

# COVER SHEET

SEC Registration Number

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## COMPANY NAME

|                             |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|-----------------------------|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| L                           | B | C | E | X | P | R | E | S | S | H | O | L | D | I | N | G | S | , | I | N | C | . |
| (Formerly FEDERAL RESOURCES |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| INVESTMENT GROUP INC.)      |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|                             |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |

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

|                                |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|--------------------------------|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| L                              | B | C | H | A | N | G | A | R | , | G | E | N | E | R | A | L | A | V | I | A | T | I | O | N |
| CENTRE, DOMESTIC AIRPORT       |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| ROAD, PASAY CITY, METRO MANILA |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|                                |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |

Form Type

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Department requiring the report

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Secondary License Type, If Applicable

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## COMPANY INFORMATION

Company's Email Address

Company's Telephone Number

Mobile Number

|     |
|-----|
| N/A |
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|          |
|----------|
| 856-8510 |
|----------|

|     |
|-----|
| N/A |
|-----|

No. of Stockholders

|     |
|-----|
| 486 |
|-----|

Annual Meeting (Month / Day)

|                    |
|--------------------|
| 2nd Monday of June |
|--------------------|

Fiscal Year (Month / Day)

|       |
|-------|
| 12/31 |
|-------|

## CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

|                     |
|---------------------|
| Enrique V. Rey, Jr. |
|---------------------|

Email Address

|                      |
|----------------------|
| evrey@lbcexpress.com |
|----------------------|

Telephone Number/s

|          |
|----------|
| 856-8510 |
|----------|

Mobile Number

|  |
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## CONTACT PERSON's ADDRESS

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

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

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

SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q

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

1. For the quarterly period ended: March 31, 2019
2. SEC Identification Number: ASO93-005277
3. BIR Taxpayer Identification Number: 002-648-099-000
4. Exact name of issuer as specified in its charter: LBC EXPRESS HOLDINGS, INC. (formerly FEDERAL RESOURCES INVESTMENT GROUP INC.)
5. Province, country or other jurisdiction of incorporation or organization: Philippines
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of issuer's principal office: LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila 1300
8. Issuer's telephone number, including area code: (632) 856 8510
9. Former name, former address and former fiscal year, if changed since last report  
**Federal Resources Investment Group Inc.**  
**No. 35 San Antonio Street, San Francisco del Monte, Quezon City 1105**
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA  
**As at March 31, 2019:**

| Title of Each Class         | Number of Shares of Common Stock<br>Outstanding and Amount of Debt<br>Outstanding |
|-----------------------------|---|
| <b>COMMON SHARES</b>        | <b>1,425,865,471<sup>1</sup></b>  |
| <b>BOND PAYABLE</b>         | <b>1,153,094,327<sup>2</sup></b>  |
| <b>DERIVATIVE LIABILITY</b> | <b>1,575,179,825<sup>2</sup></b>  |

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

Yes  No

Name of Stock Exchange: Philippine Stock Exchange  
Class of securities listed: Common shares<sup>3</sup>

12. Indicate by check mark whether the registrant:

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

Yes  No

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

Yes  No

<sup>1</sup> Inclusive of 1,388,357,471 common shares which are exempt from registration.

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

<sup>3</sup> As at March 31, 2019, 40,899,000 common shares have been listed with Philippine Stock Exchange. The remaining 1,384,966,471 are subject to listing applications filed with the Philippine Stock Exchange.

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

The Unaudited Interim Financial Statements of the Company as at and for the period ended March 31, 2019 and Notes to Financial Statements are hereto attached as Annex "A".

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

#### RESULTS OF OPERATIONS

##### Quarter ended March 31, 2019 compared to the quarter ended March 31, 2018

###### *Service Revenues*

The Company's service revenues increased by 37% to ₡3,755.15 million for the quarter ended March 31, 2019 from ₡2,749.38 million for the quarter ended March 31, 2018. This growth was principally due to the increase in revenues from the Logistics segment, attributable to escalation in both retail and corporate sales by 48% and 28%, respectively. Moreover, acquisitions made in 2018 contributed net revenue amounting to ₡664.13 million or 66% of the total growth.

The Company's domestic business also contributed to growth, with the opening of 73 additional retail branches and the introduction of new products mid-2018. Improvements in the corporate/institutional business segment of the Group is also noteworthy, as it expanded its e-commerce directed logistics and warehousing services, while likewise maintaining the growth of corporate/institutional accounts.

###### *Cost of Services*

Cost of services is higher by 45% to ₡2,638.15 million for the quarter ended March 31, 2019 from ₡1,819.19 million for the quarter ended March 31, 2018, relative to growth of volume in logistics services. This resulted with a 45% increase in cost of delivery and remittance.

Direct cost was also significantly affected by the increase in fuel rates. This inclined carriers, mainly outsourced airlines and truckers, to enforce rate increases during the quarter. Further, related cost of sales of newly acquired entities amounted to ₡620.62 million or 74% of the total increase during the quarter.

###### *Gross Profit*

Gross profit increased by 20% to ₡1,116.91 million for the quarter ended March 31, 2019 from ₡930.19 million for the quarter ended March 31, 2018, primarily due to the increase in volume and revenue amounts for logistics services.

### ***Operating Expenses***

Operating expenses is higher by 56% to ₱728.08 million for the quarter ended March 31, 2019 from ₱466.15 million for the quarter ended March 31, 2018, caused by the following:

Claims and losses were up by ₱81.20 million mainly resulted from losses assumed relative to the business combination of a domestic entity.

Higher depreciation and amortization expense by ₱48.75 million are attributable to additional leasehold improvement and motor vehicle during 2018. This account also includes the depreciation of the right of use of assets which resulted from the adoption of new standard for leases, PFRS 16.

Salaries and wages expenses increased by 26% or ₱35.10 million, relative to annual appraisal resulting from inflation.

Advertising and promotion expenses also contributed to the operating expense increase, as it grew by 94% or ₱39.14 million, mainly from parallel increases in production costs, television and radio advertisements, as well as costs for digital/online campaigns.

Dues and subscriptions were also higher by ₱10.50 million, primarily attributable to the rate increase for one of the major IT service provider.

Commission expense, which is mostly related to agents from international subsidiaries, increased by ₱31.32 million during the quarter.

The increase mentioned above is offset by the significant decrease in rent expense due to adoption of PFRS 16, which decreases the rental expense upon recognition of an identifiable asset for the right to directly use the asset being leased.

### ***Other Income, Net***

Loss on derivative attributable to the convertible instrument amounting to ₱169.00 million is recognized as a result of higher estimated fair value of derivative liability as of quarter ended March 31, 2019. For the quarter ended March 31, 2018, the Company recognized gain on derivative amounting to ₱178.96 million. This is mostly from increase of share price from ₱15.00 to ₱15.40 per share and is a noncash entry primarily from the effect of convertible instrument.

Foreign exchange gain, net is lower by 90% or ₱97.61 million which resulted from the foreign exchange trading, and a revaluation of US dollar denominated time deposit accounts.

Interest expense went up by ₱17.15 million mostly from the adoption of PFRS16 which requires recognizing of interest from lease liabilities.

Increase in Others is mainly from the gain on bargain purchase upon acquisition of LBC Mabuhay North America Corporation (LBC NAM) and LBC Mundial Corporation (LBC Mundial) during the quarter ended March 31, 2019.

### ***Net Income after tax***

Net income after tax was lower at ₦7.57 million for the quarter ended March 31, 2019 from ₦570.56 million for the quarter ended March 31, 2018, primarily due to the following:

- Loss on derivative attributable to the convertible instrument amounting to ₦169 million;
- Net loss from one of the acquired entities in 2018 amounted to ₦169.73 million;
- Lower foreign exchange gain by ₦97.38 million;
- Higher interest expense arising from the adoption of PFRS 16; and
- Net income from operation stands at ₦381.63 million which is 9% higher compared to ₦352.33 million of quarter ended March 31, 2018.

## **FINANCIAL CONDITION**

### **As at March 31, 2019 compared to as at December 31, 2018**

#### ***Assets***

##### ***Current Asset:***

Cash and cash equivalents increased by 15% to ₦4,741.05 million as at March 31, 2019 from ₦4,137.44 million as at December 31, 2018. Refer to analysis of cash flows in “Liquidity” section below.

Due from related parties is lower by 29% to ₦397.49 million as of March 31, 2019 from ₦557.96 million as of December 31, 2018, mainly attributable to the advances in future investment in shares which was recognized as investment upon acquisition of LBC NAM and LBC Mundial.

Investment at fair value through profit or loss is lower by 45% to ₦71.59 million as of March 31, 2019 from ₦131.29 million as of December 31, 2018, primarily from redemption of investments amounting to ₦210.95 million during the quarter. This was offset by placement of ₦151.00 million for working capital requirement.

Prepayments and other current assets increased by 21% to ₦782.48 million as of March 31, 2019 from ₦647.52 million as of December 31, 2018, mainly traceable to higher prepaid taxes, materials and supplies and prepaid insurance. Increase in prepaid taxes amounting to ₦58.06 million is due to renewal of business permits of existing branches in January 2019. Higher materials and supplies and prepaid insurance amounting to ₦36.71 million and ₦24.46 million, respectively, were resulted from the business combination.

##### ***Non-current Assets***

Property and equipment, net increased by 6% to ₦1,525.43 million as at March 31, 2019 from ₦1,436.08 million as at December 31, 2018, primarily due to additional leasehold improvements by 14% and computer hardware by 116%, offset by a decrease in construction in progress by 91%.

Right of use of assets resulted from the adoption of PFRS 16, which requires the recognition of an identifiable asset for the right to directly use the asset being leased in its operating leases.

Intangibles, net is higher by 1% to ₦559.98 million as at March 31, 2019 from ₦55.37 million as at December 31, 2018, mostly from the software of the acquired entity engaged in online logistics with net book value amounting to ₦159.38 million as of quarter ended March 31, 2019.

Investment at fair value through other comprehensive income, up by 12% to ₦376.47 million as at March 31, 2019 from ₦337.45 million as at December 31, 2018, relative to movement in market price from ₦2.05/share to ₦1.98/share.

Deferred tax assets - net decreased by 5% to ₱288.04 million as of March 31, 2019 from ₱302.28 million as of December 31, 2018 mainly attributable to the deferred tax from foreign exchange gains.

Security deposit went up by 6% to ₱331.33 million as at March 31, 2019 from ₱312.43 million as at December 31, 2018 mainly from the acquisition of LBC NAM and LBC Mundial and opening of new branches during the quarter ended March 31, 2019.

Advances for future investment in shares represent the acquisition of shares of LBC Mabuhay Hawaii Corporation, wherein closing conditions not yet met as at quarter ended March 31, 2019. Regulatory approvals were granted on the purchase of LBC Mundial and LBC NAM, thus classified as investment where goodwill mentioned above was recognized.

Notes receivable resulted from the purchase of LBC Mundial which includes to the promissory note from an employee and LBC Holdings USA Corporation (LBC Holdings USA). Notes receivable from LBC Holdings USA is with interest rate at 4% and payable in 180 equal monthly installments while notes receivable from an employee is payable through salary deduction in monthly installments.

### ***Liabilities***

Accounts and other payables were up by 10% to ₱3,073.78 million as of March 31, 2019 from ₱2,806.17 million as of December 31, 2018, primarily due to the following:

- Higher trade payables to outside parties by 8% or ₱103.01 million which is mainly comprised of delivery and freight related payables.
- Accrual for contracted jobs increased by 16%, mostly from higher direct manpower count to accommodate the increase in volume from logistic segment.
- Accrued salaries and wages increased by 30%, related to additional branches and warehouses.
- Total accounts payable and unearned revenue from newly acquired entities amounted to ₱509.85 million and ₱107.44 million as of March 31, 2019.

Due to related parties amounting to ₱141.56 million as of March 31, 2019 was largely comprised of accounts acquired during business combination. The Group regularly makes advances to and from related parties to finance working capital requirements.

Dividends payable amounting to ₱285.17 million as of December 31, 2018 represents the amount declared by LBCH's Board of Directors on December 20, 2018.

Income tax payable went up by 66% to ₱210.25 million as at March 31, 2019 from ₱126.57 million as at December 31, 2018, resulting from higher income tax payment in 2018.

Notes payable (current and noncurrent) increased by 4% to ₱859.50 million as of March 31, 2019 from ₱829.50 million as of December 31, 2018, primarily attributable to higher availment of short-term notes payable during the quarter amounting to ₱150.00 million than settlement of notes payable amounting to ₱120.00 million.

Transmissions liability dropped by 19% to ₱440.71 million as of March 31, 2019 from ₱543.90 million as of December 31, 2018, mainly attributable to a lower amount of merchant liability (from bills payment), by 33%.

Lease liabilities (current and noncurrent) is significantly higher by ₱1,762.56 million to ₱1,902.63 million as of March 31, 2019 from ₱140.07 million as of December 31, 2018, driven by the adoption of PFRS 16 which requires recognition of lease liability related to the operating leases.

Retirement benefit liability decreased by 2% to ₦682.75 million as of March 31, 2019 from ₦672.27 million as of December 31, 2018, due to the net retirement benefit expense recognized for the period.

Bond payable increased by 4% to ₦1,153.09 million as of March 31, 2019 from ₦1,108.42 million as of December 31, 2018, mainly from the accretion of interest and impact of higher exchange rates, amounting to ₦43.13 million and ₦1.55 million, respectively.

Derivative liability increased by 12% to ₦1,575.18 million as of March 31, 2019 from ₦1406.18 million as of December 31, 2018, related to fair value loss resulting from higher share price.

## LIQUIDITY

### Cash Flows

#### **Quarter ended March 31, 2019 compared to the quarter ended March 31, 2018**

##### *Cash flows from operating activities*

The Company's net cash from operating activities is primarily affected by income before income tax, depreciation and amortization, retirement benefit expense, interest expense, unrealized foreign exchange gain, gain on derivative, equity in net earnings of an associate and changes in working capital. The Company's net cash from operating activities were ₦403.45 million and ₦485.85 million for the quarter ended March 31, 2019 and 2018, respectively. For the quarter ended March 31, 2019, inflow from operating activities were generally from normal operations.

##### *Cash flows from investing activities*

Cash generated from and used in investing activities for the quarter ended March 31, 2019 and 2018 amounted to ₦418.87 million and ₦294.14 million, respectively. For the three months ended March 31, 2019, the cash acquired from business combination amounting to ₦552.91 million and net redemption of investment at fair value through profit or loss amounting to ₦59.97 million drives the positive movement of cash.

##### *Cash flow from financing activities*

Net cash used in financing activities for the quarter ended March 31, 2019 and 2018 amounted to ₦244.82 million and ₦138.75 million, respectively. This is mainly from the adoption of PFRS 16 in which operating leases were recognized as lease liabilities which are under financing activities.

## **PART II -- OTHER INFORMATION**

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

**SIGNATURE**

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

**LBC EXPRESS HOLDINGS, INC.**



ENRIQUE V. REY, JR.  
Chief Finance Officer

May 15, 2019

**LBC Express Holdings, Inc.  
and Subsidiaries**

Unaudited Interim Condensed Consolidated  
Financial Statements  
As at March 31, 2019 and  
for the Three Months Ended  
March 31, 2019 and 2018  
*(With Comparative Audited Consolidated Statement  
of Financial Position as at  
December 31, 2018)*

## **LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES**

### **INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**(With Comparative Audited Figures as at December 31, 2018)**

|   | <b>March 31,<br/>2019<br/>(Unaudited)</b> | <b>December 31,<br/>2018<br/>(Audited)</b> |
|---|---|--|
| <b>ASSETS</b>   |   |  |
| <b>Current Assets</b>   |   |  |
| Cash and cash equivalents (Notes 5, 23 and 24)  | ₱4,741,054,398                            | ₱4,137,439,144                             |
| Trade and other receivables (Notes 2, 6, 17, 23 and 24)                                 | 1,642,824,991                             | 1,642,133,769                              |
| Due from related parties (Notes 17, 23 and 24)  | 397,486,215                               | 557,958,095                                |
| Investment at fair value through profit or loss (Notes 2, 10, 23 and 24)                | 71,592,531                                | 131,294,744                                |
| Prepayments and other current assets (Notes 7, 23 and 24)                               | 782,486,934                               | 647,518,135                                |
| <b>Total Current Assets</b>   | <b>7,635,445,069</b>                      | 7,116,343,887                              |
| <b>Noncurrent Assets</b>  |   |  |
| Right-of-use assets (Notes 21)  | 1,845,058,728                             | –  |
| Property and equipment (Note 8)   | 1,525,427,892                             | 1,436,080,000                              |
| Intangible assets (Note 9)  | 559,978,640                               | 555,369,656                                |
| Investment at fair value through other comprehensive income<br>(Notes 2, 10, 23 and 24) | 376,465,943                               | 337,453,928                                |
| Deferred tax assets - net (Notes 2 and 20)  | 288,040,708                               | 302,277,269                                |
| Security deposits (Note 21)   | 331,328,468                               | 312,431,108                                |
| Investment in an associate (Note 11)  | 244,436,901                               | 239,019,848                                |
| Advances for future investment in shares (Note 17)                                      | 18,051,444                                | 439,823,608                                |
| Notes receivable - noncurrent portion (Note 17)   | 30,399,580                                | –  |
| Goodwill (Note 4)   | 496,696,377                               | 492,446,084                                |
| Other noncurrent assets (Note 7)  | 132,991,095                               | 138,929,366                                |
| <b>Total Noncurrent Assets</b>  | <b>5,848,785,776</b>                      | 4,253,830,867                              |
|   | <b>₱13,484,230,845</b>                    | ₱11,370,174,754                            |
| <b>LIABILITIES AND EQUITY</b>   |   |  |
| <b>Current Liabilities</b>  |   |  |
| Accounts and other payables (Notes 2, 12, 17, 23 and 24)                                | ₱3,073,777,577                            | ₱2,806,169,280                             |
| Due to related parties (Notes 17, 23 and 24)  | 141,563,898                               | 93,992,129                                 |
| Dividends payable (Notes 16, 23 and 24)   | –   | 285,173,094                                |
| Current portion of notes payable (Notes 14, 23 and 24)                                  | 347,000,000                               | 297,000,000                                |
| Transmissions liability (Notes 13, 23 and 24)   | 440,714,809                               | 543,895,836                                |
| Income tax payable  | 210,251,729                               | 126,565,090                                |
| Current portion of lease liabilities (Notes 21, 23 and 24)                              | 517,238,867                               | 20,271,292                                 |
| <b>Total Current Liabilities</b>  | <b>4,730,546,880</b>                      | 4,173,066,721                              |
| <b>Noncurrent Liabilities</b>   |   |  |
| Derivative liability (Notes 15, 23 and 24)  | 1,575,179,825                             | 1,406,175,427                              |
| Bond payable (Notes 15, 23 and 24)  | 1,153,094,327                             | 1,108,417,074                              |
| Retirement benefit liability - net (Note 22)  | 682,750,394                               | 672,265,144                                |
| Notes payable - net of current portion (Notes 14, 23 and 24)                            | 512,500,000                               | 532,500,000                                |
| Lease liabilities - net of current portion (Notes 21, 23 and 24)                        | 1,385,389,767                             | 119,797,742                                |
| Other noncurrent liabilities (Notes 8, 9, 23 and 24)                                    | 66,626,216                                | 79,986,182                                 |
| <b>Total Noncurrent Liabilities</b>   | <b>5,375,540,529</b>                      | 3,919,141,569                              |
|   | <b>₱10,106,087,409</b>                    | 8,092,208,290                              |
| <b>Equity (Note 15)</b>   |   |  |
| Equity attributable to shareholders of the Parent Company                               |   |  |
| Capital stock   | 1,425,865,471                             | 1,425,865,471                              |
| Retained earnings (Note 2)  | 1,696,325,019                             | 1,625,483,991                              |
| Accumulated comprehensive income  | 283,800,527                               | 241,328,367                                |
|   | <b>3,405,991,017</b>                      | 3,292,677,829                              |
| Non-controlling interests   | (27,847,581)                              | (14,711,365)                               |
| <b>Total Equity</b>   | <b>3,378,143,436</b>                      | 3,277,966,464                              |
|   | <b>₱13,484,230,845</b>                    | ₱11,370,174,754                            |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements.*

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

|  | <b>Three Months Ended March 31,</b> |                            |
|--|-------------------------------------|----------------------------|
|  | <b>2019</b><br>(Unaudited)          | <b>2018</b><br>(Unaudited) |
| <b>SERVICE REVENUE</b> (Note 24)   | <b>₱3,755,054,909</b>               | ₱2,749,379,221             |
| <b>COST OF SERVICES</b> (Note 18)  | <b>2,638,148,923</b>                | 1,819,191,329              |
| <b>GROSS PROFIT</b>  | <b>1,116,905,986</b>                | 930,187,892                |
| <b>OPERATING EXPENSES</b> (Note 19)  | <b>728,076,330</b>                  | 466,153,200                |
| <b>OTHER INCOME (CHARGES)</b>  |                                     |                            |
| Gain (loss) on derivative (Note 15)  | (169,004,398)                       | 178,955,153                |
| Foreign exchange gains - net (Notes 19 and 23)   | 11,144,393                          | 108,528,070                |
| Interest income (Notes 5 and 7)  | 11,279,966                          | 6,131,914                  |
| Equity in net earnings of an associate (Note 11)                                       | 4,952,690                           | 525,935                    |
| Fair value gain on investment at fair value through profit or loss (Note 10)           | 249,431                             | 1,054,027                  |
| Interest expense (Notes 8, 9, 14, 15, 17 and 21)                                       | (89,110,941)                        | (53,240,278)               |
| Others - net   | 7,402,777                           | 2,865,199                  |
|  | <b>(223,086,082)</b>                | 244,820,020                |
| <b>INCOME BEFORE INCOME TAX</b>  | <b>165,743,574</b>                  | 708,854,712                |
| <b>PROVISION FOR INCOME TAX</b> (Note 20)  | <b>158,171,557</b>                  | 138,291,701                |
| <b>NET INCOME FOR THE PERIOD</b>   | <b>7,572,017</b>                    | 570,563,011                |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>   |                                     |                            |
| <b>Items not to be reclassified to profit or loss in subsequent periods</b>            |                                     |                            |
| Remeasurement gains (losses) on retirement benefit plan - net of tax (Notes 16 and 22) | (241,065)                           | 266,635                    |
| Share in other comprehensive income of an associate (Note 11)                          | 464,363                             | -                          |
| <b>Items that may be reclassified to profit or loss in subsequent periods</b>          |                                     |                            |
| Unrealized fair value gain (loss) on available-for-sale investments (Notes 10)         | 39,012,015                          | (23,407,209)               |
| Currency translation gain (loss) - net   | 2,124,939                           | 2,690,256                  |
|  | <b>41,360,252</b>                   | (20,450,318)               |
| <b>TOTAL COMPREHENSIVE INCOME</b>  | <b>₱48,932,269</b>                  | ₱550,112,693               |
| <b>NET INCOME ATTRIBUTABLE TO:</b>   |                                     |                            |
| Shareholders of the Parent Company   | ₱25,003,816                         | ₱566,511,303               |
| Non-controlling interests  | (17,431,799)                        | 4,051,708                  |
| <b>NET INCOME FOR THE PERIOD</b>   | <b>₱7,572,017</b>                   | ₱570,563,011               |
| <b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>                                     |                                     |                            |
| Shareholders of the Parent Company   | ₱67,475,976                         | ₱547,034,780               |
| Non-controlling interests  | (18,543,707)                        | 3,077,913                  |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>                                       | <b>₱48,932,269</b>                  | ₱550,112,693               |
| <b>EARNINGS PER SHARE</b> (Note 26)  |                                     |                            |
| Basic  | ₱0.02                               | ₱0.40                      |
| Diluted  | ₱0.15                               | ₱0.28                      |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements.*

## LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

### INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| For the Three Months Ended March 31, 2019 (Unaudited)                    |                            |                      |  |                |                              |                |
|--|----------------------------|----------------------|--|----------------|------------------------------|----------------|
|  | Capital Stock<br>(Note 16) | Retained<br>Earnings | Accumulated<br>Comprehensive<br>Income | Total          | Non-controlling<br>Interests | Total Equity   |
| Balances as at January 1, 2019, as previously reported                   | ₱1,425,865,471             | ₱1,625,483,991       | ₱241,328,367                           | ₱3,292,677,829 | (₱14,711,365)                | ₱3,277,966,464 |
| Impact of adoption of new accounting standards (Note 2)                  | —                          | 45,837,212           | —                                      | 45,837,212     | —                            | 45,837,212     |
| 45Balances as at January 1, 2019, as restated                            | 1,425,865,471              | 1,671,321,203        | 241,328,367                            | 3,338,515,041  | (14,711,365)                 | 3,323,803,676  |
| Comprehensive income:  |                            |                      |  |                |                              |                |
| Net income   | —                          | 25,003,816           | —                                      | 25,003,816     | (17,431,799)                 | 7,572,017      |
| Other comprehensive loss   | —                          | —                    | 42,472,160                             | 42,472,160     | (1,111,908)                  | 41,360,252     |
| Total comprehensive income (loss)  | —                          | 25,003,816           | 42,472,160                             | 67,475,976     | (18,543,707)                 | 48,932,269     |
| Non-controlling interests arising from<br>additional investment (Note 4) | —                          | —                    | —                                      | —              | 5,407,491                    | 5,407,491      |
| Balances as at March 31, 2019  | ₱1,425,865,471             | ₱1,696,325,019       | ₱283,800,527                           | ₱3,405,991,017 | (27,847,581)                 | ₱3,378,143,436 |

| For the Three Months Ended March 31, 2018 (Unaudited)   |                            |                      |  |                |                              |                |
|---|----------------------------|----------------------|--|----------------|------------------------------|----------------|
|   | Capital Stock<br>(Note 16) | Retained<br>Earnings | Accumulated<br>Comprehensive<br>Income | Total          | Non-controlling<br>Interests | Total Equity   |
| Balances as at January 1, 2018, as previously reported  | ₱1,425,865,471             | ₱659,288,179         | ₱326,920,319                           | ₱2,412,073,969 | (₱46,606,952)                | ₱2,365,467,017 |
| Impact of adoption of new accounting standards (Note 2) | —                          | (68,434,051)         | (1,117,736)                            | (69,551,787)   | —                            | (69,551,787)   |
| Balances as at January 1, 2018, as restated             | 1,425,865,471              | 590,854,128          | 325,802,583                            | 2,342,522,182  | (46,606,952)                 | 2,295,915,230  |
| Comprehensive income:                                   |                            |                      |  |                |                              |                |
| Net income  | —                          | 566,511,303          | —                                      | 566,511,303    | 4,051,708                    | 570,563,011    |
| Other comprehensive loss                                | —                          | —                    | (19,476,523)                           | (19,476,523)   | (973,795)                    | (20,450,318)   |
| Total comprehensive income (loss)                       | —                          | 566,511,303          | (19,476,523)                           | 547,034,780    | 3,077,913                    | 550,112,693    |
| Balances as at March 31, 2018                           | ₱1,425,865,471             | ₱1,157,365,431       | ₱306,326,060                           | ₱2,889,556,962 | (₱43,529,039)                | ₱2,846,027,923 |

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

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

|  | <b>Three Months Ended March 31</b><br><b>(Unaudited)</b> |               |
|--|--|---------------|
|  | <b>2019</b>  | <b>2018</b>   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |  |               |
| Income before income tax   | ₱165,743,574   | ₱708,854,712  |
| Adjustments for:   |  |               |
| Depreciation and amortization (Notes 8, 9, 18, 19 and 21)  | 270,068,349  | 86,034,602    |
| Loss (gain) on derivative (Note 15)  | 169,004,398  | (178,955,153) |
| Interest expense (Notes 8, 9, 14, 15, 17 and 21)   | 89,110,941   | 53,240,278    |
| Retirement expense, net of benefits paid and<br>contribution to retirement plan (Notes 17,18 and 22) | 10,431,181   | 39,406,205    |
| Unrealized foreign exchange loss (gain)  | 7,325,495  | (83,391,118)  |
| Fair value gain on investment at fair value<br>through profit or loss (Note 10)                      | (249,431)  | (1,054,027)   |
| Gain on disposal of property and equipment<br>and intangible assets (Notes 8 and 9)                  | (3,155,943)  | (1,946)       |
| Gain on bargain purchase (Note 4)  | (4,080,469)  | (2,750,043)   |
| Equity in net earnings of an associate (Note 11)   | (4,952,690)  | (525,935)     |
| Interest income (Notes 5 and 7)  | (11,279,966)   | (6,131,914)   |
| Operating income before changes in working capital   | 687,965,439  | 614,725,661   |
| Changes in working capital:  |  |               |
| Decrease (increase) in:  |  |               |
| Trade and other receivables (Notes 2 and 17)   | 13,357,088   | 114,566,714   |
| Prepayments and other assets   | (105,905,309)  | (134,352,132) |
| Security deposits  | (8,506,408)  | (2,453,978)   |
| Other noncurrent assets  | 1,600,444  | 1,941,486     |
| Increase (decrease) in:  |  |               |
| Accounts and other payables (Notes 2 and 26)   | 66,078,371   | 49,601,262    |
| Transmissions liability  | (141,749,897)  | (33,955,659)  |
| Net cash generated from operations   | 512,839,728  | 610,073,354   |
| Interest received  | 11,279,966   | 5,272,363     |
| Income tax paid  | (120,665,395)  | (129,497,122) |
| Net cash provided by operating activities  | 403,454,299  | 485,848,595   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |  |               |
| Proceeds from:   |  |               |
| Redemption of investments in UITF classified as (Note 10):   |  |               |
| Investment at fair value through profit or loss  | 210,951,643  | 140,534,070   |
| Disposal of property and equipment and intangible assets   | 3,322,310  | 1,946         |
| Cash acquired through business combination (Note 4)  | 552,907,572  | 25,762,682    |
| Acquisitions of:   |  |               |
| Notes receivable (Note 17)   | 1,138,493  | —             |
| Intangible assets (Note 9)   | (28,901,242)   | (30,700,480)  |
| Investment at fair value through profit or loss (Note 10)  | (151,000,000)  | (50,000,000)  |
| Property and equipment   | (137,839,475)  | (100,648,130) |
| Investment in an associate   | —  | (209,265,077) |
| Increase in due from related parties (Note 27)   | (31,733,059)   | (69,821,855)  |
| Net cash used in investing activities  | 418,846,242  | (294,136,844) |

*Forward*

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

|  | <b>Three Months Ended March 31</b><br><b>(Unaudited)</b> |                |
|--|--|----------------|
|  | <b>2019</b>  | <b>2018</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |  |                |
| Proceeds from notes payable  | <b>₱150,000,000</b>                                      | ₱—             |
| Interest paid (Note 27)  | (17,348,104)   | (15,302,136)   |
| Decrease in due to related parties (Note 27)   | (19,738,378)   | (25,762,682)   |
| Dividends paid   | (55,798,368)   | —              |
| Payments of notes payable  | (120,000,000)  | (88,800,000)   |
| Payments of lease liabilities and other noncurrent liabilities (Note 26)                 | (181,938,594)  | (8,884,786)    |
| <b>Net cash used in financing activities</b>   | <b>(244,823,444)</b>                                     | (138,749,604)  |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>577,477,097</b>                                       | 52,962,147     |
| <b>EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES<br/>ON CASH AND CASH EQUIVALENTS</b> | <b>26,138,157</b>  | 118,647,585    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                                  | <b>4,137,439,144</b>                                     | 3,778,408,492  |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 5)</b>                               | <b>₱4,741,054,398</b>                                    | ₱3,950,018,224 |

*See accompanying Notes to Interim Condensed Consolidated Financial Statements.*

## **LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES**

### **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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#### **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. 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.

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#### **2. Summary of Significant Accounting Policies**

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

##### **Basis of Preparation**

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

*Difference in accounting periods*

The Group consolidated the non-coterminous financial statements of its subsidiaries except QuadX, Inc., QuadX Pte. Ltd., LBC Mabuhay (Malaysia) Sdn. Bhd, LBC Mabuhay (B) Sdn. Bhd and LBC Mabuhay Remittance Sdn. Bhd, using their November 30 fiscal year end and the three months ended February 28 first quarter end financial statements since it is impracticable for the said subsidiaries to prepare financial statements as of the same date as the reporting date of the Parent Company.

Management exercised judgment in determining whether adjustments should be made in the interim condensed consolidated financial statements of the Group pertaining to the effects of significant transactions or events of its subsidiaries that occur between March 1, 2019 and 2018 and the date of the Parent Company's financial statements which is March 31, 2019 and 2018 and between December 1, 2018 and the comparative date of the Parent Company's financial position which is December 31, 2018.

The interim condensed consolidated financial statements were adjusted to effect LBCE's availment of bank loans amounting to ₱150.00 million in March 2019 (nil in March 2018); settlement of bank loans in March 2019 and 2018 amounting to ₱161.25 million and ₱30.05 million, respectively; additional placement and redemption of unquoted investment at fair value through profit or loss (FVPL) in March 2019 amounting to ₱50.00 million and ₱130.40 million and in March 2018 amounting to ₱50.00 million and ₱50.30 million, respectively; payment of annual income taxes in March 2019 and 2018 amounting to ₱101.12 million and ₱112.59 million, respectively; the adjustment to reflect the increase and decrease of fair value of quoted investment at fair value through other comprehensive income (FVOCI) by ₱9.75 million and ₱21.46 million for the period March 1 to March 31, 2019 and 2018, respectively.

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.

There were no other significant transactions that transpired between March 1, 2019 to March 31, 2019, December 1, 2018 to December 31, 2018 and March 1, 2018 to March 31, 2018.

Statement of Compliance

The accompanying interim condensed consolidated financial statements of the Group have been prepared in accordance with the Philippine Accounting Standard 34, *Interim Financial Reporting*. Accordingly, the interim condensed consolidated financial statements do not include all the information and disclosures required in the annual audited consolidated financial statements and should be read in conjunction with the Group's annual audited financial statement as at and for the year ended December 31, 2018, which have been prepared in accordance with PFRS.

Basis of Consolidation

The interim condensed consolidated financial statements include the accounts of the Parent Company and all of its subsidiaries where the Parent Company has control. The interim condensed 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. 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 interim condensed consolidated statements 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 interim condensed consolidated statement of comprehensive income interim condensed consolidated statement of changes in equity and within equity in the interim condensed statements 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 interim condensed consolidated 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.

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

Parent Company's purchase of the entities from 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.

For the three months ended March 31, 2019, the Parent Company exercised control (see Notes 3 and 10):

| Entity Name                           | Country of Incorporation | Principal Activities | % Ownership |
|---------------------------------------|--------------------------|----------------------|-------------|
| LBC Mundial Corporation               | North America            | Cargo and Remittance | 100%        |
| LBC Mabuhay North America Corporation | North America            | Cargo and Remittance | 100%        |

Except for the acquisitions above, there were no changes in the Parent Company's ownership interests in its subsidiaries from January 1, 2019 to March 31, 2019.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of new standards effective as of January 1, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, PFRS 16, *Leases*, applying the modified retrospective approach which does not require restatement of previous financial statements. As required by PAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed 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 lease (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.

The Group has adopted these amendments for the first time in 2019 and considered the impact to its interim condensed consolidated financial statements as of March 31, 2019.

The Group applies the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4, *Determining whether an Arrangement contains a Lease*. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The Group also elects to use the exemptions provided by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

At the date of the initial application, the Group used 6.32% as the incremental borrowing rate to measure lease liabilities.

As of December 31, 2018, the Group has non-cancellable operating lease commitments of ₱5,244.86 million. Of these commitments, ₱3,512.58 million are short-term leases and ₱4.16 million are low-value leases for which the Group will continue to recognize the associated lease payments in profit or loss on a straight-line basis. Additional obligations resulted from business combination in 2019 amounting to ₱177.71 million. There are also commitments relating leases previously classified as finance leases amounting to ₱91.09 million and payments in optional extension periods not recognized in 2018 amounting to ₱11.97 million.

For the remaining lease commitments, the Group expects to recognize right-of-use assets of ₱1,998.54 million, lease liabilities of ₱2,008.89 million and deferred tax assets (liabilities) of ₱9.01 million as of January 1, 2019, after adjustments for prepaid rent and accrued rent as of January 1, 2019. The Group closed the balance of deferred lease liability under PAS 17 to Retained earnings and its corresponding deferred tax as part of its transition adjustments amounting to ₱62.35 million and ₱16.51 million.

- 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 interim condensed consolidated financial statements of the Group.

- 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.

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 interim condensed consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

*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 effectiveness*

- 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 interim condensed 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 interim condensed consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing 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 March 31, 2019, 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 March 31, 2019, 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 interim condensed consolidated financial statements of financial position at fair value with net changes in fair value recognized in the interim condensed consolidated statements 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 March 31, 2019, 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 interim condensed consolidated statements 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 interim condensed consolidated statements 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 interim condensed consolidated statements 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 interim condensed consolidated statements 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 March 31, 2019, 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 interim condensed consolidated 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 interim condensed consolidated 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 interim condensed consolidated 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 interim condensed 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 March 31, 2019, 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 interim condensed consolidated statements of comprehensive income.

*Embedded derivatives*

An embedded derivative is a component of a hybrid (combined) instrument that also includes nonderivative 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 asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of estimated cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the interim condensed consolidated statements 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 interim condensed consolidated statements 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 March 31, 2019, 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 interim condensed consolidated statements 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.

#### Investment in an Associate

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

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

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

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

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

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

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

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

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

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### 3. Significant Accounting Judgments Estimates and Assumptions

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

Except as otherwise stated, the significant accounting judgments, estimates and assumptions used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements as at and for the year ended December 31, 2018.

#### 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 interim condensed 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.

*Determination of significant influence on an investee company*

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

The carrying amount of the investment in associate amounted to ₦244.44 million as of March 31, 2019 (see Note 11).

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

The Group determines the provisional fair value of the net asset of an investee (i.e. acquired subsidiary and associate) using the extent, character and utility of the assets, cost of reproduction, observed depreciation, sales and holding prices of similar properties and highest and best use of property. The provisional fair value of the net asset of an investee represents the best estimate at acquisition date. The gain on bargain purchase amounting to ₦4.08 million is determined provisionally and may change upon the completion of the allocation of the acquisition cost to the fair values of assets and liabilities acquired (see Notes 4 and 10). The provisional purchase price allocation will be finalized within one year from the acquisition date and the fair value will be based on the information existing as of the acquisition date.

*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 interim condensed consolidated financial statements for the years ended March 31, 2019 and December 31, 2018 (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 judgements and estimates include:

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

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

The carrying amount of trade and other receivables amounted to ₡1,642.82 million and ₡1,642.13 million as of March 31, 2019 and December 31, 2018, respectively. The carrying amount of due from related parties amounted to ₡397.49 million and ₡557.96 million as of March 31, 2019 and December 31, 2018, respectively.

*Accounting for business combinations*

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

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

*Evaluating impairment of goodwill*

Goodwill impairment testing requires an estimation of the recoverable amount which is the fair value less cost to sell or value in use of the cash-generating units to which the goodwill is allocated.

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

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

As at March 31, 2019, the Group has determined that its goodwill amounting to ₡496.61 million is not impaired (see Note 4).

*Estimating fair value of embedded derivatives*

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

The carrying value of the derivative liability amounted to ₡1,575.18 million and ₡1,406.18 million as of March 31, 2019 and December 31, 2018, respectively.

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#### 4. Business Combinations

##### QuadX Inc.

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

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

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

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 some overseas entities. On the same date, the following Share Purchase Agreements (SPAs) were executed by the Parent Company and Jamal Limited for a total purchase price of USD 4.60 million or ₦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 USD 461,782 or ₦24.68 million. LBC Malaysia engages in the business of courier services in Malaysia which is expected to contribute to the global revenue stream of the Group.

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 ₱311.63 million in 2019 and 2018 acquisitions. The gross receivables amounted to ₱342.58 million, ₱30.95 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 ₱496.61 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 provisional fair values of the identifiable assets and liabilities acquired in 2019 as at the date of acquisitions are shown below.

|  | LBC Mundial Corporation and Subsidiary | LBC Mabuhay North America Corporation and Subsidiaries | Total               |
|--|--|--|---------------------|
| Percentage of ownership of Parent Company                      | 100%                                   | 100%   |                     |
| <b>Assets</b>  |  |  |                     |
| Cash and cash equivalents                                      | ₱416,992,745                           | ₱135,914,827   | ₱552,907,572        |
| Trade receivables  | 13,410,402                             | 637,908  | 14,048,310          |
| Receivable from related parties                                | 30,133,717                             | 7,036,071  | 37,169,788          |
| Prepayments and other current assets                           | 40,832,049                             | 9,176,454  | 50,008,503          |
| <b>Total current assets</b>                                    | <b>501,368,913</b>                     | <b>152,765,260</b>                                     | <b>654,134,173</b>  |
| Right-of-use asset   | 166,435,854                            | 13,413,882   | 179,849,736         |
| Property, plant and equipment                                  | 3,274,213                              | 82,039   | 3,356,252           |
| Notes receivable, noncurrent                                   | 31,538,073                             | —  | 31,538,073          |
| Security deposit   | 8,894,908                              | 1,496,044  | 10,390,952          |
| Other noncurrent asset   | 7,908,600                              | 8,462,677  | 16,371,277          |
| <b>Total noncurrent asset</b>                                  | <b>218,051,649</b>                     | <b>23,454,640</b>                                      | <b>241,506,299</b>  |
| <b>Total asset</b>   | <b>719,420,562</b>                     | <b>176,219,900</b>                                     | <b>895,640,462</b>  |
| <b>Liabilities</b>   |  |  |                     |
| Accounts and other payables                                    | 101,525,756                            | 35,127,154   | 136,652,910         |
| Payable to related parties                                     | 3,335,795                              | 63,974,353   | 67,310,148          |
| Deferred tax liabilities                                       | 10,267,735                             | 3,504,617  | 13,772,352          |
| Transmission liability   | 37,107,151                             | 1,461,720  | 38,568,871          |
| Income tax payable   | 34,770,265                             | 3,004,003  | 37,774,268          |
| Lease liabilities  | 166,435,854                            | 13,413,882   | 179,849,736         |
| <b>Total liabilities</b>                                       | <b>353,442,557</b>                     | <b>120,485,728</b>                                     | <b>473,928,285</b>  |
| Total net assets (liabilities)                                 | 365,978,005                            | 55,734,171   | 421,712,176         |
| Attributable to non-controlling interest                       | —                                      | —  | —                   |
| <b>Net assets (liabilities) attributable to Parent Company</b> | <b>365,978,005</b>                     | <b>55,734,171</b>                                      | <b>421,712,176</b>  |
| Add: Purchased goodwill  | —                                      | 4,160,293  | 4,160,293           |
| Less: Gain on bargain purchase                                 | 4,080,469                              | —  | 4,080,469           |
| <b>Purchase consideration</b>                                  | <b>₱361,897,536</b>                    | <b>₱59,894,464</b>                                     | <b>₱421,792,000</b> |

There were no contingent considerations in the above acquisitions. Net cash related to acquisition of the above entities in 2019 are shown below.

|                                  | LBC Mundial Corporation and Subsidiary | LBC Mabuhay North America Corporation and Subsidiaries | Total               |
|----------------------------------|--|--|---------------------|
| Cash paid                        | ₱361,897,536                           | ₱59,894,464  | ₱421,792,000        |
| Cash acquired                    | 416,992,745                            | 135,914,827  | 552,907,572         |
| <b>Net cash outflow (inflow)</b> | <b>₱55,095,209</b>                     | <b>₱76,020,363</b>                                     | <b>₱131,115,572</b> |

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 March 31, 2019 are as follow:

|                            | LBC Mundial Corporation and Subsidiary | LBC Mabuhay North America Corporation and Subsidiaries | Total        |
|----------------------------|--|--|--------------|
| Share in revenue           | ₱53,578,388                            | ₱231,297,109   | ₱284,875,497 |
| Share in net income (loss) | (400,915)                              | (8,930,437)  | (9,331,352)  |

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.

|  | LBC Singapore       | LBC Taiwan         | LBC Australia Money | LBC Australia Cargo | LBC Saipan         | LBC Brunei Money   | LBC Brunei Cargo   | QuadX Inc.          | QuadX Pte. Ltd.   | LBC Malaysia       | Total                |
|--|---------------------|--------------------|---------------------|---------------------|--------------------|--------------------|--------------------|---------------------|-------------------|--------------------|----------------------|
| Percentage of ownership of Parent Company                      | 100%                | 100%               | 100%                | 100%                | 100%               | 50%                | 50%                | 86.11%              | 86.11%            | 92.50%             |                      |
| <b>Assets</b>  |                     |                    |                     |                     |                    |                    |                    |                     |                   |                    |                      |
| 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         | —                  | 9,397,260            |
| <b>Total current assets</b>                                    | <b>144,957,351</b>  | <b>24,657,967</b>  | <b>40,730,077</b>   | <b>50,304,812</b>   | <b>42,838,805</b>  | <b>86,669,422</b>  | <b>35,183,532</b>  | <b>402,271,605</b>  | <b>11,831,767</b> | <b>36,490,764</b>  | <b>875,936,102</b>   |
| 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            |
| <b>Total noncurrent asset</b>                                  | <b>5,587,521</b>    | <b>1,571,759</b>   | <b>7,042,299</b>    | <b>7,435,028</b>    | <b>677,203</b>     | <b>2,330,466</b>   | <b>276,470</b>     | <b>214,757,142</b>  | <b>469,498</b>    | <b>748,849</b>     | <b>240,896,235</b>   |
| <b>Total asset</b>   | <b>150,544,872</b>  | <b>26,229,726</b>  | <b>47,772,376</b>   | <b>57,739,840</b>   | <b>43,516,008</b>  | <b>88,999,888</b>  | <b>35,460,002</b>  | <b>617,028,747</b>  | <b>12,301,265</b> | <b>37,239,613</b>  | <b>1,116,832,337</b> |
| <b>Liabilities</b>   |                     |                    |                     |                     |                    |                    |                    |                     |                   |                    |                      |
| 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            |
| <b>Total current liabilities</b>                               | <b>23,050,924</b>   | <b>186,803,115</b> | <b>53,210,433</b>   | <b>34,910,606</b>   | <b>30,586,127</b>  | <b>20,733,580</b>  | <b>10,015,068</b>  | <b>630,530,128</b>  | <b>7,409,347</b>  | <b>15,973,729</b>  | <b>1,013,223,057</b> |
| Retirement benefit obligation                                  | —                   | —                  | —                   | —                   | —                  | —                  | —                  | —                   | —                 | —                  | 3,096,164            |
| Lease liabilities  | —                   | —                  | —                   | —                   | —                  | —                  | —                  | —                   | 5,197,745         | —                  | 5,197,745            |
| Deferred tax liability   | —                   | —                  | —                   | —                   | —                  | —                  | —                  | —                   | 24,411,031        | —                  | 24,411,031           |
| <b>Total noncurrent liabilities</b>                            | <b>—</b>            | <b>—</b>           | <b>—</b>            | <b>—</b>            | <b>—</b>           | <b>—</b>           | <b>—</b>           | <b>—</b>            | <b>32,704,940</b> | <b>—</b>           | <b>32,704,940</b>    |
| <b>Total liabilities</b>                                       | <b>23,050,924</b>   | <b>186,803,115</b> | <b>53,210,433</b>   | <b>34,910,606</b>   | <b>30,586,127</b>  | <b>20,733,580</b>  | <b>10,015,068</b>  | <b>663,235,068</b>  | <b>7,409,347</b>  | <b>15,973,729</b>  | <b>1,045,927,997</b> |
| 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)         |
| <b>Net assets (liabilities) attributable to Parent Company</b> |                     |                    |                     |                     |                    |                    |                    |                     |                   |                    |                      |
| 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            |
| <b>Purchase consideration</b>                                  | <b>₱129,013,585</b> | <b>₱7,800,160</b>  | <b>₱10,392,254</b>  | <b>₱98,462,863</b>  | <b>₱10,782,538</b> | <b>₱30,166,598</b> | <b>₱12,220,413</b> | <b>₱186,021,400</b> | <b>₱4,479,959</b> | <b>₱24,682,710</b> | <b>₱514,022,480</b>  |

*Purchase consideration and net cash flows*

There were no contingent considerations in the above acquisitions. Net cash related to acquisition of the above entities in 2018 are shown below.

|                           | LBC<br>Singapore | LBC<br>Taiwan | LBC<br>Australia<br>Money | LBC<br>Australia<br>Cargo | LBC<br>Saipan | LBC<br>Brunei<br>Money | LBC<br>Brunei<br>Cargo | QuadX<br>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 January 1 to March 31, 2019 are as follow:

|                            | LBC<br>Singapore | LBC<br>Taiwan | LBC<br>Australia<br>Money | LBC<br>Australia<br>Cargo | LBC<br>Saipan | LBC<br>Brunei<br>Money | LBC<br>Brunei<br>Cargo | QuadX<br>Pte. Ltd. | LBC<br>Malaysia | Total       |               |
|----------------------------|------------------|---------------|---------------------------|---------------------------|---------------|------------------------|------------------------|--------------------|-----------------|-------------|---------------|
| Share in revenue           | ₱52,348,324      | ₱10,046,593   | ₱11,394,225               | ₱44,574,795               | ₱15,727,429   | ₱3,154,566             | ₱ 2,565,550            | ₱ 294,723,575      | ₱ 56,924,258    | ₱19,555,244 | ₱511,014,558  |
| Share in net income (loss) | 8,887,451        | (948,123)     | 720,941                   | 1,366,162                 | 3,539,213     | 922,873                | 298,249                | (146,154,221)      | 2,383,710       | 3,196,101   | (125,787,645) |

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<br>Singapore | LBC<br>Taiwan | LBC<br>Australia<br>Money | LBC<br>Australia<br>Cargo | LBC<br>Saipan | LBC<br>Brunei<br>Money | LBC<br>Brunei<br>Cargo | QuadX<br>Pte. Ltd. | LBC<br>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<br>Singapore | LBC<br>Taiwan | LBC<br>Australia<br>Money | LBC<br>Australia<br>Cargo | LBC<br>Saipan | LBC<br>Brunei<br>Money | LBC<br>Brunei<br>Cargo | QuadX<br>Pte. Ltd. | LBC<br>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 March 31, 2019 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 March 31, 2019 in relation to the goodwill.

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## 5. Cash and Cash Equivalents

This account consists of:

|                  | March 31,<br>2019<br>(Unaudited) | December 31,<br>2018<br>(Audited) | March 31,<br>2018<br>(Unaudited) |
|------------------|----------------------------------|-----------------------------------|----------------------------------|
| Cash on hand     | <b>₱285,387,506</b>              | ₱358,706,343                      | ₱287,661,062                     |
| Cash in banks    | <b>2,706,992,215</b>             | 2,122,353,939                     | 1,924,023,774                    |
| Cash equivalents | <b>1,748,674,677</b>             | 1,656,378,862                     | 1,738,333,388                    |
|                  | <b>₱4,741,054,398</b>            | ₱4,137,439,144                    | ₱3,950,018,224                   |

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from cash and cash equivalents amounted to ₱11.28 million and ₱6.13 million for the three months ended March 31, 2019 and 2018, respectively.

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

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## 6. Trade and Other Receivables

This account consists of:

|   | March 31,<br>2019<br>(Unaudited) | December 31,<br>2018<br>(Audited) |
|---|----------------------------------|-----------------------------------|
| Trade receivables - outside parties           | <b>₱1,473,062,475</b>            | ₱1,447,404,156                    |
| Trade receivables - related parties (Note 17) | <b>255,509,663</b>               | 253,208,381                       |
|   | <b>1,728,572,138</b>             | 1,700,612,537                     |
| Less allowance for impairment losses          | <b>181,386,658</b>               | 154,294,279                       |
|   | <b>1,547,185,480</b>             | 1,546,318,258                     |
| Other receivables:                            |                                  |                                   |
| Notes receivable - related party (Note 17)    | <b>₱4,215,287</b>                | -                                 |
| Advances to officers and employees            | <b>46,910,389</b>                | ₱33,771,196                       |
| Others  | <b>44,513,835</b>                | 62,044,315                        |
|   | <b>₱1,642,824,991</b>            | ₱1,642,133,769                    |

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

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

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

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

The movements in allowance for expected credit losses of trade receivables follow:

| <b>Loss allowance</b>                    | <b>Lifetime ECL<br/>not credit<br/>impaired</b> | <b>Lifetime<br/>ECL credit<br/>impaired</b> | <b>Total</b>        |
|--|---|---|---------------------|
| <b>As at January 1, 2018</b>             | <b>₱21,466,711</b>                              | <b>₱132,827,568</b>                         | <b>₱154,294,279</b> |
| Impact of business combination           | 11,558,947                                      | 10,781,280                                  | 22,340,227          |
| New financial assets originated          | 16,782,334                                      | —   | 16,782,334          |
| Transfers                                | (3,947,349)                                     | 3,947,349                                   | —                   |
| Financial assets derecognized            | (16,906,020)                                    | —   | (16,906,020)        |
| Change in forecast and model assumptions | 4,875,838                                       | —   | 4,875,838           |
| <b>As at March 31, 2019</b>              | <b>₱33,830,461</b>                              | <b>₱147,556,197</b>                         | <b>₱181,386,658</b> |

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## 7. Prepayments and Other Assets

This account consists of:

|                                      | <b>March 31,<br/>2019<br/>(Unaudited)</b> | <b>December 31,<br/>2018<br/>(Audited)</b> |
|--------------------------------------|---|--|
| Input value-added tax (VAT)          | <b>₱341,655,072</b>                       | <b>₱324,539,993</b>                        |
| Materials and supplies               | <b>185,702,832</b>                        | <b>148,990,229</b>                         |
| Prepayments:                         |   |  |
| Rent                                 | <b>23,839,135</b>                         | <b>62,533,385</b>                          |
| Insurance                            | <b>45,382,516</b>                         | <b>20,923,820</b>                          |
| Software maintenance                 | <b>33,634,800</b>                         | <b>18,275,638</b>                          |
| Employee benefits                    | <b>4,689,361</b>                          | <b>18,209,303</b>                          |
| Taxes                                | <b>69,469,497</b>                         | <b>11,410,009</b>                          |
| Advertising                          | <b>9,998,129</b>                          | <b>8,857,794</b>                           |
| Dues and subscriptions               | <b>5,647,477</b>                          | <b>3,794,116</b>                           |
| Company events                       | <b>—</b>                                  | <b>1,427,191</b>                           |
| Others                               | <b>38,491,903</b>                         | <b>33,169,932</b>                          |
| Creditable withholding taxes (CWTs)  | <b>113,762,940</b>                        | <b>104,471,039</b>                         |
| Restricted cash in bank              | <b>19,660,485</b>                         | <b>19,528,338</b>                          |
| Short-term cash investments          | <b>—</b>                                  | <b>—</b>                                   |
| Others                               | <b>24,342,651</b>                         | <b>11,115,483</b>                          |
|                                      | <b>916,276,798</b>                        | <b>787,246,270</b>                         |
| Less allowance for impairment losses | <b>798,769</b>                            | <b>798,769</b>                             |
|                                      | <b>915,478,029</b>                        | <b>786,447,501</b>                         |
| Less noncurrent portion of:          |   |  |
| VAT on capital goods                 | <b>102,959,894</b>                        | <b>99,134,137</b>                          |
| Prepaid rent                         | <b>7,409,072</b>                          | <b>30,366,589</b>                          |
| Advance payment to a supplier        | <b>9,000,000</b>                          | <b>9,000,000</b>                           |
| Other assets                         | <b>13,622,129</b>                         | <b>428,640</b>                             |
| Total noncurrent portion             | <b>₱132,991,095</b>                       | <b>₱138,929,366</b>                        |
| Total current portion                | <b>₱782,486,934</b>                       | <b>₱647,518,135</b>                        |

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

Materials and supplies consist of office supplies and packing materials to be used in the Group's operations. Materials and supplies recognized as part of cost of services in the interim consolidated statements of comprehensive income for the three months ended March 31, 2019 and 2018 amounted to ₡128.98 million and ₡88.97 million, respectively (see Note 18).

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

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

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

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

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

## 8. Property and Equipment

The rollforward analysis of this account follows:

|  | For the three months ended March 31, 2019 (Unaudited) |                        |  |                     |                          |                       |
|--|---|------------------------|--|---------------------|--------------------------|-----------------------|
|  | Transportation Equipment                              | Leasehold Improvements | Furniture, Fixtures and Office Equipment | Computer Hardware   | Construction in Progress | Total                 |
| <b>Costs</b>                                     |   |                        |  |                     |                          |                       |
| At beginning of period                           | ₱671,381,506  | ₱1,506,615,477         | ₱695,846,320                             | ₱723,884,445        | ₱201,932,043             | ₱3,799,659,791        |
| Additions  | 15,544,067  | 12,540,550             | 23,254,464                               | 66,328,694          | 64,034,383               | 181,702,158           |
| Additions through business combination           | 218,786   | 1,429,328              | 368,768                                  | 1,635,392           | —                        | 3,652,274             |
| Reclassifications                                | 490,714   | 118,561,340            | (638,808)                                | 130,363,582         | (248,776,828)            | —                     |
| Disposals  | (5,456,921)   | (151,107)              | (77,647,080)                             | —                   | —                        | (83,255,108)          |
| At end of period                                 | 682,178,152   | 1,638,995,588          | 641,183,664                              | 922,212,113         | 17,189,598               | 3,901,759,115         |
| <b>Accumulated Depreciation and Amortization</b> |   |                        |  |                     |                          |                       |
| At beginning of period                           | 367,929,355   | 832,443,090            | 588,810,347                              | 574,396,997         | —                        | 2,363,579,789         |
| Depreciation and amortization (Notes 17 and 18)  | 16,989,414  | 36,835,549             | 16,371,762                               | 25,643,451          | —                        | 95,840,176            |
| Disposals  | (5,370,908)   | (70,754)               | (77,647,080)                             | —                   | —                        | (83,088,742)          |
| At end of period                                 | 379,547,861   | 869,207,885            | 527,535,029                              | 600,040,448         | —                        | 2,376,331,223         |
| <b>Net Book Value</b>                            | <b>₱302,630,291</b>                                   | <b>₱769,787,703</b>    | <b>₱113,648,635</b>                      | <b>₱322,171,665</b> | <b>₱17,189,598</b>       | <b>₱1,525,427,892</b> |

|  | For the year ended December 31, 2018 (Audited) |                        |  |                     |                          |                       |
|--|--|------------------------|--|---------------------|--------------------------|-----------------------|
|  | Transportation Equipment                       | Leasehold Improvements | Furniture, Fixtures and Office Equipment | Computer Hardware   | Construction in Progress | Total                 |
| <b>Costs</b>                                     |  |                        |  |                     |                          |                       |
| At beginning of year                             | ₱499,479,068                                   | ₱1,574,578,690         | ₱657,456,399                             | ₱620,519,300        | ₱17,301,634              | ₱3,369,335,091        |
| Additions  | 192,447,015                                    | 74,166,146             | 52,526,839                               | 97,061,766          | 275,107,556              | 691,309,322           |
| Additions through business combination           | 2,274,146                                      | 13,565,882             | 11,895,269                               | 5,814,797           | 54,344,897               | 87,894,991            |
| Reclassifications                                | 2,364,376                                      | 128,151,314            | 12,182,349                               | 2,124,004           | (144,822,043)            | —                     |
| Disposals  | (25,183,098)                                   | (283,846,556)          | (38,214,537)                             | (1,635,423)         | —                        | (348,879,614)         |
| At end of year                                   | 671,381,507                                    | 1,506,615,476          | 695,846,319                              | 723,884,444         | 201,932,044              | 3,799,659,790         |
| <b>Accumulated Depreciation and Amortization</b> |  |                        |  |                     |                          |                       |
| At beginning of year                             | 337,955,230                                    | 991,124,111            | 568,035,973                              | 496,166,376         | —                        | 2,393,281,690         |
| Depreciation and amortization                    | 50,285,548                                     | 123,241,100            | 58,900,285                               | 79,332,772          | —                        | 311,759,705           |
| Disposals  | (20,311,423)                                   | (281,922,122)          | (38,089,975)                             | (1,138,085)         | —                        | (341,461,605)         |
| At end of year                                   | 367,929,355                                    | 832,443,089            | 588,846,283                              | 574,361,063         | —                        | 2,363,579,790         |
| <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>      | <b>₱1,436,080,000</b> |

The cost of fully depreciated assets that are still in use amounted to ₦1,527.40 million and ₦1,753.33 million as of March 31, 2019 and December 31, 2018, respectively.

The Group has property and equipment amounting to ₦26.64 million with accumulated depreciation and provision for impairment amounting to ₦13.34 million and ₦11.70 million, respectively, resulting to a nil balance for the year ended March 31, 2019 and December 31, 2018.

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 March 31, 2019, the outstanding liability amounted to ₦21.55 million, ₦9.77 million of which is reported under 'other noncurrent liabilities' in the interim condensed consolidated statements of financial position. Interest expense arising from the amortization of the deferred interest amounted to ₦0.68 million and ₦0.98 million for the three months ended March 31, 2019 and 2018, respectively.

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## 9. Intangible Assets

The rollforward analysis of this account follows:

|  | For the three months ended March 31, 2019<br>(Unaudited) |                            |              |
|--|--|----------------------------|--------------|
|  | Software   | Development<br>in Progress | Total        |
| <b>Costs</b>                           |  |                            |              |
| At beginning of period                 | ₦727,554,102   | ₦118,932,565               | ₦846,486,667 |
| Additions                              | —  | 38,624,225                 | 38,624,225   |
| Reclassification                       | 51,491,816   | (51,491,816)               | —            |
| At end of period                       | 779,045,918  | 106,064,974                | 885,110,892  |
| <b>Accumulated Amortization</b>        |  |                            |              |
| At beginning of period                 | 291,117,011  | —                          | 291,117,011  |
| Amortization (Notes 17 and 18)         | 34,015,241   | —                          | 34,015,241   |
| At end of period                       | 325,132,252  | —                          | 325,132,252  |
| <b>Net Book Value</b>                  | ₦453,913,666   | ₦106,064,974               | ₦559,978,640 |
|  | For the year ended December 31, 2018 (Audited)           |                            |              |
|  | Software   | Development<br>in Progress | Total        |
| <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>                  | ₦436,437,091   | ₦118,932,565               | ₦555,369,656 |

In 2017, the Group purchased IT security tool, a new payroll system and a logistic software on a non-interest bearing long-term payment arrangement payable over 36 months, 60 months and 60 months, respectively. As at March 31, 2019, the outstanding liability related to the purchase of these intangible assets amounted to ₦73.78 million, ₦48.57 million of which is presented under 'other noncurrent liabilities' in the interim condensed consolidated statement of financial position. Interest expense arising from the amortization of deferred interest amounted to ₦1.10 million and

₱1.53 million for the three months ended March 31, 2019 and 2018, respectively.

In 2018, a web filtering software was acquired on an interest-bearing payment arrangement over 18 months. As at March 31, 2019, the outstanding liability related to the purchase amounted to ₱9.28 million, presented under accounts payable and accrued expenses in the interim condensed consolidated statement of financial position. Interest expense arising from the amortization of deferred interest amounted to ₱0.07 million for the three months ended March 31, 2019.

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

There were no capitalized borrowing costs for the three months ended March 31, 2019 and 2018.

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#### 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 unquoted unit investment trust fund comprise primarily of Overnight Deposit Facility and Term Deposit Facility in the Bangko Sentral ng Pilipinas.

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

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

|   | March 31, 2019 (Unaudited) |                     |
|---|----------------------------|---------------------|
|   | FVPL                       | FVOCI               |
| <b>As at January 1, 2019</b>                      | <b>₱131,294,744</b>        | <b>₱337,453,928</b> |
| Additions   | 151,000,000                | —                   |
| Redemption  | (210,951,643)              | —                   |
| Unrealized fair value gain (loss) during the year | 249,431                    | 39,012,015          |
|   | <b>₱71,592,531</b>         | <b>₱376,465,943</b> |

|  | December 31, 2018 (Audited) |                     |                      |
|--|-----------------------------|---------------------|----------------------|
|  | FVPL                        | FVOCI               | AFS                  |
| Balance at beginning of period, as previously reported | ₱—                          | ₱—                  | ₱885,500,464         |
| <b>Impact of PFRS 9 adoption</b>                       | <b>440,763,495</b>          | <b>444,736,969</b>  | <b>(885,500,464)</b> |
| As at January 1, 2018,<br>as restated                  | 440,763,495                 | 444,736,969         | —                    |
| Additions  | 888,580,000                 | —                   | —                    |
| Additions through business combination                 | 9,397,260                   | —                   | —                    |
| Redemption   | (1,215,938,291)             | —                   | —                    |
| Unrealized fair value gain (loss) during the year      | 8,492,280                   | (107,283,041)       | —                    |
|  | <b>₱131,294,744</b>         | <b>₱337,453,928</b> | <b>₱—</b>            |

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## 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 interim condensed consolidated financial statements. The concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

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)       |
| <u>Noncurrent liabilities</u>                                 | (33,206,763)        |
| <u>Equity</u>   | 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 acquisition to March 31, 2019            | 16,056,086          |
| Share of other comprehensive income from acquisition to       |                     |
| March 31, 2019  | 464,363             |
| <u>Carrying amount of the investment as of March 31, 2019</u> | <u>₱244,436,901</u> |

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

The Group recognized equity in net earnings and other comprehensive income of an associate amounting to ₱4.95 million and ₱0.46 million, respectively which represents the Group's share in the associate's earnings from January 1 to March 31, 2019 and is presented under "Other income (charges)" and other comprehensive income in the interim consolidated statements of comprehensive income. As of March 31, 2019, the investment in an associate amounted to ₱244.44 million. No impairment loss was recognized for the investment in associate in 2018.

The summarized statement of comprehensive income of the associate from January 1 to March 31, 2019 follows:

|  |              |
|--|--------------|
| Revenue  | ₱276,491,071 |
| Cost and expenses  | 259,982,103  |
| Net income   | 16,508,968   |
| Other comprehensive income   | 1,547,878    |
| Total comprehensive income   | ₱18,056,846  |
| Group's share of total comprehensive income from January 1 to March 31, 2018 | ₱5,417,054   |

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## 12. Accounts and Other Payables

This account consists of:

|  | March 31,<br>2019<br>(Unaudited) | December 31,<br>2018<br>(Audited) |
|--|----------------------------------|-----------------------------------|
| Trade payable - outside parties            | ₱1,455,202,593                   | ₱1,353,449,343                    |
| Trade payable - related parties (Note 17)  | 508,042                          | 370,163                           |
| Accruals:                                  |                                  |                                   |
| Salaries and wages                         | 361,514,697                      | 277,249,320                       |
| Contracted jobs                            | 221,328,624                      | 191,243,940                       |
| Rent and utilities                         | 142,688,175                      | 124,727,982                       |
| Advertising                                | 21,188,431                       | 94,836,141                        |
| Claims and losses                          | 68,437,412                       | 79,870,576                        |
| Professional fees                          | 23,391,631                       | 24,776,017                        |
| Fixed assets                               | 42,760,214                       | 17,629,915                        |
| Taxes                                      | 23,588,921                       | 16,366,752                        |
| Outside services                           | 11,416,109                       | 11,414,949                        |
| Software maintenance                       | 5,388,147                        | 9,184,268                         |
| Others                                     | 67,360,384                       | 63,105,153                        |
| Deferred output VAT                        | 323,820,470                      | 300,135,756                       |
| Taxes payable                              | 84,479,667                       | 91,174,576                        |
| Contract liabilities                       | 151,756,371                      | 83,666,589                        |
| Government agencies contributions payables | 25,599,594                       | 26,136,084                        |
| Subscription payable                       | 9,651,375                        | 9,651,375                         |
| Others (Note 17)                           | 33,696,720                       | 31,180,381                        |
|  | ₱3,073,777,577                   | ₱2,806,169,280                    |

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

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

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

Deferred output VAT arises from the uncollected receivables from valuable 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.

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### 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 ₱440.71 million and ₱543.90 million as at March 31, 2019 and December 31, 2018, respectively.

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### 14. **Notes Payable**

The Group has outstanding notes payable to various local banks. The details of these notes as at March 31, 2019 and December 31, 2018 are described below:

| March 31, 2019 (Unaudited)                  |                            |                     |          |                            |  |
|---|----------------------------|---------------------|----------|----------------------------|--|
| Bank/Related Party                          | Date of Availment          | Outstanding Balance | Maturity | Interest Rate              | Payment Terms  |
| Banco de Oro                                | Dec 2018                   | ₱67,000,000         | Apr 2019 | Fixed rate, 4.25%          | Clean; Interest payable every month, principal to be paid on maturity date |
| Banco de Oro                                | Various availments in 2016 | 692,500,000         | May 2021 | Fixed rate, 4.25% to 4.50% | With mortgage; Interest payable every month, principal payable quarterly   |
| Rizal Commercial Banking Corporation (RCBC) | Mar 2019                   | 150,000,000         | Sep 2019 | Fixed rate, 6%             | Clean; Interest payable every month, principal to be paid on maturity date |
| Unionbank of the Philippines                | Feb 2019                   | 50,000,000          | Aug 2019 | Fixed rate, 7.25%          | Clean, Interest payable every month, principal to be paid on maturity date |
| <b>Total</b>                                |                            | <b>₱859,500,000</b> |          |                            |  |
| <b>Current Portion</b>                      |                            | <b>₱347,000,000</b> |          |                            |  |
| <b>Noncurrent portion</b>                   |                            | <b>₱512,500,000</b> |          |                            |  |

| December 31, 2018 (Audited) |                            |                     |                                    |                             |  |
|-----------------------------|----------------------------|---------------------|------------------------------------|-----------------------------|--|
| 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        |                                    |                             |  |

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).

Various short-term loans availed in 2018 with BDO amounting to ₱217.00 million were rolled over and still existing as of March 31, 2019.

Interest expense amounted to ₱14.92 million, and ₱12.45 million for the three months ended March 31, 2019 and 2018, respectively.

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

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## 15. Convertible Instrument

This account consists of:

|  | March 31,<br>2019<br>(Unaudited) | December 31,<br>2018<br>(Audited) |
|--|----------------------------------|-----------------------------------|
| Derivative liability                                     |                                  |                                   |
| Balance at beginning of year                             | ₱1,406,175,427                   | ₱1,860,373,479                    |
| Issuance of convertible instrument                       | —                                | —                                 |
| Fair value loss (gain) on derivative                     | 169,004,398                      | (454,198,052)                     |
|  | ₱1,575,179,825                   | ₱1,406,175,427                    |
| Bond payable   |                                  |                                   |
| Balance at beginning of year                             | ₱1,108,417,074                   | ₱896,185,059                      |
| Issuance of convertible instrument, net of issuance cost | —                                | —                                 |
| Accretion of interest                                    | 42,679,862                       | 159,106,145                       |
| Unrealized foreign exchange loss (gain)                  | 1,547,704                        | 50,577,641                        |
| Amortization of issuance cost                            | 449,688                          | 2,548,229                         |
|  | ₱1,153,094,327                   | ₱1,108,417,074                    |

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

The convertible instrument (to the extent that the same has not been converted by CP Briks as the holder or by the Parent Company) is redeemable at the option of CP Briks, commencing on the 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 of at a certain minimum share price.

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

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

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

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

While CP Briks may participate in the auction of LBCE shares should there be a foreclosure, any such foreclosure of the pledge over LBCE shares and any resulting acquisition by CP Briks of equity interest in LBCE are always subject to the foreign ownership restrictions applicable to LBCE, which

may not exceed 40% of the total issued and outstanding capital stock entitled to vote, and 40% of the total issued and outstanding capital stock whether or not entitled to vote, of LBCE.

*Covenants*

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

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

The determination and calculation of the foregoing financial ratios are based on the agreement and interpretation of relevant parties subject to the terms of the convertible instrument. The Group is in compliance with the above covenants as at March 31, 2019 and December 31, 2018, 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 from 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).

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## 16. **Equity**

### *Capital stock*

As at March 31, 2019 and December 31, 2018, the details of the Parent Company's common shares follow:

|                              | Number of<br>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  |

### *Cash dividends*

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

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## 17. **Related Party Transactions**

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

Details of related party transactions and balances for the three months ended March 31, 2019 and for the year ended December 31, 2018 are as follows:

| Transaction<br>amounts for the<br>three months ended<br>March 31, 2019<br>(Unaudited)                           | Outstanding<br>Receivable<br>balance as at<br>March 31, 2019<br>(Unaudited)  | Terms   | Conditions                  |
|---|--|---|-----------------------------|
| <u>Due from related parties (Trade receivables)</u>   |  |   |                             |
| <i>Affiliates</i>   |  |   |                             |
| a.) Delivery fee, management<br>fee, financial Instant Peso<br>Padala (IPP) fulfillment fee<br>(Notes 5 and 24) | ₱54,218,999  | Noninterest-bearing; due<br>and demandable                              | Unsecured,<br>no impairment |
| <u>Due from related parties (Non-trade receivables)</u>   |  |   |                             |
| <i>Ultimate parent company</i>  |  |   |                             |
| b.) Advances  | ₱3,729   | Noninterest-bearing; due<br>and demandable                              | Unsecured,<br>no impairment |
| <i>Affiliates - under common control</i>  |  |   |                             |
| b.) Advances  | 65,147,168   | Noninterest-bearing; due<br>and demandable                              | Unsecured,<br>no impairment |
| c.) Advances for subscription of<br>shares  | 18,051,444   | Noninterest-bearing; for<br>settlement of the<br>subscription of shares | Unsecured,<br>no impairment |
| <i>Officer</i>  |  |   |                             |
| b.) Advances  | —  | Noninterest-bearing; due<br>and demandable                              | Unsecured,<br>no impairment |
|   | ₱415,537,659   |   |                             |
| Transaction<br>amounts for the<br>three months ended<br>March 31, 2018<br>(Unaudited)                           | Outstanding<br>Receivable<br>balance as at<br>December 31, 2018<br>(Audited) | Terms   | Conditions                  |
| <u>Due from related parties (Trade receivables)</u>   |  |   |                             |
| <i>Affiliates</i>   |  |   |                             |
| a.) Delivery fee, management<br>fee, financial Instant Peso<br>Padala (IPP) fulfillment fee<br>(Notes 5 and 24) | ₱220,646,276   | Noninterest-bearing; due<br>and demandable                              | Unsecured,<br>no impairment |
| <u>Due from related parties (Non-trade receivables)</u>   |  |   |                             |
| <i>Ultimate parent company</i>  |  |   |                             |
| b.) Advances  | ₱76,355,917  | Noninterest-bearing; due<br>and demandable                              | Unsecured,<br>no impairment |
| (Forward)   |  |   |                             |

|   | Transaction<br>amounts for the<br>three months ended<br>March 31, 2018<br>(Unaudited) | Outstanding<br>Receivable<br>balance as at<br>December 31, 2018<br>(Audited) | Terms                                      | Conditions                  |
|---|---|--|--|-----------------------------|
| <i>Affiliates - under common control</i>                  |   |  |  |                             |
| b.) Advances  | ₱3,287,188  | ₱54,937,022  | Noninterest-bearing;<br>due and demandable | Unsecured,<br>no impairment |
| f) Advances for acquisition<br>of shares                  | –   | 439,823,608  | Noninterest-bearing;<br>due and demandable | Unsecured,<br>no impairment |
| <i>Officer</i>  |   |  |  |                             |
| b.) Advances  | –   | 9,284,395  | Noninterest-bearing; due<br>and demandable | Unsecured,<br>no impairment |
|   |   | ₱997,781,703   |  |                             |
|   | Transaction<br>amounts for the<br>three months ended<br>March 31, 2019<br>(Unaudited) | Outstanding<br>Payable<br>balance as at<br>March 31, 2019<br>(Unaudited)     | Terms                                      | Conditions                  |
| <u><i>Due to related parties (Trade payables)</i></u>     |   |  |  |                             |
| <i>Ultimate Parent Company</i>                            |   |  |  |                             |
| d.) Advances  | ₱–  | (₱508,042)   | Noninterest-bearing; due<br>and demandable | Unsecured                   |
| <i>Associate</i>  |   |  |  |                             |
| e.) Sea freight and brokerage                             | 145,932,196   | (16,898,132)   | Noninterest-bearing; due<br>and demandable | Unsecured                   |
| <i>Affiliate</i>  |   |  |  |                             |
| f.) Guarantee fee<br>(Notes 11 and 13)                    | 1,785,714   | –  | Noninterest-bearing; due<br>and demandable | Unsecured                   |
|   |   | (₱17,406,174)  |  |                             |
| <u><i>Due to related parties (Non-trade payables)</i></u> |   |  |  |                             |
| <i>Affiliate - under common control</i>                   |   |  |  |                             |
| b.) Advances  | ₱18,751,200   | (₱36,617,055)  | Noninterest-bearing; due<br>and demandable | Unsecured                   |
| <i>Officer (Advances)</i>                                 | 30,000,000  | (104,946,843)  | Noninterest-bearing; due<br>and demandable | Unsecured                   |
|   |   | (₱141,563,898)   |  |                             |
|   | Transaction<br>amounts for the<br>three months ended<br>March 31, 2018<br>(Unaudited) | Outstanding<br>Receivable<br>balance as at<br>December 31, 2018<br>(Audited) | Terms                                      | Conditions                  |
| <u><i>Due to related parties (Trade payables)</i></u>     |   |  |  |                             |
| <i>Ultimate Parent Company</i>                            |   |  |  |                             |
| d.) Royalty fee (Notes 11 and 18)                         | ₱–  | (₱370,163)   | Noninterest-bearing; due<br>and demandable | Unsecured                   |
| <i>Affiliate</i>  |   |  |  |                             |
| f.) Guarantee fee<br>(Note 11)                            | 1,785,714   | –  | Noninterest-bearing; due<br>and demandable | Unsecured                   |
|   |   | (₱370,163)   |  |                             |

(Forward)

| Transaction<br>amounts for the<br>three months ended<br>March 31, 2018<br>(Unaudited) | Outstanding<br>Receivable<br>balance as at<br>December 31, 2018<br>(Audited) Terms | Conditions   |
|---|--|--|
| <u>Due to a related party (Non-trade payables)</u>                                    |  |  |
| <i>Affiliates - under common control</i>  |  |  |
| b.) Advances  | P-<br><br>Officer  | <b>Noninterest-bearing;<br/>due and demandable</b><br><br><b>Unsecured</b> |
| b.) Advances  | -<br><br>Officer   | <b>Noninterest-bearing;<br/>due and demandable</b><br><br><b>Unsecured</b> |
| <u>Compensation of Key Management Personnel:</u>                                      |  |  |
| <u>For the three months ended March 31</u>  |  |  |
|   | <b>2019<br/>(Unaudited)</b>  | <b>2018<br/>(Unaudited)</b>  |
| Salaries and wages  | <b>₱27,574,669</b>   | ₱25,682,792  |
| Retirement benefits   | <b>6,011,966</b>   | 5,529,230  |
| Other short-term employee benefits  | <b>5,898,468</b>   | 4,783,439  |
|   | <b>₱39,485,103</b>   | ₱35,995,461  |

- a. In the normal course of business, the Group fulfills the delivery of balikbayan boxes, fulfills money remittances and performs certain administrative functions on behalf of its affiliates. The Group charges delivery fees and service fees for the fulfillment of these services based on agreed rates.
- b. The Group regularly makes advances to and from related parties to finance working capital requirements and as part of their cost reimbursements arrangement. These unsecured advances are non-interest bearing and payable on demand.
- c. 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 interim condensed consolidated statements of comprehensive income amounting to ₱1.79 million for the three months ended March 31, 2019 and 2018 respectively.

- e. In the normal course of business, LBCE acquires services from OFII which include sea freight and brokerage mainly for the cargoes coming from international origins. These expenses are billed to the origins at cost.
- f. 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.
- g. In November 2011, LBC Mundial Corporation paid-off LBC Express Holdings USA Corporation's outstanding mortgage loan which is consolidated into a long term promissory note amounting to US\$1,105,148 at 4% interest, payable in 180 equal monthly installment. Total outstanding loan amounted to P34.61 million in peso equivalent, P4.21 million of which is presented as current under "Trade and other receivable".

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#### 18. Cost of Services

This account consists of:

|   | <u>For the three months ended March 31</u> |                                   |
|---|--|-----------------------------------|
|   | <u>2019</u><br><u>(Unaudited)</u>          | <u>2018</u><br><u>(Unaudited)</u> |
| Cost of delivery and remittance               | <b>₱1,130,162,232</b>                      | ₱807,719,498                      |
| Salaries and benefits                         | <b>760,724,927</b>                         | 522,215,084                       |
| Utilities and supplies                        | <b>289,604,580</b>                         | 198,539,378                       |
| Rent (Note 20)                                | <b>131,762,568</b>                         | 161,136,777                       |
| Depreciation and amortization (Notes 8 and 9) | <b>196,382,141</b>                         | 61,094,956                        |
| Retirement benefit expense                    | <b>31,565,103</b>                          | 24,051,096                        |
| Repairs                                       | <b>20,927,378</b>                          | 19,610,456                        |
| Transportation and travel                     | <b>25,146,723</b>                          | 16,188,084                        |
| Insurance                                     | <b>11,901,116</b>                          | 6,503,029                         |
| Others  | <b>39,972,156</b>                          | 2,132,971                         |
|   | <b>₱2,638,148,923</b>                      | ₱1,819,191,329                    |

Others include platform subscription, software maintenance expenses of subsidiaries involved in online logistics and bank fees.

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**19. Operating Expenses and Foreign Exchange Gains - net**

This account consists of:

|  | <u>For the three months ended March 31</u> |                                   |
|--|--|-----------------------------------|
|  | <b>2019</b><br><b>(Unaudited)</b>          | <b>2018</b><br><b>(Unaudited)</b> |
| Salaries and benefits                  | <b>₱170,577,804</b>                        | ₱135,479,667                      |
| Rent (Note 21)                         | <b>24,571,218</b>                          | 60,020,196                        |
| Advertising and promotion              | <b>80,798,358</b>                          | 41,661,077                        |
| Utilities and supplies                 | <b>40,753,691</b>                          | 36,449,154                        |
| Travel and representation              | <b>43,414,150</b>                          | 32,780,378                        |
| Taxes and licenses                     | <b>45,579,679</b>                          | 30,899,939                        |
| Professional fees                      | <b>47,175,304</b>                          | 30,840,008                        |
| Depreciation and amortization          | <b>73,686,208</b>                          | 24,939,646                        |
| Claims and losses                      | <b>99,933,162</b>                          | 18,732,634                        |
| Software maintenance costs             | <b>9,695,422</b>                           | 13,010,605                        |
| Dues and subscriptions                 | <b>19,277,981</b>                          | 8,773,209                         |
| Retirement benefit expense             | <b>10,067,677</b>                          | 7,271,234                         |
| Insurance                              | <b>7,339,857</b>                           | 5,916,393                         |
| Commission expense                     | <b>36,992,690</b>                          | 5,676,122                         |
| Provision for impairment loss (Note 6) | <b>4,752,151</b>                           | 349,105                           |
| Repairs and maintenance                | <b>1,314,261</b>                           | 1,046,760                         |
| Royalty (Note 17)                      | <b>—</b>                                   | —                                 |
| Others                                 | <b>12,145,018</b>                          | 12,307,073                        |
|  | <b>₱728,076,330</b>                        | ₱466,153,200                      |

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

Foreign exchange gains - net arises from the following:

|                              | <u>For the three months ended March 31</u> |                                   |
|------------------------------|--|-----------------------------------|
|                              | <b>2019</b><br><b>(Unaudited)</b>          | <b>2018</b><br><b>(Unaudited)</b> |
| Cash and cash equivalents    | <b>₱14,557,404</b>                         | ₱118,647,585                      |
| Investment at FVPL           | <b>547,345</b>                             | 9,307,488                         |
| Advances to affiliates - net | <b>(3,801,107)</b>                         | 22,342,567                        |
| Trade payable                | <b>1,388,455</b>                           | —                                 |
| Bonds payable                | <b>(1,547,704)</b>                         | (41,769,570)                      |
|                              | <b>₱11,144,393</b>                         | ₱108,528,070                      |

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## 20. Income Taxes

Provision for income tax consists of:

|          | For the three months ended       |                                  |
|----------|----------------------------------|----------------------------------|
|          | March 31,<br>2019<br>(Unaudited) | March 31,<br>2018<br>(Unaudited) |
|          | Current                          | Deferred                         |
| Current  | <b>₱174,110,997</b>              | ₱142,072,076                     |
| Deferred | <b>(15,939,440)</b>              | (3,780,375)                      |
|          | <b>₱158,171,557</b>              | ₱138,291,701                     |

Details of the Group's deferred income tax assets - net as at March 31, 2019 and December 31, 2018 follow:

|   | March 31,<br>2019<br>(Unaudited) | December 31,<br>2018<br>(Audited) |
|---|----------------------------------|-----------------------------------|
| Deferred tax assets arising from:   |                                  |                                   |
| Retirement benefit liability  | <b>₱199,828,542</b>              | ₱197,105,840                      |
| Accrued employee benefits   | <b>54,268,998</b>                | 47,742,542                        |
| Allowance for impairment losses   | <b>49,227,674</b>                | 48,132,334                        |
| Lease liabilities (Note 21)   | <b>7,313,446</b>                 | 16,512,220                        |
| NOLCO   | <b>15,117,586</b>                | 15,117,586                        |
| Contract liabilities  | —                                | 11,376,223                        |
| Unrealized foreign exchange losses  | —                                | —                                 |
| MCIT  | <b>120,135</b>                   | 120,135                           |
| Others  | <b>9,552,665</b>                 | 9,312,542                         |
|   | <b>₱335,429,046</b>              | ₱345,419,422                      |
| Deferred tax liabilities arising from:                                    |                                  |                                   |
| Capitalized borrowing costs   | <b>(₱157,001)</b>                | (₱209,334)                        |
| Fair Unamortized fair value adjustments arising from business combination | <b>(17,603,515)</b>              | (19,634,690)                      |
| Contract liabilities  | <b>(5,984,156)</b>               | —                                 |
| Unrealized foreign exchange gains   | <b>(20,630,760)</b>              | (20,285,223)                      |
| Others  | <b>(3,012,906)</b>               | (3,012,906)                       |
|   | <b>(47,388,338)</b>              | (43,142,153)                      |
|   | <b>₱288,040,708</b>              | ₱302,277,269                      |

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 quarter ended March 31, 2019, 18 of LBCE's Subsidiaries opted to use OSD in computing the current provision for income tax.

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## 21. Lease Commitments

### (a) Right-to-use assets and related lease liabilities

As of March 31, 2019, the carrying amount of right-to-use assets recognized amounted to ₦1,845.06 million which consists of the following:

|                                       | <b>March 31,<br/>2019<br/>(Unaudited)</b> |
|---------------------------------------|---|
| Cost:                                 |   |
| Office and warehouses                 | <b>₦1,906,872,557</b>                     |
| Vehicle                               | 31,623,794                                |
| Equipment                             | 60,047,534                                |
| <b>Total Cost</b>                     | <b>₦1,998,543,884</b>                     |
| Accumulated Depreciation:             |   |
| Office and warehouses                 | 144,784,384                               |
| Vehicle                               | 1,973,736                                 |
| Equipment                             | 6,727,037                                 |
| <b>Total Accumulated Depreciation</b> | <b>153,485,156</b>                        |
| <b>Net carrying amount</b>            | <b>₦1,845,058,728</b>                     |

Lease liabilities recognized under PFRS 16 amounting to ₦1,828.83 million, ₦497.25 million is presented in current liabilities. Interest expense incurred for the first quarter of 2019 amounting to ₦20.89 million.

### (b) Operating Lease

Remaining rent expense recognized in cost of service and operating expenses in the 2019 interim statements of comprehensive income are considered short-term or low value of which recognition exemption is applied.

|                    | <b>For the three months ended March 31</b> |                     |
|--------------------|--|---------------------|
|                    | <b>2019</b>                                | <b>2018</b>         |
|                    | (Unaudited)                                | (Unaudited)         |
| Cost of services   | ₦131,762,568                               | ₦161,136,777        |
| Operating expenses | 24,571,218                                 | 60,020,196          |
|                    | <b>₦156,333,786</b>                        | <b>₦221,156,973</b> |

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.

The Group has security deposits arising from the said operating lease agreements amounting to ₱331.33 million and ₱312.43 million as at March 31, 2019 and December 31, 2018, respectively.

Deferred lease liability arising from straight line recognition of lease amounting to ₱55.04 million as at December 31, 2018 is closed to Retained Earnings as part of transition adjustments to PFRS 16.

(c) Finance lease

These involve leases of transportation equipment which were accounted for as finance leases. The components of the finance lease obligation as at March 31, 2019 and December 31, 2018 arising from these leases are as follow:

|   | March 31,<br>2019<br>(Unaudited) | December 31,<br>2018<br>(Audited) |
|---|----------------------------------|-----------------------------------|
| Gross finance lease obligations                   |                                  |                                   |
| Not later than one year                           | ₱25,970,330                      | ₱26,943,343                       |
| Later than 1 year but not later than 5 years      | 60,844,497                       | 65,479,002                        |
|   | <b>86,814,827</b>                | <b>92,422,345</b>                 |
| Future finance lease charges on the finance lease |                                  |                                   |
| Not later than one year                           | (5,983,632)                      | (6,672,051)                       |
| Later than 1 year but not later than 5 years      | (6,730,366)                      | (7,573,842)                       |
|   | <b>(12,713,998)</b>              | <b>(14,245,893)</b>               |
|   | <b>₱74,100,829</b>               | <b>₱78,176,452</b>                |

The present value of minimum lease payments is as follows:

|  | March 31,<br>2019<br>(Unaudited) | December 31,<br>2018<br>(Audited) |
|--|----------------------------------|-----------------------------------|
| Not later than 1 year                        | ₱19,986,698                      | ₱20,271,292                       |
| Later than 1 year but not later than 5 years | 54,114,131                       | 57,905,160                        |
|  | <b>₱74,100,829</b>               | <b>₱78,176,452</b>                |

Interest expense on the above lease obligations charged to finance costs amounted to ₱2.39 million and ₱1.59 million for three months ended March 31, 2019 and 2018, respectively.

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## 22. Retirement Benefits

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

|   | March 31,<br>2019<br>(Unaudited) | December 31,<br>2018<br>(Audited) |
|---|----------------------------------|-----------------------------------|
| Present value of defined benefit obligation | ₱805,011,989                     | ₱803,245,359                      |
| Fair value of plan assets                   | (122,261,595)                    | (130,980,215)                     |
|   | <b>₱682,750,394</b>              | <b>₱672,265,144</b>               |

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

The pension cost for the interim periods and the present value of the defined benefit obligation as at March 31, 2019 and 2018 were calculated by extrapolating the latest actuarial valuation reports for the year ended December 31, 2018 and 2017, respectively.

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## 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 comprehensive income should the change in the close share price of quoted and unquoted equity securities occur as at March 31, 2019 and 2018 with all other variables held constant.

|                              | <b>Effect on comprehensive income</b> |                           |
|------------------------------|---------------------------------------|---------------------------|
|                              | <b>March 31,<br/>2019</b>             | <b>March 31,<br/>2018</b> |
|                              | <b>(Unaudited)</b>                    | <b>(Unaudited)</b>        |
| <b>Change in share price</b> |                                       |                           |
| Increase by 5%               | <b>₱18,823,297</b>                    | ₱21,066,488               |
| Decrease by 5%               | <b>(₱18,823,297)</b>                  | (₱21,066,488)             |
| <b>Change in NAV</b>         |                                       |                           |
| Increase by 5%               | <b>₱ 3,579,627</b>                    | ₱18,029,547               |
| Decrease by 5%               | <b>(₱3,579,627)</b>                   | (₱18,029,547)             |

The Group is also exposed to equity price risk in the fair value of the derivative liability due to the embedded equity conversion feature. The following table shows the effect on net income should the change in the close share price of the underlying equity security in the convertible instrument occur as at March 31, 2019 with all other variables held constant.

|                              | <b>Effect on net income</b>       |                       |
|------------------------------|-----------------------------------|-----------------------|
|                              | <b>March 31, 2019 (Unaudited)</b> |                       |
| <b>Change in share price</b> |                                   |                       |
| Increase by 5%               |                                   | <b>₱137,118,690</b>   |
| Decrease by 5%               |                                   | <b>(₱137,118,690)</b> |

*Interest rate risk and credit spread sensitivity analysis*

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

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

|                      | <b>Effect in fair value as of</b> |                              |
|----------------------|-----------------------------------|------------------------------|
|                      | <b>March 31,<br/>2019</b>         | <b>December 31,<br/>2018</b> |
|                      | <b>(Unaudited)</b>                | <b>(Audited)</b>             |
| <b>Credit spread</b> |                                   |                              |
| +1%                  | <b>₱60,437,710</b>                | ₱58,315,936                  |
| -1%                  | <b>(63,772,336)</b>               | (63,189,129)                 |

*Liquidity risk*

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

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

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

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

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

*Foreign currency risk*

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

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

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

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

|                   | <b>March 31, 2019 (Unaudited)</b> |                        |
|-------------------|-----------------------------------|------------------------|
|                   | <b>Foreign currency</b>           | <b>Peso equivalent</b> |
| <b>Assets:</b>    |                                   |                        |
| Euro              | 2,724,233                         | ₱169,910,403           |
| Hongkong Dollars  | 16,700,427                        | 113,729,906            |
| US Dollars        | 1,422,651                         | 76,012,223             |
| <b>Liability:</b> |                                   |                        |
| US Dollars        | (21,418,668)                      | (1,144,399,418)        |

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

|   | December 31, 2018 (Audited) |                 |
|---|-----------------------------|-----------------|
|   | 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) |
| <i>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.</i> |                             |                 |

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities - net position) as at March 31, 2019 and December 31, 2018.

| Reasonably possible change in foreign exchange rate for every two units of Philippine Peso | Increase (decrease) in income before tax |                   |
|--|--|-------------------|
|  | March 31, 2019                           | December 31, 2018 |
|  | (Unaudited)                              | (Audited)         |
| ₱2   | ₱1,142,715                               | ₱31,834,026       |
| (2)  | (1,142,715)                              | (31,834,026)      |

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

The Group recognized ₱11.14 million and ₱108.53 million foreign exchange gains - net, for the three months period ended March 31, 2019 and 2018, respectively, arising from settled transactions and translation of the Group's cash and cash equivalents, investment in FVPL, due from related parties, trade other payables and bond payable.

#### *Credit risk*

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

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

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

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

The Group has ₱1,642.80 million and ₱1,642.14 million trade receivables, ₱235.09 million and ₱263.32 million of which are past due and/or impaired, as at March 31, 2019 and December 31, 2018, respectively.

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

| <b>March 31, 2019</b> | GDP growth rate | Associate ECL on trade receivables |
|-----------------------|-----------------|------------------------------------|
| Base case (33%)       | 6.30%           | ₱60,462,219                        |
| Upside case (33%)     | 9.30%           | 60,340,663                         |
| Downside case (33%)   | 3.30%           | 60,583,775                         |
|                       |                 | ₱181,386,658                       |

| <b>December 31, 2018</b> | 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                        |

As at March 31, 2019 and December 31, 2018, the aging analyses of the Group's past due and/or impaired receivables are as follows:

| March 31, 2019 (Unaudited)  |                           |               |              |                    |              |  |
|-----------------------------|---------------------------|---------------|--------------|--------------------|--------------|--|
|                             | Past Due but not Impaired |               |              | Impaired Financial |              |  |
|                             | 1 to 30 days              | 31 to 90 days | Over 90 days | Assets             | Total        |  |
| Trade and other receivables | ₱9,901,249                | ₱4,525,242    | ₱39,276,574  | ₱181,386,658       | ₱235,089,723 |  |

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

#### *Capital Management*

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

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

The capital that the Group manages is equal to the total equity as shown in the interim condensed consolidated statements of financial position at March 31, 2019 and December 31, 2018 amounting to ₱3,378.93 million and ₱3,277.97 million, respectively.

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#### 24. Fair Values

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

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

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

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

The estimated fair value of long-term portion of notes payable as at March 31, 2019 is based on the discounted value of future cash flow using applicable rates ranging from 4.14% to 4.20%.

The fair value of the long-term portion of lease liabilities as at March 31, 2019 is based on the discounted value of future cash flow using applicable interest rates ranging from 7.50% to 9.91% for 2019 and 2018.

The estimated fair value of derivative liability as at March 31, 2019 is based on an indirect method of valuing multiple embedded derivatives. This valuation technique using binomial pyramid model using stock prices and stock price volatility. This valuation method compares the fair value of the option-free instrument against the fair value of the hybrid convertible instrument. The difference of the fair values is assigned as the value of the embedded derivatives.

The significant unobservable input in the fair value is the stock price volatility of 15.94% for the three months ended March 31, 2019. A 5% increase (5% decrease) in the stock price volatility would decrease by ₦1,971 (increase by ₦776) the fair value of the derivative liability.

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

The estimated fair value of other noncurrent liabilities as at March 31, 2019 is based on the discounted value of future cash flow using applicable rate of 3.85% to 12.28%.

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

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

The quantitative disclosures on fair value measurement hierarchy for assets and liabilities as at March 31, 2019 and December 31, 2018 follow:

|   | March 31, 2019 (Unaudited)    |               |  |   |   |
|---|-------------------------------|---------------|--|---|---|
|   | 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>                  |                               |               |  |   |   |
| Quoted equity securities                              | ₦376,465,943                  | ₦376,465,943  | ₦376,465,943   | ₦-                                      | ₦-  |
| Unquoted unit investment trust fund                   | 71,592,531                    | 71,592,531    | -  | 71,592,531                              | -   |
| <b>Liability measured at fair value</b>               |                               |               |  |   |   |
| Derivative liability                                  | 1,575,179,825                 | 1,575,179,825 | -  | -                                       | 1,575,179,825                             |
| <b>Liabilities for which fair value are disclosed</b> |                               |               |  |   |   |
| Long-term notes payable                               | 512,500,000                   | 490,665,109   | -  | -                                       | 490,665,109                               |
| Bond payable  | 1,153,094,327                 | 1,153,094,327 | -  | -                                       | 1,153,094,327                             |
| Finance lease liabilities                             | 74,100,829                    | 111,241,182   | -  | -                                       | 111,241,182                               |
| Other noncurrent liabilities                          | 66,626,216                    | 66,626,216    | -  | -                                       | 61,336,076                                |

|   | December 31, 2018 (Audited)   |               |  |   |   |
|---|-------------------------------|---------------|--|---|---|
|   | 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                                |

During the three months ended March 31, 2019 and year ended December 31, 2018, 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.

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

|                         | <b>For the three months ended</b> |                           |
|-------------------------|-----------------------------------|---------------------------|
|                         | <b>March 31,<br/>2019</b>         | <b>March 31,<br/>2018</b> |
|                         | <b>(Unaudited)</b>                | <b>(Unaudited)</b>        |
| Logistics               |                                   |                           |
| Retail                  | <b>₱2,283,235,451</b>             | ₱1,584,285,324            |
| Corporate               | <b>1,202,895,166</b>              | 936,934,652               |
|                         | <b>3,486,130,617</b>              | 2,521,219,976             |
| Money transfer services |                                   |                           |
| Domestic                | <b>250,280,753</b>                | 197,691,360               |
| International inbound   | <b>18,643,539</b>                 | 30,467,885                |
|                         | <b>268,924,292</b>                | 228,159,245               |
|                         | <b>₱3,755,054,909</b>             | ₱2,749,379,221            |

The revenue of the Group consists mainly of sales to external customers. Revenue arising from service fees charged to affiliates amounted to ₱252.97 million and ₱220.65 million for the three months ended March 31, 2019 and 2018, respectively.

#### Seasonality of Operations

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

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#### 26. 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:

|   | <b>For the three months ended March 31,</b> |                    |
|---|---|--------------------|
|   | <b>2019</b>                                 | <b>2018</b>        |
|   | <b>(Unaudited)</b>                          | <b>(Unaudited)</b> |
| Net income attributable to equity holder of the Parent Company    | <b>₱25,003,816</b>                          | ₱566,511,303       |
| Less profit impact of assumed conversion of bonds payable         | <b>213,217,340</b>                          | (113,029,323)      |
|   | <b>₱238,221,156</b>                         | ₱453,481,980       |
| Weighted average number of common shares outstanding              | <b>1,425,865,471</b>                        | 1,425,865,471      |
| Dilutive shares arising from convertible debt                     | <b>203,007,692</b>                          | 193,053,846        |
| Adjusted weighted average number of common shares for diluted EPS | <b>1,628,873,163</b>                        | 1,618,919,317      |
| Basic EPS   | <b>₱0.02</b>                                | ₱0.40              |
| Diluted EPS   | <b>₱0.15</b>                                | ₱0.28              |

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#### 27. Note to Consolidated Statement of Cash Flows

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

- unpaid acquisition of property and equipment amounting to ₱44.16 million and ₱0.73 million for the three months ended March 31, 2019 and 2018, respectively.
- unpaid acquisition cost of investment in associate amounting to ₱9.77 million in 2018.

Details of the movement in cash flows from financing activities for the three months ended March 31, 2019 and 2018 are as follow:

|   | December 31,<br>2018  | Cash Flows           | Leasing<br>arrangements | Business<br>combination | Interest           | Offsetting<br>agreement | March 31,<br>2019     |
|---|-----------------------|----------------------|-------------------------|-------------------------|--------------------|-------------------------|-----------------------|
| Notes payable                                     | <b>₱829,500,000</b>   | <b>₱30,000,000</b>   | <b>₱-</b>               | <b>₱-</b>               | <b>₱-</b>          | <b>₱-</b>               | <b>₱859,500,000</b>   |
| Lease liabilities                                 | <b>140,069,034</b>    | <b>(187,562,323)</b> | <b>1,764,648,458</b>    | <b>179,849,736</b>      | <b>–</b>           | <b>–</b>                | <b>1,902,628,634</b>  |
| Due to related<br>parties                         | <b>93,992,129</b>     | <b>(19,738,378)</b>  | <b>–</b>                | <b>67,310,147</b>       | <b>–</b>           | <b>–</b>                | <b>141,563,898</b>    |
| Dividends payable                                 | <b>285,173,094</b>    | <b>(55,798,368)</b>  | <b>–</b>                | <b>–</b>                | <b>–</b>           | <b>(229,374,726)</b>    | <b>–</b>              |
| Interest paid                                     | <b>–</b>              | <b>(17,348,104)</b>  | <b>–</b>                | <b>–</b>                | <b>14,956,533</b>  | <b>–</b>                | <b>(2,391,571)</b>    |
| Total liabilities<br>from financing<br>activities | <b>₱1,348,734,257</b> | <b>(244,823,444)</b> | <b>₱1,764,648,458</b>   | <b>₱247,159,883</b>     | <b>₱14,956,533</b> | <b>(₱229,374,726)</b>   | <b>₱2,901,300,961</b> |

|   | December 31,<br>2017  | Cash Flows            | Leasing<br>arrangements | Business<br>combination | Interest           | Foreign<br>exchange<br>movement | March 31,<br>2018     |
|---|-----------------------|-----------------------|-------------------------|-------------------------|--------------------|---------------------------------|-----------------------|
| Notes payable                                     | <b>₱1,041,300,000</b> | <b>(₱88,800,000)</b>  | <b>₱-</b>               | <b>₱-</b>               | <b>₱-</b>          | <b>₱-</b>                       | <b>₱952,500,000</b>   |
| Lease liabilities                                 | <b>117,723,381</b>    | <b>(8,884,786)</b>    | <b>727,274</b>          | <b>–</b>                | <b>–</b>           | <b>–</b>                        | <b>109,565,869</b>    |
| Due to related<br>parties                         | <b>2,542,585</b>      | <b>(25,762,682)</b>   | <b>–</b>                | <b>36,561,001</b>       | <b>–</b>           | <b>104,131</b>                  | <b>13,445,035</b>     |
| Interest paid                                     | <b>–</b>              | <b>(15,302,136)</b>   | <b>–</b>                | <b>–</b>                | <b>16,553,145</b>  | <b>–</b>                        | <b>1,251,009</b>      |
| Total liabilities<br>from financing<br>activities | <b>₱1,161,565,966</b> | <b>(₱138,749,604)</b> | <b>₱727,274</b>         | <b>₱36,561,001</b>      | <b>₱16,553,145</b> | <b>₱104,131</b>                 | <b>₱1,076,761,913</b> |

## 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.

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

**SUPPLEMENTARY SCHEDULES**

- Report of Independent Auditors' on supplementary schedules
- Supplementary schedules required by Annex 68-E

Schedule A: Financial Assets

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

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

Schedule D: Intangible Assets

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Schedule F: Indebtedness to Related Parties

Schedule G: Guarantees of Securities of other Issuers

Schedule H: Capital Stock

- Map of the relationships of the companies within the Group
- Reconciliation of retained earnings available for dividend declaration
- Schedule of financial soundness indicators
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**LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE A: FINANCIAL ASSETS****MARCH 31, 2019**

| <b>Name of issuing entity and association of each issue</b>                                  | <b>Number of shares</b> | <b>Amount shown in the balance sheet</b> | <b>Income received and accrued</b> |
|--|-------------------------|--|------------------------------------|
| Financial assets at fair value through other comprehensive income - Araneta Properties, Inc. | 195,060,074             | ₱376,465,943                             | ₱-                                 |
| Financial assets at fair value through profit or loss  | —                       | 71,592,531                               | 249,431                            |
|  |                         | 448,058,474                              | 249,431                            |
| Financial assets at amortized costs:   |                         |  |                                    |
| Cash in bank and cash equivalents  | —                       | 4,445,666,892                            | 11,279,966                         |
| Trade and other receivables  | —                       | 1,773,085,973                            | —                                  |
| Due from related parties   | —                       | 397,486,215                              | —                                  |
| Notes receivable (current and noncurrent)  | —                       | 34,614,867                               | —                                  |
|  | —                       | 6,650,853,947                            | 11,279,966                         |
|  |                         | ₱7,098,912,421                           | ₱11,529,397                        |

**LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES**

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

**MARCH 31, 2019**

| <b>Name and Designation of debtor</b>                 | <b>Balance at beginning of period</b> | <b>Additions</b> | <b>Amounts collected</b> | <b>Amounts written off</b> | <b>Current</b> | <b>Non-current</b> | <b>Balance at end of period</b> |
|---|---------------------------------------|------------------|--------------------------|----------------------------|----------------|--------------------|---------------------------------|
| Fernando G. Araneta,<br><i>Chief Strategy Officer</i> | ₱9,284,395                            | ₱–               | ₱–                       | ₱–                         | ₱9,284,395     | ₱–                 | ₱9,284,395                      |

**LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES**

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

**MARCH 31, 2019**

| <b>Name of Subsidiaries</b>           | <b>Balance at beginning of period</b> | <b>Additions</b> | <b>Amounts collected</b> | <b>Amounts written off</b> | <b>Amounts offset*</b> | <b>Current</b> | <b>Not current</b> | <b>Balance at end of period</b> |
|---------------------------------------|---------------------------------------|------------------|--------------------------|----------------------------|------------------------|----------------|--------------------|---------------------------------|
| LBC Express, Inc.                     | (₱1,449,705,535)                      | (₱572,892,717)   | ₱1,305,933,965           | ₱-                         | ₱-                     | (₱716,664,287) | ₱-                 | (₱716,664,287)                  |
| LBC Express, Inc. - MM                | 88,859,943                            | 75,283,644       | (71,611,501)             | ₱-                         | ₱-                     | 92,532,086     | ₱-                 | 92,532,086                      |
| LBC Express, Inc. - SCC               | 2,034,879                             | 26,662,198       | (29,697,908)             | ₱-                         | ₱-                     | (1,000,831)    | ₱-                 | (1,000,831)                     |
| LBC Express, Inc. - NEMM              | 23,557,736                            | 56,419,130       | (47,133,222)             | ₱-                         | ₱-                     | 32,843,644     | ₱-                 | 32,843,644                      |
| LBC Express, Inc. - NWMM              | 33,029,647                            | 37,328,872       | (34,731,443)             | ₱-                         | ₱-                     | 35,627,075     | ₱-                 | 35,627,075                      |
| LBC Express, Inc. - EMM               | 20,777,434                            | 31,461,306       | (27,218,418)             | ₱-                         | ₱-                     | 25,020,322     | ₱-                 | 25,020,322                      |
| LBC Express, Inc. - SMM               | 15,668,254                            | 40,013,175       | (36,723,740)             | ₱-                         | ₱-                     | 18,957,689     | ₱-                 | 18,957,689                      |
| LBC Express, Inc. - CMM               | 18,055,227                            | 46,275,135       | (39,530,265)             | ₱-                         | ₱-                     | 24,800,097     | ₱-                 | 24,800,097                      |
| LBC Express, Inc. - SL                | 55,450,649                            | 73,024,010       | (68,827,477)             | ₱-                         | ₱-                     | 59,647,182     | ₱-                 | 59,647,182                      |
| LBC Express, Inc. - SEL               | 40,325,375                            | 50,978,598       | (44,468,314)             | ₱-                         | ₱-                     | 46,835,660     | ₱-                 | 46,835,660                      |
| LBC Express, Inc. - CL                | 28,468,803                            | 59,776,669       | (54,952,592)             | ₱-                         | ₱-                     | 33,292,881     | ₱-                 | 33,292,881                      |
| LBC Express, Inc. - NL                | 38,234,559                            | 58,006,370       | (53,387,529)             | ₱-                         | ₱-                     | 42,853,400     | ₱-                 | 42,853,400                      |
| LBC Express, Inc. - VIS               | 40,255,138                            | 72,344,460       | (46,360,517)             | ₱-                         | ₱-                     | 66,239,081     | ₱-                 | 66,239,081                      |
| LBC Express, Inc. - WV                | 30,250,181                            | 52,612,626       | (45,506,334)             | ₱-                         | ₱-                     | 37,356,473     | ₱-                 | 37,356,473                      |
| LBC Express, Inc. - MIN               | 47,577,642                            | 59,461,547       | (57,597,044)             | ₱-                         | ₱-                     | 49,442,145     | ₱-                 | 49,442,145                      |
| LBC Express, Inc. - SEM               | 35,824,456                            | 36,144,433       | (32,903,787)             | ₱-                         | ₱-                     | 39,065,102     | ₱-                 | 39,065,102                      |
| South Mindanao Courier Co. Inc.       | 9,668,993                             | 9,976,129        | (8,126,095)              | ₱-                         | ₱-                     | 11,519,026     | ₱-                 | 11,519,026                      |
| LBC Express Corporate Solutions, Inc. | (3,707,949)                           | 3,960,380        | (3,872,053)              | ₱-                         | ₱-                     | (3,619,621)    | ₱-                 | (3,619,621)                     |
| LBC Express, Inc. - SCS               | (5,505,694)                           | 66,723,717       | (61,187,467)             | ₱-                         | ₱-                     | 30,555         | ₱-                 | 30,555                          |
| LBC Systems, Inc.                     | (57,956,971)                          | 3,803,613        | (5,597,717)              | ₱-                         | ₱-                     | (59,751,075)   | ₱-                 | (59,751,075)                    |
| LBC Express WLL                       | 11,958,091                            | (13,770,420)     | 26,019,546               | ₱-                         | ₱-                     | 24,207,217     | ₱-                 | 24,207,217                      |
| LBC Express Bahrain WLL               | (7,583,930)                           | (1,140,869)      | (1,557,963,66)           | ₱-                         | ₱-                     | (10,282,762)   | ₱-                 | (10,282,762)                    |
| LBC Express LLC                       | (74,726,249)                          | (3,751,154)      | 5,813,199                | ₱-                         | ₱-                     | (72,664,204)   | ₱-                 | (72,664,204)                    |
| LBC Mabuhay Saipan, Inc.              | (7,964,299)                           | (29,517,421)     | 32,194,134               | ₱-                         | ₱-                     | (5,287,586)    | ₱-                 | (5,287,586)                     |
| LBC Aircargo (S) Pte. Ltd             | (144,696,541)                         | (110,314,873)    | 109,735,141              | ₱-                         | ₱-                     | (145,276,272)  | ₱-                 | (145,276,272)                   |
| LBC Money Transfer PTY Limited        | (65,411,340)                          | (45,172,113)     | 74,709,894               | ₱-                         | ₱-                     | (35,873,559)   | ₱-                 | (35,873,559)                    |
| LBC Airfreight (S) Pte. Ltd           | 90,555,342                            | 88,792,035       | (80,189,377)             | ₱-                         | ₱-                     | 99,157,999     | ₱-                 | 99,157,999                      |
| LBC Australia PTY Limited             | 16,426,181                            | 4,574,758        | (5,645,239)              | ₱-                         | ₱-                     | 15,355,700     | ₱-                 | 15,355,700                      |
| LBC Mabuhay (Malaysia) SDN BHD        | 9,936,942                             | 6,860,375        | (6,283,128)              | ₱-                         | ₱-                     | 10,514,189     | ₱-                 | 10,514,189                      |
| LBC Mabuhay (B) SDN BHD               | 24,897,408                            | 26,531,921       | (25,832,554)             | ₱-                         | ₱-                     | 25,596,775     | ₱-                 | 25,596,775                      |
| LBC Mabuhay Remittance SDN BHD        | 16,277,820                            | 14,418,682       | (9,476,378)              | ₱-                         | ₱-                     | 21,220,124     | ₱-                 | 21,220,124                      |
| LBC Mundial Corporation               | —                                     | (15,903,651)     | 15,748,204               | ₱-                         | ₱-                     | (155,447)      | ₱-                 | (155,447)                       |
| LBC Mabuhay North America Corporation | —                                     | (78,154,318)     | 92,279,690               | ₱-                         | ₱-                     | 14,125,372     | ₱-                 | 14,125,372                      |
| QuadX Inc.                            | (501,127,188)                         | (407,669,251)    | 407,669,252              | ₱-                         | ₱-                     | (501,127,187)  | ₱-                 | (501,127,187)                   |
| QuadX Pte Ltd.                        | (12,379,165)                          | 23,794,146       | (18,147,181)             | ₱-                         | ₱-                     | (6,732,201)    | ₱-                 | (6,732,201)                     |
|                                       | (₱1,632,674,161)                      | (₱253,058,858)   | ₱1,153,537,782           | ₱-                         | ₱-                     | (₱732,195,238) | ₱-                 | (₱732,195,238)                  |

**LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE D: INTANGIBLE ASSETS****MARCH 31, 2019**

| Description             | Beginning balance | Additions at cost | Charged to costs and expenses | Disposals | Reclassifications | Ending balance |
|-------------------------|-------------------|-------------------|-------------------------------|-----------|-------------------|----------------|
| Software                | ₱436,437,091      | ₱–                | (₱34,015,241)                 | ₱–        | ₱51,491,816       | ₱453,913,666   |
| Development in progress | 118,932,565       | 38,624,225        | –                             | –         | (51,491,816)      | 106,064,974    |
|                         | ₱555,369,656      | ₱38,624,225       | (₱34,015,241)                 | ₱–        | ₱–                | ₱559,978,640   |

**LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE E: LONG TERM DEBT****MARCH 31, 2019**

| <b>Title of issue and type of obligation</b> | <b>Amount authorized by indenture</b> | <b>Amount shown under caption "Current liabilities" in related balance sheet</b> | <b>Amount shown under caption "Noncurrent liabilities" in related balance sheet</b> |
|--|---------------------------------------|--|---|
| Notes payable                                | ₱859,500,000                          | ₱347,000,000   | ₱512,500,000  |
| Obligation under finance lease               | 1,902,628,634                         | 517,238,867  | 1,385,389,767   |
| Bond payable                                 | 1,153,094,327                         | —  | 1,153,094,327   |
| Derivative liability                         | 1,575,179,825                         | —  | 1,575,179,825   |
| Other liabilities                            | 117,489,533                           | 50,863,317   | 66,626,216  |
|  | ₱5,527,029,002                        | ₱915,102,184   | ₱4,692,790,135  |

**LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE F: INDEBTEDNESS TO RELATED PARTIES****MARCH 31, 2019**

| <b>Name of related party</b>                          | <b>Balance at beginning of period</b> | <b>Balance at end of period</b> |
|---|---------------------------------------|---------------------------------|
| Fernando G. Araneta,<br><i>Chief Strategy Officer</i> | ₱75,645,005                           | ₱87,952,671                     |
| Blue Eagle and LBC Services Pte. Ltd.                 | 13,592,157                            | 13,420,416                      |
| Others  | 4,574,967                             | 40,190,812                      |
|   | ₱93,992,129                           | ₱141,563,898                    |

**LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES**

**SCHEDULE G: GUARANTEES OF SECURITIES OF OTHER ISSUERS**

**MARCH 31, 2019**

| <b>Name of issuing entity of securities guaranteed by the company for which this statement is filed</b> | <b>Title of issue of each class of securities guaranteed</b> | <b>Total amount guaranteed and outstanding</b> | <b>Amount of owned by person for which statement is filed</b> | <b>Nature of guarantee</b> |
|---|--|--|---|----------------------------|
|   |  |  |   | <b>NOT APPLICABLE</b>      |

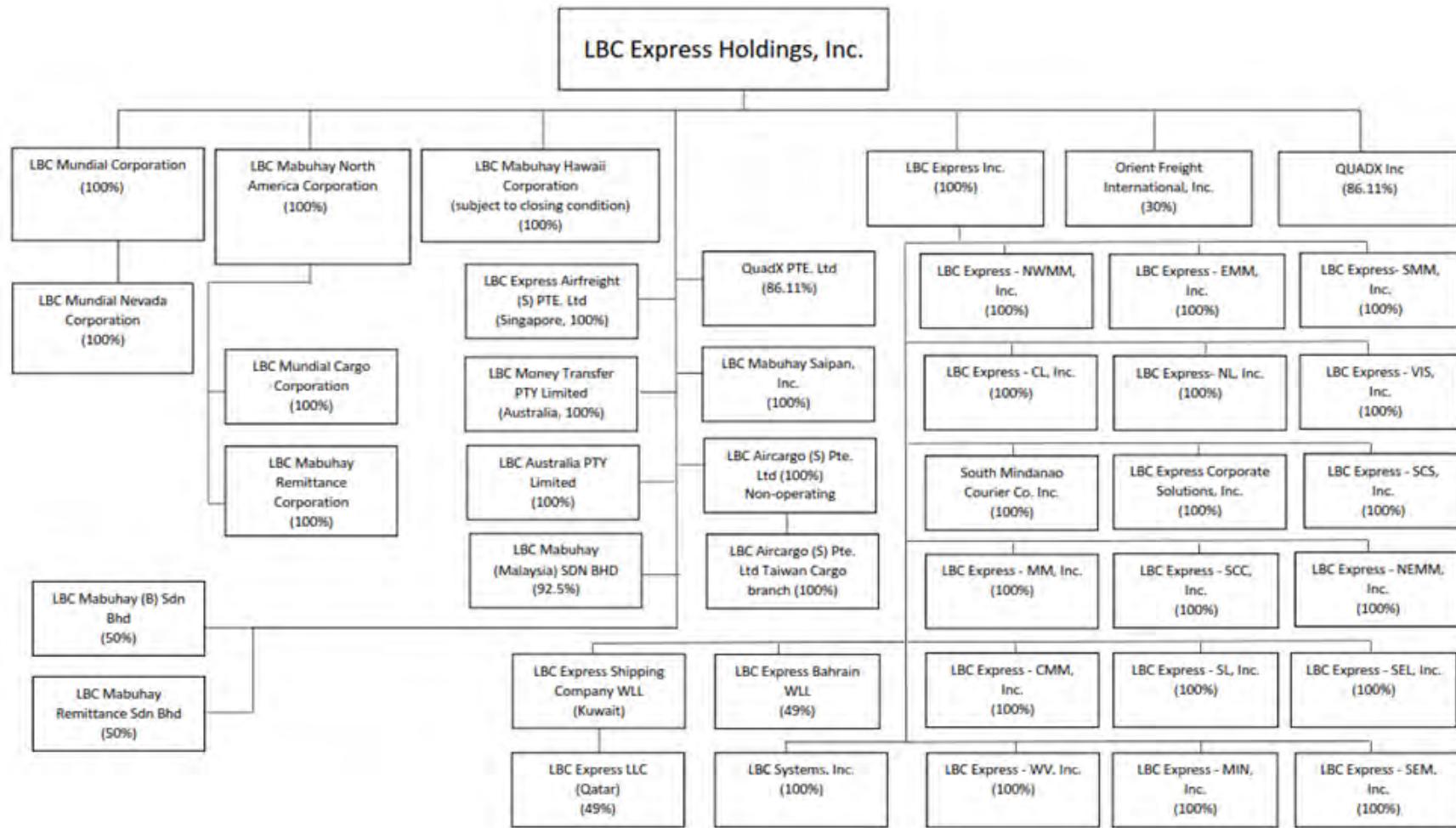
**LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES****SCHEDULE H: CAPITAL STOCK****MARCH 31, 2019**

| <b>Title of issue</b>       | <b>Number of shares authorized</b> | <b>Number of shares issued and outstanding at shown under related balance sheet caption</b> | <b>Number of shares reserved for options, warrants, conversion and other rights</b> | <b>Number of shares held by</b> |  |               |
|-----------------------------|------------------------------------|---|---|---------------------------------|--|---------------|
|                             |                                    |   |   | <b>Related parties</b>          | <b>Directors, officers and employees</b> | <b>Others</b> |
| Common stock - ₱1 par value | 2,000,000,000                      | 1,425,865,471   | –   | 1,206,178,232                   | 1,108                                    | 219,686,131   |

## **LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES**

## **MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**

MARCH 31, 2019



**LBC EXPRESS HOLDINGS, INC.****SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR  
DIVIDEND DECLARATION  
FOR THE THREE MONTHS ENDED MARCH 31, 2019**

|   |                     |
|---|---------------------|
| Unappropriated retained earnings as at January 1, 2019  | ₱1,447,190,359      |
| Adjustments:  |                     |
| Unrealized foreign exchange gain - net (except those<br>attributable to Cash and Cash equivalents)                                    | (474,883,678)       |
| Unappropriated retained earnings, as adjusted to available for<br>dividend distribution, as at January 1, 2019                        | 972,306,681         |
| Add: Net income actually earned/realized during the period:   |                     |
| Net income during the period closed to retained earnings  | (₱198,847,962)      |
| Less: Non actual/unrealized income net of tax   | —                   |
| Equity in net income of associate/joint venture   | —                   |
| Unrealized foreign exchange gain - net (except those<br>attributable to Cash and Cash equivalents)                                    | —                   |
| Unrealized actuarial gain   | —                   |
| Fair value adjustment (M2M gains)   | —                   |
| Fair value adjustment of Investment Property resulting to<br>gain   | —                   |
| Adjustment due to deviation from PFRS/GAAP-gain   | —                   |
| Other unrealized gains or adjustments to the retained<br>earnings as a result of certain transactions accounted<br>for under the PFRS | —                   |
| Add: Non-actual losses  |                     |
| Depreciation on revaluation increment (after tax)   | —                   |
| Adjustment due to deviation from PFRS/GAAP-loss   | —                   |
| Loss on fair value adjustment of investment property (after<br>tax)   | —                   |
| Net income actually earned during the period  | (198,847,962)       |
| Add (Less):   |                     |
| Dividend declarations during the period   | —                   |
| Appropriations of retained earnings during the period   | —                   |
| Reversals of appropriations   | —                   |
| Effects of prior period adjustments   | —                   |
| Treasury shares   | —                   |
| <b>TOTAL RETAINED EARNINGS, END<br/>AVAILABLE FOR DIVIDEND DECLARATION</b>  | <b>₱773,458,719</b> |

**LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**

*Financial Soundness Indicators*

Below are the financial ratios that are relevant to the Group for the three months ended March 31:

| <b>Financial ratios</b>    |   | <b>2019</b>   | <b>2018</b> |
|----------------------------|---|---------------|-------------|
| Current ratio              | Current assets  | <b>1.61:1</b> | 1.71:1      |
|                            | Current liabilities   |               |             |
| Debt to equity ratio       | Total liabilities   | <b>2.99:1</b> | 2.47:1      |
|                            | Stockholders' Equity  |               |             |
| Debt to total assets ratio | Total liabilities   | <b>0.75:1</b> | 0.71:1      |
|                            | Total assets  |               |             |
| Return on average assets   | Net income attributable to Parent Company                         | <b>0.20%</b>  | 8.40%       |
|                            | Average assets  |               |             |
| Book value per share       | Stockholders' equity  | <b>₱2.37</b>  | ₱2.29       |
|                            | Total number of shares  |               |             |
| Basic earnings per share   | Net income attributable to Parent Company                         | <b>₱0.02</b>  | ₱0.40       |
|                            | Weighted average number of common shares outstanding              |               |             |
| Diluted earnings per share | Net income attributable to Parent Company                         | <b>₱0.15</b>  | ₱0.28       |
|                            | Adjusted weighted average number of common shares for diluted EPS |               |             |

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

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS<br/>AND INTERPRETATIONS<br/>Effective as of March 31, 2019</b> |   | <b>Adopted</b> | <b>Not<br/>Adopted</b> | <b>Not<br/>Applicable</b> |
|--|---|----------------|------------------------|---------------------------|
| <b>Philippine Financial Reporting Standards</b>  |   |                |                        |                           |
| PFRS 1   | First-time Adoption of Philippine Financial Reporting Standards                             |                |                        | ✓                         |
| PFRS 2   | Share-based Payment   |                |                        | ✓                         |
|  | Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions    |                |                        | ✓                         |
| PFRS 3   | Business Combinations   | ✓              |                        |                           |
| PFRS 4   | Insurance Contracts   |                |                        | ✓                         |
|  | Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts |                |                        | ✓                         |
| PFRS 5   | Non-current Assets Held for Sale and Discontinued Operations                                |                |                        | ✓                         |
| PFRS 6   | Exploration for and Evaluation of Mineral Resources   |                |                        | ✓                         |
| PFRS 7   | Financial Instruments: Disclosures  | ✓              |                        |                           |
| PFRS 8   | Operating Segments  | ✓              |                        |                           |
| PFRS 9   | Financial Instruments   | ✓              |                        |                           |
| PFRS 10  | Consolidated Financial Statements   | ✓              |                        |                           |
| PFRS 11  | Joint Arrangements  |                |                        | ✓                         |
| PFRS 12  | Disclosure of Interests in Other Entities   | ✓              |                        |                           |
| PFRS 13  | Fair Value Measurement  | ✓              |                        |                           |
| PFRS 14  | Regulatory Deferral Accounts  |                |                        | ✓                         |
| PFRS 15  | Revenue from Contracts with Customers   | ✓              |                        |                           |
| PFRS 16  | Leases  | ✓              |                        |                           |
| <b>Philippine Accounting Standards</b>   |   |                |                        |                           |
| PAS 1  | Presentation of Financial Statements  | ✓              |                        |                           |
| PAS 2  | Inventories   | ✓              |                        |                           |
| PAS 7  | Statement of Cash Flows   | ✓              |                        |                           |
| PAS 8  | Accounting Policies, Changes in Accounting Estimates and Errors                             | ✓              |                        |                           |
| PAS 10   | Events after the Reporting Period   | ✓              |                        |                           |
| PAS 12   | Income Taxes  | ✓              |                        |                           |

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| PAS 16   | Property, Plant and Equipment  | ✓              |                        |                           |
| PAS 17   | Leases   | ✓              |                        |                           |
| PAS 19   | Employee Benefits  | ✓              |                        |                           |
| PAS 20   | Accounting for Government Grants and Disclosure of Government Assistance   |                |                        | ✓                         |
| PAS 21   | The Effects of Changes in Foreign Exchange Rates   | ✓              |                        |                           |
| PAS 23   | Borrowing Costs  |                |                        | ✓                         |
| PAS 24   | Related Party Disclosures  | ✓              |                        |                           |
| PAS 26   | Accounting and Reporting by Retirement Benefit Plans   |                |                        | ✓                         |
| PAS 27   | Separate Financial Statements  | ✓              |                        |                           |
| PAS 28   | Investments in Associates and Joint Ventures   | ✓              |                        |                           |
|  | Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle) |                |                        | ✓                         |
| PAS 29   | Financial Reporting in Hyperinflationary Economies   |                |                        | ✓                         |
| PAS 32   | Financial Instruments: Presentation  | ✓              |                        |                           |
| PAS 33   | Earnings per Share   |                |                        | ✓                         |
| PAS 34   | Interim Financial Reporting  |                |                        | ✓                         |
| PAS 36   | Impairment of Assets   | ✓              |                        |                           |
| PAS 37   | Provisions, Contingent Liabilities and Contingent Assets   | ✓              |                        |                           |
| PAS 38   | Intangible Assets  | ✓              |                        |                           |
| PAS 39   | Financial Instruments: Recognition and Measurement   | ✓              |                        |                           |
| PAS 40   | Investment Property  |                |                        | ✓                         |
|  | Amendments to PAS 40, Transfers of Investment Property   |                |                        | ✓                         |
| PAS 41   | Agriculture  |                |                        | ✓                         |
| <b>Philippine Interpretations</b>  |  |                |                        |                           |
| Philippine Interpretation IFRIC-1  | Changes in Existing Decommissioning, Restoration and Similar Liabilities   |                |                        | ✓                         |
| Philippine Interpretation IFRIC-2  | Members' Shares in Co-operative Entities and Similar Instruments   |                |                        | ✓                         |

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| Philippine Interpretation IFRIC-4  | Determining whether an Arrangement contains a Lease   |                |                        | ✓                         |
| Philippine Interpretation IFRIC-5  | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds    |                |                        | ✓                         |
| Philippine Interpretation IFRIC-6  | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment |                |                        | ✓                         |
| Philippine Interpretation IFRIC-7  | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies       |                |                        | ✓                         |
| Philippine Interpretation IFRIC-10   | Interim Financial Reporting and Impairment  |                |                        | ✓                         |
| Philippine Interpretation IFRIC-12   | Service Concession Arrangements   |                |                        | ✓                         |
| Philippine Interpretation IFRIC-14   | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction       |                |                        | ✓                         |
| Philippine Interpretation IFRIC-16   | Hedges of a Net Investment in a Foreign Operation   |                |                        | ✓                         |
| Philippine Interpretation IFRIC-17   | Distributions of Non-cash Assets to Owners  |                |                        | ✓                         |
| Philippine Interpretation IFRIC-19   | Extinguishing Financial Liabilities with Equity Instruments   |                |                        | ✓                         |
| Philippine Interpretation IFRIC-20   | Stripping Costs in the Production Phase of a Surface Mine   |                |                        | ✓                         |
| Philippine Interpretation IFRIC-21   | Levies  |                |                        | ✓                         |
| Philippine Interpretation IFRIC-22   | Foreign Currency Transactions and Advance Consideration   |                |                        | ✓                         |
| Philippine Interpretation SIC-7  | Introduction of the Euro  |                |                        | ✓                         |

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| Philippine Interpretation SIC-10   | Government Assistance - No Specific Relation to Operating Activities         |                |                        | ✓                         |
| Philippine Interpretation SIC-15   | Operating Leases - Incentives  |                |                        | ✓                         |
| Philippine Interpretation SIC-25   | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders    |                |                        | ✓                         |
| Philippine Interpretation SIC-27   | Evaluating the Substance of Transactions Involving the Legal Form of a Lease |                |                        | ✓                         |
| Philippine Interpretation SIC-29   | Service Concession Arrangements: Disclosures                                 |                |                        | ✓                         |
| Philippine Interpretation SIC-32   | Intangible Assets - Web Site Costs   |                |                        | ✓                         |

Standards tagged as “Not applicable” have been adopted by the Group but have no significant covered transactions for the year ended December 31, 2018.

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