COVER SHEET
for
AUDITED FINANCIAL STATEMENT

SEC Registration Number

AS093-005277

COMPANY NAME

LBC EXPRESS HOLDINGS, INC. (FORMERLY FEDERAL RESOURCES INVESTMENT GROUP INC.)

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
N/A	856-8522	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
487	2nd Monday of June	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Enrique V. Rey, Jr.	evrey@lbcexpress.com	856-8510	N/A

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.

LBC Express Holdings, Inc.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of LBC Express Holdings, Inc. (formerly Federal Resources Investment Group) is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

The Board of Directors reviews and approves the 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 financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such 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 Pasay MANILA on 12 APR 2019 affiants personally appeared before me and exhibited to me their Tax Identification Nos.

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

Doc. No. 272 :
Page No. 55 :
Book No. II :
Series of 2019.

ATTY. MICHAEL JOBERT M. MARASIGAN
NOTARY PUBLIC FOR CITY OF MANILA
COMMISSION NO. 2018-099 UNTIL DECEMBER 2019
ROLL OF ATTORNEY NO. 58317
PTR NO. 8053331 / MANILA / 01-10-19
IBP NO. 061391 / MANILA / 01-08-19
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. (the "Company")** in accordance with applicable financial reporting framework and reports as required by accounting and auditing standards for the Company 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 Financial Statements and Notes to the 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 Financial Statements and Notes to the Financial Statements.

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

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

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Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

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

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8 - MAKATI
Revenue District Office No. 51
PASAY CITY
RECEIVED
INITIAL: DATE:
NAME: NARISSA H. TY RCO CODE: 003367
APR 15 2019

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of LBC Express Holdings, Inc. (the Parent Company), which comprise the parent company statements of financial position as at December 31, 2018 and 2017, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended 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 Parent Company Financial Statements* section of our report. We are independent of the Parent Company 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 parent company 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.

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

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

In preparing the parent company financial statements, management is responsible for assessing the Parent Company'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 Parent Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company 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 parent company 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 parent company 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 Parent Company'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 Parent Company'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 parent company 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 Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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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.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 is presented in a separate schedule for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of LBC Express Holdings, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8 - MAKATI
Revenue District Office No. 51
PASAY CITY
RECEIVED
INITIAL: DATE:
RCO'S NAME: MARISSA B. TY RCO'CODE: 003367
APR 15 2019

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.
(Formerly Federal Resources Investment Group Inc.)

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31 2018	December 31 2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 16, and 17)	**₱1,548,935,345**	₱2,284,358,298
Receivables (Notes 5, 12, 13, 16 and 17)	**1,582,609,349**	3,681,105
Due from related parties (Notes 13, 16 and 17)	**2,548,124**	38,487,662
Investment at fair value through profit or loss (Notes 2, 7, 16 and 17)	**1,009,832**	–
Available-for-sale investments (Notes 2, 7, 16 and 17)	–	290,177,777
Prepayments and other current assets (Note 6)	**10,040,713**	2,982,858
Total Current Assets	**3,145,143,363**	2,619,687,700
Noncurrent Assets		
Investment in an associate (Note 8)	**227,916,452**	–
Investment in subsidiaries (Note 9)	**1,930,554,146**	1,384,670,966
Advances for future investment in shares (Note 13)	**439,823,608**	–
Total Noncurrent Assets	**2,598,294,206**	1,384,670,966
	₱5,743,437,569	₱4,004,358,666
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 10, 16 and 17)	**₱21,235,719**	₱15,771,967
Dividend payable (Notes 12, 16 and 17)	**285,173,094**	–
Due to related parties (Notes 13, 16 and 17)	**266,771**	–
Total Current Liabilities	**306,675,584**	15,771,967
Noncurrent Liabilities		
Derivative liability (Notes 11, 16 and 17)	**1,406,175,427**	1,860,373,479
Bond payable (Notes 11, 16 and 17)	**1,108,417,074**	896,185,059
Deferred tax liability (Note 15)	**4,796,731**	–
Total Noncurrent Liabilities	**2,519,389,232**	2,756,558,538
	2,826,064,816	2,772,330,505
Equity		
Capital stock (Note 12)	**1,425,865,471**	1,425,865,471
Additional paid in capital	**55,420,327**	55,420,327
Retained earnings (deficit)	**1,436,086,955**	(249,743,414)
Accumulated comprehensive income (Note 7)	–	485,777
Total Equity	**2,917,372,753**	1,232,028,161
	₱5,743,437,569	₱4,004,358,666

See accompanying Notes to Parent Company Financial Statements.

LBC EXPRESS HOLDINGS, INC.
(Formerly Federal Resources Investment Group Inc.)

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
INCOME		
Dividends (Notes 9 and 13)	**₱1,582,594,366**	₱843,356,203
Service fees (Note 13)	**29,929,719**	12,090,534
Interest (Note 4)	**23,164,559**	11,154,572
	1,635,688,644	866,601,309
OPERATING EXPENSES (Note 14)	**48,013,659**	25,687,984
OTHER INCOME (EXPENSE)		
Gain (loss) on derivative (Note 11)	**454,198,052**	(199,950,820)
Foreign exchange gain (loss) - net	**91,210,437**	(13,204,715)
Interest expense (Note 11)	**(161,654,374)**	(59,559,636)
Others - net (Note 7)	**3,913,821**	801,585
	387,667,936	(271,913,586)
INCOME BEFORE INCOME TAX	**1,975,342,921**	568,999,739
PROVISION FOR INCOME TAX (Note 15)	**4,825,235**	11,575
NET INCOME	**1,970,517,686**	568,988,164
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified to profit or loss in subsequent periods		
Unrealized fair value gain on available-for-sale investments (Note 7)	**–**	485,777
TOTAL COMPREHENSIVE INCOME	**₱1,970,517,686**	₱569,473,941

See accompanying Notes to Parent Company Financial Statements.

LBC EXPRESS HOLDINGS, INC.
(Formerly Federal Resources Investment Group Inc.)

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Share Capital (Note 12)	Share Premium	Retained Earnings (Deficit) (Note 12)	Accumulated Comprehensive Income (Note 7)	Total
	For the year ended December 31, 2018				
Balances as at January 1, 2018, as previously reported	**₱1,425,865,471**	**₱55,420,327**	**(₱249,743,414)**	**₱485,777**	**₱1,232,028,161**
Impact of adoption of new accounting standards (Note 2)	–	–	**485,777**	**(485,777)**	–
Balances as at January 1, 2018, as restated	**1,425,865,471**	**55,420,327**	**(249,257,637)**	–	**1,232,028,161**
Comprehensive income					
Net income	–	–	**1,970,517,686**	–	**1,970,517,686**
Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	**1,970,517,686**	–	**1,970,517,686**
Dividends declared	–	–	**(285,173,094)**	–	**(285,173,094)**
Balances as of December 31, 2018	**₱1,425,865,471**	**₱55,420,327**	**₱1,436,086,955**	**₱–**	**₱2,917,372,753**

	Share Capital (Note 12)	Share Premium	Retained Earnings (Deficit) (Note 12)	Accumulated Comprehensive Income (Note 7)	Total
	For the year ended December 31, 2017				
Balances as of January 1, 2017	₱1,425,865,471	₱55,420,327	₱8,270,395	₱–	₱1,489,556,193
Comprehensive income					
Net income	–	–	568,988,164	–	568,988,164
Other comprehensive income	–	–	–	485,777	485,777
Total comprehensive income	–	–	568,988,164	485,777	569,473,941
Dividends declared	–	–	(827,001,973)	–	(827,001,973)
Balances as of December 31, 2017	₱1,425,865,471	₱55,420,327	(₱249,743,414)	₱485,777	₱1,232,028,161

See accompanying Notes to Parent Company Financial Statements.

LBC EXPRESS HOLDINGS, INC.
(Formerly Federal Resources Investment Group Inc.)

PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,975,342,921**	₱568,999,739
Adjustments for:		
Interest expense (Note 11)	**161,654,374**	59,559,636
Unrealized fair value gain on investment at fair value through profit or loss (Note 7)	**(9,832)**	(801,585)
Interest income (Note 4)	**(23,164,559)**	(11,154,572)
Unrealized foreign exchange loss (gain) - net	**(91,210,437)**	13,204,715
Loss (gain) on derivative (Note 11)	**(454,198,052)**	199,950,820
Dividend income (Notes 9 and 13)	**(1,582,594,366)**	(843,356,203)
Operating loss before changes in working capital	**(14,179,951)**	(13,597,450)
Changes in working capital:		
Decrease (increase) in:		
Receivables	**3,666,122**	(951,981)
Prepayments and other current assets	**(7,086,359)**	(1,599,924)
Increase (decrease) in accounts and other payables	**(4,187,623)**	15,381,030
Net cash used in operations	**(21,787,811)**	(768,325)
Interest received	**23,164,559**	8,425,448
Net cash provided by operating activities	**1,376,748**	7,657,123
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of investments classified as (Note 7):		
Investment at fair value through profit or loss	**617,757,777**	
Available-for-sale investments	–	265,801,585
Dividends received (Notes 12 and 17)	–	262,890,095
Acquisitions of:		
Investment in an associate (Notes 8 and 18)	**(218,265,077)**	–
Investment at fair value through profit or loss (Note 7)	**(328,580,000)**	–
Available-for-sale investments (Note 7)	–	(556,900,000)
Investments in subsidiaries (Note 9 and 18)	**(359,861,780)**	–
Decrease in due from related parties (Note 13 and 18)	**(150,081,862)**	(38,475,063)
Advances for future investment in shares (Note 13)	**(439,823,608)**	–
Net cash used in investing activities	**(878,854,550)**	(66,683,383)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of convertible instrument, net of issuance costs (Notes 11)	–	2,505,658,750
Increase (decrease) in due to related parties	**266,771**	(15,694,463)
Dividends paid	–	(127,536,686)
Net cash provided by financing activities	**266,771**	2,362,427,601
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(877,211,031)**	2,303,401,341
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**141,788,078**	(19,607,383)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,284,358,298**	564,340
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,548,935,345**	₱2,284,358,298

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8 - MAKATI
Revenue District Office No. 51
PASAY CITY
RECEIVED
APR 15 2019
INITIAL: DATE:
RCO's NAME: NARISSA B. TY RCO CODE: 003367

See accompanying Notes to Parent Company Financial Statements.

LBC EXPRESS HOLDINGS, INC.
(Formerly Federal Resources Investment Group Inc.)
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

LBC Express Holdings, Inc. (referred to as the "Parent Company" or "LBCH"), formerly Federal Resources Investment Group Inc. (FED), was registered with the Securities and Exchange Commission (SEC) on July 12, 1993. The corporate life of the Company is 50 years.

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

The Company undertook an Initial Public Offering on December 21, 2001. LBCH's shares are 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.

The accompanying financial statements of the Parent Company has been approved and authorized for issue by the Parent Company's Board of Directors (BOD) on April 12, 2019.

2. Summary of Significant Accounting Policies

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

<u>Basis of Preparation</u>
The financial statements of the Parent Company have been prepared using the historical cost basis, except for investments at fair value through profit or loss (FVPL) and derivatives that have been measured at fair value. The parent company financial statements are presented in Philippine Peso (₱), which is also the Parent Company's functional currency. All amounts are rounded off to the nearest peso unit unless otherwise indicated. The Parent Company prepares consolidated financial statements which are available in its official place of business.

<u>Statement of Compliance</u>
The accompanying financial statements of the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

<u>Changes in Accounting Policies and Disclosures</u>
The Parent Company 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 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.

  The adoption of PFRS 15 did not have material impact on the other comprehensive income or the Parent Company's operating, investing and financing cash flows since the Parent Company's manner of recognizing revenue prior to the adoption of the new standard is aligned with the requirements of PFRS 15. Accordingly, no adjustments in the statement of financial position as of December 31, 2018 were recognized.

- 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 Parent Company applied PFRS 9 using modified retrospective approach, with an initial application date of January 1, 2018. The Parent Company 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 Parent Company 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 Parent Company 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 adoption of PFRS 9 has fundamentally changed the Parent Company'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 Company to record an allowance for ECLs 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 Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

In computing for the ECL, PFRS 9 provides two approaches namely, general approach and simplified approach. Under the general approach, at each reporting date, the Company recognizes a loss allowance based on either 12-month ECLs or Lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial asset since initial recognition, while using simplified approach, the changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL.

For cash and cash equivalents, the Parent Company applied the general approach and the impact is immaterial. For due from related parties, the Company also applied the general approach, however, the ECL is nil because the amount is payable on demand and that the expected cash flows is the same as the contractual cash flows.

The adoption did not result to any changes on the way financial instruments are measured, and the application of the ECL model did not result to recognition of impairment losses. Accordingly, no adjustments in the balance sheet as of December 31, 2018 were recognized.

PFRS 9 also had an impact on the reclassification of the Parent Company'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
Receivables	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Equity instrument:		
Unquoted AFS	Available for sale	FVPL

The new classification and measurement of the Parent Company'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 Company's cash and other cash items, receivables and due from related parties.

- Financial asset at FVPL comprise of investment in unit investment trust fund (UITF) which failed the SPPI test - this category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under PAS 39, the Company'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 ₱485,777, which had been previously recognized under accumulated OCI, was reclassified to retained earnings as at January 1, 2018.

  The effect of applying PFRS 9 on the Parent Company's statement of financial position as at January 1, 2018 follows:

	Balances Before Adjustments	Impact as of January 1, 2018	After Adjustments
Statement of Financial Position			
Available-for-sale investment	₱290,177,777	(₱290,177,777)	₱–
Investment at FVPL	–	290,177,777	290,177,777
Accumulated comprehensive income	485,777	(485,777)	–
Retained earnings	–	485,777	485,777

  The assessment of the Parent Company'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.

- 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 Parent Company has assessed that the adoption of these amendments will not have impact to its financial statements it does not 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 Parent Company since the Parent Company 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 Parent Company's 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 Parent Company's 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 Parent Company's current practice is in line with the clarifications issued, the Parent Company does not expect any effect on its 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 Parent Company does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Parent Company 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 financial statements of the Parent Company.

- 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.

  This Standard has no significant impact to the Company.

- 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 Parent Company.

- 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 Parent Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its 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 Parent Company 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 Parent Company 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 are not expected to have any impact to the Company.

- 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:

- o A specific adaptation for contracts with direct participation features (the variable fee approach)
- o 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 Parent Company since it does not 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 Parent Company.

<u>Current versus Noncurrent Classification</u>
The Parent Company presents assets and liabilities in the 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 liability is classified as noncurrent liability.

Cash and Cash Equivalents
Cash and cash equivalents are stated at face value. Cash pertains to 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 Parent Company 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 Company.

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 Parent Company 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 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 financial statements on a recurring basis, the Parent Company 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 Company's business model for managing them. The Company 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.

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 Company'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 Company 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 Parent Company 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 Parent Company classifies and measures its unquoted investments at FVPL.

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 Parent Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Parent Company'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 Parent Company'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 Company's original expectations, the Parent Company 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 Parent Company 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 Parent Company 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 Parent Company. The Parent Company 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, dividends receivables and due from related parties.

Financial assets at fair value through OCI (debt instruments)
The Parent Company 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 Parent Company 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 Parent Company has no debt instruments at FVOCI.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Parent Company 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 Parent Company has no equity instruments through OCI.

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 statement of financial position at fair value with net changes in fair value recognized in the 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 Parent Company measures its unquoted investment at FVPL (see Note 7).

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 Parent Company 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 Company 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.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company determines whether to apply to general approach or the simplified approach when calculating the provision for ECL. Under the general approach, at each reporting date, the Parent Company recognizes a loss allowance based on either 12-month ECLs or Lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. Under the simplified approach, the changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL.

For due from related parties and cash and cash equivalents, the Parent Company applies the general approach.

For financial assets for which the Parent Company 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.

As of December 31, 2018, the Parent Company has not determined any expected credit loss for its financial assets subject for impairment.

Write-offs
Financial assets are written off either partially or in their entirety only when the Parent Company 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 Parent Company's financial liabilities include accounts and other payables (excluding taxes payable), due to related parties, dividends payable 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 Company 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 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 Parent Company's derivative liability is classified under this category (Notes 11, 16 and 17).

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 statement of profit or loss.

This category generally applies to 'accounts and other payables', 'due to related parties', 'dividends payable', and 'bond payable' presented in the statement of financial position.

Reclassification
If the business model under which the Parent Company 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 Parent Company'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 Parent Company recognizes a financial asset or a financial liability in the 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 Parent Company 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 Company 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 Company 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 Parent Company'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 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 Company 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 Company 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 Company 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 December 31, 2017, the Company's loans and receivables include cash and cash equivalents, receivables and due from a related party.

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 Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company 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 statement of profit or loss.

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 Company 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 Company's other financial liabilities include accounts and other payables (excluding withholding taxes payable and deferred output VAT payable), due to related parties, bond payable and derivative liability.

Impairment of Financial Assets

The Company 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 Company 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 Company 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 asset's 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 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 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 Company to reduce any differences between loss estimates and actual loss experience.

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 Company 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 Company has transferred substantially all the risks and rewards of the asset or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Parent Company 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 Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company 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 Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial 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 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 Current Assets
Prepayments and other current 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 Company. 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.

Impairment of Nonfinancial Assets
The Company 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 Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or 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 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 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.

Investment in an Associate
An associate is an entity in which the Company 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.

Investments in an associate are accounted for under the cost method less accumulated provision for impairment losses, if any.

An associate is an entity in which the Company has a significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control or joint control over those policies.

The Company recognizes income from the investment only to the extent that the Company receives or has earned the right to receive distribution from the accumulated profits of the investee arising after the date of the acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

The Company determines at each end of the reporting period whether there is any objective evidence that the investments in the investee companies are impaired. If this is the case, the Company calculates the amount of impairment as being the difference between the recoverable amount of the investee company and the carrying cost and recognized the amount in profit or loss.

Investment in Subsidiaries

Investment in subsidiaries is accounted for using the cost method less any accumulated impairment in value, in the financial statements of the Company in accordance with PAS 27. On acquisition date of the investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is included in the carrying amount of the investment and not amortized.

The Company controls an investee when it 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.

The Company controls an investee if and only if the Company has all the following:

- 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.

The Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated income of the subsidiary arising after the date of acquisition. Distribution received in excess of such income is regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

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 Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company 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 the statement of comprehensive income. The embedded derivatives of the Company pertains to the equity conversion and redemption options components of the issued convertible debt instrument (see Note 11).

Equity

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

Retained earnings (deficit)

Retained earnings represent accumulated earnings (losses) of the Comapny 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 Contract with Customers upon adoption of PFRS 15

Revenue is recognized based on a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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 requirements of revenue from contract with customers do not have significant impact on the Parent Company's financial statements since its revenue is primarily derived from dividend, interest income and service which are distinct performance obligations with specific transaction price. The existing accounting policies of these revenue streams are already in accordance with PFRS 15.

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 Company and the revenue can be measured reliably 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 Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

There were no changes in the accounting treatment of the following revenue streams under PFRS 15 and PAS 18, *Revenue.*

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

Service fees

Service revenue is recognized when services are rendered.

Dividend income

Dividend income is recognized when the Company's right to receive payment is established, which is generally when shareholders approve the dividend. This is recognized as dividend income in the statement of comprehensive income.

Interest income
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
Other income is recognized when earned.

Expense Recognition
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.

Expenses are recognized in the 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 statement of financial position as an asset.

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 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 of profit or loss is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Foreign Currency-Denominated Transactions and Translations
Foreign currency transactions are recorded in Philippine Peso at prevailing exchange rates at the time of the transactions. Exchange gains or losses resulting from foreign currency transactions are credited or charged to current operations. Foreign currency-denominated monetary assets and liabilities of the Company are translated to Philippine Peso using the Philippine Dealing and Exchange Corporation closing rate at the reporting date. Foreign exchange differences arising from foreign currency translation are also credited or charged to statement of comprehensive income.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects 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 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 non-current 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 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 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 financial statements are authorized for issue that provide additional information about the Company's position at each reporting date (adjusting events) are

reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements, when material.

3. Significant Accounting Judgments and Estimates

The preparation of the Parent Company's 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. 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 estimates and assumptions:

Judgments
In the process of applying the Parent Company'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 financial statements.

Determining significant influence over an investee company
The Parent Company 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 8).

The carrying amount of the investment in associate amounted to ₱227.92 million as of December 31, 2018 (see Note 8).

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 Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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

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

The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management based on collection experience and other factors that affect the collectability of the accounts. Management assessed that ₱1.87 million receivables from officers and stockholders were impaired as of December 31, 2018 and 2017 (see Note 13).

Provision for impairment losses of nonfinancial assets
The Company assesses impairment on nonfinancial assets (i.e. inventory, property and equipment and other assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Company considers important which could trigger an impairment review include the following:
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements. Management assessed that inventories and property and equipment amounting to ₱7.15 million and ₱11.70 million were fully impaired, while other current assets amounting to ₱0.80 million were impaired as at December 31, 2018 and 2017 (see Note 15).

Estimating fair value of embedded derivatives
The fair value of embedded derivatives, related to the issuance of convertible bond recorded in the 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 11).

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

Fair value of financial assets and financial liabilities
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (see Note 17).

4. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash in banks	**₱172,066,438**	₱37,823,298
Cash equivalents	**1,376,868,907**	2,246,535,000
	₱1,548,935,345	₱2,284,358,298

Cash and cash equivalents 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 Company and earn interest at the prevailing short-term placements rates.

Cash and cash equivalents earn interest at the prevailing bank deposit rates ranging from 1.16% to 6.00% and 0.25% to 1.80% in 2018 and 2017, respectively. Interest income earned from cash and cash equivalents amounted to ₱23.16 million and ₱11.15 million in 2018 and 2017, respectively.

5. Receivables

This account consists of:

	2018	2017
Dividend receivable (Note 13)	**₱1,582,594,366**	₱–
Accrued interest receivable	**–**	2,729,124
Other receivable	**14,983**	951,981
	₱1,582,609,349	₱3,681,105

Dividend receivable pertains to unpaid cash dividends from LBC Express, Inc., a subsidiary of the Company.

Accrued interest receivable pertains to the accrual of interest from cash equivalents. These are expected to be collected upon maturity of the short-term placements.

Other receivable pertains to a refund from a government agency for the unprocessed filing fees paid by the Company.

The Company's receivables are expected to be realized and fall due within one year after the reporting period.

6. Prepayments and Other Current Assets

This account consists of:

	2018	2017
Input value-added tax (VAT)	**₱5,804,480**	₱3,482,709
Prepaid expenses	**2,445,094**	68,682
Deferred input VAT	**1,789,582**	–
Creditable withholding taxes (CWTs)	**800,326**	230,236
	10,839,482	3,781,627
Less allowance for impairment losses	**798,769**	798,769
	₱10,040,713	₱2,982,858

Input VAT arises from domestic purchases of goods and services and is offset against output tax. Management believes that the remaining balance is recoverable in future periods.

Prepaid expenses pertain to advance payment of service fee for cloud subscription services (see Note 13). The service fee is paid at the beginning of each quarter.

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

7. Investment at fair value through profit or loss (FVPL) and AFS Investments

Investment at FVPL and AFS investments represents the Company's investments in unquoted unit investment trust fund classified as investment at fair value through profit or loss (FVPL). The major categories of the Company's investment in unquoted unit investment trust fund comprise primarily of Overnight Deposit Facility and Term Deposit Facility in the Bangko Sentral ng Pilipinas.

Movement of the investment at FVPL and AFS investment follow:

	FVPL	AFS
Balance at beginning of period, as previously reported	**₱–**	₱290,177,777
Impact of PFRS 9 adoption	**290,177,777**	(290,177,777)
As at January 1, 2018, as restated	**290,177,777**	–
Additions	**328,580,000**	–
Redemption	**(617,757,777)**	–
Unrealized fair value gain during the year	**9,832**	–
	₱1,009,832	₱–

Movement of the available-for-sale investments follow:

	2017
Balance at beginning of year	₱–
Additions	556,900,000
Redemption	(265,801,585)
Fair value gain during the year	1,287,362
Unrealized foreign exchange loss	(2,208,000)
	₱290,177,777

Movement in unrealized gain on AFS investments follow:

	2018	2017
Balance at beginning of year, as previously reported	**₱485,777**	₱–
Impact of PFRS 9 adoption (Note 2)	(485,777)	–
As at January 1 ,2018, as restated	–	
Changes in fair value during the year	–	1,287,362
Reclassification to profit or loss arising from redemption and sale of investment at FVPL	–	(801,585)
Balance at end of year	**₱–**	₱485,777

The unrealized fair value gain of ₱9,832 related to investment at FVPL is presented under "Others - net" of "Other income (expenses) in the statements of comprehensive income.

8. 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 Parent Company's interest in OFII is accounted for using cost method less any accumulated impairment in value.

The final fair values of the financial information of the Company'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)
Equity	366,523,175
Share in equity - 30%	109,956,952
Excess of purchase price over provisional fair value of net asset	108,873,250
Costs directly attributable to the investment	9,086,250
Carrying amount of the investment	₱227,916,452

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 separate recognition criteria for intangible assets.

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

9. Investment in Subsidiaries

The Parent Company's investments in subsidiaries accounted for under cost method accounting adjusted for impairment losses, if any, and the related percentage of ownership are shown below:

	Country of Incorporation	Principal activities	Ownership	2018	2017
LBC Express, Inc.	Philippines	Logistics and money remittance	100%	**₱1,384,670,966**	₱1,384,670,966
QUADX Inc	Philippines	E-com web and logistics	86%	**186,021,400**	–
LBC Express Airfreight (S) PTE. LTD.	Singapore	Logistics	100%	**129,013,585**	–
LBC Australia PTY Limited	Australia	Logistics	100%	**98,462,863**	–
QuadX Pte. Ltd.	Singapore	Digital logistics	86%	**36,340,659**	–
LBC Mabuhay Remittance Sdn Bhd	Brunei	Money remittance	50%	**30,166,598**	–
LBC Mabuhay (Malaysia) SDN BHD.	Malaysia	Logistics	93%	**24,682,710**	–
LBC Mabuhay (B) Sdn Bhd	Brunei	Logistics	50%	**12,220,413**	–
LBC Mabuhay Saipan Inc.	Saipan	Logistics and money remittance	100%	**10,782,538**	–
LBC Money Transfer PTY Limited	Australia	Money remittance	100%	**10,392,254**	–
LBC Aircargo (S) Pte. Ltd	Singapore	Logistics	100%	**7,800,160**	–
				₱1,930,554,146	₱1,384,670,966

The Parent Company although it owns 50% of the voting share of LBC Mabuhay (B) Sdn Bhd and LBC Mabuhay Remittance Sdn Bhd, in substance controls said entities since: (a) the activities of the subsidiaries are being conducted on behalf of the Parent Company according to its specific business need so that the Parent Company obtains benefits from the subsidiaries' operations; and (b) the Company has the decision-making powers to obtain the majority of the benefits of the activities of the subsidiaries.

No allowance for impairment loss was recognized in the Parent Company's financial statements in 2018 and 2017.

QUADX Inc.
On March 19, 2018, through a Deed of Assignment, LBCE assigned its receivables from QUADX Inc. to the Parent Company amounting to ₱186.02 million. On the same date, the Parent Company and QUADX Inc. entered into a Subscription Agreement to subscribe and issue a total of 1,860,214 shares of stock of QUADX Inc. through the conversion of the assigned advances to equity which represents 86.11% ownership by the Parent Company. The increase in authorized capital stock of QUADX Inc. was approved by the SEC on June 14, 2018.

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.

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 US $1.00 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 US $1.00 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.

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 US $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.

Dividend Declarations of a Subsidiary
On December 20, 2018 and March 8, 2017, the BOD of LBCE approved the declaration of cash dividends amounting to ₱1,582.59 million and ₱843.36 million, respectively (see Note 13).

On June 9, 2017, through a Memorandum of Agreement, LBCDC assigned to LBCH a portion of its payable to LBCE amounting to ₱699.47 million. The same amounts were offset against the dividends payable of LBCE to LBCH. LBCE settled in cash all the outstanding dividends payable to the Company as at December 31, 2017 (see Note 17).

10. Accounts and Other Payables

This account consists of:

	2018	2017
Subscription payable	**₱9,651,375**	₱–
Accruals:		
Dues and subscriptions	**7,599,764**	11,514,794
Professional fees	**1,630,308**	1,704,550
Output VAT	**927,332**	–
Deferred output VAT	**579,297**	1,450,864
Accounts payable	**559,109**	808,031
Withholding tax payable	**33,231**	38,425
Other payable	**255,303**	255,303
	₱21,235,719	₱15,771,967

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

Accrued dues and subscriptions pertain to the monthly accrual of data cloud subscription. Accrued professional fees relates to audit fees and directors' fees. Accrued taxes include output VAT payable which are settled monthly.

Deferred output VAT arises from the uncollected receivables from vatable service fees.

Accounts payable arises from regular transactions with suppliers and service providers. These are noninterest-bearing and are normally settled on one to 60-day term.

Withholding tax payable pertains to taxes withheld on payment to suppliers which are settled on a monthly basis.

11. Convertible Instrument

This account consists of:

	December 31, 2018	December 31, 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.

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. 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 Parent Company by contributing to its global revenue streams. On the same date, the share purchase agreements (SPA) were executed by the Parent Company and LBC Express Holdings USA Corporation with a total share purchase price amounting to US $8.34 million, subject to certain closing conditions.

   Below is the list of entities that will be acquired by the Parent Company from LBC Express Holdings USA Corporation:
   - LBC Mabuhay Hawaii Corporation which operates as a cargo and remittance 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 audit report date, the closing conditions are not yet met for LBC Mabuhay Hawaii Corporation.

   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 Parent Company and Jamal Limited, as follow:

   - LBC Aircargo (S) PTE. LTD. which operates as a cargo branch in Taiwan. The Parent Company purchased 94,901 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US $146,013;

- LBC Money Transfer PTY Limited which operates as a remittance company in Australia. The Parent Company purchased 10 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US $194,535;
- LBC Express Airfreight (S) PTE. LTD. which operates as a cargo company in Singapore. The Parent Company purchased 10,000 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US $2,415,035; and
- LBC Australia PTY Limited which operates as a cargo company in Australia. The Parent Company purchased 223,500 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US $1,843,149.

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 US $461,782 or ₱24.68 million.

v. On October 15, 2018, the Parent Company acquired the following overseas entities:
   a. 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.
   b. 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 Parent Company 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).

12. Equity

Capital Stock
As at December 31, 2018 and 2017, the details of the Company's common shares 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

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

On April 19, 2017, the BOD of LBCH approved the declaration of cash dividends amounting to ₱827.00 million from unappropriated retained earnings as of March 31, 2017 amounting to ₱849.83 million. The dividends attributable to LBCDC was settled through application against due from LBCDC as disclosed in Note 17.

13. Related Party Transactions

In the normal course of business, the Company transacts with related parties consisting of its ultimate parent company, its subsidiary and its stockholder and officer. Affiliates include those entities in which the owners of the Company have ownership interests. These transactions include loans, cash advances, dividends and dues and subscription. 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, 2018 and 2017 are as follow:

	2018			
	Amount/Volume	Receivable	Terms	Conditions
Due from a related party				
Subsidiary				
a.) Advances for acquisition of shares	₱439,823,608	₱439,823,608	Non-interest bearing; due and demandable	Unsecured, no impairment
b.) Service fee	29,929,719	2,548,124	Non-interest bearing; due and demandable	Unsecured, no impairment
c.) Dividends earned and receivable	1,582,594,366	1,582,594,366	Non-interest bearing; due and demandable	Unsecured, no impairment
Stockholder				
e) Advances		1,865,563	Non-interest bearing; due and demandable	Unsecured, with full provision for impairment t
Allowance for impairment		(1,865,563)	–	–
		₱2,024,966,098		

	2018			
	Amount/Volume	Payable	Terms	Conditions
Due to related parties				
d) Dividends declared	₱285,173,094	₱285,173,094	Non-interest bearing; due and demandable	Unsecured
Affiliate - under common control				
f.) Advances	221,323	221,323	Non-interest bearing; due and demandable	Unsecured
Officer (Advances)	–	45,448	Non-interest bearing; due and demandable	Unsecured
		₱285,439,865		

	2017			
	Amount/Volume	Receivable	Terms	Conditions
Due from a related party				
Subsidiary				
a.) Advances	₱25,188,074	₱25,188,074	Non-interest bearing; due and demandable	Unsecured, no impairment
b.) Service fee	12,090,534	13,299,588	Non-interest bearing; due and demandable	Unsecured, no impairment
c.) Dividends earned and receivable	843,356,203	–	Non-interest bearing; due and demandable	Unsecured, no impairment
e) Advances	–	1,865,563	Non-interest bearing; due and demandable	Unsecured, with full provision for impairment
Allowance for impairment	–	(1,865,563)	–	–
		₱38,487,662		

	2017			
	Amount/Volume	Payable	Terms	Conditions
Due to related parties				
Ultimate parent				
d) Dividends declared	₱699,465,287	₱–	Non-interest bearing; due and demandable	Unsecured
Minority interest				
d) Dividends declared	127,536,686	–		
		₱–		

a.) 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 Company 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 11, 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.

b.) On June 30, 2017, LBCH signed an agreement with SAP Philippines, Inc. to acquire cloud services named HANA Enterprise Cloud for Production with Subscription Software ("HEC Subscription") for 60 months commencing on August 1, 2017 and ending on July 31, 2022. Subsequently, in a Memorandum of Agreement, LBCH gave LBCE the right to use the HEC Subscription and in turn shall pay LBCH a service fee equivalent to cost plus margin of five percent (5%). The service fee shall be paid at the beginning of each quarter. The mark-up will also be applied for any cost of consultancy services that will arise during the period of the subscription.

c.) LBCH recognized dividend income from LBCE amounting to ₱1,582.59 million in 2018 and ₱843.36 million in 2017.

d.) On December 20, 2018 and April 19, 2017, the BOD of LBCH approved the declaration of cash dividends amounting to ₱285.17 million and ₱827.00 million, respectively, ₱127.54 million (nil in 2018) of which has been paid in cash to minority shareholders in 2017. The dividends attributable to LBCDC was settled through application against due from LBCDC (see Note 17).

e.) In previous years, the Company granted noninterest-bearing loans to its previous officers and stockholders. These loans have no fixed term of repayment. The balance of such loans as at December 31, 2018 and 2017 amounted to ₱1.87 million, which were fully impaired.

f.) This mainly consists of advances to subsidiaries for documentary stamp taxes and professional fees related to issuance of new shares.

14. Operating Expenses

This account consists of:

	2018	2017
Professional fees	**₱13,092,833**	₱13,253,625
Dues and subscriptions	**28,346,180**	11,514,794
Outside services	**3,720,893**	–
Taxes and licenses	**769,644**	308,284
Others	**2,084,109**	611,281
	₱48,013,659	₱25,687,984

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

15. Income Taxes

Provision for income tax consists of:

	2018	[illegible]
Current	**₱28,504**	[illegible]
Deferred	**4,796,731**	
	₱4,825,235	[illegible]

The provision for current tax represents MCIT in 2018 and 2017.

Details of the Company's net deferred tax liability as at December 31, 2018 follow:

	2018
Deferred tax assets arising from:	
Allowance for impairment losses on:	
Property and equipment	**₱3,509,738**
Inventories	**2,143,781**
Receivables	**567,078**
Other current assets	**239,630**
NOLCO	**15,117,586**
MCIT	**40,079**
	₱21,617,892
Deferred tax liabilities arising from:	
Unrealized foreign exchange gains	**(23,401,717)**
Others	**(3,012,906)**
	(26,414,623)
	(₱4,796,731)

The Company did not recognize any deferred tax assets as at December 31, 2017 since it does not expect to have sufficient future taxable income against which the deferred tax assets can be utilized. In 2018, the Company recognized deferred tax assets which were applied against the deferred tax liabilities.

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, 2017 are as follows:

	2017
NOLCO	₱40,243,027
Unrealized foreign exchange loss	1,362,947
Allowance for impairment losses on:	
Property and equipment	11,699,127
Inventories	7,145,937
Receivables	1,890,260
MCIT	11,575
Other current assets	798,769
	₱63,151,642

The reconciliation of the income tax on pretax income computed at the statutory rate to income tax expense attributable to operations is as follows:

	2018	2017
Income tax at the statutory income tax rate	**₱592,602,876**	₱170,699,922
Tax effects of the items not subject to statutory rate:		
Nontaxable income	**(619,161,240)**	(256,593,708)
Movement in unrecognized deferred tax asset	**(18,953,595)**	7,884,619
Expired - NOLCO	**2,353,325**	378,977
Nondeductible expense	**47,983,869**	77,638,795
Expired MCIT	–	2,970
	₱4,825,235	₱11,575

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:

NOLCO

2018

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2018	₱17,993,197	₱–	₱–	₱17,993,197	2021
2017	26,153,838	–	–	26,153,838	2020
2016	6,244,919	–	–	6,244,919	2019
2015	7,844,416	–	7,844,416	–	2018
	₱58,236,370	₱–	₱7,844,416	₱50,391,954	

2017

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2017	₱26,153,692	₱–	₱–	₱26,153,692	2020
2016	6,244,919	–	–	6,244,919	2019
2015	7,844,416	–	–	7,844,416	2018
2014	1,263,257	–	1,263,257	–	2017
	₱41,506,284	₱–	₱1,263,257	₱40,243,027	

MCIT

2018

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2018	₱28,504	₱–	₱–	₱28,504	2021
2017	11,575	–	–	11,575	2020
2016	–	–	–	–	2019
	₱40,079	₱–	₱–	₱40,079	

2017

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2017	₱11,575	₱–	₱–	₱11,575	2020
2014	2,970	–	2,970	–	2017
	₱14,545	₱–	₱2,970	₱11,575	

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 financial statement balances as of the reporting date.

16. Financial Risk Management Objectives and Policies

The Company has various financial assets such as cash and cash equivalents, receivables, due from related parties and investment at FVPL.

The Company's financial liabilities comprise of accounts and other payables, due to related parties, derivative liability and bond payable. The main purpose of these financial liabilities is to finance the Company's operations.

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

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

Price risk
The Company 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 Company 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 other comprehensive income should the change in the net asset value (NAV) of the unquoted unit investment trust fund occur as at December 31, 2018 and 2017 with all other variables held constant.

	Effect on other comprehensive income	
Change in NAV	**2018**	2017
+5.00%	**₱50,492**	₱14,508,889
-5.00%	**(50,492)**	(14,508,889)

The Company 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	
Change in share price	**2018**	2017
+5.00%	**₱125,524,123**	₱106,563,899
-5.00%	**(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 Company is not significantly exposed to interest rate risk as the Company's interest rate on its cash and cash equivalents is fixed. The Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

The value of the Company'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 Company'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)

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 Company's exposure to the risk of changes in foreign exchange rates relates to the bond payable denominated in US Dollar.

Information of the Company's foreign currency-denominated monetary liability recorded under bond payable in the statements of financial position and its Philippine Peso equivalents as at December 31, 2018 follow:

	2018	
	Foreign currency	**Peso equivalent**
Liability:		
US Dollars	**(21,213,491)**	**(₱1,118,460,095)**

The translation exchange rate used was ₱52.61 to USD 1 as at December 31, 2018.

	2017	
	Foreign currency	Peso equivalent
Liability:		
US Dollars	(18,189,640)	(₱908,026,829)

The translation exchange rate used was ₱49.92 to USD 1 as at December 31, 2017.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Company's income before tax (due to changes in the fair value of monetary liability).

Reasonably possible change in foreign exchange rate for every two units of Philippine Peso	Increase (decrease) in income before tax	
	2018	2017
₱2	**(₱42,426,982)**	(₱36,379,280)
(2)	**42,426,982**	36,379,280

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

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

Credit risk
Credit risk is the risk that counterparty will not meet its obligation under a financial asset or financial liability or customer contract, leading to a financial loss.

Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

As for the cash in banks and cash equivalents, the maximum exposure to credit risk from these financial assets arise from the default of the counterparty with a maximum exposure equal to their carrying amounts.

Aging analysis of loans and receivables

As at December 31, 2018 and 2017, the aging analysis of loans and receivables follow:

	2018					
		Neither past	Past due but not impaired			
		due nor	30-60	60-90	Over	
	Total	impaired	days	days	90 days	Impaired
Cash and cash equivalents	₱1,548,935,345	₱1,548,935,345	₱–	₱–	₱–	₱–
Receivables	1,582,609,349	1,582,609,349	–	–	–	–
Due from related parties	4,413,687	2,548,124	–	–	–	1,865,563
Investment at FVPL	1,009,832	1,009,832	–	–	–	–
	₱3,136,968,213	₱3,135,102,650	₱–	₱–	₱–	₱1,865,563

	2017					
			Past due but not impaired			
		Neither past	30-60	60-90	Over	
	Total	due nor impaired	days	days	90 days	Impaired
Cash and cash equivalents	₱2,284,358,298	₱2,284,358,298	₱–	₱–	₱–	₱–
Receivables	3,681,105	3,681,105	–	–	–	–
Due from related parties	40,353,225	38,487,662	–	–	–	1,865,563
	₱2,328,392,628	₱2,326,527,065	₱–	₱–	₱–	₱1,865,563

The credit quality of the financial assets was determined as follows:

Cash in banks and short-term time deposits 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 Company 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.

Except for those receivables provided with allowance in previous years, presented as impaired, receivables are considered high grade due to the Company's positive collection experience.

High grade accounts are considered to be of high credit rating value. The counterparties have a very remote likelihood of default.

Medium grade accounts are active accounts with minimal instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to the Company's collection efforts and update payments accordingly.

Low grade accounts pertain to accounts which have impairment based on historical trend or customer's unfavorable operating conditions. Accounts under this group show possible or actual loss to the Company as a result of default in payment of the counterparty despite the regular follow-up actions and extended payment terms.

The tables below show the credit quality of the Company's financial assets:

	2018			
	High Grade	**Medium Grade**	**Low Grade**	**Total**
Cash in banks and cash equivalents	₱1,548,935,345	₱–	₱–	₱1,548,935,345
Receivables	1,582,609,349	–	–	1,582,609,349
Due from related parties	2,548,124	–	1,865,563	4,413,687
Investment at FVPL	1,009,832	–	–	1,009,832
	₱3,135,102,650	₱–	₱1,865,563	₱3,136,968,213
	2017			
	High Grade	Medium Grade	Low Grade	Total
Cash in banks and cash equivalents	₱2,284,358,298	₱–	₱–	₱2,284,358,298
Receivables	3,681,105	–	–	3,681,105
Due from related parties	36,622,099	–	1,865,563	38,487,662
Available-for-sale investments	290,177,777	–	–	290,177,777
	₱2,614,839,279	₱–	₱1,865,563	₱2,616,704,842

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial assets and financial liabilities. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or the counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated.

The Company 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.

The following table summarizes the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2018 and 2017 based on remaining contractual undiscounted collections and payments:

	2018		
	Due in less than one year	**Due in more than one year**	**Total**
Financial assets			
Cash and cash equivalents			
Cash in banks	₱172,066,438	₱–	₱172,066,438
Cash equivalents	1,376,868,907	–	1,376,868,907
Receivables	1,582,609,349	–	1,582,609,349
Due from related parties	2,548,124	–	2,548,124
Investment at FVPL	1,009,832	–	1,009,832
	₱3,135,102,650	₱–	₱3,135,102,650
Financial liabilities			
Accounts and other payables	₱19,695,850	₱–	₱19,695,850
Due to related parties	–	285,439,865	285,439,865
Derivative liability	–	1,406,175,427	1,406,175,427
Bond payable	–	1,108,417,074	1,108,417,074
	₱19,695,850	₱2,800,032,366	₱2,819,728,216

	2017		
	Due in less than one year	Due in more than one year	Total
Financial assets			
Cash and cash equivalents			
Cash in banks	₱37,823,298	₱–	₱37,823,298
Cash equivalents	2,246,535,000	–	2,246,535,000
Receivables	3,681,105	–	3,681,105
Due from a related party	38,487,662	–	38,487,662
Available-for-sale investments	290,177,777	–	290,177,777
	₱2,616,704,842	₱–	₱2,616,704,842
Financial liabilities			
Accounts and other payables	₱14,282,678	₱–	₱14,282,678
Derivative liability	–	1,860,373,479	1,860,373,479
Bond payable	–	896,185,059	896,185,059
	₱14,282,678	₱2,756,558,538	₱2,770,841,216

Capital Management

Generally, the primary objective of the Company's capital management is to ensure that it continuously strives and maintains a strong credit standing and healthy capital ratios in order to support its business and maximize shareholders' value.

The Company manages its capital structure and makes adjustments as may be necessary in light of changes in the business and general economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the Company's objectives, policies or processes as at December 31, 2018 and 2017. The Company is not subject to externally imposed capital requirements.

The capital that the Company manages is equal to the total equity as shown in the statements of financial position at December 31, 2018 and 2017 amounting to ₱2,917.37 million and ₱1,232.03 million, respectively.

17. Fair Values and Offsetting Arrangements

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

The carrying amounts of cash and cash equivalents, receivables, due from/to related parties and accounts and other payables approximate their fair value. These financial instruments are relatively short-term in nature.

The fair value of the unquoted unit investment trust fund is based on the published net asset value per unit as of reporting date and is under the Level 2 category.

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%.

Fair Value Hierarchy

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

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

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

		2018			
		Fair value measurements using			
	Carrying values	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Unquoted unit investment trust fund	₱1,009,832	₱1,009,832	₱–	₱1,009,832	₱–
Liabilities 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

		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					
Unquoted unit investment trust fund	₱290,177,777	₱290,177,777	₱–	₱290,177,777	₱–
Liabilities 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

During 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

Financial assets and liabilities are offset and the net amount reported in the statements of financial position where the Company currently has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the net asset settles the liability simultaneously.

The table represents the recognized financial instruments that are offset as at December 31, 2017 (nil in 2018) and shows in the 'Net' column what the net impact would be on the Company's statements of financial position as a result of the offsetting rights.

	December 31, 2017			
	Gross amount	Offsetting	Cash paid	Net amount
Dividends receivable	₱843,356,203	₱–		₱843,356,203
Dividends payable	–	(699,465,287)		(699,465,287)
Cash settlements	–	–	(143,890,916)	(143,890,916)
	₱843,356,203	(₱699,465,287)	(₱143,890,916)	₱–

The Company's dividends payable to LBCDC has been offset against the dividends receivable from LBCE.

18. Note to Statement of Cash Flows

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

Investing Activities

a.) 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.

b.) Unpaid acquisition of investment in an associate amounting to ₱9.65 million.

Financing Activities

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

	December 31, 2017	Cash Flows	Interest	Dividends declared	Foreign exchange movement	Fair value changes	December 31, 2018
Convertible bond (bond and derivative liability)	₱2,756,558,538	₱–	₱161,654,374	₱–	₱50,577,641	(₱454,198,052)	₱2,514,592,501
Due to related parties	–	266,771	–	–	–	–	266,771
Dividends payable	–		–	285,439,865	–	–	285,439,865
Total liabilities from financing activities	₱2,756,558,538	₱266,771	₱161,654,374	₱285,439,865	₱50,746,704	(₱454,198,052)	₱2,800,299,137

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

Financing Activities

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

	December 31 2016	Cash Flows	Interest	Dividends declared	Offsetting of dividends	Foreign exchange movement	Fair value changes	December 31, 2017
Convertible bond (bond and derivative liability)	₱–	₱2,505,658,750	₱59,559,636	₱–	₱–	(₱8,610,668)	₱199,950,820	₱2,756,558,538
Due to related parties	15,694,463	(15,694,463)	–	–	–	–	–	–
Payment of dividends	–	(127,536,686)		827,001,973	(699,465,287)	–	–	–
Total liabilities from financing activities	₱15,694,463	₱2,362,427,601	₱59,559,636	₱827,001,973	(₱699,465,287)	(₱8,610,668)	₱199,950,820	₱2,756,558,538

19. 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.

Out of the ₱285.17 million declared cash dividends and approved by the BOD of LBCH on December 20, 2018, ₱55.80 million will be paid in cash to minority shareholders on February 8, 2019.

As discussed in Note 11, 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.

SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of LBC Express Holdings, Inc. (the Parent Company) as of and for the year ended December 31, 2018 on which we have rendered the attached report dated April 12, 2019.

In compliance with Securities Regulation Code Rule No. 68, As Amended (2011), we are stating that the Parent Company has four hundred seventy four (474) stockholders owning one hundred (100) or more shares.

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

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of LBC Express Holdings, Inc. (the Parent Company) as at and for the years ended December 31, 2018 and 2017 and have issued our report thereon dated April 12, 2019. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule of Retained Earnings Available for Dividend Declaration is the responsibility of the Parent Company's management. This schedule is presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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.

SUPPLEMENTARY 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