

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

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 . A N D
S U B S I D I A R I E S

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 - A

Department requiring the report

S E C

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number

856-8522

Mobile Number

N/A

No. of Stockholders

487

Annual Meeting (Month / Day)

2nd Monday of June

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

The 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.





**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of LBC Express Holdings, Inc. and its subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SGV & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature: _____

MIGUEL ANGEL A. CAMAHORT

Chief Executive Officer and President/Chairman of the Board

Signature: _____

ENRIQUE V. REY, JR.


Chief Finance Officer

Signed this 12th day of April 2019.

SUBSCRIBED AND SWORN to before me in City of ~~MANILA~~ on
12 APR 2019 affiants personally appeared before me and exhibited to me
their Tax Identification Nos.

<u>NAME</u>	<u>TIN</u>
Miguel Angel A. Camahort	101-292-392
Enrique V. Rey, Jr.	172-264-046

Doc. No. 270 :
Page No. 54 :
Book No. II :
Series of 2019.


ATTY. MICHAEL ROBERT M. MARASIGAN
NOTARY PUBLIC FOR CITY OF MANILA
COMMISSION NO. 2018-099 UNTIL DECEMBER 2019
ROLL OF ATTORNEY NO. 50317
PTR NO. 8053351 / MANILA / 01-10-19
IBP NO. 061351 / MANILA / 01-03-19
MCLE NO. V-0018336 / 04-08-16
716 MAGALLANES ST., INTRAMUROS, MANILA



**A CERTIFICATE ON THE COMPILATION SERVICES
FOR THE PREPARATION OF THE FINANCIAL STATEMENTS
AND NOTES TO THE FINANCIAL STATEMENTS**

I hereby certify that I am the Certified Public Accountant who performed the compilation services related to the preparation and presentation of financial information of **LBC Express Holdings, Inc. and Subsidiaries (the "Group")** in accordance with applicable financial reporting framework and reports as required by accounting and auditing standards for the Group for the year ended **December 31, 2018**.

In discharging this responsibility, I hereby declare that I am the **Treasurer** of **LBC Express Holdings, Inc.**

Furthermore, in my compilation services for preparation of the Consolidated Financial Statements and Notes to the Consolidated Financial Statements, I was not assigned by or did not avail of services of **SGV & Co.**, who is the external auditor who rendered the audit opinion for the said Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

I hereby declare, under the penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.

A handwritten signature in black ink, appearing to read 'R. Infantado', is written over a horizontal line.

ROSALIE H. INFANTADO
PRC License No.: 0096620
Valid Until: April 3, 2022
Accreditation No.: 3683
Valid Until: April 3, 2020

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
LBC Express Holdings, Inc. and Subsidiaries
LBC Hangar, General Aviation Centre
Domestic Airport Road
Pasay City, Metro Manila



Opinion

We have audited the consolidated financial statements of LBC Express Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 28 of the consolidated financial statements which describes the uncertainty related to the outcome of the case filed against LBC Express, Inc. (LBCE), among other respondents, by LBC Development Bank, Inc., as represented by its receiver and liquidator, the Philippine Deposit Insurance Corporation (PDIC) for collection of an alleged amount of ₱1.82 billion. The claim pertains to allegedly unpaid service fees from June 2006 to August 2011 and unpaid service charges on remittance transactions from January 2010 to September 2011.



LBCE and LBC Development Corporation (LBCDC), the ultimate parent company, together with other defendants, filed motions to dismiss the Complaint on January 12, 2016. In a Joint Resolution dated June 28, 2016, the Regional Trial Court (RTC) denied the motions to dismiss filed by all the defendants, including LBCE. Motions for reconsideration filed by the defendants were subsequently denied by the RTC in the Resolution dated February 16, 2017.

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.

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 raffled to a new judge.

On January 18, 2019, PDIC proceeded to file a Pre-Trial Brief. LBCE and the other current defendants, on January 21, 2019, filed a Motion, asking the RTC to direct the PDIC to explain in writing its compliance with the previous order to cause the service of summons on the remaining five individual defendants and to defer Pre-Trial until the court has acquired jurisdiction over them.

On February 18, 2019, a Pre-Trial Brief was filed by LBCE and the other defendants, without prejudice to the defendants' pending motions to defer Pre-Trial.

At the hearing scheduled on February 21, 2019, the judge took note of all the pending motions and said that they are deemed submitted for resolution. In the meantime, the judge directed the parties to perform a pre-marking of all their documentary exhibits before the clerk of court. The judge then rescheduled Pre-Trial to March 28, 2019.

The PDIC has pre-marked its evidence during pre-marking conferences held on March 6 and 11, 2019. LBCE started pre-marking its evidence on March 22, 2019 and will continue on April 10, 11, and 24, 2019.

LBCE was informed by the court staff that due to the order of Executive Judge for court records inventory and disposal, the pre-trial scheduled for March 28, 2019 will be reset to May 2, 2019.

On March 6, 2019, LBCE and LBCDC received a copy of the Court of Appeals' Decision dated February 28, 2019, denying the Petition for Certiorari. The Court of Appeals ruled that the RTC correctly denied the motion to dismiss the civil case because the PDIC representative was sufficiently authorized to sign



the verification and the PDIC does not need to secure prior approval of the liquidation court to file the case.

LBCE and LBCDC filed a motion for reconsideration last March 21, 2019, which is currently pending.

The ultimate outcome of the case cannot presently be determined. In the opinion of management and in concurrence with its legal counsel, any liability of LBCE arising from the case is not probable and estimable at this point in time.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Assessment of potential liability in relation to the closure of LBC Development Bank, Inc.

The Parent Company's subsidiary, LBC Express, Inc. (LBCE), among other respondents, is involved in a case filed by LBC Development Bank, Inc., as represented by its receiver and liquidator, the Philippine Deposit Insurance Corporation (PDIC), for collection of an alleged amount of ₱1.82 billion. This is significant to our audit because the estimation of potential liability resulting from this case requires significant judgment by the management given the inherent uncertainty over its outcome. The Group's disclosures about the case and basis of management's assessments are included in Note 28 to the consolidated financial statements.

Audit Response

Our audit procedures focused on the evaluation of the management's assessment on whether any provision for potential liability should be recognized and the estimation of such amount. We held discussions with and obtained the written reply of the Group's external legal counsel on the status of the case and their assessment of any potential liability. We also sent a confirmation letter to PDIC and obtained their reply which we provided to the Group for them to reconcile with their records.

Impact of adoption of PFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Group adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, using the modified retrospective approach. The adoption of PFRS 15 is significant to our audit because this involves application of significant judgment in determining the



timing of satisfaction of performance obligation, whether point in time or overtime, and the most appropriate basis of measuring the progress of its performance obligation.

The adoption of PFRS 15 as at January 1, 2018 resulted in net decrease in retained earnings amounting to ₱99.15 million as at January 1, 2018. The disclosures related to the adoption of PFRS 15 are included in Note 2 of the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's revenue recognition process, including the process of implementing the new revenue recognition standard. We reviewed the PFRS 15 adoption working papers and accounting papers prepared by management, including revenue streams identification and scoping, and contract analysis.

We test computed the transition adjustments and evaluated the disclosures made in the consolidated financial statements on the adoption of PFRS 15.

Accounting for business combination

In 2018, the Parent Company completed the acquisitions of entities, including entities under common control for a purchase consideration of ₱514.02 million. The business combinations were accounted under acquisition method which resulted in recognition of goodwill of ₱492.45 million. We considered the accounting for these acquisitions to be a key audit matter because it required significant management judgment in assessing whether the business combinations between entities under common control have substance from the perspective of the Parent Company, for the business combinations to qualify for the acquisition method. In addition, it involves judgment and estimation in identifying the underlying assets and liabilities and in determining their fair values.

Details of the acquisitions are disclosed in Note 4 to the consolidated financial statements.

Audit Response

We evaluated management's judgment on whether the transactions have substance and qualify for the acquisition method of accounting by reference to the purchase agreement and documents related to the acquisitions, and by evaluating whether the considerations were at fair value. In applying the acquisition method, we reviewed the identification of the underlying assets and liabilities and the determination of their fair values in comparison with the underlying records. We involved our internal specialists in testing whether the considerations paid for the acquisitions were at fair value and in reviewing the identification and basis of fair valuation of the assets and liabilities acquired. We checked the mathematical accuracy of the final purchase price allocation and reviewed the presentation and disclosures in the consolidated financial statements.

Recoverability of Goodwill

Under PAS 36, *Impairment of Assets*, the Group is required to perform an impairment test on goodwill annually, or more frequently, if events or changes in circumstances indicate that the carrying value may



be impaired. As of December 31, 2018, the Group has goodwill that is primarily attributable to its acquisitions of QUADX Inc., LBC Aircargo (S) PTE LTD and LBC Australia PTY Limited, each is considered to be a separate cash generating unit, amounting to ₱492.45 million which are considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically for the annual and long-term revenue growth rates, capital expenditures and discount rates.

The Group's disclosures on goodwill are included in Note 4 to the consolidated financial statements.

Audit Response

We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include annual and long-term revenue growth rates, capital expenditures and discount rates. We obtained an understanding of the Group's impairment assessment process and the related controls. We compared the key assumptions used, such as the annual and long-term revenue growth rates against the historical performance of the CGU, market and industry outlook, and consideration of whether the CGU is a start-up entity and other relevant external data, and the capital expenditures against Company's plans. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically, those that have the most significant effect on the determination of the recoverable amount of goodwill.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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



In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.



We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is
Cyril Jasmin B. Valencia.

SYCIP GORRES VELAYO & CO.


Cyril Jasmin B. Valencia

Partner

CPA Certificate No. 90787

SEC Accreditation No. 1737-A (Group A),

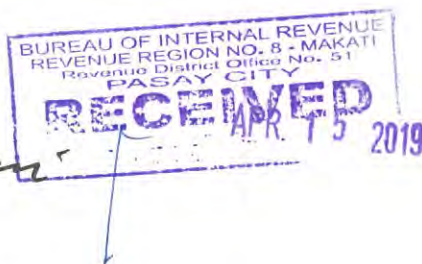
January 24, 2019, valid until January 23, 2022

Tax Identification No. 162-410-623

BIR Accreditation No. 08-001998-74-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 7332622, January 3, 2019, Makati City



April 12, 2019



LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION



	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 23 and 24)	₱4,137,439,144	₱3,778,408,492
Trade and other receivables (Notes 2, 6, 17, 23 and 24)	1,642,133,769	1,675,801,822
Due from related parties (Notes 17, 23 and 24)	557,958,095	667,717,635
Investment at fair value through profit or loss (Notes 2, 10, 23 and 24)	131,294,744	—
Available-for-sale investments (Notes 2, 10, 23 and 24)	—	440,763,495
Prepayments and other current assets (Notes 7, 23 and 24)	647,518,135	446,131,160
Total Current Assets	7,116,343,887	7,008,822,604
Noncurrent Assets		
Property and equipment (Note 8)	1,436,080,000	976,053,401
Intangible assets (Note 9)	555,369,656	356,850,011
Investment at fair value through other comprehensive income (Notes 2, 10, 23 and 24)	337,453,928	—
Available-for-sale investments (Notes 2, 10, 23 and 24)	—	444,736,969
Deferred tax assets - net (Notes 2 and 20)	302,277,269	289,524,039
Security deposits (Note 21)	312,431,108	255,426,919
Investment in an associate (Note 11)	239,019,848	—
Advances for future investment in shares	439,823,608	—
Goodwill (Note 4)	492,446,084	—
Other noncurrent assets (Note 7)	138,929,366	92,164,977
Total Noncurrent Assets	4,253,830,867	2,414,756,316
	₱11,370,174,754	₱9,423,578,920
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 2, 12, 17, 23 and 24)	₱2,806,169,280	₱1,603,110,735
Due to related parties (Notes 17, 23 and 24)	93,992,129	2,542,585
Dividends payable (Notes 16, 23 and 24)	285,173,094	—
Current portion of notes payable (Notes 14, 23 and 24)	297,000,000	440,050,000
Transmissions liability (Notes 13, 23 and 24)	543,895,836	588,203,656
Income tax payable	126,565,090	125,020,186
Current portion of lease liabilities (Notes 21, 23 and 24)	20,271,292	30,691,524
Total Current Liabilities	4,173,066,721	2,789,618,686
Noncurrent Liabilities		
Derivative liability (Notes 15, 23 and 24)	1,406,175,427	1,860,373,479
Bond payable (Notes 15, 23 and 24)	1,108,417,074	896,185,059
Retirement benefit liability - net (Note 22)	672,265,144	705,325,767
Notes payable - net of current portion (Notes 14, 23 and 24)	532,500,000	601,250,000
Lease liabilities - net of current portion (Notes 21, 23 and 24)	119,797,742	87,031,857
Other noncurrent liabilities (Notes 8, 9, 23 and 24)	79,986,182	118,327,055
Total Noncurrent Liabilities	3,919,141,569	4,268,493,217
	8,092,208,290	7,058,111,903
Equity (Note 16)		
Equity attributable to shareholders of the Parent Company		
Capital stock	1,425,865,471	1,425,865,471
Retained earnings (Note 2)	1,625,483,991	659,288,179
Accumulated comprehensive income	241,328,367	326,920,319
	3,292,677,829	2,412,073,969
Non-controlling interests	(14,711,365)	(46,606,952)
Total Equity	3,277,966,464	2,365,467,017
	₱11,370,174,754	₱9,423,578,920

See accompanying Notes to Consolidated Financial Statements.



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



	Years Ended December 31		
	2018	2017	2016
SERVICE REVENUE (Note 25)	₱12,514,177,564	₱10,020,116,486	₱8,695,402,622
COST OF SERVICES (Note 18)	8,563,582,476	6,606,032,273	5,590,513,089
GROSS PROFIT	3,950,595,088	3,414,084,213	3,104,889,533
OPERATING EXPENSES (Note 19)	2,582,946,411	2,066,636,094	1,872,805,197
OTHER INCOME (CHARGES)			
Gain (loss) on derivative (Note 15)	454,198,052	(199,950,820)	-
Foreign exchange gains - net (Notes 19 and 23)	163,270,294	91,981,180	143,233,568
Interest income (Notes 5 and 7)	33,454,657	16,169,689	2,365,500
Equity in net earnings of an associate (Note 11)	11,103,396	-	-
Fair value gain on investment at fair value through profit or loss (Note 10)	8,492,280	-	-
Interest expense (Notes 8, 9, 14, 15, 17 and 21)	(223,895,998)	(136,816,952)	(63,493,537)
Others - net	2,425,888	7,938,629	10,900,924
	449,048,569	(220,678,274)	93,006,455
INCOME BEFORE INCOME TAX	1,816,697,246	1,126,769,845	1,325,090,791
PROVISION FOR INCOME TAX (Note 20)	467,666,189	418,854,463	411,150,046
NET INCOME	1,349,031,057	707,915,382	913,940,745
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 (Notes 16 and 22)			(11,989,538)
Unrealized fair value loss on investment at fair value through other comprehensive income (Notes 10 and 16)	(107,283,041)		-
Items that may be reclassified to profit or loss in subsequent periods			
Unrealized fair value gain (loss) on available-for-sale investments (Notes 10 and 16)	-	(13,473,623)	246,305,907
Currency translation gain (loss) - net (Note 16)	(1,597,643)	(2,861,602)	725,098
	(87,221,631)	21,560,593	235,041,467
TOTAL COMPREHENSIVE INCOME	₱1,261,809,426	₱729,475,975	₱1,148,982,212
NET INCOME ATTRIBUTABLE TO:			
Shareholders of the Parent Company	₱1,359,766,592	₱703,876,073	₱921,605,612
Non-controlling interests	(10,735,535)	4,039,309	(7,664,867)
NET INCOME	₱1,349,031,057	₱707,915,382	₱913,940,745
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Shareholders of the Parent Company (Note 27)	₱1,275,292,376	₱725,118,990	₱1,158,871,864
Non-controlling interests	(13,482,950)	4,356,985	(9,889,652)
TOTAL COMPREHENSIVE INCOME	₱1,261,809,426	₱729,475,975	₱1,148,982,212
EARNINGS PER SHARE (Note 27)			
Basic	₱0.95	₱0.49	₱0.65
Diluted	₱0.68	₱0.49	₱0.65



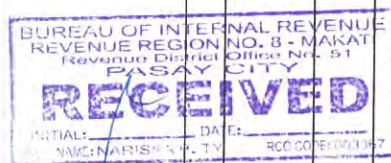
See accompanying Notes to Consolidated Financial Statements.



LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Shareholders of the Parent Company				
	Capital Stock (Notes 1 and 16)	Retained Earnings (Note 16)	Accumulated Comprehensive Income (Note 16)	Total	Non-controlling Interests
For the Year Ended December 31, 2018					
Balances as at January 1, 2018, as previously reported	₱1,425,865,471	₱659,288,179	₱326,920,319	₱2,412,073,969	₱2,365,467,017
Impact of adoption of new accounting standards (Note 2)	-	(108,397,686)	(1,117,736)	(109,515,422)	(109,515,422)
Balances as at January 1, 2018, as restated	1,425,865,471	550,890,493	325,802,583	2,302,558,547	2,255,951,595
Comprehensive income:					
Net income	-	1,359,766,592	-	1,359,766,592	(10,735,535)
Other comprehensive loss	-	-	(84,474,216)	(84,474,216)	(2,747,415)
Total comprehensive income (loss)	-	1,359,766,592	(84,474,216)	1,275,292,376	(13,482,950)
Issuance of additional capital stock	-	-	-	-	2,666,545
Non-controlling interests arising from business combination (Note 4)	-	-	-	-	42,711,992
Dividends declared	-	(285,173,094)	-	(285,173,094)	(285,173,094)
Balances as of December 31, 2018	₱1,425,865,471	₱1,625,483,991	₱241,328,367	₱3,292,677,829	₱3,277,966,464



	For the Year Ended December 31, 2017				
	Capital Stock (Notes 1 and 16)	Retained Earnings (Note 16)	Accumulated Comprehensive Income (Note 16)	Total	Non-controlling Interests
Balances as of January 1, 2017	₱1,425,865,471	₱782,414,079	₱305,677,402	₱2,513,956,952	₱2,462,993,015
Comprehensive income:					
Net income	-	703,876,073	-	703,876,073	4,039,309
Other comprehensive income	-	-	21,242,917	21,242,917	317,676
Total comprehensive income	-	703,876,073	21,242,917	725,118,990	4,356,985
Dividends declared	-	(827,001,973)	-	(827,001,973)	-
Balances as of December 31, 2017	₱1,425,865,471	₱659,288,179	₱326,920,319	₱2,412,073,969	₱2,365,467,017



For the Year Ended December 31, 2016

	Capital Stock (Notes 1 and 16)	Retained Earnings (Note 16)	Accumulated Comprehensive Income (Note 16)	Total	Non-controlling Interests	Total Equity
Balances as of January 1, 2016	₱1,425,865,471	₱174,498,871	₱68,411,150	₱1,668,775,492	(₱41,074,285)	₱1,627,701,207
Comprehensive income:						
Net income (loss)	—	921,605,612	—	921,605,612	(7,664,867)	913,940,745
Other comprehensive income (loss)	—	—	237,266,252	237,266,252	(2,224,785)	235,041,467
Total comprehensive income (loss)	—	921,605,612	237,266,252	1,158,871,864	(9,889,652)	1,148,982,212
Dividends declared	—	(313,690,404)	—	(313,690,404)	—	(313,690,404)
Balances as of December 31, 2016	₱1,425,865,471	₱782,414,079	₱305,677,402	₱2,513,956,952	(₱50,963,937)	₱2,462,993,015

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	P1,816,697,246	P1,126,769,845	P1,325,090,791
Adjustments for:			
Depreciation and amortization (Notes 8, 9, 17 and 18)	405,366,112	320,756,856	295,345,105
Interest expense (Notes 8, 9, 14, 15, 17 and 21)	223,895,998	136,816,952	63,493,537
Loss (gain) on disposal of property and equipment and intangible assets (Notes 8 and 9)	1,295,215	(2,145,151)	(443,662)
Retirement expense, net of benefits paid and contribution to retirement plan (Notes 17, 18 and 22)	(5,079,634)	38,435,988	62,086,673
Gain on bargain purchase (Note 4)	(6,615,953)	—	—
Realized gain on redemption available-for-sale investments	—	(4,361,295)	(579,059)
Fair value gain on investment at fair value through profit or loss (Note 10)	(8,492,280)	—	—
Equity in net earnings of an associate (Note 11)	(11,103,396)	—	—
Interest income (Notes 5 and 7)	(33,454,657)	(16,169,689)	(2,365,500)
Unrealized foreign exchange gain (loss)	(75,820,537)	14,975,028	(3,949,023)
Loss (gain) on derivative (Note 15)	(454,198,052)	199,950,820	—
Operating income before changes in working capital	1,852,490,062	1,815,029,354	1,738,678,862
Changes in working capital:			
Decrease (increase) in:			
Trade and other receivables (Notes 2 and 17)	225,796,968	(146,353,368)	(59,959,808)
Prepayments and other current assets	(155,270,869)	(58,041,963)	55,215,242
Security deposits	(33,339,511)	(29,171,710)	(16,324,275)
Other noncurrent assets	(44,590,712)	(13,014,373)	(8,344,513)
Increase (decrease) in:			
Accounts and other payables (Notes 2 and 26)	349,469,580	263,449,497	(538,852,457)
Transmissions liability	(109,907,958)	120,918,861	(40,854,962)
Net cash generated from operations	2,084,647,560	1,952,816,298	1,129,558,089
Interest received	33,454,657	13,440,565	2,365,500
Income tax paid	(501,318,880)	(579,977,276)	(331,353,486)
Net cash provided by operating activities	1,616,783,337	1,386,279,587	800,570,103
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Redemption of investments classified as (Note 10):			
Investment at fair value through profit or loss	1,215,938,291	—	—
Available-for-sale investments	—	1,206,361,295	150,000,000
Disposal of property and equipment and intangible assets	6,122,794	5,639,892	13,454,663
Sale of available-for-sale investments	—	—	991,525
Decrease (increase) in due from related parties (Note 26)	162,015,580	(259,183,593)	(51,967,085)
Acquisitions of:			
Subsidiaries, net of cash acquired (Note 4)	(43,432,802)	—	—
Intangible assets (Notes 9 and 26)	(164,330,859)	(38,449,650)	(20,471,368)

(Forward)



	Years Ended December 31		
	2018	2017	2016
Investment in an associate (Note 11)	(P218,265,077)	P-	P-
Property and equipment (Notes 8 and 26)	(540,140,832)	(354,905,072)	(294,255,624)
Acquisitions of:			
Investments at fair value through profit or loss	(888,580,000)	-	-
Available-for-sale investments	-	(1,394,016,400)	(400,757,920)
Advances for future investment in shares (Note 17)	(439,823,608)	-	-
Net cash used in investing activities	(910,496,513)	(834,553,528)	(603,005,809)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of convertible bond (Notes 15 and 26)	-	2,505,658,750	-
Proceeds from notes payable	150,000,000	369,899,521	1,423,701,286
Increase (decrease) in due to related parties	(128,178,571)	(15,711,444)	371,346
Payments of lease and other noncurrent liabilities (Note 26)	(69,751,123)	(45,924,991)	(53,894,808)
Interest paid (Note 26)	(62,327,013)	(75,601,767)	(61,773,899)
Dividends paid (Note 26)	-	(127,536,686)	(48,375,985)
Payments of notes payable	(361,800,000)	(687,815,021)	(1,105,103,619)
Net cash provided by (used in) financing activities	(472,056,707)	1,922,968,362	154,924,321
NET INCREASE IN CASH AND CASH EQUIVALENTS	234,230,117	2,474,694,421	352,488,615
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	124,800,535	(24,076,656)	(3,800,377)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,778,408,492	1,327,790,727	979,102,489
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	P4,137,439,144	P3,778,408,492	P1,327,790,727

See accompanying Notes to Consolidated Financial Statements.



LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO 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 with a corporate life of 50 years.

The ultimate parent of the Parent Company is LBC Development Corporation (LBCDC). The Araneta Family is the ultimate beneficial owner of the Parent Company.

The Parent Company undertook an Initial Public Offering and 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 with 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.

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

On February 28, 2018, the Board of Directors (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 US \$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 US \$1.00 per share.

On various dates in 2018, the Parent Company acquired, through business combination, ten entities which are all domiciled outside the Philippines, except for one. Details of these acquisitions are discussed in Note 4.

The accompanying consolidated financial statements of the Parent Company and its subsidiaries have been approved and authorized for issue by the Group’s BOD on April 12, 2019.

2. Summary of Significant Accounting and Financial Reporting Policies

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

Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis except for 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 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 unit unless otherwise indicated.

Difference in accounting periods

The Group consolidated the non-coterminous financial statements of its subsidiaries except QUADX, Inc., QuadX Pte. Ltd., LBC Mabuhay (Malaysia) Sdn. Bhd, LBC Mabuhay (B) Sdn. Bhd and LBC Mabuhay Remittance Sdn. Bhd, using their November 30 fiscal year 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 consolidated financial statements of the Group pertaining to the effects of significant transactions or events of its subsidiaries that occur between December 1, 2018 and the year-end date of the Parent Company's financial statements which is December 31, 2018.

The consolidated financial statements were adjusted to effect LBCE's additional settlement of bank loans in December 2018 amounting to ₱11.25 million and the adjustment to reflect the decrease in fair value of investment at fair value through other comprehensive income (FVOCI) by ₱23.41 million for the period December 1 to December 31, 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 and the adjustment to reflect the decrease in fair value of quoted available-for-sale (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 ₱.040 million, respectively.

Aside from these, there were no other significant transactions that transpired between December 1, 2018 to December 31, 2018, and between December 1, 2017 to December 31, 2017.

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2018 and 2017. 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Non-controlling interests (NCI) represent the portion of profit or loss and net assets in subsidiaries not owned by the Group and are presented separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from the Parent Company's equity. Any equity instruments issued by a subsidiary that are not owned by LBCH are non-controlling interests including preferred shares and options under share-based transactions.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of LBCH and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- derecognizes the assets (including goodwill) and liabilities of the subsidiary
- derecognizes the carrying amount of any non-controlling interests
- derecognizes the cumulative translation differences recorded in equity
- recognizes the fair value of the consideration received
- recognizes the fair value of any investment retained
- recognizes any surplus or deficit in profit or loss
- reclassifies LBCH's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The consolidated financial statements include the financial statements of LBCH and the following subsidiaries:

	Country of incorporation	Principal activities	Ownership Interest	
			2018	2017
LBC Express, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - MM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - CL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - NL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - VIS, Inc.	Philippines	Logistics and money remittance	100%	100%

Forward



	Country of incorporation	Principal activities	Ownership Interest	
			2018	2017
LBC Express - SL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SCS, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express Corporate Solutions, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - CMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - EMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - MIN, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SEL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - WVIS, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SEM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SCC, Inc.	Philippines	Logistics and money remittance	100%	100%
South Mindanao Courier Co., Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - NEMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - NWMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Systems, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express Bahrain WLL	Bahrain	Logistics	49%	49%
LBC Express Shipping Company WLL	Kuwait	Logistics	49%	49%
LBC Express LLC ⁽¹⁾	Qatar	Logistics	49%	49%
LBC Mabuhay Saipan Inc.	Saipan	Logistics and money remittance	100%	-
LBC Air cargo (S) PTE. LTD	Singapore	Logistics	100%	-
LBC Express Airfreight (S) PTE. LTD.	Singapore	Logistics	100%	-
LBC Money Transfer PTY Limited	Australia	Money remittance	100%	-
LBC Australia PTY Limited	Australia	Logistics	100%	-
LBC Mabuhay (Malaysia) SDN BHD.	Malaysia	Logistics	93%	-
QUADX Inc.	Philippines	E-com web and logistics	86%	-
QuadX Pte. Ltd.	Singapore	Digital logistics	86%	-
LBC Mabuhay (B) Sdn Bhd	Brunei	Logistics	50%	-
LBC Mabuhay Remittance Sdn Bhd	Brunei	Money remittance	50%	-

Note:

1) This entity is a subsidiary of LBC Express Shipping Company WLL which has 49% ownership interest.

Non-Controlling Interests

As at December 31, 2018, the Group has subsidiaries with non-controlling interests. Percentage of equity held by non-controlling interests in 2018 and 2017 are as follows:

	Country of incorporation	2018	2017
LBC Express Bahrain, WLL	Bahrain	51%	51%
LBC Express Shipping Company WLL	Kuwait	51%	51%
LBC Express LLC	Qatar	26%	26%
LBC Mabuhay (Malaysia) SDN BHD.	Malaysia	7%	-
QUADX Inc.	Philippines	14%	-
QuadX Pte. Ltd.	Singapore	14%	-
LBC Mabuhay (B) Sdn Bhd	Brunei	50%	-
LBC Mabuhay Remittance Sdn Bhd	Brunei	50%	-

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed in the consolidated statement of comprehensive income.



When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with PFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with PFRS 8, *Operating Segment*.

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

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill or profit or loss is recognized as a result.

Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

A business combination involving entities under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that the control is not transitory. This will include transactions, subsidiaries or businesses between entities within a group. Common control business combinations are outside the scope of PFRS 3, *Business Combination*. The Group elected to account for its common control business combinations using acquisition method considering that the business combinations have commercial substance from the perspective of the Parent Company. This is applied consistently for similar transactions. Adjustments are made to reflect fair values of the assets and liabilities at the date of acquisition. Goodwill and gain in a bargain purchase are recognized as a result of the business combinations (see Note 4).



Changes in Accounting Policies and Disclosures

The Group applied PFRS 15 and PFRS 9 for the first time effective January 1, 2018 using modified retrospective approach. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Unless otherwise stated, several other amendments and interpretations apply for the first time in 2018, but do not have significant impact on the consolidated financial statements.

- *PFRS 15, Revenue from Contracts with Customers*

The adoption of PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers, unless those contracts are in the scope of other standards. PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. The five-step model is as follows:

1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and,
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

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.

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with the customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

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 using the modified retrospective method of adoption with the date of initial application of January 1, 2018 and the effect of applying this standard is mainly attributed to revenue from logistics segment being recognized over time. There was no other impact in the other revenue streams upon adoption of this new standard. The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 11, PAS 18 and related interpretations. The Group discloses the accounting policies for both the current and the comparative periods, one applying PFRS 15 beginning January 1, 2018, and one applying PAS 18 as of December 31, 2017.

- *PFRS 9, Financial Instruments*

PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.



The Group applied PFRS 9 using modified retrospective approach, with an initial application date of January 1, 2018. The Group chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:

- Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 will be retained for the comparative periods. Accordingly, the information presented for 2017 does not reflect the requirements of PFRS 9.
- The Group will disclose the accounting policies for both the current period and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as of December 31, 2017.
- There was no difference between the previous carrying amount and the carrying amount of the financial instruments at the beginning of the annual reporting period that includes the date of initial application that was recognized in the opening 'Retained earnings' or other component of equity, as appropriate.
- The cumulative effect of initially applying PFRS 9 on the impairment of financial assets is recognized at the date of initial application as an adjustment to the opening balance of retained earnings.
- As comparative information is not restated, the Group is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

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	Balances After Adjustments
		PFRS 9	PFRS 15		
Consolidated Statement of Financial Position					
Trade and other receivables	₱1,675,801,822	(₱14,805,695)	(₱93,308,953)	(₱108,114,648)	₱1,567,687,174
Deferred tax assets	289,524,039	4,441,709	11,137,833	15,579,542	305,103,581
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)	9,246,250	99,151,436	108,397,686	(550,890,493)
Accounts and other payables	(1,603,110,735)	—	(16,980,316)	(16,980,316)	(1,620,091,051)

The impact on the statement of cash flows for the year ended December 31, 2017 only relates to the changes in profit before tax from continuing operations, certain adjustments to reconcile profit before tax to net cash flows from operating activities and working capital adjustments. However, there was no impact on the net cash flows from operating activities. The cash flows from investing and financing activities were not affected.

Set out below, are the amounts by which each financial statement line item is affected as at and for the year ended December 31, 2018 as a result of adoption of PFRS 15. The adoption of PFRS 15 did not have a material impact on OCI or the Group's operating, investing and financing cash flows.



The impact of adoption of PFRS 15 on the accounts in the consolidated statement of comprehensive income for the year ended December 31, 2018 follows:

	Amounts prepared under		Increase (decrease)
	PFRS 15	PAS 18	
Service revenue	₱12,514,177,564	₱12,538,118,134	(₱23,940,570)
Cost of services	8,563,582,476	8,569,877,919	(6,295,443)
Gross profit	3,950,595,088	3,968,240,215	(17,645,127)
Operating expenses	2,582,946,411	2,582,946,411	—
Other income (charges)	449,048,569	449,048,569	—
Income before income tax	1,816,697,246	1,834,342,373	(17,645,127)
Provision for income tax	467,666,189	472,994,863	(5,328,674)
Net income	₱1,349,031,057	₱1,361,347,510	(₱12,316,453)

The impact of PFRS 15 on the accounts in the consolidated statement of financial position as at December 31, 2018 follows:

	Amounts prepared under		Increase (decrease)
	PFRS 15	PAS 18	
Assets			
Trade and other receivables	₱1,642,133,769	₱1,744,122,274	(₱101,988,505)
Deferred tax asset - net	302,277,269	290,901,046	11,376,223
Liabilities			
Accounts and other payables	2,806,169,280	2,780,223,389	25,945,891
Income tax payable	126,565,090	131,655,373	(5,090,283)
Equity			
Retained earnings	1,625,483,991	1,736,951,880	(111,467,889)

a. Impact of adoption of PFRS 15:

The Group is in the business of logistics and money remittance which are sold separately as identified and have 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 progress used the estimated period travelled (measured in days) of the goods being delivered over the period from the date of acceptance up to the delivery date.

Contract liabilities represent advance payment from customers which services are yet to be delivered by the Group.

The above resulted to net adjustments of ₱93.31 million decrease in trade and other receivables, ₱11.14 million increase in deferred tax asset, ₱16.98 million increase in accounts and other payables representing contract liabilities and ₱99.15 million decrease in the beginning retained earnings as at January 1, 2018.

This also resulted to net adjustments of ₱101.99 million decrease in trade and other receivables, ₱11.38 million increase in deferred tax asset, ₱25.95 million increase in accounts and other payables representing contract liabilities, ₱5.09 million decrease in income tax payable, ₱111.47 million decrease in retained earnings, ₱23.94 million decrease in service revenue, ₱6.30 million decrease in cost of services and ₱5.33 million decrease in provision for income tax for the year ended December 31, 2018.



b. Impact of adoption of PFRS 9:

Classification and measurement

PFRS 9 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
Equity instruments:		
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 cash equivalents, trade and other receivables, due from related parties and restricted cash in bank under other current 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 unquoted equity shares and 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.

There were no changes to the classification and measurement of financial liabilities. As of December 31, 2018 and 2017, the Group does not hold financial liabilities designated at fair value through profit or loss.

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.



Impairment of Financial Assets

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 and restricted cash, 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 non-interest bearing and 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 allowance for impairment losses increased by ₱14.81 million, deferred tax assets increased by ₱4.44 million and retained earnings decreased by ₱10.36 million as of January 1, 2018. The above also resulted to an increase in allowance for impairment losses by ₱6.66 million, increase in deferred tax assets by ₱2.00 million and decrease in net income by ₱4.66 million as of and for the year ended December 31, 2018.

- *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. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

The Group has assessed that the adoption of these amendments will not have impact to its consolidated financial statements because none of the entities within the Group have share-based payment arrangements.



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

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 has no activities related to issuance of insurance contracts.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures, 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. Retrospective application is required.

Adoption of these amendments did not have any impact on the Group's consolidated financial statements.

- 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. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

Adoption of these amendments did not have any impact on the Group's consolidated financial statements.

- 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 the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Standards Issued But Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

These amendments have no impact on the consolidated financial statements of the Group.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.



A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently quantifying the effects of the adoption of this standard and expects the standard to impact its operating lease arrangements for its branches, service centers and offices as lessee which will require recognition of right of use assets and its related liability in the consolidated financial statements.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its



associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Group does not expect significant impact upon adoption of this interpretation.

- *Annual Improvements to PFRSs 2015-2017 Cycle*
 - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.
 - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in



profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of



entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Adoption of this standard is not applicable to the Group since none of the entities within the Group have activities related to issuance of insurance contracts.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. These amendments are not expected to have any impact to the Group.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification.

An asset is current when it is:

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

All other assets are classified as noncurrent.



A liability is current when it is:

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

All other liabilities are classified as noncurrent.

Deferred income tax assets and accrued retirement liability are classified as noncurrent assets and liabilities, respectively.

Cash and Cash Equivalents

Cash and cash equivalents are stated at face value. Cash includes cash on hand and cash in banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the dates of placement and that are subject to an insignificant risk of changes in value. Cash in banks and cash equivalents earn interest at prevailing bank deposit rates.

Fair Value Measurement

The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset on the highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable



- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Assets and Financial Liabilities

Financial instruments upon adoption of PFRS 9

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity.

Financial Assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables are measured at the transaction price determined under PFRS 15. Refer to the accounting policies for *Revenue from contracts with customers*.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

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)

Accordingly, the Group classifies and measures its quoted and unquoted investments at FVOCI and



FVPL, respectively.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

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 judgment 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.



Financial assets at amortized cost (debt instrument)

This category is the most relevant to the Group. The Group measures its financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

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

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and;
- Selling and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial 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 December 31, 2018, the Group has no debt instruments at FVOCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The 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 December 31, 2018, the Group measures its quoted investment in share of stock at FVOCI (see Note 10).



Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of comprehensive income.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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 December 31, 2018, the Group measures its unquoted investment at FVPL (see Note 10).

Impairment of Financial Assets

PFRS 9 introduces the single, forward-looking “expected loss” impairment model, replacing the “incurred loss” impairment model under PAS 39.

The Group recognizes an allowance for expected credit losses (ECL) for all debt instruments not held through profit or loss. 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, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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 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.

For due from related parties, cash and cash equivalents and restricted cash, the Group applies the general approach.

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 and 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 financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include accounts and other payables (excluding taxes and government contribution payable), due to related parties, notes payable, transmissions liability, finance lease liability, dividends payable, other noncurrent liabilities and bond payable.



Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied.

The Group's derivative liability is classified under this category (Notes 15, 23 and 24).

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in 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 finance costs in the consolidated statement of profit or loss.

This category generally applies to 'accounts and other payables', 'due to related parties, notes payable', 'transmissions liability', 'finance lease liability', 'dividends payable', 'other noncurrent liabilities' and 'bond payable' presented in the consolidated statement of financial position.

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.

Financial instruments prior to adoption of PFRS 9

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, which is the date when the Group commits to purchase or sell the asset.



Initial recognition of financial assets and financial liabilities

All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets within the scope of PAS 39 in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, AFS financial assets and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the financial assets were acquired or financial liabilities incurred and whether they are quoted in an active market. The Group determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2017, the Group's financial assets and financial liabilities are of the nature of loans and receivables, AFS financial assets and other financial liabilities, respectively.

Determination of fair value

The fair value of financial assets and financial liabilities traded in active markets is based on quoted market price at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily of listed equity investments as AFS.

The fair value of assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

'Day 1' difference

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. The amortization is included in the interest income in the statement of comprehensive



income. The losses arising from impairment of such loans and receivables are recognized as provision for impairment losses in the Group's consolidated statement of comprehensive income.

Loans and receivables are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

As of January 1, 2018, the Group's loans and receivables include cash and cash equivalents, restricted cash, trade and other receivables (excluding advances to officers and employees), due from related parties and short-term investments.

Available-for-sale financial assets

AFS financial assets pertain to equity investments. Equity instruments classified as AFS are those that are neither classified as held for trading nor designated as FVPL.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited to unrealized gain (loss) on AFS financial assets account until the investment is derecognized, at which time the cumulative gain or loss is recognized in other income, or the investment is determined to be impaired, when the cumulative loss is reclassified from unrealized gain (loss) on AFS financial assets account to the statement of profit or loss in other expenses. Dividend earned whilst holding AFS financial assets is reported as dividend income.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.

Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives are bifurcated from their host contracts, when the following conditions are met:

- (a) the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets and liabilities at FVPL;
- (b) when their economic risks and characteristics are not closely related to those of their respective host contracts; and
- (c) a separate instrument with the same terms as the embedded derivative would meet the definition



of a derivative.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in profit or loss. The embedded derivatives of the Group pertain to the equity conversion and redemption options components of the issued convertible debt instrument (see Note 15).

Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of similar financial assets is impaired. A financial asset or a group of similar financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of similar financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of similar financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for group of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of estimated cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as customer type, payment history, past-due status and term.

Future cash flows in a group of similar financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics



similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that investment is impaired. In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Generally, the Group treats 'significant' as 20% or more and 'prolonged' as greater than twelve months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss is removed from equity and recognized in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss, but its increases in the fair value after impairment are recognized directly in other comprehensive income.

Other financial liabilities

Other financial liabilities pertain to financial liabilities not classified or designated as financial liabilities at FVPL where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral parts of the effective interest rate.

As of December 31, 2017, the Group's other financial liabilities include accounts and other payables (excluding statutory liabilities), due to related parties, dividends payable, notes payable, transmissions liability, finance lease liabilities, bond payable and other noncurrent liabilities.

Derecognition of Financial Assets and Financial Liabilities Under PFRS 9 and PAS 39

Financial asset

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an



associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

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

Offsetting of Financial Assets and Financial Liabilities Under PFRS 9 and PAS 39

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

Prepayments and Other Assets

Prepayments substantially consisting of rent and advertising are recognized in the event that payment has substantially been made in advance for the purchase of goods or services for which delivery or performance has not yet occurred. Prepayments are measured at undiscounted amounts and derecognized in the consolidated statement of financial position as they expire with the passage of time, or through use and consumption.

Materials and supplies consist of the supplies, inks, packing materials and receipt used in the Group's operations. Materials and supplies are initially measured at the cost of purchase, which comprise the purchase price less trade discounts, rebates and other similar deductions. Materials and supplies are subsequently measured at the lower of cost and net realizable value. Cost is determined using average cost formula. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Materials and supplies are derecognized when consumed.

Other assets in the form of input value-added tax and creditable withholding tax are recognized as assets to the extent it is probable that the benefit will flow to the Group. These are derecognized when there is a legally enforceable right to apply the recognized amounts against the related tax liability within the period prescribed by the relevant tax laws.

Creditable withholding taxes

Creditable withholding taxes (CWT) are amounts withheld from income, which are applied as credit against income taxes, subject to documentary requirements. Creditable withholding taxes that are expected to be utilized as payment for income taxes within 12 months are classified as current asset.

Input Value-Added Taxes (VAT)

Input tax represents the VAT due or paid on purchases of goods and services subjected to VAT that the Group can claim against any future liability to the Bureau of Internal Revenue (BIR) for output VAT on sale of goods and services subjected to VAT. The input tax can also be recovered as tax credit under certain circumstances against future income tax liability of the Group upon approval of the BIR and/or Bureau of Customs. Input tax is stated at its estimated net realizable values. A valuation allowance is provided for any portion of the input tax that cannot be claimed against output



tax or recovered as tax credit against future income tax liability. Input tax is recorded under current and noncurrent assets in the statement of financial position.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position up to the extent of the recoverable amount.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price, taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization is calculated on a straight-line method over the following estimated useful lives of the property and equipment:

	Years
Computer hardware	3 to 5
Furniture, fixtures and office equipment	3 to 5
Transportation equipment	3 to 10
Leasehold improvements	2 to 8 or lease term (whichever is shorter)

Construction in progress is stated at cost. Construction in progress is not depreciated until such time as the relevant assets are completed and available for use.

The assets' residual value, estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss (calculated as the difference between the net disposal proceeds and the carrying amount of the property and equipment) is credited to or charged against profit or loss in the year the property and equipment is derecognized.

Intangible Assets

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



Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category that is consistent with the function of the intangible assets. The useful life of the Group's software is three to five years.

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

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

Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in operating expenses. During the period of development, the asset is tested for impairment annually.

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 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 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 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.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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



Employee Benefits

The Group has a noncontributory defined retirement benefit plan. The net defined retirement benefit liability or asset is the aggregate of the present value of the defined retirement benefit liability at the end of reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service costs
- net interest on the net defined benefit liability or asset
- remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by an independent qualified actuary.

Net interest on the net defined retirement benefit liability or asset is the change during the period in the net defined retirement benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined retirement benefit liability or asset. Net interest on the net defined retirement benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined retirement benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in OCI account, "Remeasurement gains (losses) on retirement benefit plan", are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related liabilities). If the fair value of the plan assets is higher than the present value of the defined retirement benefit liability, the measurement of the resulting defined retirement benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit retirement liability is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.



A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave credits in excess of 45 days is expected to be settled wholly within twelve months after the end of the annual reporting date. Employees of certain foreign subsidiaries are also entitled to long service leaves as mandated by local laws over and above their annual leave if they work for a certain length of time which are taken on a pro-rata basis when the employee ceases to work. Earned leave credits is recognized as a liability and settled when the employee leaves the Group subject to certain conditions.

Equity

The Group considers the underlying substance and economic reality of its own equity instruments and not merely its legal form in determining its proper classification.

Capital stock

The Group records common stocks at par value and the amount of the contribution in excess of par value is accounted for as an additional paid-in capital. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Retained earnings

Retained earnings represent accumulated earnings of the Group less dividends declared, and any adjustments arising from application of new accounting standards, policies or corrections of errors applied retrospectively. Dividends on common stocks are recognized as a liability and deducted from equity when declared.

Revenue Recognition

Revenue from contracts with customers upon adoption of PFRS 15

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Service fees

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

The Group recognizes 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 progress used the estimated period travelled (measured in days) of the goods being delivered over the period of the date of acceptance up to the delivery date.



Advance payment from customers which services are yet to be delivered by the Group are initially recognized as contract liabilities under 'accounts and other payables' of the consolidated statement of financial position. These are subsequently charged as service revenue over the period of delivery.

Service arising from money transfer is considered to have been rendered when the principal amount of money has been transferred to the intended branch and the same is ready for withdrawal by the intended beneficiary.

Revenue recognition prior to adoption of PFRS 15

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless when the payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, returns, rebates and sales tax. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

Service fees

The Group recognizes revenue from inbound and outbound courier, cargo and money transfer facilities when services are rendered and delivered, risk and rewards are transferred to customers and collection of amounts billed to customers are reasonably assured.

Service arising from money transfer is considered to have been rendered when the principal amount of money has been transferred to the intended branch and the same is ready for withdrawal by the intended beneficiary.

Interest income under PFRS 15 and PAS 18

Interest income is recognized on a time-proportion basis using the effective interest method. Interest income from bank deposits is presented net of applicable tax withheld by the banks.

Other income under PFRS 15 and PAS 18

Other income is recognized when earned.

Costs and Expense Recognition

Costs and expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be reliably measured.

Costs and expenses are recognized in the consolidated statement of comprehensive income:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent



on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or,
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date, the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognized as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Income Taxes

The tax expense for the period comprises of current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

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

Deferred tax

Deferred tax is provided using the balance sheet liability method on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and net



operating losses carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and NOLCO can be utilized.

Deferred tax assets are not recognized when they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Movements in the deferred tax assets and liabilities arising from changes in tax rates are credited to or charged against income for the period.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Foreign Currencies

The Group's consolidated financial statements are presented in Philippine Peso, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss except for monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognized in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognized in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair



value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

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 the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

Group consolidation

On consolidation, the assets and liabilities of foreign operations are translated into Philippine Peso at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Earnings Per Share ("EPS")

Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

Segment Reporting

The Executive Committee is the Group's chief operating decision-maker. Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee. The Executive Committee, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of comprehensive income net of any reimbursement. Provisions are included in current liabilities, except for those with maturities greater than 12 months after the reporting period, which are then classified as noncurrent liabilities. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is recognized in profit or loss.



Contingencies

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

Events after the Reporting Date

Post year-end events up to the date when the consolidated financial statements are authorized for issue that provide additional information about the Group's position at each reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements, when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Management believes the following represent a summary of these significant judgments, estimates and assumptions:

Judgments

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

Applying acquisition method

The Parent Company used acquisition method in accounting for its business combination of entities acquired which are under common control. The Parent Company has assessed that acquisition method is more reflective of the substance of the transaction considering that the transaction is conducted at fair value with purchase price determined using price earnings multiple which are within the range of market values for comparative companies of the same industry and size.

All the acquired entities are engaged in cargo forwarding and money remittance services which are all aligned with the business of the Group, thus, the Parent Company expects that the business combination will add value to the Group due to additional cash inflow from external revenues and efficiency in administrative functions creating savings and synergies in the internal processes.

Consolidation of entities in which the Group holds 50% or less than 50% ownership

LBCE has assessed that it controls the entities located in Bahrain, Kuwait, Qatar and Brunei even at 49% - 50% ownership due to the following reasons:

- (a) it has the power to direct the relevant activities (e.g. operations, hiring of people, setting up of rates) of the entities. It has the full discretion on its day to day operations and decides on major transactions these entities enter into.
- (b) it is exposed to variable returns of the entities.
- (c) given its participation in the relevant activities of the entities, it is able to affect the returns of the entities.



Determining significant influence over 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 11).

The carrying amount of the investment in associate amounted to ₱239.02 million as of December 31, 2018 (see Note 11).

Lease commitments - Group as lessee

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

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease contracts, which transfer to the Group substantially all the significant risks and rewards incidental to ownership of the leased items, are classified as finance lease. Otherwise, these are considered as operating leases.

The Group has entered into various lease arrangements for its business operations (see Note 21). In determining whether the lease is cancellable or not, the Group considered, among others, the significance of the lease term as compared with the estimated useful life of the related asset. The Group has determined, based on an evaluation of the terms and conditions of the arrangement, that the lessor retains all the significant risks and rewards of ownership of the leased property and so accounts for the contract as operating lease.

For leases involving transportation equipment, the Group has determined that it retains all significant risks and rewards of ownership of the leased properties and so accounts for the contracts as finance lease.

Determining timing of revenue recognition and measurement of progress of performance obligation

The Group determined that the revenue for its logistics services is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance of the obligation as the Group delivers the goods.

The Group has determined that the output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in delivering the services. The measurement of progress used the estimate period travelled (measured in days) of the goods being delivered over the period of the date of acceptance up to the delivery date.

Determining provisions and contingencies

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolutions of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

No provision for probable losses arising from legal contingencies was recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017 (see Note 28).



Estimates and Assumptions

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

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 judgments 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.

Trade and other receivables, net of allowance for doubtful accounts, amounted to ₱1,642.13 million and ₱1,675.80 million as of December 31, 2018 and 2017, respectively (see Note 6). The carrying amount of due from related parties amounted to ₱557.96 million and ₱667.72 million as of December 31, 2018 and 2017, respectively (see Note 17).



Accounting for business combinations

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed be recognized at the date of acquisition at their respective fair values.

The application of the acquisition method requires certain estimates and assumptions especially in the determination of the fair values of acquired net assets. Except for software, the fair valuation of identifiable financial assets and liabilities which mostly composed the acquired net assets are based on contractual amounts that are expected to be fully collected or settled. The fair value of software for an acquired entity was determined using relief from royalty method which reflects the net present value of all forecast royalties assuming the software is owned by another party. It involves estimating of future sales, applying an appropriate royalty rate based on comparable transactions and then discounting. The valuation is based on information available at the acquisition date (see Note 4).

Evaluating impairment of goodwill

Goodwill impairment testing requires an estimation of the recoverable amount which is the fair value less cost to sell or value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use amount requires management to make an estimate of the expected future cash flows for the cash-generating units and to choose suitable discount rates to calculate the present value of cash flows. The Group's impairment test for goodwill on acquisitions discussed in Note 4 is based on value-in-use calculations using a discounted cash flow model.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rates used. The post-tax discount rates used ranges from 8.20% to 16.90%. The growth rate used beyond the forecasted period for different cash-generating units ranges from 1% to 3%.

As at December 31, 2018, the Group has determined that its goodwill amounting to ₱492.45 million is not impaired (see Note 4).

Estimating useful lives of property and equipment

The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on expected asset utilization and historical experience. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment would increase the recorded depreciation and decrease the carrying value of property and equipment.

The carrying amount of property and equipment amounted to ₱1,436.08 million and ₱976.05 million as of December 31, 2018 and 2017, respectively (see Note 8).

Estimating pension cost

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

In determining the appropriate discount rate, management considers the interest rate of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated



maturities corresponding to the expected duration of the defined benefit obligation adjusted based on the manner of cash outflow of settling the pension liability.

The mortality rate is based on publicly available mortality tables in the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases is based on expected salary rate increase over the duration of the obligation. Attrition rate is based on historical experiences. Further details about the assumptions used are provided in Note 22.

The carrying amount of retirement benefit liabilities, net of plan assets, amounted to ₱672.27 million and ₱705.33 million as of December 31, 2018 and 2017, respectively (see Note 22).

Recognizing deferred tax assets

The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Realization of future tax benefit related to deferred tax assets is dependent on the Group's ability to generate future taxable income during the periods in which they are expected to be recovered. The Group has considered factors in reaching a conclusion as to the amount of deferred tax assets recognized as at December 31, 2018 and 2017. Management believes that the Group will be able to generate future taxable income to allow for the realization of deferred tax assets.

Based on management's assessment, the Group recognized net deferred tax assets amounting to ₱302.28 million and ₱289.52 million as of December 31, 2018 and 2017, respectively (see Note 20).

Estimating fair value of embedded derivatives

The fair value of embedded derivatives, related to the issuance of convertible bond 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 markets and unobservable market data. Changes in inputs about these factors could affect the reported fair value of the embedded derivatives and impact profit or loss (see Note 24).

The carrying value of the derivative liability amounted to ₱1,406.18 million and ₱1,860.37 million as of December 31, 2018 and 2017, respectively.

4. Business Combinations and Goodwill

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.

QUADX Inc owns and operates e-commerce websites and primarily offers shipping, re-packing and consolidation facilities, multi-payment platforms, and digital services that serves clients in the Philippines.



The increase in authorized capital stock of QUADX Inc. was approved by the SEC on June 14, 2018, the same date that the Parent Company accounted the business combination under the acquisition method.

Overseas Entities

All entities acquired from overseas, except QuadX Pte. Ltd, are entities under common control of the Araneta Family.

QuadX Pte. Ltd.

On April 4, 2018, the BOD of the Parent Company approved the acquisition of 86.11% equity interest in QuadX Pte. Ltd., an entity domiciled in Singapore, through the following: (a) the purchase of 862 ordinary shares of QuadX Pte. Ltd. held by an individual shareholder, 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 to QuadX Pte. Ltd. in the amount of ₱31.86 million for the purpose of partially financing the purchase by the latter of Software Assets in the amount of ₱37.00 million from QUADX Inc.

QuadX Pte. Ltd. is engaged in digital logistics business. The acquisition is expected to contribute to the global revenue stream of the Group.

LBC Mabuhay Saipan, Inc.

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.

LBC Express Airfreight (S) Pte. Ltd., LBC Aircargo (S) Pte. Ltd., LBC Money Transfer PTY Limited and LBC Australia PTY Limited

On June 27, 2018, the BOD of the Parent Company approved the purchase of shares of various overseas entities. On the same date, the following Share Purchase Agreements (SPAs) were executed by the Parent Company and Jamal Limited, a transitory seller, for a total purchase price of US \$4.60 million or ₱245.67 million under the SPAs. Jamal Limited, a third party, purchased these entities from Advance Global Systems Limited, an entity under common control, prior to sale to the Parent Company. Details follow:

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. These entities operate as logistics and money remittance companies on the countries where they are domiciled.

LBC Mabuhay (Malaysia) SDN BHD

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 US \$461,782 or ₱24.68 million. LBC Malaysia engages in the business of courier services in Malaysia.



LBC Mabuhay (B) Sdn Bhd and LBC Mabuhay Remittance Sdn Bhd

On October 15, 2018, the Parent Company acquired 50% ownership of LBC Mabuhay Remittance Sdn Bhd and LBC Mabuhay (B) Sdn Bhd for total purchase price of US \$557,804 and US \$225,965, respectively, equivalent to ₪42.39 million. These entities operate as logistics and money remittance companies in Brunei, respectively.

The Parent Company accounted the aforementioned business combinations under the acquisition method. These acquisitions were expected to contribute to the global revenue stream of the Group.

Entities under LBC Express Holdings USA Corporation

On March 7, 2018, the BOD of the Parent Company approved the purchase of shares of the entities under LBC Express Holdings USA Corporation. 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 Parent 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 Group 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 Parent 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. On January 1, 2019, the Parent Company was granted the regulatory approvals on the purchase of the LBC Mundial Corporation and LBC Mabuhay North America Corporation. As of report date, the closing conditions are not yet met for LBC Mabuhay Hawaii Corporation.

Details of the fair value of the net identifiable assets and liabilities of these entities were incomplete as of audit report date since these entities are not reporting under PFRS.

Identifiable assets acquired and liabilities assumed

The fair value of the receivables amounted to ₪297.58 million. The gross receivables amounted to ₪315.46 million, ₪17.88 million of which is expected to be uncollectible as of acquisition dates.

Intangible assets were adjusted to their fair value as required by PFRS 3, *Business Combinations*. The fair values were determined using a Relief from Royalty Method (RFR), which is an income approach and measured at Level 3 (Significant unobservable inputs). Adjustments made by the Group amounted to ₪81.25 million as at acquisition date (see Note 9).

The goodwill of ₪492.45 million arising from the acquisitions discussed above represents the fair value of expected synergies, revenue growth and future developments that do not meet the recognition criteria for intangible assets.



The final fair values of the identifiable assets and liabilities acquired, including goodwill, as at the date of acquisitions are shown below. The noncontrolling interests are reflected at fair value.

Percentage of ownership of	LBC Singapore	LBC Taiwan	LBC Australia	LBC Australia	LBC Saipan	LBC Brunei	LBC Brunei	QUADX Inc.	QUADX Pte. Ltd.	LBC Malaysia	Total
Parent Company	100%	100%	100%	100%	100%	50%	50%	86.11%	86.11%	92.50%	
Assets											
Cash and cash equivalents	P41,843,269	P6,837,535	P17,129,600	P30,264,965	P25,852,714	P51,399,857	P6,463,668	P81,245,875	P254,114	P23,276,681	P284,568,278
Trade receivables	832,414	4,404,638	19,197,136	4,501,519	1,561	67,977	19,800	266,353,454	2,180,393	18,126	297,577,018
Receivable from a related party	100,378,160	12,312,883	4,149,428	12,973,549	16,951,251	34,945,560	27,615,877	18,300,964	-	10,649,768	238,277,440
Prepayments and other current assets	1,903,508	1,102,911	253,913	2,564,779	33,279	256,028	1,084,187	36,371,312	-	2,546,189	46,116,106
Financial asset at fair value	-	-	-	-	-	-	-	-	9,397,260	-	9,397,260
Total current assets	144,957,351	24,657,967	40,730,077	50,304,812	42,838,805	86,669,422	35,183,532	402,271,605	11,831,767	36,490,764	875,936,102
Property, plant and equipment	1,219,553	793,142	665,953	947,912	412,196	38,225	35,389	83,678,915	-	103,705	87,894,990
Deferred income tax assets	107,802	503,870	6,283,152	5,136,584	-	-	-	-	-	-	12,031,408
Intangible assets	-	-	-	-	-	-	-	114,661,984	469,498	-	115,131,482
Security deposit	4,260,166	274,747	93,194	1,350,532	265,007	118,564	241,081	16,416,243	-	645,144	23,664,678
Other noncurrent asset	-	-	-	-	-	2,173,677	-	-	-	-	2,173,677
Total noncurrent asset	5,587,521	1,571,759	7,042,299	7,435,028	677,203	2,330,466	276,470	214,757,142	469,498	748,849	240,896,235
Total asset	150,544,872	26,229,726	47,772,376	57,739,840	43,516,008	88,999,888	35,460,002	617,028,747	12,301,265	37,239,613	1,116,832,337
Liabilities											
Accounts and other payables	14,820,737	7,978,930	6,159,479	30,306,712	3,639,995	2,401,416	6,214,615	630,530,128	1,022,390	6,976,540	710,050,942
Payable to a related party	266,247	178,717,132	12,437,069	31,182	13,479,920	-	3,800,453	-	6,386,957	4,509,155	219,628,115
Transmission liability	-	-	33,801,762	-	13,466,212	18,332,164	-	-	-	-	65,600,138
Income tax payable	6,425,537	107,053	812,123	4,393,437	-	-	-	-	-	4,488,034	16,226,184
Lease liabilities	1,538,403	-	-	179,275	-	-	-	-	-	-	1,717,678
Total current liabilities	23,050,924	186,803,115	53,210,433	34,910,606	30,586,127	20,733,580	10,015,068	630,530,128	7,409,347	15,973,729	1,013,223,057
Retirement benefit obligation	-	-	-	-	-	-	-	3,096,164	-	-	3,096,164
Lease liabilities	-	-	-	-	-	-	-	5,197,745	-	-	5,197,745
Deferred tax liability	-	-	-	-	-	-	-	24,411,031	-	-	24,411,031
Total noncurrent liabilities	-	-	-	-	-	-	-	32,704,940	-	-	32,704,940
Total liabilities	23,050,924	186,803,115	53,210,433	34,910,606	30,586,127	20,733,580	10,015,068	663,235,068	7,409,347	15,973,729	1,045,927,997
Total net assets (liabilities)	127,493,948	(160,573,389)	(5,438,057)	22,829,234	12,929,881	68,266,308	25,444,934	(46,206,321)	4,891,918	21,265,884	70,904,340
Attributable to non-controlling interest	-	-	-	-	-	(34,133,154)	(12,722,467)	6,418,058	(679,487)	(1,594,941)	(42,711,991)
Net assets (liabilities) attributable to											
Parent Company	127,493,948	(160,573,389)	(5,438,057)	22,829,234	12,929,881	34,133,154	12,722,467	(39,788,263)	4,212,431	19,670,943	28,192,349
Add: Purchased goodwill	1,519,637	168,373,549	15,830,311	75,633,629	-	-	-	225,809,663	267,528	5,011,767	492,446,084
Less: Gain on bargain purchase	-	-	-	-	2,147,343	3,966,556	502,054	-	-	-	6,615,953
Purchase consideration	P129,013,585	P7,800,160	P10,392,254	P98,462,863	P10,782,538	P30,166,598	P12,220,413	P186,021,400	P4,479,959	P24,682,710	P514,022,480



Purchase consideration and net cash flows

There were no contingent considerations in the above acquisitions. Net cash related to acquisition of the above entities are shown below.

	LBC Singapore	LBC Taiwan	LBC Australia Money	LBC Australia Cargo	LBC Saipan	LBC Brunei Money	LBC Brunei Cargo	QUADX Inc.	QuadX Pte. Ltd.	LBC Malaysia	Total
Cash paid	₹129,013,585	₹7,800,160	₹10,392,254	₹98,462,863	₹10,782,538	₹30,166,598	₹12,220,413	₹—	₹4,479,959	₹24,682,710	₹328,001,080
Cash acquired	41,843,269	6,837,535	17,129,600	30,264,965	25,852,714	51,399,857	6,463,668	81,245,875	254,114	23,276,681	284,568,278
Net cash outflow (inflow)	₹87,170,316	₹962,625	₹(6,737,346)	₹68,197,898	₹(15,070,176)	₹(21,233,259)	₹5,756,745	₹(81,245,875)	₹4,225,845	₹(1,406,029)	₹43,432,802

The purchase considerations are paid in full for overseas entities. The gain on bargain purchase for LBC Saipan and Brunei entities were recognized under “others - net” of “Other income (charges)” in the consolidated statements of comprehensive income. Acquisition-related costs, which include documentary stamp tax amounting to ₹ 249,593 were recognized as expense in 2018.

The share in revenue and net income (loss) included in the statement of comprehensive of each of the acquired entities from the acquisition dates to December 31, 2018 are as follow:

	LBC Singapore	LBC Taiwan	LBC Australia Money	LBC Australia Cargo	LBC Saipan	LBC Brunei Money	LBC Brunei Cargo	QUADX Inc.	QuadX Pte. Ltd.	LBC Malaysia	Total
Share in revenue	₹106,535,120	₹22,816,981	₹25,873,210	₹115,843,701	₹37,105,122	₹3,489,808	₹1,738,446	₹719,036,533	₹127,764,240	₹33,576,701	₹1,193,779,862
Share in net income (loss)	15,376,632	(3,549,062)	(173,833)	6,799,993	8,563,619	524,574	(644,172)	(215,294,780)	4,719,561	4,960,551	(178,716,917)

Had the business combinations took place at the beginning of 2018, the share in revenue and net income (loss) in the consolidated statement of comprehensive income of the acquired entities for the year ended December 31, 2018 would have been as follow:

	LBC Singapore	LBC Taiwan	LBC Australia Money	LBC Australia Cargo	LBC Saipan	LBC Brunei Money	LBC Brunei Cargo	QUADX Inc.	QuadX Pte. Ltd.	LBC Malaysia	Total
Share in revenue	₹218,259,406	₹47,044,132	₹53,066,746	₹210,119,164	₹48,151,151	₹13,718,677	₹10,965,235	₹1,240,311,531	₹127,794,918	₹74,030,888	₹2,043,461,848
Share in net income (loss)	40,799,271	(9,259,027)	(1,955,211)	13,450,190	9,084,382	4,446,163	(86,143)	(336,124,923)	4,730,192	11,379,889	(263,535,217)



Impairment testing of Goodwill

The Group performed its annual impairment testing of goodwill amounting to ₱492.45 million as of December 31, 2018 which are primarily related to the acquisitions of QUADX Inc, LBC Taiwan, and LBC Australia Cargo.

The key assumptions used in determining the recoverable amount based on value-in-use calculations as of December 31, 2018 are as follows:

QUADX Inc.

Goodwill arising from the acquisition of QUADX Inc. amounted to ₱225.81 million. The value-in-use calculation is based on the forecast approved by the management over an explicit period of 10 years considering that the entity is in its early stages of operations. The projected cash flows are based on the plan of the management given its strategy to capture the demands driven by e-commerce business. Revenue is projected to increase at compounded annual growth rate of 11.3% and long-term growth rate of 3%. Direct costs and capital expenditures are forecasted to follow the trend of revenue except for those that are non-variable but with various cost reduction initiatives. Discount rate used is 19.80% based on a risk adjusted discount rate using the weighted average cost of capital adjusted to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

LBC Taiwan

Goodwill arising from the acquisition of LBC Taiwan amounted to ₱168.37 million. The value-in-use calculation is based on the forecast approved by the management over an explicit period of five years. The projected cash flows are based on the plan of the management to expand business partnership and introduction of new promotions. Revenue is projected to increase at compounded annual growth rate of 7.7% and long-term growth rate of 1%. Direct costs are forecasted to follow the trend of revenue except for those that are non-variable but with various cost reduction initiatives. Discount rate used is 9.90% based on a risk adjusted discount rate using the weighted average cost of capital adjusted to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

LBC Australia Cargo

Goodwill arising from the acquisition of LBC Australia Cargo amounted to ₱75.63 million. The value-in-use calculation is based on the forecast approved by the management over explicit period of five years. The projected cash flows are based on the plan of the management given its strategy to capture the demands driven by the growing population of Filipino community in the area. These include the opening of additional branches and introduction of new promotions and bundled products. Revenue is projected to increase at a compounded annual growth rate of 9.4% and long-term growth rate of 2%. Direct costs and capital expenditures are forecasted to follow the trend of revenue except for those that are non-variable. Discount rate used is 12.20% based on a risk adjusted discount rate using the using weighted average cost of capital adjusted to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

The key assumptions used in the value-in-use calculations are mostly sensitive to revenue annual growth rate, revenue long-term growth rate beyond explicit forecast period and discount rate.

Below are the level of assumptions, all things being equal, which would result to impairment of goodwill:

	Annual growth rate	Long-term growth rate	Discount rate
QUADX Inc.	10.7%	None*	56.5%
LBC Taiwan	6.6%	-0.2%	11.1%
LBC Australia Cargo	5.5%	-190.0%	47.7%

*even at -1,000,000% long-term growth rate, goodwill will not be impaired



Based on the assessment of the value in use of the acquirees, the recoverable amount of the acquirees exceeded their carrying amounts plus goodwill, hence, no impairment was recognized as at December 31, 2018 in relation to the goodwill.

5. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand	₱358,706,343	₱264,057,974
Cash in banks	2,122,353,939	1,103,336,745
Cash equivalents	1,656,378,862	2,411,013,773
	₱4,137,439,144	₱3,778,408,492

Cash in banks earn interest at the respective bank deposit rates. 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 placement rates.

Cash in banks and cash equivalents earn interest ranging from 0.25% to 6.00% and 0.25% to 2.00% per annum in 2018 and 2017, respectively. Interest income earned from cash and cash equivalents amounted to ₱33.24 million, ₱16.04 million and ₱1.91 million in 2018, 2017 and 2016, respectively.

6. Trade and Other Receivables

This account consists of:

	2018	2017
Trade receivables - outside parties	₱1,447,404,156	₱1,189,394,150
Trade receivables - related parties (Note 17)	253,208,381	495,476,881
	1,700,612,537	1,684,871,031
Less allowance for impairment losses	154,294,279	57,252,950
	1,546,318,258	1,627,618,081
Other receivables:		
Advances to officers and employees	₱33,771,196	₱29,587,715
Others	62,044,315	18,596,026
	₱1,642,133,769	₱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 amount of ₱4.86 million and ₱11.62 were written off in 2018 and 2017, respectively, as these are deemed uncollectible. The accounts were previously provided with allowance.



The Group has directly written-off trade and other receivables amounting to ₱3.22 million in 2016, where probability of collection was determined to be remote. These were recognized under 'operating expenses' in the consolidated statements of comprehensive income.

The movements in allowance for expected credit 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	14,805,695	-	14,805,695
As at January 1, 2018, as restated	14,805,695	57,252,950	72,058,645
Impact of business combination		7,055,686	7,055,686
Write-off	-	(4,858,761)	(4,858,761)
New financial assets originated	21,457,341	-	21,457,341
New credit impaired financial assets	-	73,377,693	73,377,693
Financial assets derecognized	(20,440,390)	-	(20,440,390)
Change in forecast and model assumptions	5,644,065	-	5,644,065
As at December 31, 2018	₱21,466,711	₱132,827,568	₱154,294,279

7. Prepayments and Other Assets

This account consists of:

	2018	2017
Input value-added tax (VAT)	₱324,539,993	₱215,215,636
Materials and supplies	148,990,229	100,572,680
Prepayments:		
Rent	62,533,385	70,238,209
Insurance	20,923,820	12,489,234
Software maintenance	18,275,638	7,049,524
Employee benefits	18,209,303	20,616,772
Taxes	11,410,009	7,418,431
Advertising	8,857,794	7,111,383
Dues and subscriptions	3,794,116	4,404,153
Company events	1,427,191	4,889,415
Others	33,169,932	8,752,146
Creditable withholding taxes (CWTs)	104,471,039	51,010,831
Restricted cash in bank	19,528,338	9,000,000
Short-term cash investments	-	11,326,492
Others	11,115,483	9,000,000
	787,246,270	539,094,906
Less allowance for impairment losses	798,769	798,769
	786,447,501	538,296,137
Less noncurrent portion of:		
VAT on capital goods	99,134,137	60,574,886
Prepaid rent	30,366,589	22,590,091
Advance payment to a supplier	9,000,000	9,000,000
Other assets	428,640	-
Total noncurrent portion	₱138,929,366	₱92,164,977
Total current portion	₱647,518,135	₱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, packing materials and official receipts to be used in the Group's operations. Materials and supplies recognized under cost of services in profit or loss for the years ended December 31, 2018, 2017 and 2016 amounted to ₱482.51 million, ₱334.17 million and ₱293.38 million, respectively (see Note 18).

The Group recorded inventories for finished goods and raw materials amounting to ₱1.60 million and ₱5.54 million, respectively, with allowance for inventory obsolescence amounting to ₱7.14 resulting to a nil balance for the years ended December 31, 2018 and 2017.

Prepaid rent and software maintenance are payments made in advance which will be applied against future billings due within 12 months.

Prepaid employee benefits pertain to advance payments to employees which will be consumed through future employee services.

Prepaid taxes primarily consist of unamortized portion of business permits.

Prepaid advertising consists of advances for billboards and multimedia endorsements.

Other prepayments pertain to unamortized licenses, prepaid interests and various other prepayments to suppliers.

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

Restricted cash in bank represents cash deposit, in the name of LBCE, with a maturity of one year and assigned to a specific customer as a performance guarantee.

Advance payment to a supplier pertains to payment to a service provider intended for the purchase of a software.

Short-term cash investments are time deposits with maturity of more than three months from the date of acquisition but not exceeding one year. The interest income earned from the short-term cash investments and restricted cash in bank amounted to ₱0.20 million and ₱0.13 million in 2018 and 2017, respectively.

Noncurrent portion of prepaid rent pertains to advance payment for rental of the Group's offices and branches to be applied in the last two to three months of the lease term which is beyond 12 months after balance sheet date.



8. Property and Equipment

The rollforward analysis of this account follows:

Costs	2018					Total
	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures, Machinery and Office Equipment	Computer Hardware	Construction in Progress	
At beginning of year	¥499,479,068	¥1,574,578,690	¥657,456,399	¥620,519,300	¥17,301,634	¥3,369,335,091
Additions	192,447,015	74,166,146	52,526,839	97,061,766	275,107,556	691,309,322
Additions through business combination (Note 2)	2,274,146	13,565,882	11,895,269	5,814,797	54,344,897	87,894,991
Reclassifications	2,364,376	128,151,314	12,182,349	2,124,004	(144,822,043)	-
Disposals	(25,183,098)	(283,846,556)	(38,214,537)	(1,635,423)	-	(348,879,614)
At end of year	671,381,507	1,506,615,476	695,846,319	723,884,444	201,932,044	3,799,659,790
Accumulated Depreciation and Amortization						
At beginning of year	337,955,230	991,124,111	568,035,973	496,166,376	-	2,393,281,690
Depreciation (Notes 18 and 19)	50,285,548	123,241,100	58,900,285	79,332,772	-	311,759,705
Disposals	(20,311,423)	(281,922,122)	(38,089,975)	(1,138,085)	-	(341,461,605)
At end of year	367,929,355	832,443,089	588,846,283	574,361,063	-	2,363,579,790
Net Book Value	¥303,452,152	¥674,172,387	¥107,000,036	¥149,523,381	¥201,932,044	¥1,436,080,000

Costs	2017					Total
	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures, Machinery and Office Equipment	Computer Hardware	Construction in Progress	
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 (Notes 18 and 19)	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 ₱1,753.33 million and ₱1,160.00 million as of December 31, 2018 and 2017, respectively.

The Group has property and equipment amounting to ₱26.64 million with accumulated depreciation and provision for impairment amounting to ₱13.34 million and ₱11.70 million, respectively, resulting to a nil balance for the year ended December 31, 2018 and 2017.

Depreciation charges were recognized as follows:

	2018	2017	2016
Cost of services (Note 18)	₱270,815,638	₱218,336,609	₱196,497,941
Operating expenses (Note 19)	40,944,067	37,396,437	68,067,945
	₱311,759,705	₱255,733,046	₱264,565,886

The Group leases transportation, service and office equipment that are included in the property and equipment and under various finance arrangements ranging for a period of 24 to 60 months (see Note 21).

In 2015, the Group purchased a computer hardware on a long-term payment arrangement. The liability is interest bearing and payable over 60 months. As of December 31, 2018, the outstanding liability amounted to ₱24.29 million, ₱12.85 million of which is reported under 'other noncurrent liabilities' in the consolidated statements of financial position. Interest expense arising from the amortization of the deferred interest amounted to ₱3.48 million and ₱4.59 million in 2018 and 2017, respectively.

9. Intangible Assets

The rollforward analysis of this account follows:

	2018		
	Software	Development in Progress	Total
Costs			
At beginning of year	₱549,820,615	₱4,540,000	₱554,360,615
Additions	89,568,335	87,426,235	176,994,570
Additions through business combination	83,965,152	31,166,330	115,131,482
Reclassification	4,200,000	(4,200,000)	—
At end of year	727,554,102	118,932,565	846,486,667
Accumulated Amortization			
At beginning of year	197,510,604	—	197,510,604
Amortization (Notes 18 and 19)	93,606,407	—	93,606,407
At end of year	291,117,011	—	291,117,011
Net Book Value	₱436,437,091	₱118,932,565	₱555,369,656



	2017		
	Software	Development in Progress	Total
Costs			
At beginning of year	₱335,393,881	₱63,140,574	₱398,534,455
Additions	156,491,950	8,654,110	165,146,060
Reclassification	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 (Note 19)	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 an IT security tool, a new payroll system and a logistics software on an interest bearing long-term payment arrangement payable over 36 months, 60 months and 60 months, respectively. As at December 31, 2018, the outstanding liability related to purchase of these intangible assets amounted to ₱95.44 million, ₱65.46 million of which is presented under “other noncurrent liabilities” in the consolidated statement of financial position. Interest expense arising from the amortization of deferred interest amounted to ₱5.51 million and ₱2.18 million in 2018 and 2017, respectively.

In 2018, a web filtering software was acquired on an interest-bearing payment arrangement over 18 months. As at December 31, 2018, the outstanding liability related to the purchase amounted to ₱10.97 million, ₱1.69 million of which is presented under ‘other noncurrent liabilities’ in the consolidated statement of financial position. Interest expense arising from the amortization of deferred interest amounted to ₱0.08 million in 2018.

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

There were no capitalized borrowing costs in 2018 and 2017.

10. 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 an unquoted equity securities and 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.



Movements of the investments at FVPL and FVOCI and AFS investment follow:

	December 31, 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	888,580,000	-	-
Additions through business combination	9,397,260	-	-
Redemption	(1,215,938,291)	-	-
Unrealized fair value gain (loss) during the year	8,492,280	(107,283,041)	-
	₱131,294,744	₱337,453,928	₱-

Movements of the AFS investment follow:

	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 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 ₱8.49 million related to investment at FVPL is presented under "Other income (charges)" in the consolidated statements of comprehensive income.

Movement in unrealized gain on investment at FVOCI follow:

	2018	2017
Balance at beginning of period, as previously reported	₱181,742,943	₱195,216,568
Impact of PFRS 9 adoption (Notes 2 and 16)	(1,117,736)	-
As at January 1, 2018, as restated	180,625,207	195,216,568
Reclassification to profit or loss arising from redemption and sale of AFS investments	-	(4,361,295)
Unrealized gain (loss) during the year from the following investments:		
Quoted	(107,283,041)	(13,654,205)
Unquoted	-	4,541,875
Balance at end of year (Note 16)	₱73,342,166	₱181,742,943



11. 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 operating within the Philippines.

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.

In relation to the acquisition of shares, the Parent Company shall also exert commercially reasonable efforts to direct a certain amount of additional annual recurring logistics service business to OFII for a period of five years from closing date.

The Parent Company incurred costs directly attributable to the investment amounting to ₱9.09 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 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.

The final fair 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	107,949,001
Current liabilities	(207,702,753)
Noncurrent liabilities	(33,206,763)
<u>Equity</u>	<u>366,523,175</u>
Share in equity - 30%	109,956,952
Excess of purchase price over fair value of net asset	108,873,250
Costs directly attributable to the investment	9,086,250
<u>Share of profit from March 19 to December 31, 2018</u>	<u>11,103,396</u>
<u>Carrying amount of the investment as of December 31, 2018</u>	<u>₱239,019,848</u>

The goodwill of ₱108.87 million arising from the acquisition of the investment in OFII represents the fair value of expected synergies, revenue growth and future developments that do not meet the recognition criteria for intangible assets.

The Group recognized equity in net earnings of an associate amounting to ₱11.10 million which represents the Group's share in the associate's earnings from March 19 to December 31, 2018 and is presented under "Other income (charges)" in the consolidated statements of comprehensive income. As of December 31, 2018, the investment in an associate amounted to ₱239.01 million. No impairment loss was recognized for the investment in associate in 2018.



The summarized statement of comprehensive income of the associate from March 19 to December 31, 2018 follows:

Revenue	₱726,728,915
Cost and expenses	689,717,596
Net income	37,011,319
Other comprehensive income	—
Total comprehensive income	₱37,011,319
Group's share of profit from March 19 to December 31, 2018	₱11,103,396

12. Accounts and Other Payables

This account consists of:

	2018	2017
Trade payable - outside parties	₱1,353,449,343	₱656,868,942
Trade payable - related parties (Note 17)	370,163	376,412
Accruals:		
Salaries and wages	277,249,320	248,425,003
Contracted jobs	191,243,940	121,825,685
Rent and utilities	124,727,982	90,793,364
Advertising	94,836,141	20,750,779
Claims and losses	79,870,576	26,539,218
Professional fees	24,776,017	12,917,417
Fixed assets	17,629,915	19,512,075
Taxes	16,366,752	10,933,230
Outside services	11,414,949	10,968,979
Software maintenance	9,184,268	27,169,568
Others	63,105,153	26,995,951
Deferred output VAT	300,135,756	225,681,729
Taxes payable	91,174,576	61,810,736
Contract liabilities	83,666,589	—
Government agencies contributions payables	26,136,084	23,013,633
Subscription payable	9,651,375	—
Others (Note 17)	31,180,381	18,528,014
	₱2,806,169,280	₱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 materials and supplies.

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

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



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

Government agencies contribution 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, guarantee fee payable to a related party and payables arising from expenses incurred in relation to transactions with nontrade suppliers.

13. 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 ₱543.90 million and ₱588.20 million as at December 31, 2018 and 2017, respectively (see Note 17).

14. Notes Payable

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

2018					
Bank	Date of Availment	Outstanding Balance	Maturity	Interest Rate	Terms
Banco de Oro	December 2018	₱67,000,000	April 2019	5.50%, subject to repricing	Clean; Interest payable every month, principal to be paid on maturity date
Banco de Oro	September 2018	150,000,000	March 2019	5.50%, subject to repricing	Clean; Interest payable every month, principal to be paid on maturity date
Banco de Oro	Various availments in 2016	612,500,000	Various maturities in 2018 to 2021	5.50%, subject to repricing	With mortgage; Interest payable every month, principal payable quarterly
Total		₱829,500,000			
Current portion		₱297,000,000			
Noncurrent portion		₱532,500,000			



2017					
Bank	Date of Availment	Outstanding Balance	Maturity	Interest Rate	Terms
Banco de Oro	September 2017	₱85,800,000	March 2018	4.00%, subject to repricing	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 2017 to 2021	4.00%, subject to repricing	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	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 affiliate (see Note 17).

In September 2018, the Group availed a new short-term loan amounting to ₱150.00 million payable upon maturity.

Various short-term loans availed in 2017 with BDO amounting to ₱67.00 million were rolled over and still existing as of December 31, 2018.

Interest expense amounted to ₱40.62 million, ₱55.08 million, and ₱40.10 million in 2018, 2017 and 2016, respectively.

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

15. Convertible Instrument

This account consists of:

	2018	2017
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	(454,198,052)	199,950,820
	₱1,406,175,427	₱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	159,106,145	58,810,157
Unrealized foreign exchange loss (gain)	50,577,641	(8,610,668)
Amortization of issuance cost	2,548,229	749,480
	₱1,108,417,074	₱896,185,059



On June 20, 2017, the BOD of the Parent Company approved the issuance of a convertible instrument. The proceeds of the issuance of the 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 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 Parent 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 Parent Company is in compliance with the above covenants as at December 31, 2018 and 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 17).
- 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 US \$207,652 or ₱10.80 million.
 - ii. As discussed in Note 4, the Parent Company's purchase of the entities form LBC Express Holdings USA Corporation, except for LBC Mabuhay Hawaii Corporation, were closed on January 1, 2019 upon approval by the US Regulatory bodies that oversee and/or regulates these entities.
 - 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 Parent Company by contributing to its global revenue streams. On the same date, the SPAs were executed by the Group 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.
- 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 \$461,782 or ₱24.68 million.
- v. On October 15, 2018, the Parent Company acquired the following overseas entities:
 - LBC Mabuhay Remittance Sdn. Bhd. which operates as a remittance company in Brunei. The Parent Company purchased one (1) share which represents 50% equity interest at the subscription price of US \$557,804 per share.
 - LBC Mabuhay (B) SDN BHD which operates as a cargo company in Brunei. The Parent Company acquired 50% of LBC Mabuhay (B) SDN BHD for a total purchase price of US \$225,965.
- vi. The documentation requirements for the acquisition of the remaining overseas entities are still in process.

Upon completion of the acquisitions discussed in (i) to (vi) 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 remaining overseas entities in 2019, after which the Group expects (on the basis of LBCDC's manifestations) settlement by LBCDC of all of its obligations to the Parent Company.

- c. 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. was approved by the SEC on June 14, 2018.

- d. As at report date, LBCDC has not settled its obligations to the Parent Company pending completion of acquisition of the remaining 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).



16. Equity

Capital Stock

As of December 31, 2018, 2017 and 2016, the details of the Parent Company's capital stock follow:

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

The Parent Company's track record of capital stock is as follows:

	Number of shares registered	Issue/ Offer price	Date of approval	Number of holders as of yearend
At January 1, 2015	40,899,000	₱1/share		
			July 22, October 16 and October 21, 2015	
Add: Additional issuance	1,384,966,471	₱1/share		
December 31, 2015	1,425,865,471			485
Add: Movement	—			—
December 31, 2016	1,425,865,471			485
Add: Movement	—			1
December 31, 2017	1,425,865,471			486
Add: Movement	—			1
December 31, 2018	1,425,865,471			487

Retained earnings

The unappropriated retained earnings include accumulated equity in undistributed net earnings of the consolidated subsidiaries of ₱1,058.50 million of December 31, 2018. These are not available for dividend declaration until declared by the BOD of the respective subsidiaries.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Parent Company's retained earnings available for dividend declaration as of December 31, 2018 is ₱972.31 million.

Cash dividends

On December 20, 2018, the BOD of LBCH approved the declaration of cash dividends amounting to ₱285.17 million.

On April 19, 2017 and October 11, 2016, the BOD of LBCH approved the declaration of cash dividends amounting to ₱827.00 million and ₱313.69 million, respectively.

The dividends declared in 2017 and 2016 attributable to LBCDC was settled through application against due from LBCDC as disclosed in Note 17.



Accumulated comprehensive income

Details of accumulated comprehensive income as at December 31 follow:

	2018	2017
Remeasurement gain on retirement benefit plan net of tax (Note 22)	₱166,941,704	₱145,282,651
Unrealized fair value gain on investment at FVOCI (Note 10)	74,459,902	—
Impact of adoption of PFRS 9 (Notes 2 and 10)	(1,117,736)	—
Currency translation gain	(3,742,807)	212,399
Unrealized fair value gain on AFS investments (Note 10)	—	181,742,945
	236,541,063	327,237,995
Accumulated comprehensive income (loss) attributable to:		
Controlling interest	₱241,328,367	₱326,920,319
Non-controlling interest	(₱4,787,304)	₱317,676

17. Related Party Transactions

In the normal course of business, the Group transacts with related parties consisting of its ultimate parent, LBCDC and affiliates. Affiliates include those entities in which the owners of the Group have ownership interests outside the Group. 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 as at and for the years ended December 31 are as follow:

	2018			
	Amount/Volume	Receivable (Payable)	Terms	Conditions
<u>Due from related parties (Trade receivables)</u>				
<i>Affiliates - under common control</i>				
a.) Delivery fee, management fee, financial Instant Peso Padala (IPP) fulfillment fee (Notes 6 and 25)	₱633,301,209	₱253,208,381	Noninterest-bearing; due and demandable	Unsecured, no impairment
<u>Due from related parties (Non-trade receivables)</u>				
<i>Ultimate parent company</i>				
b.) Advances	₱78,829,228	₱493,736,678	Noninterest-bearing; due and demandable	Unsecured, no impairment
<i>Affiliates - under common control</i>				
b.) Advances	5,362,674	54,937,022	Noninterest-bearing; due and demandable	Unsecured, no impairment
f) Advances for acquisition of shares	439,823,608	439,823,608	Noninterest-bearing; due and demandable	Unsecured, no impairment

Forward



2018				
	Amount/Volume	Receivable (Payable)	Terms	Conditions
<i>Officer</i>				
b.) Advances	P=	P9,284,395	Noninterest-bearing; due and demandable	Unsecured, no impairment
		P997,781,703		
<u>Due to related parties (Trade payables)</u>				
<i>Ultimate Parent Company</i>				
c.) Royalty fee (Note 12)	P=	(P370,163)	Noninterest-bearing; due and demandable	Unsecured
d.) Guarantee fee	7,142,857	-	Noninterest-bearing; due and demandable	Unsecured
		(P370,163)		
<u>Due to a related party (Non-trade payables)</u>				
<i>Affiliates - under common control</i>				
b.) Advances	P18,347,124	(P18,347,124)	Noninterest-bearing; due and demandable	Unsecured
<i>Officer</i>				
b.) Advances	P75,645,005	(P75,645,005)	Noninterest-bearing; due and demandable	Unsecured
		(P93,992,129)		
2017				
	Amount/Volume	Receivable (Payable)	Terms	Conditions
<u>Due from related parties (Trade receivables)</u>				
<i>Affiliates - under common control</i>				
a.) Delivery fee, management fee, financial Instant Peso Padala (IPP) fulfillment fee (Notes 6 and 25)	P658,034,091	P495,476,881	Noninterest-bearing; due and demandable	Unsecured, no impairment
<u>Due from related parties (Non-trade receivables)</u>				
<i>Ultimate parent company</i>				
b.) Advances	P192,251,895	P415,144,205	Noninterest-bearing; due and demandable	Unsecured, no impairment
<i>Affiliates - under common control</i>				
b.) Advances	57,857,821	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
		P667,717,635		
<u>Due to related parties (Trade payables)</u>				
<i>Ultimate Parent Company</i>				
c.) Royalty fee	P176,443,696	(P376,412)	Noninterest-bearing; due and demandable	Unsecured
d.) Guarantee fee	9,523,809	-	Noninterest-bearing; due and demandable	Unsecured
		(P376,412)		



2017				
	Amount/Volume	Receivable (Payable)	Terms	Conditions
<u>Due to a related party (Transmissions liability)</u>				
<i>Affiliate - under common control</i>				
a.) Transmissions liability (Note 13)	₱2,295,868,178	(₱77,384,306)	Noninterest-bearing; due and demandable	Unsecured
<u>Due to a related party (Non-trade payables)</u>				
<i>Affiliate - under common control</i>				
b.) Advances	₱-	(₱2,542,585)	Noninterest-bearing; due and demandable	Unsecured
<i>Ultimate Parent Company</i>				
e.) Dividends declared and payable	699,465,287	-	Noninterest-bearing; due and demandable	Unsecured
		(₱2,542,585)		

Compensation of Key Management Personnel:

	For the years ended December 31	
	2018	2017
Salaries and wages	₱148,311,625	₱116,879,294
Retirement benefits (Note 22)	17,781,850	21,063,735
Other short-term employee benefits	20,090,642	18,372,497
	₱186,184,117	₱156,315,526

- a.) In the normal course of business, the Group fulfills the delivery of balikbayan boxes, fulfillment of 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.

In prior years, the Group has outstanding advances of ₱295.00 million to LBC Development Bank, an entity under common control of LBCDC. In 2011, management assessed that these advances are not recoverable. Accordingly, the said asset was written-off from the books in 2011 (see Note 28).

- c.) Starting 2007, 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%) of the Company'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. Such licensing agreement was amended on August 4, 2017 and was subsequently discontinued effective September 4, 2017 in recognition of the Group's own contribution to the value and goodwill of the trademark.



- d.) As discussed in Note 14, 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 consolidated statements of comprehensive income amounting to ₱7.14 million and ₱9.52 million in 2018 and 2017, respectively.
- e.) On March 8, 2017, the BOD of LBCE approved the declaration of cash dividends amounting to ₱843.36 million. On June 09, 2017, through a Memorandum of Agreement, LBCDC assigned to LBCH a portion of its payable to LBCE amounting to ₱699.47 million. The same amount was offset against the dividends payable of the Company to LBCH.
- f.) 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 15, 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. On January 1, 2019, the Parent Company was granted the regulatory approvals on the purchase of the LBC Mundial Corporation and LBC Mabuhay North America Corporation. As of report date, the closing conditions are not yet met for LBC Mabuhay Hawaii Corporation.

18. Cost of Services

This account consists of:

	2018	2017	2016
Cost of delivery and remittance	₱3,900,239,963	₱2,791,389,663	₱2,202,333,121
Salaries and benefits	2,268,340,538	1,971,535,268	1,763,779,517
Utilities and supplies	995,938,157	741,527,993	661,848,568
Rent (Note 21)	735,362,813	592,537,376	513,079,995
Depreciation and amortization (Notes 8 and 9)	297,930,769	218,336,609	196,497,941
Repairs and maintenance	109,976,084	104,274,720	94,986,163
Retirement benefit expense (Note 22)	95,432,277	97,492,614	82,137,951
Transportation and travel	76,031,963	59,625,803	46,464,561
Insurance	27,801,301	23,123,645	22,953,471
Others	56,528,611	6,188,582	6,431,801
	₱8,563,582,476	₱6,606,032,273	₱5,590,513,089



19. Operating Expenses and Foreign Exchange Gains - net

This account consists of:

	2018	2017	2016
Salaries and wages	₱633,900,980	₱498,926,061	₱407,292,079
Advertising and promotion	317,301,731	169,158,792	175,801,246
Rent (Note 21)	267,514,997	239,070,492	197,940,252
Claims and losses	216,886,318	47,785,607	89,125,719
Travel and representation	191,028,402	137,903,579	101,185,071
Professional fees	188,686,108	212,871,262	157,451,239
Utilities and supplies	165,492,496	146,510,196	150,384,187
Taxes and licenses	143,541,786	115,012,736	97,586,343
Depreciation and amortization (Notes 8 and 9)	107,435,343	102,420,247	98,847,164
Provision for expected credit losses (Note 6)	80,038,709	13,179,997	15,803,621
Dues and subscriptions	64,084,638	31,281,219	3,788,386
Commission expense	50,154,725	23,213,721	20,042,764
Software maintenance costs	44,644,420	59,376,627	54,359,104
Retirement benefit expense (Note 22)	34,092,793	30,313,927	27,778,715
Insurance	23,366,371	22,448,728	22,927,207
Repairs and maintenance	5,453,651	4,878,630	5,987,934
Write-off of receivables (Note 6)	—	—	3,215,599
Royalty	—	176,443,696	195,497,630
Others	49,322,943	35,840,577	47,790,937
	₱2,582,946,411	₱2,066,636,094	₱1,872,805,197

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

Foreign exchange gains - net arises from the following:

	2018	2017	2016
Cash and cash equivalents	₱68,745,839	₱85,738,141	₱87,225,526
Advances to affiliates - net	51,327,603	18,177,223	56,008,042
Bond	50,577,641	(8,610,668)	—
Trade payable	(7,380,789)	(952,875)	—
Available for sale investments	—	(2,370,641)	—
	₱163,270,294	₱91,981,180	₱143,233,568

20. Income Taxes

Provision for income tax consists of:

	2018	2017	2016
Current	₱486,668,102	₱450,239,197	₱455,428,586
Deferred	(19,001,913)	(31,384,734)	(44,278,540)
	₱467,666,189	₱418,854,463	₱411,150,046



Details of the Group's net deferred tax assets as at December 31 follow:

	2018	2017	2016
Deferred tax assets arising from:			
Retirement benefit liability	₱197,105,840	₱215,948,504	₱212,833,851
Accrued employee benefits	47,742,542	42,241,773	34,764,344
Allowance for impairment losses	48,132,334	17,127,718	16,708,496
Deferred lease liability (Note 21)	16,512,220	12,900,573	11,062,231
NOLCO	15,117,586	236,165	209,623
Contract liabilities	11,376,223	—	—
Unrealized foreign exchange losses	—	450,104	—
MCIT	120,135	110,558	255,394
Others	9,312,542	927,312	1,043,226
	₱345,419,422	₱289,942,707	₱276,877,165
Deferred tax liabilities arising from:			
Capitalized borrowing costs	(₱209,334)	(₱418,668)	(₱628,002)
Fair Unamortized fair value adjustments arising from business combination	(19,634,690)	—	—
Unrealized foreign exchange gains	(20,285,223)	—	(1,868,793)
Others	(3,012,906)	—	—
	(43,142,153)	(418,668)	(2,496,795)
	₱302,277,269	₱289,524,039	₱274,380,370

The movements in net deferred tax asset for the years ended December 31 are as follows:

	2018	2017	2016
January 1, 2018, as previously reported	₱289,524,039	₱274,380,370	₱225,645,084
Effect of adoption of new standards (Note 2)	15,579,542	—	—
January 1, 2018, as restated	305,103,581	274,380,370	225,645,084
Charged to profit or loss	19,001,913	31,384,734	44,278,540
Applied MCIT against income tax due	(30,502)	—	(681,629)
Recorded under other comprehensive income	(9,455,033)	(16,241,065)	5,138,375
Effect of business combination	(12,342,690)	—	—
	₱302,277,269	₱289,524,039	₱274,380,370

Details of the amount of deductible/taxable temporary differences for which no deferred tax asset/liability is recognized in the statement of financial position as at December 31 are as follows:

	2018	2017
NOLCO	₱152,462,140	₱40,243,027
Unrealized foreign exchange loss - net	640,616	1,362,947
Allowance for impairment losses on:		
Receivables	8,300,642	1,890,260
Property and equipment	—	11,699,127
Inventories	—	7,145,937
Other current assets	—	798,769

Forward



	2018	2017
Deferred lease liability	3,096,873	—
Retirement benefit liability	(477,843)	—
MCIT	(2,225,493)	11,575
	₱161,796,935	₱63,151,642

As of December 31, 2018 and 2017, the NOLCO that can be claimed as deductions from future taxable income and excess MCIT over RCIT that can be credited against future tax liability follow. These NOLCO and excess of MCIT over RCIT came from LBCH and other subsidiaries.

NOLCO

2018

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2018	₱170,455,336	₱—	₱—	₱170,455,336	2021
2017	26,242,165	88,473	—	26,153,838	2020
2016	6,244,919	—	—	6,244,919	2019
2015	106,728,880	698,744	106,030,136	—	2018
	₱309,671,300	₱787,217	₱106,030,136	₱202,854,093	

2017

Year incurred	Amount	Used	Expired	Balance	Year of expiry
2017	₱26,242,165	₱—	₱—	₱26,242,165	2020
2016	6,244,919	—	—	6,244,919	2019
2015	8,543,160	—	—	8,543,160	2018
2014	1,263,257	—	1,263,257	—	2017
	₱42,293,501	₱—	₱1,263,257	₱41,030,244	

2016

Year incurred	Amount	Used	Expired	Balance	Year of expiry
2016	₱6,244,919	₱—	₱—	₱6,244,919	2019
2015	8,543,160	—	—	8,543,160	2018
2014	1,809,334	546,077	—	1,263,257	2017
2013	19,120,429	5,000,461	14,119,968	—	2016
	₱35,717,842	₱5,546,538	₱14,119,968	₱16,051,336	

MCIT

2018

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2018	₱28,504	₱—	₱—	₱28,504	2021
2017	2,237,120	—	—	2,237,120	2020
2016	110,506	30,502	—	80,004	2019
	₱2,376,130	₱30,502	₱—	₱2,345,628	



2017

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2017	₱11,627	₱-	₱-	₱11,627	2020
2016	110,506	-	-	110,506	2019
2014	147,858	-	147,858	-	2017
	₱269,991	₱-	₱147,858	₱122,133	

The reconciliation between income tax expense at the statutory rate and the actual income tax expense presented in the consolidated statements of comprehensive income for the years ended December 31 follows:

	2018	2017	2016
Income tax at the statutory income tax rate	₱545,009,174	₱338,030,954	₱397,527,237
Tax effects of items not subject to statutory rate:			
Nondeductible expense	50,699,903	78,770,504	8,804,269
Movement in unrecognized deferred tax assets	28,027,640	7,884,619	1,465,918
Expired MCIT	-	144,888	-
Expired NOLCO	31,809,041	-	4,235,990
Change to OSD of subsidiaries	(20,719,179)	-	-
Nontaxable income	(166,073,589)	(5,976,502)	(883,368)
Others	(1,086,801)	-	-
	₱467,666,189	₱418,854,463	₱411,150,046

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statement balances as of the reporting date.

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 year ended December 31, 2018, 18 of LBCE's Subsidiaries opted to use OSD in computing the current provision for income tax.



21. Lease Commitments

(a) Operating lease

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

1. Operating lease agreement covering its previous corporate office space, originally for a period of five years starting October 20, 2016 was terminated effective November 30, 2018 as mutually agreed with the lessor.
2. Operating lease agreement covering its current corporate office space for a period of five years from September 1, 2018. The lease agreement is renewable upon mutual agreement with the lessor and includes rental rate escalations during the term of the lease. The lease agreement also requires the Group to pay advance rental and security deposits.
3. Operating lease agreements covering various service centers and service points, within the Philippines and overseas where the Group operates, 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.
4. 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:

	2018	2017	2016
Cost of services (Note 18)	₱735,362,813	₱592,537,376	₱513,079,995
Operating expenses (Note 19)	267,514,997	239,070,492	197,940,252
	₱1,002,877,810	₱831,607,868	₱711,020,247

The Group maintains security deposits arising from the said operating lease agreements amounting to ₱312.43 million and ₱255.43 million as of December 31, 2018 and 2017, respectively.

The future minimum lease payments from the foregoing noncancellable operating lease agreements follow:

	2018	2017
Not later than 1 year	₱993,980,965	₱874,762,535
Later than 1 year but not later than 5 years	4,399,892,988	3,894,459,968

Deferred lease liability arising from straight line recognition of lease payments amounting to ₱61.89 million and ₱43.00 million as of December 31, 2018 and 2017, respectively, are included in the non-current portion of lease liabilities account in the 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 December 31 arising from this lease are as follows:

	2018	2017
Gross finance lease obligations		
Not later than one year	₱26,943,343	₱37,331,796
Later than 1 year but not later than 5 years	65,479,002	50,764,603
	<u>92,422,345</u>	<u>88,096,399</u>
Future finance lease charges on the finance lease		
Not later than one year	(6,672,051)	(6,640,272)
Later than 1 year but not later than 5 years	(7,573,842)	(6,734,655)
	<u>(14,245,893)</u>	<u>(13,374,927)</u>
	<u>₱78,176,452</u>	<u>₱74,721,472</u>

The present value of minimum lease payments is as follows:

	2018	2017
Not later than 1 year	₱20,271,292	₱30,691,524
Later than 1 year but not later than 5 years	57,905,160	44,029,948
	<u>₱78,176,452</u>	<u>₱74,721,472</u>

Interest expense on the above finance lease obligation charged to finance costs amounted to ₱5.42 million, ₱12.65 million and ₱23.40 million in 2018, 2017 and 2016, respectively.

22. Retirement Benefits

The entities under LBC Express, Inc. and Subsidiaries and QUADX Inc. has funded noncontributory defined benefit retirement plans covering all qualified employees. The retirement plan is intended to provide for benefit payments to employees equivalent to 25% to 130% of the employee's final monthly basic salary for every year of credited service. Benefits are paid in lump sum upon retirement or separation in accordance with the terms of the Plan. The Group updates the actuarial valuation every year by hiring the services of a third-party qualified actuary. The latest actuarial valuation report was as of reporting date.

The Retirement Plan Trustee, as appointed by the Group in the Trust Agreement executed between the Group and the duly appointed Retirement Plan Trustee, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund. The Retirement Plan Trustee may seek the advice of a counsel and appoint an investment manager or managers to manage the Retirement Fund, an independent accountant to audit the Fund and an actuary to value the Retirement Fund. The Group has no transaction either directly or indirectly through its subsidiaries or with its employees' retirement benefit fund.

Under the existing Philippine regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and



other agreements shall not be less than those provided under the law. The Group's retirement plan meets the minimum retirement benefit specified under Republic Act 7641.

For all other entities within the Group, both local and international, any qualified employee who voluntarily resigns from the service of the Group after completing at least 10 years of service, shall receive a benefit equal to a percentage of his accrued retirement benefits.



Changes in net defined benefit liability in 2018 and 2017 are as follow:

2018												
Net benefit cost in statements of comprehensive income						Remeasurements in other comprehensive income						
January 1, 2018	Effect of business combination	Current service cost	Past service costs	Net interest	Subtotal	Benefits paid from plan assets	Benefits paid by the Group	Return on demographic plan assets	Experience adjustments	Subtotal Contributions	December 31, 2018	
Present value of defined benefit obligation	P760,203,734	P5,096,164	P1,666,018	P48,995,208	P135,716,503	P60,327,054	(P654,712)	P-	P154,378,457	(P36,789,276)	P-	P803,245,359
Fair value of plan assets	(54,877,967)	(2,000,000)	-	(6,191,433)	(6,191,433)	60,327,054	-	5,712,123	-	5,712,123	(133,949,992)	(130,980,215)
Net defined benefit liability	P705,325,767	P3,096,164	1,666,018	P42,803,775	P129,525,070	P-	(P654,712)	P5,712,123	P154,378,457	(P31,077,153)	(P133,949,992)	P672,265,144
2017												
Net benefit cost in statements of comprehensive income						Remeasurements in other comprehensive income						
January 1, 2017	Current service cost	Net interest	Subtotal	Benefits paid from plan assets	Benefits paid by the Group	Return on demographic plan assets	Experience adjustments	Subtotal Contributions	December 31, 2017			
Present value of defined benefit obligation	P743,821,499	P83,223,807	P47,677,570	P130,901,377	(P11,094,950)	(P46,996,553)	P-	P17,706,715	(P74,134,354)	(P56,427,639)	P-	P760,203,734
Fair value of plan assets	(22,794,838)	-	(3,094,836)	(3,094,836)	11,094,950	-	2,290,757	-	-	2,290,757	(42,374,000)	(54,877,967)
Net defined benefit liability	P721,026,661	P83,223,807	P44,582,734	P127,806,541	P-	(P46,996,553)	P2,290,757	P17,706,715	(P74,134,354)	(P54,136,882)	(P42,374,000)	P705,325,167



The major categories of the Group's plan assets follow:

	2018	2017
Cash and cash equivalents	₱69,060,537	₱25,101,182
Equity instruments	3,422,043	2,277,436
Debt instruments:		
Government bonds	60,200,262	26,736,546
Other bonds	1,896,351	1,421,339
Others	(3,598,978)	(658,536)
	₱130,980,215	₱54,877,967

All equity and debt instruments held have quoted prices in active market.

The equity instruments are investment in stocks of a holding company of a conglomerate listed in the Philippines stock market engaged in various businesses.

The Retirement Trust Fund assets are valued by the fund manager at fair value using the mark-to-market valuation.

The Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund are at the Group's discretion. However, in the event a benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable by the Group to the Retirement Fund.

The Retirement Plan Trustee monitors regularly the status of the plan assets and liabilities to ensure availability of funds upon retirement of personnel.

The Group expects to contribute ₱128.40 million to the retirement plan in 2019. The retirement plan does not have a formal funding policy. The funding requirement is mainly driven by the availability of excess fund from the Group's operations.

The movement in actuarial gain recognized in other comprehensive income follows:

	2018	2017	2016
Beginning of year	(₱207,546,644)	(₱153,409,762)	(₱170,537,671)
Actuarial loss (gain) from defined benefit obligation	(36,789,276)	(56,427,639)	16,368,951
Plan asset remeasurement loss	5,712,123	2,290,757	758,958
End of year, gross	(238,623,797)	(207,546,644)	(153,409,762)
Deferred tax liability	71,682,093	62,263,993	46,022,929
	(₱166,941,704)	(₱145,282,651)	(₱107,386,833)

The principal assumptions used in determining retirement for the defined benefit plans are shown below:

	2018	2017	2016
Discount rate	4.10% to 8.47%	5.86% to 5.99%	5.77% to 6.20%
Salary increase	5.00%	5.00%	5.00%



Discount rate

The discount rate is determined by reference to market yields at the end of the reporting period based on high quality bonds with currency and term similar to the estimated term of the benefit obligation. There is no deep market in high quality corporate bonds in the Philippines and therefore, the Group used as reference the yields in long-term Philippine Treasury Bonds and adjusted to reflect the term similar to the estimated term of the benefit obligation as determined by the actuary.

Salary increase

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increase comprises of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Demographic assumptions

Assumptions regarding mortality experience are set based on published statistics and experience in the Philippines.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit liability as of the end of reporting date, assuming if all other assumptions were held constant.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which change other than those assumed may be deemed to be more reasonable.

		2018	2017
	Increase (decrease)	Net defined benefit liability	Net defined benefit liability
Discount rate	+1.00%	(P69,736,582)	(P80,215,705)
	-1.00%	86,230,575	94,741,834
Salary increase	+1.00%	88,020,831	86,389,537
	-1.00%	(76,617,155)	(74,820,303)

The weighted average duration of the defined benefit obligation at the end of the reporting period is 11.07 years.

Shown below is the maturity analysis of retirement benefit payments up to ten years:

	2018	2017
Less than 1 year	P71,301,366	P54,235,190
More than 1 year to 5 years	324,908,578	255,728,891
More than 5 years to 10 years	560,811,225	440,294,461
	<u>P957,021,169</u>	<u>P750,258,542</u>



23. Financial Risk Management Objectives and Policies

The Group has various financial assets such as cash and cash equivalents, restricted cash, trade and other receivables (excluding advances to officers and employees), due from related parties, financial assets at FVPL, financial assets at FVOCI, and 'short-term investments' under other current assets.

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

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 total comprehensive income should the change in the close share price of quoted and unquoted equity securities occur as of December 31, 2018 and 2017 with all other variables held constant.

	Effect on total comprehensive income	
	2018	2017
Change in share price		
+5.00%	₱16,872,696	₱22,236,848
-5.00%	(16,872,696)	(22,236,848)
Change in NAV		
+5.00%	₱5,587,405	₱22,038,175
-5.00%	(5,587,405)	(22,038,175)

The Group is also exposed to equity price risk in the fair valuation 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 December 31, 2018 and 2017 with all other variables held constant.

	Effect on net income	
	2018	2017
Change in share price		
Increase by 5%	₱125,524,123	₱106,563,899
Decrease by 5%	(125,524,123)	(217,826,174)



Interest rate risk and credit spread sensitivity analysis

Except for the credit spread used in the valuation of the convertible redeemable bond, the Group's exposure to the risk of changes in market interest rate relates primarily to its notes payable that are subject to repricing. The Group regularly monitors its interest rate exposure in interest rates movements. Management minimizes its interest rate risk by resorting to short-term financing, as needed and believes that cash generated from normal operations are sufficient to pay its obligation as they fall due.

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	
	2018	2017
Credit spread +1%	₱58,315,936	(₱2,616,426)
Credit spread -1%	(63,189,129)	(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 and unit investment trust fund 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.

The following summarizes the maturity profile of the Group's financial assets based on remaining contractual undiscounted collections:

	2018		Total
	Due in less than one year	Due in more than one year	
Cash and cash equivalents			
Cash in bank	₱2,122,353,939	₱—	₱2,122,353,939
Cash equivalents	1,656,378,862	—	1,656,378,862
Receivables			
Trade	1,700,612,537	—	1,700,612,537
Others	62,044,315	—	62,044,315
Due from related parties	557,958,095	—	557,958,095
FVOCI	—	337,453,928	337,453,928
FVPL	131,294,744	—	131,294,744
	₱6,230,642,492	₱337,453,928	₱6,568,096,420



	2017		Total
	Due in less than one year	Due in more than one year	
Cash and cash equivalents			
Cash on hand	P264,057,974	P—	P264,057,974
Cash in bank	1,103,336,745	—	1,103,336,745
Cash equivalents	2,411,013,773	—	2,411,013,773
Receivables			
Trade	1,684,871,031	—	1,684,871,031
Others	18,596,026	—	18,596,026
Due from related parties	667,717,635	—	667,717,635
Available-for-sale investments			
Quoted	—	444,736,969	444,736,969
Unquoted	440,763,495	—	440,763,495
Short-term investments	11,326,492	—	11,326,492
	P6,601,683,171	P444,736,969	P7,046,420,140

Except as indicated, the Group's financial liabilities based on undiscounted cash flows as shown below are due and expected to be paid within 12 months after the reporting period, which is the earlier of the contractual maturity date or the expected settlement date:

	2018		Total
	Due in less than one year	Due in more than one year	
Accounts payable and accrued expenses			
Trade payable	P1,353,819,506	P—	P1,353,819,506
Accruals	894,038,261	—	894,038,261
Others	31,180,381	—	31,180,381
Due to related parties	93,992,129	—	93,992,129
Notes payable	297,000,000	532,500,000	829,500,000
Transmissions liability	543,895,836	—	543,895,836
Derivative liability	—	1,406,175,427	1,406,175,427
Bond payable	—	1,108,417,074	1,108,417,074
Lease liabilities	20,271,292	57,905,160	78,176,452
Other noncurrent liabilities	—	79,986,182	79,986,182
	P3,234,197,405	P3,184,983,843	P6,419,181,248

	2017		Total
	Due in less than one year	Due in more than one year	
Accounts payable and accrued expenses			
Trade payable	P657,245,354	P—	P657,245,354
Accruals	605,898,038	—	605,898,038
Others	18,528,015	—	18,528,015
Due to a related party	2,542,585	—	2,542,585
Notes payable	440,050,000	601,250,000	1,041,300,000
Transmissions liability	588,203,656	—	588,203,656
Derivative liability	—	1,860,373,479	1,860,373,479
Bond payable	—	896,185,059	896,185,059
Lease liabilities	30,691,524	44,029,948	74,721,472
Other noncurrent liabilities	—	118,327,055	118,327,055
	P2,343,159,172	P3,520,165,541	P5,863,324,713



Notes payable and lease liabilities include future interest payments.

Payable to government agencies, including accrued taxes and taxes payable amounting to ₱433.81 million and ₱321.43 million as at December 31, 2018 and 2017, respectively, are considered nonfinancial liabilities (see Note 12).

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 and its ultimate parent company 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), Australian Dollar (AUD), Taiwanese Dollar (TWD), US Dollar (USD), Japanese Yen (JPY) and Great British Pound (GBP). 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 'bond payable', respectively, assets and liabilities related to convertible instrument in the consolidated statements of financial position and their Philippine Peso equivalents follow:

	2018	
	Foreign currency	Peso equivalent
Assets:		
Euro	2,960,871	₱177,119,303
Hongkong Dollars	16,166,668	108,640,009
US Dollars	4,895,355	257,544,627
Japanese yen	13,106,738	6,029,099
Canadian dollar	872	34,584

Liabilities:		
US Dollars	(21,213,491)	(1,118,460,095)

The translation exchange rates used were ₱59.82 to EUR 1, ₱6.72 to HKD 1, ₱52.61 to USD 1, ₱0.46 to JPY 1 and ₱39.66 to CAD 1 in 2018.

	2017	
	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

Liabilities:		
US Dollars	(18,189,640)	(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) as at December 31, 2018 and 2017.

Reasonably possible change in foreign exchange rate for every two units of Philippine Peso	Increase (decrease) in income before tax	
	2018	2017
₱2	₱31,834,026	₱116,945,908
(2)	(31,834,026)	(116,945,908)

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 foreign currency exchange rates.

The Group recognized ₱163.27 million, ₱91.98 million and ₱143.23 million foreign exchange gains - net, for the years ended December 31, 2018, 2017 and 2016, respectively, arising from settled transactions and translation of the Group's cash and cash equivalents, trade receivables, 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.

As of December 31, 2018 and 2017, the credit quality per class of financial assets is as follows:

	2018				Total
	Neither Past Due nor Impaired			Past due and/or Individually Impaired	
	High Grade	Standard	Substandard Grade		
Cash in banks and cash equivalents	₱3,778,732,801	₱—	₱—	₱—	₱3,778,732,801
Trade and other receivables	1,499,339,604	—	—	263,317,248	1,762,656,852
Due from related parties	557,958,095	—	—	—	557,958,095
	₱5,836,030,500	₱—	₱—	₱263,317,248	₱6,099,347,748



	2017				Total
	Neither Past Due nor Impaired			Past due and/or Individually Impaired	
	High Grade	Standard	Substandard Grade		
Cash in banks and cash equivalents	₱3,514,350,518	₱—	₱—	₱—	₱3,514,350,518
Trade and other receivables	1,555,860,432	—	—	147,606,625	1,703,467,057
Due from related parties	667,717,635	—	—	—	667,717,635
Short-term investment	11,326,492	—	—	—	11,326,492
	₱5,749,255,077	₱—	₱—	₱147,606,625	₱5,896,861,702

The Group's basis in grading its receivables are as follow:

High grade - these are receivables which have a high probability of collection (i.e., the counterparty has the apparent ability to satisfy its obligation and the security on receivables readily enforceable).

Standard - these are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but have been outstanding for a certain period of time.

Substandard - these are receivables that can be collected provided the Group makes persistent effort to collect them.

Cash in banks and cash equivalents are deposited/placed in banks that are stable as they qualify either as universal or commercial banks. Universal and commercial banks represent the largest single group, resource-wide, of financial institutions in the country the Group is operating. They offer the widest variety of banking services among financial institutions. These financial assets are classified as high grade due to the counterparties' low probability of insolvency.

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

December 31, 2018	GDP growth rate	Associated ECL on trade receivables
Base case (33%)	6.30%	₱51,431,426
Upside case (33%)	9.30%	51,314,974
Downside case (33%)	3.30%	51,547,879
		₱154,294,279

January 1, 2018	GDP growth rate	Associated ECL on trade receivables
Base case (33%)	12.00%	₱24,019,548
Upside case (33%)	15.00%	23,923,006
Downside case (33%)	9.00%	24,116,091
		₱72,058,645

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

	2018				Impaired Financial Assets	Total
	Past Due but not Impaired					
	1 to 30 days	31 to 90 days	Over 90 days			
Trade and other receivables	₱57,730,537	₱13,539,644	₱37,752,788	₱154,294,279	₱263,317,248	



	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

There are no collaterals held by the Group with respect to trade receivables that have been identified as past due but not impaired.

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 consolidated statements of financial position at December 31, 2018 and 2017 amounting to ₱3,277.68 million and ₱2,365.47 million, respectively.

24. Fair Values and Offsetting Arrangements

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, dividends payable, transmissions liability, and the current portion of notes payable and lease liabilities approximate their fair value because these financial instruments are relatively short-term in nature.

The fair value of financial assets at FVOCI is the current closing price while the financial asset at FVPL 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 is based on the discounted value of future cash flow using applicable rates ranging from 5.10% to 6.97% in 2018 and 2.05% to 5.01% in 2017.

The fair value of the long-term portion of lease liabilities is based on the discounted value of future cash flow using applicable interest rates ranging from 5.10% to 6.97% in 2018 and 2.05% to 5.07% in 2017.

The estimated fair value of derivative liability as at December 31, 2018 is based on an indirect method of valuing multiple embedded derivatives. This valuation technique using binomial pyramid model uses 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 16.22% in 2018. A 5% increase (5% decrease) in the stock price volatility would decrease by ₱1,890 (increase by ₱756



million) the fair value of the derivative liability.

The plain bond is determined by discounting the cash flows, which is simply the principal at maturity, using 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 is based on the discounted value of future cash flow using applicable rate of 5.10% to 6.94% in 2018 and 2.05% to 5.09% in 2017.

Except for the fair values of financial asset at FVOCI which are classified as Level 1, the discounting used inputs such as cash flows, discount rates and other market data, hence are classified as Level 3.

The financial asset at FVPL is under the Level 2 category.

Fair Value Hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Except for the fair values of financial asset at FVOCI which are classified as Level 1, the discounting used inputs such as cash flows, discount rates and other market data, hence are classified as Level 3.

The financial asset at FVPL is under the Level 2 category.

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

	2018				
	Carrying values	Fair value measurements using			
		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					
FVOCI	₱337,453,928	₱337,453,928	₱337,453,928	₱-	₱-
FVPL	131,294,744	131,294,744	-	131,294,744	-
Liability measured at fair value					
Derivative liability	1,406,175,427	1,406,175,427	-	-	1,406,175,427
Liabilities for which fair value are disclosed					
Bond payable	1,108,417,074	1,104,307,001	-	-	1,104,307,001
Long-term notes payable	532,500,000	508,026,630	-	-	508,026,630
Noncurrent lease liabilities	57,905,160	53,043,481	-	-	53,043,481
Other noncurrent liabilities	79,986,182	71,378,284	-	-	71,378,284



	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	896,185,059	–	–	896,185,059
Long-term notes payable	601,250,000	595,948,585	–	–	614,312,040
Noncurrent lease liabilities	44,029,948	42,516,461	–	–	93,766,512
Other noncurrent liabilities	118,327,055	105,729,641	–	–	136,075,877

For the years ended December 31, 2018 and 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.

Offsetting of Financial Instruments

The following table represents the recognized financial instruments that are offset as of December 31, 2017 and shows in the 'Net' column what the net impact would be on the Group's consolidated statements of financial position as a result of the offsetting rights.

	December 31, 2017		
	Gross Amount	Offsetting	Net Amount
Due from related parties	P1,367,182,922	P–	P1,367,182,922
Dividends payable	–	(699,465,287)	(699,465,287)
	P1,367,182,922	(P699,465,287)	P667,717,635

The Parent Company's dividends payable to LBCDC has been offset against due from LBCDC. The Parent Company and LBCDC have the intention of settling on a net basis.

25. 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 Group has no significant customer which contributes 10.00% or more to the revenue of the Group.

Set out below is the disaggregation of the Group's revenue from contracts with customers:

For the year ended December 31, 2018			
Segments	Logistics	Money transfer services	Total
Type of Customer			
Retail	₱7,186,362,654	₱859,566,586	₱8,045,929,240
Corporate	4,365,107,358	103,140,966	4,468,248,324
Total revenue from contracts with customer	₱11,551,470,012	₱962,707,552	₱12,514,177,564
Geographic Markets			
Domestic	₱9,498,757,018	₱799,485,028	₱10,298,242,046
Overseas	2,052,712,994	163,222,524	2,215,935,518
Total revenue from contracts with customer	₱11,551,470,012	₱962,707,552	₱12,514,177,564

For the year ended December 31, 2017			
Segments	Logistics	Money transfer services	Total
Type of Customer			
Retail	₱5,751,655,749	₱995,471,285	₱6,747,127,034
Corporate	3,229,513,847	43,475,605	3,272,989,452
Total revenue from contracts with customer	₱8,981,169,596	₱1,038,946,890	₱10,020,116,486
Geographic Markets			
Domestic	₱7,524,553,633	₱907,122,704	₱8,431,676,337
Overseas	1,456,615,963	131,824,186	1,588,440,149
Total revenue from contracts with customer	₱8,981,169,596	₱1,038,946,890	₱10,020,116,486

For the year ended December 31, 2016			
Segments	Logistics	Money transfer services	Total
Type of Customer			
Retail	₱4,964,000,749	₱1,122,590,810	₱6,086,591,559
Corporate	2,557,865,998	50,945,065	2,608,811,063
Total revenue from contracts with customer	₱7,521,866,747	₱1,173,535,875	₱8,695,402,622
Geographic Markets			
Domestic	₱6,249,923,147	₱1,058,448,930	₱7,308,372,077
Overseas	1,271,943,600	115,086,945	1,387,030,545
Total revenue from contracts with customer	₱7,521,866,747	₱1,173,535,875	₱8,695,402,622

The Group disaggregates its revenue information in the same manner as it reports its segment information.

The revenue of the Group consists mainly of sales to external customers. Revenue arising from service fees charged to affiliates amounted to ₱633.30 million, ₱658.03 million and ₱400.29 million in 2018, 2017 and 2016, respectively.



Seasonality of Operation

The Group's operation experiences 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 holiday season.

26. Note to Consolidated Statement of Cash Flows

In 2018, the Group has the following non-cash transactions under:

Investing Activities

- Fair value adjustment of intangible assets amounting to ₱81.25 million arising from the result of business combination
- Unpaid acquisitions of property and equipment and intangible assets amounting to ₱151.17 million and ₱12.66 million, respectively
- Acquisition of investments in QUADX Inc. through the conversion of assigned advances to equity recorded under 'Due from related parties' amounting to ₱186.02 million

Financing Activities

Details of the movement in cash flows from financing activities are as follows:

	December 31, 2017	Cash Flows	Leasing arrangements	Interest	Dividends declared	Foreign exchange movement	Fair value changes	Effect of business combination (Note 4)	December 31, 2018
Notes payable	₱1,041,300,000	(₱211,800,000)	₱-	₱-	₱-	₱-	₱-	₱-	₱829,500,000
Lease and other non-current liabilities	236,050,436	(69,751,123)	26,569,188	--	-	-	-	6,915,423	199,783,924
Convertible bond (bond and derivative liability)	2,756,558,538	-	-	161,654,374	-	50,577,641	(454,198,052)*	-	2,514,592,501
Dividends payable	-	-	-	-	285,173,094	-	-	-	285,173,094
Interest payable	1,655,549	(62,327,013)	-	62,241,624	-	-	-	-	1,570,160
Due to related parties	2,542,585	(128,178,571)	-	-	-	-	-	219,628,115	93,992,129
Total liabilities from financing activities	₱4,036,451,559	(₱472,056,707)	₱26,569,188	₱223,895,998	₱285,173,094	₱50,577,641	(₱454,198,052)	₱226,543,538	₱3,924,611,808

*Relates to fair value changes of derivative liability

In 2017, the Group has the following non-cash transactions under:

Investing Activities

- Unpaid acquisitions of property and equipment amounting to ₱60.75 million during the year.
- Offsetting of due from LBCDC against dividends payable amounting to ₱265.31 million recorded under 'Due from related parties'.

Financing Activities

Details of the movement in cash flows from financing activities are as follows:

	December 31, 2016	Cash Flows	Leasing arrangements	Interest	Dividends declared	Offsetting of dividends	Foreign exchange movement	Fair value changes	December 31, 2017
Notes payable	₱1,359,215,500	(₱317,915,500)	₱-	₱-	₱-	₱-	₱-	₱-	₱1,041,300,000
Lease and other non-current liabilities	158,546,524	(45,924,991)	123,428,903	-	-	-	-	-	236,050,436
Convertible bond (bond and derivative liability)	-	2,505,658,750	-	59,559,636	-	-	(8,610,668)	199,950,820*	2,756,558,538
Dividends payable	-	(127,536,686)	-	-	827,001,973	(699,465,287)	-	-	-
Interest payable	-	(75,601,767)	-	77,257,316	-	-	-	-	1,655,549
Due to related parties	18,254,029	(15,711,444)	-	-	-	-	-	-	2,542,585
Total liabilities from financing activities	₱1,536,016,053	₱1,922,968,362	₱123,428,903	₱136,816,952	₱827,001,973	(₱699,465,287)	(₱8,610,668)	₱199,950,820	₱4,038,107,108

*Relates to fair value changes of derivative liability



Reclassifications

The Group made certain reclassifications to the consolidated statements of cash flows for 2017 and 2016 to align with 2018 classification. Movements in other noncurrent assets were transferred to operating activities from investing activities. Below is the summary of movements:

	December 31, 2017		
	Previous balance	Reclassification	Revised balance
Net cash flows provided by (used in):			
Operating activities	₱1,399,293,960	(₱13,014,373)	₱1,386,279,587
Investing activities	(847,567,901)	13,014,373	(834,553,528)

	December 31, 2016		
	Previous balance	Reclassification	Revised balance
Net cash flows provided by (used in):			
Operating activities	₱808,914,616	(₱8,344,513)	₱800,570,103
Investing activities	(611,350,322)	8,344,513	(603,005,809)

27. 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:

	2018	2017	2016
Net income attributable to equity holder of the Parent Company	₱1,359,766,592	₱703,876,073	₱921,605,612
Less profit impact of assumed conversion of bonds payable	(257,139,329)	—	—
	₱1,102,627,263	₱703,876,073	₱921,605,612
Weighted average number of common shares outstanding	1,425,865,471	1,425,865,471	1,425,865,471
Dilutive shares arising from convertible debt	202,784,615	—	—
Adjusted weighted average number of common shares for diluted EPS	1,628,650,086	1,425,865,471	1,425,865,471
Basic EPS	₱0.95	₱0.49	₱0.65
Diluted EPS	₱0.68	₱0.49	₱0.65

In 2017, the conversion of convertible debt has an anti-dilutive effect due to its loss impact to the net income attributable to equity holder of the Parent Company. As such, for 2017, the diluted EPS is the same as the basic EPS.



28. 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.

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.

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 raffled to a new judge.

On or about September 3, 2018, PDIC motions to issue alias summons to five individual defendants, who were former officers and directors of LBC Bank. For reasons not explained by PDIC, it had failed to cause the service of summons upon five of the individual defendants and hence, the court had not acquired jurisdiction over them.

On October 26, 2018, the Motion to Defer Pre-Trial scheduled on November 15, 2018 was filed because the PDIC was still trying to serve summons on the five individual defendants and thus, for orderly proceedings, pre-trial should be deferred until the court acquires jurisdiction over them.

At the hearing held on November 9, 2018, which the PDIC did not attend, the judge directed PDIC's counsel to coordinate with the Sheriff and cause the service of summons promptly. The judge then rescheduled the pre-trial to January 23, 2019. On November 21, 2018, comment from the PDIC was received, arguing that pre-trial can proceed, even without the presence of the five individuals because there are merely necessary parties to the case, and not indispensable parties.

As of early January 2019, the alias summons was served on only two of the individual defendants, in which they filed Motion to Dismiss on November 2018 and January 2019. The PDIC filed its comments thereto and both Motions to Dismiss were deemed submitted for resolution.

On January 18, 2019, PDIC filed a Pre-Trial Brief. LBCE and the other defendants, on January 21, 2019, filed a Motion, asking the RTC to direct the PDIC to explain in writing its compliance with the previous order to cause the service of summons on the remaining five individual defendants and to defer pre-trial until the court has acquired jurisdiction over them.

On January 23, 2019, the judge ordered the PDIC to file its comment to the Motion and rescheduled the pre-trial to February 21, 2019.



The PDIC filed a Comment with Motion to Declare Defendants in Default, arguing that the pre-trial should proceed and that the current defendants are just delaying the proceedings. The PDIC also explained its efforts to serve summons on the five individuals but admitted that it had only served summons of two of the individual defendants. The PDIC also stated that it is filing another motion for the issuance of another round of alias summons for the three remaining defendants.

On February 4, 2019, a Reply was filed arguing that: (a) the PDIC never explained the three-year delay in serving summons on the other defendants, (b) it is the PDIC's omission which have made the proceedings disorderly because not all of the defendants are at the pre-trial state, and (c) to avoid complications, the pre-trial should be deferred until the court has acquired jurisdiction over all defendants.

The court conducted a hearing on February 1, 2019 on the Motion to Declare Defendants in Default and granted time to submit comment thereto. A comment opposition was filed on February 11, 2019, arguing that there is no basis to consider the current defendants in default because they are appearing at every hearing and that there are pending motions citing just and valid reasons to defer pre-trial, considering that summons are still being served on some defendants. Emphasis was given in particular that once jurisdiction is acquired over individual defendants, they will file their own answers, raising their own defenses, which should be considered at pre-trial. Also, it is mandatory to refer them to mediation and JDR for possible amicable settlement of the entire case. Even if mediation and JDR fail, the current judge is required by procedural rules to raffle the case to another branch so that his judgment is not influenced by matters discussed during JDR.

On February 18, 2019, a Pre-Trial Brief was filed by LBCE and the other defendants, without prejudice to the defendants' pending motions to defer Pre-Trial.

At the hearing scheduled on February 21, 2019, the judge took note of all the pending motions and said that they are deemed submitted for resolution. In the meantime, the judge directed the parties to perform a pre-marking of all their documentary exhibits before the clerk of court. The judge then rescheduled Pre-Trial to March 28, 2019.

The PDIC has pre-marked its evidence during pre-marking conferences held on March 6 and 11, 2019. LBCE started pre-marking its evidence on March 22, 2019 and will continue on April 10, 11, and 24, 2019.

LBCE was informed by the court staff that due to the order of Executive Judge for court records inventory and disposal, the pre-trial scheduled for March 28, 2019 will be reset to May 2, 2019.

On March 6, 2019, LBCE and LBCDC received a copy of the Court of Appeals' Decision dated February 28, 2019, denying the Petition for Certiorari. The Court of Appeals ruled that the RTC correctly denied the motion to dismiss the civil case because the PDIC representative was sufficiently authorized to sign the verification and the PDIC does not need to secure prior approval of the liquidation court to file the case.

LBCE and LBCDC filed a motion for reconsideration last March 21, 2019, which is currently pending.

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.



29. Subsequent Events

On February 8, 2019, through a Memorandum of Agreement, LBCDC assigned to LBCH a portion of its payable to LBCE amounting to ₱229.37 million. The same amount was offset against the dividends payable of the Company to LBCH.

As discussed in Note 4, the regulatory approval of US government for the purchase of LBC Mundial Corporation and LBC Mabuhay North America Corporation was granted to the Parent Company effective January 1, 2019.

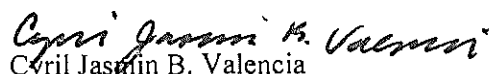


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
LBC Express Holdings, Inc. and Subsidiaries
LBC Hangar, General Aviation Centre
Domestic Airport Road
Pasay City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LBC Express Holdings, Inc. and its Subsidiaries (the Group) as at and for the years ended December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, included in this Form 17-A, and have issued our report thereon dated April 12, 2019. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule No. 68, As Amended (2011) and are not part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Cyril Jasmin B. Valencia

Partner

CPA Certificate No. 90787

SEC Accreditation No. 1737-A (Group A),

January 24, 2019, valid until January 23, 2022

Tax Identification No. 162-410-623

BIR Accreditation No. 08-001998-74-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 7332622, January 3, 2019, Makati City

April 12, 2019



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

SUPPLEMENTARY SCHEDULES

- Report of Independent Auditors' on 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

DECEMBER 31, 2018

Name of issuing entity and association of each issue	Number of shares	Amount shown in the balance sheet	Income received and accrued
Financial assets at fair value through other comprehensive income - Araneta Properties, Inc.	195,060,074	P337,453,928	P-
Financial assets at fair value through profit or loss	-	131,294,744	15,985,277
		468,748,672	15,985,277
Financial assets at amortized costs:			
Cash in bank and cash equivalents	-	3,778,732,801	33,252,327
Trade and other receivables	-	1,762,656,852	-
Due from related parties	-	557,958,095	-
	-	6,099,347,748	33,252,327
		P6,568,096,420	P49,237,604

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE B: AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDER (OTHER THAN RELATED PARTIES)
DECEMBER 31, 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	P-	P-	P-	P9,284,395	P-	P9,284,395

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE C: AMOUNTS RECEIVABLES/PAYABLES FROM/TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2018

Name of Subsidiaries	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Amounts offset*	Current	Not current	Balance at end of period
LBC Express, Inc.	(P38,487,662)	(P3,712,662,097)	P1,932,864,261	P-	368,579,963	(P1,449,705,535)	P-	(P1,449,705,535)
LBC Express, Inc. - MM	133,322,317	259,401,982	(254,709,233)	-	(49,155,123)	88,859,943	-	88,859,943
LBC Express, Inc. - SCC	22,493,362	178,184,316	(175,326,940)	-	(23,315,859)	2,034,879	-	2,034,879
LBC Express, Inc. - NEMM	34,979,141	154,200,474	(147,407,904)	-	(18,213,975)	23,557,736	-	23,557,736
LBC Express, Inc. - NWM	47,432,768	145,671,006	(139,533,811)	-	(20,540,316)	33,029,647	-	33,029,647
LBC Express, Inc. - EMM	26,461,044	94,521,809	(88,285,111)	-	(11,920,308)	20,777,434	-	20,777,434
LBC Express, Inc. - SMM	27,516,332	145,731,108	(140,884,169)	-	(16,695,017)	15,668,254	-	15,668,254
LBC Express, Inc. - CMM	26,582,251	132,309,423	(125,669,382)	-	(15,167,065)	18,055,227	-	18,055,227
LBC Express, Inc. - SL	81,251,411	259,610,026	(254,683,279)	-	(30,727,509)	55,450,649	-	55,450,649
LBC Express, Inc. - SEL	58,859,198	185,451,938	(179,422,107)	-	(24,563,654)	40,325,375	-	40,325,375
LBC Express, Inc. - CL	39,892,710	205,288,540	(194,507,930)	-	(22,204,517)	28,468,803	-	28,468,803
LBC Express, Inc. - NL	47,966,217	197,249,678	(183,918,291)	-	(23,063,045)	38,234,559	-	38,234,559
LBC Express, Inc. - VIS	86,792,511	253,407,925	(263,155,543)	-	(36,789,755)	40,255,138	-	40,255,138
LBC Express, Inc. - WV	54,659,933	176,117,285	(177,407,030)	-	(23,120,007)	30,250,181	-	30,250,181
LBC Express, Inc. - MIN	64,566,140	206,326,237	(196,205,375)	-	(27,109,360)	47,577,642	-	47,577,642
LBC Express, Inc. - SEM	47,994,555	129,665,134	(122,217,172)	-	(19,618,061)	35,824,456	-	35,824,456
South Mindanao Courier Co. Inc.	(36,740,043)	37,476,192	15,309,236	-	(6,376,392)	9,668,993	-	9,668,993
LBC Express Corporate Solutions, Inc.	(3,952,627)	17,207,553	(16,962,875)	-	-	(3,707,949)	-	(3,707,949)
LBC Express, Inc. - SCS	(335,509)	217,499,557	(222,669,742)	-	-	(5,505,694)	-	(5,505,694)
LBC Systems, Inc.	(64,489,250)	14,556,949	(8,024,670)	-	-	(57,956,971)	-	(57,956,971)
LBC Express WLL	2,596,111	(58,519,079)	67,881,059	-	-	11,958,091	-	11,958,091
LBC Express Bahrain WLL	(41,947,170)	(5,088,596)	39,451,836	-	-	(7,583,930)	-	(7,583,930)
LBC Express LLC	(65,995,250)	(13,152,012)	4,421,013	-	-	(74,726,249)	-	(74,726,249)
LBC Mabuhay Saipan, Inc.	-	(33,435,692)	25,471,393	-	-	(7,964,299)	-	(7,964,299)
LBC Aircargo (S) Pte. Ltd	-	(114,297,513)	(30,399,028)	-	-	(144,696,541)	-	(144,696,541)
LBC Money Transfer PTY Limited	-	(49,389,019)	(16,022,321)	-	-	(65,411,340)	-	(65,411,340)
LBC Airfreight (S) Pte. Ltd	-	83,273,072	7,282,270	-	-	90,555,342	-	90,555,342
LBC Australia PTY Limited	-	(806,223)	17,232,404	-	-	16,426,181	-	16,426,181
LBC Mabuhay (Malaysia) SDN BHD	-	5,977,767	3,959,175	-	-	9,936,942	-	9,936,942
LBC Mabuhay (B) SDN BHD	-	27,534,438	(2,637,030)	-	-	24,897,408	-	24,897,408
LBC Mabuhay Remittance SDN BHD	-	14,301,860	1,975,960	-	-	16,277,820	-	16,277,820
QUADIX Inc.	-	(631,535,394)	130,408,206	-	-	(501,127,188)	-	(501,127,188)
QuadX Pte Ltd.	-	23,794,146	(36,173,311)	-	-	(12,379,165)	-	(12,379,165)
	P551,418,490	(P1,454,127,210)	(P729,965,437)	P-	P-	(P1,632,674,161)	P-	(P1,632,674,161)

* On November 28, 2018, through offsetting agreements, the cash dividends declared by the local subsidiaries were applied against the outstanding payables of LBCE to its subsidiaries.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE D: INTANGIBLE ASSETS

DECEMBER 31, 2018

Description	Beginning balance	Additions at cost	Charged to costs and expenses	Disposals	Reclassifications	Ending balance
Software	₱352,310,011	₱159,948,327	(₱93,606,407)	₱-	₱4,200,000	₱422,851,931
Development in progress	4,540,000	132,177,725	-	-	(4,200,000)	132,517,725
	₱356,850,011	₱292,126,052	(₱93,606,407)	₱-	₱-	₱555,369,656

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE E: LONG TERM DEBT

DECEMBER 31, 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	P829,500,000	P297,000,000	P532,500,000
Obligation under finance lease	78,176,452	20,271,292	57,905,160
Bond payable	1,108,417,074	-	1,108,417,074
Derivative liability	1,406,175,427	-	1,406,175,427
Other liabilities	131,549,113	51,562,931	79,986,182
	P3,553,818,066	P368,834,223	P3,184,983,843

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE F: INDEBTEDNESS TO RELATED PARTIES
DECEMBER 31, 2018

Name of related party	Balance at beginning of period	Balance at end of period
Fernando G. Araneta, <i>Chief Strategy Officer</i>	P-	P75,645,005
Blue Eagle and LBC Services Pte. Ltd.	-	13,592,157
Others	2,542,585	4,754,967
	P2,542,585	P93,992,129

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

**SCHEDULE G: GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2017**

Name of issuing entity of securities guaranteed by the company for which this statements 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
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NOT APPLICABLE

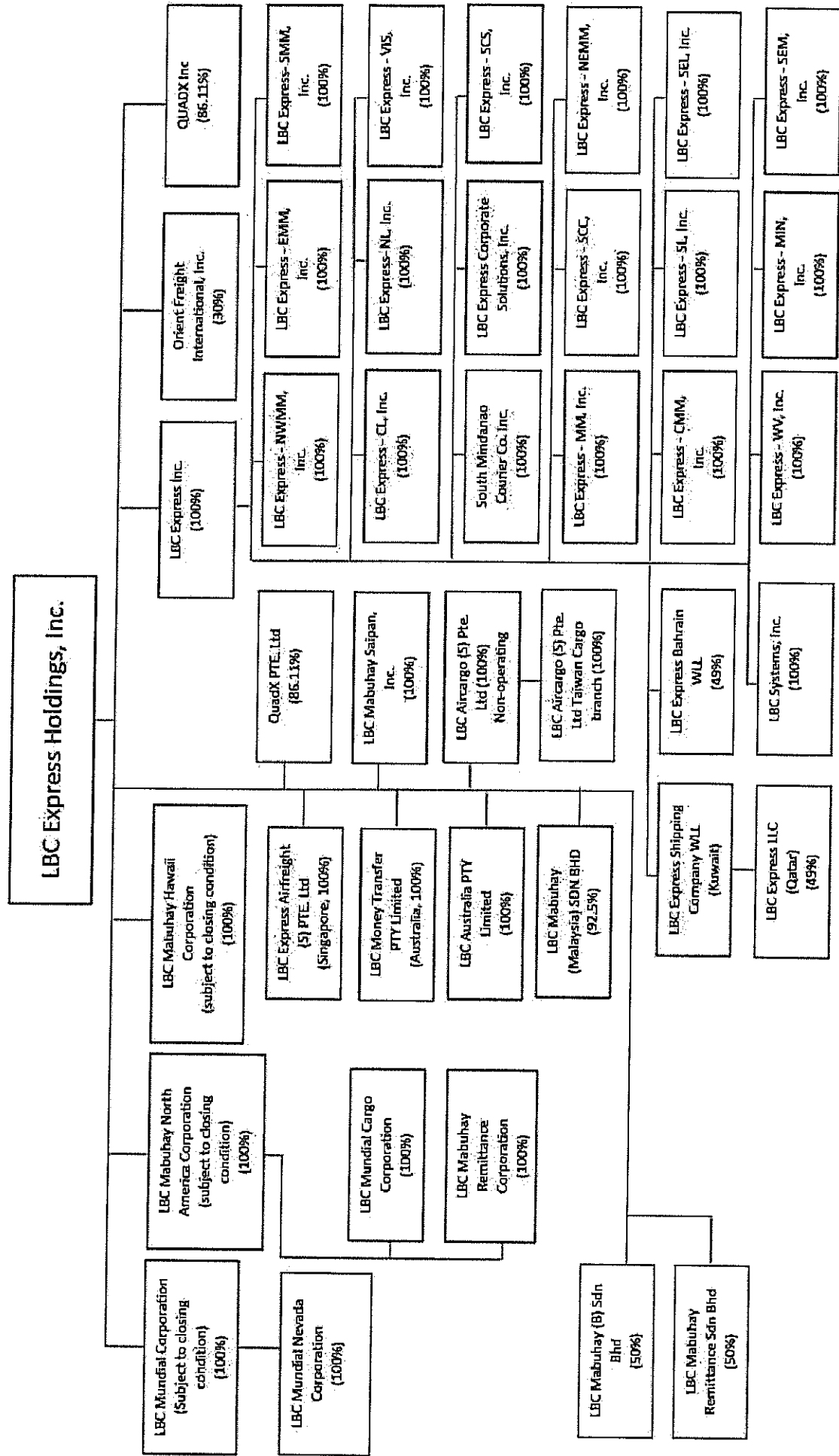
LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE H: CAPITAL STOCK

DECEMBER 31, 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

DECEMBER 31, 2018



LBC EXPRESS HOLDINGS, INC.**SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

Unappropriated retained earnings, as adjusted to available for dividend distribution, as at January 1, 2018		(₱249,743,414)
Adjustments:		
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash equivalents)		8,610,668
Unappropriated retained earnings, as adjusted to available for dividend distribution, as at January 1, 2018		(258,354,082)
Add: Net income actually earned/realized during the period:		
Net income during the period closed to retained earnings	₱1,970,517,686	
Less: Non actual/unrealized income net of tax		
Equity in net income of associate/joint venture		—
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash equivalents)		—
Unrealized actuarial gain		—
Fair value adjustment (M2M gains)	454,198,052	
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	485,777	
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)		—
Net income actually earned during the period		1,515,833,857
Add (Less):		
Dividend declarations during the period	(285,173,094)	
Appropriations of retained earnings during the period		—
Reversals of appropriations		—
Effects of prior period adjustments		—
Treasury shares		(285,173,094)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION		₱972,306,681

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

Financial Soundness Indicators

Below are the financial ratios that are relevant to the Group for the years ended December 31:

Financial ratios		2018	2017
Current ratio	Current assets	1.71:1	2.51:1
	Current liabilities		
Debt to equity ratio	Total liabilities	2.47:1	2.98:1
	Stockholders' Equity		
Debt to total assets ratio	Total liabilities	0.71:1	0.75:1
	Total assets		
Return on average assets	Net income attributable to Parent Company	13.07%	8.71%
	Average assets		
Book value per share	Stockholders' equity	P2.30	P1.66
	Total number of shares		
Basic earnings per share	Net income attributable to Parent Company	P0.95	P0.49
	Weighted average number of common shares outstanding		
Diluted earnings per share	Net income attributable to Parent Company	P0.68	P0.49
	Adjusted weighted average number of common shares for diluted EPS		

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs			✓
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease			✓
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓
Philippine Interpretation SIC-7	Introduction of the Euro			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases - Incentives			✓
Philippine Interpretation SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation 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 year ended December 31, 2018.

Standards tagged as "Not adopted" are standards issued but not yet effective as of December 31, 2018. The Group will adopt the Standards and Interpretations when these become effective.