 2, 2005 and May 27, 2005, the BOD and Stockholders of the Parent Company, respectively, approved the Fil-Hispano's "EEP" or the "Plan" to be availed of by the executives and key employees ("Employees" or "Recipient" or "Participant") of the Company. Recipients will be determined on the basis of their service years, position/role in the Company and performance. The maximum number of shares that may be issued under the EEP is 50,000,000 shares (authorized but unissued, reacquired, or both or acquired from a third party). The Plan shall terminate on the tenth anniversary after the effective date on May 1, 2005. The employees have no voting rights and are not entitled to receive dividend payments until the shares are transferred to them after exercising the option or until the shares have been fully paid. Vested stock options may be exercised at any time, up to a maximum of four years from the date of grant, depending on the program type. The Plan was approved by the SEC on June 1, 2006.

The aggregate number of options granted and exercised is 15,230,000 from 2005 to 2009. No option was granted from 2010 to 2012.

Paxys A.U. Employee Share Option Plan (ESOP)

The ESOP was approved by Paxys A.U. BOD in January and July 2008. The ESOP allows the BOD to grant shares to selected employees having regard to their actual and potential contribution to the Company. The objective of the ESOP is to assist in the long-term reward, motivation and retention of employees. The exercise price is determined by the BOD at the time of each offer.

An option can be exercised and will lapse on the date determined by the BOD but not exceeding four years and subject to applicable performance and service conditions, set out at the time of each offer. Unexpired option will lapse in accordance with the plan rules when an employee ceases to be employed by the Company. Each option is convertible into one ordinary share. Options granted under the ESOP cannot be transferred and have no voting dividend or voting rights. Shares issued under the ESOP on the exercise of the options will rank equally with other ordinary shares of the Company.

No share options were granted in 2012 and 2011. During the year ended December 31, 2008, the BOD made two separate grants of share options under the ESOP. On January 1, 2008, 1,041,340 share options were granted to 16 employees at exercise price of AU\$1.23 per option. On July 1, 2008, 104,184 share options were granted to five employees at exercise price of AU\$2.02 per option.

A summary of the ESOP for the year ended December 31, 2008 for Paxys A.U. follows:

Date of grant	January 1, 2008	July 1, 2008
Vesting date	January 1, 2012	July 1, 2012
Vesting shares	1,041,340	104,184
Shares expected to be exercised	1,041,340	104,184

Equity-based compensation expense recognized pertaining to these option grants amounting to ₱7.35 million and ₱12.63 million in 2011 and 2010, respectively, is included in the income (loss) on discontinued operations.



17. Equity

Capital Stock

On June 27, 2008, the Company's BOD 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 2,160,000 and 4,360,000 shares, respectively, related to the exercise of the options under the EEP (see Note 16). Uncollected amounts from the exercised options are included as part of "Subscription receivable."

Details of capital stock as at December 31, 2012, 2011 and 2010 follow:

	Number of Shares Authorized ₱1 par value	Number of Shares Issued and Outstanding	Cost
			<i>(In Thousands)</i>
Capital stock	1,800,000,000	1,148,534,866	₱1,148,534
Subscription receivable	—	—	(76,761)
	1,800,000,000	1,148,534,866	₱1,071,773

The movements of subscription receivable as at December 31, 2012, 2011 and 2010 respectively, are as follows:

	2012	2011	2010
		<i>(In Thousands)</i>	
At beginning of year	₱76,761	₱76,761	₱76,901
Collection of subscription receivable	—	—	(140)
At end of year	₱76,761	₱76,761	₱76,761

Disclosure under SRC Rule 68, As amended

In 2004, the principal shareholder of 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 ₱1.20 billion from which the 300,000,000 rights offering shares were taken.

Paxys, Inc. has 723, 727 and 725 shareholders owning 100 or more shares as at December 31, 2012, and 2011 and January 1, 2011, respectively.

APIC

	2012	2011	2010
		<i>(In Thousands)</i>	
Issuance of shares of stocks	₱348,213	₱348,213	₱348,213
Stock options	103,151	103,151	144,573
	₱451,364	₱451,364	₱492,786

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 (see Note 16).

Retained Earnings

On June 27, 2008, the BOD resolved the declaration of stock dividend of one common share at a par value of ₱1.00 per share 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.

Undistributed retained earnings of subsidiaries and joint ventures amounting to ₱2,768.59 million ₱840.07 million, and ₱772.56 million as at December 31, 2012, 2011 and 2010, respectively, are not available for dividend declaration until these are distributed to the Parent Company.

18. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Transactions with related parties are as follows:

		December 31, 2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
Service income:				
Rental income	Stellar	₱22,586	₱107,282	₱67,464
Commission income	WNS Global	–	36,420	40,158
Service fees	WNS Philippines	–	–	162,176
		₱22,586	₱143,702	₱269,798

Advances to related parties

	Amount/Volume			Outstanding Balance			Terms and Conditions
<u>Related Party</u>	2012	2011	2010	2012	2011	2010	
<u>Common Stockholder*</u>							
UTSB Management (UTSB)	₱1,457	₱4,244	₱3,228	₱5,701	₱4,244	₱3,228	Unsecured; non-interest bearing; collectible on demand; no impairment.
NGL Pacific Limited	1,955	1,319	–	1,955	1,319	–	Unsecured; non-interest bearing; collectible on demand; no impairment.
ACS Pacific Limited	2	1,314	–	1,316	9,921	–	Unsecured; non-interest bearing; collectible on demand; no impairment.

(Forward)



Related Party	Amount/Volume			Outstanding Balance			Terms and Conditions
	2012	2011	2010	2012	2011	2010	
Others	₱3,934	₱32	₱8,428	₱3,934	₱794	₱8,428	Unsecured; non-interest bearing; collectible on demand; no impairment.
<u>Associate</u>							
WNS Philippines	–	–	30,727	–	–	30,727	Unsecured; non-interest bearing; collectible on demand; no impairment.
<u>Joint Venture</u>							
Stellar	45,814	–	7,883	421	16,164	15,913	Unsecured; non-interest bearing; collectible on demand; no impairment.
Simpro Phils	9,930	–	–	9,930	–	–	Unsecured; non-interest bearing; collectible on demand; no impairment.
ACS Dalian	3,294	157	625	4,548	157	1,289	Unsecured; non-interest bearing; collectible on demand; no impairment.
Total (see Note 8)				₱27,805	₱32,599	₱59,585	

*These companies have the same stockholders as the Company.

Advances from related parties

Related Party	Amount/Volume			Outstanding Balance			Terms and Conditions
	2012	2011	2010	2012	2011	2010	
<u>Common Stockholder*</u>							
UTSB Management (UTSB)	₱53	₱–	₱–	₱54	₱–	₱–	Unsecured; non-interest bearing; collectible on demand
Others	–	–	–	–	–	3,088	Unsecured; non-interest bearing; collectible on demand
<u>Joint Venture</u>							
Stellar	7,000	–	–	142	–	–	Unsecured; non-interest bearing; collectible on demand
<u>Shareholders</u>							
Various	–	3,021	–	–	2,959	–	Unsecured; non-interest bearing; collectible on demand
Total (see Note 15)				₱196	₱2,959	₱3,088	

*These companies have the same stockholders as the Company.



Compensation of Key Management Personnel of the Company

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Salaries and wages	₱24,748	₱26,860	₱18,195
Termination benefits	6,256	5,827	4,931
Retirement cost (see Note 23)	—	2,792	2,278
Other short-term benefits	4,987	1,043	1,166
	₱35,991	₱36,522	₱26,570

19. Costs of Services

	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
		<i>(In Thousands)</i>	
Personnel expenses (see Note 21)	₱110,318	₱196,172	₱212,716
Depreciation and amortization (see Notes 11 and 12)	43,649	46,560	26,174
Utilities	19,011	48,851	13,101
Rent (see Note 24)	18,562	33,745	10,023
Security and janitorial services	7,685	16,008	4,138
Association dues	6,154	11,343	3,066
Communication	6,093	10,355	9,137
Information technology expenses	1,911	1,419	2,305
Supplies	1,231	2,668	2,946
Licenses	133	8,603	9,983
Others	12,586	21,325	37,822
	₱227,333	₱397,049	₱331,411

20. General and Administrative Expenses

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Personnel expenses (see Note 21)	₱75,282	₱83,728	₱55,295
Professional fees	47,917	57,698	62,689
Provision for nonrecoverability of input VAT (see Note 9)	31,735	6,689	4,182
Transportation and travel	11,745	19,138	13,103
Depreciation and amortization (see Notes 11 and 12)	10,149	11,011	9,234
Taxes and licenses	8,065	17,626	14,265
Communication	7,611	8,406	2,906
Rent (see Note 24)	6,708	11,025	11,333

(Forward)



	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Provision for doubtful accounts (see Note 8)	₱10,987	₱7,165	₱10,265
Security and janitorial services	3,693	2,859	3,078
IT expenses	3,470	882	1,361
Utilities	2,954	3,685	7,171
Entertainment, amusement and recreation	2,420	3,142	3,925
Supplies	1,405	1,829	1,759
Write-off of receivables	1,055	1,381	3,537
Association dues	778	2,025	3,348
Recruitment expenses	701	1,663	5,508
Advertising	54	508	664
Provisions	—	—	7,373
Others	18,288	25,526	28,108
	₱245,017	₱265,986	₱249,104

21. Personnel Expenses

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Salaries, wages and allowances	₱153,440	₱219,487	₱210,790
Training expenses	1,874	3,423	8,703
Retirement cost (see Note 23)	145	7,394	5,542
Other employee benefits	30,141	49,596	42,976
	₱185,600	₱279,900	₱268,011

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

22. Interest Income, Interest Expense and Other Income

Interest Income

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Cash and cash equivalents and short-term deposits (Note 7)	₱56,370	₱6,820	₱33
Accretion of rental and security deposits (see Note 13)	—	1,416	2,999
Others	297	169	—
	₱56,667	₱8,405	₱3,032



Interest Expense

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Short-term loans (Note 14)	₱—	₱2,664	₱18,561
Others	25	55	98
	₱25	₱2,719	₱18,659

Other Income (Expense)

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Mark-to-market gain on derivative instruments (see Note 27)	₱1,672	₱5,472	₱2,532
Gain (loss) on sale of subsidiaries and associates (see Note 5)	(1,670)	1,697	—
Impairment loss on goodwill (see Note 6)	—	(11,080)	—
Fair market valuation of dividend (see Note 5)	—	12,383	—
Commission income	—	18,994	—
Reversal of long-outstanding payables and unused accruals	—	—	3,160
Other income	774	(801)	5,092
	₱776	₱26,665	₱10,784

Commission income represents the amounts received from WNS Netherlands on account of the Market Research Services Agreement dated January 25, 2010. As of September 30, 2011, as a result of the sale of WNS Philippines, Company's right to receive commissions from WNS Netherlands was discontinued.

23. Retirement Costs

Retirement expense pertains to accrual of expected retirement benefit of active employees in accordance with Republic Act No. 7641.

The following tables summarize the components of retirement benefits included in personnel expenses under "Costs of services" and "General and administrative expenses" accounts in the consolidated statements of income and "Accrued retirement costs" account in the consolidated statements of financial position.

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Current service cost	₱3,641	₱6,874	₱5,355
Interest cost	575	467	175
Net actuarial loss recognized during the year	52	53	12
Effect of settlement/curtailment	(4,123)	—	—
	₱145	₱7,394	₱5,542



The reconciliation of the present value of retirement obligation (PVRO) to the accrued retirement costs recognized in the consolidated statements of financial position is as follows:

	December 31, 2012	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Unfunded PVRO	₱8,423	₱8,668	₱8,873
Cumulative unrecognized actuarial loss at end of year	(4,556)	(4,557)	(1,770)
Accrued retirement costs	₱3,867	₱4,111	₱7,103

Movement in the PVRO is as follows:

	December 31, 2012	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Balance at beginning of year	₱8,668	₱8,873	₱1,227
Current service cost	3,641	6,874	5,355
Interest cost	575	467	175
Actuarial loss	51	2,840	2,116
Benefits paid	—	(7,460)	—
Disposal of a subsidiary	(389)	(2,926)	—
Curtailment gain	(4,123)	—	—
	₱8,423	₱8,668	₱8,873

In 2012, the Company's Board of Directors approved the resolution for the separation of various management employees in order to cut down its cost and recover from its operations. In effect, certain employees have been provided with separation pay based on the related years of service of each management employee. The impact of the separation on the Company's PVRO is a curtailment gain amounting to ₱4.12 million.

The principal assumptions used to determine the accrued retirement costs as at December 31, 2012 and 2011 are as follows:

	2012	2011	2010
Discount rate	6.11%	7.05%	8.67%
Rate of increase in compensation	5.00%	5.00%	3.67%
Average remaining service years	26	25	25

The PVRO and experience adjustments for the current and previous four periods are as follows:

	2012	2011	2010	2009	2008
			<i>(In Thousands)</i>		
PVRO	₱8,423	₱8,668	₱8,876	₱1,227	₱49,125
Experienced adjustment	959	52	—	(194)	(137)



24. Lease Commitments

Lease of Office Space

In 2010, the Parent Company, as a lessee, entered into a lease agreement with a third party for the lease of office space at the 15th floor of the 6750 Ayala Office Tower, Ayala Avenue, Makati City commencing on May 1, 2010 and terminating on April 30, 2011. The lease term was renewed for a period of five years from May 1, 2011 to April 30, 2016.

The Parent Company has another noncancellable lease agreement on office space units for a period of 21 months commencing on January 1, 2011 until September 30, 2012. The lease was pre-terminated in April 2012.

Lease of Workstation

On December 22, 2008, SWA as a lessee, entered into a five year contract commencing on January 1, 2009 to December 31, 2013 with LSL Realty Development Corporation for the lease of a 2,084-square meter warehouse and 1,461.7-square meter open space. The lease is renewable after expiration of the term upon mutual agreement by both parties.

On May 5, 2009, SWA as a lessee, entered into another contract with Property Index Corporation for the lease of an 820-square meter office space on the 18th floor of Citibank Centre Condominium and four parking spaces. The lease commenced on May 5, 2009 and ended on December 1, 2010. SWA renewed the contract upon expiration by extending the lease term for another three years from December 1, 2010 to December 1, 2013.

On December 7, 2009, SWA as a lessee, entered into a contract with Emmantere Corporation for the lease of 20th floor of Citibank Centre Condominium commencing on January 15, 2010 and terminated on January 15, 2011. SWA made an extension to the lease term commencing from January 16, 2011 to March 31, 2012.

Outstanding rental and security deposits on lease commitments, presented under "Other noncurrent assets" account in the consolidated statements of financial position, amounted to ₱5.35 million, ₱12.70 million and ₱11.44 million as at December 31, 2012, 2011, and 2010 respectively (see Note 13). These rental and security deposits are either refundable in cash or will be applied against unpaid rental upon termination of lease agreements.

Total rent expense from continuing operations under "Cost of services" and "General and administrative expenses" accounts in the consolidated statement of income amounted to ₱25.27 million, ₱44.77 million and ₱21.36 million in 2012, 2011 and 2010, respectively (see Notes 19 and 20).

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

	December 31, 2012	December 31, 2011 (As restated - see Note 2)	January 1, 2011 (As restated - see Note 2)
		<i>(In Thousands)</i>	
Within one year	₱8,477	₱24,502	₱54,609
After one year but not more than five years	14,030	5,257	33,033
	₱22,507	₱29,759	₱87,642



25. Income Tax

The components of provision for income tax in 2012, 2011 and 2010 are as follows:

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
	<i>(In Thousands)</i>		
Current income tax:			
Final taxes	₱3,305	₱1,361	₱402
RCIT	5,678	69	1,941
MCIT	—	1,518	1,182
Income tax based on Singapore tax laws	—	—	116
	8,983	2,948	3,641
Deferred income tax	—	3,338	16,002
	₱8,983	₱6,286	₱19,643

The reconciliation of provision for income tax computed at statutory income tax and provision for income tax as shown in the consolidated statements of income is as follows:

	2012	2011 (As restated - see Note 2)	2010 (As restated - see Note 2)
	<i>(In Thousands)</i>		
Loss from continuing operations before income tax	(₱67,140)	(₱168,183)	(₱101,305)
Benefit from income tax at statutory income tax rate at 30%	(₱20,142)	(₱50,455)	(₱30,392)
Income tax effects of:			
Net changes in unrecognized deferred tax assets	₱50,785	₱22,319	₱20,025
Nondeductible expenses	8,670	34,081	18,765
Final tax on interest income	3,305	1,361	402
Nondeductible expenses under ITH	(41,204)	(3,728)	(6,938)
Interest income subject to final tax	(6,162)	(647)	(497)
Equity in net losses (earnings) of joint ventures/associate	13,731	(11,264)	(18,414)
Nontaxable income under ITH	—	(16,093)	(7,307)
NOLCO written-off	—	30,185	43,999
MCIT written-off	—	527	—
Effective income tax	₱8,983	₱6,286	₱19,643



The following net deferred tax assets as of December 31, 2012 and 2011 were not recognized because management believes that sufficient future taxable income will not be available against which deductible temporary differences will be utilized:

	2012	2011 (As restated - Note 2)
	<i>(In Thousands)</i>	
NOLCO	₱97,291	₱252,990
MCIT	1,995	2,236
Accrued retirement costs	3,162	4,591
Allowance for doubtful accounts	3,112	14,462
Accruals and provision	2,400	5,584
Accrued rent expense	1,667	1,249
Unrealized mark-to-market loss		
Unrealized foreign exchange loss	–	1,911
Unrealized foreign exchange gain	(603)	–
	₱109,024	₱283,023

As of December 31, 2012, NOLCO and MCIT can be claimed as deduction against future taxable income and tax credits against future RCIT, respectively, as follows:

Year Incurred	Expiry Year	NOLCO	MCIT
		<i>(In Thousands)</i>	
2010	2013	₱–	₱648
2011	2014	922	1,403
2012	2015	101,645	56
		₱102,567	₱2,107

26. Financial Risk Management Objectives and Policies

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

▪ 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 84% and 16% denominated in US\$ and AU\$, respectively, as at December 31, 2012, and 93% and 7% denominated in US\$ and AU\$, respectively, as at December 31, 2011. 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 following rates of exchange have been adopted by the Company in translating foreign currency statement of comprehensive income and statement of financial position items as of and for the years ended December 31, 2012, 2011 and 2010:

	2012		2011		2010	
	Closing	Average	Closing	Average	Closing	Average
Philippine Peso to 1 unit of foreign currency:						
United States Dollar (US\$)	41.05	42.21	43.84	43.31	43.84	45.12
Australian Dollar (AU\$)	42.67	43.73	44.32	44.68	44.64	41.42

As at December 31, 2012 and 2011, the Company's significant foreign currency-denominated monetary assets and liabilities (translated in Philippine peso) are as follows:

	2012		
	In US\$	In AU\$	Peso Equivalent
	<i>(In Thousands)</i>		
Assets:			
Cash and cash equivalents	US\$69,292	AU\$8,953	₱3,273,586
Trade and other receivables	8,584	—	356,195
Advances to related parties	30	—	1,233
	77,906	8,953	3,631,014
Liabilities:			
Accounts payable and other current liabilities	59	—	2,421
Derivative liability	—	—	—
	59	—	2,421
Net foreign currency-denominated monetary assets	₱77,847	₱8,953	₱3,628,593



	2011		
	In US\$	In AU\$	Peso Equivalent
	<i>(In Thousands)</i>		
Assets:			
Cash and cash equivalents	US\$1,354	AU\$12	₱59,891
Trade and other receivables	1,640	106	76,556
Advances to related parties	30	–	1,315
	3,024	118	137,762
Liabilities:			
Accounts payable and other current liabilities	28	–	1,227
Derivative liability	7	–	309
	35	–	1,536
Net foreign currency-denominated monetary assets	US\$2,989	AU\$118	₱136,226

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

	2012	
	Increase (Decrease) in Exchange Rates	Increase (Decrease) on Income Before Tax
		<i>(In Thousands)</i>
US\$	1.03	₱79,907
	(1.03)	(79,907)
AU\$	0.82	7,298
	(0.82)	(7,298)
	2011	
	Increase (Decrease) in Exchange Rates	Increase (Decrease) on Income Before Tax
		<i>(In Thousands)</i>
US\$	1.60	₱4,792
	(1.60)	(4,792)
AU\$	1.21	142
	(1.21)	(142)

The decrease in Philippine Peso to US\$ and AU\$ means stronger peso against the US\$ rates while increase in Philippine Peso to US\$ and AU\$ rate means stronger foreign rates against peso

▪ 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.



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

	2012	2011 (As restated - Note 2)
	<i>(In Thousands)</i>	
Loans and receivables:		
Cash and cash equivalents ^(a)	₱3,899,963	₱417,623
Trade and other receivables - net ^(b)	83,990	135,779
Escrow fund ^(c)	298,808	50,216
Rental and security deposits - net ^(d)	5,347	12,701
Derivative assets	1,358	—
Total credit risk exposure	₱4,289,466	₱616,319

^(a)Excluding cash on hand amounting to ₱131 and ₱148 as at December 31, 2012 and 2011, respectively.

^(b)Excluding statutory receivables and advances to suppliers and contractors amounting to ₱247 and ₱1,123 as at December 31, 2012 and 2011, respectively.

^(c)Included under "Other current assets."

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



The analysis of the Company's financial assets that were past due but not impaired as at December 31, 2012 and 2011 follows:

2012									
	Neither Past Due nor Impaired	Past Due but not Impaired							
		<30 Days	30–60 Days	60–90 Days	90–120 Days	>120 Days	Total	Impaired	Total
(In Thousands)									
Cash and cash equivalents ^(a)	₱3,899,963	₱—	₱—	₱—	₱—	₱—	₱—	₱—	₱3,899,963
Trade receivables	3,814	—	9,295	232	1,055	41,842	52,424	15,692	71,930
Advances to related parties	27,805	—	—	—	—	—	—	—	27,805
Other receivables ^(b)	194	—	—	—	—	—	—	9,523	9,717
Escrow fund ^(c)	298,808	—	—	—	—	—	—	—	298,808
Rental and security deposits ^(d)	5,347	—	—	—	—	—	—	—	5,347
	₱4,235,931	₱—	₱9,295	₱232	₱1,055	₱41,842	₱52,424	₱25,215	₱4,313,570

^(a)Excluding cash on hand amounting to ₱131.

^(b)Excluding statutory receivables, advances to suppliers and contractors and accrued revenue amounting to ₱247.

^(c)Included under "Other current assets."

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

		2011 (As restated - see Note 2)							
	Neither Past Due nor	Past Due but not Impaired							
	Impaired	<30 Days	30–60 Days	60–90 Days	90–120 Days	>120 Days	Total	Impaired	Total
(In Thousands)									
Cash and cash equivalents ^(a)	₱417,623	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱417,623
Trade receivables	53,189	–	18,148	370	1,361	15,094	34,973	14,072	102,234
Advances to related parties	32,599	–	–	–	–	–	–	–	32,599
Other receivables ^(b)	15,018	–	–	–	–	–	–	403	15,421
Escrow fund	50,216	–	–	–	–	–	–	–	50,216
Rental and security deposits ^(c)	12,701	–	–	–	–	–	–	–	12,701
	₱581,346	₱–	₱18,148	₱370	₱1,361	₱15,094	₱34,973	₱14,475	₱630,794

^(a)Excluding cash on hand amounting to ₱148.

^(b)Excluding statutory receivables, advances to suppliers and contractors and accrued revenue amounting to ₱1,123.

^(c)Included under "Other current assets."

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



The table below shows the credit quality of the Company's financial assets classified as neither past due nor impaired as at December 31, 2012 and 2011:

	2012		
	Neither Past Due nor Impaired		
	High Quality	Standard Quality	Total
	(In Thousands)		
Cash and cash equivalents ^(a)	₱3,899,963	₱—	₱3,899,963
Trade and other receivables - net ^(b)	30,247	1,566	31,813
Escrow fund ^(c)	298,808	—	298,808
Rental and security deposits - net ^(d)	5,347	—	5,347
	₱4,234,365	₱1,566	₱4,234,931

^(a)Excluding cash on hand amounting to ₱131.

^(b)Excluding statutory receivables and advances to suppliers and contractors amounting to ₱247.

^(c)Included under "Other current assets".

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

	2011 (As restated - see Note 2)		
	Neither Past Due nor Impaired		
	High Quality	Standard Quality	Total
Cash and cash equivalents ^(a)	₱417,623	₱—	₱417,623
Trade and other receivables - net ^(b)	99,073	1,733	100,806
Escrow fund ^(c)	50,216	—	50,216
Rental and security deposits - net ^(d)	12,701	—	12,701
	₱579,613	₱1,733	₱581,346

^(a)Excluding cash on hand amounting to ₱148.

^(b)Excluding statutory receivables and advances to suppliers and contractors amounting to ₱1,123.

^(c)Included under "Other current assets".

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

Credit Quality of Financial Assets

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

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

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

▪ Liquidity Risk

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

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



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

The table below summarizes the maturity profile of the Company's financial assets and financial liabilities used to manage liquidity as at December 31, 2012 and 2011 under continuing operations based on contractual undiscounted payments.

2012						
	Within 30 Days	31–60 Days	61–90 Days	91–120 Days	121–240 Days	Total
<i>(In Thousands)</i>						
Financial Assets						
Cash and cash equivalents ^(a)	₱3,899,963	₱–	₱–	₱–	₱–	₱3,899,963
Trade and other receivables – net ^(b)	31,566	9,295	232	1,055	41,842	83,990
Escrow fund	32,970	–	–	–	265,838	298,808
Derivative asset	1,358	–	–	–	–	1,358
Total undiscounted financial assets	3,965,857	9,295	232	1,055	307,680	4,284,119
Financial Liabilities						
Trade payables	6,755	–	–	–	–	6,755
Accrued expenses	27,235	674	728	737	26,263	55,637
Other current liabilities	26,723	–	–	–	–	26,723
Advances from related parties	196	–	–	–	–	196
Dividends payable	–	–	–	–	6,554	6,554
Total undiscounted financial liabilities	60,909	674	728	737	32,817	95,865
Net undiscounted financial assets (liabilities)	₱3,904,948	₱8,621	(₱496)	₱318	₱274,863	₱4,188,254

^(a)Excluding cash on hand amounting to ₱131.

^(b)Excluding statutory receivables and advances to suppliers and contractors amounting to ₱247.

2011 (As restated - see Note 2)						
	Within 30 Days	31–60 Days	61–90 Days	91–120 Days	121–240 Days	Total
<i>(In Thousands)</i>						
Financial Assets						
Cash and cash equivalents ^(a)	₱417,623	₱–	₱–	₱–	₱–	₱417,623
Trade and other receivables - net ^(b)	100,806	18,148	370	1,361	15,094	135,779
Escrow fund	50,216	–	–	–	–	50,216
Total undiscounted financial assets	568,645	18,148	370	1,361	15,094	603,618
Financial Liabilities						
Trade payables	14,098	–	–	–	–	14,098
Accrued expenses	60,210	–	–	–	–	60,210
Other current liabilities	8,317	–	–	–	–	8,317
Advances from related parties	2,959	–	–	–	–	2,959
Derivative liability	316	–	–	–	–	316
Dividends payable	–	–	–	–	6,554	6,554
Total undiscounted financial liabilities	85,900	–	–	–	6,554	92,454
Net undiscounted financial assets (liabilities)	₱482,745	₱18,148	₱370	₱1,361	₱8,540	₱511,164

^(a)Excluding cash on hand amounting to ₱148.

^(b)Excluding statutory receivables and advances to suppliers and contractors amounting to 1,123.

Capital Management

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

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



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

	2012	2011	2010
	<i>(In Thousands)</i>		
Capital stock	₱1,071,773	₱1,071,773	₱1,071,773
Additional paid-in capital	451,364	451,364	492,786
Retained earnings	2,963,402	591,390	462,912
Other comprehensive income reserve	(168,374)	(47,712)	143,818
	₱4,318,165	₱2,066,815	₱2,171,289

27. 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 as at December 31, 2012 and 2011 are as follows:

	2012		2011 (As restated - see Note 2)		2010 (As restated - see Note 2)	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets	<i>(In Thousands)</i>					
Loans and receivables:						
Cash and cash equivalents	₱3,899,963	₱3,899,963	₱417,623	₱417,623	₱1,040,255	₱1,040,255
Trade and other receivables - net ^(a)	83,990	83,990	135,779	135,779	305,315	305,315
Escrow fund ^(b)	298,808	298,808	50,216	50,216	—	—
Rental and security deposits ^(c)	5,347	5,154	12,701	13,546	11,561	12,215
FVPL -						
Derivative assets	1,358	1,358	—	—	5,779	5,779
	₱4,289,466	₱4,289,273	₱616,319	₱617,164	₱1,362,910	₱1,363,564
Financial Liabilities						
Other financial liabilities:						
Accounts payable and other current liabilities ^(d)	₱89,311	₱89,311	₱85,584	₱85,584	₱1,728,646	₱1,728,646
Dividends payable	6,554	6,554	6,554	6,554	8,211	8,211
Fair value through profit or loss:						
Derivative liability ^(e)	—	—	316	316	22,771	22,771
	₱95,865	₱95,865	₱92,454	₱92,454	₱1,759,628	₱1,759,628

^(a) Excluding statutory receivable, and advances to suppliers and contractors amounting to ₱247, ₱1,123 and ₱1,838 as at December 31, 2012 and 2011 and January 1, 2011.

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

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

^(d) Excluding statutory payables, unearned income and lease incentive amounting to ₱8,501, ₱7,273 and ₱80,597 as at December 31, 2012 and 2011 and January 1, 2011 respectively.

^(e) Included under "Other noncurrent liabilities".



²The 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, Cash Held in Trust, Trade and Other Receivables, Advances to and from Related Parties, Short-term Loans, Accounts Payable and Other Current Liabilities, Dividends Payable and Advances from Creditors

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

Rental and Security Deposit

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. The discount rates used in determining the fair values of refundable deposits range from 5.17% to 4.30% in 2012 and 2011, respectively.

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.

Below are the list of financial assets and liabilities at fair value that are determined using Level 2 of fair value hierarchy as at December 31, 2012 and December 31, 2011.

	2012	2011
	<i>(In Thousands)</i>	
Continuing operations		
Derivative assets	₱1,358	₱-
Derivative liability	-	(316)
	₱1,358	(₱316)

For the years ended December 31, 2012 and 2011 there were no transfers between Level 1 and Level 2 fair value measurements. The Company has no financial instruments measured at fair value under Level 1 and 3 both in 2012 and 2011.

Derivatives

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. As at December 31, 2012, the contracts have a positive fair value of ₱1.36 million.

In 2011, the Company entered into buy Peso and sell US Dollar forward contract with an aggregate notional amount of US\$8.86 million (of which US\$1.6 million is still outstanding as at December 31, 2011) and a weighted average contracted forward rate of ₱43.429 to US\$1.00. The forward contracts outstanding as at December 31, 2011 have various maturities in 2012. As at December 31, 2011, the contracts have a net negative fair value of ₱0.31 million.



The net movements in fair value changes of all derivative instruments for the year ended December 31, 2012 and 2011 follows:

	2012	2011
	<i>(In Thousands)</i>	
Balance at beginning of period/year	(P315)	P1,324
Net changes in fair value of derivatives not designated as accounting hedges	6,099	3,833
	5,784	5,157
Less fair value of settled instruments	(4,426)	(5,472)
Balance at end of period/year	P1,358	(P315)
Presented as:		
Derivative assets	P1,358	P-
Derivative liability	-	(315)
	P1,358	(P315)

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). The net changes in fair values of the derivative instruments are recognized directly in the Company's statements of comprehensive income under "Mark-to-market gain" account.

28. Earnings (Loss) Per Share Computation

Basic earnings (loss) per share (EPS) is determined by dividing net income (loss) by the weighted average number of common shares outstanding during the year, with retroactive adjustments for any stock dividends declared.

Diluted earnings (loss) per common share is computed in the same manner, adjusted for the effect of the shares issuable to qualified directors, officers and employees under the Parent Company's stock option plan which is assumed to be exercised at the date of grant.

Where the effect of the exercise of stock options is anti-dilutive, basic and diluted earnings per share are stated at the same amount.

The following table presents information necessary to calculate earnings per share:

	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
	<i>(In Thousands, Except Earnings (Loss) Per Share)</i>		
Net income (loss) attributable to Equity			
Holders of Parent Company from:			
Continuing operations (a)	(P75,867)	(P170,027)	(P94,909)
Discontinued operation (b)	2,448,135	298,505	(149,936)
Common shares outstanding at			
beginning of year	1,148,534,866	1,148,534,866	1,148,534,866
Weighted shares issued during the year	-	-	-
Weighted average shares outstanding (c)	1,148,534,866	1,148,534,866	1,148,534,866

(Forward)



	2012	2011 (As restated - Note 2)	2010 (As restated - Note 2)
<i>(In Thousands, Except Earnings (Loss) Per Share)</i>			
Basic loss per share:			
Loss from continuing operations after income tax (a/c)	(P0.07)	(P0.15)	(P0.08)
Income (loss) from discontinued operation after income tax (b/c)	2.13	0.26	(0.13)
Diluted earnings (loss) per share			
Loss from continuing operations after income tax (a/c)	(P0.07)	(P0.15)	(P0.08)
Income (loss) from discontinued operation after income tax (b/c)	2.13	0.26	(0.13)

Net income and loss in 2011 and 2010 were restated due to reclassification of Paxys A.U.'s results of operations to discontinuing in 2011 for comparative purposes and adoption of equity accounting of share of earnings of joint ventures.

2012-2010

Earnings (loss) per share is calculated by dividing the net income for the year by number of common shares outstanding all throughout 2010 (see Note 21).

29. Registration with the Board of Investments (BOI)

Stellar were registered with the BOI under the Omnibus Investments Code of 1987 as a pioneer of new information technology export service firm in the field of operation of an inbound and outbound call centers on January 4, 2008. As a registered enterprise, Stellar is entitled to certain tax and non-tax incentives which include, among others, ITH for six years from August 1, 2008. The Company is required to, among others, export at least 70.0% of Stellar total services, and secure prior BOI approval before it can invest in, extend loans, or buy bonds, in substantial amount, from any enterprise either in the Philippines or abroad, expand its capacity (with or without incentives), and transfer ownership and/or control of the Company.

On November 25, 2009, SWA's registration of its expanding business process outsourcing service in the field of data transcription activity was approved by the BOI. This certification entitles SWA to a three year income tax holiday starting December 2009. As a registered entity SWA among others, is required to export at least 70.0% of its total services.

No ITH incentives availed in 2012 and 2011.





SyCip Gorres Velayo & Co.
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www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Paxys, Inc. and Subsidiaries as at December 31, 2012 and 2011 and January 1, 2011 and for each of the three years in the period ended December 31, 2012, included in this Form 17-A, and have issued our report thereon dated March 22, 2013. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Editha V. Estacio

Partner

CPA Certificate No. 91269

SEC Accreditation No. 1136-A (Group A),

July 6, 2011, valid until July 5, 2014

Tax Identification No. 178-486-845

BIR Accreditation No. 08-001998-94-2011,

February 4, 2011, valid until February 3, 2014

PTR No. 3669679, January 2, 2013, Makati City

March 22, 2013



**PART VII- INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES**

Item 14

**PAXYS, INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2012**

SCHEDULES		REMARKS
A.	Marketable Securities	The Group currently does not have Current Marketable Equity Securities as of the balance sheet date. Short term deposits do not constitute 10% or more of the total assets.
B.	Amounts Receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	These are mainly cash advances in the ordinary course of business such as for travel and expense advances. These are normally liquidated within thirty (30) days from availment date as salary deductions.
C.	Noncurrent Marketable Equity Securities, Other Long-Term Investments in Stocks, and Other Investments	None.
D.	Indebtedness of Unconsolidated Subsidiaries and Related Parties	The amount of indebtedness of Related Parties to the registrant as of the balance sheet date does not exceed 5% of total assets.
E.	Intangible Assets	See supplementary schedule.
F.	Long-term Debt	None.
G.	Indebted to Related Parties	The total indebtedness to related parties does not exceed 5% of total assets.
H.	Guarantees of Securities of Other Issuers	None.
I.	Capital Stock	See supplementary schedule.
J.	Reconciliation of Retained Earnings for dividend declaration	See supplementary schedule.

Paxys Inc. and Subsidiaries
Schedule E: Intangible Assets
December 31, 2012
(Amount in Thousands)

Description	Net Book Value, beginning	Additions	Amortization	Net Book Value, end
<u>With definite useful life</u> Website and Software Packages	₱10,941	₱1,451	(₱4,222)	₱8,170

Paxys Inc. and its subsidiaries
Schedule I: Capital Stock
December 31, 2012

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Minority Stockholders
Common	1,800,000,000	1,148,534,866	25,758,000 ⁵	849,420,864	8,295,480	299,114,002

⁵ Derived as Maximum shares allocated for stock options (50,000,000 shares) less shares exercised and issued in years 2006-2009 (24,242,000shares).

Paxys, Inc.

15F 6750 Ayala Office Tower, Ayala Avenue, Makati City

Unappropriated Retained Earnings, beginning per books		(P123,645,813)
Accumulated non-actual/ unrealized income and expenses in prior years		(42,982,461)
Unappropriated Retained Earnings, as adjusted, beginning		(166,628,274)
Add: Net income actually earned realized during the period		
Net income (loss) during the period closed to Retained earnings	P37,367,629	
Unrealized foreign exchange gain – net	(12,695,200)	
Net income (loss) actually earned during the period		24,672,429
Total Retained Earnings (Deficit), End – Available for Dividend Declaration		(P141,955,845)

Below is the Group's organizational structure as of December 31, 2012:

