



111142018001893

**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

Barcode Page

The following document has been received:

Receiving Officer/Encoder : Buen Jose Mose - COS
Receiving Branch : SEC Head Office
Receipt Date and Time : November 14, 2018 03:50:07 PM
Received From : Head Office

Company Representative

Doc Source

Company Information

SEC Registration No.	AS93005277
Company Name	LBC EXPRESS HOLDINGS, INC.
Industry Classification	Real Estate Activities
Company Type	Stock Corporation

Document Information

Document ID	111142018001893
Document Type	17-Q (FORM 11-Q: QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	September 30, 2018
No. of Days Late	0
Department	CFD
Remarks	

COVER SHEET

SEC Registration Number

A S O 9 3 0 0 5 2 7 7

COMPANY NAME

L	B	C		E	X	P	R	E	S	S		H	O	L	D	I	N	G	S	,		I	N	C	.				
(F	O	R	M	E	R	L	I	Y		F	E	D	E	R	A	L		R	E	S	O	U	R	C	E	S		
I	N	V	E	S	T	M	E	N	T		G	R	O	U	P		I	N	C	.)								

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

L	B	C		H	A	N	G	A	R	,		G	E	N	E	R	A	L		A	V	I	A	T	I	O	N		
C	E	N	T	R	E	,		D	O	M	E	S	T	I	C		A	I	R	P	O	R	T						
R	O	A	D	,		P	A	S	A	Y		C	I	T	Y	,		M	E	T	R	O		M	A	N	I	L	A

Form Type

1 7 - Q

Department requiring the report

S E C

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number

856-8510

Mobile Number

N/A

No. of Stockholders

485

Annual Meeting (Month / Day)

2nd Monday of June

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATIONThe designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Enrique V. Rey, Jr.

Email Address

evrey@lbcexpress.com

Telephone Number/s

856-8510

Mobile Number

CONTACT PERSON'S ADDRESS

LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila

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

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

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

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

1. For the quarterly period ended: September 30, 2018
2. SEC Identification Number: ASO93-005277
3. BIR Taxpayer Identification Number: 002-648-099-000
4. Exact name of issuer as specified in its charter: LBC EXPRESS HOLDINGS, INC. (formerly FEDERAL RESOURCES INVESTMENT GROUP INC.)
5. Province, country or other jurisdiction of incorporation or organization: Philippines
6. Industry Classification Code: _____ (SEC Use Only)
7. Address of issuer's principal office: LBC Hangar, General Aviation Center, Domestic Airport Road, Pasay City 1300
8. Issuer's telephone number, including area code: (632) 856 8510
9. Former name, former address and former fiscal year, if changed since last report

Federal Resources Investment Group Inc.
No. 35 San Antonio Street, San Francisco del Monte,
Quezon City 1105

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

As at September 30, 2018:

Title of Each Class	Number of Shares of Common Stock
	Outstanding and Amount of Debt
COMMON SHARES	Outstanding 1,425,865,471 ¹
BOND PAYABLE	1,095,184,445 ²
DERIVATIVE LIABILITY	1,528,749,060 ²

11. Are any or all of the securities listed on a Stock Exchange?

Yes ☒ No ☐

Name of Stock Exchange: Philippine Stock Exchange

Class of securities listed: Common shares³

12. Indicate by check mark whether the registrant:

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

Yes ☒ No ☐

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

Yes ☒ No ☐

¹ Inclusive of 1,388,357,471 common shares which are exempt from registration.

² Related to convertible instrument at an aggregate principal amount of \$50 million.

³ As at September 30, 2018, 40,899,000 common shares have been listed with Philippine Stock Exchange. The remaining 1,384,966,471 are subject to listing applications filed with the Philippine Stock Exchange.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The Unaudited Interim Financial Statements of the Company as at and for the period ended September 30, 2018 and Notes to Financial Statements are hereto attached as Annex "A".

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017

Service Revenues

The Company's service revenues increased by 23% to ₱9,114 million for the nine months ended September 30, 2018 from ₱7,398 million for the nine months ended September 30, 2017, primarily due to the increase in revenues from the Logistics segment attributable to growth in both retail and corporate sales by 26% and 30%, respectively.

Logistics

Revenues from logistics segment by 27% to ₱8,400 million for the nine months ended September 30, 2018 from ₱6,597 million for the nine months ended September 30, 2017 mostly associated to growth in volume by 72%. The increase in volume of services was mainly attributable to the horizontal growth of the Company, evidenced by the net addition of 58 branches in the Philippines, continuous growth of local small-medium-entity (SME) and large enterprise clients (LENT) and introduction of new product i.e. Cash-on-Delivery / Cash-on-Pick up.

Newly acquired entities contributed logistic revenues amounting to ₱494 million during the period, which constitutes 6% share in the total logistics revenue.

Cost of Services

Cost of services is up by 24% to ₱6,059 million for the nine months ended September 30, 2018 from ₱4,889 million for the nine months ended September 30, 2017, relative to growth of volume in logistics services which resulted to increase in cost of delivery and remittance by 34%. This includes ₱219 million costs of delivery and remittance incurred by the acquired entities for the nine months ended September 30, 2018.

There is a higher organic headcount to cover the additional branches and volume growth during the period, thus, the increase in salaries and benefits by 9%. Rentals and utilities and supplies spiked by 18% and 29%, respectively, with the Company's continuous expansion on its branches and warehouses.

Gross Profit

Gross profit increased by 22% to ₱3,055 million for the period ended September 30, 2018 from ₱2,509 million for the period ended September 30, 2017, which is primarily volume driven. Change in the gross profit ratio is minimal at 0.4% increase in 2018 as compared to similar period in 2017.

Operating Expenses

Operating expenses has an increment of 12% to ₱1,784 million for the nine months ended September 30, 2018 from ₱1,596 million for the nine months ended September 30, 2017, as a net result of the following:

Salaries and wages expenses by 23% or ₱86 million relative to annual appraisal resulting from inflation and the implementation of TRAIN Law which increases the fringe benefit tax rate from 32% to 35%. Staff costs amounting to ₱34 million of the acquired entities during the period also resulted to additional expenses.

Advertising and promotion is higher by 51% or ₱62 million mainly incurred on television commercial for the Company campaign and brand management.

Dues and subscription is up by ₱33 million primarily due to cloud subscription fee incurred for the period ended September 30, 2018. This cloud subscription in which contract is effective August 2017, tends to replace the maintenance costs, thus, a decline of 20% in the latter account.

Provision for impairment loss also increased by ₱23 million mainly due to adoption of the new standard, PFRS 9, which requires to record an allowance for impairment loss for all loans and other debt financial assets not held at fair value at profit and loss. This resulted to additional provision from the change in forecast and model assumptions.

Other Income, Net

Other income, net spike to ₱380 million for the nine months ended September 30, 2018 from ₱116 million for the nine months ended September 30, 2017, because of:

Foreign exchange gain, net is higher by 54% or ₱62 million which is from the foreign exchange trading, valuation of cash and cash equivalents denominated in US dollars and convertible bond valuation.

Gain on derivative amounting to ₱332 million is recognized as a result of lower estimated fair value of derivative liability as at September 30, 2018 as compared to the value as at December 31, 2017. This is mostly from the decline of share price from ₱17.00 to ₱14.20.

Others include gain on bargain purchase resulting from business combination with LBC Mabuhay Saipan, Inc. amounting to ₱2 million and equity in net earnings of an associate amounting to ₱9 million.

Interest expense is up by 100% or ₱82 million primarily due to interest expense related to bond payable.

Net income after tax

Net income after tax increased by 73% to ₱1,278 million for the period ended September 30, 2018 from ₱740 million for the period ended September 30, 2017 mainly because of the following reasons:

- Growth in gross profit by 22% resulted from the increase in volume;
- Higher gain on derivative amounting to ₱258 million; and
- Increase in unrealized foreign exchange gain related to valuation of dollar denominated cash and cash equivalents.

Quarter ended September 30, 2018 compared to the quarter ended September 30, 2017

Service Revenues

The Company's service revenues increased by 34% to ₱3,331 million for the quarter ended September 30, 2018 from ₱2,489 million for the quarter ended September 30, 2017, mostly from the growth in both retail and corporate logistics sales by 42% and 32%, respectively.

Logistics

Revenues from logistics segment is higher by 38% to ₱3,091 million for the quarter ended September 30, 2018 from ₱2,232 million for the quarter ended September 30, 2017 is mainly associated to growth in volume of by 33%. Net addition of 58 branches in the Philippines, introduction of new products and services this year and acquisition of affiliates contributed to this increase

Cost of Services

Cost of services is higher by 36% to ₱2,240 million for the quarter ended September 30, 2018 from ₱1,647 million for the quarter ended September 30, 2017, relative to growth of volume in logistics services which resulted to increase in cost of delivery and remittance by 49%.

Salaries and benefits is higher by 16% as operations added manpower to cover volume growth. Rentals and utilities and supplies increased by 22% and 51%, respectively, as well, mostly from expansion of branches and warehouses.

Gross Profit

Gross profit increased by 30% to ₱1,091 million for the quarter ended September 30, 2018 from ₱842 million for the quarter ended September 30, 2017, which is primarily volume driven.

Operating Expenses

Operating expenses has increment of 42% to ₱787 million for the quarter ended September 30, 2018 from ₱554 million for the quarter ended September 30, 2017, relative to the following:

Salaries and wages expenses by 38% or ₱48 million due to annual appraisal resulting from inflation and the implementation of TRAIN Law which increases the fringe benefit tax rate from 32% to 35%.

Advertising and promotion is higher by ₱52 million mainly incurred on television commercial for the Company campaign and brand management.

Dues and subscription is up by ₱13 million primarily due to cloud subscription fee incurred for the quarter ended September 30, 2018.

Other Income, Net

Other income, net is materially dropped by ₱234 million during the quarter ended September 30, 2018 mainly caused by:

Loss on derivative amounting to ₱108 million is primarily because of lower estimated fair value of derivative liability as at September 30, 2018 as compared to the value as at June 30, 2018.

Foreign exchange gain, net is down by ₱40 million which is from the foreign exchange trading and valuation of cash and cash equivalents denominated in US dollars.

Interest expense is up by 58% or ₱16 million primarily due to interest expense related to bond payable.

Net income after tax

Net income after tax significantly dropped by 71% to ₱85 million for the quarter ended September 30, 2018 from ₱291 million for the quarter ended September 30, 2017 mainly due to the following reasons:

- Increase in operating expenses by 42% or ₱233 million;
- Loss on derivative amounting to ₱108 million;
- Decline in foreign exchange gain amounting to ₱40 million; and
- Higher interest expense by ₱16 million.

FINANCIAL CONDITION

As at September 30, 2018 compared to as at December 31, 2017

Assets

Current Asset:

Cash and cash equivalents declined by 10% to ₱3,390 million as at September 30, 2018 from ₱3,778 million as at December 31, 2017. Refer to analysis of cash flows in “Liquidity” section below.

Trade and other receivables, net increased by 0.42% to ₱1,683 million as at September 30, 2018 from ₱1,676 million as at December 31, 2017 primarily from additional receivable from the newly acquired domestic entity.

Due from related parties is higher by 51% to ₱1,011 million as at September 30, 2018 from ₱668 million as at December 31, 2017, mainly attributable to advances for subscription of shares of entities under LBC Express Holdings USA Corporation amounting to ₱446 million in the second quarter. The acquisition of North America entities is still subject to regulatory conditions.

Investment at fair value through profit or loss has increment of 30% to ₱575 million as at September 30, 2018 from ₱441 million as at December 31, 2017, primarily attributable to redemption of investment amounting to ₱779 million during the quarter, offset by placement of ₱669 million for working capital requirement. There is also gain from foreign currency translation and fair value valuation of ₱18 million and ₱6 million, respectively.

Prepayments and other current assets increased by 52% to ₱678 million as at September 30, 2018 from ₱446 million as at December 31, 2017, due to higher input value-added tax (VAT), materials and supplies inventory, prepaid taxes and creditable withholding taxes (CWT) by ₱42 million, ₱31 million, ₱24 million and ₱36 million, respectively. Further, marketable securities with maturity of more than three months is also up by ₱58 million due to net acquisitions in 2018 amounting to ₱50 million.

Non-current Assets

Property and equipment, net increased by 28% to ₱1,253 million as at September 30, 2018 from ₱976 million as at December 31, 2017, primarily due to additions to computer hardware and construction in progress related to branches and warehouse which resulted to an increase in net book value by 19% and 852%, respectively. Further, additions through business combination amounting to ₱91 million also contributed to the increment.

Intangibles, net is higher by 33% to ₱473 million as at September 30, 2018 from ₱357 million as at December 31, 2017, mostly from additional intangible assets acquired through business combination amounting to ₱48 million for the nine months ended September 30, 2018. In addition, the Company

acquired web filtering software amounting to P15 million, on a non-interest bearing payment arrangement over 18 months.

Investment at fair value through other comprehensive income is lower by 10% to P400 million as at September 30, 2018 from P445 million as at December 31, 2017, relative to movement in market price from P1.97/share to P2.16/share.

Investment in associate amounting to P237 million is the result of acquisition of 30% equity interest of Orient Freight International, Inc. on March 19, 2018.

Purchased goodwill amounting to P512 million resulted from acquisition of equity interest in domestic and overseas entities during the nine months ended September 30, 2018.

Liabilities

Accounts payable and accrued expenses is up by 54% to P2,474 million as at September 30, 2018 from P1,603 million as at December 31, 2017, primarily due to higher payables to outside parties by 72% or P454 million. Significant portion of the increase is from the acquired entities during 2018 amounted to P350 million. Accrued rent and utilities, deferred output VAT and advertising also increased by P33 million, P57 million and P46 million, respectively. Further, unearned revenue account is higher by P106 million attributable to undelivered sea and air cargo for the nine months ended September 30, 2018.

Notes payable (current and noncurrent) decreased by 18% to P850 million as at September 30, 2018 from P1,041 million as at December 31, 2017, primarily attributable to higher settlement of notes payable during the quarter amounting to P342 million, offset by additional availments of short-term notes payable amounting to P150 million.

Transmissions liability dropped by 29% to P418 million as at September 30, 2018 from P588 million as at December 31, 2017, mainly attributable to lower amount of merchant liability (from bills payment).

Income tax payable is down by 30% to P87 million as at September 30, 2018 from P125 million as at December 31, 2017, resulting from lower taxable income for the third quarter of 2018.

Lease liabilities (current and noncurrent) declined by 7% to P110 million as at September 30, 2018 from P118 million as at December 31, 2017 due to settlements during the quarter amounting to P21 million, offset by additional liability for service vehicles acquired through finance lease amounting to P9 million.

Retirement benefit liability is higher by 1% to P713 million as at September 30, 2018 from P705 million as at December 31, 2017 due to the net retirement benefit expense recognized for the period.

Bond payable increased by 22% to P1,095 million as at September 30, 2018 from P896 million as at December 31, 2017 traceable mainly from accretion of interest and impact of higher exchange rate amounting to P117 million and P82 million, respectively.

Derivative liability dropped by 18% to P1,529 million as at September 30, 2018 from P1,860 million as at December 31, 2017 related to fair value gain resulting from lower share price.

Other liabilities decreased by 20% to P95 million as at September 30, 2018 from P118 million as at December 31, 2017 mainly from amortization of existing liabilities related to computer infrastructure, payroll and logistic systems and IT security tool.

LIQUIDITY

Cash Flows

Nine months ended September 30, 2018 compared to the nine months ended September 30, 2017

Cash flows from operating activities

The Company's net cash from operating activities is primarily affected by income before income tax, depreciation and amortization, retirement benefit expense, interest income and expense, unrealized foreign exchange gain, gain on derivative, equity in net earnings of an associate, gain on bargain purchase, gain or loss on disposal of property and equipment and changes in working capital. The Company's net cash from operating activities amounted to ₱1,041 million and ₱806 million for the nine months ended September 30, 2018 and 2017, respectively.

For the nine months ended September 30, 2018, inflow from operating activities were generally from normal operations.

Cash flows from investing activities

Net cash used in investing activities for the nine months ended September 30, 2018 and 2017 amounted to ₱1,391 million and ₱464 million, respectively.

Significant proceeds from investing activities in 2018, relates to the redemption of investment in UITF classified as available-for-sale and cash acquired through business combination amounting to ₱669 million and ₱378 million, respectively.

Cash payments during the period ended September 30, 2018 are mostly from acquisition of available-for-sale investment, property and equipment, associate amounting to ₱779 million, ₱405 million and ₱218 million, respectively, settlement of due to related parties amounting to ₱614 million and payment of investment in subsidiaries amounting to ₱317 million.

Cash flow from financing activities

Net cash used in and generated from financing activities for the nine months ended September 30, 2018 and 2017 amounted to ₱223 million and ₱1,981 million, respectively. The net cash movement is primarily associated with following:

Cash proceeds are mainly from availment of bank loans amounting to ₱150 million and ₱220 million for the nine months ended September 30, 2018 and 2017, respectively, issuance of convertible instrument amounting to ₱2,506 million for the period ended 2017 (nil in period ended 2018) and granting of advances due to related parties amounting to ₱33 million.

Significant cash settlement is mostly from payment of notes payable and dividends payable amounting to ₱342 million and ₱511 million for 2018 and 2017, respectively.

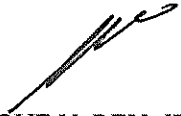
PART II -- OTHER INFORMATION

There is no other information not previously reported in SEC Form 17-C that needs to be reported in this section.

SIGNATURE

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

LBC EXPRESS HOLDINGS, INC.



ENRIQUE V. REY, JR.
Chief Finance Officer

November 14, 2018

LBC Express Holdings, Inc.
and Subsidiaries

Unaudited Interim Condensed Consolidated
Financial Statements

As at September 30, 2018 and
for the Nine Months Ended
September 30, 2018 and 2017

*(With Comparative Audited Consolidated Statement
of Financial Position as at
December 31, 2017)*

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(With Comparative Audited Figures as at December 31, 2017)

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 22 and 23)	₱3,390,302,787	₱3,778,408,492
Trade and other receivables (Notes 2, 5, 22 and 23)	1,682,820,776	1,675,801,822
Due from related parties (Notes 16, 22 and 23)	1,010,833,245	667,717,635
Investment at fair value through profit or loss (Notes 2, 9, 22 and 23)	574,608,822	—
Available-for-sale investments (Notes 2, 9, 22 and 23)	—	440,763,495
Prepayments and other current assets (Note 6)	678,132,709	446,131,160
Total Current Assets	7,336,698,339	7,008,822,604
Noncurrent Assets		
Property and equipment (Note 7)	1,253,561,169	976,053,401
Intangible assets (Note 8)	472,893,663	356,850,011
Investment at fair value through other comprehensive income (Notes 2, 9, 22 and 23)	399,873,152	—
Available-for-sale investments (Notes 2, 9, 22 and 23)	—	444,736,969
Deferred tax assets - net (Notes 2 and 19)	315,266,584	289,524,039
Security deposits (Note 20)	301,910,085	255,426,919
Investment in an associate (Note 10)	237,117,596	—
Purchased goodwill (Note 3)	512,169,629	—
Other noncurrent assets (Note 6)	108,897,340	92,164,977
Total Noncurrent Assets	3,601,689,218	2,414,756,316
	₱10,938,387,557	₱9,423,578,920
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 2, 11, 22 and 23)	₱2,473,707,403	₱1,603,110,735
Due to related parties (Notes 16, 22 and 23)	35,964,854	2,542,585
Current portion of notes payable (Notes 13, 22 and 23)	308,250,000	440,050,000
Transmissions liability (Notes 12, 22 and 23)	418,329,454	588,203,656
Income tax payable	86,632,450	125,020,186
Current portion of lease liabilities (Notes 20, 22 and 23)	16,428,846	30,691,524
Total Current Liabilities	3,339,313,007	2,789,618,686
Noncurrent Liabilities		
Derivative liability (Notes 14, 22 and 23)	1,528,749,060	1,860,373,479
Bond payable (Notes 14, 22 and 23)	1,095,184,445	896,185,059
Retirement benefit liability (Note 21)	713,294,929	705,325,767
Notes payable - net of current portion (Notes 13, 22 and 23)	541,250,000	601,250,000
Lease liabilities - net of current portion (Notes 20, 22 and 23)	93,356,964	87,031,857
Other noncurrent liabilities (Notes 7, 8, and 23)	94,518,046	118,327,055
Total Noncurrent Liabilities	4,066,353,444	4,268,493,217
	7,405,666,451	7,058,111,903
Equity (Note 15)		
Equity attributable to shareholders of the Parent Company		
Capital stock	1,425,865,471	1,425,865,471
Retained earnings (Note 2)	1,855,168,492	659,288,179
Accumulated comprehensive income	288,126,160	326,920,319
	3,569,160,123	2,412,073,969
Non-controlling interests	(36,439,017)	(46,606,952)
Total Equity	3,532,721,106	2,365,467,017
	₱10,938,387,557	₱9,423,578,920

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine Months Ended September 30,		Three Months Period Ended September 30,	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
SERVICE REVENUE (Note 24)	₱9,113,685,140	₱7,398,408,186	₱3,330,931,218	₱2,488,764,750
COST OF SERVICES (Note 17)	6,059,059,620	4,889,373,168	2,240,210,781	1,646,702,681
GROSS PROFIT	3,054,625,520	2,509,035,018	1,090,720,437	842,062,069
OPERATING EXPENSES (Note 18)	1,783,743,947	1,595,894,064	787,361,281	554,320,936
OTHER INCOME (CHARGES)				
Fair value gain (loss) on derivative (Note 14)	331,624,420	73,742,918	(107,813,063)	73,742,918
Foreign exchange gains - net (Notes 18 and 22)	176,014,840	114,187,474	29,235,467	69,256,570
Interest income (Note 4)	23,258,719	7,240,207	8,154,365	4,218,221
Interest expense (Notes 7, 8, 13, 14 and 20)	(164,175,013)	(82,167,296)	(57,875,598)	(41,710,872)
Others - net (Notes 3, 9 and 10)	13,302,604	2,666,115	1,417,714	1,281,101
	380,025,570	115,669,418	(126,881,115)	106,787,938
INCOME BEFORE INCOME TAX	1,650,907,143	1,028,810,372	176,478,041	394,529,071
PROVISION FOR INCOME TAX (Note 19)	369,746,511	288,318,550	91,160,377	103,714,781
NET INCOME FOR THE PERIOD	1,281,160,632	740,491,822	85,317,664	290,814,290
OTHER COMPREHENSIVE INCOME (LOSS)				
Items not to be reclassified to profit or loss in subsequent periods				
Remeasurement gains (losses) on retirement benefit plan - net of tax	43,069	(658,428)	(239,708)	(219,476)
Unrealized fair value gains (losses) on investment at fair value through other comprehensive income (Note 9)	(44,863,820)	22,738,042	17,555,404	(16,634,503)
Items that may be reclassified to profit or loss in subsequent periods				
Unrealized fair value gain on available-for-sale investments	—	—	—	—
Currency translation gain (loss) - net	5,840,308	1,533,252	2,971,915	1,663,943
	(38,980,443)	23,612,866	20,287,611	(15,190,036)
TOTAL COMPREHENSIVE INCOME	₱1,242,180,189	₱764,104,688	₱105,605,275	₱275,624,254
NET INCOME ATTRIBUTABLE TO:				
Shareholders of the Parent Company	₱1,264,611,564	₱740,816,323	₱78,785,847	₱292,090,880
Non-controlling interests	16,549,068	(324,501)	6,531,817	(1,276,590)
NET INCOME FOR THE PERIOD	₱1,281,160,632	₱740,491,822	₱85,317,664	₱290,814,290
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Shareholders of the Parent Company	₱1,226,935,141	₱764,943,696	₱99,175,214	₱277,316,867
Non-controlling interests	15,245,048	(839,008)	6,430,061	(1,692,613)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	₱1,242,180,189	₱764,104,688	₱105,605,275	₱275,624,254
EARNINGS PER SHARE (Note 25)				
Basic	₱0.89	₱0.52	₱0.06	₱0.20
Diluted	₱0.68	₱0.48	₱0.06	₱0.16

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	For the Nine Months Ended September 30, 2018 (Unaudited)					
	Capital Stock	Retained Earnings	Accumulated Comprehensive Income	Total	Non-controlling Interests	Total Equity
	(Note 15)					
Balances as at January 1, 2018, as previously reported	₱1,425,865,471	₱659,288,179	₱326,920,319	₱2,412,073,969	(₱46,606,952)	₱2,365,467,017
Impact of adoption of new accounting standards (Note 2)	-	(68,731,251)	(1,117,736)	(69,848,987)	-	(69,848,987)
Balances as at January 1, 2018, as restated	1,425,865,471	590,556,928	325,802,583	2,342,224,982	(46,606,952)	2,295,618,030
Comprehensive income:						
Net income	-	1,264,611,564	-	1,264,611,564	16,549,068	1,281,160,632
Other comprehensive loss	-	-	(37,676,423)	(37,676,423)	(1,304,020)	(38,980,443)
Total comprehensive income (loss)	-	1,264,611,564	(37,676,423)	1,226,935,141	15,245,048	1,242,180,189
Non-controlling interest through business combination	-	-	-	-	(5,077,113)	(5,077,113)
Balances as at September 30, 2018	₱1,425,865,471	₱1,855,168,492	₱288,126,160	₱3,569,160,123	(₱36,439,017)	₱3,532,721,106

	For the Nine Months Ended September 30, 2017 (Unaudited)				
	Capital Stock	Retained Earnings	Accumulated Comprehensive Income	Total	Non-controlling Interests
	(Note 15)				
Balances as at January 1, 2017	₱1,425,865,471	₱782,414,079	₱305,677,402	₱2,513,956,952	(₱50,963,937)
Comprehensive income:					
Net income	-	740,816,323	-	740,816,323	(324,501)
Other comprehensive income (loss)	-	-	24,127,373	24,127,373	(514,507)
Total comprehensive income	-	740,816,323	24,127,373	764,943,696	(839,008)
Dividends declared	-	(827,001,973)	-	(827,001,973)	-
Balances as at September 30, 2017	₱1,425,865,471	₱696,228,429	₱329,804,775	₱2,451,898,675	(₱51,802,945)

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30 (Unaudited)	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱1,650,907,143	₱1,028,810,372
Adjustments for:		
Depreciation and amortization (Notes 7, 8, 17 and 18)	279,567,484	235,896,830
Interest expense (Notes 7, 8, 13, 14 and 20)	164,175,013	82,167,296
Retirement expense, net of benefits paid and contribution to retirement plan	4,751,022	39,330,646
Loss (gain) on disposal of property and equipment (Note 7)	1,488,205	(2,055,362)
Gain on bargain purchase (Note 3)	(2,144,829)	—
Fair value gain on investment at fair value through profit or loss (Note 9)	(3,486,885)	—
Equity in net earnings of an associate (Note 10)	(9,201,153)	—
Interest income (Note 4)	(23,258,719)	(7,240,207)
Unrealized foreign exchange gains - net	(109,183,777)	(46,829,015)
Fair value gain on derivative (Note 14)	(331,624,419)	(73,742,918)
Operating income before changes in working capital	1,621,989,085	1,256,337,642
Changes in working capital:		
Decrease (increase) in:		
Trade and other receivables (Note 2)	184,092,855	58,585,347
Prepayments and other assets	(204,477,255)	(24,932,739)
Security deposits	(24,438,112)	(26,206,328)
Other noncurrent assets	(6,157,704)	—
Increase (decrease) in:		
Accounts and other payables (Note 2)	83,532,419	93,555,396
Transmissions liability	(216,788,338)	(72,263,884)
Net cash generated from operations	1,437,752,950	1,285,075,434
Interest received	23,258,719	7,240,207
Income tax paid	(419,737,649)	(486,489,170)
Net cash provided by operating activities	1,041,274,020	805,826,471
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Redemption of investments in UITF classified as (Note 9):		
Investment at fair value through profit or loss	668,866,777	—
Available-for-sale investments	—	885,084,266
Disposal of property and equipment and intangible assets	2,050,797	3,048,471
Cash acquired through business combination (Note 3)	378,055,283	—
Acquisitions of:		
Intangible assets (Note 8)	(98,214,926)	(4,232,854)
Investment at fair value through profit or loss (Note 9)	(778,580,000)	—
Available-for-sale investments (Note 9)	—	(932,000,000)
Investment in an associate (Note 26)	(218,265,068)	—
Property and equipment	(405,172,443)	(223,722,290)
Investment in subsidiaries	(317,408,857)	—
Increase in due from related parties	(613,694,495)	(191,862,582)
Net cash used in investing activities	(1,382,362,932)	(463,684,989)
Forward		

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30	
	(Unaudited)	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	₱150,000,000	₱219,899,520
Decrease in due to related parties (Note 26)	33,376,133	—
Payments of lease liabilities and other noncurrent liabilities (Note 26)	(19,420,679)	(48,803,265)
Interest paid (Notes 13, 20 and 26)	(45,104,961)	(57,445,712)
Payments of notes payable (Notes 13 and 26)	(341,800,000)	(510,815,020)
Dividends paid	—	(127,536,686)
Issuance of convertible instrument, net of issuance costs (Note 12)	—	2,505,658,750
Net cash used in financing activities	(222,949,507)	1,980,957,587
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(564,038,418)	2,323,099,069
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	175,932,713	60,430,520
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,778,408,492	1,327,790,727
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	₱3,390,302,787	₱3,711,320,316

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

LBC Express Holdings, Inc. (referred to as the “Parent Company” or “LBCH”), formerly Federal Resources Investment Group Inc. (FED), was registered with the Securities and Exchange Commission (SEC) on July 12, 1993.

The ultimate parent of the Parent Company is LBC Development Corporation (LBCDC).

The Parent Company undertook an Initial Public Offering. On December 21, 2001, LBCH’s shares were listed on the Philippine Stock Exchange (PSE).

The Parent Company invests, purchases or disposes real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation, association, domestic and foreign.

The Parent Company is a public holding company that has investments in businesses of messengerial either by sea, air or land of letters, parcels, cargoes, wares, and merchandise; acceptance and remittance of money, bills payment and the like; and performance of other allied general services from one place of destination to another within and outside of the Philippines.

On February 28, 2018, the BOD of the Parent Company approved the incorporation of Diez Equiz Pte Ltd, (Diez) a Singaporean private limited Company, through subscription of 862 shares or 86% of the total outstanding shares of the entity at USD 1.00 per share. On April 5, 2018, the BOD approved the sale of the same 86% equity interest of Diez Equiz Pte Ltd to Maleka, Inc. at the sale price of USD 1.00 per share.

The Parent Company’s registered office address is at LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila, Philippines.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these interim condensed consolidated financial statements are set out below. These policies have been constantly applied to all the periods presented, unless otherwise stated.

Basis of Preparation

The accompanying interim condensed consolidated financial statements of the Group have been prepared using the historical cost basis, except for investments at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI), available-for-sale (AFS) investments and derivatives which have been measured at fair value. The interim condensed consolidated financial statements are presented in Philippine Peso (₱), which is also the Group’s functional currency. All amounts are rounded off to the nearest peso, unless otherwise indicated.

Difference in accounting periods

The Group consolidated the non-coterminous financial statements of its subsidiaries except QuadX, Inc., QuadX Pte. Ltd. and LBC Mabuhay (Malaysia) Sdn. Bhd., using their November 30 fiscal year end and the nine months ended August 31 third quarter end financial statements since it is impracticable for the said subsidiaries to prepare financial statements as of the same date as the reporting date of the Parent Company.

Management exercised judgment in determining whether adjustments should be made in the interim condensed consolidated financial statements of the Group pertaining to the effects of significant transactions or events of its subsidiaries that occur between September 1, 2018 and 2017 and the date of the Parent Company's financial statements which is September 30, 2018 and 2017 and between December 1, 2017 and the comparative date of the Parent Company's financial position which is December 31, 2017.

The interim condensed consolidated financial statements were adjusted to effect availment of bank loans of LBC Express, Inc. (LBCE) amounting to ₱150.00 million and ₱85.80 million in September 2018 and 2017, respectively; settlement of bank loans in September 2018 and 2017 amounting to ₱161.58 million and ₱158.51 million, respectively; additional unquoted investment at fair value through profit or loss (FVPL) amounting to ₱40.00 million and ₱60.00 million in September 2018 and 2017, respectively; the adjustment to reflect the increase and decrease of fair value of quoted investment at fair value through other comprehensive income (FVOCI) by ₱15.60 million and ₱3.90 million for the period September 1 to September 30, 2018 and 2017, respectively and granting of advances to stockholder amounting to ₱25.00 million and payment of professional fees amounting to ₱25.42 million between September 1 to 30, 2017 (nil in September 2018).

The consolidated financial statements as of December 31, 2017 were adjusted to effect LBCE's additional availment and settlement of bank loans in December 2017 amounting to ₱150.00 million and ₱161.25 million, respectively; the additional placement and termination of unquoted AFS investment in December 2017 amounting to ₱100.12 million and ₱40.07 million, respectively, the adjustment to reflect the decrease in fair value of quoted AFS investment by ₱27.31 million for the period December 1 to December 31, 2017, and the recognition of marketable securities and other short-term investment under 'Prepaid and other current assets' in December 2017 amounting to ₱4.02 million and ₱0.40 million, respectively.

There were no other significant transactions that transpired between September 1, 2018 to September 30, 2018, December 1, 2017 to December 31, 2017 and September 1, 2017 to September 30, 2017.

Statement of Compliance

The accompanying interim condensed consolidated financial statements of the Group have been prepared in accordance with the Philippine Accounting Standard 34, *Interim Financial Reporting*. Accordingly, the interim condensed consolidated financial statements do not include all the information and disclosures required in the annual audited consolidated financial statements and should be read in conjunction with the Group's annual audited financial statement as at and for the year ended December 31, 2017, which have been prepared in accordance with PFRS.

Basis of Consolidation

The interim condensed consolidated financial statements include the accounts of the Parent Company and all of its subsidiaries where the Parent Company has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee),
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. Profit and losses resulting from intercompany transactions that are recognized in assets are eliminated in full.

For the nine months ended September 30, 2018, the Parent Company invested in the following subsidiaries wherein it exercised control (see Notes 3 and 10):

Entity Name	Country of Incorporation	Principal Activities	% Ownership
LBC Mabuhay Saipan Inc.	Philippines	Logistics	100%
LBC Aircargo (S) PTE. LTD	Singapore	Logistics	100%
LBC Express Airfreight (S) PTE. LTD.	Singapore	Logistics	100%
LBC Money Transfer PTY Limited	Australia	Logistics	100%
LBC Australia PTY Limited	Australia	Logistics	100%
LBC Mabuhay (Malaysia) SDN BHD.	Malaysia	Logistics	93%
QuadX Inc.	Philippines	E-com website	86%
QuadX Pte. Ltd.	Singapore	Digital Logistics	86%

Except for the acquisitions above, there were no changes in the Parent Company's ownership interests in its subsidiaries from January 1, 2018 to September 30, 2018.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards effective as of January 1, 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, PFRS 15, *Revenue from Contracts with Customers* and PFRS 9, *Financial Instruments* applying the modified retrospective approach which does not require restatement of previous financial statements. As required by PAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Impact of Adoption of PFRS 9 and PFRS 15

The Group adopted PFRS 9 and PFRS 15 in the required effective date.

- **PFRS 9, *Financial Instruments***

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The adoption of PFRS 9 had an impact on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but there is no impact on the classification and measurement of the Group's financial liabilities. The adoption also affects the assessment of the Group's credit losses amount. The Group has adopted the new standard on the required effective date using the modified retrospective approach and did not restate the comparative information. Therefore, the comparative information for 2017 is reported under PAS 39 and is not comparable to the information presented for 2018.

Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings as at January 1, 2018.

- **PFRS 15, *Revenue from Contracts with Customers***

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. PFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced PAS 18, PAS 11 and related interpretations. The Group has adopted PFRS 15 from January 1, 2018 and the effect of applying this standard is mainly attributed to revenue from logistics segment being recognized over time. There were no other impact in the other revenue streams upon adoption of this new standard. The Group has adopted the new standard on the required effective date using the modified retrospective approach and did not restate the comparative information.

The effect of applying the above new standards have been recognized directly in retained earnings as at January 1, 2018 as follows with the discussion of the nature of adjustments:

	Balances Before Adjustments	Impact as of January 1, 2018		Total Adjustments	After Adjustments
		PFRS 9	PFRS 15		
Statement of Financial Position					
Trade and other receivables	₱1,675,801,822	(₱23,743,003)	(₱62,381,522)	(₱86,124,525)	₱1,589,677,297
Deferred tax assets	289,524,039	7,122,901	18,975,263	26,098,164	315,622,203
AFS investments	885,500,464	(885,500,464)	—	(885,500,464)	—
FVPL	—	440,763,495	—	440,763,495	440,763,495
FVOCI	—	444,736,969	—	444,736,969	444,736,969
Accumulated comprehensive income	(326,920,319)	1,117,736	—	1,117,736	(325,802,583)
Retained earnings	(659,288,179)	15,502,366	53,228,894	68,731,260	(590,556,919)
Accounts and other payables	1,603,110,735	—	(9,822,634)	(9,822,634)	1,593,288,101

a. Impact of adoption of PFRS 9:

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to record an allowance for impairment losses for all loans and other debt financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For cash and cash equivalents, the Group applied the general approach and the impact is immaterial. For due from related parties, the Group also applied the general approach, however, the ECL is nil because the amount is payable on demand and that the expected cash flows is the same as the contractual cash flows.

The Group considers a financial asset in default when contractual payment are 90 days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of served invoices which are administrative in nature which may extend the definition of default to 180 days and beyond. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Given the above, the Group recorded additional provision for impairment losses of ₱23.74 million as of January 1, 2018. Deferred tax asset of ₱7.12 million was recorded for the temporary difference on the allowance for impairment losses arising from the adjustment.

PFRS 9 also had an impact on the reclassification of the Group's financial assets. The following table shows the previous measurement category in accordance with PAS 39 to their new measurement categories upon transition to PFRS 9 on January 1, 2018:

	PAS 39	PFRS 9
Debt instruments:		
Cash and other cash items	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Due from other related parties	Loans and receivables	Amortized cost
Other assets	Loans and receivables	Amortized cost
Quoted AFS	Available for sale	FVOCI
Unquoted AFS	Available for sale	FVPL

The new classification and measurement of the Group's debt financial assets are as follow:

- Debt instruments at amortized cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the Solely Payments of Principal and Interest (SPPI) criterion. This category includes the Group's cash and other cash items, trade and other receivables, due from other related parties and other assets.

- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss upon derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to reclassify upon initial recognition or transition. The Group classified its quoted equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under PFRS 9. Under PAS 39, the Group's quoted equity instruments were classified as AFS financial assets, with recycling of gains or losses to profit or loss upon derecognition. There were no adjustments to retained earnings as of January 1, 2018 arising from this reclassification and measurement.
- Financial asset at FVPL comprise of investment in unit investment trust fund (UITF) which failed the SPPI test. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under PAS 39, the Group's investment in UITF was classified as AFS financial assets, with recycling of gains or losses to profit or loss upon redemption. Upon transition, the unrealized gain on changes in fair value relating to investment in UITF of ₱1.12 million, which had been previously recognized under accumulated OCI, was reclassified to retained earnings as at January 1, 2018.

The assessment of the Group's business models was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

b. Impact of adoption of PFRS 15:

The Group is in the business of logistics and money remittance which are sold separately as identified and distinct contracts with customers.

The adjustment to revenue pertains to the recognition of logistics revenue over time using output method wherein revenue is recognized on the basis of direct measurement of the value to the customer relative to the remaining services promised under the contract. The measurement of the value used the estimated period travelled (measured in days) of the goods being delivered from the date of acceptance up to the reporting date. The related cost of services and deferred tax asset were also adjusted. These resulted in net adjustments of ₱62.38 million to trade and other receivables, ₱18.98 million to deferred tax asset, and ₱9.82 million to accounts and other payable.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The Group has assessed that the adoption of these amendments will not have impact to its interim condensed consolidated financial statements because it does not have share-based payment arrangements.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that relate to insurance or the issuance of insurance contracts.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

These amendments do not have any impact to the Group.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

These amendments do not have any impact to the Group.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. These amendments have no significant impact to the Group.

The changes in accounting policies are also expected to be reflected in the consolidated financial statements as at and for the year ending December 31, 2018.

Financial Instruments - Initial Recognition and Subsequent Measurement

Financial Assets

Initial recognition and measurement

Before January 1, 2018, financial assets within the scope of PAS 39 are classified as financial assets at FVPL, loans and receivables, held-to-maturity, or HTM, investments, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. We determine the classification of financial assets at initial recognition and, where allowed and appropriate, re-evaluate the designation of such assets at each reporting date.

Financial assets are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset, except in the case of financial assets recorded at FVPL.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases or sales) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

From January 1, 2018, under PFRS 9, the classification of financial instruments at initial recognition depends on the contractual terms and the business model for managing the instruments. Financial instruments are initially measured at fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price.

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit and loss (FVPL)

The Group classifies and measures its quoted and unquoted investments at FVOCI and FVPL, respectively.

Subsequent measurement

The subsequent measurement of financial assets depends on the classification as described below:

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- the expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Contractual cash flows assessment

For each financial asset, the Group assesses the contractual terms to identify whether the instrument is consistent with the concept of SPPI.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at amortized cost

The Group measures its financial assets at amortized cost if both of the following conditions are met:

- the contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI; and
- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate ("EIR") method, less impairment. Amortized cost is calculated by taking into account the discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included under interest income in profit or loss. The losses arising from impairment are recognized in interest expense for loans and in cost of sales or other operating expenses for receivables in the statements of comprehensive income.

This category generally applies to cash and cash equivalents, short-term investments, trade receivables, due from related parties and other financial assets.

Debt instruments at FVOCI

The Group measures its financial assets at FVOCI when both of the following conditions are met:

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI; and
- the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling the financial assets.

After initial measurement, such financial assets are subsequently measured at fair value with unrealized gains and losses recognized in OCI. Impairment losses on such financial assets are accounted for as an adjustment to the unrealized gains and losses in OCI, with a corresponding charge to profit or loss. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for debt instruments at amortized cost.

Where the Group holds more than one investment in the same security, they are deemed to be disposed on a first-in first-out basis. On derecognition, unrealized gains or losses previously recognized in OCI are reclassified from OCI to profit or loss under operating income.

As at September 30, 2018, the Group has no debt instruments at FVOCI.

Equity instruments at FVOCI

Upon initial recognition, the Group may irrevocably elect to classify and measure some of its equity investments at FVOCI when these are not held for trading. Such classification is determined on an instrument-by-instrument basis.

After initial measurement, such equity investments are subsequently measured at fair value with unrealized gains and losses recognized in OCI. Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such dividends are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

As at September 30, 2018, the Group measures its quoted investment in share of stock at FVOCI (see Note 9).

Financial assets at FVPL

This category represents the 'residual' category if the requirements to be measured at amortized cost or at FVOCI are not met. Financial assets at FVPL will include those that are held for trading (both debt and equity instrument), or for which the entity's business model is to manage the financial asset on a fair value basis, i.e., to realize the asset through sales as opposed to holding the asset to collect contractual cash flows, or the contractual cash flows arising from the instrument is not SPPI. Financial assets at FVPL are subsequently measured at fair value with net changes in fair value

recognized in profit or loss as other income (charges).

As at September 30, 2018, the Group measures its unquoted investment in UITF at FVPL (see Note 9).

Subsequent Measurement of Financial Assets (policy applicable after January 1, 2018)

The Group records the allowance for expected credit losses for all loans and other debt financial assets not measured at FVPL, together with loan commitments and financial guarantee contract (all referred to as 'financial instruments' in this section). Equity instruments are not subject to impairment under PFRS 9.

The Expected Credit Loss (ECL) allowance is based on the credit losses expected to arise over the life of the asset (Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the twelve months' expected credit loss (12-month ECL).

The 12-month ECL is the portion of Lifetime ECL that represents the ECLs that result from default events on a financial instrument that are possible within the twelve months after the reporting date. Both 12-month ECL and Lifetime ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Group segments its credit exposures into Stage 1, Stage 2, Stage 3 and Purchased or originated credit impairment (POCI), as described below:

- Stage 1: When financial assets are first recognized, the Group recognizes an allowance based on 12-month ECL. Stage 1 financial assets also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a financial asset has shown a significant increase in credit risk since origination, the Group records an allowance for the Lifetime ECL. Stage 2 financial assets also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans are considered credit-impaired. The Group records an allowance for the Lifetime ECL.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

For trade receivables and other receivables, the Group has elected to use the simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix based on loss rate approach that is based on the Group's historical credit loss experience for the past five years, adjusted for forward looking factors specific to the debtors and the economic environment.

The Group applies the general approach for due from related parties and cash and cash equivalents.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Calculation of ECLs

The Group calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- the Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio;
- the Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments; and
- the Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Group considers three scenarios (a base case, an upside, a downside). Each of these is associated with different ECL factors. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier unless derecognized by the Group.

The interest rate used to discount the ECLs of fixed-rate instruments is the approximate EIR at initial recognition.

The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Forward looking information

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- GDP Growth Rate
- Inflation Rate

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Write-offs

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment loss.

Financial Liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as either financial liabilities at FVPL or loans and borrowings and other financial liabilities, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and other financial liabilities, net of directly attributable transaction costs.

Subsequent measurement

Loans and borrowings or other financial liabilities

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest expense in the interim consolidated statements of profit or loss.

Derecognition

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

Offsetting of financial instruments

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

Reclassification

If the business model under which the Group holds the financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets.

Reclassification of financial assets designated at FVPL at initial recognition is not permitted.

As at September 30, 2018, the Group reclassified its unquoted investment from available-for-sale investment to investment in FVPL and the management irrevocably classified its quoted investment as investment in FVOCI.

Investment in an Associate

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investment in the associate is accounted for under the equity method of accounting.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The interim condensed consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the interim condensed consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the interim condensed consolidated statement of comprehensive income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in an associate. At each reporting date, the Group determines whether there is objective evidence that the investment in associates is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss as 'Equity in net earnings of associate in the consolidated statement of comprehensive income.'

Upon loss of significant influence over the associate, the Group measures and recognizes any retained 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 profit or loss.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Except as otherwise stated, the significant accounting judgments, estimates and assumptions used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements as at and for the year ended December 31, 2017.

Identifying performance obligations

The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. The management has assessed that the identified performance obligations of the Group are distinct and separately identifiable and are outlined in the contract.

Assessing impairment losses on financial assets

The measurement of impairment losses both under PFRS 9 and PAS 39 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows, including collectability, collateral values and other credit enhancements, when determining impairment losses.

Under PFRS 9, additional judgments are also made in assessing a significant increase in credit risk. These estimates are driven by a number of factors, changes of which can result in different levels of allowances.

The Group's impairment calculations are outputs of statistical models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the impairment models that are considered accounting judgements and estimates include:

- the Group's criteria defining default and for assessing if there has been a significant increase in credit risk;
- the segmentation of financial assets when impairment is assessed on a collective basis;
- development of impairment models, including the various formulas and the choice of inputs;
- determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the impairment models.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary. Increases or decreases on the allowance for impairment losses are recorded under operating expenses in profit or loss.

The carrying amount of trade and other receivables amounted to ₱1,673.82 million and ₱1,675.80 million as of September 30, 2018 and December 31, 2017, respectively. The carrying amount of due from related parties amounted to ₱1,010.83 million and ₱667.72 million as of September 30, 2018 and December 31, 2017, respectively.

Determination of significant influence on an investee company

The Group determined that it exercises significant influence over its associate by considering, among others, its ownership interest (holding 30% of the voting power of the investee), board representation and other contractual terms (see Note 10).

The carrying amount of the investment in associate amounted to ₱237.12 million as of September 30, 2018 (see Note 10).

Determination of provisional fair value of net assets acquired on an investee

The Group determines the provisional fair value of the net asset of an investee (i.e. acquired subsidiary and associate) using the extent, character and utility of the assets, cost of reproduction, observed depreciation, sales and holding prices of similar properties and highest and best use of property. The provisional fair value of the net asset of an investee represents the best estimate at acquisition date. The goodwill from business combination and gain on bargain purchase amounting to ₱512.17 million and ₱2.14 million is determined provisionally and may change upon the completion of the allocation of the acquisition cost to the fair values of assets and liabilities acquired (see Notes 3 and 10). The provisional purchase price allocation will be finalized within one year from the acquisition date and the fair value will be based on the information existing as of the acquisition date.

Estimating fair value of embedded derivatives

The fair value of embedded derivatives, related to the issuance of convertible instrument recorded in the consolidated statement of financial position as derivative liability, is measured using binomial pyramid model. The inputs to this model are taken from a combination of observable market data (i.e. stock prices and risk-free rates), unobservable market data (i.e. credit spread and stock price volatility) and non-market data (i.e. management's estimate on LBCH's probable chance to IPO). Changes in inputs about these factors could affect the reported fair value of the embedded derivatives and impact profit or loss (see Note 23).

3. Business Combinations

QuadX Inc.

On March 19, 2018, through a Deed of Assignment, LBCE assigned its receivables from QuadX Inc. to the Parent Company amounting to ₱186.02 million. On the same date, the Parent Company and QuadX Inc. entered into a Subscription Agreement to subscribe and issue a total of 1,860,214 shares of stock of QuadX Inc. through the conversion of the assigned advances to equity which represents 86.11% ownership by the Parent Company.

The increase in authorized capital stock of QuadX Inc. from which shares will be issued to the Parent Company is sourced, was approved by SEC on June 14, 2018. The Parent Company accounted the business combination under the acquisition method at the date of SEC approval.

QuadX Pte. Ltd.

On April 4, 2018, the BOD of the Parent Company approved the investment and acquisition of 86% equity interest on QuadX Pte. Ltd. through the following: (a) the purchase of 862 ordinary shares of QuadX Pte. Ltd. held by Fernando Gonzalez Araneta, at the sale price of USD1.00 per share; and (b) the subscription to 85,248 ordinary shares out of the unissued capital stock of QuadX Pte. Ltd. at the subscription price of USD1.00 per share.

On April 23, 2018, the BOD of the Parent Company approved the infusion of additional capital in the amount of ₱31.86 million in its subsidiary, QuadX Pte. Ltd., for the purpose of partially financing the purchase by the latter of Software Assets in the amount of ₱37.00 million from QuadX Inc..

Overseas Entities

On March 7, 2018, the Parent Company acquired 100% ownership of LBC Mabuhay Saipan, Inc. (LBC Saipan) for a total purchase price of USD 207,652 or ₱10.80 million. LBC Saipan operates as a cargo and remittance Company in Saipan and the Parent Company accounted the business combination under the acquisition method.

On June 27, 2018, the BOD of the Parent Company approved the purchase of shares of some overseas entities. The acquisition is expected to benefit the Group by contributing to its global revenue streams. On the same date, the following Share Purchase Agreements (SPAs) were executed by the Parent Company and Jamal Limited for a total purchase price of USD 4.60 million or P245.67 million under the SPAs:

Entity Name	Number of shares	Purchase price	Primary operation	Place of business
LBC Express Airfreight (S) PTE. LTD. (LBC Singapore)	10,000	\$2,415,035	Cargo	Singapore
LBC Aircargo (S) PTE. LTD (LBC Taiwan)	94,901	146,013	Cargo	Taiwan
LBC Money Transfer PTY Limited (LBC Australia Money)	10	194,535	Remittance	Australia
LBC Australia PTY Limited (LBC Australia Cargo)	223,500	1,843,149	Cargo	Australia

The transfer of the ownership of the shares and all rights, titles and interests thereto shall take place following the payment of the considerations defined. The Parent Company accounted the aforementioned business combination under the acquisition method.

On August 15, 2018, the Parent Company approved the acquisition of 92.5% equity ownership of LBC Mabuhay (Malaysia) SDN BHD (LBC Malaysia) for a total purchase price of USD 461,782 or P24.68 million. LBC Malaysia engages in the business of courier services in Malaysia which is expected to contribute to the global revenue stream of the Group. The Parent Company accounted the business combination under the acquisition method.

PFRS 3, *Business Combinations*, provides that if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date. The comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting had been completed from the acquisition date.

The provisional values of the identifiable assets and liabilities acquired with 100% ownership as at the date of acquisition follows:

	LBC Saipan	LBC Singapore	LBC Taiwan	LBC Australia Money	LBC Australia Cargo	Total
Assets						
Cash and cash equivalents	P25,762,682	P41,682,268	P6,800,287	P16,858,083	P29,948,149	P121,051,469
Receivable from a related party	1,560	99,973,102	—	4,105,991	12,837,741	116,918,394
Trade receivables	16,951,251	836,554	676,754	35,960,500	4,890,618	59,315,677
Other assets	800,254	7,244,705	2,028,889	926,960	4,162,023	15,162,831
	43,515,747	149,736,629	9,505,930	57,851,534	51,838,531	312,448,371
Liabilities						
Accounts and other payables	3,626,467	14,722,577	5,451,082	2,661,767	23,234,022	49,695,915
Payable to a related party	26,946,132	265,172	161,054,422	12,306,877	30,855	200,603,458
Other liabilities	—	9,496,610	106,469	33,473,187	3,966,635	47,042,901
	30,572,599	24,484,359	166,611,973	48,441,831	27,231,512	297,342,274
Net assets (liabilities)	12,943,148	125,252,270	(157,106,043)	9,409,703	24,607,019	15,106,097
Less: Gain on bargain purchase	2,144,829	—	—	—	—	2,144,829
Add: Purchased goodwill	—	3,761,315	164,906,204	982,551	73,855,844	243,505,914
Acquisition cost	P10,798,319	P129,013,585	P7,800,161	P10,392,254	P98,462,863	P256,467,182

The provisional values of the identifiable assets and liabilities acquired with less than 100% ownership as at the date of acquisition are presented below.

	QuadX Inc.	QuadX Pte. Ltd.	LBC Malaysia	Total
Assets				
Cash and cash equivalents	₱195,247,839	₱38,165,928	₱23,590,047	₱257,003,814
Receivable from a related party	10,525,898	—	10,433,454	20,959,352
Trade receivables	227,102,726	9,922,040	36,382	237,061,148
Other assets	130,614,226	46,805,624	3,424,696	180,844,546
	563,490,689	94,893,592	37,484,579	695,868,860
Liabilities				
Accounts and other payables	600,978,958	42,020,458	9,283,317	652,282,732
Payable to a related party	—	46,270,410	9,460,885	55,731,295
Other liabilities	17,382,513	—	518,601	17,901,114
	618,361,471	88,290,868	19,262,803	725,915,141
Total net assets (liabilities)	(54,870,782)	6,602,724	18,221,776	(30,046,281)
Attributable to non-controlling interest	(7,620,187)	924,381	(1,742,112)	(8,437,918)
Net assets (liabilities) attributable to Parent Company	(47,250,595)	5,678,343	19,963,888	(21,608,363)
Purchased goodwill	233,271,995	30,672,898	4,718,822	268,663,715
Acquisition cost	₱186,021,400	₱36,351,241	₱24,682,710	₱247,055,352

The purchase price allocation for the above acquisition has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. This includes information necessary for the valuation of property and equipment and other intangible assets, if any. Reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property and equipment, intangible assets and goodwill or bargain purchase gain.

The cost of acquisition of entities with 100% ownership are determined as follows:

	LBC Saipan	LBC Singapore	LBC Taiwan	LBC Australia Money	LBC Australia Cargo	Total
Purchase consideration	₱10,798,319	₱129,013,585	₱7,800,162	₱10,392,254	₱98,462,863	₱256,467,183
Fair value of equity interest held before business combination	—	—	—	—	—	—
	₱10,798,319	₱129,013,585	₱7,800,162	₱10,392,254	₱98,462,863	₱256,467,183

The acquisition cost of purchased entities with less than 100% ownership are presented below.

	QuadX Inc.	QuadX Pte. Ltd.	LBC Malaysia	Total
Purchase consideration	₱186,021,400	₱36,351,241	₱24,682,710	₱247,055,351
Fair value of equity interest held before business combination	—	—	—	—
	₱186,021,400	₱36,351,241	₱24,682,710	₱247,055,351

Net cash related to acquisition of entities with 100% ownership follows:

	LBC Saipan	LBC Singapore	LBC Taiwan	LBC Australia Money	LBC Australia Cargo	Total
Cash paid	₱10,798,319	₱129,013,585	₱7,800,160	₱10,392,254	₱98,462,863	₱256,467,181
Cash acquired	25,762,682	41,682,268	6,800,287	16,858,083	29,948,149	121,051,469
Net cash inflow (outflow)	₱14,964,363	(₱87,331,317)	(₱999,873)	₱6,465,829	(₱68,514,714)	(₱135,415,712)

Net cash inflow (outflow) on the acquired entities with less than 100% ownership follows:

	QuadX Inc.	QuadX Pte. Ltd.	LBC Malaysia	Total
Cash paid	P--	P36,305,104	P24,682,710	P60,987,814
Cash acquired	195,247,839	38,165,928	23,590,047	257,003,814
Net cash inflow (outflow)	P195,247,839	P1,860,824	(P1,092,663)	P196,016,000

The purchase consideration is paid in full for overseas entities. The remaining unpaid purchase consideration of QuadX Pte. Ltd. as of September 30, 2018, was recorded as a payable (see Note 16). The gain on bargain purchase for LBC Saipan were recognized under “others - net” of “Other income (charges) in the interim consolidated statements of comprehensive income. Acquisition-related cost, which includes documentary stamp tax amounting to P234,923 was recognized as expense in 2018.

Had the combination took place at the beginning of 2018, the Group’s share in the revenue and net income of the acquired entities with 100% ownership would have been:

	LBC Saipan	LBC Singapore	LBC Taiwan	LBC Australia Money	LBC Australia Cargo	Total
Share in revenue	P35,886,822	P155,026,647	P33,551,746	P40,681,777	P132,121,340	P397,268,332
Share in net income (loss)	7,345,168	31,067,725	(4,870,005)	2,925,864	13,283,478	49,752,230

The Group’s share in the revenue and net income of the acquired entities with less than 100% ownership had the combination took place at the beginning of 2018, would have been:

	QuadX Inc.	QuadX Pte. Ltd.	LBC Malaysia	Total
Share in revenue	P971,456,755	P83,807,480	P42,680,920	P1,097,945,155
Share in net income (loss)	(66,230,013)	324,515	8,133,783	(57,799,885)

4. Cash and Cash Equivalents

This account consists of:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)	September 30, 2017 (Unaudited)
Cash on hand	P269,857,937	P264,057,974	P1,019,941,104
Cash in banks	1,531,419,468	1,103,336,745	229,073,402
Cash equivalents	1,589,025,382	2,411,013,773	2,462,305,810
	P3,390,302,787	P3,778,408,492	P3,711,320,316

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from cash and cash equivalents amounted to P23.22 million and P7.19 million for the nine months ended September 30, 2018 and 2017, respectively.

Cash equivalents include short-term placements made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term placements rates.

5. Trade and Other Receivables

This account consists of:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trade receivables - outside parties	₱1,460,999,764	₱1,189,394,150
Trade receivables - related parties (Note 16)	308,675,255	495,476,881
	1,769,675,019	1,684,871,031
Less allowance for impairment losses	125,655,920	57,252,950
	1,644,019,099	1,627,618,081
Other receivables:		
Advances to officers and employees	28,629,510	29,587,715
Others	10,172,167	18,596,026
	₱1,682,820,776	₱1,675,801,822

Trade receivables arise from sale of services related to inbound and outbound courier services, handling and consolidation services with normal credit terms of 30 to 90 days.

Advances to officers and employees consist mainly of noninterest-bearing advances which are subject to liquidation upon completion of the business transaction and personal advances subject to salary deductions.

Others mainly consist of SSS benefit receivable to be reimbursed within a year and accrual of interest income which is expected to be collected upon maturity of the short-term placements.

The Group performed reassessment of the collectability of its receivables and as a result, recognized additional provision for impairment losses. These were recognized under operating expenses in the interim consolidated statements of comprehensive income.

The movements in allowance for impairment losses of trade receivables follow:

Loss allowance	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
As at January 1, 2018, as previously reported	₱—	₱57,252,950	₱57,252,950
Impact of PFRS 9 adoption	23,743,003	—	23,743,003
As at January 1, 2018, as restated	23,743,003	57,252,950	80,995,953
New financial assets originated	31,684,846	—	31,684,846
Transfers	(28,193,797)	28,193,797	—
Financial assets derecognized	(11,551,674)	—	(11,551,674)
Change in forecast and model assumptions	23,381,846	1,144,949	24,526,795
As at September 30, 2018	₱39,064,224	₱86,591,696	₱125,655,920

6. Prepayments and Other Assets

This account consists of:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Input value-added tax (VAT)	₱268,841,844	₱215,215,636
Materials and supplies	131,097,786	100,572,680
Prepayments:		
Rent	61,453,464	70,238,209
Taxes	31,708,252	7,418,431
Software maintenance cost	29,805,740	7,049,524
Insurance	15,695,074	12,489,234
Advertising	8,786,541	7,111,383
Others	49,467,784	38,662,486
Creditable withholding taxes (CWT)	86,589,462	51,010,831
Restricted cash in banks	14,225,935	9,000,000
Short-term cash investments	69,523,369	11,326,492
Advance payment to a supplier	9,000,000	9,000,000
Other asset	11,633,567	—
	787,828,818	539,094,906
Less allowance for impairment losses	798,769	798,769
	787,030,049	538,296,137
Less noncurrent portion of:		
VAT on capital goods	72,051,476	60,574,886
Prepaid rent	16,212,297	22,590,091
Other assets	20,633,567	9,000,000
Total noncurrent portion	₱108,897,340	₱92,164,977
Total current portion	₱678,132,709	₱446,131,160

Input VAT is applied against output VAT. Management believes that the remaining balance is recoverable in future periods.

Materials and supplies consist of office supplies and packing materials to be used in the Group's operations. Materials and supplies recognized as part of cost of services in the interim consolidated statements of comprehensive income for the nine months ended September 30, 2018 and 2017 amounted to ₱332.33 million and ₱239.63 million, respectively (see Note 17).

Other prepayments pertain to advances for advertisements, dues and subscriptions, unamortized licenses, prepaid utilities and prepaid interests.

CWTs are attributable to taxes withheld by the withholding agents which are creditable against the income tax payable.

Short-term cash investments are time deposits with maturity of more than three months from the date of acquisition but not exceeding one year.

Restricted cash in banks represent time deposits, in the name of LBCE, with a maturity of one year and assigned to specific customers as performance guarantees.

Advance payment to a supplier pertains for the intended purchase of a software. This amount was reclassified from development in progress to other noncurrent assets in 2017.

Other asset pertains to investment to Apppps Partners, Inc.

7. Property and Equipment

The rollforward analysis of this account follows:

	For the Nine Months ended September 30, 2018 (Unaudited)					
	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Office Equipment	Computer Hardware	Construction in Progress	Total
Costs						
At beginning of period	₱499,479,068	₱1,574,578,690	₱657,456,399	₱620,519,300	₱17,301,634	₱3,369,335,091
Additions	16,090,039	34,683,532	43,595,522	72,855,518	245,354,327	412,578,938
Additions through business combination	2,258,778	14,392,650	11,984,524	6,914,387	55,835,531	91,385,870
Reclassifications	55,781,906	92,223,260	4,145,270	1,561,944	(153,712,380)	-
Disposals	(14,171,346)	(8,120,245)	(77,647,080)	(1,291,570)	-	(101,230,241)
At end of period	559,438,445	1,707,757,887	639,534,635	700,559,579	164,779,112	3,772,069,658
Accumulated Depreciation and Amortization						
At beginning of period	337,955,230	991,124,111	568,035,973	496,166,376	-	2,393,281,690
Depreciation and amortization (Notes 17 and 18)	33,917,455	88,769,681	42,559,266	57,671,637	-	222,918,039
Disposals	(14,215,415)	(4,668,556)	(77,647,080)	(1,160,189)	-	(97,691,240)
At end of period	357,657,270	1,075,225,236	532,948,159	552,677,824	-	2,518,508,489
Net Book Value	₱201,781,175	₱632,532,651	₱106,586,475	₱147,881,755	₱164,779,112	₱1,253,561,169
For the year ended December 31, 2017 (Audited)						
	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Office Equipment	Computer Hardware	Construction in Progress	Total
Costs						
At beginning of year	₱516,312,044	₱1,387,570,739	₱604,044,494	₱549,377,766	₱9,067,555	₱3,066,372,598
Additions	65,217,309	37,627,429	45,222,628	66,283,784	180,133,211	394,484,361
Reclassifications	2,156,919	155,553,817	8,905,950	5,282,446	(171,899,132)	-
Disposals	(84,207,204)	(6,173,295)	(716,673)	(424,696)	-	(91,521,868)
At end of year	499,479,068	1,574,578,690	657,456,399	620,519,300	17,301,634	3,369,335,091
Accumulated Depreciation and Amortization						
At beginning of year	384,704,082	897,410,297	515,934,644	427,846,648	-	2,225,895,671
Depreciation and amortization	37,458,352	97,534,449	52,236,428	68,503,817	-	255,733,046
Disposals	(84,207,204)	(3,820,635)	(135,099)	(184,089)	-	(88,347,027)
At end of year	337,955,230	991,124,111	568,035,973	496,166,376	-	2,393,281,690
Net Book Value	₱161,523,838	₱583,454,579	₱89,420,426	₱124,352,924	₱17,301,634	₱976,053,401

The cost of fully depreciated assets that are still in use amounted to ₱1,720.04 million and ₱1,160.00 million as of September 30, 2018 and December 31, 2017, respectively.

In 2015, the Group purchased a computer hardware on a long-term payment arrangement. The liability is noninterest bearing and payable over 60 months. As of September 30, 2018, the outstanding liability amounted to ₱26.94 million, ₱15.83 million reported under 'other noncurrent liabilities' in the interim condensed consolidated statements of financial position. Interest expense arising from the amortization of the deferred interest amounted to ₱2.72 million and ₱3.54 million for the nine months ended September 30, 2018 and 2017, respectively.

8. Intangible Assets

The rollforward analysis of this account follows:

	For the Nine Months ended September 30, 2018 (Unaudited)		
	Software	Development in Progress	Total
Costs			
At beginning of period	₱549,820,615	₱4,540,000	₱554,360,615
Additions	20,207,693	104,783,285	124,990,978
Additions through business combination	40,507,945	7,194,172	47,702,117
At end of period	610,536,253	116,517,457	727,053,710
Accumulated Amortization			
At beginning of period	197,510,604	—	197,510,604
Amortization (Notes 17 and 18)	56,649,443	—	56,649,443
At end of period	253,937,742	—	254,160,047
Net Book Value	₱356,598,511	₱116,517,457	₱472,893,663

	For the year ended December 31, 2017 (Audited)		
	Software	Development in Progress	Total
Costs			
At beginning of year	₱335,393,881	₱63,140,574	₱398,534,455
Addition	156,491,950	8,654,110	165,146,060
Reclassifications	58,254,684	(67,254,684)	(9,000,000)
Disposal	(319,900)	—	(319,900)
At end of year	549,820,615	4,540,000	554,360,615
Accumulated Amortization			
At beginning of year	132,486,794	—	132,486,794
Amortization	65,023,810	—	65,023,810
At end of year	197,510,604	—	197,510,604
Net Book Value	₱352,310,011	₱4,540,000	₱356,850,011

In 2017, the Group purchased IT security tool, a new payroll system and a logistic software on a non-interest bearing long-term payment arrangement payable over 36 months, 60 months and 60 months, respectively. As at September 30, 2018, the outstanding liability related to the purchase of these intangible assets amounted to ₱107.00 million, ₱74.47 million of which is presented under 'other noncurrent liabilities' in the interim condensed consolidated statement of financial position. Interest expense arising from the amortization of deferred interest amounted to ₱4.52 million and ₱1.39 million for the nine months ended September 30, 2018 and 2017, respectively.

In 2018, a web filtering software was acquired on a non-interest bearing payment arrangement over 18 months. As at September 30, 2018, the outstanding liability related to the purchase amounted to ₱14.9 million, ₱4.22 million of which is presented under 'other noncurrent liabilities' in the interim condensed consolidated statement of financial position.

Development in progress pertains to costs related to ongoing development of software, user license and implementation costs.

9. Investments at Fair Value through Profit or Loss and through OCI and AFS Investments

Investment at FVPL and AFS investment - current represent the Group's investment in unquoted unit investment trust fund. The major categories of the Group's investment in unquoted unit investment trust fund comprise primarily of Overnight Deposit Facility and Term Deposit Facility in the Bangko Sentral ng Pilipinas.

Investment at FVOCI and AFS investment - noncurrent represent investment in the quoted shares of stock of Araneta Properties, Inc.

Movement of the investments at fair value and AFS investment follows:

	September 30, 2018		
	FVPL	FVOCI	AFS
Balance at beginning of period, as previously reported	₱-	₱-	₱885,500,464
Impact of PFRS 9 adoption	440,763,495	444,736,969	(885,500,464)
As at January 1, 2018, as restated	440,763,495	444,736,969	-
Additions	778,580,000	-	-
Redemption	(668,866,777)	-	-
Unrealized foreign exchange gain	18,041,399	-	-
Unrealized fair value gain (loss) during the year	6,090,705	(44,863,817)	-
	₱574,608,822	₱399,873,152	₱-

	December 31, 2017	
	Unquoted	Quoted
Balance at beginning of period	₱250,937,154	₱458,391,174
Additions	1,394,016,400	-
Redemption	(1,206,361,295)	-
Unrealized foreign exchange gain (loss)	(2,370,641)	-
Unrealized fair value gain (loss) during the year	4,541,877	(13,654,205)
	₱440,763,495	₱444,736,969

The unrealized fair value gain of ₱6.09 million related to investment at FVPL is presented under "Others - net" of "Other income (charges) in the interim consolidated statements of comprehensive income.

10. Investment in an Associate

On March 19, 2018, the Parent Company invested in Orient Freight International, Inc. (OFII), a company involved in freight forwarding, warehousing and customs brokerage businesses.

The Parent Company subscribed to 3,285,714 common shares out of the unissued capital stock of OFII at a subscription price of ₱44.40 per share for a total investment of ₱145.89 million. On the same date, the Parent Company purchased 1,150,000 secondary shares at ₱63.43 per share for a total consideration of ₱72.94 million from Rayomar Management, Inc. (RMI). These acquisitions contribute a total ownership of 30% on OFII for a total cost of shares of ₱218.83 million.

The Parent Company incurred costs directly attributable to the investment amounting to ₱9.08 million which was considered as part of cost of investment.

The Group's interest in OFII is accounted for using the equity method in the interim condensed consolidated financial statements. The concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture. As such, the investment in associate was accounted for using the provisional values since fair values to be assigned to the investee's net assets or the cost of the investment can be determined only provisionally at the date of acquisition.

The provisional values of the financial information of the Group's investment in OFII as at the date of acquisition follows:

Current assets	₱499,483,690
Noncurrent assets	92,469,818
Current liabilities	(206,145,900)
Noncurrent liabilities	(32,441,740)
Equity	353,365,868
Group's share in equity - 30%	106,009,760
Excess of purchase price over provisional fair value of net asset	112,808,942
Costs directly attributable to the investment	9,097,750
Share of profit from March 19 to September 30, 2018	9,201,144
Group's carrying amount of the investment	₱237,117,596

The Group recognized equity in net earnings of an associate amounting to ₱9.20 million which represents the Group's share in the associate's earnings from March 19 to September 30, 2018 and is presented under "Others - net" of "Other income (charges)" in the interim consolidated statements of comprehensive income. As of September 30, 2018, the investment in an associate amounted to ₱237.12 million. No impairment loss was recognized for the investment in an associate in 2018.

The purchase price allocation for the acquisition of interest in OFII has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. This includes information necessary for the valuation of property and equipment and other intangible assets, if any. Reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property and equipment and other intangible assets, if any.

The summarized statement of comprehensive income of the associate using provisional values from March 19 to September 30, 2018 follows:

Revenue	₱465,141,566
Cost and expenses	434,471,084
Net income	30,670,482
Other comprehensive income	—
Total comprehensive income	₱30,670,482
Group's share of profit from March 19 to September 30, 2018	₱9,201,145

11. Accounts and Other Payables

This account consists of:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trade payable - outside parties	₱1,154,573,464	₱656,868,942
Trade payable - related parties (Note 16)	19,987,818	376,412
Accruals:		
Salaries and wages	242,828,224	248,425,003
Contracted jobs	145,873,046	121,825,685
Rent and utilities	122,817,742	90,793,364
Claims and losses	83,293,415	26,539,218
Advertising	66,361,894	20,750,779
Taxes	25,064,058	10,933,230
Software maintenance	15,086,969	27,169,568
Professional fees	13,770,672	12,917,417
Outside services	11,935,834	10,968,979
Others	57,814,928	46,508,026
Deferred output VAT	282,800,106	225,681,729
Unearned revenue	107,560,068	—
Taxes payable	58,354,747	61,810,735
Government agencies contributions payable	24,061,275	23,013,633
Subscription payable	9,651,375	—
Others	31,871,768	18,528,015
	₱2,473,707,403	₱1,603,110,735

Trade payable and accrued expenses arise from regular transactions with suppliers and service providers. These are noninterest-bearing and are normally settled on one to 60-day term.

Accrued salaries and wages pertain to unpaid salaries and provision for employee's allowances and benefits.

Other accruals mainly include repairs and maintenance, training costs, accrual for interest expense and purchases of motor vehicles and materials and supplies.

Deferred output VAT arises from the uncollected receivables from vatable sales.

Unearned revenue pertains to payments received in advance from customers for services which have not yet been performed and are expected to be realized within a year.

Taxes payable includes output VAT payable and withholding taxes on payment to suppliers and employees' compensation which are settled on a monthly basis.

Government agencies contributions payable pertains to monthly required remittances to government agencies such as SSS, Pag-ibig and Philhealth.

Subscription payable pertains to the unpaid subscription to the shares of OFII.

Other payables include employees' salary loan deductions payable to third parties, payables arising from expenses incurred in relation to transactions with nontrade suppliers.

12. Transmissions Liability

Transmissions liability represents money transfer remittances by clients that are still outstanding, and not yet claimed by the beneficiaries as at reporting date. These are due and demandable.

Transmissions liability amounted to P418.33 million and P588.20 million as at September 30, 2018 and December 31, 2017, respectively.

13. Notes Payable

The Group has outstanding notes payable to various local banks. The details of these notes as at September 30, 2018 and December 31, 2017 are described below:

September 30, 2018 (Unaudited)					
Bank/Related Party	Date of Availment	Outstanding Balance	Maturity	Interest Rate	Payment Terms
Banco de Oro	March 2018	P67,000,000	September 2018	Fixed rate, 4.25%	Clean; Interest payable every month, principal to be paid on maturity date
Banco de Oro	Various availments in 2016	632,500,000	May 2021	Fixed rate, 4.25% to 4.50%	With mortgage; Interest payable every month, principal payable quarterly
Rizal Commercial Banking Corporation (RCBC)	December 2017	150,000,000	December 2018, renewable upon maturity, subject to repricing	Fixed rate, 6%	Clean; Interest payable every month, principal to be paid on maturity date
Total		P849,500,000			
Current Portion		P308,250,000			
Noncurrent portion		P541,250,000			

December 31, 2017 (Audited)					
Bank	Date of Availment	Outstanding Balance	Maturity	Interest Rate	Terms
Banco de Oro	September 2017	₱85,800,000	March 2018	Fixed rate, 4.00%	Clean; Interest payable every month, principal to be paid on maturity date
Banco de Oro	Various availments in 2016	692,500,000	Various maturities in 2018 to 2021	Fixed rate, 4.00%	With mortgage; Interest payable every month, principal payable quarterly
Unionbank of the Philippines (UBP)	August 2017	50,000,000	February 2018	Fixed rate, 6.00%	Clean; Interest payable every month, principal to be paid on maturity date
Rizal Commercial Banking Corporation (RCBC)	Various Availments in 2017	213,000,000	Various maturities in 2018, renewable upon maturity, subject to repricing	Fixed rate, 4.00%	Clean; Interest payable every month, principal to be paid on maturity date
Total		₱1,041,300,000			
Current portion		₱440,050,000			
Noncurrent portion		₱601,250,000			

The Notes Facility Agreement entered by the Group with Banco De Oro (BDO) in May 2016 is with a credit line facility amounting to ₱800.00 million. The loan is secured with real estate mortgage on land owned by the Group's affiliates (see Note 16).

Various short-term loans availed in 2017 with BDO amounting to ₱68.25 million were rolled over and still existing as of September 30, 2018.

Interest expense amounted to ₱32.99 million and ₱44.89 million for the nine months ended September 30, 2018 and 2017, respectively.

The loans were used primarily for working capital requirements and are not subject to any loan covenants.

14. Convertible Instrument

This account consists of:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Derivative liability		
Balance at beginning of year	₱1,860,373,479	₱—
Issuance of convertible instrument	—	1,660,422,659
Fair value loss (gain) on derivative	(331,624,419)	199,950,820
	₱1,528,749,060	1,860,373,479
Bond payable		
Balance at beginning of year	₱896,185,059	₱—
Issuance of convertible instrument, net of issuance cost	—	845,236,090
Accretion of interest	115,735,263	58,810,157
Unrealized foreign exchange loss (gain)	81,915,060	(8,610,668)
Amortization of issuance cost	1,349,063	749,480
	₱1,095,184,445	₱896,185,059

On June 20, 2017, the BOD of the Parent Company approved the issuance of convertible instrument. The proceeds of the issuance of convertible instrument will be used to fund the growth of the business of the Parent Company, including capital expenditures and working capital. Accordingly, on August 04, 2017, the Parent Company issued, in favor of CP Briks Pte. Ltd (CP Briks), a seven-year secured convertible instrument in the aggregate principal amount of US\$50.0 million (₱2,518.25 million) convertible at any time into 192,307,692 common shares of the Parent Company at the option of CP Briks at ₱13.00 per share conversion price, subject to adjustments and resetting of conversion price in accordance with the terms and conditions of the instrument.

The convertible instrument (to the extent that the same has not been converted by CP Briks as the holder or by the Parent Company) is redeemable at the option of CP Briks, commencing on the 30th month from the issuance date at the redemption price equal to the principal amount of the bond plus an internal rate of 13% (decreasing to 12%, 11% and 10% on the 4th, 5th and 6th anniversary of the issuance date, respectively). The agreement also contains redemption in cash by the Parent Company at a price equal to the principal amount of the bond plus an internal rate of 13% (decreasing to 12%, 11% and 10% on the 4th, 5th and 6th anniversary of the issuance date, respectively) in case of a Change of Control as defined under the agreement.

The Parent Company also has full or partial right to convert the shares subject to various conditions including pre-approval of the PSE of the listing of the conversion shares and other conditions to include closing sale price and daily trading volume of common shares trading on the Principal Market and upon plan of offering, placement of shares or similar transaction with common share price of at a certain minimum share price.

The convertible instrument is a hybrid instrument containing host financial liability and derivative components for the equity conversion and redemption options. The equity conversion and redemption options were identified as embedded derivatives and were separated from the host contract.

Simultaneous with the issuance of the convertible instrument, LBCDC extended a third-party pledge in favor of CP Briks (the "Initial Security") over 51% of the outstanding capital stock of the Parent Company owned and held by LBCDC to secure the obligations of the Parent Company under the convertible instrument. The Initial Security was extended pending approval by the shareholders of the Parent Company of the pledge over all of the Parent Company's shares in LBCE.

On October 3, 2017, consistent with the terms of the convertible instrument, the Initial Security was discharged and the pledge over the shares of LBCDC in the Parent Company was released. On the same date, the Parent Company entered into a pledge supplement with CP Briks whereby the Parent Company constituted in favor of CP Briks a pledge over all of the Parent Company's shares in LBCE consisting of 1,041,180,504 common shares, representing 100% of the total issued and outstanding capital stock of LBCE.

In the event of default, CP Briks may foreclose upon the pledge over LBCE shares as a result of which LBCE shares may be sold via auction to the highest bidder. The sale of LBCE shares in such public auction shall extinguish the outstanding obligation, whether or not the proceeds of the foreclosure sale are equal to the amount of the outstanding obligation. Under the terms of the pledge agreement, if LBCE shares are sold at a price higher than the amount of the outstanding obligation, any amount in excess of the outstanding obligation shall be paid to the Company.

While CP Briks may participate in the auction of LBCE shares should there be a foreclosure, any such foreclosure of the pledge over LBCE shares and any resulting acquisition by CP Briks of equity interest in LBCE are always subject to the foreign ownership restrictions applicable to LBCE, which may not exceed 40% of the total issued and outstanding capital stock entitled to vote, and 40% of the total issued and outstanding capital stock whether or not entitled to vote, of LBCE.

Covenants

While the convertible instrument has not yet been redeemed or converted in full, the Parent Company shall ensure that neither it or its subsidiaries shall incur, create or permit to subsist or have outstanding indebtedness, as defined in the Omnibus Agreement, or enter into agreement or arrangement whereby it is entitled to incur, create or permit to subsist any indebtedness and that the Parent Company shall ensure on a consolidated basis that:

- a. Total Debt to EBITDA for any Relevant Period (12 months ending on the Parent Company's financial year) shall not exceed 2.5:1.
- b. The ratio of EBITDA to Finance Charges for any Relevant Period shall not be less than 5.0:1; and
- c. The ratio of Total Debt on each relevant date to Shareholder's Equity for that Relevant Period shall be no more than 1:1.

The determination and calculation of the foregoing financial ratios are based on the agreement and interpretation of relevant parties subject to the terms of the convertible instrument. The Group is in compliance with the above covenants as at December 31, 2017, the latest Relevant Period subsequent to the issuance of the convertible instrument.

In relation to the issuance of the convertible instrument and following the entry of CP Briks as a stakeholder in the Parent Company, the Parent Company entered into the following transactions:

- a. On August 4, 2017, LBCE and LBCDC agreed for LBCE to discontinue royalty for the use of LBC Marks (see Note 16).
- b. On various dates, the Parent Company entered into the following transactions for the acquisition of certain overseas entities:
 - i. On March 7, 2018, the Parent Company acquired 100% ownership of LBC Mabuhay Saipan, Inc. (LBC Saipan) for a total purchase price of USD 207,652 or ₱10.80 million (see Note 3).
 - ii. On March 7, 2018, the BOD of the Parent Company approved the purchase of shares of the entities under LBC Express Holdings USA Corporation. The acquisition is expected to benefit the Group by contributing to its global revenue streams. On the same date, the share purchase agreements (SPA) were executed by the Parent Company and LBC Express Holdings USA Corporation with a total share purchase price amounting to US \$8.34 million, subject to certain closing conditions.

Below is the list of entities that will be acquired by the Parent Company from LBC Express Holdings USA Corporation:

- LBC Mabuhay Hawaii Corporation which operates as a cargo and remittance Company in Hawaii. The Parent Company purchased 1,536,408 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.
- LBC Mundial Corporation which operates as a cargo and remittance Company in California. The Parent Company purchased 4,192,546 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.

- LBC Mabuhay North America Corporation which operates as a cargo and remittance Company in New Jersey. The Parent Company purchased 1,605,273 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.

The transfer of the ownership of the shares and all rights, titles and interests thereto shall take place following the payment of the consideration defined and shall be subject to the necessary approvals of the US regulatory bodies that oversee and/or regulate the Companies. As of report date, the closing conditions are not met.

- iii. On June 27, 2018, the BOD of the Parent Company approved the purchase of shares of some overseas entities. The acquisition is expected to benefit the Group by contributing to its global revenue streams. On the same date, the SPAs were executed by the Parent Company and Jamal Limited, as follow:
- LBC Aircargo (S) PTE. LTD. which operates as a cargo branch in Taiwan. The Parent Company purchased 94,901 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US \$146,013;
 - LBC Money Transfer PTY Limited which operates as a remittance company in Australia. The Parent Company purchased 10 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US \$194,535;
 - LBC Express Airfreight (S) PTE. LTD. which operates as a cargo company in Singapore. The Parent Company purchased 10,000 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US \$2,415,035; and
 - LBC Australia PTY Limited which operates as a cargo company in Australia. The Parent Company purchased 223,500 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US \$1,843,149.

The transfer of the ownership of the shares and all rights, titles and interests thereto shall take place following the payment of the considerations defined.

- iv. On August 15, 2018, the Parent Company approved the acquisition of 92.5% equity ownership of LBC Mabuhay (Malaysia) SDN BHD (LBC Malaysia) for a total purchase price of USD 461,782 or P24.68 million. (see Note 3).
- v. The documentation requirements for the acquisition for an additional three overseas entities are still in process.

Upon completion of the acquisitions discussed in (i) to (iv) above, the Parent Company will have acquired equity interests in twelve overseas entities which are affiliated to the Parent Company and LBCDC. In accordance with the directions from LBCDC, the Parent Company intends to complete the acquisition of the overseas entities by the end of the year, after which the Parent Company expects (on the basis of LBCDC's manifestations) settlement by LBCDC of all of its obligations to the Group.

- c. On March 19, 2018, through a Deed of Assignment, LBCE assigned its receivables from QuadX Inc. to the Parent Company amounting to P186.02 million. On the same date, the Parent Company and QuadX Inc. entered into a Subscription Agreement to subscribe and issue a total of 1,860,214 shares of stock of QuadX Inc. through the conversion of the assigned advances to equity which represents 86.11% ownership by the Parent Company.

The increase in authorized capital stock of QuadX Inc. from which shares will be issued to the Parent Company is sourced, was approved by SEC on June 14, 2018.

- d. As at report date, LBCDC has not settled its obligations to the Group pending completion of acquisition of the overseas entities.

If an event of default shall have occurred and be continuing, CP Briks may require the Parent Company to redeem all or any portion of the convertible instrument, provided that CP Briks provides written notice to the Parent Company within the applicable period. Each portion of the convertible instrument subject to redemption shall be redeemed by the Parent Company at price equal to 100% of the conversion amount plus an internal rate of return (IRR) equal to 16% (inclusive of applicable tax, which shall be for the account of CP Briks).

15. Equity

Capital stock

As at September 30, 2018 and December 31, 2017, the details of the Parent Company's common shares follow:

	Number of Shares of Stocks	Amount
Capital stock - P1 par value		
Authorized	2,000,000,000	₱2,000,000,000
Issued and outstanding	1,425,865,471	1,425,865,471

16. Related Party Transactions

In the normal course of business, the Group transacts with related parties consisting of its ultimate parent, LBCDC, affiliates and its associate. Affiliates include those entities in which the owners of the Group have ownership interests. These transactions include royalty, delivery, service and management fees and loans and cash advances. Except as otherwise indicated, the outstanding accounts with related parties shall be settled in cash. The transactions are made at terms and prices agreed upon by the parties.

Details of related party transactions and balances for the nine months ended September 30, 2018 and for the year ended December 31, 2017 are as follows:

	Transaction amounts for the Nine Months ended September 30, 2018 (Unaudited)	Outstanding Receivable balance as at September 30, 2018 (Unaudited)	Terms	Conditions
<u>Due from related parties (Trade receivables)</u>				
<i>Affiliates</i>				
a.) Delivery fee, management fee, financial Instant Peso Padala (IPP) fulfillment fee (Notes 5 and 24)	₱242,733,593	₱308,675,255	Noninterest-bearing; due and demandable	Unsecured, no impairment
<u>Due from related parties (Non-trade receivables)</u>				
<i>Ultimate parent company</i>				
b.) Advances	₱80,982,802	₱495,031,140	Noninterest-bearing; due and demandable	Unsecured, no impairment
<i>Affiliates - under common control</i>				
b.) Advances	1,020,868	59,841,669	Noninterest-bearing; due and demandable	Unsecured, no impairment
c.) Advances for subscription of shares	445,946,636	445,946,636	Noninterest-bearing; for settlement of the subscription of shares	Unsecured, no impairment
<i>Officer</i>				
b.) Advances	507,187	10,013,800	Noninterest-bearing; due and demandable	Unsecured, no impairment
		₱1,010,833,245		

	Transaction amounts for the Nine Months ended September 30, 2017 (Unaudited)	Outstanding Receivable balance as at December 31, 2017 (Audited)	Terms	Conditions
<u>Due from related parties (Trade receivables)</u>				
<i>Affiliates</i>				
a.) Delivery fee, management fee, financial Instant Peso Padala (IPP) fulfillment fee (Notes 5 and 24)	₱434,376,709	₱495,476,881	Noninterest-bearing; due and demandable	Unsecured, no impairment
<u>Due from related parties (Non-trade receivables)</u>				
<i>Ultimate parent company</i>				
b.) Advances	₱98,881,990	₱415,144,205	Noninterest-bearing; due and demandable	Unsecured, no impairment

(Forward)

	Transaction amounts for the Nine Months ended September 30, 2017 (Unaudited)	Outstanding Receivable balance as at December 31, 2017 (Audited)	Terms	Conditions
<i>Affiliates - under common control</i>				
b.) Advances	₱60,996,656	₱243,289,035	Noninterest-bearing; due and demandable	Unsecured, no impairment
<i>Officer</i>				
b.) Advances	—	9,284,395	Noninterest-bearing; due and demandable	Unsecured, no impairment
		₱667,717,635		

	Transaction amounts for the Nine Months ended September 30, 2018 (Unaudited)	Outstanding Payable balance as at September 30, 2018 (Unaudited)	Terms	Conditions
<u>Due to related parties (Trade payables)</u>				
<i>Ultimate Parent Company</i>				
d.) Advances	₱—	₱674,719	Noninterest-bearing; due and demandable	Unsecured
<i>Associate</i>				
e.) Sea freight and brokerage	152,439,991	—	Noninterest-bearing; due and demandable	Unsecured
<i>Affiliate</i>				
b.) Advances	—	19,313,099	Noninterest-bearing; due and demandable	Unsecured
f.) Guarantee fee (Notes 11 and 13)	5,357,143	—	Noninterest-bearing; due and demandable	Unsecured
		₱19,987,818		

Due to related parties (Non-trade payables)

Affiliate - under common control

b.) Advances	₱—	₱2,693,764	Noninterest-bearing; due and demandable	Unsecured
<i>Officer (Advances)</i>				
	—	33,271,090	Noninterest-bearing; due and demandable	Unsecured
		₱35,964,854		

	Transaction amounts for the Nine Months ended September 30, 2017 (Unaudited)	Outstanding Payable balance as at December 31, 2017 (Audited)	Terms	Conditions
<u>Due to related parties (Trade payables)</u>				
<i>Ultimate Parent Company</i>				
d.) Royalty fee (Notes 11 and 18)	₱174,890,956	₱376,412	Noninterest-bearing; due and demandable	Unsecured
<i>Affiliate</i>				
f.) Guarantee fee (Note 11)	7,738,095	—	Noninterest-bearing; due and demandable	Unsecured
		₱376,412		

(Forward)

	Transaction amounts for the Nine Months ended September 30, 2017 (Unaudited)	Outstanding Payable balance as at December 31, 2017 (Audited)	Terms	Conditions
<u>Due to a related party (Transmissions liability)</u>				
<i>Affiliate</i>				
a.) Transmissions liability (Note 12)	₱1,268,852,329	₱77,384,306	Noninterest-bearing; due and demandable	Unsecured
<u>Due to related parties (Non-trade payables)</u>				
<i>Affiliate - under common control</i>				
b.) Advances	₱--	₱2,542,585	Noninterest-bearing; due and demandable	Unsecured
		₱2,542,585		

Compensation of Key Management Personnel:

	For the Nine Months ended September 30	
	2018 (Unaudited)	2017 (Unaudited)
Salaries and wages	₱116,210,389	₱87,123,703
Retirement benefits	10,399,103	10,863,892
Other short-term employee benefits	15,041,423	13,687,202
	₱141,650,915	₱111,674,797

- a. In the normal course of business, the Group fulfills the delivery of balikbayan boxes, fulfills money remittances and performs certain administrative functions on behalf of its affiliates. The Group charges delivery fees and service fees for the fulfillment of these services based on agreed rates.
- b. The Group regularly makes advances to and from related parties to finance working capital requirements and as part of their cost reimbursements arrangement. These unsecured advances are non-interest bearing and payable on demand.
- c. On March 7, 2018, the BOD of the Parent Company approved the purchase of shares of the entities under LBC Express Holdings USA Corporation. The acquisition is expected to benefit the Group by contributing to its global revenue streams. On the same date, the share purchase agreements (SPA) were executed by the Parent Company and LBC Express Holdings USA Corporation with a total share purchase price amounting to US \$8.34 million, subject to certain closing conditions. As discussed in Note 14, the transfer of the ownership of the shares and all rights, titles and interests thereto shall take place following the payment of the consideration defined and shall be subject to the necessary approvals of the US regulatory bodies that oversee and/or regulate the Companies. As of report date, the closing conditions are not met.
- d. LBCDC (Licensor), the Ultimate Parent Company, granted to the Group (Licensee) the full and exclusive right to use the LBC Marks within the Philippines, in consideration for a continuing royalty rate of two point five percent (2.5%) for 2017 and 2016 of Licensee's Gross Revenues which is defined as any and all revenue from all sales of products and services, including all other income of every kind and nature directly and/or indirectly arising from, related to and/or connected with Licensee's business operations (including, without limitation, any proceeds from business interruption insurance, if any), whether for cash or credit, wherever made, earned, realized or accrued, excluding any sales discounts and/or rebates, value added tax.

On August 4, 2017, LBCE and LBCDC entered into a trademark licensing agreement, which amended and restated the trademark licensing agreement entered by the same parties on November 9, 2007. Both parties agreed to discontinue royalty payments for the use of LBC Marks in recognition of LBCE's own contribution to the value and goodwill of the trademark effective September 4, 2017.

- e. In the normal course of business, LBCE acquires services from OFII which include sea freight and brokerage mainly for the cargoes coming from international origins. These expenses are billed to the origins at cost.
- f. The Group entered into a loan agreement with BDO which is secured with real estate mortgage on various real estate properties owned by the Group's affiliate. In consideration of the affiliate's accommodation to the Group's request to use these properties as loan collateral, the Group agreed to pay the affiliate, every April 1 of the year starting April 1, 2016, a guarantee fee of 1% of the face value of loan and until said properties are released by the bank as loan collateral. The guarantee fee is reported as part of interest expense in the interim condensed consolidated statements of comprehensive income.

17. Cost of Services

This account consists of:

	For the nine months ended September 30	
	2018 (Unaudited)	2017 (Unaudited)
Cost of delivery and remittance	₱2,754,262,689	₱2,059,013,144
Salaries and benefits	1,604,560,217	1,470,345,414
Utilities and supplies	702,789,214	543,198,345
Rent (Note 20)	520,704,512	442,884,233
Depreciation and amortization (Notes 7 and 8)	202,322,817	158,962,865
Transportation and travel	92,678,956	42,305,749
Repairs	72,699,080	75,623,060
Retirement benefit expense	69,910,950	74,365,884
Insurance	19,090,244	17,871,041
Others	20,040,941	4,803,433
	₱6,059,059,620	₱4,889,373,168

18. Operating Expenses and Foreign Exchange Gains - net

This account consists of:

	For the nine months ended September 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Salaries and benefits	₱461,906,601	₱376,253,123
Rent (Note 20)	196,622,373	169,252,540
Advertising and promotion	184,242,541	122,382,358
Claims and losses	150,849,386	44,263,494
Professional fees	124,739,927	169,691,774
Utilities and supplies	119,813,154	110,751,841
Taxes and licenses	114,961,454	83,977,916
Travel and representation	103,619,067	102,370,446
Depreciation and amortization (Notes 7 and 8)	77,244,666	76,933,965
Provision for impairment loss (Note 5)	67,625,778	28,628,271
Dues and subscriptions	46,407,925	13,723,249
Software maintenance costs	34,474,714	42,953,452
Retirement benefit expense	24,707,202	22,821,178
Commission expense	24,484,521	17,758,213
Insurance	17,592,791	16,756,098
Repairs and maintenance	3,641,006	3,692,311
Royalty (Note 16)	—	174,890,956
Others	30,810,841	18,792,879
	₱1,783,743,947	₱1,595,894,064

Others comprise mainly of bank and finance charges, penalties and other administrative expenses.

Foreign exchange gains - net arises from the following:

	For the nine months ended September 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Cash and cash equivalents	₱230,296,126	₱112,422,864
Investment at FVPL	19,898,311	—
Advances to affiliates - net	15,265,899	25,963,349
Trade payable	(7,530,436)	(1,945,269)
Bonds payable	(81,915,060)	(22,253,470)
	₱176,014,840	₱114,187,474

19. Income Taxes

Provision for income tax consists of:

	For the nine months ended	
	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Current	₱368,945,942	₱309,087,103
Deferred	800,569	(20,768,553)
	₱369,746,511	₱288,318,550

Details of the Group's deferred income tax assets - net as at September 30, 2018 and December 31, 2017 follow:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Retirement benefit liability	₱212,442,114	₱215,948,504
Accrued employee benefits	37,922,040	42,241,773
Allowance for impairment loss	35,451,239	17,127,718
NOLCO	18,522,894	236,165
Unearned revenue	17,133,438	—
Deferred lease liability	14,506,855	12,900,573
Past service cost	840,377	927,312
MCIT	149,505	110,558
Capitalized borrowing costs	(261,668)	(418,668)
Unrealized foreign exchange losses	(28,091,639)	450,104
Others	6,651,429	—
	₱315,266,584	₱289,524,039

On December 18, 2008, the Bureau of Internal Revenue issued Revenue Regulation No. 16-2008 which implemented the provisions of Republic Act (R.A.) No. 9504, as amended by R.A. 10963 or the Tax Reform Acceleration and Inclusion Act (TRAIN), on Optional Standard Deduction (OSD). This regulation allows individuals and corporate taxpayers to use OSD in computing their taxable income. For corporate taxpayers, they may elect a standard deduction in the amount equivalent to 40% gross income in lieu of the itemized deductions.

For the nine months ended September 30, 2018, 18 of the Parent Company's Subsidiaries opted to use OSD in computing the current provision for income tax.

20. Lease Commitments

(a) Operating Lease

The following are the operating lease agreements entered into by the Group:

1. Operating lease agreement covering its current corporate office space for a period of five years from October 20, 2016. The lease agreement is nonrenewable and includes rental rate escalations during term of the lease. The lease agreement also requires the Group to pay

advance rental and security deposits.

2. Operating lease agreements covering various service centers and service points within the Philippines for a period of one to five years, renewable at the Group's option at such terms and conditions which may be agreed upon by both parties. These lease agreements include provision for rental rate escalations including payment of security deposits and advance rentals.
3. Operating lease agreement with a local bank covering transportation equipment for a period of three to four years. The lease agreement does not include escalation rates on monthly payments.

There are no contingent rents for the above lease agreements.

Rent expense was recognized as follows:

	For the nine months ended September 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Cost of services	₱515,896,538	₱442,884,233
Operating expenses	202,274,441	169,252,540
	₱718,170,979	₱612,136,773

The Group has security deposits arising from the said operating lease agreements amounting to ₱301.91 million and ₱255.43 million as at September 30, 2018 and December 31, 2017, respectively.

The future minimum lease payments from the non-cancellable operating lease agreements follow:

	September 30,	December 31,
	2018	2017
	(Unaudited)	(Audited)
Not later than 1 year	₱941,145,328	₱874,762,535
Later than 1 year but not later than 5 years	4,142,054,514	3,894,459,968

Deferred lease liability arising from straight line recognition of lease amounting to ₱48.42 million and ₱43.00 million as at September 30, 2018 and December 31, 2017, respectively, are included in the non-current portion of lease liabilities account in the interim condensed consolidated statements of financial position.

(b) Finance lease

These involve leases of transportation equipment which were accounted for as finance leases. The components of the finance lease obligation as at September 30, 2018 and December 31, 2017 arising from these leases are as follow:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Gross finance lease obligations		
Not later than one year	₱21,640,857	₱37,331,796
Later than 1 year but not later than 5 years	50,097,032	50,764,603
	71,737,889	88,096,399
Future finance lease charges on the finance lease		
Not later than one year	(₱5,212,011)	(₱6,640,272)
Later than 1 year but not later than 5 years	(5,162,102)	(6,734,655)
	(10,374,113)	(13,374,927)
	₱61,363,776	₱74,721,472

The present value of minimum lease payments is as follows:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Not later than 1 year	₱16,428,846	₱30,691,524
Later than 1 year but not later than 5 years	44,934,930	44,029,948
	₱61,363,776	₱74,721,472

Interest expense on the above finance lease obligation charged to finance costs amounted to ₱6.87 million and ₱9.43 million for the nine months ended September 30, 2018 and 2017, respectively.

21. Retirement Benefits

The components of liability recognized in the interim consolidated statements of financial position for the existing retirement plan follow:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Present value of defined benefit obligation	₱841,669,782	₱760,203,734
Fair value of plan assets	(128,374,853)	(54,877,967)
	₱713,294,929	₱705,325,767

The Group has no existing transaction either directly or indirectly with its employees' retirement benefit fund.

The pension cost for the interim periods and the present value of the defined benefit obligation as at September 30, 2018 and 2017 were calculated by extrapolating the latest actuarial valuation reports for the year ended December 31, 2017 and 2016, respectively.

22. Financial Risk Management Objectives and Policies

The Group has various financial assets such as cash and cash equivalents, trade and other receivables (excluding advances to employees), due from related parties (except for the advances intended for subscription of shares), investments at fair value, AFS investments and 'short-term investments' under other current assets.

The Group's financial liabilities comprise of accounts and other payables (excluding statutory liabilities), due to related parties (except for advances intended for the subscription of shares), notes payable, transmissions liability, finance lease liabilities, other noncurrent liabilities, derivative liability and bond payable. The main purpose of these financial liabilities is to finance the Group's operations.

The use of derivative financial instruments, if any, is solely for management of the Group's financial risk exposures. It is the Group's policy not to enter into derivative transactions for speculative purposes.

The main risks arising from the Group's financial instruments are price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. The BOD reviews and approves policies for managing each of these risks which are summarized below.

Price risk

The Group closely monitors the prices of its equity securities as well as macroeconomic and entity specific factors which could directly or indirectly affect the prices of these instruments. In case of an expected decline in its portfolio of equity securities, the Group readily disposes or trades the securities for replacement with more viable and less risky investments.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers, or factors affecting all instruments traded in the market.

The following table shows the effect on comprehensive income should the change in the close share price of quoted and unquoted equity securities occur as at September 30, 2018 and 2017 with all other variables held constant.

	Effect on comprehensive income	
	September 30, 2018	September 30, 2017
	(Unaudited)	(Unaudited)
Change in share price		
Increase by 5%	₱19,993,658	₱23,894,859
Decrease by 5%	(₱19,993,658)	(₱23,894,859)
Change in NAV		
Increase by 5%	₱28,730,441	₱15,054,246
Decrease by 5%	(₱28,730,441)	(₱15,054,246)

The Group is also exposed to equity price risk in the fair value of the derivative liability due to the embedded equity conversion feature. The following table shows the effect on net income should the change in the close share price of the underlying equity security in the convertible instrument occur as at September 30, 2018 with all other variables held constant.

	Effect on net income
	September 30, 2018 (Unaudited)
Change in share price	
Increase by 5%	(P129,583,546)
Decrease by 5%	P129,583,546

Interest rate risk and credit spread sensitivity analysis

Except for the credit spread used in the valuation of the convertible redeemable bond, the Group is not significantly exposed to interest rate risk as the Group's interest rate on its cash and cash equivalents and notes payable are fixed and none of the Group's financial assets and liabilities carried at fair value are sensitive to interest rate fluctuations. Further, the impact of fluctuation on interest rates on the Group's finance leases will not significantly impact the results of operations.

The value of the Group's convertible redeemable bond is driven primarily by two risk factors: underlying stock prices and interest rates. Interest rates are driven by using risk-free rate, which is a market observable input, and credit spread, which is not based on observable market data. The following table demonstrates the sensitivity to a reasonably possible change in credit spread, with all other variables held constant, on the fair value of the Group's embedded conversion option of the convertible redeemable bond.

	Effect in fair value as of	
	September 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Credit spread		
+1%	P60,053,446	(P2,616,426)
-1%	(63,685,126)	(8,033,086)

Liquidity risk

Liquidity risk is the risk from inability to meet obligations when they become due, because of failure to liquidate assets or obtain adequate funding. The Group ensures that sufficient liquid assets are available to meet short-term funding and regulatory capital requirements.

The Group has a policy of regularly monitoring its cash position to ensure that maturing liabilities will be adequately met.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Management believes that cash generated from operations is sufficient to meet daily working capital requirements.

Surplus cash is invested into a range of short-dated money time deposits, which seek to ensure the security and liquidity of investment while optimizing yield.

The Group expects to generate cash flows from its operating activities mainly on sale of services. The Group also has sufficient cash and adequate amount of credit facilities with banks to meet any unexpected obligations.

Foreign currency risk

Foreign currency risk is the risk that the future cash flows of financial assets and financial liabilities will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities when revenue or expenses are denominated in a different currency from the Group's functional currency.

The Group operates internationally through its various international affiliates by fulfilling the money remittance and cargo delivery services of these related parties. This exposes the Group to foreign exchange risk primarily with respect to Euro (EUR), Hongkong Dollar (HKD), US Dollar (USD), Great British Pound (GBP) and Canadian Dollar (CAD). Foreign exchange risk arises from future commercial transactions, foreign currency denominated assets and liabilities and net investments in foreign operations.

The Group enters into short-term foreign currency forwards, if needed, to manage its foreign currency risk from foreign currency denominated transactions.

Information on the Group's foreign currency-denominated monetary assets and liability recorded under cash and cash equivalents, trade and other receivables and bonds payable in the interim condensed consolidated statements of financial position and their Philippine Peso equivalents follow:

	September 30, 2018 (Unaudited)	
	Foreign currency	Peso equivalent
Assets:		
Euro	3,164,812	₱197,389,296
Hongkong Dollars	16,148,775	109,973,160
US Dollars	405,617	21,672,134
Liability:		
US Dollars	(20,380,770)	(1,088,944,541)

The translation exchange rates used were ₱62.37 to EUR 1, ₱53.43 to USD 1 and ₱6.81 to HKD 1 in 2018.

	December 31, 2017 (Audited)	
	Foreign currency	Peso equivalent
Assets:		
Euro	3,001,837	₱178,939,504
Hongkong Dollars	15,118,598	96,607,841
Australian Dollars	1,234,425	48,031,477
Taiwanese Dollars	56,818,370	95,454,862
US Dollars	577,108	28,809,231
Great British Pound	33,453	2,260,419
Liability:		
US Dollars	(17,441,443)	(908,026,829)

The translation exchange rates used were ₱59.61 to EUR 1, ₱6.39 to HKD 1, ₱38.91 to AUD 1, ₱1.68 to TWD 1, ₱49.92 to USD 1 and ₱67.57 to GBP 1 in 2017.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities - net position) as at September 30, 2018 and December 31, 2017.

Reasonably possible change in foreign exchange rate for every two units of Philippine Peso	Increase (decrease) in income before tax	
	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
₱2	(₱1,323,132)	₱153,325,188
(2)	₱1,323,132	(153,325,188)

There is no impact on the Group's equity other than those already affecting profit or loss. The movement in sensitivity analysis is derived from current observations on fluctuations in US dollar average exchange rates.

The Group recognized ₱176.01 million and ₱114.19 million foreign exchange gains - net, for the nine months period ended September 30, 2018 and 2017, respectively, arising from settled transactions and translation of the Group's cash and cash equivalents, investment in FVPL, due from related parties, trade other payables and bond payable.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk is monitored and actively managed by way of strict requirements relating to the creditworthiness of the counterparty at the point at which the transactions are concluded and also throughout the entire life of the transactions, and also by way of defining risk limits.

The maximum credit risk exposure of the Group's financial assets is equal to the carrying amounts in the consolidated statements of financial position.

There are no collaterals held as security or other credit enhancements attached to the Group's financial assets.

The Group has ₱1,682.82 million and ₱1,675.80 million trade receivables, ₱183.84 million and ₱147.61 million of which are past due and/or impaired, as at September 30, 2018 and December 31, 2017, respectively.

The following tables outline the impact of multiple scenarios on the allowance for impairment losses:

September 30, 2018	GDP growth rate	Associate ECL on trade receivables
Base case (33%)	7%	₱41,885,307
Upside case (33%)	11%	41,778,023
Downside case (33%)	5%	41,992,590
		₱125,655,920

January 1, 2018	GDP growth rate	Associate ECL on trade receivables
Base case (33%)	12%	₱26,998,650
Upside case (33%)	15%	26,843,832
Downside case (33%)	9%	27,153,471
		₱80,995,953

As at September 30, 2018 and December 31, 2017, the aging analyses of the Group's past due and/or impaired receivables are as follows:

2018					
	Past Due but not Impaired			Impaired Financial Assets	Total
	1 to 30 days	31 to 90 days	Over 90 days		
Trade and other receivables	₱25,161,580	₱15,068,112	₱17,958,739	₱125,655,920	₱183,844,351

2017					
	Past Due but not Impaired			Impaired Financial Assets	Total
	1 to 30 days	31 to 90 days	Over 90 days		
Trade and other receivables	₱64,705,065	₱16,556,165	₱9,092,445	₱57,252,950	₱147,606,625

Capital Management

The Group's objectives in managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide shareholder returns and to maintain an optimal capital structure to reduce the cost of capital and thus, increase the value of shareholder investment.

In order to maintain a healthy capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debts. Management has assessed that the Group is self-sufficient based on historical and current operating results.

The capital that the Group manages is equal to the total equity as shown in the interim condensed consolidated statements of financial position at September 30, 2018 and December 31, 2017 amounting to ₱3,532.72 million and ₱2,365.47 million, respectively.

23. Fair Values

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are as follows:

The carrying amounts of cash and cash equivalents, trade and other receivables, due from/to related parties, short-term cash investments, accounts and other payables, transmissions liability, and the

current portion of notes payable and lease liabilities approximate their fair value. These financial instruments are relatively short-term in nature.

The fair value of quoted AFS investment is the current closing price while the unquoted AFS investment is based on the published net asset value per unit as of reporting date.

The estimated fair value of long-term portion of notes payable as at September 30, 2018 is based on the discounted value of future cash flow using applicable rates ranging from 4.14% to 4.20%.

The fair value of the long-term portion of lease liabilities as at September 30, 2018 is based on the discounted value of future cash flow using applicable interest rates ranging from 7.50% to 9.91% for 2018 and 2017.

The estimated fair value of derivative liability as at September 30, 2018 is based on an indirect method of valuing multiple embedded derivatives. This valuation technique using binomial pyramid model using stock prices and stock price volatility. This valuation method compares the fair value of the option-free instrument against the fair value of the hybrid convertible instrument. The difference of the fair values is assigned as the value of the embedded derivatives.

The significant unobservable input in the fair value is the stock price volatility of 16.89% for the nine months ended September 30, 2018. A 5% increase (5% decrease) in the stock price volatility would decrease by P2,166 (increase by P898) the fair value of the derivative liability.

The plain bond is determined by discounting the cash flow, which is simply the principal at maturity, using a discount rate of 15.69%. The discount rate is composed of the matched to maturity risk free rate and the option adjusted spread (OAS) of 13%.

The estimated fair value of other noncurrent liabilities as at September 30, 2018 is based on the discounted value of future cash flow using applicable rate of 3.85% to 12.28%.

The discounting used Level 3 inputs such as projected cash flows and other market data.

Except for the fair values of quoted investment, the discounting used inputs such as cash flows, discount rates and other market data, hence are classified as Level 3.

The quantitative disclosures on fair value measurement hierarchy for assets and liabilities as at September 30, 2018 and December 31, 2017 follow:

September 30, 2018					
Fair value measurements using					
	Carrying values	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Quoted equity securities	P399,873,152	P399,873,152	P399,873,152	P—	P—
Unquoted unit investment trust fund	574,608,822	574,608,822	—	574,608,822	—
Liability measured at fair value					
Derivative liability	1,528,749,060	1,528,749,060	—	—	1,528,749,060
Liabilities for which fair value are disclosed					
Long-term notes payable	541,250,000	541,250,000	—	—	541,250,000
Bond payable	1,095,184,445	1,095,184,445	—	—	1,095,184,445
Non-current lease liabilities	93,356,964	98,519,066	—	—	98,519,066
Other noncurrent liabilities	94,518,046	96,424,784	—	—	96,424,784

December 31, 2017					
Fair value measurements using					
	Carrying values	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Quoted equity securities	P444,736,969	P444,736,969	P444,736,969	P—	P—
Unquoted unit investment trust fund	440,763,495	440,763,495	—	440,763,495	—
Liability measured at fair value					
Derivative liability	1,860,373,479	1,860,373,479	—	—	1,860,373,479
Liabilities for which fair value are disclosed					
Bond payable	896,185,059	857,470,059	—	—	857,470,059
Long-term notes payable	601,250,000	614,312,040	—	—	614,312,040
Non-current lease liabilities	87,031,857	87,031,857	—	—	87,031,857
Other noncurrent liabilities	118,327,055	118,327,055	—	—	118,327,055

During the nine months ended September 30, 2018 and year ended December 31, 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

24. Segment Reporting

Management has determined the operating segments based on the information reviewed by the executive committee for purposes of allocating resources and assessing performance.

The Group's two main operating segments comprise of logistics and money transfer services. The executive committee considers the business from product perspective.

The Group's logistics products are geared toward both retail and corporate clients. The main services offered under the Group's logistics business are domestic and international courier and freight forwarding services (by way of air, sea and ground transport).

Money transfer services comprise of remittance services (including branch retail services, prepaid remittance cards and online and mobile remit) and bills payment collection and corporate remittance payout services. Money transfer services include international presence through its branches which comprises international inbound remittance services.

The Group only reports revenue line item for this segmentation. Assets and liabilities and cost and expenses are shared together by these two segments and, as such, cannot be reliably separated.

The following table presents the amount of revenues generated from these segments:

	For the nine months ended	
	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Logistics		
Retail	P5,367,994,588	P4,260,150,253
Corporate	3,032,131,662	2,336,614,029
	8,400,126,250	6,596,764,282
Money transfer services		
Domestic	605,381,330	702,335,465
International inbound	108,177,560	99,308,439
	713,558,890	801,643,904
	P9,113,685,140	P7,398,408,186

The revenue of the Group consists mainly of sales to external customers. Revenue arising from service fees charged to affiliates amounted to ₱306.64 million and ₱495.47 million for the nine months ended September 30, 2018 and 2017, respectively.

Seasonality of Operations

The Group's operation tends to experience increased volume in remittance transmission as well as cargo throughout the second quarter and fourth quarter of the year, particularly during the start of the school year and during the Christmas holiday season.

25. Basic/Diluted Earnings Per Share

The following table presents information necessary to calculate earnings per share (EPS) on net income attributable to owners of the Parent Company:

	For the nine months ended September 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Net income attributable to equity holder of the Parent Company	₱1,264,611,564	₱740,816,323
Less profit impact of assumed conversion of bonds payable	(157,199,552)	(42,403,645)
	₱1,107,412,012	₱698,412,678
Weighted average number of common shares outstanding	1,425,865,471	1,425,865,471
Dilutive shares arising from convertible debt	208,657,692	43,652,137
Adjusted weighted average number of common shares for diluted EPS	1,634,523,163	1,469,517,608
Basic EPS	₱0.89	₱0.52
Diluted EPS	₱0.68	₱0.48

26. Note to Consolidated Statement of Cash Flows

The Group has the following non-cash transactions under investing activities:

- unpaid acquisition of property and equipment amounting to ₱7.90 million and ₱35.16 million for the nine months ended September 30, 2018 and 2017, respectively.
- unpaid acquisition of intangible assets amounting to ₱15.85 million and ₱47.17 million for the nine months ended September 30, 2018 and 2017, respectively.
- unpaid acquisition cost of investment in subsidiary amounting to ₱46,136.

The Group offset due from LBCDC against dividends payable amounting to ₱699.47 million in 2017 recorded under "Due from related parties" under operating activities:

Details of the movement in cash flows from financing activities for the nine months ended September 30, 2018 and 2017 are as follow:

	December 31, 2017	Cash Flows	Leasing arrangements	Interest	September 30, 2018
Notes payable	₱1,041,300,000	(₱191,800,000)	₱-	₱-	₱849,500,000
Lease liabilities	117,723,381	(19,420,679)	18,348,338	(6,865,230)	109,785,810
Due to related parties	2,542,585	33,422,269	-	-	35,964,854
Interest paid	-	(45,104,961)	-	164,175,013	119,070,052
Total liabilities from financing activities	₱1,161,565,966	(₱222,903,371)	₱18,348,338	₱157,309,783	₱1,114,320,716

	December 31, 2016	Cash Flows	Leasing arrangements	Interest	September 30, 2017
Notes payable	₱1,359,215,500	(₱290,915,500)	₱-	₱-	₱1,068,300,000
Lease liabilities	158,546,524	(48,803,265)	66,007,559	-	175,750,818
Total liabilities from financing activities	₱1,517,762,024	(₱339,718,765)	₱66,007,559	₱-	₱1,403,242,912

Financing liabilities include convertible instrument in which movements are disclosed in Note 14.

27. Other Matters

Closure of LBC Development Bank, Inc.

On September 9, 2011, the BSP, through Monetary Board Resolution No. 1354, resolved to close and place LBC Development Bank Inc.'s (the "Bank") assets and affairs under receivership.

On December 8, 2011, the Philippine Deposit Insurance Company (PDIC), as the official receiver and liquidator of closed banks, demanded on behalf of the Bank that LBC Holdings USA Corporation (LBC US) pay for its alleged outstanding obligations to LBC Bank amounting to approximately ₱1.00 billion, a claim that LBC US has denied as being baseless and unfounded. No further demand on this matter has been made by the PDIC since then, although there are no assurances that the claim has been waived or abandoned in whole or in part, or that the PDIC will not institute relevant proceedings in court or serve another demand letter to LBC US.

In relation to the Bank's closure and receivership, the receivables amounting to ₱295.00 million were written-off in 2011.

On March 17 and 29, 2014, the PDIC's external counsel sent letters to LBCE, demanding collection of the alleged amounts totaling ₱1.79 billion. On March 24 and 29, 2014, July 29, 2014, June 17, 2015 and June 26, 2015, the same legal counsel sent collection letters addressed to LBC Systems, Inc. [Formerly LBC Mundial Inc.] [Formerly LBC Mabuhay USA Corporation], demanding the payment of amounts aggregating to ₱911.59 million, all on behalf of the Bank.

On November 2, 2015, the Bank, represented by the PDIC, filed a case against LBC Express, Inc. (LBCE) and LBC Development Corporation (LBCDC), together with other respondents, before the Makati City Regional Trial Court (RTC) for a total collection of ₱1.82 billion. The case is in relation to the March 17, 2014 demand letter representing collection of unpaid service fees due from June 2006 to August 2011 and service charges on remittance transactions from January 2010 to September 2011. In the Complaint, the PDIC justified the increase in the amount from the demand letter to the amount claimed in the case due to their discovery that the supposed payments of LBCE were allegedly unsupported by actual cash inflow to the Bank.

On December 28, 2015, the summons, together with a copy of the Complaint of LBC Development Bank, Inc., and the writ of preliminary attachment were served on the former Corporate Secretary of LBCE. The writ of preliminary attachment resulted to the (a) attachment of the 1,205,974,632 shares of LBC Express Holdings, Inc. owned by LBCDC and (b) attachment of various bank accounts of LBCE totaling ₱6.90 million. The attachment of the shares in the record of the stock transfer agent had the effect of preventing the registration or recording of any transfers of shares in the records, until the writ of attachment is discharged.

LBCE and LBCDC, the ultimate Parent Company, together with other defendants, filed motions to dismiss the Complaint on January 12, 2016. On January 21, 2016, LBCE and LBCDC filed its Urgent Motion to Approve the Counterbond and Discharge the Writ of Attachment.

On February 17, 2016, the RTC issued the order to lift and set aside the writ of preliminary attachment. The order to lift and set aside the preliminary attachment directed the sheriff of the court to deliver to LBCE and LBCDC all properties previously garnished pursuant to the writ. The counterbond delivered by LBCE and LBCDC stands as security for all properties previously attached and to satisfy any final judgment in the case.

In a Joint Resolution dated June 28, 2016, the RTC denied the motions to dismiss filed by all the defendants, including LBCE and LBCDC. Motions for reconsideration filed by the defendants were subsequently denied by the RTC in the Resolution dated February 16, 2017.

After filing motions for extension of time, LBCE and LBCDC filed their Answer with Counterclaims on April 10, 2017. In the Resolution dated June 15, 2017, the RTC denied the third motion for extension, declared all of the defendants including LBCE in default and ordered PDIC to present evidence ex-parte. LBCE and LBCDC filed a Verified Omnibus Motion for reconsideration and to lift the order of default. The other defendants filed similar motions, including a motion for inhibition. On July 21, 2017, LBCE received the Joint Resolution dated July 20, 2017, granting the Verified Omnibus Motions and the Motion for Inhibition, thereby lifting the order of default and admitting the Answers filed by all defendants.

The PDIC filed a Motion for Reconsideration dated August 7, 2017, seeking to reconsider the Joint Resolution dated July 20, 2017. The defendants, including LBCE and LBCDC have filed their respective comments thereto and the motion is currently pending resolution.

From August 10, 2017 to January 19, 2018, LBCE, LBCDC, the other defendants and PDIC were referred to mediation and Judicial Dispute Resolution (JDR) but were unable to reach a compromise agreement. The RTC ordered the mediation and JDR terminated and the case was raffled to a new branch of the Makati RTC under a new presiding judge. On May 18, 2018, the PDIC, LBCE, LBCDC, and the other defendants filed a Joint Motion to Suspend Proceedings, praying that the Makati RTC postpone pre-trial in order to give the parties an additional opportunity to discuss amicable settlement. In the Order dated May 25, 2018, the Makati RTC granted said Joint Motion, suspending the proceedings and deferred pre-trial to May 31 and September 6, 2018. These scheduled hearing dates were cancelled so that the new Presiding Judge could complete his training. The preliminary conference/pre-trial has since been scheduled on November 15, 2018.

The Presiding Judge recently granted a motion from PDIC to issue alias summons to various individual defendants whom the court did not yet acquire jurisdiction over, which include the former President and members of the Board of Directors. Because new defendants may be included in the case, the Group intends to file a motion to defer the pre-trial on November 15, 2018 to await the service of summons upon the individual defendants.

On April 24, 2017, LBCE and LBCDC filed a Petition for Certiorari with the Court of Appeals, challenging the RTC's June 28, 2016 Joint Resolution. The PDIC, LBCE, and LBCDC have filed their respective Comment, Reply, and Memoranda. The Petition for Certiorari was deemed submitted for resolution as of October 26, 2017 and is still pending. The ultimate outcome of the case cannot presently be determined.

In relation to the above case, in the opinion of management and in concurrence with its legal counsel, any liability of LBCE is not probable and estimable at this point in time.

28. Subsequent Events

On October 15, 2018, the BOD of the Parent Company approved the investment and acquisition of one (1) share in LBC Mabuhay Remittance SDN BHD which represents 50% equity interest at the subscription price of USD 557,804 per share.

On the same date, the Parent Company acquired 50% ownership of LBC Mabuhay (B) SDN BHD for a total purchase price of USD 225,965.

These entities operate as remittance and cargo Company in Brunei, respectively. The acquisition is expected to benefit the Group by contributing to its global revenue streams.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES

SUPPLEMENTARY SCHEDULES

- Supplementary schedules required by Annex 68-E

Schedule A: Financial Assets

Schedule B: Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholder (Other Than Related Parties)

Schedule C: Amounts Receivables/Payables from/to Related Parties Which are Eliminated During the Consolidation of Financial Statements

Schedule D: Intangible Assets

Schedule E: Long Term Debt

Schedule F: Indebtedness to Related Parties

Schedule G: Guarantees of Securities of other Issuers

Schedule H: Capital Stock

- Map of the relationships of the companies within the Group
- Reconciliation of retained earnings available for dividend declaration
- Schedule of financial soundness indicators
- Schedule of all the effective standards and interpretations

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE A: FINANCIAL ASSETS
SEPTEMBER 30, 2018

Name of issuing entity and association of each issue	Number of shares	Amount shown in the balance sheet	Income received and accrued
Available-for-sale			
Quoted - Araneta Properties, Inc.	195,060,074	₱399,873,152	₱-
Unquoted	-	574,608,822	6,090,705
Loans and receivables			
Cash in bank and cash equivalents	-	3,120,444,850	23,179,215
Trade and other receivables	-	1,654,191,266	-
Due from related parties	-	1,010,833,245	-
Short term investments	-	69,523,369	-
	-	5,854,992,730	23,179,215
		₱6,829,474,704	₱29,269,920

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE B: AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDER (OTHER THAN RELATED PARTIES)
SEPTEMBER 30, 2018

Name and Designation of debtor	Balance at beginning of period	Additions*	Amounts collected	Amounts written off	Current	Non-current	Balance at end of period
Fernando G. Araneta, <i>Chief Strategy Officer</i>	P9,284,395	P729,405	P--	P--	P10,013,800	P--	P10,013,800
	P9,284,395	P729,405	P--	P--	P10,013,800	P--	P10,013,800

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

**SCHEDULE C: AMOUNTS RECEIVABLE/PAYABLES FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING
THE CONSOLIDATION OF FINANCIAL STATEMENTS
SEPTEMBER 30, 2018**

Name of Subsidiaries	Balance at beginning of period Rec (Pay)	Additions Rec (Pay)	Amounts paid (collected)	Amounts written off	Current Rec (Pay)	Not current	Balance at end of period Rec (Pay)
LBC Express, Inc.	₱38,487,662	₱210,288,989	(₱236,757,784)	-	₱12,018,867	-	₱12,018,867
LBC Express, Inc. - MM	128,609,241	192,401,887	(187,580,851)	-	133,430,277	-	133,430,277
LBC Express, Inc. - SCC	19,129,917	133,935,032	(126,893,734)	-	26,171,215	-	26,171,215
LBC Express, Inc. - NEMM	32,320,712	114,982,225	(104,829,470)	-	42,473,467	-	42,473,467
LBC Express, Inc. - NWMM	44,821,804	108,034,507	(100,724,381)	-	52,131,930	-	52,131,930
LBC Express, Inc. - EMM	24,861,548	68,655,964	(63,121,334)	-	30,396,178	-	30,396,178
LBC Express, Inc. - SMM	24,798,642	107,732,572	(101,592,953)	-	30,938,261	-	30,938,261
LBC Express, Inc. - CMM	24,256,322	97,730,882	(91,381,148)	-	30,606,056	-	30,606,056
LBC Express, Inc. - SL	76,629,968	192,043,399	(187,855,783)	-	80,817,584	-	80,817,584
LBC Express, Inc. - SEL	55,816,918	134,123,585	(127,042,105)	-	62,898,398	-	62,898,398
LBC Express, Inc. - CL	36,575,228	144,017,260	(134,552,974)	-	46,039,514	-	46,039,514
LBC Express, Inc. - NL	44,800,227	139,390,385	(128,678,113)	-	55,512,499	-	55,512,499
LBC Express, Inc. - VIS	82,257,503	183,216,969	(181,246,621)	-	84,227,851	-	84,227,851
LBC Express, Inc. - WVIS	51,536,971	130,315,488	(121,372,237)	-	60,480,222	-	60,480,222
LBC Express, Inc. - MIN	61,052,152	147,108,992	(136,520,586)	-	71,640,558	-	71,640,558
LBC Express, Inc. - SEM	45,662,778	94,125,556	(84,102,126)	-	55,686,208	-	55,686,208
South Mindanao Courier Co. Inc.	(37,420,209)	(22,007,052)	75,955,080	-	16,527,819	-	16,527,819
LBC Express Corporate Solutions, Inc.	(3,952,627)	12,723,044	(12,778,519)	-	(4,008,102)	-	(4,008,102)
LBC Express, Inc. - SCS	(207,463)	154,953,215	(165,787,681)	-	(11,041,929)	-	(11,041,929)
LBC Systems, Inc.	(64,489,250)	10,755,549	(18,205,177)	-	(71,938,878)	-	(71,938,878)

SS HOLDINGS, INC. AND SUBSIDIARIES

C: AMOUNTS RECEIVABLES/PAYABLES FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING LIQUIDATION OF FINANCIAL STATEMENTS
March 30, 2018

Subsidiaries	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
LL	₱2,596,111	(₱42,951,135)	₱46,387,875	-	₱6,032,851	-	₱6,032,851
Shrain WLL	(41,947,170)	(3,859,970)	40,200,142	-	(5,606,998)	-	(5,606,998)
LC	(65,995,250)	(9,584,663)	(2,630,248)	-	(78,210,161)	-	(78,210,161)
Saipan, Inc.	-	12,148,568	-	-	12,148,568	-	12,148,568
(S) Pte. Ltd	-	108,447,650	-	-	108,447,650	-	108,447,650
Transfer PTY Limited	-	(4,317,945)	-	-	(4,317,945)	-	(4,317,945)
(S) Pte. Ltd	-	(57,831,239)	-	-	(57,831,239)	-	(57,831,239)
PTY Limited	-	26,741,060	-	-	26,741,060	-	26,741,060
	-	505,411,550	-	-	505,411,550	-	505,411,550
	-	44,839,037	-	-	44,839,037	-	44,839,037
(Malaysia) SDN BHD	-	(10,164,031)	-	-	(10,164,031)	-	(10,164,031)
	₱580,201,735	₱2,923,407,329	(₱2,151,110,726)	₱-	₱1,352,498,338	₱-	₱1,352,498,338

LBC EXPRE
SCHEDULE
THE CONSC
SEPTEMBE

Name (

LBC Express V
LBC Express F
LBC Express I
LBC Mabuhay
LBC Aircargo
LBC Money T
LBC Airfreigh
LBC Australia
QuadX, Inc.
QuadX Pre Lit
LBC Mabuhay

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE D: INTANGIBLE ASSETS
SEPTEMBER 30, 2018

Description	Beginning balance	Additions at cost	Charged to costs and expenses	Disposals	Reclassifications	Ending balance
Software	₱352,310,011	₱60,715,639	(₱56,649,443)	₱-	₱-	₱356,376,206
Development in Progress	4,540,000	111,977,458	-	-	-	116,517,457
	₱356,850,011	₱172,693,096	(₱56,427,138)	₱-	₱-	₱472,893,663

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE E: LONG TERM DEBT
SEPTEMBER 30, 2018

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current liabilities" in related balance sheet	Amount shown under caption "Noncurrent liabilities" in related balance sheet
Notes payable	P849,500,000	P308,250,000	P541,250,000
Obligation under finance lease	61,363,776	16,428,846	44,934,930
Bond payable	1,095,184,445	-	1,095,184,445
Derivative liability	1,528,749,060	-	1,528,749,060
Other liabilities	149,142,773	54,624,728	94,518,046
	P3,683,940,054	P379,303,574	P3,304,636,481

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE F: INDEBTEDNESS TO RELATED PARTIES
SEPTEMBER 30, 2018

Name of related party	Balance at beginning of period	Balance at end of period
Fernando G. Araneta, <i>Chief Strategy Officer</i>	-	33,271,090
Others	2,542,585	2,693,764
	P2,542,585	P35,964,854

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE G: GUARANTEES OF SECURITIES OF OTHER ISSUERS
SEPTEMBER 30, 2018

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount of owned by person for which statement is filed	Nature of guarantee
---	--	--	---	----------------------------

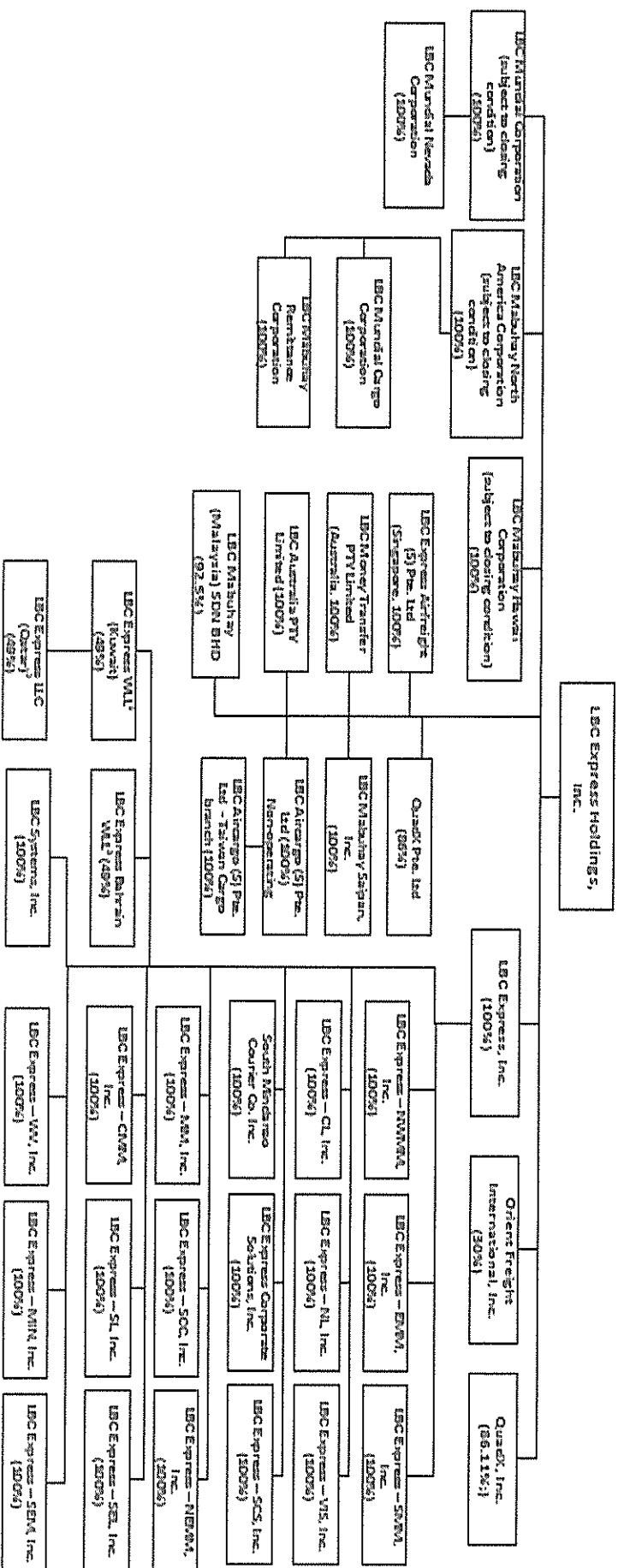
NOT APPLICABLE

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE H: CAPITAL STOCK
SEPTEMBER 30, 2018

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	Others
Common stock - \$1 par value	2,000,000,000	1,425,865,471	-	1,206,178,232	1,108	219,686,131

MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP



Notes:
51% of IBC Express WLL is owned by Jamal Al-Sarak
51% of IBC Express LLC is owned by Mohammed Abdulla Fakhroo
51% of IBC Express Bahrain WLL is owned by Ali Al-Ah

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND
DECLARATION**

As of SEPTEMBER 30, 2018

LBC EXPRESS HOLDINGS, INC.

LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila

Unappropriated Retained Earnings, beginning	(₱249,743,415)
Adjustments:	
Deferred tax asset that reduced the amount of income tax expense of prior periods	(8,610,667)
Unappropriated Retained Earnings, as adjusted to available for dividend distribution as at December 31, 2017	(258,354,082)
Add: Net Income actually earned/realized during the period	
Net income during the period closed to Retained Earnings	332,802,862
Less: Non actual / unrealized income net	
Equity in net income of associate/joint venture	9,201,153
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents); Unrealized actuarial gain	—
Fair value adjustment (M2M gains)	331,624,420
Fair value adjustment of investment property resulting to gain	—
Adjustment due to deviation from PFRS/GAAP gain	—
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	—
Deferred tax assets	—
Subtotal	340,825,573
Add: Non actual losses	
Depreciation on revaluation increment (after tax)	—
Adjustment due to deviation from PFRS / GAAP – loss	—
Loss on fair value adjustment of investment property (after tax)	—
Add(Less):	
Dividend declarations during the period	—
Appropriations of Retained Earnings during the period	—
Reversals of appropriations	—
Effects of prior period adjustments	—
Treasury shares	—
Effect of pooling-of-interest method	—
Total Retained Earnings, end, after adjustments	(₱266,376,793)
Total Retained Earnings, end	
Available for dividend declaration	₱—

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES**SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS
UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS**

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as “Part I” and “Part II”, respectively. It also prescribed the additional schedule requirements for large entities showing a list of all effective standards and interpretations under Philippine Financial Reporting Standards (PFRS).

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of September 30, 2018:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2018		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Cost			✓
	Amendments to PFRS 1: Meaning of “Effective PFRS”			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Definition of Vesting Condition			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2018		Adopted	Not Adopted	Not Applicable
PFRS 3	Business Combinations	✓		
	Accounting for Contingent Consideration in a Business Combination			✓
	Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Servicing Contracts	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures *		✓	
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
	Amendments to PFRS 7: Hedge Accounting (2013 version) *		✓	
PFRS 8	Operating Segments	✓		
	Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments *	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures *	✓		
	Financial Instruments: Classification and Measurement (2010 version) *	✓		
	Amendments to PFRS 9: Hedge Accounting (2013 version) *			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2018		Adopted	Not Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities			✓
	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short Term Receivable and Payable	✓		
	Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
PFRS 16	Leases *		✓	
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendments to PAS 1: Presentation of financial statements - disclosure initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendment to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses *		✓	
PAS 16	Property, Plant and Equipment	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2018		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendment to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets			✓
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2018		Adopted	Not Adopted	Not Applicable
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		

Standards tagged as “Not applicable” have been adopted by the Group but have no significant covered transactions for the quarter ended September 30, 2018.

Standards tagged as “Not adopted” are standards issued but not yet effective as of September 30, 2018. The Group will adopt the Standards and Interpretations when these become effective.