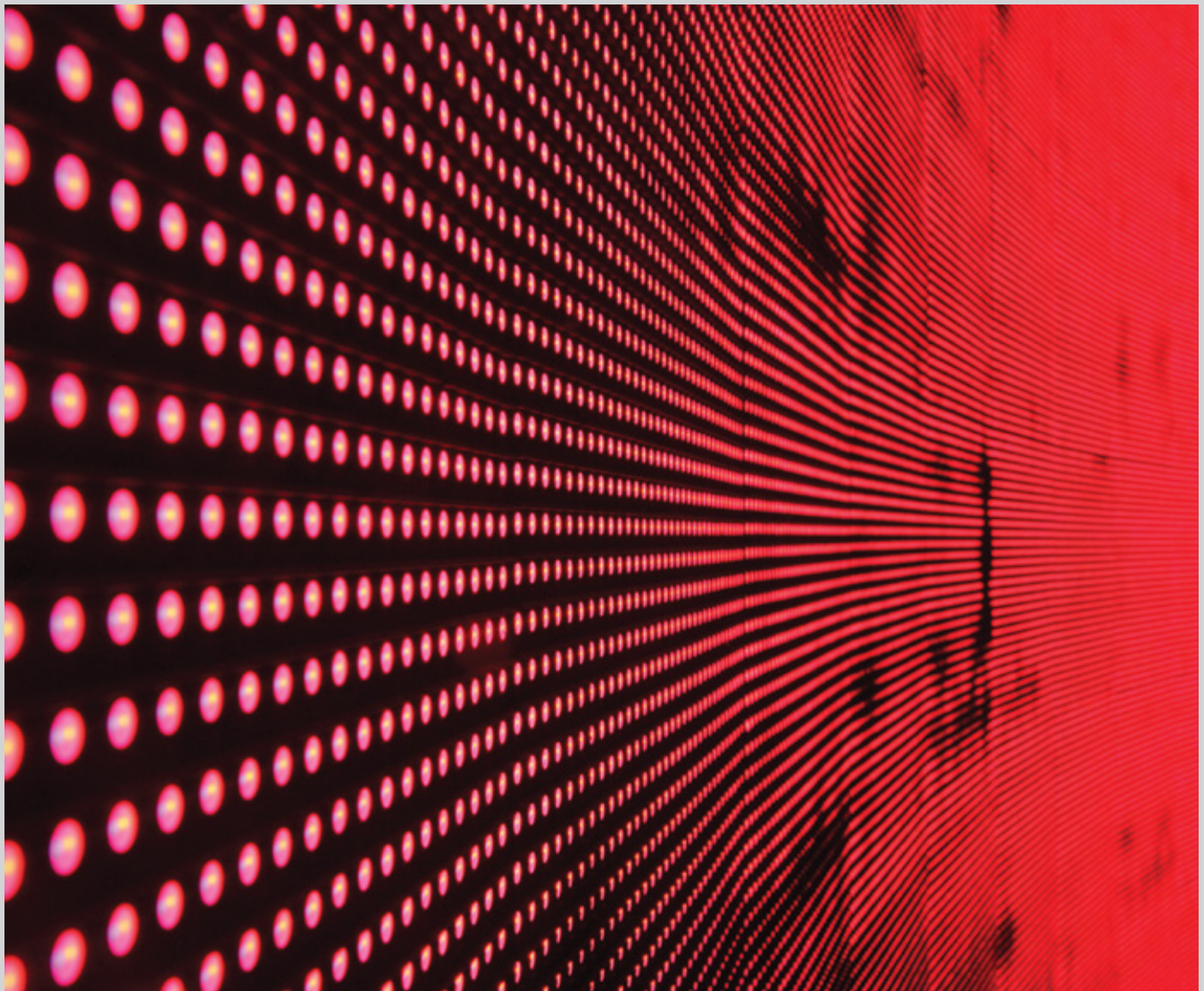




LBC EXPRESS HOLDINGS, INC.  
2018 ANNUAL REPORT

# GLOBALIZATION IN MOTION

Moving Towards Globalization in the Digital Age





The traditional definition of globalization is the spread of products, technology, information, and jobs across national borders and cultures. In economic terms, it describes an interdependence of nations around the globe fostered through free trade.

But while globalization has empowered LBC’s growth through the years, it’s undeniable that the definition of globalization, in its strictest sense, is steadily evolving. Globalization is in transition—spurred by connectivity, the constant flow of data, and a much greater need for global connectedness among consumers and businesses.

To that end, succeeding across borders has become more challenging. Breaking down trade barriers paved the way for more competition as digital connections that continue to link people and businesses across borders grows stronger.

In response, LBC started acquiring overseas subsidiaries to strengthen its internal capabilities, took concrete steps towards digitalization of its processes, and moved to actively support new industry trends. These decisions bolstered LBC’s core strengths even amid this transition, and it will continue to transform the trajectory of a business known for its legacy as it finds its place in a global future.

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## What Moves and Drives Us

**Our Vision.** By 2020, LBC shall be the access and delivery solutions provider of choice, professionally and technologically equipped to serve Filipino families and business entities through total customer experience.

**Our Mission.** Linking and bridging customers through our network and innovating new solutions to provide faster, easier, and more cost-effective delivery solutions.

## What We Commit To

### Our Brand Promise:

*“A friend who makes your day”*

LBC is the warm and helpful partner who enjoys moving packages, goods and money for you. We understand that people look forward to what you’re sending, so we provide clarity, certainty and convenience to help make everyone’s day.”

## What Inspires Us

### Our Brand Tagline:

*“We like to move it”*

## How We Deliver Our Mission

LBC’s mission has always been to link and bridge customers through our ever expanding network and innovating new solutions to provide faster, easier, and more cost-effective delivery solutions.

But the world is changing rapidly—and along with it, the needs of people and businesses who depend on LBC.

In response, we go back to the LBC Way—a tried and tested approach that allows us to be flexible, adaptable, and innovative.

## What We Are All About

### Our Culture

These are the values that define everything we do in LBC:

- *Humility*
- *Integrity*
- *Trust*
- *Commitment*
- *Social Responsibility*
- *Customer First*
- *Teamwork*
- *Innovative*
- *Positive Thinking*

### Our Brand Attributes

#### *Clarity*

We believe in providing transparent and timely information to give customers peace of mind. We want to pay particular attention to:

- The process of moving items or money
- The schedule and timing of your delivery
- Clear communication of our cost

#### *Certainty*

We believe in providing our various stakeholders with certainty through:

- Presenting relevant options for different needs
- Our staff’s commitment to set expectations and deliver on our promises
- Fair and timely updates of information

#### *Convenience*

We promise to make your experience as hassle-free as possible by:

- Constantly improving our processes and adding new and relevant capabilities
- Easy access to call center and frontline staff
- Growing of our network coverage

1

### History and Network

Integrate core competencies to create a solid foundation for our service commitment.

2

### Understand and Learn

Gain meaningful insight into the evolution of the modern customer and apply to reinvent the business model.

3

### Quality and Service

Apply new capabilities to win customers through quality and customer satisfaction

4



### Innovate and Execute

Ensure resilience and agility as well as maintain market position by delivering high value products and services.



# OUR BUSINESSES AT A GLANCE

We are a brand recognized for our heritage and experience in the courier and logistics industry. LBC continues to serve as a benchmark for how businesses could thrive and evolve to become a global business.

## LOGISTICS

	Retail	Corporate
	<div></div> <div>COURIER AIR CARGO BALIKBAYAN BOXES</div>	<div> BUSINESS SOLUTIONS</div> <div>SPECIALIZED CORPORATE SOLUTIONS FREIGHT FORWARDING E-COMMERCE</div>
Revenue Contribution (%)	57.4%	34.9%
Revenue (in million pesos)	₱7,186.36	₱4,365.11

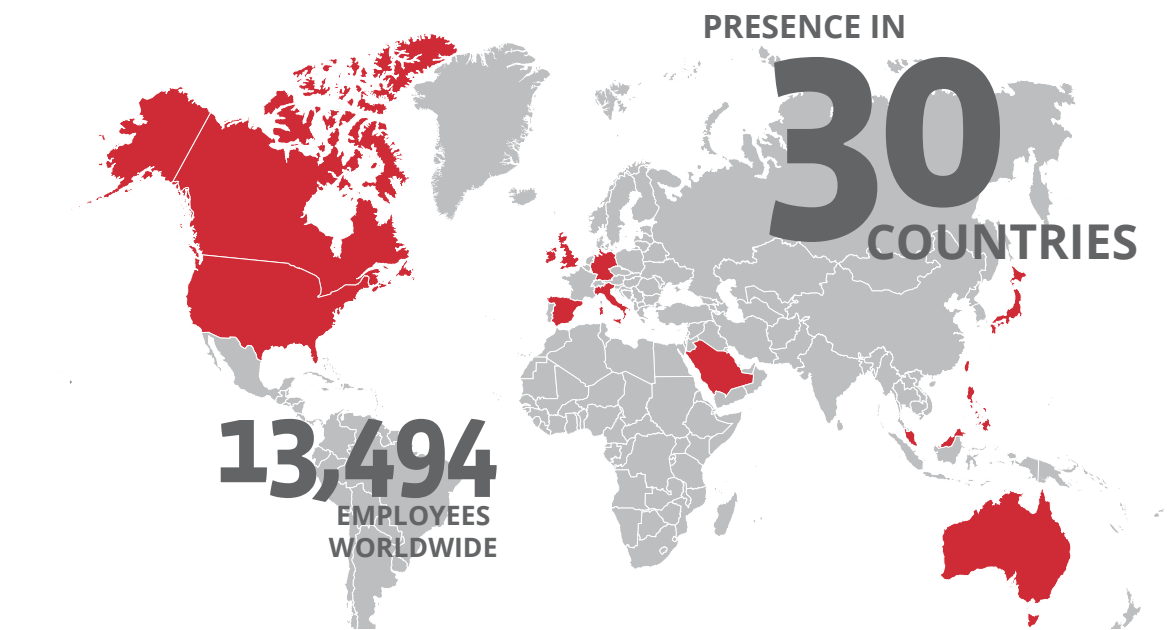
## MONEY

	Remittance	Payment Solutions
	<div> MONEY EXPRESS</div> <div>INSTANT PESO PADALA PESOPAK DELIVERY</div>	<div></div> <div>BILLS PAYMENT CASH ON PICK-UP/ CASH ON DELIVERY</div>
Revenue Contribution (%)	6.4%	1.3%
Revenue (in million pesos)	₱795.56	₱167.15



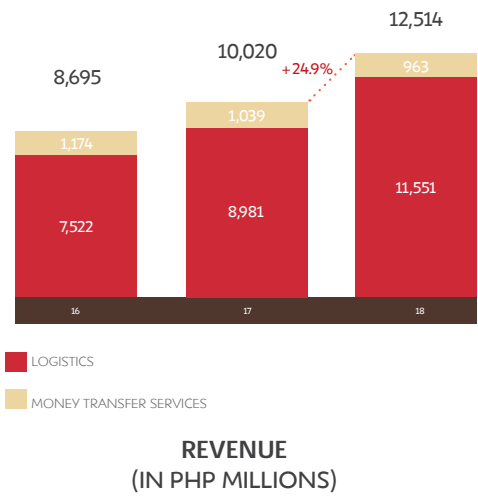
A Brand In Motion:

# WHEN LOCAL GOES GLOBAL



	Europe	Middle East	Oceania	Asia Pacific	North America
Countries	11	5	2	9	2
Warehouses	2	8	1	8	13
Cargo and Remittance Branches	6	12	2	17	37
Partner Agent Countries	9				
Partner Agent Branches	136	469	3	184	189

**₱12.51B**  
REVENUES



A brand that's synonymous to reliability and trust.

The gold standard for Global Filipinos.

A recognized name that's accessible wherever Filipinos are.

**27.67**

MILLION REMITTANCE  
TRANSACTIONS IN 2018

**33.95**

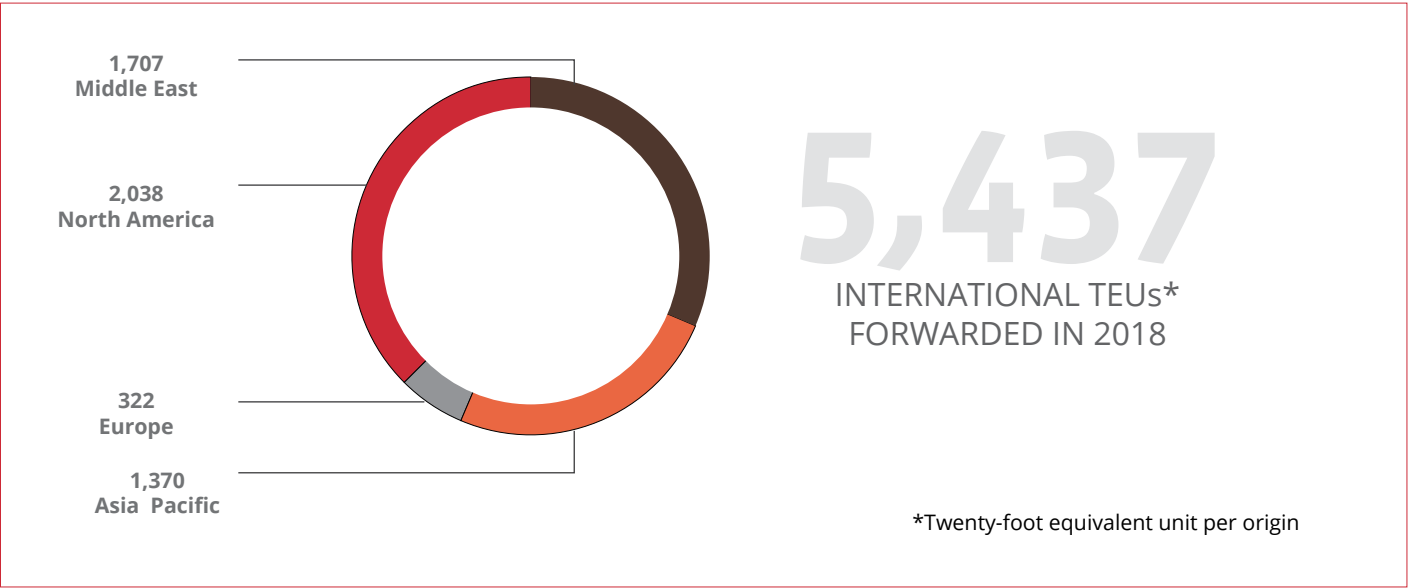
TONS DOMESTIC AIR CARGO  
FORWARDED IN 2018

**899,115**

BALIKBAYAN BOXES  
FORWARDED IN 2018

**277,513**

INTERNATIONAL PARCELS  
FORWARDED IN 2018







Message From The Chairman And President's Report

# REDEFINING GLOBALIZATION

Technology has been a defining characteristic of the modern world—particularly the impact it has made in the way we live.

Its influence is undeniable. It gave us new ways to communicate and collaborate; it paved the way for new opportunities; and it drastically shifted our needs and wants. As a result, we now live in a world where consumer expectations are rapidly rising, markets are in a constant state of flux, and businesses have a responsibility to keep up with the pace.

If an organization's measure of success is anchored on their adaptability, then I'm proud to say, LBC—despite these challenging, complex times—continues to thrive.

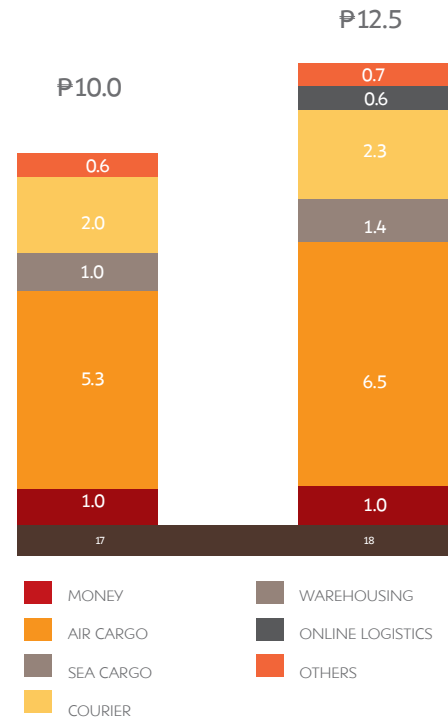
Last year was a journey for our company that pursued change,

anchored on innovation. We recognized that technology is the enabler for fast-paced and digitally-powered markets and industries and we acted on it. This year, backed by all our previous efforts, we have a new opportunity to enter a new era of globalization, integration, and advancement.

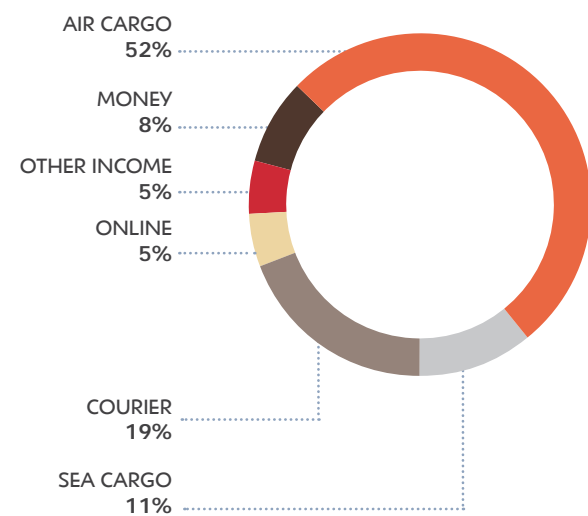
We are, first and foremost, a brand for Filipinos. But remember, Filipinos are all over the world—which means if we were to achieve this goal in its truest sense, we need to be a brand for every Filipino, wherever they may be. To that end, the focus of globalization, and all its implications on increasing economies of scale and integrations is critical.

Opportunities are unfolding for our company both in the domestic and international landscape.





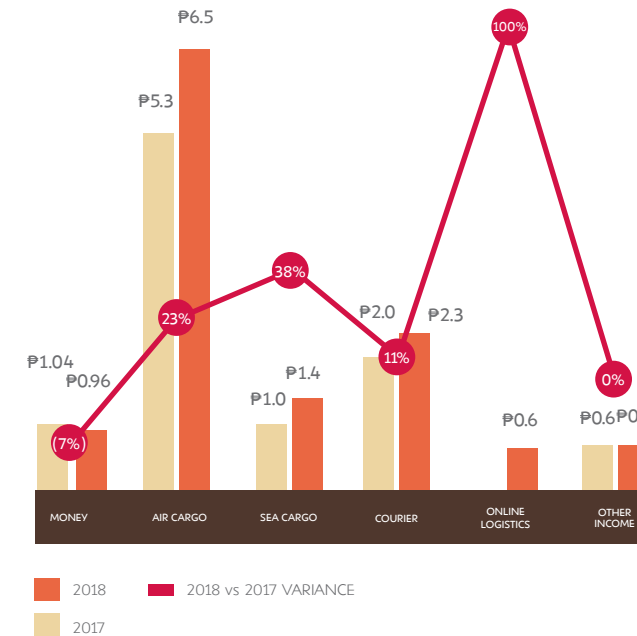
**2017 VS 2018 REVENUES  
(IN BILLIONS PHP)**



**2018 TOTAL REVENUE  
SHARE BY SERVICE**

We recognized that one of the great engines of globalization is the expansion of LBC across borders through our ability to create strategic subsidiaries. So we pursued cross-border partnerships to demonstrate our strength and adaptability to evolving market and consumer trends. We focused on empowering and supporting the growth of e-commerce in this nation—an industry with no borders—to fuel business growth and address consumer needs directly. And amid the challenges and risks associated with our vision, we maintained our competitive edge through digital transformation and constant innovation through internal operational improvements and consumer-facing applications.

Our legacy is a testament to our resilience and ability to weather through the toughest of times. We are known for being agile and innovative—qualities that allow us to maintain our edge against competition that's getting tougher over time. Most of all, our pursuit for excellence in this industry



**2018 VS 2017  
REVENUES BY SERVICE  
IN PHP MILLIONS**

has helped more businesses create a profitable bottomline; a tangible outcome that is a result of our tireless effort to earn customer loyalty and trust.

Year after year, we prove that the LBC way has the power to move not just packages, but our customers lives as well—and this is a collective achievement that is a personal point of pride for everyone in the organization.

On this note, I take this opportunity to thank you for giving LBC the chance to do so as we find our place in a global future.

Year after year, we prove that the LBC way has the power to move not just packages, but our customers lives as well—and this is a collective achievement that is a personal point of pride for everyone in the organization.

**MIGUEL ANGEL A. CAMAHORT**  
Chairman of the Board  
President & Chief Executive Officer





## WHAT GLOBALIZATION MEANS TO LOCAL MOVERS

We move Filipinos' lives—wherever they are in the world. We work hard to extend your company's global reach without losing focus of LBC's local expertise.

Our service is designed to connect customers, communities, and businesses worldwide anchored on the LBC Way. Today, your company services customers worldwide, across countries and territories around the globe.



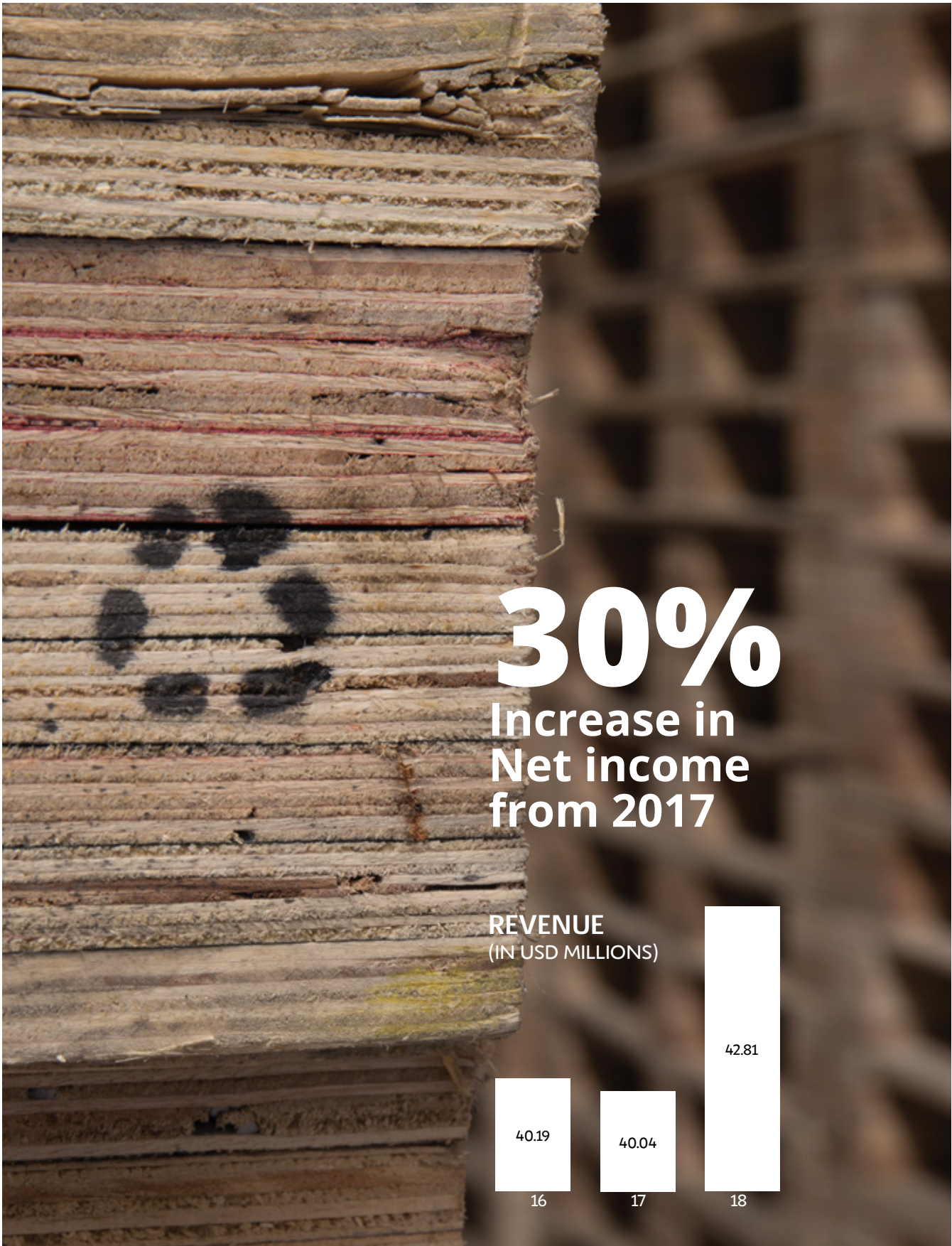
# NORTH AMERICA



The success of LBC’s North American division is driven by their ability to align regional initiatives with the overall LBC vision. Anchored on LBC’s overall thrust for digital transformation, LBC North America zeroed in on transforming LBC’s products to fit its new digital framework.

**Operational Highlights**

- A recognized benchmark for fulfilment solutions, professionalism, training, and customer service.
- Implementation of co-loading services, earning 780,000 USD in revenues.
- Introduced E-Cargo services that allowed North American operations to expand to all 50 states across the United States.
- Building online remittance services to be rolled out in the latter part of 2019.
- Rolled out innovative solutions such as Box Move, a system that tracks movement of parcels from point of acceptance to delivery; RoboCall, a survey call facilitating real time feedback from customers; and Lexis Nexis Activation, a KYC digital program for all LBC US users designed to minimize risk solutions for compliance and fraud detection.





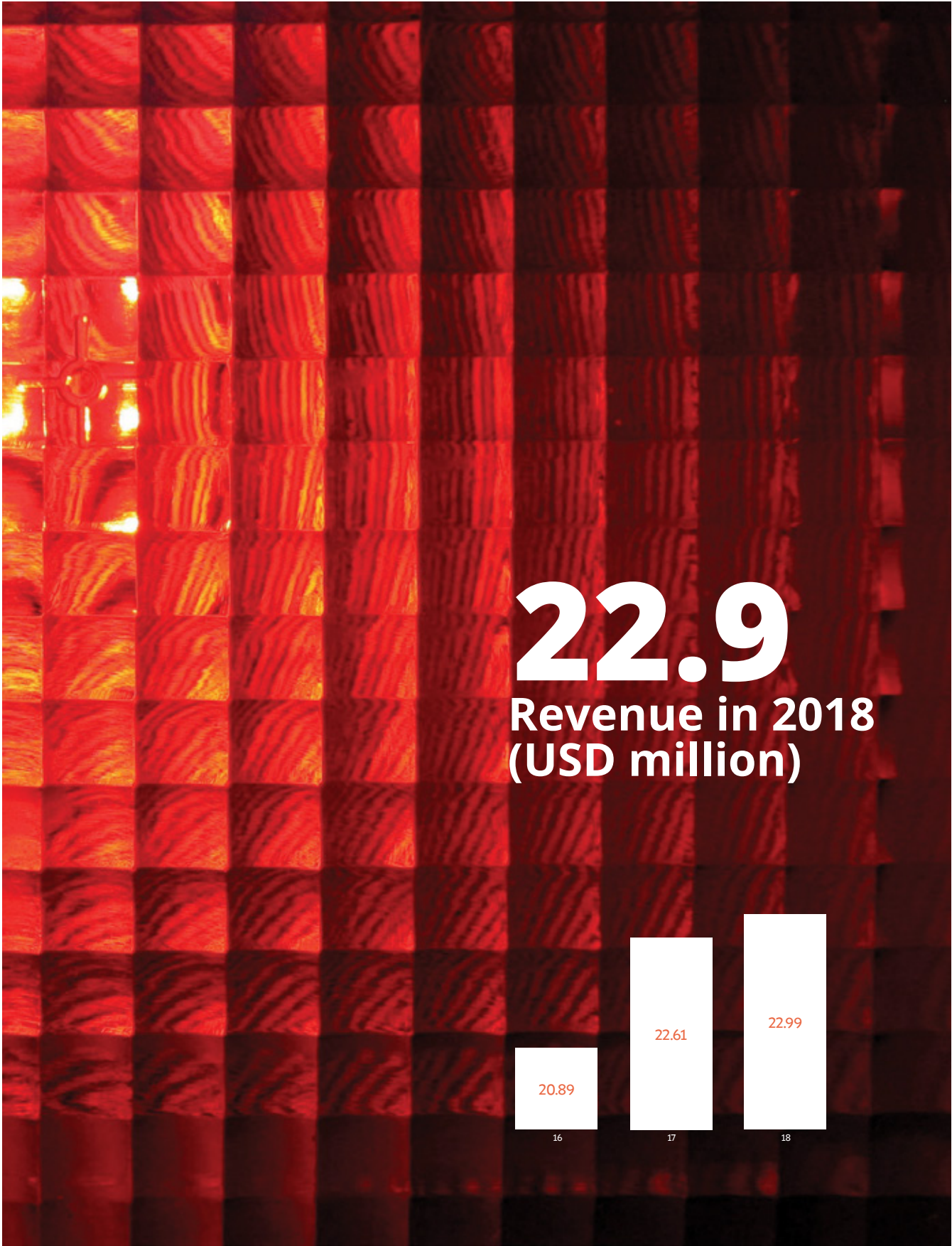
# MIDDLE EAST



LBC’s operations in the Middle East is hinged on a belief that an in-depth understanding of consumer needs is key to opening up opportunities for expansion within the region. To that end, their focus underscores the successful creation of new service offers to millions of Filipinos in the Middle East.

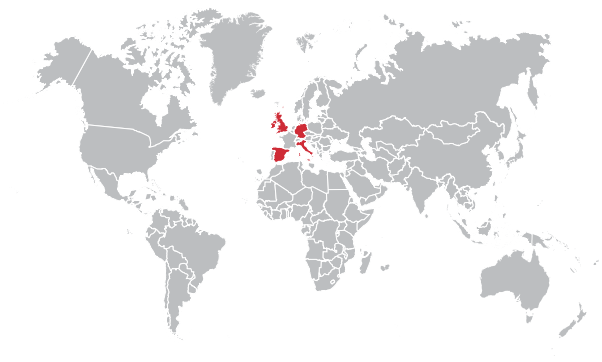
**Operational Highlights**

- Reinvented the Balikbayan Box Initiative to celebrate LBC’s 10th year in the region, offering added security, protection, and durability to differentiate itself from competition.
- Added Document Processing and Global Attestation to its service offerings to facilitate processing of birth certificates, NBI clearance, CENOMAR, marriage certificates, transcript of records, PRC renewals, and similar attestation documents required by overseas Filipinos based in the Middle East.
- Continuous branch and agent expansions where LBC further enhances your brand’s reach and accessibility in the region through satellite-branches and agent locations across the United Arab Emirates, Kingdom of Saudi Arabia, Kuwait, and Bahrain.





# EUROPE



A diversified approach to growing the European market is anchored on digital transformation--an objective that highlights the group's ability to align all its initiatives with the overall company vision in the coming years. With a goal of improving service delivery and achieving 100% customer satisfaction, European efforts center on regional expansion initiatives.

**Operational Highlights**

- LBC South Europe reached a total amount of €1,719,860.06 in revenue, with 88 sea cargo shipments and ever growing database of existing and active customers.
- In the North, LBC achieved 2,085,000 GBP, with over ten thousand existing and active customers.
- Improved operational processes, from payment collection to pick up scheduling, stamping, money back guarantee compliance.
- Expansion of operations with recent signed partnership to service Paris, France.
- Inauguration of new European offices, including Switzerland and Milan.





# ASIA PACIFIC



The growth of operations in the Asia Pacific region is unprecedented. The ongoing transformation is being driven by the symbiotic mix of industrial nations and developing countries who are beginning to reap the advantages of a growing e-commerce market and globalization.

### Operational Highlights

- LBC Hong Kong saw the movement of 17,436 shipments since the launch of its e-commerce business. This also furthers the expansion of LBC across new territories in the country, including the opening of the Yuen Long branch that can cater to the Northeastern part of Hong Kong.
- Asia Pacific and Australia maintained our strategy to optimize operations and retain the LBC brand as top of mind for Filipinos when it comes to their “padala” needs. As a result, top line revenues grew by 3% compared to the previous year and yielded a Net Income Before Tax of 19% versus the 14% in 2017.
- LBC Singapore established key local partnerships to boost operations, specifically with Singapore Post who launched the “Philippine Savers Box” specifically dedicated for Filipinos who wish to send items back to the Philippines. With this partnership, LBC SG Air Cargo service will be available in the 57 branches of SingPost located all over Singapore.

**Speedpost**

*Singapore*  
**POST**

Mabilis at **Hassle-Free** na Pagpapadala sa **PILIPINAS**

Ang Philippines Saver Box ang pinakamadaling paraan para magpadala ng parcel sa Pilipinas.

**Single Price**

Pumili ng kahon na kakasya ang mga padala at bayaran ang kaukulang fixed price – ito ay regardless kung saang region sa Pilipinas magpapadala o gaano siya kabigat.

XXL: \$118

XL: \$90

**No Weight Restrictions**

Punuin ang kahon at i-seal - hindi na kailangang timbangin.

**Pwedeng Drop Off or Pick Up**

I-drop off ang inyong padala sa kahit saang Post Office o tumawag sa **1800 222 5777** para sa libreng doorstep pick up.



**3%**  
Revenue  
growth from  
2017

**36%**  
Net Income  
increase



A partnership that's two decades in the making, this new era of globalization puts your company's synergy with Orient Freight International, Incorporated (OFII) front and center.

OFII is the leading logistics company with a reliable selection of services such as freight transport, warehousing, and cargo handling in the Philippines and in South East Asia. Established in 1973 as a licensed customs broker and freight forwarder specializing in cargo transportation and allied services, OFII is recognized for its standard in timely and innovative logistics solutions, helping businesses draw out their unique and competitive edge.

Fusing LBC's legacy, local expertise and ever-expanding breadth with OFII's reliable global network, both companies today are working towards putting the spotlight on the opportunities presented by globalization and the growth of e-commerce.

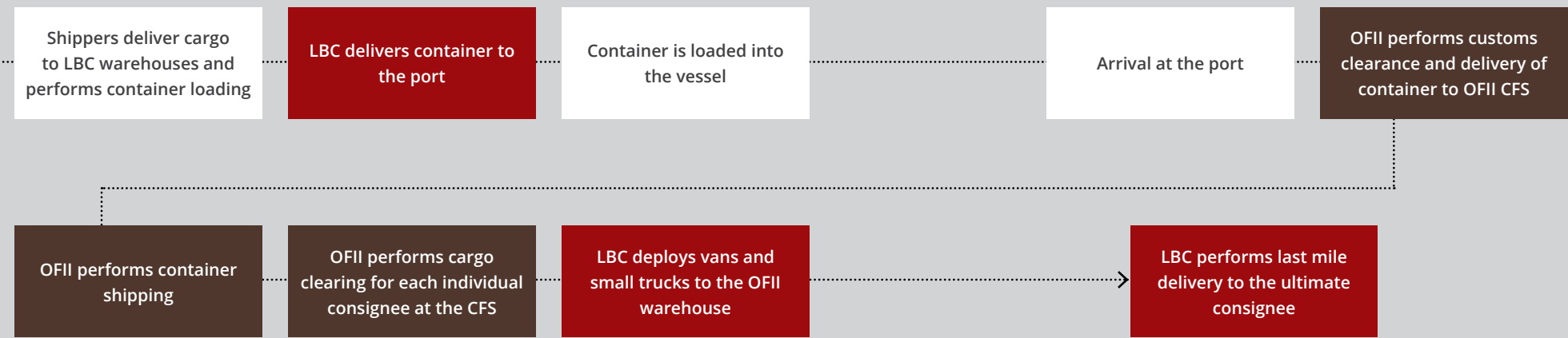
### Global Expansion Initiatives

- **Tri-Lateral, Unboxing Logistic Solutions.** Hellmann Worldwide Logistics (HWL), LBC and OFII gathered to mutually envision better business opportunities and unbox logistic solutions around the globe.
- **Import-Consolidation.** To LBC and OFII as major consolidators offering best in class integrated and competitive services in the market, a new business model was created to define new standards that will disrupt the traditional methods of import consolidation.
- **Crossborder Initiatives.** Establishing itself in the crossborder market entailed LBC and OFII to focus on creating key partnerships with primary platforms driving the initiative—namely Lazada and Shopee. OFII thus covered the first mile and customs clearance while LBC fulfilled last mile delivery.

### In the Pipeline

- **Expansion for cold chain storage.** Moving forward, LBC and OFII will endeavor to build a facility that will offer cost-efficient cold storage options within the port and inside the city.
- **Expanding warehousing operations in Davao and off-dock CFS.** Gain incremental volume by offering additional services in the North side of the Philippines.
- **Implement ISO integrated management system certification.** To improve quality, an integrated management system (IMS) combines all related components of a business into one system for easier management and operations.

How will it work?



Fusing LBC's legacy, local expertise and ever-expanding breadth with OFII's reliable global network, both companies today are working towards putting the spotlight on the opportunities presented by globalization and the growth of e-commerce.



# INFORMATION TECHNOLOGY

IT investment remain a priority for LBC as the company works towards gaining a stronger foothold in a new global platform. Being the primary driver of your company's digital transformation, the brand saw first hand how technology can enhance their ability to deliver and improve operational performance.

Strong IT teams contribute to your company's flexibility. They shift the nature of boundaries, they improve the nature and pace of current operations, and they make it possible for your company to be more adaptable to market changes.

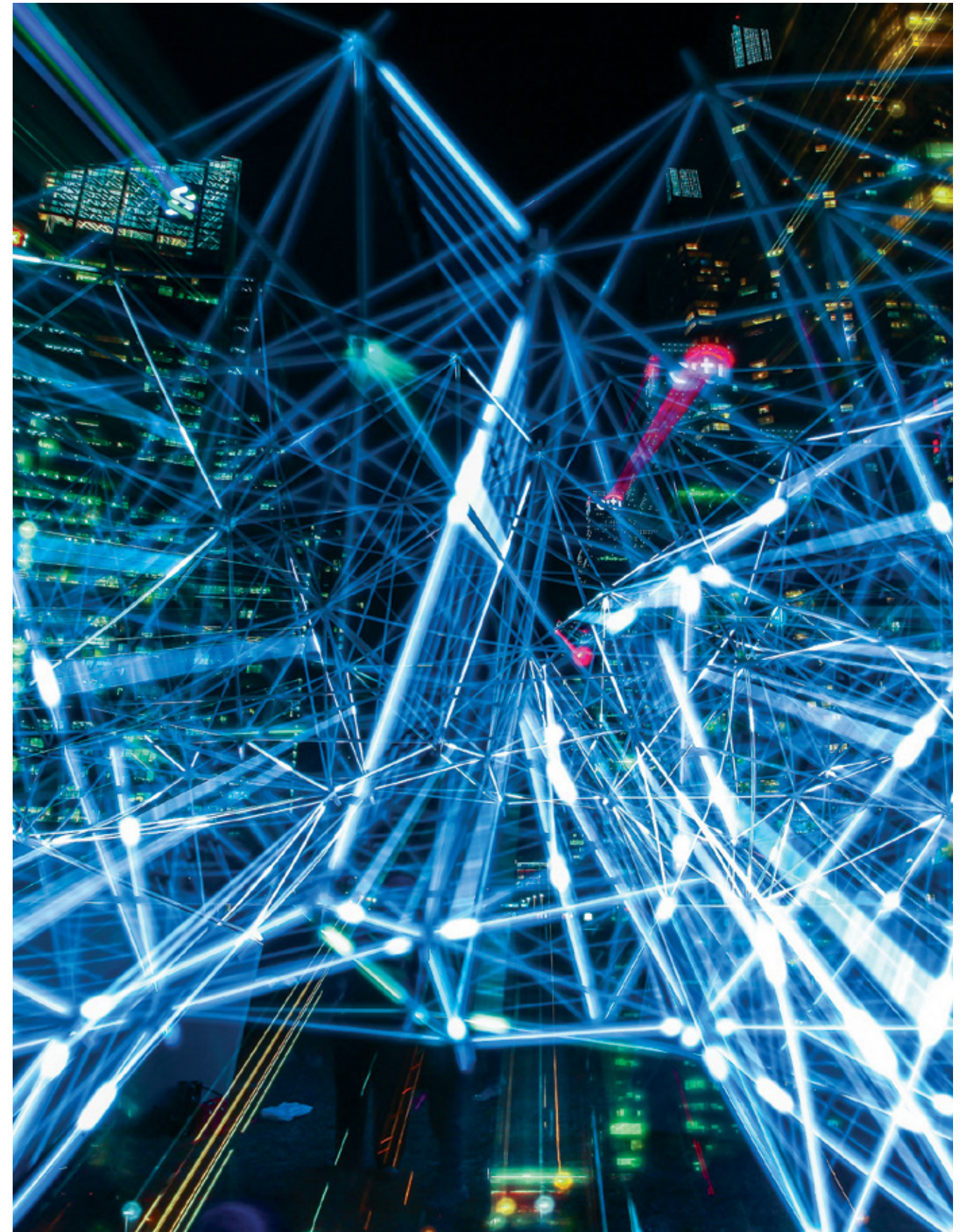
Quite simply, the integration of IT systems and solutions is critical to LBC's success. LBC's IT team:

- Ensures that all business unit requirements are aligned with the strategic plans of your company.
- Defines synergistic partnerships that create new products and services designed to address market needs.
- Supports the growing business needs of LBC, including data management, cloud migration, data scalability, and system redundancy.
- Ensures compliance of policies specific to data privacy and security, across all departments.

## Operational Highlights

LBC's dedicated IT team continues to implement new technologies designed to help improve current operational processes. Recent initiatives include:

- Migration of servers to Azure to improve data security, availability and scalability.
- Implementation of advanced threat protection for Office 365 users to proactively anticipate, detect and prevent threat.
- Deployment of Meraki Network for delivery hubs to optimize network access management.
- Rolled out SAP financial models to Middle Eastern countries such as UAE, KSA and Bahrain for ease of financial reporting and consolidation, in compliance with the VAT implementation in the Gulf Cooperation Council (GCC) region.
- Migration of SAP System Landscape to SAP HANA Enterprise Cloud to enable scalability with low risk deployments that leverage on SAP HEC's Fully Managed Services and other database related activities. The move was designed to free-up IT resources and ensure cost-efficiency.
- Deployment of COP/ COD-boasting additional 986,484 unit/sales for 2018.
- Implementation of mobile application to provide easier tracking access for customers.





# COMPLIANCE, DATA PROTECTION AND PRIVACY

Trust, credibility, and transparency remain critical to LBC’s operations--moreso as LBC endeavors to navigate the complex nature of local and international trade, while ensuring that we maintain their standard of quality and excellence.

### Operational Highlights

- **Successful re-registration of its remittance license .** Responding to a new regulatory environment for the industry, LBC re-registers its remittance license with the Banko Sentral ng Pilipinas (BSP) ensuring compliance with the anti-money laundering law as well as adoption of consumer protection standards focused on transparency, protection of client information, fair treatment, effective recourse and financial education.
- **High value AMLC assessment and reporting.** According to AMLC’s over-all assessment of reports filed by LBC Express in 2016, 99.88% of the STRs were deemed to have HIGH VALUE for investigation purpose. With respect to the quantity, the submitted STRs for the year was noticeably low considering LBC’s total resources of 5.7 billion as of Dec 2015.
- **Public-Private Partnership between AMLC and LBC.** LBC Express was the first covered person to sign the INFORMATION SHARING PROTOCOL (ISP) with the Anti-Money Laundering Council (AMLC). LBC Express was chosen to participate in this program based on its strong and good governance as indicated by its high rating in the AML Risk Rating System (ARRS) and a reliable suspicious transaction monitoring.
- **LBC Express chosen to represent MSB Sector for the Philippines’ 3rd APG Mutual Evaluation 2018.** LBC Express was chosen by the Bangko Sentral ng Pilipinas and the Anti-Money Laundering Council to be one of the representatives for the Money Service Business sector for the Mutual Evaluation Process conducted by the Asia Pacific Group (APG) on Money Laundering.
- **Association of Remittance Company Compliance Officers Philippines (ARRCO-Phils).** LBC Express’ Compliance Officer was elected to serve as Vice-President of ARRCO-Phils Board of Trustees. The group advocates industry position with the regulators and leads dialogues for reforms on regulations. ARRCO meets meets quartely with the AMLC and BSP to discuss matters affecting the industry.





# GLOBAL MARKETING

LBC’s global marketing efforts highlight the importance of convenience and the sentiment behind each “padala” to underscore the value behind their services—especially for LBC’s iconic balikbayan box and remittance services.

According to statistics, OFWs will continue to grow at an average rate of 5% per year. The country has also seen a significant increase in remittances from Taiwan, South Korea, Qatar, and the UAE. To date however, LBC is present only in 53% of total incoming remittances signifying a lot of room for expansion and growth across all the regions where LBC operates.

Opportunities for growth is strongly hinged on LBC’s digital transformation. And with a strong push to revamp all of its digital assets, the company has started to integrate their operations, break free from silos, and align all the data to ensure more seamless operations.

**LBC Connect**

Since the launch of LBC Connect, the app has seen 54% success rate in registrations with thousands of active users. The app has seen a 20% average growth on cumulative downloads.

**CRM Support**

Improved Data-centered methodology that offers a deep-dive into analytics to develop customer scores and valuation for existing programs. This always-on approach allows LBC to be available across multiple preferred touchpoints such as voice, SMS, EDM, Social (Facebook and Instagram), website, LBC Connect app, and physical stores.

**Customer Journey**

Improved focus on the customer journey with opportunity to engage customers through the latter part of the process through technology such as CSAT customer feedback and initiative management system (IMS).

Because of these initiatives, the company’s platforms and other solutions will allow people to benefit from LBC’s features in the most intuitive, simplest, efficient way possible. The use of technology is more responsive and proactive to what people truly need—a service that allows them to focus on moving beyond the things they send to their families, loved ones and even business partners.



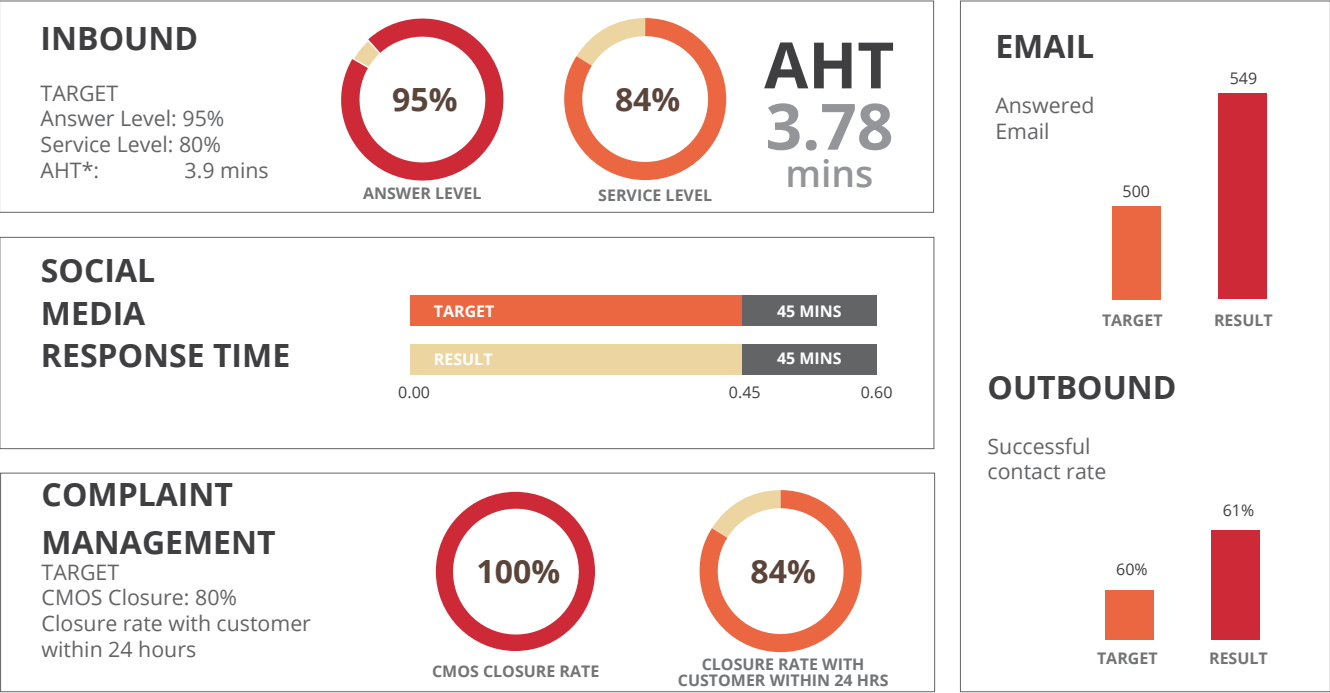


# CUSTOMER CARE

Customers are the lifeblood of LBC. LBC’s products and services will indeed have a direct impact on the company’s success—but LBC’s longevity in this highly competitive industry can be credited to their strong focus on ensuring company satisfaction and engagement.

**Operational Highlights**

- Exceeded customer care management targets across various channels, with hotline targets exceeding by 121% and SME targets reaching 114 %.
- Continuous improvement of customer satisfaction levels as evidenced by data and analytics, with metrics showing significant satisfaction, across the board
- Shifting to digital platforms allowed CCM sales initiatives such as booking via FB to increase revenue by ₱6 million, deliver consistent monthly savings of an average of 6% monthly, and lower attrition rate by 2% compared to the previous year.



\*AHT: Average Handling Time



# PHILIPPINE SYSTEMS

Philippine Systems were established to provide delivery efficiency by incorporating operational excellence throughout every facet of the organization. To date, the team was able to create systems that provide visibility and transparency on performance of local forwarding processes, policy compliance across stakeholders, and consistently improve delivery performance.

**Operational Highlights**

- Improved visibility of delivery performance in terms of local forwarding resulting in ₱20 million cost savings.
- Motorcycle Re-fleeting initiatives that resulted in an additional 1,234 systems and a significant savings of ₱30 million.
- Truck re-fleeting that brought in ₱12 million in annual savings.
- 18% increase in volume nationwide.

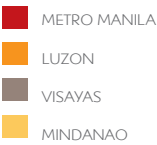
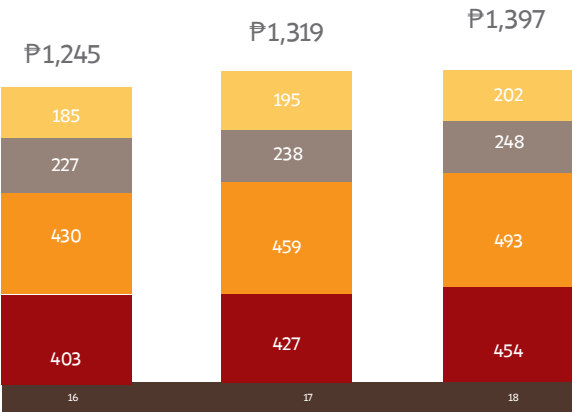




# PHILIPPINE OPERATIONS

The company's Philippine Operations puts packages at the heart of their growth strategy. Why? Because the parcel is a representation of how LBC does business for the Filipinos.

Every innovation ever implemented by the company is in the interest of making sure these packages arrive safely in the hands of each recipient. No other company recognizes the sentiment that goes behind each package entrusted to the company. And during a time of evolving priorities, rising customer demand, and tougher competition, LBC's Philippine Operations stands out because of the value they place in every padala. Policies and processes may change, but when you know what truly matters to your customers, LBC will always find better ways of doing things for their customers.



PHILIPPINE BRANCHES

## Operational Highlights

- Implementation of cash on delivery/ cash on pick up systems to expand service reach and achieving 10,000 average daily transactions.
- Continuous branch expansion and rebranding, paving the way for increased access to releasing stations for customers' money and goods.
- Upgraded and renovated branches for customers' favorite branches.
- Introduction of new payment solutions to accommodate informal sellers and MSMEs with a notable total of 1,700 sign ups since its launch.
- Making inroads towards financial inclusion by providing access to microinsurance.



**1,397**  
Branches in the  
Philippines  
(as of end 2018)



# HUMAN CAPITAL SUCCESS AND SERVICES

A big part of LBC's success is owed to its people-tenured team members who have seen the growth of this company since its earliest days and new employees who breathe new life and ideas into the organization.

LBC's Human Capital Success and Services team is built on the premise that a balance between innovation, technology, and inherent company values are the keys to retention, employee engagement, and morale.

## Operational Highlights

- **Expand global reach through the HCSS Partner Suite.** Implemented a gateway to facilitate HR employee communication, information, forms, news, payroll, probationary appraisal, manpower requisition, training requests, exit interviews. It also includes a carousel of headcount in gist, the Multi-Rater Feedback for all people-handlers, Engagement Surveys, which is open year-round, overseas e-clearance, S-box and the O2M8 HR App—all designed to offer more transparency and efficiency for the department.
- **24% increase in organic employees.** To date, LBC employs 10,044 employees, a significant rise from 2017.
- **Completion of 41 out of 52 digital HR projects.** Efforts began in the second quarter of 2018, with 77% already completed by the end of the year. These include implementation of new social media programs that saw an 80% rise in engagement; implementation of training programs via the Learning Management Systems, and Career Development and Succession Planning (CDSP) initiative.





# CORPORATE SOCIAL RESPONSIBILITY

LBC’s company mission is anchored on the premise of making a real difference in the lives of Filipinos—driven by the same values that allow the company to succeed. To that end, LBC Foundation makes a strong push to focus resources on areas where they can make the biggest impact and best serve the nation—education.

The goal? To uplift education in the country by taking the lead in motivating and engaging individuals and organizations to take action; making them aware of the challenges underserved students face in this country; and committing to follow through on making fundamental changes to address them.

## Infrastructure Building & Physical Facilities

In an effort to support the Department of Education’s move to address challenges in meeting the demand for classrooms, LBC Foundation and Philam Foundation through World Vision donated two new classrooms to a school in Molinete Elementary School in Laurel, Batangas last June 5, 2018.

Following this, LBC Foundation in partnership with the Office of the Vice President and Philam Foundation turned over a two classroom school building in Batinguel Elementary School, Dumaguete as well as a one-storey two-classroom building for Duit Elementary School in Kiangon, Ifugao.

## Teaching Tools and Equipment

LBC Foundation in partnership with the Office of the Vice President provide necessary tool and equipment to two school in Bukidnon such as Damilag Integrated School and Sumilao Bukidnon Tribal Academy. Equipment donated included: senior high school equipment, computers, TV and science laboratory apparatus.

Twenty-four feet motorized Yellow School Boast (with 16hp Diesel engine) were also given to Sitio Panglit, San Lorenzo, Masinloc, Zambales communities. The motorized boat transport high school learners from Purok Bagatan, Centro, Purok Baytan, Purok Libaba, Purok Mayanan and Purok Hugo.

## Direct Assistance via Scholarships

The LBC Foundation has supported the World Vision Philippines thru financial support to 101 children. Through the support of LBC Foundation, the children are able to nutritious food and clean water, have access to healthcare, and most importantly, to education.

Working with KaGaBay, LBC Foundation was able to support a two phased strategy of intervention. The first phase is the Early Child Care and Development (ECCD) Program that gave rise to the St. Marie Eugenie Learning Center (SMELC). This program addresses the need to provide children, aged 3-4 years old with free but quality Kinder education that likewise includes a 120-day feeding program that was designed to combat moderate to severe malnutrition.

LBC Foundation supported Upskills+ Foundation by providing financial support worth PHP 892,500 addressing the educational needs for 30 students in the Community Education and Mentoring Program (CEMP). Financial support will be utilize for the costs of school uniform, shoes and socks, school PE uniform, school ID, school projects, and daily allowance “baon” and transportation for 30 students who have previously dropped out from education.





**Move It Forward**

By leveraging on LBC’s core strength, LBC Foundation was able to provide shipping services and use its expansive network to aid partner communities.

**Yellow Boat Hope Foundation**

- 247 new backpacks and supplies were sent for underserved students in their adopted schools– Bayug National High School, Zamboanga del Sur Faundo Bldg, Poblacion, Ipil, Zamboanga Sibugay.
- Sponsored shipping to send 100 school backpacks and school supplies (three Balikbayan boxes) for Tayum Central School, Bangued Abra.
- Sponsored shipping of solar LED lamps to be given to 400 students in off grid Yellow Boat communities at Sitio Nipa and Sitio Ginahuan, Caramoan, Camarines Sur, so that the kids can study their lessons at night, free from risk of burns or respiratory ailments that comes with the use of kerosene lamps.

**Library Renewal Partnerships**

- Sponsored shipping six boxes transporting books from the Ortigas Library to MSU Iligan.
- Six boxes of books for library in Marawi
- Six boxes of books sent in Culasi, Iloilo

**Children’s Hour**

- Sponsored shipping of a sewing machine from Lingayen to Valenzuela City
- Sponsored shipping five boxes of Happy-2-Help school Kits to one of their school beneficiaries in Bantayan, Cebu
- Sponsored shipping of five boxes of Happy-2-Help School Kits to one of our school beneficiaries in Bontoc, Mountain Province.

**Books for the Barrios**

- Shipped 20 boxes of books from US to Marawi.

**Philippine Toy Library**

- Sponsored shipping of 21 boxes of toys for Roving Toy Library (RTL) in an effort to provide a play space for children to facilitate psycho-social healing from the Marawi siege.

**KaGaBay**

- Sponsored shipping of the following one truckload of 85 chairs in Kagabay community/ school in Antipolo and Angono, Rizal

**Bike for the Philippines**

- Sponsored shipping of 100 pieces or 29 bundles of rubber mats Ms. Nisan Biwang or Mr. Saturnino Calansi Sta. Cruz Pingkian



High School, Barangay Sta. Cruz, Municipality of Kayapa, Nueva Vizcaya.

**Chris Mills**

- Supported individual donor from Canada, Chris Mills by sponsoring shipping of 10 boxes of books from Canada bound to Baseco kids in Tondo, Manila.

**Veteran’s Rondalla Group**

- Sponsored shipping of 30 Aluminum A-Frame walkers (20x20x30), 3 wheel chairs (foldable), 20x20 box of assorted medical stuff (used nebulizer), and crutches

**Internal Assistance: Scholarship Programs**

For SY 2018-2019 , LBC foundation gave scholarship grants to 19 scholars.

As of December 2018 amount used for scholarship program is 1,309,430.56 or 65% of the budget.

**LBC Corporate Social Responsibility**

Through the years, LBC’s internal values empowered team members to give back and take part in company-led initiatives that was meant to give back.

This year saw unprecedented engagement and involvement from employees who were eager to lend a hand for LBC’s cause.

**Ronda Pilipinas**

A total of 250 volunteer hours or 109 volunteers participated from Isabela, Nueva Ecija, Tarlac, Cavite and Batangas.

**Kythe Foundation**

The celebrate life event aims to provide happiness to patients despite their body conditions and gathered 33 volunteer hours.

**Project Pearls**

85 volunteers supported the Project Pearls initiative by sponsoring After School Program in their communities at Tondo and Bulacan where 1,800 kids benefitted.

**Department of Education**

LBC Foundation sponsored LBC employees in 2018 Brigada Eskwela. A total of 3,250 students benefited thanks to 375 volunteers.

**Make A Wish Foundation**

Total of 58 volunteer hours given to the Make A Wish Foundation initiative focused on giving happiness to children between 3 to 18 years old diagnosed with illness that is life threatening, not necessarily terminal.

**Gawad Kalinga**

Total of 280 volunteer hours dedicated to house building and painting initiatives.



# 2018 MILESTONES

## LBC enhances efficiencies and service quality via Digital Transformation

A recent initiative embarks on an enterprise-wide system upgrade as part of LBC’s Digital Transformation process, the brainchild and key project of President and Chief Operating Officer Mike A. Camahort, aptly called “Project Synergy.”

Utilizing the RAMCO “Logistics Suite” solution, the initiative covers the needs of all the business operations from transportation to warehousing, to order management for parcel/courier service, to forwarding—an efficient, high performance logistics solution slated to increase efficiencies across the enterprise. This current solution allows LBC to centralize information into one technology and application platform, thus eliminating redundancy in operations and achieving absolute data integrity and scope for planning and optimization.

Following a phased implementation, LBC is committed to continuing to invest in state-of-the-art IT systems to maintain its competitive edge and more effectively deliver quality service to its customers.

## Digital Transformation Roadmap shared in the Visayas

In line with the company’s direction to digitally transform and meet the evolving needs of consumers in this digital age, an event entitled “A Chat with MAC” was held in Cebu and Bacolod.

The current state of the market and consumers needs were discussed followed by President Camahort’s introduction on Digital Transformation. Also presented were new concepts and ideas that will comprise LBC’s solutions and game changers: more convenience with pickup services, payment collections during deliveries, bringing online shopping into the offline market and lastly, offering Clarity, Certainty and Convenience through the use of technology.

LBC’s enterprise-wide Roadmap To Digital Transformation was also explained— including changes in current operations, and each business unit’s role that will be key, in order to attain these goals and objectives.

President Camahort ended the event with a motivational speech, emphasizing the importance of employees behavior towards change. In his words, “Digital Transformation is a People Issue,” and therefore requires a collaboration of efforts within the organization, across all levels.

## The Road to Digital Transformation in 2018

With digitalization poised to disrupt the logistics industry, LBC cannot afford to rest easy; which is why it continues to leverage on digital technology to fundamentally transform how LBC does business today.

*“Our vision is anchored on our ability to shift the way we do things—the way we move. With digitalization set to revolutionize the entire industry, we see another opportunity for LBC to define itself across all its business segments. Technology has changed every aspect of the way businesses operate—and LBC is on the move to make sure that they lead the pack,”* said Mike A. Camahort, President and Chief Operating Officer.

In the pipeline for the coming years is LBC’s thrust to set up cross-border operations to capture the e-Commerce market at its origin, making LBC an end-to-end logistics service provider; further developing the first mile to empower small to medium enterprises, seeking out partners through crowdsourcing to make LBC’s pickup and delivery operations burstable; leveraging on crowdsourcing to fulfill volume surge for cost-effective solutions to demand; expanding money transactions through peer-to-peer payments; and ensuring continuous improvements of efficiencies of hubs.

Quite simply, LBC’s Digital Transformation will accelerate the brand’s operational improvements that will ultimately impact LBC customers in more meaningful ways.

## LBC Express Holdings, Inc. acquires LBC USA & Saipan companies

In line with this year’s thrust of establishing its global foothold, LBC group, has recently wholly acquired LBC Mundial Corporation, LBC Mabuhay Hawaii Corporation, and LBC Mabuhay North America Corporation.

LBC Mundial Corporation, LBC Mabuhay Hawaii Corporation, LBC Mabuhay North America Corporation, and LBC Mabuhay Saipan Inc., together, have an estimated revenue of P1.8B which will increase revenues for the holding company by approximately 18%.

To date, LBC USA and Saipan owns and operates 33 retail branches, manages 190 agents, and 14 warehouses across the United States, Canada, and Saipan. The companies have enjoyed robust sales volumes, mostly due to the large Filipino-American communities which they serve. More than 640,000 Money Remittance transactions were processed in 2017, while Air Cargo and Balikbayan Box Services (Sea Cargo) yield more than 540,000 transactions.



# LBC Express Holdings, Inc. acquires 30% of Orient Freight International

Following its vision of establishing its name in this new era of globalization, LBC continues to create strategic partnerships and investments that will pave the way for expansion and sustained industry leadership.

Recently, LBC inked a deal with Orient Freight International, acquiring 30% of the freight forwarding, cargo handling & management company.

*"This is a strategic investment for LBC as we continue to move toward expanding our business and maintaining our number one position in the industry. Having a stake in OFII will yield LBC better economies of scale, while also achieving improved cost efficiency in certain sub-sectors of our business where we see a great deal of growth prospects. In particular, OFII is well-entrenched in brokerage, cold chain, automotive logistics, warehousing and distribution centers, and project logistics—we look forward to working together and growing these sectors for both companies,"* said Mike A. Camahort, Chief Executive Officer of LBC Express Holdings, Inc.

## LBC Express Holdings, Inc. enters Digital Logistics with acquisition of QuadX

In recent years, the burgeoning E-commerce industry has created the fastest growing demand volumes for logistics providers, likewise an increased requirement in world-class service quality and trend-forward innovation.

In response and as a testament to its adaptability, the LBC group, has recently acquired more than 80% of QuadX, Inc., a digital logistics company established in 2013. This acquisition continues LBC Express Holdings, Inc.'s plan to consolidate affiliate businesses both within the Philippines and across the globe.

*"Our vision for the next few years is to pave the way for Digital Logistics in the Philippines, and continue to lead the industry. It's a very exciting time in logistics, and there's much to do quickly in order to be constantly, globally competitive—everything is now in "real time"; getting into Digital is definitely a must,"* said Mike A. Camahort, Chief Executive Officer.

## LBC Strengthens its Foothold in the South with New Davao Warehouse

LBC continues to expand its reach and operations to meet the growing demand of its various markets.

To service the southern part of the country, they opened its new Davao Lanang Warehouse, designed to improve LBC's Visayas and Mindanao operations. The warehouse is strategically located 5.3 kilometers from the Davao International Airport and only 3.7 kilometers or 10 to 20 minutes from the seaport

*"It is only in investing and enhancing with appropriate tools and software can we continuously be the leader of the various segments of the chain. We are in the process of changing the rules of engagement in order for us to be ahead in the industry,"* said Dinna B. Tiongson, Vice President for Corporate Operations.



## LBC Wins Big at 2018 Asia Pacific Entrepreneurship Awards

LBC Express Inc. adds yet another feather on its cap by taking home the award for corporate excellence in the transportation and logistics industry category at the recently concluded Asia Pacific Entrepreneurship Awards (APEA) 2018.

The APEA is a regional award for outstanding entrepreneurship that provides a real platform for companies and governments to recognize and be recognized for their entrepreneurial excellence.

*"This award has strengthened LBC's commitment to improve the lives, livelihoods and businesses of Filipino families and communities by linking and bridging their resources. This award means a lot to two main groups – the management team for the vision and direction, who steered the company and most importantly to our 12,000 strong ka-LBC members who are executing our mission and vision and pleasing our customers. Winning the APEA award confirms that LBC is on the right path towards continued success and LBC looks forward to "Moving it" for the Filipino people for many more years to come,"* said Javier C. Mantecon, Chief Marketing Officer of LBC Express Inc.





# LBC Business Solutions spears the annual Asia Logistics Summit 2019

New trends, current challenges and the future of logistics were brought to the fore, anew, as LBC Business Solutions spearheaded the annual Asia Logistics Summit held at the Solaire Resorts Manila.

In partnership with ASIA CEO Events, the nation's largest business events organization, this year's summit focused on the theme: "All Good Things Must Come to a New Beginning". Topics discussed during the whole-day forum included: Uber-ization of trucking, warehouse and even logistics staff ; Robotization of warehouses; the rise in government infrastructure investments; omni channel shipping; supply chain social responsibility; the blurred lines between logistics providers; and the rise of virtual logistics teams.

*"To be able to gather the corps d' elite of the Philippine Logistics industry in one arena to find ways to cope with the dramatic shifts in technology is very crucial at this time. It is with hope that through this summit, we will be able to exchange information and ideas on how to help the Filipino people through efficient and reliable logistics service,"* said Jet Paulo, Head of Large Enterprise Sales, LBC Business Solutions

# LBC Middle East Launched Lifestyle Crates to Ensure Safety of Shipments

As part of the LBC Cares initiative of Middle East, the use of the Lifestyle Crates was launched June 2018.

This innovative way to handle the special shipments such as appliances, furniture, and other fragile items through the use of customized wood crafting and even better it can be converted ad reuse as table, closets cabinets and as a storage box to save some space.

## LBC Unveils "Branch Collect" For Online Sellers With No Bank Accounts

LBC knows too well how important fast and easy transactions are, not only for the buyer but also for the seller. That's why LBC introduced its newest service to called "Branch Collect".

With Branch Collect, merchants can collect payment from buyers even without a bank account. To avail of the service, seller will simply need to declare that they will utilize the Branch Collect service. Collections below P10,000 allows a Seller to just go to any LBC branch to claim their payments. If it's more than P10,000, a Seller needs to identify the LBC branch where they intend to pick up the payment. Sellers will also receive a notification from LBC that the money is already available for pick-up.

# LBC Forges Alliance with Xpress Money

In celebration of a decade of service in the Middle East, LBC offered various promotions for its customers in the UAE, launched in June 2018.

Included was the "LBC Anniversary Box," a new balikbayan box with water-resistant security foil, and larger size—almost 45% bigger than the standard Jumbo/Large box. With very affordable rates, this Anniversary box was offered at a fixed rate for sending to anywhere in the Philippines. Likewise launched was the "Anniversary Bundles," which combined the Anniversary box with any other box size, at a discounted rate.



## Convenience at Your Fingertips with LBC Connect

At a time when you can get practically anything and everything you need, whenever and wherever you may be, with a few swipes and taps of your fingers, convenience has indeed become king.

To keep up with the growing demand for mobile efficiency and seamless transactions, logistics solutions provider LBC digitally transformed its services in order to offer the best tracking and branch location features via its newest mobile app, LBC Connect.

A faster and easier way to track and trace multiple LBC deliveries, the new LBC Connect app allows you to access the entire range of LBC's shipping and delivery services so you can move anything-wherever you are, and whenever you want.

With LBC Connect, you can:

- Manage your LBC account: Register and update your LBC account information anytime
- Track and trace: Track any number of shipments with status-by-status updates on your device
- Auto-pinning and notifications: Tracking Numbers you search via LBC Connect are automatically saved and pinned, and you'll get notifications every time there's a status update or new promo
- Branch locator: Find an LBC branch near you

Soon, more new functionalities will be introduced for even better customer experience, such as:

- LBC Mobile Branch: Book any LBC service and book online
- Case or Tickets Management: Raise concerns and have them resolved
- Promotions and Rewards

*"The launch of LBC Connect forms a huge part of our movement towards Digital Transformation. This is one of the initiatives that will help reshape customer experience through technology, while staying true to our brand attributes of Clarity, Certainty and Convenience,"* said Mike Camahort, President and Chief Operating Officer.

LBC Connect is available for download on the Apple Store and Google Play.



# LBC Begins Warehouse Operations in Pampanga to Meet Growing Consumer Demand

LBC has recognized the need for an enhanced program to serve the burgeoning consumer market developing in the northern part of the country. As part of their resolve to continuously build and grow their capability, LBC has kicked off operations of the new Warehouse named Kapayapaan.

Located within the Mexico Industrial Complex, Panipuan, Mexico Pampanga, the 6,300 sqm. Kapayapaan Warehouse compound is 90 kilometers or two hours travel time from Metro Manila via the North Luzon Expressway. The facility has elevated loading bays that can receive up to 20 x 40w trucks and side loading bays that can accommodate 4 x 10w trucks simultaneously; and has adequate spacious parking for big trucks and vehicles. The state of the art warehouse, which has an optimum capacity of 5,200 pallets, is properly lit and ventilated; equipped with a Fire Detection and Alarm System.

According to Jerome S. Santos, LBC Vice President for Corporate Sales, LBC is seeing a significant consumption boom in the northern part of the country and the Kapayapaan Warehouse will serve as an initial take off point for increased warehousing demand in the north. The opening of the warehouse is the first step of a planned program of northward expansion that includes the opening of another warehouse in the Pangasinan–Tarlac area by

next year. LBC’s goal, Mr. Santos explained, is to make transport going to and from the north more efficient by situating warehouses close to TPLEX, thereby minimizing the entry of big trucks into congested and traffic prone cities.

In addition to increasing their warehousing services, LBC continues to offer other solutions to meet the needs of various businesses. These include: Cold Chain services, which offers a dedicated, fully monitored and temperature-controlled movement of sensitive products anywhere in the Philippines for volumes of Container or Full Truck Load (FTL); Specialized Logistics which helps businesses fulfill their quality service promise to customers nationwide; and, NVOCC (Non-Vessel Operating Common Carrier) which makes maximum use of LBC’s extensive logistics expertise to import and export domestic and international cargo – moving container shipments to gateway ports.

According to Santos: *“The Filipino people’s unwavering support encourages LBC to improve and do better. Rest assured that we will endeavor to evolve, develop and expand LBC so that we can reach more people, cater to more businesses, and deliver the superior professional service that we believe every Filipino individual, family or business truly deserves”.*

# LBC and Palawan Express Renew Ties for Wider Remittance Access and Coverage

LBC EXPRESS and PALAWAN EXPRESS PADALA (PEPP), two of the leading names in money remittance have forged an alliance that will enable their customers to make sending and claiming money easier and more convenient.

This comes after both parties signed a memorandum of agreement recently at the LBC headquarters in Pasay City that signaled the official re-launch of their partnership endeavored to benefit their legions of customers nationwide.

Valentin says: “The need for a reliable and efficient money remittance platform has increased exponentially. And we, at LBC are happy that with this renewed tie-up with Palawan Express, we are able to reach both our loyal and new customers alike. By combining our strength, we ensure that more Filipinos will be able to send and receive remittances wherever they may be.

According to Selda: *“The partnership of LBC and PEPP since 2012 gives customers more coverage in claiming their domestic money remittance, given PEPP’s strong rural presence and LBC’s highly visible urban locations. Our companies share the same vision of providing customers with the best options. We are happy that our partnership remains strong and we look forward to more years of working together and serving the Filipino communities.”*

# LBC Unravels Two New Services That Will Change the Game for PH’s E-Commerce Industry

LBC’S lifelong mission to move Filipinos’ lives takes yet another milestone turn as it launches two new services that promises to change the face of e-commerce.

At the formal launch held at New World Makati among the company of online partners, media, bloggers and LBC officials, the Philippines’ leading logistics company introduced the Cash on Pickup (COP) and Cash on Delivery (COD) aimed at addressing the growing market trend of online and e-commerce business.

COP and COD utilizes two of LBC’s core services: as a courier of parcels & boxes, and as a payment collection channel. As a trading place of the buyer and the seller, LBC’s COP guarantees convenient and seamless transactions between seller and buyer. With this, buyer can now add LBC as a pick up point, instead of the traditional delivery scheme -like delivered at home, office, or meet ups. The online transactions are also guaranteed safe and reliable as sellers are assured that he or she will get paid, while the buyer will get the products in mint condition. LBC’s wide network and serviceable areas also allows for buyers to shop from anywhere in the Philippines and reach more customers nationwide. LBC’s rates has promises to be more competitive as it hopes to provide value for money for every buyer and seller. For LBC’s COD, on the other hand, the buyer simply pays the item ordered online upon delivery. And LBC takes care of remitting the payment to the seller.

And the best thing about Retail COP and COD is that sellers only need to go to any LBC branch and transact to start availing of the services. There is also no need to create an account on big online shopping sites or maintain a minimum volume of transactions per month to start their online business.

Oliver Valentin, LBC Express PH Retail Operations Senior Vice President says: *“This service targets both small online sellers like stay-at-home moms, students and starting entrepreneurs. On the side of online buyers, LBC aims to enable customers enjoy and maximize their shopping experience, with just a few taps on their mobile phones or computers. The entry of COP and COD is a testament to how LBC is willing and able to answer the new demands of the digital age- as well as the ever evolving needs of the market. With these new services, we are committed to provide the Filipino market with the same brand of reliability and convenience that LBC has long been known for”.*

# AMLC Increases Anti-Money Laundering Measures with LBC Express Partnership

In a pioneering move that hopes to reinforce public confidence in the national financial system, the Anti-Money Laundering Council (AMLC) has forged a new partnership with LBC Express.

LBC, being one of the country’s market leaders in international and domestic remittance transactions operates across a network of 6400 locations worldwide. Despite its breadth, the company is known for its stringent monitoring and tracking, in compliance with the guidelines of the Anti-Money Laundering Act (ALMA), but welcomes the opportunity to improve processes in the interest of protecting the country.

“Dubbed the Information Sharing Protocol, this groundbreaking public-private partnership (PPP) highlights a renewed focus on information exchange and capacity building programs between stakeholders, to ensure that the country will not be used as a money laundering haven. Our efforts will ultimately be a step towards protecting the country from terrorism and other unlawful activity, while simultaneously ensuring the safety and integrity of our kababayans padala,” explains Irene I. Torres, LBC Express, Inc. Vice-President for Compliance.

Veering away from the more traditional and rigid rule-based approach to compliance, AMLC—for their part-- commits to generate a culture of trust, partnership and cooperation with LBC.

*“We have a strong focus on fostering strategic coordination and collaboration, especially when it comes to understanding priorities, generating plans, and sharing information. ALMC is a partner of the private sector and this presents a milestone and a new chapter in our relationship with LBC,”* adds Mel Georgie Racela, Executive Director of AMLC Secretariat.

With this agreement, both organizations are committed to reduce consumer risk related to money laundering, increase confidence in regulatory compliance, boost security across all transactions, and ensure better transparency. It’s a framework that is built on collaboration, allowing both organizations to support and develop each other’s core capabilities.

*“In an increasingly interconnected world, the consequences of ignoring the impact of money laundering on our financial and national security can be damaging. Guaranteeing the integrity of the brand underscores our intent to ensure the safety of those who continue to depend on LBC,”* ends Torres.



# LBC Names SME Company of the Year Finalists at 2018 Asia CEO Awards

LBC continues to rally behind Small and Medium Enterprises (SMEs) in the hope of enhancing their value as key contributors to the Philippines’ economy.

And to bring to the fore the significance of SMEs, LBC’s Business Solutions has come to sponsor the SME Company of the Year Award of the 2018 Asia CEO Awards organized by the ASIA CEO Forum, known as the largest and only national business event series in the Philippines. The SME Company of the Year, is given to a small or medium sized enterprise that is not a subsidiary, wholly independent, and employs between 10 to 500 employees.

According to Javier Mantecon, LBC’s Chief Marketing Officer: *“Members of the Circle of Excellence for this category are companies who are able to go toe-to-toe with bigger organizations. They enhance processes, maximize productivity, enter new markets and expand their brand leading to international recognition or local expansion. As more individuals find the courage and capability to offer new products and services in the market, these SMEs become more and more equipped to encourage competitiveness, excellence in their field of play, enticing players in the industries to also level up.”*

This year’s Circle of Excellence roster for the SME Company of the Year are: Aficionado, Everise/C3, FlySpaces, Itaipinas Development Corp., My Town Dormitories, RCD Land Inc., Seven A.D., Sprout Solutions and True Money.

Mantecon stressed the importance of the 900,000 strong SMEs in the Philippines saying “We believe that the pool is going to power the nation in many years to come. They just need to be more efficient, more productive, and find their expertise so they can challenge large enterprises.”

As they continue on with their pursuit to help SMEs, LBC continues to gain recognition for their work, as well. At the media launch, the ASIA CEO Awards’ panel of judges has named LBC Express as among the companies who belong to the Circle of Excellence for the categories: Heart of OFW’s Company, sponsored by IRemit; and, Service Excellence Company of the Year, sponsored by Sitel.

## PHINSAF Inks Partnership with LBC to Stage 1st Philippine Hobie Challenge

Southeast Asia's most extreme and largest sailing event, The Hobbie Challenge, has made it to Philippine shores. This was made possible through the partnership inked by the Philippine Inter-Island Sailing Federation (PHINSAF) with LBC, the leading name in Business Logistics. Utilizing their expertise, LBC was able to transport 15 new boats and 16 Philippine Hobbie fleets that would sail through the beautiful waters of Coron and Busuanga in Palawan from March 11-17, 2018. The event consists of five inter-island legs ranging from 30-50 nautical miles each; and at least one in-shore racing series involving up to 5 course races.

“We call it a marquis event because it is the most extreme and largest sailing event in Southeast Asia. Majority of our participants are from all over the world like Netherlands, Germany, USA, Australia, Taiwan, and Thailand”, said Jose Ramon Garcia, Director and Co-Chair of PHINSAF during the contract signing with LBC.

In addition to featuring the beautiful islands and beaches of the Philippines to local and international tourists, the event seeks to enliven the interest of Filipinos to the sport of sailing.

## LBC Business Solutions Aids Online Sellers and Corporations Grow Their Businesses

Online sellers and other micro, small and medium enterprises (MSMEs) have become an integral part of the Philippine economy. And LBC, the country’s leading name in Business Logistics, has come up with various payment solutions tailor-fitted for every entrepreneur, so they can devote more time to other aspects of the business, like marketing and stocking up on inventory.

Foremost of the services LBC offers is PAYCOLLECT, which enables a corporate entity or an online seller to utilize LBC as its collecting station. All they need to do is register their complete automated accounting details with LBC and LBC will consolidate all payments for settlement to their respective accounts. This eliminates the burden of an individual or company from having to encash or reconcile banking transactions, paving the way for better handling and simpler collection system.

LBC can also be tapped for REFUNDS. Designed for eCom business, an online seller can use LBC to refund the payment of the buyer. If a customer is unsatisfied with the purchase, the customer can return the item through LBC to receive a full refund.

And for entrepreneurs who want don’t want to be sidetracked with attending to payrolls every 15th and 30th of the month, LBC offers PAYROLL DISBURSEMENT to its employees.

Additionally, LBC branches can also be used as LOADING AND UNLOADING (Withdrawal) Stations or Access of Prepaid Cash Cards of Banks and other Card Non-Bank Card Issuers.

Mr. Oliver Valentin, Senior Vice-President, LBC-PH Operations says: *“LBC is committed not only to address the needs of regular customers but also extend it to the companies and even start-up entrepreneurs like online sellers who are in need of payment services.. Today, LBC is servicing different partners from banking industry, eCommerce , Health and Entertainment. And we are happy to receive feedback that their customers are very happy because of the flexibility we have afforded them in settling their corresponding payments. With LBC’s over 1300 branches nationwide, business to consumer and customer to customer transactions are faster and convenient”.*

LBC’s Chief Marketing Officer Javier Mantecon is proud to have entered the partnership with PHINSAF, which he likened to Ronda Pilipinas, their very own sports advocacy. He said: “In helping PHINSAF reach though the country’s various regions, we’ve also brought to light the thrust of our foundation of helping regions which are deprived with the basics of education like books and classrooms. It has also brought emphasis to PHINSAF’s outreach program, which we strongly support, that provides ample water and electricity for local barangays and fishing communities that host the participants”.

Mantecon adds that the alliance is also a good venue to showcase LBC’s strength and reach as the leading name in Business Logistics. He says: “As the pioneer in time-sensitive deliveries, and with a strong growing network composed of over 6,400 local and foreign branches, hubs, warehouses, partners and accredited agents in over 30 countries, at LBC, are committed to moving lives, businesses, and communities around the world”.



# CORPORATE GOVERNANCE REPORT

The Board of Directors and Management, and employees of LBC EXPRESS HOLDINGS, INC. (the “Company”) commit themselves to the principles of good governance, as contained in its Revised Manual on Corporate Governance approved in May 2017 and July 2014. The Board of Directors and Management, employees and shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization as soon as possible.

**The Board of Directors**

The Articles of Incorporation of the Company provides that the Board of Directors shall be composed of nine (9) members. As of 31 December 2018, the Board of Directors of the Company consists of nine (9) directors.

As required by the Securities and Exchange Commission (“SEC”), the Company, being a publicly listed company, is mandated to nominate at least two (2) independent directors. Moreover, pursuant to the SEC Memorandum Circular 19-16, the Board is recommended to have at least three independent directors, or such number as to constitute at least one-third of the members of the Board. Thus, of the nine (9) directors of the Company, three (3) were elected as independent directors in accordance with the ByLaws of the Company.

In 2018, the Board of Directors held eighteen (18) meetings consisting of seventeen (17) special board meetings and one (1) board organizational meeting. We list below the attendance of the members of the Board of Directors during such board meetings, as follows:

**2018 Board Meetings**

Date of Meeting	Miguel A. Camahort	Enrique V. Rey	Rene E. Fuentes	Mark Werner J. Rosal	Solita V. Delantar	Luis N. Yu	Augusto G. Gan	Jason Michael Rosenblatt	Anthony A. Abad
28 February 2018	P	P	P	P	P	P	P	P	P
2 March 2018	P	P	P	P	NP	P	P	P	NP
7 March 2018	P	P	P	P	NP	P	P	P	NP
15 March 2018	P	P	P	P	NP	P	P	P	NP
19 March 2018	P	P	P	P	NP	P	P	P	NP
4 April 2018	P	P	P	P	P	P	P	P	P
5 April 2018	P	P	P	P	P	P	P	P	P
12 April 2018	P	P	P	P	P	P	P	P	P
23 April 2018	P	P	P	P	P	P	P	P	P
8 May 2018	P	P	P	P	P	P	P	P	P
19 June 2018	P	P	P	P	P	P	P	P	P
27 June 2018	P	P	P	P	P	P	P	P	P
29 June 2018	P	P	P	P	P	P	P	P	P
9 July 2018	P	P	P	P	P	P	P	P	P
13 August 2018	P	P	P	P	P	P	P	P	P
15 August 2018	P	P	P	P	P	P	P	P	P
15 October 2018	P	P	P	P	P	P	P	P	P
20 December 2018	P	P	P	P	P	P	P	P	P

P – Present                      NP – Not Present

**Board Committees**

Pursuant to the SEC Memorandum Circular 19-16, the Board of Directors of the Company resolved to reconstitute the following committees on 12 March 2019: (1) the Audit Committee; (2) the Corporate Governance Committee which shall replace and assume the functions of the Nomination Committee and the Compensation and Remuneration Committee; (3) the Board Risk Oversight Committee which shall be responsible for the oversight of the Company’s Enterprise Risk Management System; and (4) the Related Party Transactions Committee, which shall be tasked with reviewing all material related party transactions of the Company.



As of 12 March 2019<sup>1</sup> , the board committees and its members are as follows:

	Audit Committee	Board Risk Oversight Committee	Corporate Governance Committee	Related-Party Transaction Committee
Miguel Angel A. Camahort				
Rene E. Fuentes				
Enrique V. Rey, Jr.			Member	
Solita V. Delantar	Chairperson	Member	Member	
Mark Werner J. Rosal				
Luis N. Yu, Jr.	Member	Member	Chairperson	Member
Augusto G. Gan				Member
Anthony A. Abad	Member	Chairperson		Chairperson
Jason Michael Rosenblatt				

<sup>1</sup> This date corresponds to the constitution date of the Audit, Corporate Governance, Risk Oversight, and Related Party Transaction Committees in accordance with the Company's revised Committee Charters.

**Audit Committee**

The Audit Committee is responsible for overseeing the senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets.

The Audit Committee consists of at least three (3) appropriately qualified non-executive directors, the majority of whom, including the Chairman, should be independent.

All of the members of the committee must have accounting, audit and finance backgrounds. Each member shall have adequate understanding at least or competence at most of the corporation’s financial management systems. The chair of the Audit Committee should not be the chairman of the Board or of any other committees and should be an independent director.

**Corporate Governance Committee**

The Corporate Governance Committee was constituted to assist the Board in the performance

of its corporate governance responsibilities, and ensuring compliance with and proper observance of corporate governance principles and practices.

It shall be composed of at least three (3) members, all of whom should be independent directors, including the Chairman.

**Board Risk Oversight Committee**

The Board established a separate Board Risk Oversight Committee (BROC) that is responsible for the oversight of a company’s Enterprise Risk Management system to ensure its functionality and effectiveness. The BROC should be composed of at least three (3) members, the majority of whom should be independent directors, including the Chairman. The Chairman should not be the Chairman of the Board or of any other committee. At least one member of the committee must have relevant thorough knowledge and experience on risk and risk management.

**Related Party Transactions Committee**

The Board established a Related Party Transaction (RPT) Committee, which is tasked with reviewing all material related party transactions of the company and should be composed of at least three (3) non-executive directors, two (2) of whom should be independent, including the Chairman.

**External Auditor**

The external auditor contributes to the enforcement of good governance through independent examination of the financial records and reports of the Company. The external auditor of the Company is the accounting firm of SyCip Gorres Velayo & Co. (“SGV & Co.”). The Board, upon the recommendation of the Company's Audit Committee, approved the reappointment of SGV & Co. as the Company's independent auditor for 2018 based on their performance and qualifications.

The Company has not had any material disagreements on accounting and financial disclosures with its current independent auditor for the same periods or any subsequent interim period. SGV & Co. has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities of the Company. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

**Audit and Audit-related Fees**

The following table sets forth the aggregate fees billed for each of the last two years for professional services rendered by SGV & Co.:

	2018	2017
In millions		
Audit and Audit-Related Fees <sup>(1)</sup>	₱5.68	₱3.45
Total	₱5.68	₱4.90

<sup>(1)</sup> Audit and Audit-Related Fees. This category includes the audit of annual financial statements, review of interim financial statements and services that are normally provided by the independent auditor in connection with statutory and regulatory filings or engagements for those calendar years

**Compliance Officer**

The Board of Directors appoints a Compliance Officer who shall report directly to the Chair of the Board.

The Compliance Officer is tasked with, among others, monitoring the compliance by the Company with the rules and regulations of regulatory agencies such as the SEC and the Philippine Stock Exchange (“PSE”), and submitting reports in accordance with the rules of such agencies and other pertinent laws.

The Company submitted last 31 May 2019 its Annual Report on Corporate Governance for year 2018.

As of 31 December 2018, the Company has complied with the principles and practices contained in its Manual on Good Corporate Governance.

**Disclosure and Transparency**

The Company acknowledges that the essence of corporate governance is transparency. Thus, all material information about the Company which could adversely affect its viability or the interest of its stockholders and other stakeholders are publicly and timely disclosed by the Company. The Company and its Board of Directors commit at all times to full disclosure of material information dealings, and as such, has caused the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the commission for the interest of its stockholders and other stakeholders.

**Commitment to Good Corporate Governance**

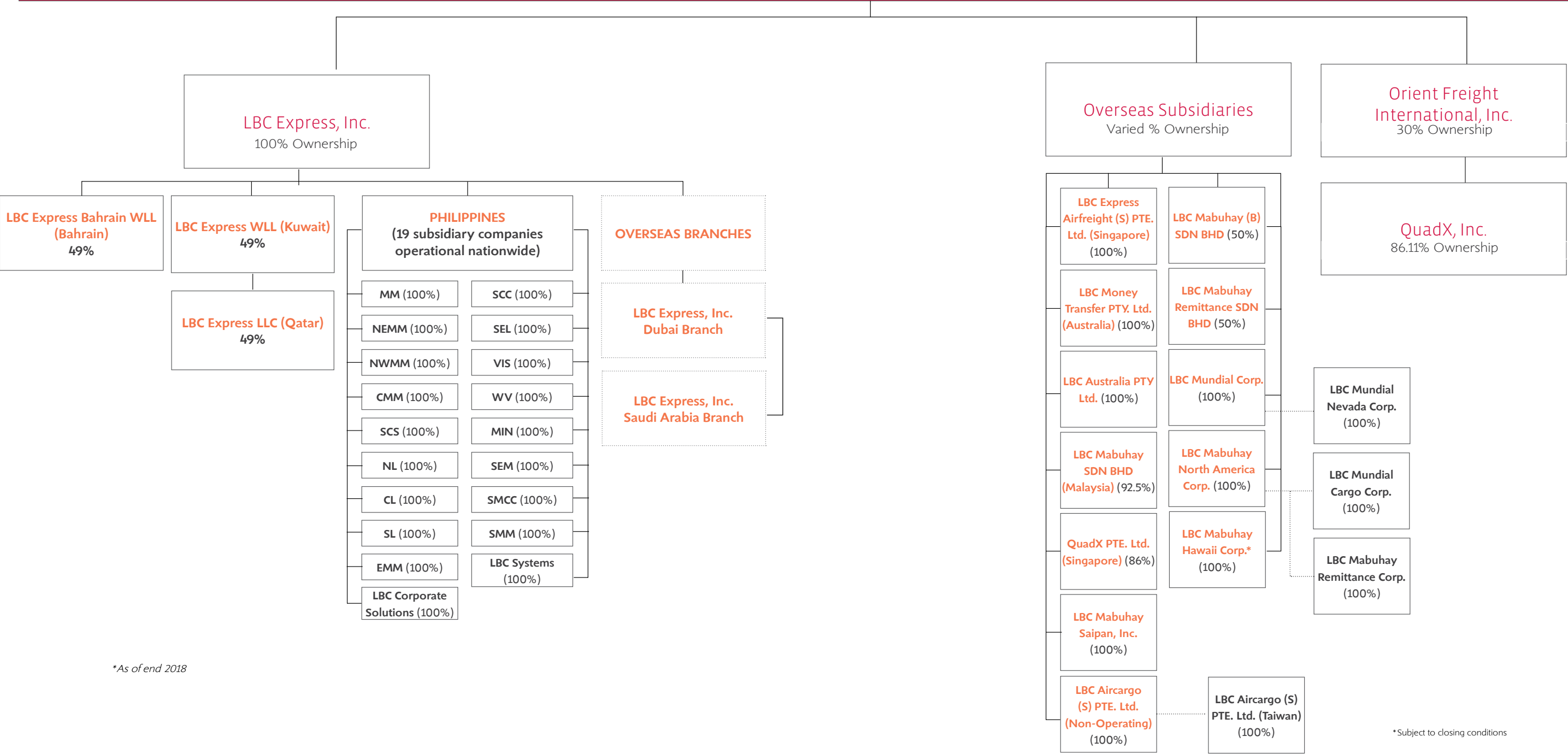
The Company has established, and continues to implement and adopt, corporate governance rules in accordance with the rules and regulations of the SEC. As such, the manuals adopted and issued by the Company have been revised to be in line with the policies and rules of the SEC.



# CORPORATE STRUCTURE



LBC Express Holdings, Inc.



\*As of end 2018

\*Subject to closing conditions



# Board of Directors

**MIGUEL ANGEL A. CAMAHORT**

Chairman of the Board  
Chief Executive Officer and President

Mr. Miguel Angel A. Camahort is a Director, Chairman of the Board, and President of LBCEH. He is also the President of LBC Express Corporate Solutions, Inc, the subsidiary operating the “Print and Mail” business of LBC Express, Inc. Mr. Camahort concurrently serves on the Board of Directors of the United Football League. Prior to joining the LBC Group, Mr. Camahort was a Senior Vice President and the Chief Operating Officer of Aboitiz One, Inc. from 2007 to 2009 and Aboitiz Transport System Corporation (ATSC) Solutions Division from 2004 to 2007. He also served as a Senior Vice President and the Chief Operating Officer of Aboitiz Transport System Corp. (formerly, William, Gothong & Aboitiz, Inc.) in the Freight Division from 1999 to 2003, prior to which he was the President of Davao Integrated Stevedoring Services Corporation (DIPSCCOR) from 1999 to 2003. Mr. Camahort holds a Bachelor of Science degree in Business Administration and Economics from Notre Dame de Namur University (formerly, the College of Notre Dame) in California, U.S.A.

**ENRIQUE V. REY, JR.**

Director  
Chief Finance Officer and Investor Relations Officer

Mr. Enrique V. Rey Jr. assumed the position of Chief Investor Relations and Compliance Officer of the Company on September 2015 and elected as the Chief Finance Officer of LBCEH on September 2017 after being an officer-in-charge for the same position since December 2015. Mr. Rey, Jr. was also a director of LBC Systems, Inc. from 2008 to 2010 and LBC Mundial Inc. from 2005 to 2008. Prior to joining the Company, Mr. Rey, Jr. worked for Coca-Cola Philippines and Aboitiz Transport Group. Mr. Rey, Jr. attended De La Salle University and completed a Management program at the Ateneo Business School. Mr. Rey, Jr. has also attended INSEAD. Since 2010, Mr. Rey, Jr. has been a member of the Institute of Internal Auditors and is responsible for Mergers & Acquisitions opportunities for the LBC group.

**RENE E. FUENTES**

Director

Mr. Rene E. Fuentes is currently the Senior Vice President for Global Retail Operations of LBC Express, Inc. Prior to joining the Company, Mr. Fuentes served as President of Documents Plus, Inc. from 1996 to 2001, and as Regional Manager, Vice-President of EFC Food Corporation from 1996 to 2001. Mr. Fuentes attended De La Salle University and completed a Key Executive Program in November 2013 at the Harvard Business School.

**AUGUSTO G. GAN**

Director

Mr. Augusto G. Gan was appointed Director of LBCEH in September 2015. Mr. Gan concurrently serves as a Director of Atlantic Gulf and Pacific Company, Investment and Capital Corp of the Philippines, Pick Szeged ZRT and Sole-Mizo Zrt. He is also the Managing Director of Ganesp Ventures and the Chairman of the Board of Anders Consulting Ltd. Previously, Mr. Gan was the President of the Delphi Group from 2001 to 2012 and the Chief Executive Officer of Novasage Incorporations (HK) from 2006 to 2007. He has also served as a Director of AFP Group Ltd. (HK) from 2005 to 2007 and ISM Communication from 2003 to 2004, as well as the Chairman of the Boards of Cambridge Holdings from 1995 to 2000 and Qualibrand Industries from 1988 to 2001. Mr. Gan holds a Master in Business Management degree from the Asian Institute of Management.





MARK WERNER J. ROSAL

Director

Atty. Rosal became a director of LBCEH on April 28, 2015. Born in Cebu City, Atty. Rosal, prior to taking up law, has a Bachelor’s Degree in Physical Therapy from Cebu Velez College and is a licensed Physical Therapist. Atty. Rosal graduated in the top 5% of his law school batch at the University of San Carlos, Cebu City, in 2002 and was admitted to the Philippine Bar in 2003. He spent his early years in the practice of law at Balgos and Perez Law Offices and Angara Cruz Concepcion Regala and Abello (ACCRALAW). Currently, he is the Managing Partner of Rosal Diaz Bacalla and Fortuna Law Offices, a Cebu-based law firm. As part of his law practice as retained counsel of private corporations, he is a director (holding nominal shares) of Cebu Agarú Motors Inc., Wide Gain Property Holdings, Inc., and Sem-Ros Food Corp. (a non- operational corporation).

JASON MICHAEL ROSENBLATT

Director

Mr. Jason Rosenblatt is currently a Partner at Crescent Point, a private equity and investment firm based in Singapore. Mr. Rosenblatt assumed a director position at LBC Express Holdings, Inc. in March 2018. His previous positions include: Laurasia Capital Management, Director; Standard Bank, Global Head of Special Situations; DKR Oasis, Head of Principal Strategies; Ritchie Capital Management, Director; McKinsey Company, Associate; and Bank One, Associate.

SOLITA V. DELANTAR

Independent Director

Ms. Solita V. Delantar was appointed Director of LBCEH in March 2014. She concurrently serves as Independent Director on the Board of Directors at Anchor Land Holdings, Inc., Executive Director at PMAP Human Resources Management Foundation (since July 2013) and Vice President at PONTICELLI, Inc. (since 2006). Previously, Ms. Delantar served as Vice-President, Human Resources Management & Development Administration (November 1999 - September 2003), Consultant (July 1997-July 1998), Vice-President, Finance & Administration (May 1988 - June 1996) and various other positions at Honda Philippines, Inc. Ms. Delantar is a Certified Public Accountant, Fellow in Personal Management and professional business mediator. From September 1998 to March 2007, she served as a Member of the Professional Board of Accountancy, which administers licensure examinations for CPAs. Ms. Delantar received her Bachelor of Science degree in Commerce with a major in Accounting from Far Eastern University and participated in a Bachelor of Laws program at Ateneo de Manila University.

ANTHONY A. ABAD (Not in photo)

Independent Director

Atty. Anthony A. Abad is currently the CEO and Managing Director of TradeAdvisors, as well as a partner of Abad Alcantara & Associates. He graduated from the Harvard University – John F. Kennedy School of Government with a Master’s Degree in Public Administration, and a Fellow in Public Policy and Management at the Harvard Institute for International Development. Atty. Abad graduated from the Ateneo de Manila School of Law with a Juris Doctor degree, and a Bachelor of Arts degree, Major in Economics (Honors). Other current engagements include: Bloomberg Philippines, Anchor; Ateneo Center for International Economic Law, Director; Ateneo de Manila University, Professor; World Trade Organization, Panelist. Previously, Atty. Abad was Key Expert, Trade Policy & Export Development Trade Assistant for the European Union, Chairman and Secretary’s Technical Advisor at the Department of Agriculture, and President and CEO of the Philippine International Trading Corporation.

LUIS N. YU, JR. (Not in photo)

Independent Director

Mr. Luis Yu, Jr. is the Founder and Chairman Emeritus of the 8990 Holdings, Inc. Mr. Yu is also the Chairman Emeritus of IHoldings, Inc. (2012 to present). He is also the Chairman of 8990 Cebu Housing Development Corporation, 8990 Visayas Housing Development Corporation, 8990 Davao Housing Development Corporation, 8990 Mindanao Housing Development Corporation, 8990 Iloilo Housing Development Corporation and 8990 Luzon Housing Development Corporation (2009 to present), 8990 Housing Development Corporation (2006 to present), Ceres Homes, Inc. (2002 to present), N&S Homes, Inc. (1998 to present), L&D Realty Holdings, Inc. (1998 to present), and Fog Horn (1994 to present). Mr. Yu is currently the President of DECA Housing Corporation (1995 to present). Mr. Yu holds a Master in Business Management degree from the Asian Institute of Management. Mr. Yu has more than 30 years of experience managing and heading companies engaged in Mass Housing subdivision development.





# Management Team



**MIGUEL ANGEL A. CAMAHORT**  
Chief Executive Officer and President

Mr. Miguel Angel A. Camahort is a Director, Chairman of the Board, and President of LBCEH. He is also the President of LBC Express Corporate Solutions, Inc, the subsidiary operating the “Print and Mail” business of LBC Express, Inc. Mr. Camahort concurrently serves on the Board of Directors of the United Football League. Prior to joining the LBC Group, Mr. Camahort was a Senior Vice President and the Chief Operating Officer of Aboitiz One, Inc. from 2007 to 2009 and Aboitiz Transport System Corporation (ATSC) Solutions Division from 2004 to 2007. He also served as a Senior Vice President and the Chief Operating Officer of Aboitiz Transport System Corp. (formerly, William, Gothong & Aboitiz, Inc.) in the Freight Division from 1999 to 2003, prior to which he was the President of Davao Integrated Stevedoring Services Corporation (DIPSCCOR) from 1999 to 2003. Mr. Camahort holds a Bachelor of Science degree in Business Administration and Economics from Notre Dame de Namur University (formerly, the College of Notre Dame) in California, U.S.A.

**ENRIQUE V. REY JR.**  
Investor Relations Officer,  
Chief Finance Officer

Mr. Enrique V. Rey Jr. assumed the position of Chief Investor Relations and Compliance Officer of the Company on September 2015 and elected as the Chief Finance Officer of LBCEH on September 2017 after being an officer-in-charge for the same position since December 2015. Mr. Rey, Jr. was also a director of LBC Systems, Inc. from 2008 to 2010 and LBC Mundial Inc. from 2005 to 2008. Prior to joining the Company, Mr. Rey, Jr. worked for Coca-Cola Philippines and Aboitiz Transport Group. Mr. Rey, Jr. attended De La Salle University and completed a Management program at the Ateneo Business School. Mr. Rey, Jr. has also attended INSEAD. Since 2010, Mr. Rey, Jr. has been a member of the Institute of Internal Auditors and is responsible for Mergers & Acquisitions opportunities for the LBC group.

**CRISTINA S. PALMA-GIL FERNANDEZ**  
Corporate Secretary

Atty. Palma Gil-Fernandez assumed the position of Corporate Secretary of LBCEH in September 2015. Atty. Palma Gil-Fernandez graduated with a Bachelor of Arts degree, Major in History (Honors) from the University of San Francisco in 1989, and with a Juris Doctor degree, second honors, from the Ateneo de Manila University in 1995. She is currently a Partner at Picazo Buyco Tan Fider & Santos Law Offices and has more than 20 years of experience in corporate and commercial law, with emphasis on the practice areas of banking, securities and capital markets (equity and debt), corporate reorganizations and restructurings and real estate.

**ROSALIE H. INFANTADO**  
Treasurer

Ms. Infantado assumed the position of Treasurer of LBCEH in September 2017. She graduated with a Bachelor of Science degree, Major in Accountancy from the Polytechnic University of the Philippines in 1997. She is currently Vice-President - Financial Reporting and Analysis at LBC Express, Inc., and has been a Certified Public Accountant since 1998. With 20 years of experience in accounting, audit, and financial reporting, Ms. Infantado’s previous professional experiences include employment at prestigious companies such as KPMG Philippines (Manabat SanAgustin & Co.), Concordia Advisors (Bermuda) Ltd., CITI Hedge Fund Services, Ltd. (Bermuda), and PriceWaterhouseCooper Philippines.

**MAHLEENE G. GO**  
Assistant Corporate Secretary, Corporate  
Information Officer and Compliance  
Officer

Atty. Mahleene G. Go assumed the position of Assistant Corporate Secretary, Compliance Officer and Corporate Information Officer of LBCEH in September 2015. Born on April 25, 1980, Atty. Go graduated with the degree of Bachelor of Arts, Major in Political Science, from the University of the Philippines in 2001, and with the degree of Juris Doctor from Ateneo De Manila University-School of Law in 2005. She also received a Certificate of Mandarin Language Training for International Students from 2011 to 2012 in Peking University, Beijing, China. She served as a Junior Associate at Picazo Buyco Tan Fider & Santos Law Offices from 2007 to 2010 and 2012 and is currently a Senior Associate at the same office. She currently serves as Trustee and Corporate Secretary for the Center for Empowerment and Resource and Development, Inc.

**ERNESTO C. NAVAL III**  
Alternate Corporate Information Officer

Atty. Ernesto C. Naval III assumed the position of Alternate Corporate Information Officer of LBCEH in June 2018. Born on November 4, 1992, Atty. Naval graduated with the degree of Bachelor of Science, Management, from the Ateneo De Manila University in 2013, and with the degree of Juris Doctor from Ateneo de Manila School of Law in 2017. He is a Junior Associate at Picazo Buyco Tan Fider & Santos Law Offices from 2018 to present.



# LBC Express, Inc.

## Board of Directors

(Operating Company)

**MIGUEL ANGEL A. CAMAHORT**  
Chairman of the Board

**ENRIQUE V. REY, JR.**  
Director

**RENE E. FUENTES**  
Director

**JHAYNER V. BUFI**  
Director

**JAVIER C. MANTECON**  
Director

**AUGUSTO G. GAN**  
Director

**JOSE RAMON R. GARCIA**  
Director

**ANTHONY A. ABAD**  
Independent Director

**SOLITA V. DELANTAR**  
Independent Director



# LBC Express, Inc.

## Management Team

(Operating Company)

**MIGUEL ANGEL A. CAMAHORT**  
President, Acting Chief Executive Officer,  
Chief Operating Officer

**ENRIQUE V. REY, JR.**  
Chief Finance Officer, Chief Risk,  
Compliance & Investor Relations Officer

**JAVIER C. MANTECON**  
Chief Marketing Officer

**JHAYNER V. BUFI**  
Chief People Officer

**ALEXANDER FRANCIS D. DEATO**  
Senior Vice-President, Information Technology

**OLIVER L. VALENTIN**  
Senior Vice-President, Philippines Business Unit

**RENE E. FUENTES**  
Senior Vice-President, Overseas Retail &  
Systems Operations

**LUIS MANUEL L. GATMAITAN**  
Corporate Secretary

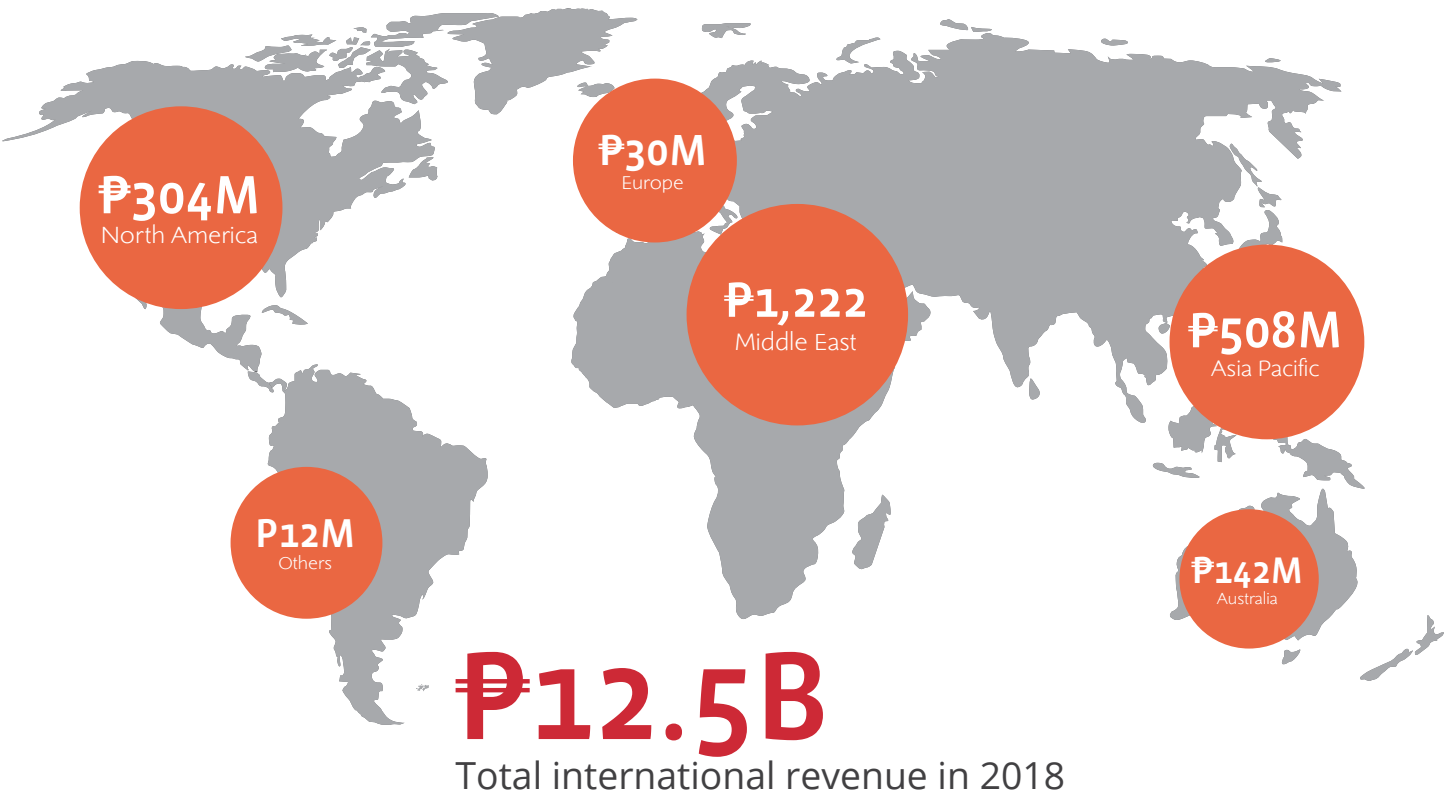
**JOHN PAUL LOUIS D. MISA**  
Assistant Corporate Secretary

**LUIS MANUEL D. ERMITAÑO**  
General Counsel





# REVENUE BY SEGMENT



	2016	2017	2018	% SHARE
Domestic	7,271	8,434	10,298	84%
North America	214	206	304	2%
Asia-Pacific	96	119	508	1%
Australia	38	43	142	0%
Europe	38	31	30	0%
Middle East	1,000	1,153	1,222	12%
Others	38	34	12	0%
TOTAL	8,695	10,020	12,514	100%

TOTAL REVENUE BY TERRITORY  
(IN PHP MILLIONS)

## RETAIL

2016	4,964
2017	5,752
2018	7,186 62%

## CORPORATE

2016	2,558
2017	3,230
2018	4,365 38%



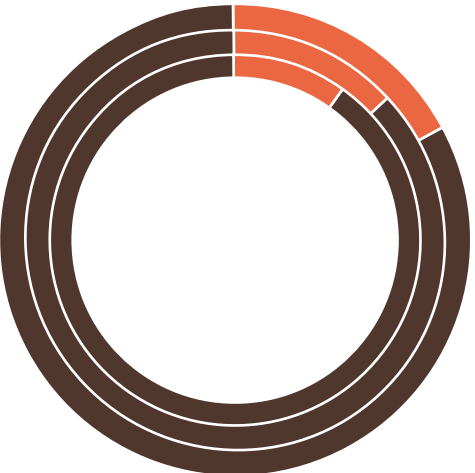
RETAIL  
CORPORATE

## DOMESTIC

2016	1,058
2017	907
2018	799 83%

## INTERNATIONAL BOUND

2016	115
2017	132
2018	163 17%



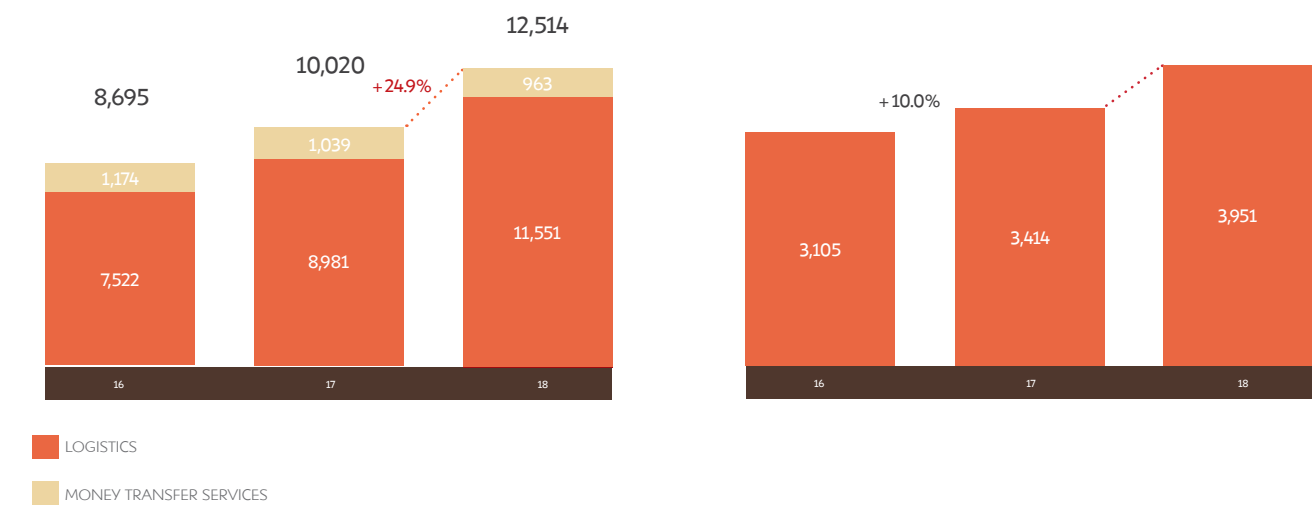
DOMESTIC  
INTERNATIONAL BOUND

	2016	2017	2018
LOGISTICS: Retail	4,964	5,752	7,186
LOGISTICS: Corporate	2,558	3,230	4,365
MONEY: PH Domestic	1,058	907	799
MONEY: International Inbound	115	132	163
TOTAL	8,695	10,020	12,514

REVENUE BY BUSINESS SEGMENT  
(IN PHP MILLIONS)

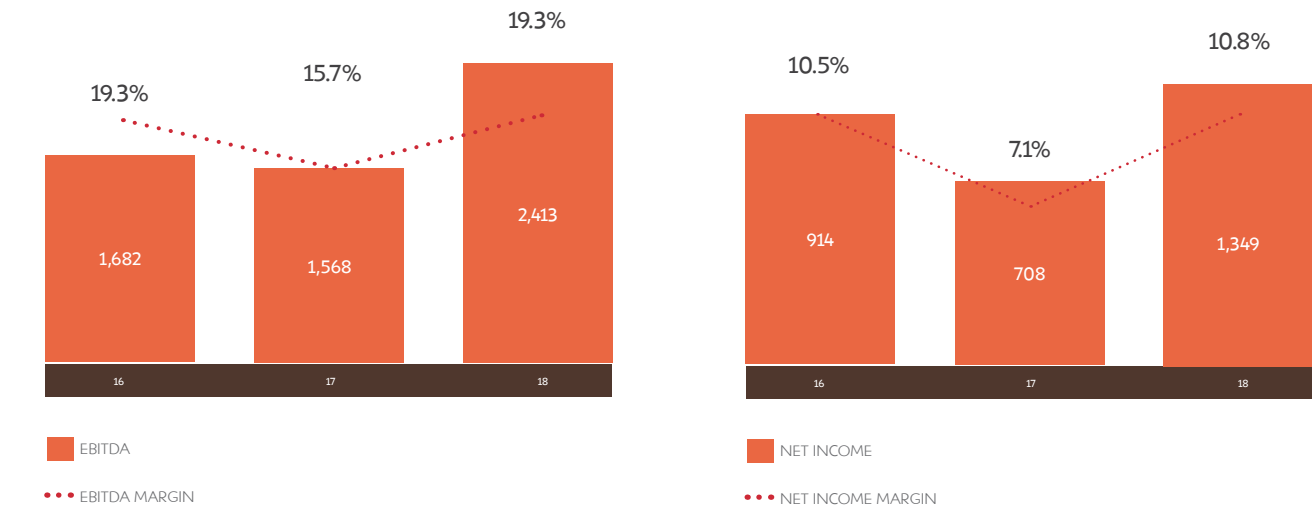


# KEY PROFIT AND LOSS ITEMS



REVENUE  
(IN PHP MILLIONS)

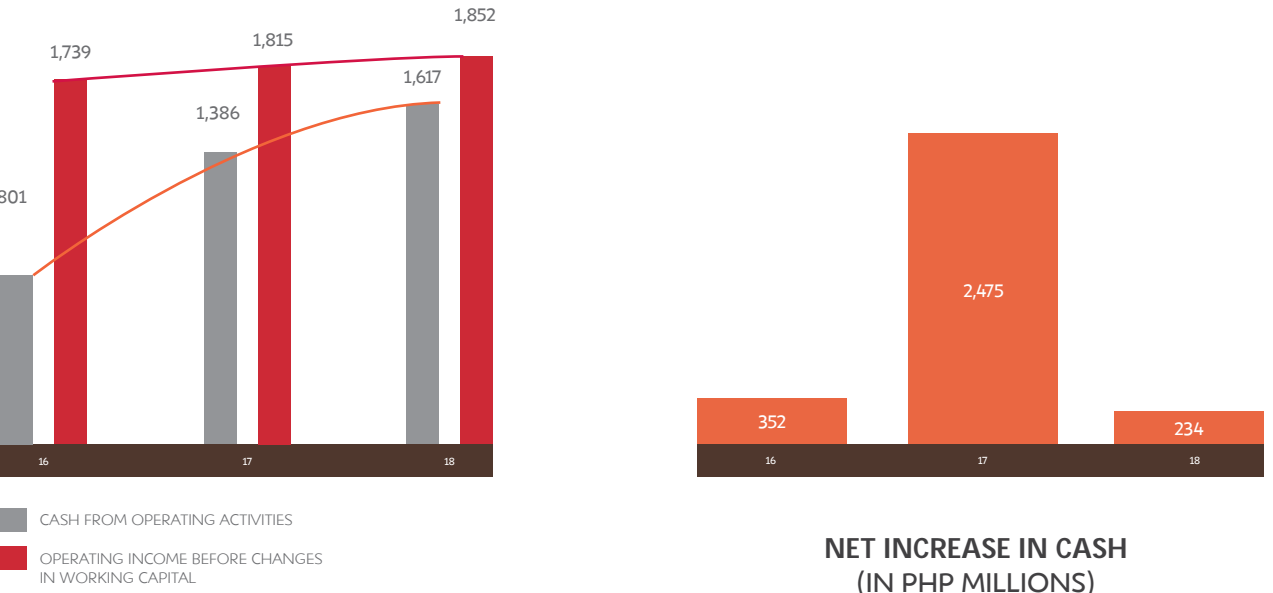
GROSS PROFIT  
(IN PHP MILLIONS)



EBITDA  
(IN PHP MILLIONS)

NET INCOME  
(IN PHP MILLIONS)

# CASH FLOW ANALYSIS

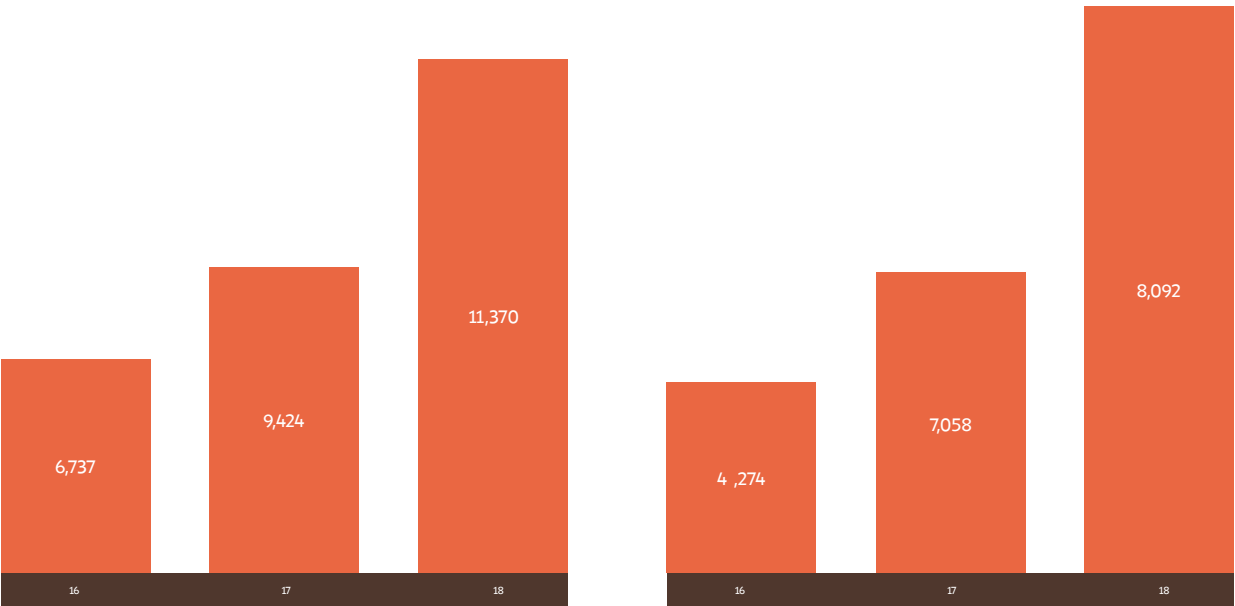


CASH AND OPERATING INCOME  
(IN PHP MILLIONS)

NET CASH (USED IN) INVESTING ACTIVITIES  
(IN PHP MILLIONS)

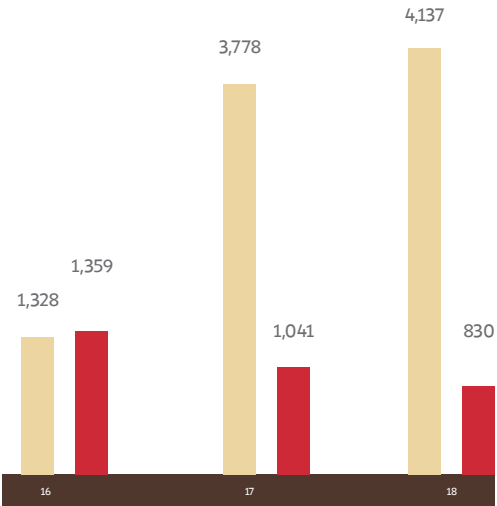
CASH FROM FINANCING ACTIVITIES  
(IN PHP MILLIONS)

# KEY BALANCE SHEET ITEMS

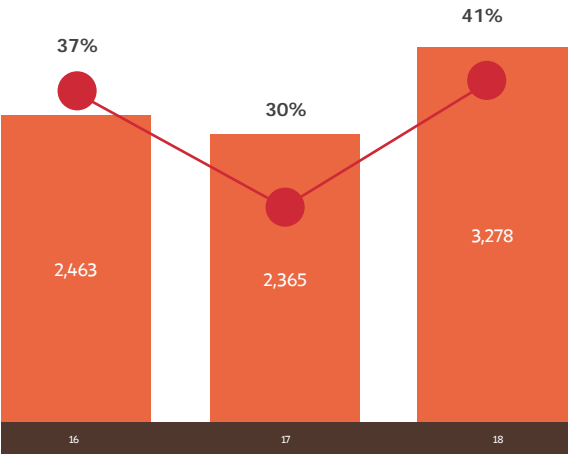


TOTAL ASSETS  
(IN PHP MILLIONS)

TOTAL LIABILITIES  
(IN PHP MILLIONS)

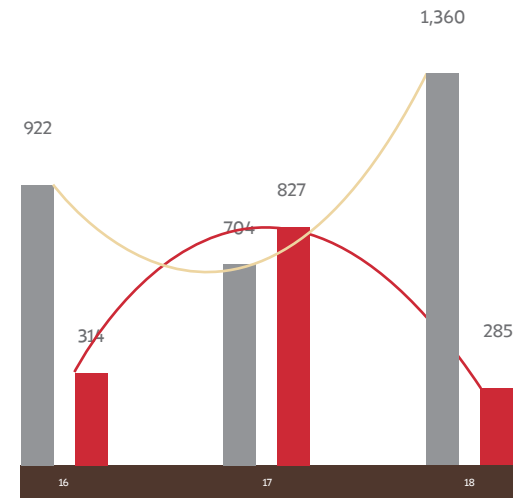


TOTAL CASH AND NOTES PAYABLE  
(IN PHP MILLIONS)



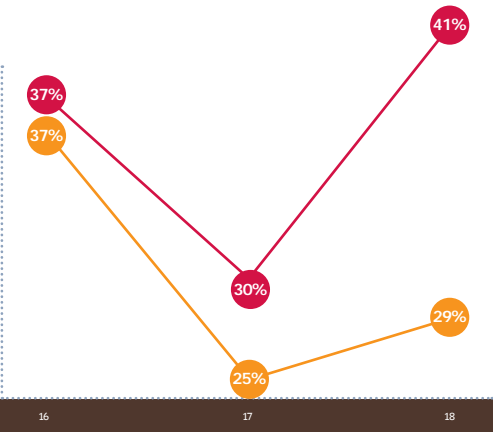
TOTAL EQUITY & RETURN ON EQUITY  
(IN PHP MILLIONS)

# SHARE DATA AND KEY RATIOS



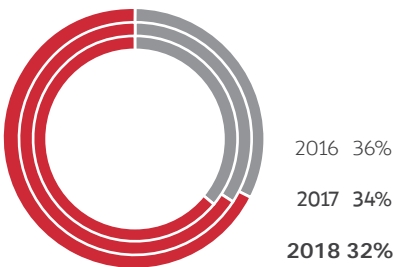
NET INCOME ATTRIBUTABLE TO SHAREHOLDERS  
CASH DIVIDENDS

SHARE INFORMATION  
(IN PHP MILLIONS)

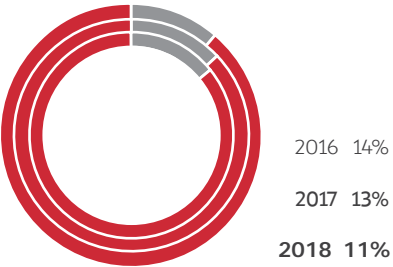


RETURN OF EQUITY  
SHAREHOLDERS' EQUITY RATIO

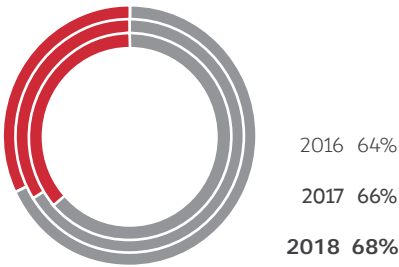
RETURN ON EQUITY AND  
SHAREHOLDERS EQUITY RATIO



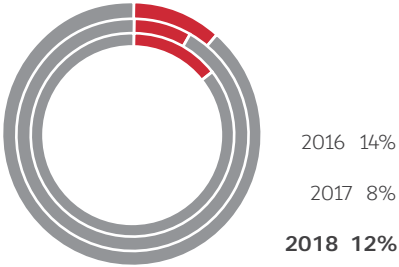
GROSS PROFIT : NET SALES



OPERATING INCOME : NET SALES



COST OF SALES : NET SALES



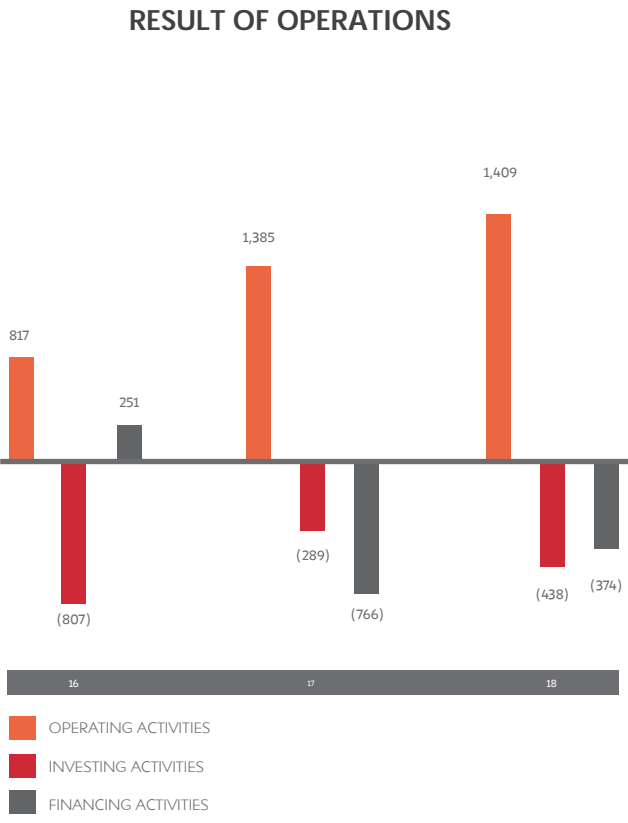
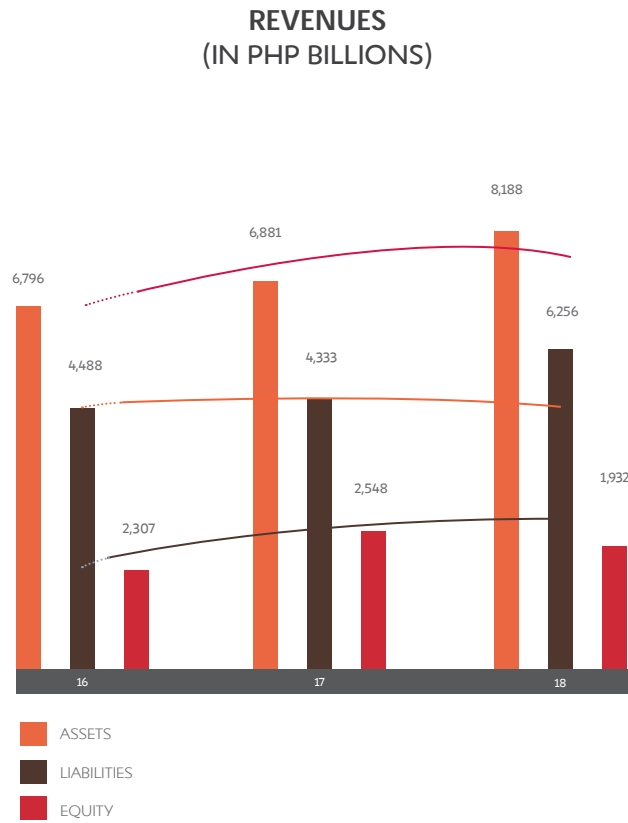
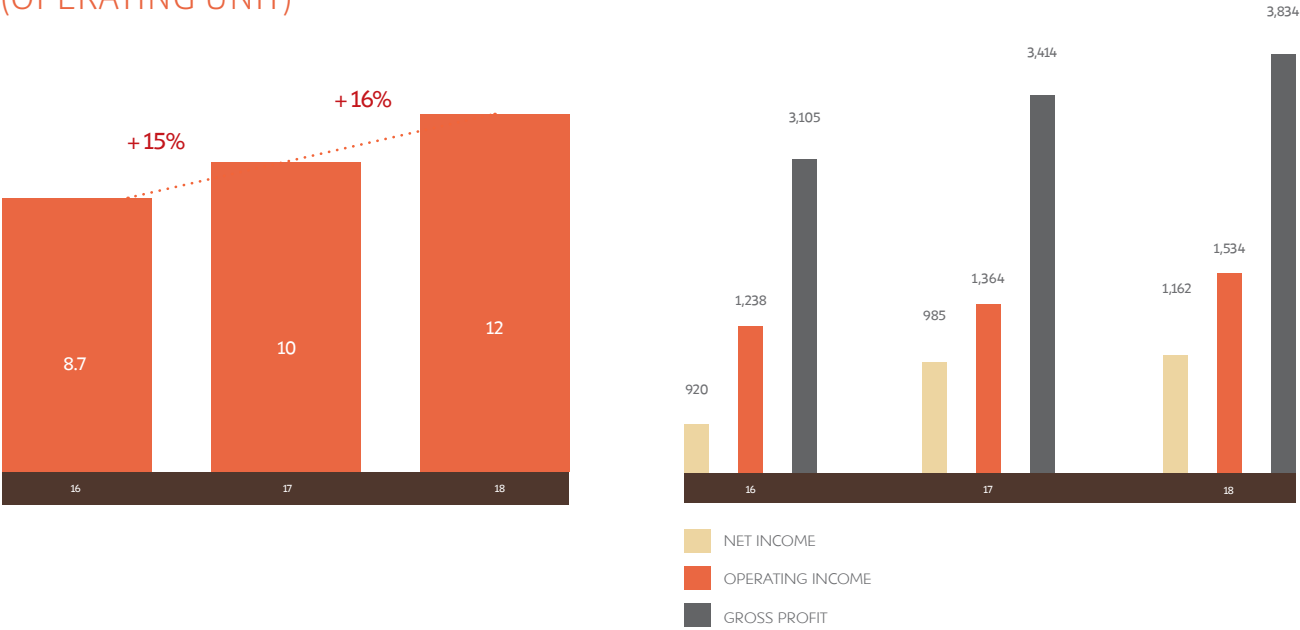
NET INCOME : TOTAL ASSETS

NET SALES AND TOTAL ASSETS  
GROSS PROFIT, OPERATING INCOME, COST OF SALES, NET INCOME



# LBC EXPRESS, INC.

(OPERATING UNIT)



## LBC Express Holdings, Inc. and Subsidiaries

Consolidated Financial Statements  
December 31, 2018 and 2017  
and Years Ended December 31, 2018, 2017 and 2016

## INDEPENDENT AUDITOR’S REPORT

The Stockholders and the Board of Directors  
LBC Express Holdings, Inc. and Subsidiaries

### Opinion

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

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

### Basis for Opinion

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

### Emphasis of Matter

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

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

On April 24, 2017, LBCE and LBCDC filed a Petition for Certiorari with the Court of Appeals, challenging the RTC’s June 28, 2016 Joint Resolution. The PDIC, LBCE, and LBCDC have filed their respective Comment, Reply, and Memoranda. The Petition for Certiorari was deemed submitted for resolution as of October 26, 2017.

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

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

From August 10, 2017 to January 19, 2018, LBCE, LBCDC, the other defendants and PDIC were referred to mediation and Judicial Dispute Resolution (JDR) but were unable to reach a compromise agreement. The RTC ordered the mediation and JDR terminated and the case raffled to a new judge.

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

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

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

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

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

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



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

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

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

### **Key Audit Matters**

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

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

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

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

#### ***Audit Response***

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

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

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

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

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

#### ***Audit Response***

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

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

#### ***Accounting for business combination***

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

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

#### ***Audit Response***

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

#### ***Recoverability of Goodwill***

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

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

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

#### *Audit Response*

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

#### **Other Information**

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

SYCIP GORRES VELAYO & CO.

*Cyril Jasmin B. Valencia*

Cyril Jasmin B. Valencia

Partner

CPA Certificate No. 90787

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

January 24, 2019, valid until January 23, 2022

Tax Identification No. 162-410-623

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

February 26, 2018, valid until February 25, 2021

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

April 12, 2019

## LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 5, 23 and 24)	₱4,137,439,144	₱3,778,408,492
Trade and other receivables (Notes 2, 6, 17, 23 and 24)	1,642,133,769	1,675,801,822
Due from related parties (Notes 17, 23 and 24)	557,958,095	667,717,635
Investment at fair value through profit or loss (Notes 2, 10, 23 and 24)	131,294,744	—
Available-for-sale investments (Notes 2, 10, 23 and 24)	—	440,763,495
Prepayments and other current assets (Notes 7, 23 and 24)	647,518,135	446,131,160
Total Current Assets	7,116,343,887	7,008,822,604
<b>Noncurrent Assets</b>		
Property and equipment (Note 8)	1,436,080,000	976,053,401
Intangible assets (Note 9)	555,369,656	356,850,011
Investment at fair value through other comprehensive income (Notes 2, 10, 23 and 24)	337,453,928	—
Available-for-sale investments (Notes 2, 10, 23 and 24)	—	444,736,969
Deferred tax assets - net (Notes 2 and 20)	302,277,269	289,524,039
Security deposits (Note 21)	312,431,108	255,426,919
Investment in an associate (Note 11)	239,019,848	—
Advances for future investment in shares	439,823,608	—
Goodwill (Note 4)	492,446,084	—
Other noncurrent assets (Note 7)	138,929,366	92,164,977
Total Noncurrent Assets	4,253,830,867	2,414,756,316
	₱11,370,174,754	₱9,423,578,920
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts and other payables (Notes 2, 12, 17, 23 and 24)	₱2,806,169,280	₱1,603,110,735
Due to related parties (Notes 17, 23 and 24)	93,992,129	2,542,585
Dividends payable (Notes 16, 23 and 24)	285,173,094	—
Current portion of notes payable (Notes 14, 23 and 24)	297,000,000	440,050,000
Transmissions liability (Notes 13, 23 and 24)	543,895,836	588,203,656
Income tax payable	126,565,090	125,020,186
Current portion of lease liabilities (Notes 21, 23 and 24)	20,271,292	30,691,524
Total Current Liabilities	4,173,066,721	2,789,618,686
<b>Noncurrent Liabilities</b>		
Derivative liability (Notes 15, 23 and 24)	1,406,175,427	1,860,373,479
Bond payable (Notes 15, 23 and 24)	1,108,417,074	896,185,059
Retirement benefit liability - net (Note 22)	672,265,144	705,325,767
Notes payable - net of current portion (Notes 14, 23 and 24)	532,500,000	601,250,000
Lease liabilities - net of current portion (Notes 21, 23 and 24)	119,797,742	87,031,857
Other noncurrent liabilities (Notes 8, 9, 23 and 24)	79,986,182	118,327,055
Total Noncurrent Liabilities	3,919,141,569	4,268,493,217
	8,092,208,290	7,058,111,903
<b>Equity (Note 16)</b>		
Equity attributable to shareholders of the Parent Company		
Capital stock	1,425,865,471	1,425,865,471
Retained earnings (Note 2)	1,625,483,991	659,288,179
Accumulated comprehensive income	241,328,367	326,920,319
	3,292,677,829	2,412,073,969
Non-controlling interests	(14,711,365)	(46,606,952)
Total Equity	3,277,966,464	2,365,467,017
	₱11,370,174,754	₱9,423,578,920

See accompanying Notes to Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
SERVICE REVENUE (Note 25)	₱12,514,177,564	₱10,020,116,486	₱8,695,402,622
COST OF SERVICES (Note 18)	8,563,582,476	6,606,032,273	5,590,513,089
GROSS PROFIT	3,950,595,088	3,414,084,213	3,104,889,533
OPERATING EXPENSES (Note 19)	2,582,946,411	2,066,636,094	1,872,805,197
OTHER INCOME (CHARGES)			
Gain (loss) on derivative (Note 15)	454,198,052	(199,950,820)	—
Foreign exchange gains - net (Notes 19 and 23)	163,270,294	91,981,180	143,233,568
Interest income (Notes 5 and 7)	33,454,657	16,169,689	2,365,500
Equity in net earnings of an associate (Note 11)	11,103,396	—	—
Fair value gain on investment at fair value through profit or loss (Note 10)	8,492,280	—	—
Interest expense (Notes 8, 9, 14, 15, 17 and 21)	(223,895,998)	(136,816,952)	(63,493,537)
Others - net	2,425,888	7,938,629	10,900,924
	449,048,569	(220,678,274)	93,006,455
INCOME BEFORE INCOME TAX	1,816,697,246	1,126,769,845	1,325,090,791
PROVISION FOR INCOME TAX (Note 20)	467,666,189	418,854,463	411,150,046
NET INCOME	1,349,031,057	707,915,382	913,940,745
OTHER COMPREHENSIVE INCOME (LOSS)			
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on retirement benefit plan - net of tax (Notes 16 and 22)	21,659,053	37,895,818	(11,989,538)
Unrealized fair value loss on investment at fair value through other comprehensive income (Notes 10 and 16)	(107,283,041)	—	—
Items that may be reclassified to profit or loss in subsequent periods			
Unrealized fair value gain (loss) on available-for-sale investments (Notes 10 and 16)	—	(13,473,623)	246,305,907
Currency translation gain (loss) - net (Note 16)	(1,597,643)	(2,861,602)	725,098
	(87,221,631)	21,560,593	235,041,467
TOTAL COMPREHENSIVE INCOME	₱1,261,809,426	₱729,475,975	₱1,148,982,212
NET INCOME ATTRIBUTABLE TO:			
Shareholders of the Parent Company	₱1,359,766,592	₱703,876,073	₱921,605,612
Non-controlling interests	(10,735,535)	4,039,309	(7,664,867)
NET INCOME	₱1,349,031,057	₱707,915,382	₱913,940,745
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Shareholders of the Parent Company (Note 27)	₱1,275,292,376	₱725,118,990	₱1,158,871,864
Non-controlling interests	(13,482,950)	4,356,985	(9,889,652)
TOTAL COMPREHENSIVE INCOME	₱1,261,809,426	₱729,475,975	₱1,148,982,212
EARNINGS PER SHARE (Note 27)			
Basic	₱0.95	₱0.49	₱0.65
Diluted	₱0.68	₱0.49	₱0.65

See accompanying Notes to Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Equity Attributable to Shareholders of the Parent Company						
	Capital Stock (Notes 1 and 16)	Retained Earnings (Note 16)	Accumulated Comprehensive Income (Note 16)	Total	Non-controlling Interests	Total Equity
For the Year Ended December 31, 2018						
Balances as at January 1, 2018, as previously reported	₱1,425,865,471	₱659,288,179	₱326,920,319	₱2,412,073,969	(₱46,606,952)	₱2,365,467,017
Impact of adoption of new accounting standards (Note 2)	—	(108,397,686)	(1,117,736)	(109,515,422)	—	(109,515,422)
Balances as at January 1, 2018, as restated	1,425,865,471	550,890,493	325,802,583	2,302,558,547	(46,606,952)	2,255,951,595
Comprehensive income:						
Net income	—	1,359,766,592	—	1,359,766,592	(10,735,535)	1,349,031,057
Other comprehensive loss	—	—	(84,474,216)	(84,474,216)	(2,747,415)	(87,221,631)
Total comprehensive income (loss)	—	1,359,766,592	(84,474,216)	1,275,292,376	(13,482,950)	1,261,809,426
Issuance of additional capital stock	—	—	—	—	2,666,545	2,666,545
Non-controlling interests arising from business combination (Note 4)	—	—	—	—	42,711,992	42,711,992
Dividends declared	—	(285,173,094)	—	(285,173,094)	—	(285,173,094)
Balances as of December 31, 2018	₱1,425,865,471	₱1,625,483,991	₱241,328,367	₱3,292,677,829	(14,711,365)	₱3,277,966,464
For the Year Ended December 31, 2017						
	Capital Stock (Notes 1 and 16)	Retained Earnings (Note 16)	Accumulated Comprehensive Income (Note 16)	Total	Non-controlling Interests	Total Equity
Balances as of January 1, 2017	₱1,425,865,471	₱782,414,079	₱305,677,402	₱2,513,956,952	(₱50,963,937)	₱2,462,993,015
Comprehensive income:						
Net income	—	703,876,073	—	703,876,073	4,039,309	707,915,382
Other comprehensive income	—	—	21,242,917	21,242,917	317,676	21,560,593
Total comprehensive income	—	703,876,073	21,242,917	725,118,990	4,356,985	729,475,975
Dividends declared	—	(827,001,973)	—	(827,001,973)	—	(827,001,973)
Balances as of December 31, 2017	₱1,425,865,471	₱659,288,179	₱326,920,319	₱2,412,073,969	(₱46,606,952)	₱2,365,467,017



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

See accompanying Notes to Consolidated Financial Statements.

## LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(Forward)

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

See accompanying Notes to Consolidated Financial Statements.

## LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Corporate Information

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

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

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

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

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

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

On February 28, 2018, the Board of Directors (BOD) of the Parent Company approved the incorporation of Diez Equiz Pte Ltd, (Diez) a Singaporean private limited Company, through subscription of 862 shares or 86% of the total outstanding shares of the entity at US \$1.00 per share.

On April 5, 2018, the BOD approved the sale of the same 86% equity interest of Diez Equiz Pte Ltd to Maleka, Inc. at the sale price of US \$1.00 per share.

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

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

#### 2. Summary of Significant Accounting and Financial Reporting Policies

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

##### Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis except for fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI), available-for-sale (AFS) investments and derivatives which have been measured at



fair value. The consolidated financial statements are presented in Philippine Peso (₱), which is also the Group’s functional currency. All amounts are rounded off to the nearest peso unit unless otherwise indicated.

*Difference in accounting periods*

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

Management exercised judgment in determining whether adjustments should be made in the consolidated financial statements of the Group pertaining to the effects of significant transactions or events of its subsidiaries that occur between December 1, 2018 and the year-end date of the Parent Company’s financial statements which is December 31, 2018.

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

The consolidated financial statements as of December 31, 2017 were adjusted to effect LBCE’s additional availment and settlement of bank loans in December 2017 amounting to ₱150.00 million and ₱161.25 million, respectively; the additional placement and termination of unquoted AFS investment in December 2017 amounting to ₱100.12 million and ₱40.07 million, respectively and the adjustment to reflect the decrease in fair value of quoted available-for-sale (AFS) investment by ₱27.31 million for the period December 1 to December 31, 2017, and the recognition of marketable securities and other short-term investment under ‘Prepaid and other current assets’ in December 2017 amounting to ₱4.02 million and ₱.040 million, respectively.

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

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2018 and 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Non-controlling interests (NCI) represent the portion of profit or loss and net assets in subsidiaries not owned by the Group and are presented separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from the Parent Company’s equity. Any equity instruments issued by a subsidiary that are not owned by LBCH are non-controlling interests including preferred shares and options under share-based transactions.

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

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

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

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

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

*Forward*

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

Note:

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

### Non-Controlling Interests

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

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

### Business Combination and Goodwill

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

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

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

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

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

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

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

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

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

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



Changes in Accounting Policies and Disclosures

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

• PFRS 15, Revenue from Contracts with Customers

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

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

Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

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

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

• PFRS 9, Financial Instruments

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

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

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

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

		Impact as of January 1, 2018				
		Balances Before Adjustments	PFRS 9	PFRS 15	Total Adjustments	Balances After Adjustments
Consolidated Statement of Financial Position						
Trade and other receivables	₱1,675,801,822	(₱14,805,695)	(₱93,308,953)	(₱108,114,648)		₱1,567,687,174
Deferred tax assets	289,524,039	4,441,709	11,137,833	15,579,542		305,103,581
AFS investments	885,500,464	(885,500,464)	—	(885,500,464)		—
FVPL	—	440,763,495	—	440,763,495		440,763,495
FVOCI	—	444,736,969	—	444,736,969		444,736,969
Accumulated comprehensive income	(326,920,319)	1,117,736	—	1,117,736		(325,802,583)
Retained earnings	(659,288,179)	9,246,250	99,151,436	108,397,686		(550,890,493)
Accounts and other payables	(1,603,110,735)	—	(16,980,316)	(16,980,316)		(1,620,091,051)

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

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

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

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

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

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

a. Impact of adoption of PFRS 15:

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

The adjustment to revenue pertains to the recognition of logistics revenue over time using output method wherein revenue is recognized on the basis of direct measurement of the value to the customer relative to the remaining services promised under the contract. The measurement of the progress used the estimated period travelled (measured in days) of the goods being delivered over the period from the date of acceptance up to the delivery date.

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

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

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

b. Impact of adoption of PFRS 9:

*Classification and measurement*

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

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

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

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

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

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



#### *Impairment of Financial Assets*

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

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

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

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

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

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

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

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

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

The amendments are not applicable to the Group since none of the entities within the Group has no activities related to issuance of insurance contracts.

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

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

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

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

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

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

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

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date

on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

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

#### Standards Issued But Not Yet Effective

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

#### *Effective beginning on or after January 1, 2019*

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

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

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

- PFRS 16, *Leases*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

The interpretation specifically addresses the following:

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

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

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

- *Annual Improvements to PFRSs 2015-2017 Cycle*
  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*  
  
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.  
  
A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.  
  
An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*  
  
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in

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

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

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

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

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

*Effective beginning on or after January 1, 2020*

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

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

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

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

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

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

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

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

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

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

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

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

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

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

#### *Deferred effectivity*

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

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

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

#### Current versus Noncurrent Classification

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

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when it is:

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

All other liabilities are classified as noncurrent.

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

#### Cash and Cash Equivalents

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

#### Fair Value Measurement

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

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

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

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

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

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

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

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

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



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

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

#### Financial Assets and Financial Liabilities

##### *Financial instruments upon adoption of PFRS 9*

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

##### *Financial Assets*

##### *Initial recognition and measurement*

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

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

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

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

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

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

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

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

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

FVPL, respectively.

##### *Subsequent measurement*

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

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

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

##### *Business model assessment*

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

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

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

##### *Contractual cash flows assessment*

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

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

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

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

*Financial assets at amortized cost (debt instrument)*

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

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

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

*Financial assets at fair value through OCI (debt instruments)*

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

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

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

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

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

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

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

After initial measurement, such equity investments are subsequently measured at fair value with unrealized gains and losses recognized in OCI. Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such dividends are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. As at December 31, 2018, the Group measures its quoted investment in share of stock at FVOCI (see Note 10).

*Financial assets at fair value through profit or loss*

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

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

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

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

Financial assets at FVPL are subsequently measured at fair value with net changes in fair value recognized in profit or loss as other income (charges).

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

*Impairment of Financial Assets*

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

The Group recognizes an allowance for expected credit losses (ECL) for all debt instruments not held through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

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



(12-month ECL).

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

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

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

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

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

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

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

#### *Calculation of ECLs*

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

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

- the Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio;

- the Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments; and
- the Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

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

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

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

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

#### *Forward looking information*

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as GDP Growth Rate and Inflation Rate.

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

#### *Write-offs*

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

#### *Financial Liabilities*

##### *Initial recognition and measurement*

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

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

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

#### *Subsequent measurement*

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

#### *Financial liabilities at fair value through profit or loss*

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

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

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

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

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

#### *Loans and borrowings*

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

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

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

#### Reclassification

If the business model under which the Group holds the financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. Reclassification of financial assets designated at FVPL at initial recognition is not permitted.

#### *Financial instruments prior to adoption of PFRS 9*

#### *Date of recognition*

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

#### *Initial recognition of financial assets and financial liabilities*

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

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

#### *Determination of fair value*

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

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

#### *'Day 1' difference*

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

#### *Loans and receivables*

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

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



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

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

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

#### *Available-for-sale financial assets*

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

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

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

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

#### *Embedded derivatives*

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

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

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

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

of a derivative.

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

#### *Impairment of Financial Assets*

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

#### *Loans and receivables*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets'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 consolidated statement of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

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

#### *Available-for-sale financial assets*

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

#### *Other financial liabilities*

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

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

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

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

##### *Financial asset*

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

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

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

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

##### *Financial liability*

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

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

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

#### Prepayments and Other Assets

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

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

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

#### *Creditable withholding taxes*

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

#### *Input Value-Added Taxes (VAT)*

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



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

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

**Property and Equipment**

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

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

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

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

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

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

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

**Intangible Assets**

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

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

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

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

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

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

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

**Investment in an Associate**

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

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

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

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

The consolidated statement of comprehensive income reflects the Group’s share of the results of operations of the associate. When there has been a change recognized directly in the equity of the

associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

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

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

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

#### Impairment of Nonfinancial Assets

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

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

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

#### Employee Benefits

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

#### *Termination benefits*

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



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

#### *Employee leave entitlement*

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

#### Equity

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

#### *Capital stock*

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

#### *Retained earnings*

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

#### Revenue Recognition

##### *Revenue from contracts with customers upon adoption of PFRS 15*

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

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

#### *Service fees*

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

The Group recognizes logistics revenue over time using output method wherein revenue is recognized on the basis of direct measurement of the value to the customer relative to the remaining services promised under the contract. The measurement of progress used the estimated period travelled (measured in days) of the goods being delivered over the period of the date of acceptance up to the delivery date.

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

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

#### *Revenue recognition prior to adoption of PFRS 15*

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

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

#### *Service fees*

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

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

#### *Interest income under PFRS 15 and PAS 18*

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

#### *Other income under PFRS 15 and PAS 18*

Other income is recognized when earned.

#### Costs and Expense Recognition

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

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

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

#### Leases

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

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

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

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

#### *Group as lessee*

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

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

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

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

#### Income Taxes

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

#### *Current tax*

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

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

#### *Deferred tax*

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

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

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

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

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

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

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

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

#### Foreign Currencies

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

#### *Transactions and balances*

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

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

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



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

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

#### *Group consolidation*

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

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

#### Earnings Per Share (“EPS”)

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

#### Segment Reporting

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

#### Provisions

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

#### Contingencies

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

#### Events after the Reporting Date

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

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

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

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

#### Judgments

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

#### *Applying acquisition method*

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

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

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

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

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

#### *Determining significant influence over an investee company*

The Group determined that it exercises significant influence over its associate by considering, among others, its ownership interest (holding 30% of the voting power of the investee), board representation and other contractual terms (see Note 11).

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

#### *Lease commitments - Group as lessee*

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

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

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

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

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

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

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

#### *Determining provisions and contingencies*

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

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

#### Estimates and Assumptions

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

#### *Identifying performance obligations*

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

#### *Assessing impairment losses on financial assets*

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

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

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

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

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

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



*Accounting for business combinations*

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

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

*Evaluating impairment of goodwill*

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

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

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

*Estimating useful lives of property and equipment*

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

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

*Estimating pension cost*

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

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

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

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

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

*Recognizing deferred tax assets*

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

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

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

*Estimating fair value of embedded derivatives*

The fair value of embedded derivatives, related to the issuance of convertible bond recorded in the consolidated statement of financial position as derivative liability, is measured using binomial pyramid model. The inputs to this model are taken from a combination of observable markets and unobservable market data. Changes in inputs about these factors could affect the reported fair value of the embedded derivatives and impact profit or loss (see Note 24).

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

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**4. Business Combinations and Goodwill**

QUADX Inc.

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

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

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

Overseas Entities

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

QuadX Pte. Ltd.

On April 4, 2018, the BOD of the Parent Company approved the acquisition of 86.11% equity interest in QuadX Pte. Ltd., an entity domiciled in Singapore, through the following: (a) the purchase of 862 ordinary shares of QuadX Pte. Ltd. held by an individual shareholder, at the sale price of USD1.00 per share; and (b) the subscription to 85,248 ordinary shares out of the unissued capital stock of QuadX Pte. Ltd. at the subscription price of USD1.00 per share.

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

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

LBC Mabuhay Saipan, Inc.

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

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

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

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

The transfer of the ownership of the shares and all rights, titles and interests thereto shall take place following the payment of the considerations defined. These entities operate as logistics and money remittance companies on the countries where they are domiciled.

LBC Mabuhay (Malaysia) SDN BHD

On August 15, 2018, the Parent Company approved the acquisition of 92.5% equity ownership of LBC Mabuhay (Malaysia) SDN BHD (LBC Malaysia) for a total purchase price of US \$461,782 or ₱24.68 million. LBC Malaysia engages in the business of courier services in Malaysia.

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

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

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

Entities under LBC Express Holdings USA Corporation

On March 7, 2018, the BOD of the Parent Company approved the purchase of shares of the entities under LBC Express Holdings USA Corporation. On the same date, the share purchase agreements (SPA) were executed by the Parent Company and LBC Express Holdings USA Corporation with a total share purchase price amounting to US \$8.34 million, subject to certain closing conditions.

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

- LBC Mabuhay Hawaii Corporation which operates as a cargo and remittance Parent Company in Hawaii. The Parent Company purchased 1,536,408 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.
- LBC Mundial Corporation which operates as a cargo and remittance Group in California. The Parent Company purchased 4,192,546 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.
- LBC Mabuhay North America Corporation which operates as a cargo and remittance Parent Company in New Jersey. The Parent Company purchased 1,605,273 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.

The transfer of the ownership of the shares and all rights, titles and interests thereto shall take place following the payment of the consideration defined and shall be subject to the necessary approvals of the US regulatory bodies that oversee and/or regulate the Companies. On January 1, 2019, the Parent Company was granted the regulatory approvals on the purchase of the LBC Mundial Corporation and LBC Mabuhay North America Corporation. As of report date, the closing conditions are not yet met for LBC Mabuhay Hawaii Corporation.

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

*Identifiable assets acquired and liabilities assumed*

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

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

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



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

Percentage of ownership of Parent Company		100%	100%	100%	100%	100%	100%	100%	50%	50%	86.11%	86.11%	86.11%	92.50%
Assets														
Cash and cash equivalents	₹41,843,269	₹6,837,535	₹17,129,600	₹30,264,965	₹25,852,714	₹51,399,857	₹6,463,668	₹81,245,875	₹254,114	₹23,276,681	₹284,568,278			
Trade receivables	832,414	4,404,638	19,197,136	4,501,519	1,561	67,977	19,800	266,353,454	2,180,393	18,126	297,577,018			
Receivable from a related party	100,378,160	12,312,883	4,149,428	12,973,549	16,951,251	34,945,560	27,615,877	18,300,964	—	10,649,768	238,277,440			
Prepayments and other current assets	1,903,508	1,102,911	253,913	2,564,779	33,279	256,028	1,084,187	36,371,312	—	2,546,189	46,116,106			
Financial asset at fair value	—	—	—	—	—	—	—	—	—	9,397,260	—			
Total current assets	144,957,351	24,657,967	40,730,077	50,304,812	42,838,805	86,669,422	35,183,532	402,271,605	11,831,767	36,490,764	875,936,102			
Property, plant and equipment	1,219,553	793,142	665,953	947,912	412,196	38,225	35,389	83,678,915	—	103,705	87,894,990			
Deferred income tax assets	107,802	503,870	6,283,152	5,136,584	—	—	—	—	—	—	12,031,408			
Intangible assets	—	—	—	—	—	—	—	114,661,984	469,498	—	115,131,482			
Security deposit	4,260,166	274,747	93,194	1,350,532	265,007	118,564	241,081	16,416,243	—	645,144	23,664,678			
Other noncurrent asset	—	—	—	—	—	2,173,677	—	—	—	—	2,173,677			
Total noncurrent asset	5,587,521	1,571,759	7,042,299	7,435,028	677,203	2,330,466	276,470	214,757,142	469,498	748,849	240,896,235			
Total asset	150,544,872	26,229,726	47,772,376	57,739,840	43,516,008	88,999,888	35,460,002	617,028,747	12,301,265	37,239,613	1,116,832,337			
Liabilities														
Accounts and other payables	14,820,737	7,978,930	6,159,479	30,306,712	3,639,995	2,401,416	6,214,615	630,530,128	1,022,390	6,976,540	710,050,942			
Payable to a related party	266,247	178,717,132	12,437,069	31,182	13,479,920	—	3,800,453	—	6,386,957	4,509,155	219,628,115			
Transmission liability	—	—	33,801,762	—	13,466,212	18,332,164	—	—	—	—	65,600,138			
Income tax payable	6,425,537	107,053	812,123	4,393,437	—	—	—	—	—	4,488,034	16,226,184			
Lease liabilities	1,538,403	—	—	179,275	—	—	—	—	—	—	1,717,678			
Total current liabilities	23,050,924	186,803,115	53,210,433	34,910,606	30,586,127	20,733,580	10,015,068	630,530,128	7,409,347	15,973,729	1,013,223,057			
Retirement benefit obligation	—	—	—	—	—	—	—	3,096,164	—	—	3,096,164			
Lease liabilities	—	—	—	—	—	—	—	5,197,745	—	—	5,197,745			
Deferred tax liability	—	—	—	—	—	—	—	24,411,031	—	—	24,411,031			
Total noncurrent liabilities	—	—	—	—	—	—	—	32,704,940	—	—	32,704,940			
Total liabilities	23,050,924	186,803,115	53,210,433	34,910,606	30,586,127	20,733,580	10,015,068	663,235,068	7,409,347	15,973,729	1,045,927,997			
Total net assets (liabilities)	127,493,948	(160,573,389)	(5,438,057)	22,829,234	12,929,881	68,266,308	25,444,934	(46,206,321)	4,891,918	21,265,884	70,904,340			
Attributable to non-controlling interest	—	—	—	—	—	(34,133,154)	(12,722,467)	6,418,058	(679,487)	(1,594,941)	(42,711,991)			
Net assets (liabilities) attributable to Parent Company	127,493,948	(160,573,389)	(5,438,057)	22,829,234	12,929,881	34,133,154	12,722,467	(39,788,263)	4,212,431	19,670,943	28,192,349			
Add: Purchased goodwill	1,519,637	168,373,549	15,830,311	75,633,629	—	—	—	225,809,663	267,528	5,011,767	492,446,084			
Less: Gain on bargain purchase	—	—	—	—	2,147,343	3,966,556	502,054	—	—	—	6,615,953			
Purchase consideration	₹129,013,585	₹7,800,160	₹10,392,254	₹98,462,863	₹10,782,538	₹30,166,598	₹12,220,413	₹186,021,400	₹4,479,959	₹24,682,710	₹514,022,480			

Purchase consideration and net cash flows

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

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

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

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

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

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

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

*Impairment testing of Goodwill*

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

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

QUADX Inc.

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

LBC Taiwan

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

LBC Australia Cargo

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

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

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

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

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

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

**5. Cash and Cash Equivalents**

This account consists of:

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

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

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

**6. Trade and Other Receivables**

This account consists of:

	2018	2017
Trade receivables - outside parties	<b>₱1,447,404,156</b>	₱1,189,394,150
Trade receivables - related parties (Note 17)	<b>253,208,381</b>	495,476,881
	<b>1,700,612,537</b>	1,684,871,031
Less allowance for impairment losses	<b>154,294,279</b>	57,252,950
	<b>1,546,318,258</b>	1,627,618,081
Other receivables:		
Advances to officers and employees	<b>₱33,771,196</b>	₱29,587,715
Others	<b>62,044,315</b>	18,596,026
	<b>₱1,642,133,769</b>	₱1,675,801,822

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

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

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

The amount of ₱4.86 million and ₱11.62 were written off in 2018 and 2017, respectively, as these are deemed uncollectible. The accounts were previously provided with allowance.



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

The movements in allowance for expected credit losses of trade receivables follow:

Loss allowance	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
<b>As at January 1, 2018, as previously reported</b>	₱–	₱57,252,950	₱57,252,950
Impact of PFRS 9 adoption	14,805,695	–	14,805,695
<b>As at January 1, 2018, as restated</b>	14,805,695	57,252,950	72,058,645
Impact of business combination		7,055,686	7,055,686
Write-off	–	(4,858,761)	(4,858,761)
New financial assets originated	21,457,341	–	21,457,341
New credit impaired financial assets	–	73,377,693	73,377,693
Financial assets derecognized	(20,440,390)	–	(20,440,390)
Change in forecast and model assumptions	5,644,065	–	5,644,065
<b>As at December 31, 2018</b>	<b>₱21,466,711</b>	<b>₱132,827,568</b>	<b>₱154,294,279</b>

## 7. Prepayments and Other Assets

This account consists of:

	2018	2017
Input value-added tax (VAT)	₱324,539,993	₱215,215,636
Materials and supplies	148,990,229	100,572,680
Prepayments:		
Rent	62,533,385	70,238,209
Insurance	20,923,820	12,489,234
Software maintenance	18,275,638	7,049,524
Employee benefits	18,209,303	20,616,772
Taxes	11,410,009	7,418,431
Advertising	8,857,794	7,111,383
Dues and subscriptions	3,794,116	4,404,153
Company events	1,427,191	4,889,415
Others	33,169,932	8,752,146
Creditable withholding taxes (CWTs)	104,471,039	51,010,831
Restricted cash in bank	19,528,338	9,000,000
Short-term cash investments	–	11,326,492
Others	11,115,483	9,000,000
	787,246,270	539,094,906
Less allowance for impairment losses	798,769	798,769
	786,447,501	538,296,137
Less noncurrent portion of:		
VAT on capital goods	99,134,137	60,574,886
Prepaid rent	30,366,589	22,590,091
Advance payment to a supplier	9,000,000	9,000,000
Other assets	428,640	–
Total noncurrent portion	₱138,929,366	₱92,164,977
Total current portion	₱647,518,135	₱446,131,160

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

Materials and supplies consist of office supplies, packing materials and official receipts to be used in the Group’s operations. Materials and supplies recognized under cost of services in profit or loss for the years ended December 31, 2018, 2017 and 2016 amounted to ₱482.51 million, ₱334.17 million and ₱293.38 million, respectively (see Note 18).

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

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

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

Prepaid taxes primarily consist of unamortized portion of business permits.

Prepaid advertising consists of advances for billboards and multimedia endorsements.

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

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

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

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

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

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

8. Property and Equipment

The rollforward analysis of this account follows:

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

	2017				
	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures, Machinery and Office Equipment	Computer Hardware	Construction in Progress
<b>Costs</b>					
At beginning of year	₱516,312,044	₱1,387,570,739	₱604,044,494	₱549,377,766	₱9,067,555
Additions	65,217,309	37,627,429	45,222,628	66,283,784	180,133,211
Reclassifications	2,156,919	155,553,817	8,905,950	5,282,446	(171,899,132)
Disposals	(84,207,204)	(6,173,295)	(716,673)	(424,696)	—
At end of year	499,479,068	1,574,578,690	657,456,399	620,519,300	17,301,634
<b>Accumulated Depreciation and Amortization</b>					
At beginning of year	384,704,082	897,410,297	515,934,644	427,846,648	—
Depreciation (Notes 18 and 19)	37,458,352	97,534,449	52,236,428	68,503,817	—
Disposals	(84,207,204)	(3,820,635)	(135,099)	(184,089)	—
At end of year	337,955,230	991,124,111	568,035,973	496,166,376	—
<b>Net Book Value</b>	<b>₱161,523,838</b>	<b>₱583,454,579</b>	<b>₱89,420,426</b>	<b>₱124,352,924</b>	<b>₱17,301,634</b>

The cost of fully depreciated assets that are still in use amounted to ₱1,753.33 million and ₱1,160.00 million as of December 31, 2018 and 2017, respectively.

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

Depreciation charges were recognized as follows:

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

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

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

9. Intangible Assets

The rollforward analysis of this account follows:

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



	2017		
	Software	Development in Progress	Total
<b>Costs</b>			
At beginning of year	₱335,393,881	₱63,140,574	₱398,534,455
Additions	156,491,950	8,654,110	165,146,060
Reclassification	58,254,684	(67,254,684)	(9,000,000)
Disposal	(319,900)	–	(319,900)
At end of year	549,820,615	4,540,000	554,360,615
<b>Accumulated Amortization</b>			
At beginning of year	132,486,794	–	132,486,794
Amortization (Note 19)	65,023,810	–	65,023,810
At end of year	197,510,604	–	197,510,604
<b>Net Book Value</b>	<b>₱352,310,011</b>	<b>₱4,540,000</b>	<b>₱356,850,011</b>

In 2017, the Group purchased an IT security tool, a new payroll system and a logistics software on an interest bearing long-term payment arrangement payable over 36 months, 60 months and 60 months, respectively. As at December 31, 2018, the outstanding liability related to purchase of these intangible assets amounted to ₱95.44 million, ₱65.46 million of which is presented under “other noncurrent liabilities” in the consolidated statement of financial position. Interest expense arising from the amortization of deferred interest amounted to ₱5.51 million and ₱2.18 million in 2018 and 2017, respectively.

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

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

There were no capitalized borrowing costs in 2018 and 2017.

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

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

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

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

	December 31, 2018		
	FVPL	FVOCI	AFS
<b>Balance at beginning of period, as previously reported</b>	<b>₱–</b>	<b>₱–</b>	<b>₱885,500,464</b>
Impact of PFRS 9 adoption	<b>440,763,495</b>	<b>444,736,969</b>	<b>(885,500,464)</b>
<b>As at January 1, 2018, as restated</b>	<b>440,763,495</b>	<b>444,736,969</b>	<b>–</b>
Additions	<b>888,580,000</b>	<b>–</b>	<b>–</b>
Additions through business combination	<b>9,397,260</b>	<b>–</b>	<b>–</b>
Redemption	<b>(1,215,938,291)</b>	<b>–</b>	<b>–</b>
Unrealized fair value gain (loss) during the year	<b>8,492,280</b>	<b>(107,283,041)</b>	<b>–</b>
	<b>₱131,294,744</b>	<b>₱337,453,928</b>	<b>₱–</b>

Movements of the AFS investment follow:

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

The unrealized fair value gain of ₱8.49 million related to investment at FVPL is presented under “Other income (charges)” in the consolidated statements of comprehensive income.

Movement in unrealized gain on investment at FVOCI follow:

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

## 11. Investment in an Associate

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

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

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

The Parent Company incurred costs directly attributable to the investment amounting to ₱9.09 million which was considered as part of cost of investment.

The Group's interest in OFII is accounted for using the equity method in the consolidated financial statements. The concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

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

Current assets	₱499,483,690
Noncurrent assets	107,949,001
Current liabilities	(207,702,753)
Noncurrent liabilities	(33,206,763)
Equity	366,523,175
Share in equity - 30%	109,956,952
Excess of purchase price over fair value of net asset	108,873,250
Costs directly attributable to the investment	9,086,250
Share of profit from March 19 to December 31, 2018	11,103,396
Carrying amount of the investment as of December 31, 2018	₱239,019,848

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

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

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

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

## 12. Accounts and Other Payables

This account consists of:

	2018	2017
Trade payable - outside parties	₱1,353,449,343	₱656,868,942
Trade payable - related parties (Note 17)	370,163	376,412
Accruals:		
Salaries and wages	277,249,320	248,425,003
Contracted jobs	191,243,940	121,825,685
Rent and utilities	124,727,982	90,793,364
Advertising	94,836,141	20,750,779
Claims and losses	79,870,576	26,539,218
Professional fees	24,776,017	12,917,417
Fixed assets	17,629,915	19,512,075
Taxes	16,366,752	10,933,230
Outside services	11,414,949	10,968,979
Software maintenance	9,184,268	27,169,568
Others	63,105,153	26,995,951
Deferred output VAT	300,135,756	225,681,729
Taxes payable	91,174,576	61,810,736
Contract liabilities	83,666,589	—
Government agencies contributions payables	26,136,084	23,013,633
Subscription payable	9,651,375	—
Others (Note 17)	31,180,381	18,528,014
	₱2,806,169,280	₱1,603,110,735

Trade payable and accrued expenses arise from regular transactions with suppliers and service providers. These are noninterest-bearing and are normally settled on one to 60-day term. Accrued salaries and wages pertain to unpaid salaries and provision for employee's allowances and benefits.

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

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

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



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

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

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

Other payables include employees’ salary loan deductions payable to third parties, guarantee fee payable to a related party and payables arising from expenses incurred in relation to transactions with nontrade suppliers.

13. Transmissions Liability

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

Transmissions liability amounted to ₱543.90 million and ₱588.20 million as at December 31, 2018 and 2017, respectively (see Note 17).

14. Notes Payable

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

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

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

The Notes Facility Agreement entered by the Group with Banco De Oro (BDO) in May 2016 is with a credit line facility amounting to ₱800.00 million. The loan is secured with real estate mortgage on land owned by the Group’s affiliate (see Note 17).

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

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

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

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

15. Convertible Instrument

This account consists of:

	2018	2017
Derivative liability		
Balance at beginning of year	₱1,860,373,479	₱–
Issuance of convertible instrument	–	1,660,422,659
Fair value loss (gain) on derivative	(454,198,052)	199,950,820
	₱1,406,175,427	₱1,860,373,479
Bond payable		
Balance at beginning of year	₱896,185,059	₱–
Issuance of convertible instrument, net of issuance cost	–	845,236,090
Accretion of interest	159,106,145	58,810,157
Unrealized foreign exchange loss (gain)	50,577,641	(8,610,668)
Amortization of issuance cost	2,548,229	749,480
	₱1,108,417,074	₱896,185,059

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

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

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

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

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

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

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

While CP Briks may participate in the auction of LBCE shares should there be a foreclosure, any such foreclosure of the pledge over LBCE shares and any resulting acquisition by CP Briks of equity interest in LBCE are always subject to the foreign ownership restrictions applicable to LBCE, which

may not exceed 40% of the total issued and outstanding capital stock entitled to vote, and 40% of the total issued and outstanding capital stock whether or not entitled to vote, of LBCE.

#### *Covenants*

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

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

The determination and calculation of the foregoing financial ratios are based on the agreement and interpretation of relevant parties subject to the terms of the convertible instrument. The Parent Company is in compliance with the above covenants as at December 31, 2018 and 2017, the latest Relevant Period subsequent to the issuance of the convertible instrument.

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

- a. On August 4, 2017, LBCE and LBCDC agreed for LBCE to discontinue royalty for the use of LBC Marks (see Note 17).
- b. On various dates, the Parent Company entered into the following transactions for the acquisition of certain overseas entities:
  - i. On March 7, 2018, the Parent Company acquired 100% ownership of LBC Mabuhay Saipan, Inc. (LBC Saipan) for a total purchase price of US \$207,652 or ₱10.80 million.
  - ii. As discussed in Note 4, the Parent Company’s purchase of the entities form LBC Express Holdings USA Corporation, except for LBC Mabuhay Hawaii Corporation, were closed on January 1, 2019 upon approval by the US Regulatory bodies that oversee and/or regulates these entities.
  - iii. On June 27, 2018, the BOD of the Parent Company approved the purchase of shares of some overseas entities. The acquisition is expected to benefit the Parent Company by contributing to its global revenue streams. On the same date, the SPAs were executed by the Group and Jamal Limited, as follow:
    - LBC Aircargo (S) PTE. LTD. which operates as a cargo branch in Taiwan. The Parent Company purchased 94,901 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US \$146,013;
    - LBC Money Transfer PTY Limited which operates as a remittance company in Australia. The Parent Company purchased 10 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US \$194,535;
    - LBC Express Airfreight (S) PTE. LTD. which operates as a cargo company in Singapore. The Parent Company purchased 10,000 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US \$2,415,035; and



- LBC Australia PTY Limited which operates as a cargo company in Australia. The Parent Company purchased 223,500 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US \$1,843,149.
- iv. On August 15, 2018, the Parent Company approved the acquisition of 92.5% equity ownership of LBC Mabuhay (Malaysia) SDN BHD (LBC Malaysia) for a total purchase price of \$461,782 or ₱24.68 million.
- v. On October 15, 2018, the Parent Company acquired the following overseas entities:
  - LBC Mabuhay Remittance Sdn. Bhd. which operates as a remittance company in Brunei. The Parent Company purchased one (1) share which represents 50% equity interest at the subscription price of US \$557,804 per share.
  - LBC Mabuhay (B) SDN BHD which operates as a cargo company in Brunei. The Parent Company acquired 50% of LBC Mabuhay (B) SDN BHD for a total purchase price of US \$225,965.
- vi. The documentation requirements for the acquisition of the remaining overseas entities are still in process.

Upon completion of the acquisitions discussed in (i) to (vi) above, the Parent Company will have acquired equity interests in twelve overseas entities which are affiliated to the Parent Company and LBCDC. In accordance with the directions from LBCDC, the Parent Company intends to complete the acquisition of the remaining overseas entities in 2019, after which the Group expects (on the basis of LBCDC's manifestations) settlement by LBCDC of all of its obligations to the Parent Company.

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

The increase in authorized capital stock of QUADX Inc. was approved by the SEC on June 14, 2018.

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

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

## 16. Equity

### Capital Stock

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

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

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

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

### Retained earnings

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

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

### Cash dividends

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

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

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

Accumulated comprehensive income

Details of accumulated comprehensive income as at December 31 follow:

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

17. Related Party Transactions

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

Details of related party transactions and balances as at and for the years ended December 31 are as follow:

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

Forward

	2018			
	Amount/Volume	Receivable (Payable)	Terms	Conditions
Officer				
b.) Advances	₱—	₱9,284,395	Noninterest-bearing; due and demandable	Unsecured, no impairment
		₱997,781,703		
Due to related parties (Trade payables)				
Ultimate Parent Company				
c.) Royalty fee (Note 12)	₱—	(₱370,163)	Noninterest-bearing; due and demandable	Unsecured
d.) Guarantee fee	7,142,857	—	Noninterest-bearing; due and demandable	Unsecured
		(₱370,163)		
Due to a related party (Non-trade payables)				
Affiliates - under common control				
b.) Advances	₱18,347,124	(₱18,347,124)	Noninterest-bearing; due and demandable	Unsecured
Officer				
b.) Advances	₱75,645,005	(₱75,645,005)	Noninterest-bearing; due and demandable	Unsecured
		(₱93,992,129)		
	2017			
	Amount/Volume	Receivable (Payable)	Terms	Conditions
Due from related parties (Trade receivables)				
Affiliates - under common control				
a.) Delivery fee, management fee, financial Instant Peso Padala (IPP) fulfillment fee (Notes 6 and 25)	₱658,034,091	₱495,476,881	Noninterest-bearing; due and demandable	Unsecured, no impairment
Due from related parties (Non-trade receivables)				
Ultimate parent company				
b.) Advances	₱192,251,895	₱415,144,205	Noninterest-bearing; due and demandable	Unsecured, no impairment
Affiliates - under common control				
b.) Advances	57,857,821	243,289,035	Noninterest-bearing; due and demandable	Unsecured, no impairment
Officer				
b.) Advances	—	9,284,395	Noninterest-bearing; due and demandable	Unsecured, no impairment
		₱667,717,635		
Due to related parties (Trade payables)				
Ultimate Parent Company				
c.) Royalty fee	₱176,443,696	(₱376,412)	Noninterest-bearing; due and demandable	Unsecured
d.) Guarantee fee	9,523,809	—	Noninterest-bearing; due and demandable	Unsecured
		(₱376,412)		



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

Compensation of Key Management Personnel:

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

- a.) In the normal course of business, the Group fulfills the delivery of balikbayan boxes, fulfillment of money remittances and performs certain administrative functions on behalf of its affiliates. The Group charges delivery fees and service fees for the fulfillment of these services based on agreed rates.
- b.) The Group regularly makes advances to and from related parties to finance working capital requirements and as part of their cost reimbursements arrangement. These unsecured advances are non-interest bearing and payable on demand.
- In prior years, the Group has outstanding advances of ₱295.00 million to LBC Development Bank, an entity under common control of LBCDC. In 2011, management assessed that these advances are not recoverable. Accordingly, the said asset was written-off from the books in 2011 (see Note 28).
- c.) Starting 2007, LBCDC (Licensor), the Ultimate Parent Company, granted to the Group (Licensee) the full and exclusive right to use the LBC Marks within the Philippines in consideration for a continuing royalty rate of two point five percent (2.5%) of the Company's Gross Revenues which is defined as any and all revenue from all sales of products and services, including all other income of every kind and nature directly and/or indirectly arising from, related to and/or connected with Licensee's business operations (including, without limitation, any proceeds from business interruption insurance, if any), whether for cash or credit, wherever made, earned, realized or accrued, excluding any sales discounts and/or rebates, value added tax. Such licensing agreement was amended on August 4, 2017 and was subsequently discontinued effective September 4, 2017 in recognition of the Group's own contribution to the value and goodwill of the trademark.

- d.) As discussed in Note 14, the Group entered into a loan agreement with BDO which is secured with real estate mortgage on various real estate properties owned by the Group's affiliate. In consideration of the affiliate's accommodation to the Group's request to use these properties as loan collateral, the Group agreed to pay the affiliate, every April 1 of the year starting April 1, 2016, a guarantee fee of 1% of the face value of loan and until said properties are released by the bank as loan collateral. The guarantee fee is reported as part of interest expense in the consolidated statements of comprehensive income amounting to ₱7.14 million and ₱9.52 million in 2018 and 2017, respectively.
- e.) On March 8, 2017, the BOD of LBCE approved the declaration of cash dividends amounting to ₱843.36 million. On June 09, 2017, through a Memorandum of Agreement, LBCDC assigned to LBCH a portion of its payable to LBCE amounting to ₱699.47 million. The same amount was offset against the dividends payable of the Company to LBCH.
- f.) On March 7, 2018, the BOD of the Parent Company approved the purchase of shares of the entities under LBC Express Holdings USA Corporation. The acquisition is expected to benefit the Group by contributing to its global revenue streams. On the same date, the share purchase agreements (SPA) were executed by the Parent Company and LBC Express Holdings USA Corporation with a total share purchase price amounting to US \$8.34 million, subject to certain closing conditions. As discussed in Note 15, the transfer of the ownership of the shares and all rights, titles and interests thereto shall take place following the payment of the consideration defined and shall be subject to the necessary approvals of the US regulatory bodies that oversee and/or regulate the Companies. On January 1, 2019, the Parent Company was granted the regulatory approvals on the purchase of the LBC Mundial Corporation and LBC Mabuhay North America Corporation. As of report date, the closing conditions are not yet met for LBC Mabuhay Hawaii Corporation.

**18. Cost of Services**

This account consists of:

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

## 19. Operating Expenses and Foreign Exchange Gains - net

This account consists of:

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

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

Foreign exchange gains - net arises from the following:

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

## 20. Income Taxes

Provision for income tax consists of:

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

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

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

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

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

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

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

*Forward*



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

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

#### NOLCO

##### 2018

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

##### 2017

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

##### 2016

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

#### MCIT

##### 2018

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

##### 2017

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

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

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

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

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

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

## 21. Lease Commitments

### (a) Operating lease

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

1. Operating lease agreement covering its previous corporate office space, originally for a period of five years starting October 20, 2016 was terminated effective November 30, 2018 as mutually agreed with the lessor.
2. Operating lease agreement covering its current corporate office space for a period of five years from September 1, 2018. The lease agreement is renewable upon mutual agreement with the lessor and includes rental rate escalations during the term of the lease. The lease agreement also requires the Group to pay advance rental and security deposits.
3. Operating lease agreements covering various service centers and service points, within the Philippines and overseas where the Group operates, for a period of one to five years, renewable at the Group's option at such terms and conditions which may be agreed upon by both parties. These lease agreements include provision for rental rate escalations including payment of security deposits and advance rentals.
4. Operating lease agreement with a local bank covering transportation equipment for a period of three to four years. The lease agreement does not include escalation rates on monthly payments.

There are no contingent rents for the above lease agreements.

Rent expense was recognized as follows:

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

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

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

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

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

### (b) Finance lease

These involve leases of transportation equipment which were accounted for as finance leases. The components of the finance lease obligation as at December 31 arising from this lease are as follows:

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

The present value of minimum lease payments is as follows:

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

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

## 22. Retirement Benefits

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

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

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



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

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

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

2018													
Net benefit cost in statements of comprehensive income							Remeasurements in other comprehensive income						
		Effect of business combination		Current service cost		Past service costs		Net interest		Subtotal			
January 1, 2018		combination		service cost		costs		Net interest		Subtotal			

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

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

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

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

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

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

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

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

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

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

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

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

*Discount rate*

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

*Salary increase*

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

*Demographic assumptions*

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

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

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

		2018	2017
	Increase (decrease)	<b>Net defined benefit liability</b>	Net defined benefit liability
Discount rate	+1.00%	<b>(₱69,736,582)</b>	(₱80,215,705)
	-1.00%	<b>86,230,575</b>	94,741,834
Salary increase	+1.00%	<b>88,020,831</b>	86,389,537
	-1.00%	<b>(76,617,155)</b>	(74,820,303)

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

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

	2018	2017
Less than 1 year	<b>₱71,301,366</b>	₱54,235,190
More than 1 year to 5 years	<b>324,908,578</b>	255,728,891
More than 5 years to 10 years	<b>560,811,225</b>	440,294,461
	<b>₱957,021,169</b>	₱750,258,542



23. Financial Risk Management Objectives and Policies

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

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

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

Price risk

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

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

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

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

The Group is also exposed to equity price risk in the fair valuation of the derivative liability due to the embedded equity conversion feature. The following table shows the effect on net income should the change in the close share price of the underlying equity security in the convertible instrument occur as at December 31, 2018 and 2017 with all other variables held constant.

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

Interest rate risk and credit spread sensitivity analysis

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

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

	Effect in fair value	
	2018	2017
Credit spread +1%	₱58,315,936	(₱2,616,426)
Credit spread -1%	(63,189,129)	(8,033,086)

Liquidity risk

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

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

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

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

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

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

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

	2017		Total
	Due in less than one year	Due in more than one year	
Cash and cash equivalents			
Cash on hand	₱264,057,974	₱–	₱264,057,974
Cash in bank	1,103,336,745	–	1,103,336,745
Cash equivalents	2,411,013,773	–	2,411,013,773
Receivables			
Trade	1,684,871,031	–	1,684,871,031
Others	18,596,026	–	18,596,026
Due from related parties	667,717,635	–	667,717,635
Available-for-sale investments			
Quoted	–	444,736,969	444,736,969
Unquoted	440,763,495	–	440,763,495
Short-term investments	11,326,492	–	11,326,492
	₱6,601,683,171	₱444,736,969	₱7,046,420,140

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

	2018		Total
	Due in less than one year	Due in more than one year	
Accounts payable and accrued expenses			
Trade payable	₱1,353,819,506	₱–	₱1,353,819,506
Accruals	894,038,261	–	894,038,261
Others	31,180,381	–	31,180,381
Due to related parties	93,992,129	–	93,992,129
Notes payable	297,000,000	532,500,000	829,500,000
Transmissions liability	543,895,836	–	543,895,836
Derivative liability	–	1,406,175,427	1,406,175,427
Bond payable	–	1,108,417,074	1,108,417,074
Lease liabilities	20,271,292	57,905,160	78,176,452
Other noncurrent liabilities	–	79,986,182	79,986,182
	₱3,234,197,405	₱3,184,983,843	₱6,419,181,248

	2017		Total
	Due in less than one year	Due in more than one year	
Accounts payable and accrued expenses			
Trade payable	₱657,245,354	₱–	₱657,245,354
Accruals	605,898,038	–	605,898,038
Others	18,528,015	–	18,528,015
Due to a related party	2,542,585	–	2,542,585
Notes payable	440,050,000	601,250,000	1,041,300,000
Transmissions liability	588,203,656	–	588,203,656
Derivative liability	–	1,860,373,479	1,860,373,479
Bond payable	–	896,185,059	896,185,059
Lease liabilities	30,691,524	44,029,948	74,721,472
Other noncurrent liabilities	–	118,327,055	118,327,055
	₱2,343,159,172	₱3,520,165,541	₱5,863,324,713

Notes payable and lease liabilities include future interest payments.

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

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

#### *Foreign currency risk*

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

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

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

Information on the Group’s foreign currency-denominated monetary assets and liability recorded under ‘cash and cash equivalents’, ‘trade and other receivables’ and ‘bond payable’, respectively, assets and liabilities related to convertible instrument in the consolidated statements of financial position and their Philippine Peso equivalents follow:

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

<b>Liabilities:</b>		
US Dollars	(21,213,491)	(1,118,460,095)

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

	2017	
	Foreign currency	Peso equivalent
<b>Assets:</b>		
Euro	3,001,837	₱178,939,504
Hongkong Dollars	15,118,598	96,607,841
Australian Dollars	1,234,425	48,031,477
Taiwanese Dollars	56,818,370	95,454,862
US Dollars	577,108	28,809,231
Great British Pound	33,453	2,260,419

<b>Liabilities:</b>		
US Dollars	(18,189,640)	(908,026,829)

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



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

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

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

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

Credit risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Capital Management

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

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

The capital that the Group manages is equal to the total equity as shown in the consolidated statements of financial position at December 31, 2018 and 2017 amounting to ₱3,277.68 million and ₱2,365.47 million, respectively.

### 24. Fair Values and Offsetting Arrangements

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

The carrying amounts of cash and cash equivalents, trade and other receivables, due from/to related parties, short-term cash investments, accounts and other payables, dividends payable, transmissions liability, and the current portion of notes payable and lease liabilities approximate their fair value because these financial instruments are relatively short-term in nature.

The fair value of financial assets at FVOCI is the current closing price while the financial asset at FVPL is based on the published net asset value per unit as of reporting date.

The estimated fair value of long-term portion of notes payable is based on the discounted value of future cash flow using applicable rates ranging from 5.10% to 6.97% in 2018 and 2.05% to 5.01% in 2017.

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

The estimated fair value of derivative liability as at December 31, 2018 is based on an indirect method of valuing multiple embedded derivatives. This valuation technique using binomial pyramid model uses stock prices and stock price volatility. This valuation method compares the fair value of the option-free instrument against the fair value of the hybrid convertible instrument. The difference of the fair values is assigned as the value of the embedded derivatives.

The significant unobservable input in the fair value is the stock price volatility of 16.22% in 2018. A 5% increase (5% decrease) in the stock price volatility would decrease by ₱1,890 (increase by ₱756

million) the fair value of the derivative liability.

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

The estimated fair value of other noncurrent liabilities is based on the discounted value of future cash flow using applicable rate of 5.10% to 6.94% in 2018 and 2.05% to 5.09% in 2017.

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

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

#### Fair Value Hierarchy

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

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

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

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

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

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



	2017				
	Carrying values	Fair value measurements using			
		Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets measured at fair value</b>					
Quoted equity securities	₱444,736,969	₱444,736,969	₱444,736,969	₱–	₱–
Unquoted unit investment trust fund	440,763,495	440,763,495	–	440,763,495	–
<b>Liability measured at fair value</b>					
Derivative liability	1,860,373,479	1,860,373,479	–	–	1,860,373,479
<b>Liabilities for which fair value are disclosed</b>					
Bond payable	896,185,059	896,185,059	–	–	896,185,059
Long-term notes payable	601,250,000	595,948,585	–	–	614,312,040
Noncurrent lease liabilities	44,029,948	42,516,461	–	–	93,766,512
Other noncurrent liabilities	118,327,055	105,729,641	–	–	136,075,877

For the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

#### Offsetting of Financial Instruments

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

	December 31, 2017		
	Gross Amount	Offsetting	Net Amount
Due from related parties	₱1,367,182,922	₱–	₱1,367,182,922
Dividends payable	–	(699,465,287)	(699,465,287)
	₱1,367,182,922	(₱699,465,287)	₱667,717,635

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

### 25. Segment Reporting

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

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

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

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

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

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

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

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

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

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

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

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

Seasonality of Operation

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

26. Note to Consolidated Statement of Cash Flows

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

Investing Activities

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

Financing Activities

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

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

\*Relates to fair value changes of derivative liability

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

Investing Activities

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

Financing Activities

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

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

\*Relates to fair value changes of derivative liability

Reclassifications

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

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

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

27. Basic/Diluted Earnings Per Share

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

	2018	2017	2016
Net income attributable to equity holder of the Parent Company	₱1,359,766,592	₱703,876,073	₱921,605,612
Less profit impact of assumed conversion of bonds payable	(257,139,329)	–	–
	₱1,102,627,263	₱703,876,073	₱921,605,612

Weighted average number of common shares outstanding	1,425,865,471	1,425,865,471	1,425,865,471
Dilutive shares arising from convertible debt	202,784,615	–	–
Adjusted weighted average number of common shares for diluted EPS	1,628,650,086	1,425,865,471	1,425,865,471
Basic EPS	₱0.95	₱0.49	₱0.65
Diluted EPS	₱0.68	₱0.49	₱0.65

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



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## 28. Other Matters

### *Closure of LBC Development Bank, Inc.*

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

On December 8, 2011, the Philippine Deposit Insurance Company (PDIC), as the official receiver and liquidator of closed banks, demanded on behalf of the Bank that LBC Holdings USA Corporation (LBC US) pay for its alleged outstanding obligations to LBC Bank amounting to approximately ₱1.00 billion, a claim that LBC US has denied as being baseless and unfounded. No further demand on this matter has been made by the PDIC since then, although there are no assurances that the claim has been waived or abandoned in whole or in part, or that the PDIC will not institute relevant proceedings in court or serve another demand letter to LBC US. In relation to the Bank's closure and receivership, the receivables amounting to ₱295.00 million were written-off in 2011.

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

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

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

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

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

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

On April 24, 2017, LBCE and LBCDC filed a Petition for Certiorari with the Court of Appeals, challenging the RTC's June 28, 2016 Joint Resolution. The PDIC, LBCE, and LBCDC have filed their respective Comment, Reply, and Memoranda. The Petition for Certiorari was deemed submitted for resolution as of October 26, 2017.

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

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

From August 10, 2017 to January 19, 2018, LBCE, LBCDC, the other defendants and PDIC were referred to mediation and Judicial Dispute Resolution (JDR) but were unable to reach a compromise agreement. The RTC ordered the mediation and JDR terminated and the case raffled to a new judge.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## 29. Subsequent Events

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

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



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