CR03586-2020

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A, AS AMENDED

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended

   Dec 31, 2019

2. SEC Identification Number

   ASO93-005277

3. BIR Tax Identification No.

   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 principal office

   LBC Hangar, General Aviation Center, Domestic Airport Road, Pasay City
   Postal Code
   1300

8. Issuer's telephone number, including area code

   (632) 8856 8510

9. Former name or 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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	1,425,865,471

11. Are any or all of registrant's securities listed on a Stock Exchange?

   (•) Yes ( ) No

   If yes, state the name of such stock exchange and the classes of securities listed therein:

   Philippine Stock Exchange / Common shares

12. Check whether the issuer:

   (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 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 that 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

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form

3,049,258,877 as at May 27, 2020

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

○ Yes ◉ No

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders

2019 SEC Form 17-A with Consolidated Audited Financial Statements

(b) Any information statement filed pursuant to SRC Rule 20

None

(c) Any prospectus filed pursuant to SRC Rule 8.1

None

LBC Express Holdings, Inc.
LBC

PSE Disclosure Form 17-1 - Annual Report
References: SRC Rule 17 and
Section 17.2 and 17.8 of the Revised Disclosure Rules

For the fiscal year ended	Dec 31, 2019
Currency	PHP

Balance Sheet

	Year Ending	Previous Year Ending
	Dec 31, 2019	Dec 31, 2018
Current Assets	7,883,732,608	7,116,343,887
Total Assets	14,093,685,359	11,370,174,754
Current Liabilities	4,942,499,617	4,173,066,721
Total Liabilities	10,825,571,654	8,092,208,290
Retained Earnings/(Deficit)	1,621,371,760	1,625,483,991
Stockholders' Equity	3,268,113,705	3,277,966,464
Stockholders' Equity - Parent	3,240,914,837	3,292,677,829
Book Value Per Share	2.54	2.3

Income Statement

	Year Ending	Previous Year Ending
	Dec 31, 2019	Dec 31, 2018
Gross Revenue	15,227,052,746	12,341,528,914
Gross Expense	13,936,325,902	10,973,880,237
Non-Operating Income	589,847,217	672,944,567
Non-Operating Expense	1,044,731,484	223,895,998
Income/(Loss) Before Tax	835,842,577	1,816,697,246
Income Tax Expense	360,022,399	467,666,189
Net Income/(Loss) After Tax	475,820,178	1,349,031,057
Net Income/(Loss) Attributable to Parent Equity Holder	494,574,503	1,359,766,592
Earnings/(Loss) Per Share (Basic)	0.35	0.95
Earnings/(Loss) Per Share (Diluted)	0.35	0.68

Financial Ratios

	Formula	Fiscal Year Ended	Previous Fiscal Year
		Dec 31, 2019	Dec 31, 2018
Liquidity Analysis Ratios:			
Current Ratio or Working Capital Ratio	**Current Assets / Current Liabilities**	1.83	1.71
Quick Ratio	**(Current Assets - Inventory - Prepayments) / Current Liabilities**	1.64	1.55
Solvency Ratio	**Total Assets / Total Liabilities**	1.41	1.41
Financial Leverage Ratios			
Debt Ratio	**Total Debt/Total Assets**	0.71	0.71
Debt-to-Equity Ratio	**Total Debt/Total Stockholders' Equity**	2.47	2.47

Interest Coverage	Earnings Before Interest and Taxes (EBIT) / Interest Charges	5.08	9.11
Asset to Equity Ratio	Total Assets / Total Stockholders' Equity	3.47	3.47
Profitability Ratios			
Gross Profit Margin	Sales - Cost of Goods Sold or Cost of Service / Sales	0.27	0.31
Net Profit Margin	Net Profit / Sales	0.05	0.11
Return on Assets	Net Income / Total Assets	0.06	0.12
Return on Equity	Net Income / Total Stockholders' Equity	0.19	0.41
Price/Earnings Ratio	Price Per Share / Earnings Per Common Share	38.92	14.84

Other Relevant Information

Please find attached the annual report (SEC 17-A) of the Company for the year ended 31 December 2019, filed with the Securities and Exchange Commission.

The 2019 ratios are based on balances without the impact of PFRS16 adoption

The 2019 financial ratios are based on balances without the impact of PFRS16 adoption.

Filed on behalf by:

Name	Ernesto III Naval
Designation	Alternate Corporate Information Officer

COVER SHEET
for
SEC FORM 17-A (ANNUAL REPORT)

SEC Registration Number
A S O 9 3 0 0 5 2 7 7

COMPANY NAME
LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*
LBC HANGAR, GENERAL AVIATION CENTRE, DOMESTIC AIRPORT ROAD, PASAY CITY METRO MANILA

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A	SEC	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
N/A	+63 2 8856-8510	N/A

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

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Enrique V. Rey, Jr.	evrey@lbcexpress.com	8856-8510	

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-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: **December 31, 2019**

2. SEC Identification Number: **ASO93-005277**

3. BIR Tax ID No.: **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 principal office and postal code: **LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila 1300**

8. Issuer's telephone number, including area code: **(632) 8856-8510**

9. Former name, former address, former fiscal year (if changed since last report):

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

10. Securities registered pursuant to Section 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

As at December 31, 2019:

Title of each class	Number of shares issued and outstanding
Common Shares	1,425,865,471[1]
Bond payable	1,247,021,058[2]
Derivative Liability	2,048,681,561[2]

[1] Inclusive of 1,388,357,471 common shares which are exempt from registration.
[2] Related to convertible instrument at an aggregate principal amount of $50 million.

11. Are any or all of these securities listed on a Stock Exchange? Yes (x) No ( )

Name of Stock Exchange: **Philippine Stock Exchange**
Class of securities listed: **Common Shares**[3]

12. Check whether the issuer:

a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 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 that the registrant was required to file such reports):

Yes (x) No ( )

b) has been subject to such filing requirements for the past ninety (90) days.
Yes (x) No ( )

13. Aggregate market value of voting stock held by non-affiliates is **₱3,049,258,877 as at May 27, 2020.**[4]

DOCUMENTS INCORPORATED BY REFERENCE

14. Briefly describe documents incorporated by reference and identify the part of the SEC Form 17-A into which the document is incorporated:

(a) **2019 Consolidated Audited Financial Statements** (incorporated as reference for items 6, 7 and 12 of SEC Form 17-A

(b) 2018 Sustainability Report

[3] As of December 31, 2019, 40,899,000 common shares have been listed with the Philippine Stock Exchange. The remaining 1,384,966,471 are subject of listing applications filed with the Philippine Stock Exchange.
[4] Inclusive of common shares with pending listing applications.

Unless otherwise specified or the context otherwise requires, all references to the "Company" are to LBC Express Holdings, Inc. (**LBCH**), its subsidiary LBC Express, Inc. (**LBCE**) and the subsidiaries of the latter on a consolidated basis. However, references to the "Company", when used in the context prior to the corporate reorganization, are to Federal Resources Investment Group, Inc.

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. BUSINESS

<u>BUSINESS DEVELOPMENT</u>

CORPORATE REORGANIZATION

The Company was incorporated and registered with the Securities and Exchange Commission (**SEC**) as "Federal Chemicals, Inc." on July 12, 1993. At the time, the Company was principally engaged in the business of manufacturing various adhesives and sealants and other chemicals for hardware, construction, do-it-yourself and industrial applications. The Company has been a publicly-listed company since December 21, 2001, and was traded under the ticker symbol "FED" on the Philippine Stock Exchange (**PSE**).

On September 28, 2007, the change in corporate name from Federal Chemicals, Inc. to Federal Resources Investment Group, Inc. as well as the change in the primary purpose of the Company to that of a holding company was approved by the SEC.

On April 23, 2015, the Board of Directors of the Company approved the issuance of 59,101,000 common shares, at ₱1.00 per share, out of the unissued portion of the Company's authorized capital stock to LBC Development Corporation, subject to acceptable documentation being arrived at, as well as the fulfillment of such conditions agreed upon by the parties, including a mandatory tender offer, where required under relevant laws and regulations.

The Company needed to raise additional capital through the issuance of new shares out of the unissued portion of the Company's authorized capital stock for general corporate purposes. Further, such infusion was preparatory to a potential additional investment of LBC Development Corporation into the Company as a result of the ongoing due diligence on the Company.

On May 18, 2015, the Company and LBC Development Corporation entered into a Deed of Subscription, whereby LBC Development Corporation, subject to the completion of the mandatory tender offer, subscribed to 59,101,000 common shares out of the unissued authorized capital stock of the Company or 59.10% of the authorized capital stock of the Company. The consideration for the subscribed shares was ₱59,101,000 or ₱1.00 per share.

On May 22, 2015, LBC Development Corporation filed with the SEC its mandatory tender offer report for all the outstanding shares of the Company for a tender offer price of ₱1.00 per share. The mandatory tender offer period commenced on June 8, 2015 and ended on July 7, 2015. On July 14, 2015, LBC Development Corporation filed with the SEC its final tender offer report.

On July 22, 2015, the Company issued the stock certificates covering the subscribed shares to LBC Development Corporation.

On July 29, 2015 and in consonance with such change in control, the Board of Directors of the Company approved the acquisition by the Company of all the outstanding shares of stock of LBC

Express, Inc., at the time a wholly-owned subsidiary of LBC Development Corporation, at the book value of not less than ₱1 billion. The Board also approved the following:

(i) increase in the authorized capital stock of the Company from ₱100 million to up to ₱3 billion in which subsequently approved by SEC on September 18, 2015 at ₱2 billion;
(ii) the issuance of shares out of the increase in authorized capital stock or out of the unissued capital stock to LBC Development Corporation and/or to other investors and/or third parties for the purpose of (a) funding the acquisition by the Company of all the outstanding shares of stock of LBC Express, Inc.; (b) funding the acquisition of other potential investments, whether or not related to the business of LBC Express, Inc.; and (c) ensuring compliance by the Company with the minimum public ownership requirements of the PSE;
(iii) the change in the name of the Company to "LBC Express Holdings, Inc."; and
(iv) the change of the trading symbol "FED" to "LBC".

On September 4, 2015, the stockholders of the Company approved all of the foregoing matters.

On September 18, 2015, pursuant to the authority to issue shares out of the increase in authorized capital stock or out of the unissued capital stock to LBC Development Corporation, the Company and LBC Development Corporation entered into Subscription Agreements, whereby LBC Development Corporation subscribed to, and the Company agreed to issue, 1,146,873,632 additional Common Shares at a subscription price of ₱1.00 per share or an aggregate subscription price of ₱1,146,873,632 (the **Additional Subscriptions**), consisting of 475,000,000 shares issued from the increase in the authorized capital stock of the Company and 671,873,632 shares issued out of the authorized and unissued capital stock of the Company, following the approval by the SEC of the increase in the authorized capital stock of the Company from ₱100,000,000.00 divided into 100,000,000 Common Shares with par value of ₱1.00 per Share, to ₱2,000,000,000.00 divided into 2,000,000,000 Common Shares with par value of ₱1.00 per Share. Notices of exemption for the Additional Subscriptions were filed with the SEC on October 13, 2015.

On September 24, 2015, the Company purchased from LBC Development Corporation a total of 1,041,180,493 shares of stock in LBC Express, Inc. for an aggregate purchase price of ₱1,384,670,966.

On October 2, 2015, the Company entered into Subscription Agreements with each of Vittorio P. Lim, Mariano D. Martinez, Jr., and Lowell L. Yu (collectively, the **Subscribers**), wherein subject to the approval by the SEC of the Capital Increase, the Subscribers agreed to subscribe, and the Company agreed to issue, a total of 178,991,839 Common Shares of the Company at the par value of ₱1.00 per share or an aggregate subscription price of ₱178,991,839.00 out of the authorized and unissued capital stock of the Company. The foregoing subscription was undertaken to ensure compliance by the Company with the PSE Minimum Public Ownership requirement of at least 10% of the outstanding capital stock of the Company. A notice of exemption for the subscription was filed with the SEC on October 13, 2015.

Involvement in Bankruptcy or Receivership Proceedings

As of the end of December 2019, the Company was not involved in any bankruptcy, receivership or any similar proceedings.

Material Reclassification, Merger, Consolidation or Purchase or Sale of a Significant Amount of Assets (not in the ordinary course of business)

On September 24, 2015, the LBCH purchased from LBC Development Corporation (LBCDC) a total of 1,041,180,493 shares of stock in LBCE for an aggregate purchase price of ₱1,384,670,966.

On June 20, 2017, the BOD approved the issuance of convertible instrument. Accordingly, on August 4, 2017, LBCH issued, in favor of CP Briks Pte. Ltd, 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 LBCH at the option of CP Bricks Pte. Ltd at ₱13.00 per share conversion price, subject to adjustments in accordance with the terms and conditions of the instrument. The instrument is also redeemable, at the option of CP Bricks Pte. Ltd, beginning on the 30th month from issuance date at the redemption price equal to the principal amount plus internal rate of return ranging from 10% to 13%.

The convertible bond 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.

As of December 31, 2019, the carrying value of bond payable amounted to ₱1,247.02 million and the fair value of the derivative liability amounted to ₱2,048.68 million. The fair value changes of the derivative liability recognized as "Gain (Loss) on derivative" amounted to (₱642.51) million in 2019 and ₱454.20 million in 2018. Interest expense arising from the accretion of interest on the bond payable amounted to ₱183.92 million in 2019 and ₱161.65 million in 2018.

The agreement related to the issuance of convertible bond indicated the following rights and obligations:

a) Within one month from August 4, 2017, the Company shall discontinue any royalty payments to LBCDC for all trademarks, brands and licenses. This was already terminated in September 2017;
b) Within three months from closing date, LBCDC shall procure that LBCH enters into a binding sale and purchase agreement to acquire the equity interests of the 12 overseas entities. Also, within 12 months from closing date, LBCDC shall procure that LBCH closes the acquisition of the equity interest of the overseas entities;
c) Within six months following the termination of royalty payments, the Company shall be permitted to make loans and advances to LBCDC and this shall not be considered a Reserved Matter;
d) Within six months from closing date, LBCDC shall procure a debt for equity swap between LBCE and QUADX INC., a local affiliate; and
e) Within 3 months from closing of the acquisition of the equity interests of the overseas entity, LBCDC procure to settle all obligations to the Group.

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

QUADX Inc.

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

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

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

On May 29, 2019, the Parent Company sold its 1,860,214 shares in QUADX Inc. to LBCE, which shares represent 86.11% ownership in QUADX Inc., subject to the terms and conditions agreed upon under a Deed of Absolute Sale of Shares, for an aggregate purchase price of ₱186.02 million.

On July 1, 2019, LBCE, under a Deed of Absolute Sale of Shares, sold its 1,860,214 shares in QUADX, Inc. to LBCDC for an aggregate purchase price of ₱186.02 million.

The divestment of QUADX Inc. shares was made pursuant to plans of the Group to refocus the strategic direction for QUADX Inc., with a view of turning around losses.

<u>Overseas Entities</u>
All entities acquired from overseas, except QuadX Pte. Ltd, are entities under common control of the Araneta family.

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

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

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

<u>LBC Mabuhay Saipan, Inc.</u>
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.

<u>LBC Express Airfreight (S) Pte. Ltd., LBC Aircargo (S) Pte. Ltd., LBC Money Transfer PTY Limited and LBC Australia PTY Limited</u>
On June 27, 2018, the BOD of the Parent Company approved the purchase of shares of various overseas entities. On the same date, the following Share Purchase Agreements (SPAs) were executed by the Parent Company and Jamal Limited, a transitory seller, for a total purchase price of US $4.60 million or ₱245.67 million under the SPAs. Jamal Limited, a third party, purchased these entities from Advance Global Systems Limited, an entity under common control, prior to sale to the Parent Company.

Details follow:

Entity Name	Number of shares	Purchase price	Primary operation	Place of business
LBC Express Airfreight (S) Pte. Ltd. (LBC Singapore)	10,000	$2,415,035	Logistics	Singapore
LBC Aircargo (S) Pte. Ltd. (LBC Taiwan)	94,901	146,013	Logistics	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	Logistics	Australia

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

LBC Mabuhay (Malaysia) SDN BHD

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

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

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

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.

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.

Effective January 1, 2019, the Parent Company's purchase of LBC Mundial Corporation and LBC Mabuhay North America Corporation was completed upon approval by the US Regulatory bodies that oversee and/or regulate the following entities:

- LBC Mundial Corporation (LBC Mundial) which operates as a cargo and remittance company in California, USA. The Parent Company purchased 4,192,546 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation. LBC Mundial wholly owns LBC Mundial Nevada Corporation which operates as a cargo company in Nevada, USA.
- LBC Mabuhay North America Corporation (LBC North America) which operates as a cargo and remittance company in New Jersey. The Parent Company purchased 1,605,273 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation. LBC North America wholly owns LBC Mundial Cargo Corporation which operates as a cargo company in Canada and LBC Mundial Remittance Corporation, a money remittance company in Canada.

On July 1, 2019, the Parent Company's purchase of LBC Mabuhay Hawaii Corporation, who operates as a cargo and remittance company in Hawaii, was completed upon the approval by the US regulatory bodies. The Parent Company purchased 1,536,408 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.

Mermaid Co. Ltd.

On October 31, 2019, the Parent Company acquired 100% ownership of Mermaid, Co. Ltd. for total purchase price of US $200,000. Mermaid Co. Ltd. operates a service for the shipping of household and other goods from expatriates living in Japan to their respective home countries, known as the "Balikbayan Box".

On December 12, 2019, the purchase of Mermaid Co. Ltd. Was completed upon approval of the relevant government agencies.

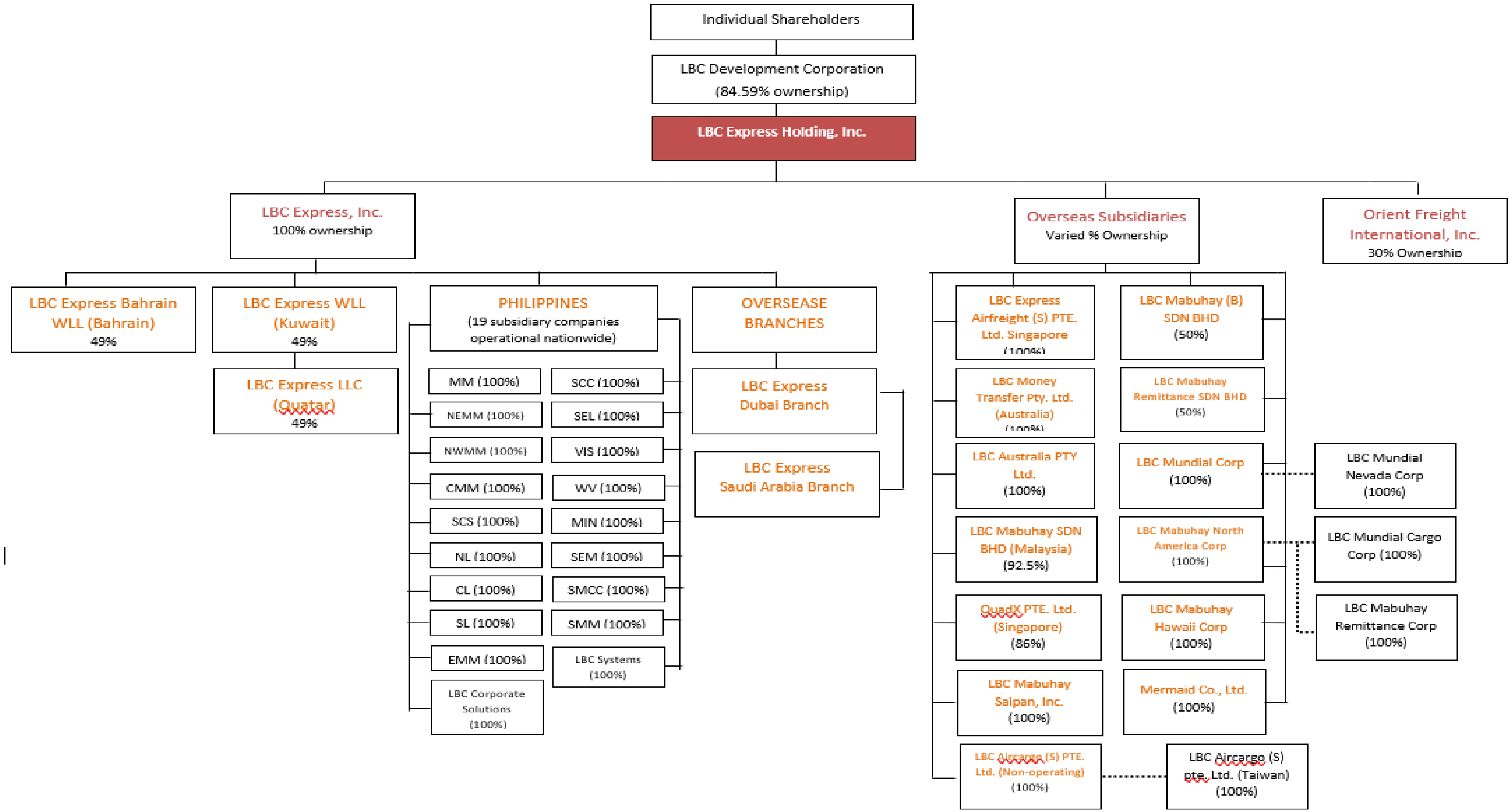
LBC HISTORY

LBC Express, Inc. was initially founded in 1950s as "Luzon Brokerage Corporation." It subsequently changed its name to "LBC Air Cargo, Inc." and operated as a brokerage and air cargo agent. A few years after incorporation, LBCE evolved into an express delivery service, becoming the first Filipino-owned private courier company to provide time-sensitive deliveries in the Philippines and offer customers an alternative to the Government-owned and operated postal service. In 1973, LBCE pioneered 24-hour door-to-door express delivery and messengerial services in the Philippines, providing greater convenience to its existing customers and further expanding its market share. LBCE's name was formally changed to "LBC Express, Inc." on April 26, 1988 to reflect the express delivery services that had come to form its hallmark business. In the 1990s, LBCE adopted the slogan "*Hari ng Padala*", or Filipino for "King of Forwarding Services." LBCE has now become the market leader in the Philippine domestic air freight forwarding market and, for the year ended November 30, 2012, had a market share of 41.8% of the domestic air freight forwarding industry in terms of throughput by weight, according to data from the CAB. While LBCE's logistics business still primarily comprises retail express courier and freight forwarding services, it has also expanded its product mix to offer services targeted at corporate customers, including full container load and less-than-container load sea freight forwarding and end-to-end logistics solutions.

In the early 1980s, LBCE entered into the domestic remittance business, leveraging the existing branch network of its logistics business as customer contact points for remittance acceptance and fulfillment, growing this business at low marginal cost. Beginning in 1999, LBCE expanded its money transfer services segment by offering bill payment collection services in the Philippines by serving as a third party collection agent for various vendors throughout the Philippines. In 2006, LBCE also began providing corporate remittance fulfillment services, such as payouts of government Social Security System benefits, payroll and insurance benefits on behalf of third parties, as well as remittance encashments for customers of its local remittance partner, Palawan Pawnshop.

LBCE commenced its international money transfer operations in 1987 by establishing relationships with agents and affiliates in the United States and steadily expanding its network elsewhere globally to provide fulfillment services for inbound international remittances. LBCE later leveraged the network of its overseas affiliates to expand its Logistics business internationally as well. Today, LBCE provides courier and freight forwarding services in 22 countries and territories outside of the Philippines and fulfillment services for inbound remittances originating from over 30 countries and territories outside the Philippines, including the United States, Canada, the Asia Pacific region, Europe and the Middle East.

The following diagram illustrates the operating ownership structure of the Company as of December 31, 2019:



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

	Country of incorporation	Principal activities	Ownership Interest 2019	2018
LBC Express, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - MM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - CL, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - NL, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - VIS, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SL, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SCS, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express Corporate Solutions, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - CMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - EMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - MIN, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SEL, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - WVIS, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SEM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SCC, Inc.	Philippines	Logistics and money remittance	**100%**	100%
South Mindanao Courier Co., Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - NEMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - NWMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Systems, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express Bahrain WLL	Bahrain	Logistics	**49%**	49%
LBC Express Shipping Company WLL	Kuwait	Logistics	**49%**	49%
LBC Express LLC (1)	Qatar	Logistics	**49%**	49%
LBC Mabuhay Saipan Inc.	Saipan	Logistics and money remittance	**100%**	100%
LBC Aircargo (S) PTE. LTD	Singapore	Logistics	**100%**	100%
LBC Express Airfreight (S) PTE. LTD.	Singapore	Logistics	**100%**	100%
LBC Money Transfer PTY Limited	Australia	Money remittance	**100%**	100%
LBC Australia PTY Limited	Australia	Logistics	**100%**	100%
LBC Mabuhay (Malaysia) SDN BHD.	Malaysia	Logistics	**93%**	93%
QUADX Inc.	Philippines	E-com web and logistics	**-**	86%
QuadX Pte. Ltd.	Singapore	Digital logistics	**86%**	86%
LBC Mabuhay (B) Sdn Bhd	Brunei	Logistics	**50%**	50%
LBC Mabuhay Remittance Sdn Bhd	Brunei	Money remittance	**50%**	50%
LBC Mundial Corporation	United States of America	Logistics and money remittance	**100%**	-
LBC Mundial Nevada Corporation	United States of America	Logistics and money remittance	**100%**	-
LBC Mabuhay North America Corporation	United States of America	Logistics and money remittance	**100%**	-
LBC Mundial Cargo Corporation	Canada	Logistics	**100%**	-
LBC Mabuhay Remittance Corporation	Canada	Money remittance	**100%**	-
LBC Mabuhay Hawaii Corporation	United States of America	Logistics and money remittance	**100%**	-
Mermaid Co., Ltd.	Japan	Logistics	**100%**	-

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

BUSINESS

SERVICES

The Group’s business is principally comprised of two major segments: (a) Logistics; and (b) Money Transfer Services.

The Group’s Logistics products serve Retail (C2C) and Corporate/Institutional (B2B/B2C) customers. 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 include Domestic Remittance services (available as branch retail services), Bills Payment collection, and Corporate Remittance Payout services. International Money Transfer Services are also offered overseas through the Group’s own branches, and through partners, which encompasses International Inbound Remittance services.

The table below presents the above-mentioned components of the Group’s revenue associated with its business segments, for the years indicated.

In PHP ‘millions	For the year ended December 31, 2019		
Segments	Logistics	Money transfer services	Total
Type of Customer			
Retail	₱9,944.62	₱925.77	₱10,870.39
Corporate	4,290.14	66.52	4,356.66
Total revenue from contracts with customers	**₱14,234.76**	**₱992.29**	**₱15,227.05**
Geographic Markets			
Domestic	₱10,272.69	₱659.08	₱10,931.77
Overseas	3,962.06	333.21	4,295.28
Total revenue from contracts with customers	**₱14,234.76**	**₱992.29**	**₱15,227.05**

In PHP ‘millions	For the year ended December 31, 2018		
Segments	Logistics	Money transfer services	Total
Type of Customer			
Retail	₱7,186.36	₱859.57	₱8,045.93
Corporate	4,192.46	103.14	4,295.60
Total revenue from contracts with customers	₱11,378.82	₱962.71	₱12,341.53
Geographic Markets			
Domestic	₱9,302.78	₱799.49	₱10,102.27
Overseas	2,076.04	163.22	2,239.26
Total revenue from contracts with customers	₱11,378.82	₱962.71	₱12,341.53

In PHP ‘millions	For the year ended December 31, 2017		
Segments	Logistics	Money transfer services	Total
Type of Customer			
Retail	₱5,751.66	₱995.47	₱6,747.13
Corporate	3,184.78	43.48	3,228.26
Total revenue from contracts with customers	₱8,936.44	₱1,038.95	₱9,975.38
Geographic Markets			
Domestic	₱7,479.82	₱907.12	₱8,386.94
Overseas	1,456.62	131.82	1,588.44
Total revenue from contracts with customers	₱8,936.44	₱1038.95	₱9,975.38

As of December 31, 2019, the Logistics business of the Group accounts for approximately 93% of its total revenues while Money Transfer Services accounts for the remaining 7%.

Retail Logistics comprised 70%, 63% and 64%, respectively, of the Group’s service revenue from Logistics for the years ended December 31, 2019, 2018 and 2017. The Group’s primary retail logistics offerings are its “Express” products (courier and air cargo forwarding) and *balikbayan* boxes.

As of December 31, 2019, the LBCE does not process outbound remittances from the Philippines. For the years ended December 31, 2019, 2018 and 2017, service fees from international inbound remittances were ₱333.21 million, ₱163.22 million and ₱131.82 million, accounting for 34%, 17% and 13%, respectively, of the Group’s total service revenues from Money Transfer Services.

Logistics

The Logistics business is the Group’s primary source of revenue. The Group serves two primary customer segments within the Logistics business: (a) Retail (C2C) customers; and (b) Corporate/Institutional (B2B/B2C) customers. The main services offered to Retail customers include Courier, Air Cargo Forwarding and *Balikbayan* box services. The main services offered to Corporate clients include, in addition to Courier and Freight Forwarding services, Specialized Corporate Solutions, or Corporate Logistics services, tailored to the specific needs of the client.

As of December 31, 2019, the Group has offered Logistics services at 1,466 Company-owned branches in the Philippines and 75 Company-owned branches, and 1,021 Partner-agent branches, in 29 other countries and territories worldwide.

Retail Logistics

Retail Logistics comprised 70%, 63% and 64%, respectively, of the Group’s service revenue from Logistics for the years ended December 31, 2019, 2018 and 2017. The Group’s primary Retail Logistics offerings are its “Express” products (comprised of Courier and Air Cargo forwarding) and *Balikbayan* boxes.

Courier

Courier services are the Group’s express messengerial services and refer to deliveries of parcels (i.e. letters and small packages typically weighing three kilograms or less) by land and/or air on a time-sensitive basis. LBCE generally makes domestic courier deliveries within 24 hours of acceptance and international courier deliveries within one to three days of acceptance, depending on the origin and destination country. The Group is limited in liability for delays caused by certain *force majeure* and other events that may prevent it from making an on-time delivery. The fees for courier services are based on weight, dimensions and final destination, and the Group imposes add-on charges for extra services such as pick-up in certain areas outside of the National Capital Region of the Philippines, additional insurance and same-day delivery service.

Air Cargo

Cargo refers to larger packages and boxes (typically weighing over three kilograms). As with courier services, the Company generally makes express deliveries of domestic air cargo within 24 hours of acceptance, while international air cargo is generally delivered within one to three days of acceptance, depending on the destination country. The Company charges for air cargo forwarding and items delivered by ground based on volumetric weight (a function of both the actual weight and dimensions of the cargo) and final destination, as well as add-on charges for extra services such as pick-up in certain areas, additional insurance and same-day delivery service.

Balikbayan Boxes

The *balikbayan* box is a box shipment of personal effects cargo sent by retail customers to friends and family, domestically and internationally. *Balikbayan* boxes are forwarded by the Group by way of sea transport and generally delivered within 35 days of acceptance from the sender, subject to *force majeure* and other unforeseen events. Because the Group charges for sea freight forwarding based on standard dimensions of the box rather than weight, *balikbayan* boxes provide a low cost option to customers making shipments of various items. They are also a means for customers to ship certain items that cannot be shipped by air, such as liquids and aerosols. Accordingly, *balikbayan* boxes are frequently used by overseas Filipinos to send large numbers or volumes of consumer products, such as clothing, home goods and personal care items, to recipients in the Philippines. *Balikbayan* boxes come in a variety of dimensions and typically weigh between 30 to 80 kilograms.

Corporate Logistics

The Company provides services to a varied portfolio of corporate and institutional customers, which include consumer goods manufacturers, food products producers, pharmaceutical companies, educational institutions, financial services companies and others, including several well-known multinational corporations. In addition to fulfilling the express delivery needs of corporate clients through courier and air cargo forwarding services, the Company also provides the following services:

Specialized Corporate Solutions (SCS)

SCS refers to the end-to-end tailored logistics services provided by the Company to corporate clients with specific requirements.

As part of SCS, the Company provides transportation of mail, parcels and cargo via air, land and sea. The Company offers sea freight forwarding services domestically for both full container load (FCL) and less-than-container load (LCL) shipments. LCL services are particularly attractive for small and medium-sized businesses with relatively lower volume shipping requirements. Corporate clients have the option of dropping off their shipments at the Company’s container freight stations located near local ports or requesting a pick-up from the Company. The Company also offers flexible payments modes, including payment at origin, payment at destination, payment on account of shipper, and payment on account of consignee. Shipping times for sea freight are more protracted than for air freight, ranging from three to seven days for domestic shipments and seven to 45 days for international shipments. In recent years, the volume of sea freight forwarding services provided by the Company has increased due to the growth in its corporate client portfolio.

The Company also expanded SCS to include value-added services such as onsite operations, cold chain, warehousing, and cross-border logistics. The palette of available onsite operations includes warehouse storage, cross-docking (the temporary storage of arriving order and subsequent breaking-down and reassembly for truck delivery), inventory management, reverse logistics, pick-up of pallets and containers, order fulfillment services at the customer’s own warehouse, specialized packaging and re-packaging (such as ice gelling for pharmaceutical products), open-checking services, cash on delivery (collection of value of item from consignee upon delivery and remittance of value to shipper) and delivery and discrepancy reporting, among others, which are in addition to its customary courier and freight forwarding services.

The Company performs services for corporate clients both pursuant to long-term contracts and on a per-transaction basis. SCS contracts typically have terms of one to three years. The Company extends credit facilities to most of its corporate clients, following a standard credit check procedure when first engaging a new client.

In recent years, the Company has increased its focus on its corporate logistics business and aims to continue expanding its corporate client portfolio and service offerings going forward.

Money Transfer Services

Money Transfer services are the Group's second primary business segment and comprise both domestic and international money transfer services.

Domestic

Domestic Money Transfer services include (a) Remittances and (b) Bills Payment collection and Corporate Remittance Payout services. For the years ended December 31, 2019, 2018 and 2017, service fees from domestic Money Transfer Services were ₱659.1 million, ₱799.5 million, and ₱907.1 million, respectively, representing 66%, 83%, and 87%, respectively, of the Company's total service revenues from Money Transfer Services.

Remittances

Remittances are transfers of funds between customers from one location to another. The Company is licensed by the *Bangko Sentral ng Pilipinas* (**BSP**) to serve as a remittance agent in the Philippines for both domestic remittances (wherein both the sender and the beneficiary are located within the Philippines) and international inbound remittances (wherein the sender is located outside the Philippines and the beneficiary is located within the Philippines). Retail customers in the Philippines, particularly the unbanked population and others who are underserved by traditional banking institutions, account for the majority of the Company's Domestic Remittance customers. The Company offers Domestic Remittance services in the form of branch retail remittance services.

- *Branch retail services* enable customers who make remittances at any Company-owned branch in the Philippines to choose among the following fulfillment options for their beneficiaries:

    - *Instant branch pick-up (Instant Pera Padala "IPP")*, a real-time cash pick-up remittance facility in which funds become instantaneously available for pick-up by the remitter's beneficiary once the sending party has made the payment at a Company-owned branch; the sending party can designate any pick-up location or geographic zone within the Company's domestic network (including both Company-owned branches and branches of its partners, Palawan Pawnshop, Cebuana Lhuillier);

    - *"Pesopak*," a service by which remittances are delivered directly to the beneficiary's doorstep, providing an attractive option for situations in which beneficiaries cannot or do not want to visit a branch; the Company offers next day delivery for *Pesopak* in almost all areas in the Philippines; and

    - *Remit-to-account ("RTA")*, a service by which funds accepted from a sender at a Company branch will be directly deposited to the designated local bank account of the beneficiary.

LBCE charges a service fee for processing Domestic Remittances according to a progressive schedule based on the value of the remittance. Fees may also vary depending on the chosen method of fulfillment. For example, Remit-To-Account (RTA) and *Pesopak* deliveries may incur additional service charges. The significant majority of remittances made by customers of LBCE are for sums equivalent to approximately ₱13,000 or less.

Bills Payment Collection and Corporate Remittance Payouts

LBCE serves as a third party bills payment collection sub-agent for approximately 180 creditors in the Philippines, including major utilities companies, insurance companies, certain Government agencies, telecom providers and publishers, among others, through its contract with CIS Bayad Center, Inc. (**Bayad**). Through the LBCE, Bills Payment collection service, customers of these merchants and other creditors can settle their accounts by submitting their payment along with the billing notice issued by the merchant to any company-owned branch in the Philippines. LBCE processes Bills Payment collections through the same integrated point-of-sale (**POS**) system used by the LBCE for acceptance of parcels, cargo and remittances.

The Company also provides Payout services for various corporations and organizations. For example, the Company provides Payroll services for certain companies, whereby employees can collect salary checks at an LBC branch. As part of its reciprocal agreements with Palawan Pawnshop, Cebuana Lhuiller, and Petnet, Inc. (Western Union), LBCE also provides encashment services for beneficiaries of senders who make a remittance at a Palawan Pawnshop, Cebuana Lhuillier or Western Union branch.

International

The Company provides fulfillment services for international inbound remittances from over 20 countries and territories overseas to the Philippines through its overseas branches and affiliates and its network of international remittance agents.

To expand its international reach, LBCE has also entered into agreements with affiliates and remittance fulfillment agents in countries and territories outside of the Philippines. These agents include International Remittance houses such as in the Asia-Pacific region: in Hong Kong, Pacific Ace Forex H.K. Limited, and Franki Exchange Co.; in Malaysia, CIMB Islamic Bank Berhad, SMJ Teratai SDN. BHD., TML Remittance Center SDN. BHD., Tranglo, Merchantrade Asia SDN. BHD.; in Japan, Transremittance Co. Ltd., and Japan Remit Finance Co. Ltd.; in Taiwan, Eastern Union Interactive Corp.; in Singapore, Kabayan Remittance Pte. Ltd.; in Australia, Ozzi Pay Pty. Ltd.; in Israel, WIC Worldcom Finance Ltd.; in the Middle East continent: Zenj Exchange Co., WLL., Bahrain; in the United Arab Emirates, Al Ansari Exhchange LLC., Al Ghurair Exchange LLP., Instant Cash FZE., Onyx Exchange; in the European continent, Money Exchange SA, Spain; Intel Express Georgia, Georgia; Xpress Money Services Ltd., and Philippines Remittances Ltd., in the United Kingdom; in the North American region; Uremit International Corp. and Atin Ito Variety Bakery & Remittance Ltd., Canada; Remitly Inc., Intermex Wire Transfer LLC, Limica Corporation (Guam), XOOM Corporation, Tempo Financial US Corp., and Placid NK Corporation, in the United States of America, among others. International remittances are also encashed by LBCE from Philippine-based companies with international presence, such as Petnet Inc. (under Western Union), Gemini Exchange International Inc., Pinoy Express Hatid Padala Services, Inc., New York Bay Philippines, Inc., Filremit Corp., Fastremit Service Inc., I-Remit Inc., Betur Inc. (DBS Coins.Ph), Pisopay.Com Inc., True Money Philippines Inc., Optimum Exchange Remit Inc., Ayannah Business Solutions Inc., and Atomtrans Tech Corp. For this same purpose, the Company also has partnerships with Philippine financial institutions with strong international presence such as Asia United Bank Corporation, Bank of Commerce, China Banking Corporation, Metropolitan Bank & Trust Company and Subsidiaries, Rizal Commercial Banking Corporation, Bank of the Philippine Islands, and Landbank of the Philippines, among others. Through the extended networks of its partners and agents, the Company provided fulfillment services for inbound remittances, although it transacts only with its direct agents. Under the terms of the fulfillment partnership agreements that the Company enters into, direct agents are permitted only limited use of the “LBC” name, trademarks and other protected signs when transacting business on behalf of the Company and still carrying on business under their own corporate and trade names. The Company receives a fixed percentage of the agent’s revenues in exchange for its services in relation to inbound international remittances. The Company requires most of its remittance agents to maintain a revolving fund for advance funding cover, which must be replenished when the balance falls beneath a set threshold. This is to ensure that the Company bears minimal credit risk when making payouts on behalf of international agents. In addition, most of the agreements have in place a maximum remittance value per transaction as a further risk mitigation tool, typically ranging from ₱75,000 to ₱100,000.

The basic process for domestic remittances is as follows:

- Remittances from origins are accepted via point-of-sale system. Encashment branch will check the possible match using the Auto-Scrubbing Process (Sender and Beneficiary names are checked against the International Sanctions List) and ensure the validity of transaction. Data processing will be performed as well as fund allocation. Payout, delivery, credit to bank et.al are the methods in fulfillment of the transactions.

As with domestic remittances, beneficiaries of international inbound remittances can avail of instant branch pick-up services at any location within the Group's domestic network as soon as the transaction is processed into the Group's POS system from its overseas branch or agent-operated location. Beneficiaries of inbound international remittances can also arrange for the money to be delivered to their door, have the sums credited to a pre-paid remittance card or have proceeds deposited directly into a bank account. The Group charges a service fee for processing international remittances according to a progressive schedule based on value of the remittance and pick-up destination of the remittance. Although mobile remit confirmation codes are not yet sold internationally, the Group does enable online remit services from the United States, in which the sender can remit funds to a Philippine beneficiary through the Group's website using a debit card. The significant majority of remittances made by customers of the Group are for sums equivalent to approximately ₱10,000 to ₱15,000 or less.

As of the end of December 2019, the Company does not process outbound remittances from the Philippines. For the years ended December 31, 2019, 2018 and 2017, service fees from international inbound remittances were ₱333.2 million, ₱163.2 million and ₱131.8 million, accounting for 34%, 17% and 13%, respectively, of the Company's total service revenues from Money Transfer Services.

OPERATIONS

LBC's Courier and Freight Forwarding services utilize transport by air, sea and land and a network of strategically-located warehouses, distribution centers and delivery hubs to provide end-to-end delivery services for its Retail customers and Corporate/Institutional clients.

Logistics

Logistics entails the management of the flow of goods from a point of origin to a specified destination, including any ancillary services that may be required to facilitate the process, such as storage and packaging.

Air Freight Forwarding

Domestic

The Group's end-to-end domestic air freight forwarding services involve the following steps: (1) acceptance (by pick-up or drop-off at a branch) (2) ground transport to a regional warehouse/distribution center, (3) primary sorting, (4) loading to aircrafts (for air transport), (5) withdrawal by the receiving distribution center/delivery hub, (6) secondary sorting (if required) and (7) ground transport for delivery to final destination.

- Acceptance is the receipt by the Group of the customer's parcels and cargo, either through its pick-up service or at one of the Group's 1,466 customer contact points in the Philippines where customers can drop off parcels and cargo. All parcels and cargo must be accompanied by a waybill from the customer providing the recipient's name, shipping address, description of contents, estimated value and other pertinent information. Upon receipt of the customer's parcel or cargo, the receiving agent affixes a barcode onto the package and scans the package, beginning the tracking process. The parcel or package is rescanned at every subsequent touch point throughout the transport process until its final destination.

- At the close of business each day (approximately 7:00 p.m.), all packages are delivered by the Group's vehicle fleet to a regional warehouse / distribution center, from any of 33 warehouses in the country. The Company has two primary distribution centers: the Central Exchange, located at the Group's corporate headquarters in the General Aviation Center of the old domestic airport in Manila, where all packages collected from, passing through or destined for Metro Manila are aggregated, and the Cebu Central Exchange, functioning similarly to the Central Exchange in Manila. Packages collected in other areas are aggregated at any one of 33 warehouses located near airports throughout the country. Upon receipt, the Exchange teams "scan-in" all packages and print manifest (i.e. an itemized inventory) listings of all the barcodes "scanned." The manifest is used to check the number of shipments "scanned in" against the number of shipments that are later "scanned out."

- Throughout the night, the Exchange teams engage in primary sorting, and label parcels and cargo bound for different destinations across the Philippines to prepare them for onward transmission by air, sea or land. All packages to be transported by air are scanned by X-ray machines for detection of illegal and contraband goods. In the Central Exchange, the Company houses its own X-ray machines which are located adjacent but within the facility, and operated by independent airline employees. This bypasses the need to transport the cargo to the airline carriers' facilities for scanning, increasing the efficiency of the Company's sorting process.

- By morning, all packages bound for other provinces and cities are loaded onto the first and second flights of the day operated by Cebu Pacific Air and Philippine Airlines, among others.

- When the planes arrive at the destination airport, a team of employees withdraws shipments and again scans the barcodes and sorts the items, segregating parcels and cargo destined for different zones. The items may also be sorted at the Company's 208 regional delivery hubs (secondary distribution centers) for more efficient distribution to smaller cities and municipalities.

- Packages are then loaded onto the Group's delivery vehicles, which either transport the items to a delivery hub for secondary sorting, or directly to the final destination if already within the zone of delivery.

International

The Group's international Air Freight Forwarding and Courier services involve a similar process as its domestic Air Freight Forwarding and Courier services, namely (1) acceptance (by pick-up or drop-off at an international LBCE-owned, or affiliate-owned branch or agent-operated location), (2) ground transport to a regional hub / distribution center, (3) primary sorting, (4) loading to international aircraft, (5) withdrawal of cargo by Philippine associates at the Central Exchange in Manila or Cebu, (6) secondary sorting, (7) further forwarding by air to regional destinations (if necessary) and (8) ground transport, via Company-owned and third party trucks, for delivery to final destination. In the case of shipments originating from overseas, LBCE's overseas branch, affiliate or agent, as applicable, is responsible for all of the steps from acceptance of the parcel/cargo through loading of the parcel/cargo onto the Philippine-bound airline carrier.

In the case of shipments originating from the Philippines and sent overseas, the overseas branch, affiliate or agent, as applicable, is responsible for all of the steps from acceptance of the parcel/cargo at the international destination to secondary sorting and delivery of the item to its final destination by ground.

International shipments utilize the same, integrated barcoding and scanning system as domestic shipments, enabling a seamless exchange between the Group's domestic team and its overseas teams.

Ground Delivery Fleet

Ground transport forms a key component of nearly all forms of delivery and forwarding services offered by the Group. Motorcycles and trucks are used for door-to-door pickup and delivery of parcels, cargo and money remittances, as well as ground transport of items destined for onward forwarding by air or sea. The vehicle fleet is also an integral part of the Group's contingency planning in the event that air and/or sea transport become unavailable. The Group also, from time to time, engages third-party trucking and transportation companies.

For items that are transported entirely by ground, parcels and packages undergo (1) acceptance (by pick-up or drop off at a branch), (2) ground transport to the regional distribution center, (3) primary sorting, (4) ground transport to a delivery hub for secondary sorting (if required) and (5) ground transport to the final destination.

As of December 31, 2019, the Company has a fleet of 3,289 vehicles (including 2,672 motorcycles and 617 delivery vans). The Company's drivers and couriers are trained in vehicle operation safety, customer service, cash handling and other procedures. Vehicles are acquired on a lease-to-own basis pursuant to finance leases with a typical term of three to five years to ownership. The Company's vehicle fleet undergoes maintenance on a regularly scheduled basis, and vehicles are typically replaced every ten years. The Group began re-fleeting most of its delivery trucks, in 2014, and motorcycles, in the latter part of 2017. Comprehensive insurance is maintained for all vehicles.

Sea Cargo Forwarding

As of the end of December 2019, the Group's Sea Cargo forwarding services are available domestically in Manila, Cebu, Bacolod, Iloilo, Davao, Cagayan de Oro and General Santos, and internationally in 29 countries and territories outside the Philippines.

The Group does not own ships and contracts with third party shipping carriers for these services. Domestic sea transport is provided by Oceanic Container Lines, Inc., 2Go Freight, Lorenzo Shipping Lines, Gothong Southern and Asian Marine Transport Corporation, among others, while international sea transport is provided through Orient Freight International, an international freight forwarding agency in which LBCH acquired a 30% stake in 2018. This allows the Company to contract directly with international shipping carriers rather than rely on another international freight forwarder. The Company's sea cargo forwarding services are separated into Retail operations and Corporate operations.

Retail

Retail sea cargo denotes *balikbayan* boxes, which are primarily international inbound shipments and intra-Philippine shipments.

The basic forwarding process for *Balikbayan* Boxes is as follows:

- Acceptance of *Balikbayan* Boxes is handled by the LBCE (in the case of domestic shipments) or an LBCE overseas branch, overseas subsidiaries or affiliate (in the case of inbound international shipments). *Balikbayan* Boxes are typically picked up by delivery trucks, as they tend to be larger in terms of weight and volume.

- Upon acceptance, all cargo is input into the Company's VISTRA acceptance system by a delivery team, which produces a delivery dispatch report and cross checks each shipment for discrepancies when units are consigned to the international freight forwarder.

- *Balikbayan* Boxes are sorted and placed into containers at the local warehouse or distribution center of the Group's branch or affiliate/agent. Once a container is full, the Group can arrange for pick-up from the international freight forwarder or local shipping partner, as applicable. Because the throughput of goods shipped by the Group is substantial, containers are usually filled within one to two days.

- The Group's international freight forwarder (in the case of inbound international shipments) or the Group's local shipping partners (in the case of domestic shipments) will then collect the cargo from the warehouse or distribution center and load the items onto a ship.

- International inbound *Balikbayan* Boxes are in transit for three (3) to seven (7) days (for shipments within Asia) or 30 to 45 days (for shipments from Europe or North America) prior to arriving in Manila. All such *Balikbayan* Boxes are received by the international freight forwarder at either of the ports in Manila, Subic, Zambales, or Cagayan de Oro and consigned to the Group at the Vitas Harbor Center Warehouse. Intra-Philippine shipments, which generally take between two and five days to arrive at their destination, are received at regional warehouses and distribution centers. For international inbound shipments, the Group's customs brokers facilitate procedures necessary to be undertaken with the Philippine Bureau of Customs, while its international freight forwarder arranges for customs brokerage in the international jurisdictions.

- At the Vitas Harbor Center Warehouse or any of the regional warehouses and distribution centers, boxes are again scanned, inspected for any damage and sorted for further forwarding to their final destination by ground transport or re-directed to a domestic shipping company for further sea transport if necessary. International inbound *Balikbayan* Boxes are received by Group's overseas branches and affiliates and sorted for final delivery. *Balikbayan* Boxes are randomly scanned in the United States and in the Philippines via X-ray machines to prevent entry of illegal goods and money laundering.

Corporate

For Corporate Sea Cargo shipments, LBCE provides forwarding services for both Full-Container Load (FCL) and Loose-Container-Load (LCL) shipments. LBCE's Corporate Sea Cargo forwarding services include, among others, Pier-to-Pier service (in which a customer's shipment is delivered to a receiving office at the destination pier for pickup by the receiving party) and Pier-to-Door service (in which the customer's shipment is delivered to the address of the receiving party). Corporate clients can either drop-off their cargo at LBCE's container freight stations or arrange for pick-up by LBCE's delivery fleet.

For corporate customers who wish to make regular use of the LBCE's services, the company assigns an account executive to be in-charge of obtaining details of the shipments and advising the customer on the readiness process and approval of credit terms. In addition, after shipments are completed, an account coordinator reports a summary of the transactions and the Billing and Collection department bills and collects payment for the shipments.

All corporate shipments are aggregated and sorted at the Company's container freight stations located near the local ports. Container freight stations are separate from the receiving warehouse for the retail *balikbayan* boxes.

Specialized Corporate Solutions

Under SCS, the Group provides transportation of mail, parcels and cargo via air, land and sea for its corporate clients, as well as value-added services such as onsite operations, and warehousing, among others. The transportation service operates in substantially the same manner as the general logistics operations described above.

Money Transfer Services

Remittances

Infrastructure
The Group leverages the branch network and vehicle fleet used for its Logistics services as a platform for its remittance services. The extensive geographic reach of its branch network, its large fleet of delivery vehicles, the existing workforce of trained employees and the availability of cash funds at each of the Group branches from its logistics operations enable the Group to offer remittance services at very low additional operating cost. As the remittance business has grown into a significant portion of its business, the Group has increased the number of customer contact points for its remittance services by entering into fulfillment partnership agreements with agents and affiliates domestically and internationally.

The Global Remittance Team is in charge of operating the Group's remittance business. With respect to domestic remittances, its primary duties include, among others, reviewing daily acceptance values; forecasting the daily funding needs of each branch to meet fulfillment obligations; ensuring the proper safeguarding of cash at branches; overseeing the transport and deposit of cash into the Group's regional bank accounts (from which local managers of the branch offices can withdraw the funds); establishing and training branch employees in cash acceptance, Anti-Money Laundering (AML), customer identification and other policies; and reporting covered transactions and suspicious transactions to the BSP. With respect to international remittances, its primary duties include monitoring balances of revolving accounts and settlement of payments. The Global Remittance Team uses data collected from the Group's front-end POS software to analyze end-of-day acceptance information at all of the branch locations. This enables the Global Remittance Team to estimate the funding requirements for each branch on a daily basis. The Group is in the process of transitioning its POS system into a more fully integrated system with the rest of its business operating software.

Domestic Partners

To expand its domestic network for remittance services, LBC Express Inc. and Eight Under Par, Inc. (a Philippine corporation doing business under the trade name "Palawan Pawnshop") entered into a non-exclusive agreement in June 2012 to serve as reciprocal fulfillment agents within the Philippines. A similar partnership was entered into by the Company with Cebuana Lhuillier Services Corporation (under the trade name "Cebuana Lhuillier") in 2019. Through these agreements, all of Palawan Pawnshop's 3,002 branches and Cebuana Lhuillier's 2,500 branches in the Philippines are available to provide instant branch pick-up services for beneficiaries of LBCE's remittance customers, and all of LBCE's 1,466 branches in the Philippines in turn provide the same service for Palawan Pawnshop's customers. All partners collect a reciprocal percentage of service fees for performing services on behalf the other.

The Group believes that its strategic partnerships with Palawan Pawnshop and Cebuana Lhuillier have enabled it to greatly expand its geographical reach in the Philippines and provide more services to more customers, particularly in areas where it has fewer Company-owned branches, at minimal expense. In 2018, Petnet, Inc. (Western Union) became an international fulfillment partner, extending the group's reach and network to more customers worldwide, through Western Union's approximately 500,000 agents in 220 countries.

The basic process for Domestic Remittances is as follows:

- Branch Retail services enable customers who make Remittances at any of the 1,466 Company-owned branches in the Philippines to choose among the fulfillment options for their beneficiaries. Upon acceptance from the sender, there is an online facility processes the request. An encashment alert is sent to the specified branch and the latter ensures fund availability to serve the consignee.

    - *Instant branch pick-up (Instant Pera Padala "IPP")*, a real-time cash pick-up remittance facility by which funds become instantaneously available for pick-up by the remitter's beneficiary once the sending party has made the payment at any of the 1,466 Company-owned branches or Palawan Pawnshop and/or Cebuana Lhuillier partner branches; the sending party can designate any pick-up location or geographic zone within the Company's domestic network;

    - *"Pesopak*," a service by which remittances are delivered directly to the beneficiary's doorstep

    - *"Remit-to-account" (RTA)*, a service by which funds accepted from a sender at a Company branch will be directly deposited to the designated local bank account of the beneficiary

International Remittance Agents

To expand its international reach, LBCE has also entered into agreements with affiliates and remittance fulfillment agents in countries and territories outside of the Philippines. These agents include International Remittance houses such as in the Asia-Pacific region: in Hong Kong, Pacific Ace Forex H.K. Limited, and Franki Exchange Co.; in Malaysia, CIMB Islamic Bank Berhad, SMJ Teratai SDN. BHD., TML Remittance Center SDN. BHD., Tranglo, Merchantrade Asia SDN. BHD.; in Japan, Transremittance Co. Ltd., and Japan Remit Finance Co. Ltd.; in Taiwan, Eastern Union Interactive Corp.; in Singapore, Kabayan Remittance Pte. Ltd.; in Australia, Ozzi Pay Pty. Ltd.; in Israel, WIC Worldcom Finance Ltd.; in the Middle East continent: Zenj Exchange Co., WLL., Bahrain; in the United Arab Emirates, Al Ansari Exhchange LLC., Al Ghurair Exchange LLP., Instant Cash FZE., Onyx Exchange; in the European continent, Money Exchange SA, Spain; Intel Express Georgia, Georgia; Xpress Money Services Ltd., and Philippines Remittances Ltd., in the United Kingdom; in the North American region; Uremit International Corp. and Atin Ito Variety Bakery & Remittance Ltd., Canada; Remitly Inc., Intermex Wire Transfer LLC, Limica Corporation (Guam), XOOM Corporation, Tempo Financial US Corp., and Placid NK Corporation, in the United States of America, among others. International remittances are also encashed by LBCE from Philippine-based companies with international presence, such as Petnet Inc. (under Western Union), Gemini Exchange International Inc., Pinoy Express Hatid Padala Services, Inc., New York Bay Philippines, Inc., Filremit Corp., Fastremit Service Inc., I-Remit Inc., Betur Inc. (DBS Coins.Ph), Pisopay.Com Inc., True Money Philippines Inc., Optimum Exchange Remit Inc., Ayannah Business Solutions Inc., and Atomtrans

Tech Corp. For this same purpose, the Company also has partnerships with Philippine financial institutions with strong international presence such as Asia United Bank Corporation, Bank of Commerce, China Banking Corporation, Metropolitan Bank & Trust Company and Subsidiaries, Rizal Commercial Banking Corporation, Bank of the Philippine Islands, and Landbank of the Philippines, among others. Through the extended networks of its partners and agents, the Company provided fulfillment services for inbound remittances, although the it transacts only with its direct agents. Under the terms of the fulfillment partnership agreements that the Company enters into, direct agents are permitted only limited use of the "LBC" name, trademarks and other protected signs when transacting business on behalf of the Company and still carrying on business under their own corporate and trade names. The Company receives a fixed percentage of the agent's revenues in exchange for its services in relation to inbound international remittances. The Company requires most of its remittance agents to maintain a revolving fund for advance funding cover, which must be replenished when the balance falls beneath a set threshold. This is to ensure that the Company bears minimal credit risk when making payouts on behalf of international agents. In addition, most of the agreements have in place a maximum remittance value per transaction as a further risk mitigation tool, typically ranging from ₱75,000 to ₱100,000.

The basic process for domestic remittances is as follows:

- Remittances from origins are accepted via point-of-sale system. Encashment branch will check the possible match using the Auto-Scrubbing Process (Sender and Beneficiary names are checked against the International Sanctions List) and ensure the validity of transaction. Data processing will be performed as well as fund allocation. Payout, delivery, credit to bank et.al are the methods in fulfillment of the transactions.

Bills Payment Collection and Corporate Remittance Payouts

The majority of the Company's Bills Payment Collection services are governed by an agreement first entered with CIS Bayad Center, Inc. (Bayad) dated January 21, 2013, by which the Company subcontracts through Bayad the performance of third-party bills collection services for more than 180 vendors/creditors or "billers," including government agencies, utilities companies, insurance and telecommunications providers among others, with whom Bayad has contracts/agreements. The term of the agreement is three years, with a renewal option thereafter by mutual consent of the parties. The Company collects a service fee from Bayad each month based on the total number of valid transactions it has processed for that month. At the close of each business day, a payment transaction report is generated for each vendor and transmitted to Bayad. The Company must then deposit the day's collections into a designated bank account of Bayad by the following day.

The Company also contracts directly with certain organizations, such as private insurance companies and certain employers, to serve as a Corporate Payout agent.

The basic process for bills payment collection and corporate remittance payouts is as follows:

- **Bills Payment.** The Company serves as a third party bills payment collection sub-agent for various vendors/creditors or "billers" in the Philippines, including government agencies, utilities companies, insurance companies, telecommunications providers and publishers, among others, through their contracts with CIS Bayad Center, Inc.

    - **Via POS.** The customer fills out details necessary for the transaction onto the Bills Payment form available at the branch, in which the branch associate will enter to the POS. The cash transaction amount and pass-on fee is collected from the customer, if applicable. The branch does the data sending (from local server to production server). The LBC

Backroom will perform all necessary validation procedures before the closing of the transaction.

- **Via PCS/Bayad Center.** The customer fills out the details necessary for the transaction onto the Bills Payment form available at the branch, which the branch associate will enter onto the PCS. The cash transaction amount and pass-on fee is collected from the customer, if applicable. The transaction will be uploaded to Bayad PC/Terminal followed by data import and sending. Bayad, in return, sends a report and confirmation of the validity of transactions. The LBC Backroom will perform all necessary validation procedures before the closing of the transaction.

Corporate transactions. The Company also provides Payout services for various corporations and organizations. The processor will acknowledge corporate transactions via email and validate payments by corporate client. The LBC backroom will confirm fund allocation, assign tracking numbers and perform recording to complete the transaction processing.

Cash on Delivery / Cash on Pick-Up ("COD/COP")

More and more Filipinos are doing their shopping online. Since 2017, the e-commerce industry has been growing exponentially, with digital marketplaces registering record sales and consistent growth. The Philippines has also ranked first in social media use and time spent online, which makes the country an ideal market for e-commerce to thrive and sustain vigorous activity.

One of the many challenges faced by many e-commerce merchants were payment gateways/options. A majority of online sellers are also considered "casual sellers" or "social sellers" and with most of them unbanked, completing a transaction had been a challenge. LBCE's inception of a payment solution bundled with logistics capabilities was "Cash On Delivery" (COD) and "Cash On Pick-up" (COP) service.

With this innovative new service, LBCE has enabled more merchants, including "casual or social sellers" to enter into and participate regularly in the thriving e-commerce arena. With "COD/COP," merchants have LBC deliver their goods and collect payment for them, which in turn can either be remitted to their appointed bank accounts or picked up from a designated LBC branch.

This pioneering service has helped spur the further growth of the e-commerce industry in the country, enabling trade, commerce, and generated income for many—promoting the Company's strategy of financial inclusivity and wide accessibility of services.

"COD/COP" utilizes both of LBCE's core business/services: logistics, as a courier of parcels & boxes, and money remittance, as a payment collection channel and payout conduit. Furthermore, LBC serves as a venue for transactions or "trading place": COP guarantees convenient and seamless transactions between merchant and buyer, a buyer may opt for any of LBCE's 1,466 branches as a pick- up point for their items purchased. COD offers the more established delivery scheme: LBC delivery associates collect payments from buyers upon delivery of the items, and these are delivered to any designated address, be it residential, office, or any other location. The collection of payments on behalf of the merchants from the buyers offer safe, reliable and guaranteed assurance for merchants engaging in online selling transactions. LBCE's expansive nationwide network and serviceable areas also allows for buyers to shop from anywhere in the Philippines, and sellers to reach more customers nationwide. COD/COP rates are competitively priced, providing value for money for merchants and buyers, along with LBC's guaranteed service levels.

COD/COP can be availed of at any LBC branch, without any other obligations or contracts; transactions are immediately processed upon fulfillment of the prescribed forms available at the branch. There is no need to create an “account” on online shopping sites, or to maintain any minimum volume of transactions to start an online or “social selling” business.

MARKETING AND SALES

The Group believes that strategic marketing and targeted sales are crucial to maintaining its competitive advantage over competitors. The Group regularly advertises on television, radio and billboards, as well as in print and on the Internet. The Group also brands its ground fleet with the “LBC” logo. In addition, it has dedicated teams to promote the value of its brand among general consumers as well as to manage long-term corporate client relationships. It also engages in several community outreach initiatives in line with its commitment to corporate social responsibility.

Brand Equity

The Group considers the “LBC” brand, which has been cultivated over the Group’s over 60-year operating history, to be an integral component of its operational success. The Group believes that the brand, the distinctive red and white “LBC” logo and the Group’s key marketing slogans (formerly, “*Hari ng Padala*,” and currently, “We Like To Move It”) have become associated with its reputation for being a convenient, affordable and reliable provider of its services. As part of its marketing strategy, the Group outfits its delivery fleet, branch offices, advertisements and other marketing materials with the “LBC” logo and believes that its brand equity is one asset that puts it ahead of its competitors in gaining market share in a fierce competitive environment.

The “LBC” brand was one of Reader’s Digest’s Trusted Brand Winners: Platinum Award in Philippine Airfreight/Courier Service Category and Brand Gold Award Remittance Category in 2017. According to the LISBON Survey, a survey conducted by Market Research Solutions, Inc., an independent marketing and research firm, the Company was considered one of the Best-in-Class Companies in the Philippines for both the freight forwarding and remittance industries in 2012, the Company achieved 81% brand awareness/market reach for sea cargo, the highest in the segment, with the closest competitor achieving 47% recognition.

LBC remains to be one of the Philippines’ most recognized brands. A pioneer in its industry in the Philippines, and now with 1,466 branches nationwide with presence in 30 countries around the globe, in the service of Global Filipinos everywhere, sustained by a presence in traditional and increased visibility digital media platforms including social media, the brand’s equity is at the strongest it’s ever been.

In November 2013, the Company and LBC Development Corporation undertook a re-launch of the “LBC” brand name to emphasize the entrepreneurial and adaptive spirit of the Company that is complementary to its long heritage. The marketing campaign features a new formulation of the Company as not simply a mover of goods but also a mover of space (“space where people can reconnect and relate”) with the aim of highlighting the human connection in the services provided by the Company to its customers. Pursuant to the same marketing campaign, the Company has also re-designed its logo and changed its corporate slogan to “We like to move it,” highlighting the corporate logistics segment of its business.

In 2017, the Company launched “*Totoo ang Ligaya*,” a global campaign particularly directed toward its millions of customers in various parts of the world. This was a follow-up to the widely successful 2016 campaign launched called “*Aming Ligaya*.” Previous campaigns also included, in 2015, “Paulo”, a sales & marketing campaign highlighting the remittance business, and 2014's Global Brand Ambassador Endorser Campaign "Everywhere," featuring mega endorser Kris Aquino.

Complementing its ongoing digital transformation, LBCE launched a brand campaign in 2018. The campaign showed how the LBC brand has evolved to serve the growing needs of its different customers – both in the retail space and in the corporate landscape, and in the new arena of "social selling." It captures how the brand offers customized solutions to service ever-changing needs and grows with various markets as they progress in life. This spirit of change and service is aptly captured in the campaign's manifesto, "*Let's Move*."

The campaign rolled out in the Philippines and in the various countries where LBC has an established presence. It was launched and released in both traditional media channels and the digital space. It has helped fortify the brand's already top-of-mind position with consumers.

SoShop!

The SoShop! program was launched by LBC Express this 2020 to provide ecommerce solutions to a growing customer base of online businesses and social sellers. The brand is equipped with end to end products like Cash on Delivery, Cash on Pick Up, and LBC Online, which can act as payment and fulfilment solutions to the audience. The brand alone saw over 240,000 customers avail of these products this last 12 months.

SoShop! looks build on this and encourage usage and retention for the current base of customers. The members will be special invited to join with perks and privileges as incentives. Members chosen may join special events, receive exclusive learnings, and be asked to partake in activities designed to grow businesses and scale up revenues. Those who join will be asked to be part of a Facebook Group and will be given a unique account number. The objective of the program is to further increase usage of ecommerce LBC products and services while lessening the challenges everyday online sellers face.

SoShop! looks to be an ideal match for the brand and sellers as this gives both a chance to grow themselves and increase revenues with the provided solutions. LBC has the right tools in place while sellers are now in need of

Advertising

The Group regularly advertises over media channels such as TV, radio and print. The Group also sponsors community events such as the Ronda Pilipinas, the largest Philippine cycling race, and sporting events.

OMNICHANNEL

Traditionally, LBC customers transact through the Company's brick-and-mortar branches; customers personally book their deliveries, and pay for their transactions. Through the years, the Company has invested in many technological platforms to offer various options for customers—aside from transacting through branches, customers can now opt to make bookings through the Group's telephone hotline and website, and schedule pick-ups of packages.

In 2018, LBC introduced LBC Connect, a mobile application available for download onto smartphones. LBC Connect has the following functions and capabilities: Branch Locator (to locate the nearest branch to your current location), Track & Trace (to check and track the status of your delivery). This mobile application will continue to create additional functionalities and services, to better serve customers.

Also in 2018, LBC enhanced the capabilities of its consumer website, www.lbcexpress.com. In previous years, the website's function was primarily for information; its functionalities have since been expanded to include transactional capabilities. Online bookings, and Pick-Up Scheduling can now be processed through the Company's website. This service capability has been first introduced to customers in the Philippines, USA and UAE, but will soon be available to more customers across the globe. All this is part of the Company's ongoing effort to create a seamless, omnichannel experience for customers across all LBC touchpoints.

INFORMATION TECHNOLOGY

Operational

The Group is committed to continuing to invest in state-of-the-art IT systems to maintain its competitive edge and more effectively deliver quality service to its customers. The company embarks on a massive enterprise-wide digital transformation program with RAMCO Logistics and Interblocks systems. RAMCO Logistics covers the need of all the business operations from Transportation to warehousing to order management for Parcel/courier service providers, forwarders, 3PL who are seeking high performance logistics software. RAMCO Logistics solution allows LBC to standardize its process for the logistic segment of the business into one technology and application platform, thus eliminating redundancy in operations and achieving absolute data integrity and scope for planning and optimization. The company will start deploying RAMCO Logistics at the third quarter of 2020. Customer Relationship Management Module (CRM) will go live by July 2020 to be followed by RAMCO Warehouse Management Module, RAMCO Enterprise Asset Management (EAM) and RAMCO (WMS) Transport Management Module (TMS) on August 2020, August 2020 and September 2020, respectively. RAMCO module for Human Resources Systems was also implemented in second quarter of 2017.

For the money segment of the Group, it has partnered with Hitachi Digital Payment Solutions Philippines, Inc. formerly Interblocks, a leading provider and innovator of integrated, electronic payment processing solutions that empower Banks & Financial Service Providers across global markets. The Group will utilize Hitachi Digital Payment Solutions, Inc. ibSuite platform to drive a broad range of solutions in Service Delivery, Payments, Cards, Virtual Banking and Mobile Commerce, Interblocks combines strong financial transaction integrity and tight data security into all of its solutions, delivering a totally integrated, consistent and rich experience across all customer touch points.

The Group launched LBC Cash on Delivery Delivery (COD)/ Cash on Pickup (COP) System at the last quarter of 2018. This facilitates the "Kaliwaan System", making transactions safer and more secure for both buyers and sellers. This also makes online sales transactions faster and more convenient for buyers and sellers with it's 1400 branches nationwide as pick-up points and payment centers for their buyer.

In addition, the Group has outfitted each of its couriers with handheld scanners, which will increase efficiency and minimize human error in documenting daily pick-ups and deliveries. In FY 2019, all old handhelds were replaced with latest model together with SOTI Mobility Management that will help the business eliminate handheld device downtime. The Group has also implemented a put-to-light sorting technology for its non-bulk mail, which will help automate some aspects of the parcel sorting process.

The Group has also upgraded its current network infrastructure to allow for a more secure and reliable environment. It upgraded its connectivity bandwidth and implemented a Software Defined Wide Area Network (SD WAN) to provide added network security and reliability. This has enabled the Group to improve its network availability significantly. The group also invested on Security Operation Center (SOC) in partnership with DTSI/NTT Security to provide 24/7 real time threat detection with capabilities on global intelligence correlation, multi-stage attack detection and anomaly threat analysis.

Business Management

The Group uses a comprehensive suite of customized business management solutions software designed and licensed by SAP. The Group has utilized SAP's Financial Accounting and Controlling (SAP FICO), Sales and Distribution (SAP SD) and Materials Management (SAP MM) modules. The Group has migrated SAP System Landscape to SAP HANA Enterprise Cloud which enables scalability with low risk deployments and leverage on SAP HEC's Fully Managed Services which covers Infrastructure and Database related activities. Thus, free-up IT resources and saves on cost for the company. SAP Financial modules were also rolled-out to Middle East countries like UAE, KSA, Kuwait and Bahrain for ease of financial reporting and consolidation and in compliance with the VAT Implementation in the Gulf Cooperation Council (GCC) Region.

As part of the digital transformation program, the Group has utilized Data Analytics for both predictive and operational purposes. It has also utilized its GPS data to create a database for last meter deliveries. It has also allowed itself to do paperless transactions through its handheld devices. The Group is also maximizing the use of Power BI (Business Intelligence) for its operational and financial reports allowing it to be able to make well informed decisions based on real time data.

Online and Mobile Platform

To enhance the customer experience, the Group has developed a digital platform that enables online real-time transaction processing and customer service through its website (www.lbcexpress.com). Currently, the Group's website contains several interactive features for its customers, including package tracking, rate calculators and scheduling of pick-ups for parcels and cargo, as well as real-time customer service support through the "Live Talk" capability. Another added value to customer experience is the company's launch of Chatbot through its Facebook account. This will eventually be available in the website to respond to package tracking, rate calculator and branch locator. The company launched LBC Online and IPP Online in June 2020 through its website. LBC Online is a digital service to bridge LBC closer to the customers through online innovation where customers can book packages, process shipping and manage their money remittance all in a click while at the comfort of their home. IPP Online is the company's digital innovation to its current Instant Peso Padala product. This service allows the customer to send money anywhere and anytime which his recipient can claim at any LBC branch or Remittance partner nationwide. The website is mobile responsive allowing the same functionality from any mobile device.

Digital Transformation

Achieving the Group's vision is anchored on its ability to digitally transform the way they do things; the "Way We Move". However, Digital Transformation is not only just about incorporating the technological tools needed to change the organization; it is a massive undertaking given the scale of the Group and understanding that changes will only begin once mindsets of the human elements are also shifted. This "Change Management" for a 70- year old company, a heritage brand, will include over 7,652 associates across the globe, and a vast network of brick and mortar stores, hubs, and warehouses.

For the customers: Evolving consumer behavior and preferences are driving the way LBC wants to approach business. Our Group will be introducing solutions for a market that is connected 24/7, time-starved, with demands anchored on technology's ability to respond at the speed of need.

In response to customer demand, LBC recognizes that we cannot continue running our business with the current processes and technologies. Automation of all key processes is needed to survive and to be relevant in the industry.

The Group's core logistics applications are upgrading to automate all manual processes. Operations will significantly change once fully implemented. The Group will also be introducing additional products and services to customers of all segments.

For the partners: Boundaries among suppliers, service providers and consumers are evolving quickly, as a result of rapid shifts in technological advances. This entails a fundamental rethinking about how LBC streamlines internal processes, and will prioritize, ever more, driving speed and efficiency.

LBC's Digital Transformation will accelerate business activities, processes and competencies that will, in turn, impact the stakeholders in strategic and meaningful ways. The Group will harness Digital Transformation to radically improve internal performance, partner relationships, and expand reach across different business segments. The Group aims to:

- Further develop the first mile to make us accessible for pick-ups for the retail market, and small-corporate accounts (MSMEs);
- Set up our cross-border operations to capture the e-Commerce market at its origin, making LBC an end-to-end logistics service provider;
- Partner with other logistics service providers through crowdsourcing, making our pick-up and delivery operations "burstable";
- Utilize crowdsourcing to fulfill the need for surge of volume, thus providing a cost-effective solution to demand;
- Expand our Returns Services to Reverse Logistics through reselling, liquidation or disposal of returned items;
- Expand money transaction through digital currency solutions, allowing peer-to-peer payments or C2B payments; and
- Ensure improved efficiencies in our hubs.

All these initiatives will be driven by technology and supported by skilled workforce.

LBC has invested on Digital Transformation to ensure that infrastructure and systems will support our automated processes, and to enable better decision making through information transparency and integrity across all touchpoints.

STATUS OF ANY PUBLICLY-ANNOUNCED NEW PRODUCT OR SERVICE

Cash on Delivery / Cash on Pick-Up ("COD/COP")

More and more Filipinos are doing their shopping online. Since 2017, the e-commerce industry has been growing exponentially, with digital marketplaces registering record sales and consistent growth. The Philippines has also ranked first in social media use and time spent online, which makes the country an ideal market for e-commerce to thrive and sustain vigorous activity.

One of the many challenges faced by many e-commerce merchants were payment gateways/options. A majority of online sellers are also considered "casual sellers" or "social sellers" and with most of them unbanked, completing a transaction had been a challenge. LBCE's inception of a payment solution bundled with logistics capabilities was "Cash On Delivery" (COD) and "Cash On Pick-up" (COP) service.

With this innovative new service, LBCE has enabled more merchants, including "casual or social sellers" to enter into and participate regularly in the thriving e-commerce arena. With "COD/COP," merchants have LBC deliver their goods and collect payment for them, which in turn can either be remitted to their appointed bank accounts or picked up from a designated LBC branch.

This pioneering service has helped spur the further growth of the e-commerce industry in the country, enabling trade, commerce, and generated income for many—promoting the Company's strategy of financial inclusivity and wide accessibility of services.

"COD/COP" utilizes both of LBCE's core business/services: logistics, as a courier of parcels & boxes, and money remittance, as a payment collection channel and payout conduit. Furthermore, LBC serves as a venue for transactions or "trading place": COP guarantees convenient and seamless transactions between merchant and buyer, a buyer may opt for any of LBCE's 1,466 branches as a pick- up point for their items purchased. COD offers the more established delivery scheme: LBC delivery associates collect payments from buyers upon delivery of the items, and these are delivered to any designated address, be it residential, office, or any other location. The collection of payments on behalf of the merchants from the buyers offer safe, reliable and guaranteed assurance for merchants engaging in online selling transactions. LBCE's expansive nationwide network and serviceable areas also allows for buyers to shop from anywhere in the Philippines, and sellers to reach more customers nationwide. COD/COP rates are competitively priced, providing value for money for merchants and buyers, along with LBC's guaranteed service levels.

COD/COP can be availed of at any LBC branch, without any other obligations or contracts; transactions are immediately processed upon fulfillment of the prescribed forms available at the branch. There is no need to create an "account" on online shopping sites, or to maintain any minimum volume of transactions to start an online or "social selling" business.

For the year ended December 31, 2019 and 2018, LBCE generated revenue from COD/COP amounting to ₱807.3 million and ₱123.6 million, respectively.

COMPETITION

Logistics

The Group is known to be a leader in the Philippine retail logistics industry. It has been the top importer of *balikbayan* boxes in terms of throughput for the past 20 years. Although the Group has a leading position and significant market share in the courier and air freight forwarding industry, the Group faces competition from AP Cargo Logistics Network Corporation, JRS Business Corporation, Airfreight 2100, Inc., Cargo Padala Express Forwarding Service Corporation, Libcap Super Express Corporation and 2Go Express, Inc. The Group's international competitors include DHL, FedEx and UPS. However, international freight forwarders have historically not been strong competitors of the Group in the Philippines due to certain restrictions on foreign ownership in the cargo industry in the Philippines, as well as the high barriers to entry created by the dispersed geography of the archipelagic nation.

In the corporate logistics industry, the large industry players in the Philippines are 2Go Freight and Fast Cargo, Inc. The main international competitors for the corporate sector are DHL, FedEx and UPS. Although the Group's market share is still relatively small in the corporate logistics industry, its corporate logistics segment has maintained strong growth since the Group first formally introduced these services as a separate business line in 2010. The Company seeks to increase its market share by leveraging its existing brand and network from its retail services.

Money Transfer Services

According to Ken Research, the Group is one of the top five non-bank providers of domestic remittance services by remittance volume as well as one of the top five non-bank providers of international inbound remittances in the Philippines by remittance volume in calendar year 2012. The Group competes against Philippine banks and various non-banks, such as pawnshops, for its international and domestic remittance services. Philippine banks, such as BDO Unibank, Inc., Bank of the Philippine Islands, Philippine National Bank, Metrobank and RCBC, account for the significant majority of market share in terms of volume for both domestic and international remittances. However, because the Group targets the unbanked population in the Philippines (which account for the majority of Filipinos), the Group believes its domestic remittance business has significant room for additional growth. The Group's main non-bank competitors in the remittance industry include M. Lhuillier, Cebuana Lhuillier, iRemit and Western Union, however, the Company has also embarked on partnerships with these competitors, in order to mutually grow the industry's market penetration by extending each brand's networks. The Group believes that high barriers to entry, including regulatory licenses and a distribution network, make it unlikely that there will be additional material competitors in the future. For the bills payment segment, the Group's largest competitors are bills payment outlets owned and operated by the SM group of companies at its various malls, as well as various banks.

QUALITY ASSURANCE AND INTERNAL CONTROLS

Quality Assurance

The Group recognizes that quality is an integral part of doing business. This is viewed as one of the primary responsibilities in dealing with our stakeholders. LBC is driven by its brand promise, "A Friend who makes your day," in ensuring that quality is effectively carried out in all aspects, particularly by growing profitable revenues and optimize operational costs; executing processes with clarity, certainty and convenience, driving operational excellence and building an agile organization. In 2019, LBC celebrates its 9th consecutive year of having certified to ISO 9001:2015 standards. This is a manifestation that LBC consistently conforms to an international quality management system standard based on a risk-based thinking approach following a Plan-Do-Check-Act framework.

The Group is committed to providing high quality service for customers in all areas of its business. To this end, it has in place standards and procedures to ensure a quality, reliable and seamless customer experience. The Group has in place the following procedures to monitor the quality of its services on a regular basis, as well as plan for contingencies that may otherwise cause an interruption in its business.

Discrepancy Reporting and Undeliverable Items

To ensure that loss and damage is minimal, the Group trains all relevant employees in the proper handling of parcels and cargo. It also has in place stringent procedures for scanning of shipments at all touch points. Upon withdrawal of an item at a distribution center, a manifest of all scanned barcodes is printed, which is later checked against outgoing shipments. Pursuant to the Group's standard operating procedures, all shipping discrepancies must be reported as they occur, with team leaders at the Central Exchange and regional distribution centers responsible for preparing preventive and corrective action, as well as compiling and providing discrepancy reports to the management on a regular basis. Discrepancies include damage, incomplete addresses, misrouted parcels and cargo, shipments to out-of-delivery-zone addresses, pilferage and improper acceptance.

When shipments are undeliverable because, for example, a recipient is unknown or not found at the destination address, or the destination address is not locatable, the Group will send out multiple notices to the sender, including initially an e-mail, followed up by a phone call and, as a last resort, a letter by registered mail. Shipments that remain unclaimed following these procedures (which typically take place over the course of six months to a year) are auctioned, with proceeds generally donated to charity after deducting costs incurred by the Group for storage and other related expenses.

Cash Collection and Management

The Group has implemented strict and comprehensive cash collection and management policies and procedures to minimize operational errors and promote customer trust. For example, every Group branch office is required to set up "cash sanctuaries" to minimize financial loss in the event of a robbery. In addition, the Group also sets strict limits on the amount of cash each branch is permitted to hold before the branch is required to make cash deposits at a bank, as well as value limits on cash deliveries of *Pesopak*.

Compliance with the Group's cash collection and management policies and procedures is monitored through random audits conducted by the Group's general accounting staff. Each branch has a team leader who is responsible for appointing two cash custodians, one primary cash custodian and one back-up cash custodian, maintaining a team resolution (which is signed by all branch associates and delineates the type of funds kept by the cash custodians) and producing readily-available documents showing proper cash turn-over among associates. The primary cash custodian is required to properly account for cash under safekeeping on a daily basis and ensure that there is no mingling of Group funds with customer funds. Every branch associate is required to undertake precautions to safeguard the cash within his or her branch office.

Business Continuity

The success of the Group's business is particularly dependent on the efficient and uninterrupted flow of its operations.

To safeguard against unanticipated interruptions in its business, the Group has instated the following business continuity plans and procedures:

- *Information Technology*. With respect to technology, the Group has back-up servers managed by its IT service provider with built-in redundancies for its various systems in which operational and customer data is stored. In the event of system downtimes, the Group has in place a back-up system whereby communication is maintained through mobile text messaging.

- *Transportation (Logistics).* Although the Group relies on airline and shipping carriers for its daily freight forwarding operations, it also has in place alternative procedures in the event that an airline or shipping carrier is unavailable. For example, when flights are grounded due to severe weather, the Group's vehicle fleet is capable of making deliveries by ground. Although ground deliveries may take longer than air cargo shipments, this enables the Group to continue its service even when other modes of transportation may be unavailable. When its usual shipping carriers are unavailable, the Group also makes use of its vehicle fleet. The vehicles can make deliveries to any region accessible by land, or can make use of RORO ("roll-on-roll-off") car ferries to reach locations that require sea transport.

- *Funding Insufficiencies (Remittances).* Although the Global Remittance Team monitors and makes daily estimates of the funding needs of each branch, on occasion, there may be insufficient funds at a given location to encash a remittance. In such a case, the Group has in place procedures for either nearby branches to deliver the necessary sums, or for authorized personnel to withdraw the cash from one of the Group's local bank accounts.

SUPPLIERS

The Group has a broad base of suppliers. The Group is not dependent on one or a limited number of suppliers. The Group adheres to a Sourcing/Purchasing procedure which begins from the receipt of request for quotation or approved requisition of Stock Items, Non-stock Items, Services and Capital Expenditures to monitoring of delivery of stocks and/or services. These procedures adhere to Policies & Procedures such as: Three Canvassing Policy, Bids and Awards Policy, Policy on Construction of Facilities implemented by the Company's Sourcing & Procurement team. Likewise, a Procurement Manual is in place, which contains, among others, the following:

- Accreditation Requirements for Suppliers / Contractors
- Guidelines on Requesting, Office Supplies, Marketing Collaterals, Computer Peripherals and Uniforms
- Timeline for Purchase Order Processing and Delivery
- Process flow in Purchase Order creation for Regular Materials and Supplies
- Materials and Supplies Dispatch procedure
- Domestic Purchasing Process
- International Purchasing Process
- Vendor Evaluation Form

CUSTOMERS

The Group has a broad market base, including local and foreign individual and institutional clients. The Group does not have a customer that will account for 20% or more of its revenues.

TRANSACTIONS WITH RELATED PARTIES

Please refer to item 12 ("Certain Relationships and Related Transactions") of this Report.

INTELLECTUAL PROPERTY

The Group uses a variety of registered names and marks, including the names "LBC Express, Inc.," "LBC Express," "LBC", "*Hari Ng Padala*" (Filipino for "King of Forwarding Services") and "WWW.LBCEXPRESS.COM" as well as the traditional and the re-designed "LBC" corporate logos (including the new slogan "We Like To Move It"), the "Team LBC *Hari Ng Padala*" logo and "LBC Remit Express" logo in connection with its business. Except for the "LBC Remit Express" design and logo (registered on July 26, 2012 and expires on July 26, 2022) and the LBC in rectangular box and *Pesopak* logo (registered on May 31, 2012 and expires on May 31, 2022), which are owned directly by the Company, these marks (collectively, the "LBC Marks") are owned and licensed to the Company by LBC Development Corporation, the Company's parent company, pursuant to a trademark licensing agreement. Under the terms of this agreement, the Company has the full and exclusive right to utilize the LBC Marks in consideration for a fixed royalty fee of 3.5% of the Company's annual gross revenues (defined as all revenue from sales of products and services, direct and indirect, relating to the Company's business operations). Pursuant to an addendum signed October 25, 2013, the fixed royalty fee was lowered to 2.5%, effective December 1, 2013.

Under the agreement, the Company also has the right to extend the use of the LBC marks to its subsidiaries (defined as companies in which the Company holds at least 67% of the voting rights) within the Philippines, as well as to its remittance and cargo/courier/freight forwarding fulfillment service partners and agents in the Philippines and abroad, subject to certain terms and conditions. In practice, foreign agents of the Company are granted very limited use of the "LBC" brand and logos pursuant to the individual agency agreements entered into between them and the Company.

The LBC Marks have also been registered in each major jurisdiction in the Company's international network. LBC Development Corporation is currently in the process of registering the LBC Marks in the International Register pursuant to the Protocol Relating to the Madrid Agreement (the "Protocol"), which will grant the LBC Marks intellectual property protection in the jurisdictions of all Contracting Parties (as such term is defined in the Protocol). LBC Development Corporation is also currently in the process of registering the LBC Marks in jurisdictions within the Company's international network not covered by the Protocol.

On August 4, 2017, the trade licensing agreement was amended and both parties agreed to discontinue royalty payments for the use of LBC Marks in recognition of LBCE's own contribution to the value and goodwill of the trademark effective September 4, 2017.

GOVERNMENT PERMITS AND LICENSES

The Group secures various approvals, permits and licenses from the appropriate government agencies or authorities as part of the normal course of its business.

EMPLOYEES

As of December 31, 2019, the Group had, on a consolidated basis, 9,088 full-time regular employees, compared to 7,652 full-time regular employees as of December 31, 2018. The Group continues to add to its workforce on a regular basis in line with the growth of its business.

Under the Group's hiring policy, all branch employees must have at minimum a college degree, while exchange associates and drivers and couriers are generally required to have completed a two-year vocational course or the second year of college. Employees of the Group in the Philippines are primarily trained in-house.

The Group maintains a non-contributory defined benefit plan covering all qualified employees in the Philippines.

The following table sets out the number of employees of the Group by job function as of December 31, 2019:

	Number of Employees
Management and Administrative Associates	205
Central Exchange and Regional Distribution Center Associates	333
Branch Associates	3,617
Drivers and Couriers	2,840
Other	2,093
Total	**9,088**

Note:

(1) Figures presented do not include probational employees (i.e. individuals who had been employed by the Company for less than six-months as of the period indicated).

As of the end of December 2019, four Company subsidiaries in the Philippines have entered into collective bargaining agreements with their respective employees, with approximately 900 employee memberships. Approximately 500 of these employees in the Philippines belong to one of the six labor unions (for four subsidiaries) and the remaining approximately 130 employees belong to one of the other five labor unions. The Group believes that there is sufficient coverage by its other, non-unionized subsidiaries to provide back-up support in the event of a disruptive labor dispute at any given unionized subsidiary. In addition, because freight forwarding and messengerial services may be considered indispensable to national interest in the Philippines, the Secretary of the Department of Labor and Employment in the Philippines has the discretion to end strikes or certify the same to the National Labor Relations Commission for compulsory arbitration pursuant to Article 263(g) of the Philippine Labor Code, even in cases involving private providers of such services. Such cessation order or arbitration certification would have the effect of automatically enjoining an intended or impending strike or, if one has already taken place, of requiring all striking or locked out employees to immediately return to work and all employers to immediately resume operations. The Company has not experienced any disruptive labor disputes, strikes or threats of strikes for at least the past decade. Management believes that the Company's relationship with its employees in general is satisfactory.

The Group complies with minimum compensation and benefits standards as well as all other applicable labor and employment regulations in all of the jurisdictions in which it operates. The Group has in place internal control systems and risk management procedures, primarily overseen by its Corporate Compliance Group, Labor Department and Legal Department, to monitor its continued compliance with labor, employment and other applicable regulations.

In addition to full-time employees, the Group relies on contractors for the peak seasons, such as during the Easter and Christmas seasons, to satisfy increased demand for services.

RISKS

The Group is subject to certain operational, regulatory and financial risks as follows:

- A significant portion of the Group's business activities are conducted in the Philippines and a significant portion of its assets are located in the Philippines, which exposes the Group to risks associated with the Philippines, including the performance of, and impacts of global conditions on, the Philippine economy.
- The Group's business is particularly dependent on the quality as well as the efficient and uninterrupted operation of its IT and computer network systems, and disruptions to these systems could adversely affect its business, financial condition and results of operations.
- The Group may not be able to expand its domestic branch network and its product offerings and expand into new geographical markets or develop its existing international operations successfully, which could limit the Group's ability to grow and increase its profitability.
- If consumer confidence in the Group and the "LBC" brand deteriorates, the Group's business, financial condition and results of operations could be adversely affected.
- The Group relies on third party contractors to provide various services, and unsatisfactory or faulty performance of these contractors could have a material adverse effect on the Group's business.
- The Group faces risks from increases in freight and transportation costs.
- The Group operates in competitive industries, which could limit its ability to maintain or increase its market share and maintain profitability.
- Any deterioration in the Group's employee relations, or any significant increases in the cost of labor, could materially and adversely affect the Group's operations.
- The Group does not own any real property and the Group may be unable to renew leases at the end of their lease periods or obtain new leases on acceptable terms.
- The Group may encounter difficulties in managing the operations of its agents and affiliates effectively.
- The Group's businesses are subject to regulation in the Philippines, and any changes in Government policies could adversely affect the Group's operations and profitability.
- The Group is subject to numerous U.S. and international laws and regulations intended to help detect and prevent money laundering, terrorist financing, fraud and other illicit activity. Failure by

the Group, its agents and affiliates to comply with these laws and regulations and increased costs or loss of business associated with compliance with these laws and regulations could have a material adverse effect on the Group's business, financial condition and results of operations.

- The Group faces risks from trade restrictions.
- Any inability of the Group to secure renewals or new licenses for its money transfer operations may have a material adverse effect on its business, prospects, financial condition and results of operations.
- Risks associated with the Group's money transfer operations outside the Philippines could adversely affect the Group's business, financial condition and results of operations.

Item 2. PROPERTIES

REAL PROPERTY

On April 15, 2019, LBCE entered into a Contract to Sell (CTS) with a third party for the purchase of parcels of land for a total consideration of ₱916.89 million. As stipulated in the Contract, within 10 days of the signing of the CTS, LBCE paid the initial down payment amounting to ₱183.38 million. Subsequently, the second payment of ₱91.69 million was settled by LBCE within 15 business days upon presentation of the seller of the new subdivided title, while the remaining purchase price amounting to ₱641.82 million shall be paid by LBCE through a bank financing not later than one year from the CTS date. Accordingly, the seller agrees and undertakes that, upon execution of the CTS and the initial down payment, the seller will turn over the physical possession of the subject property to LBCE. Capitalized direct expenses include transfer fees, capital gains tax, documentary stamp taxes and notarial fees amounting to ₱114.37 million.

The Group's registered office is located at the LBC Hangar at the General Aviation Center in the Old Domestic Airport, Pasay City pursuant to a lease with the Manila International Airport Authority. The LBC Hangar houses the Central Exchange, as well as the Company's Information Technology Team and Global Remittance Team. The aggregate floor space of the LBC Hangar is approximately 2,160 sq. m.

In addition, the Group leases the spaces for all of its 1,466 Company-owned branches in the Philippines, as well as its regional distribution centers, delivery hubs, container freight stations and warehouses. The average term of these leases is three to seven years, with renewal options under most of the lease agreements. Branch offices are refurbished approximately every five to seven years, and the Company considers strategic relocation of branch offices from time to time to meet changing market demands.

For its general and administrative activities, the Group leases a 2,820 sq. m. office space at the Two-E-com Centre in Pasay City, Metro Manila, and a 1,126.97 sq. m. office space at the Ocean Breeze also in Pasay City, Metro Manila, both located near its registered office at the LBC Hangar.

For the years ended December 31, 2019, 2018 and 2017, the Company's total expenses related to leases were ₱1,329.3 million, ₱1,002.9 million and ₱831.6 million, respectively.

EQUIPMENT

Other property and equipment owned by the Group in the Philippines primarily comprises its fleet of 3,289 vehicles (2,672 motorcycles and 617 vans, excluding those acquired through operating lease), servers, computers and peripheral equipment, software, vaults, handheld scanners, X-ray scanners and its bulk mail sorting machine.

Item 3. LEGAL PROCEEDINGS

Due to the nature of the Group's business, it is involved in various legal proceedings, both as plaintiff and defendant, from time to time. Such litigation involves, among others, claims against the Group for non-delivery, loss or theft of packages and documents, mis-release of remittances, labor disputes, as well as cases filed by the Group against employees and others for theft and similar offenses.

Except as disclosed below, neither the Company nor any of its subsidiaries have been or are involved in, or the subject of, any governmental, legal or arbitration proceedings which, if determined adversely to the Company or the relevant subsidiary's interests, would have a material effect on the business or financial position of the Company or any of its subsidiaries.

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 totalling ₱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 for the collection of the sum of ₱1.82 billion. 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 Petition for Certiorari is entitled *"LBC Express, Inc. and LBC Development Corporation vs. Hon. Maximo M. De Leon and LBC Development Bank, as represented by its receiver/liquidator, the Philippine Deposit Insurance Corporation,"* and docketed as CA-G.R. SP No. 150698.

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 who will preside over the trial. The case was re-raffled to Branch 134 of the Makati Regional Trial Court.

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.

On March 6, 2019, with respect to CA-G.R. SP No. 150698, 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 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 on March 21, 2019. On 18 July 2019, they received a copy of the Court of Appeals' resolution denying the motion for reconsideration. LBCE and LBCDC filed an appeal to the Supreme Court on September 2, 2019 assailing the Court of Appeals Decision and Resolution. The appeal with the Supreme Court is entitled "*LBC Express, Inc. and LBC Development Corporation v. Hon. Maximo M. De Leon, Presiding Judge of the Regional Trial Court of Makati Branch 143 and LBC Development Bank as represented by its receiver/liquidator, the Philippine*

Deposit Insurance Corporation" and docketed as G.R. No. 248539. The appeal was initially assigned to the Third Division of the Supreme Court. In the appeal, LBCE and LBCDC are praying for the dismissal of the Complaint because PDIC failed to obtain leave from the liquidation court to file the Complaint before the Regional Trial Court, contrary to the provisions of the Rules of Court and established jurisprudence. PDIC has filed its Comment on January 11, 2020. The Supreme Court has not resolved the appeal as of today.

Meanwhile, PDIC has pre-marked its evidence during pre-marking conferences held on March 6 and 11, 2019. LBCE on the other hand pre-marked its evidence on March 22, 2019 and 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.

At the pre-trial hearing on May 2, 2019, the judge released his Order, whereby he: (a) noted that several of the individual defendants have already received summons, (b) consequently, granted the motion of LBCE to defer pre-trial proceedings in order to have an orderly and organized pre-trial, (c) cancelled the pre-trial hearing until the other defendants have filed their answers, and (d) denied the PDIC's motion to declare the defendants in default. The judge also denied the motion to dismiss of one defendant.

Meanwhile, three out of four individual defendants have already received summons and have filed motions to dismiss the case, all of which were denied by the court. The two individual defendants have filed their motion for reconsideration which has not been resolved by the court. When the motion for reconsideration is denied, the two individual defendants will have to file their answers.

While waiting for the other individual defendants to file their respective answers, PDIC, LBCE and LBCDC and the other individual defendants have proceeded to pre-mark their respective documentary exhibits in preparation for eventual pre-trial. The court has not set a date for the pre-trial.

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.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Except for matters taken up during the annual meeting of the stockholders of LBCH held on July 29, 2019, there was no other matter submitted to a vote of security holders during the period covered by this Report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

<u>MARKET INFORMATION</u>

LBCH common shares are listed with the PSE. As of the end of December 2019, the total number of shares held by the public was 219,686,131 common shares or 15.41% of the total issued and outstanding capital stock of the LBCH.

The following table sets forth the share prices of LBCH's common shares for each quarter of the years 2019, 2018, 2017, 2016 and 2015:

Quarter	High (₱)	Low (₱)
2019		
4th	**15.50**	**13.30**
3rd	**14.90**	**13.52**
2nd	**15.80**	**14.00**
1st	**15.90**	**14.18**
2018		
4th	15.00	13.52
3rd	15.36	14.20
2nd	15.78	14.08
1st	19.90	14.00
2017		
4TH	17.00	14.80
3RD	16.18	15.00
2ND	17.94	14.20
1ST	15.88	14.00
2016		
4TH	16.00	11.50
3RD	14.88	10.50
2ND	15.00	10.14
1ST	12.20	6.20
2015		
4TH	14.50	11.50
3RD	16.98	11.32
2ND	24.80	11.32
1ST	27.55	15.02

The stock price of common share of LBCH as of the close of the latest practicable trading date, May 27, 2020, is ₱13.88.

STOCKHOLDERS

As of end of December 2019, LBCH has 487 registered holders of common shares. The following are the top 20 registered holders of the common shares:

	Name of Stockholder	Nationality	Number Of Shares Held	Percentage
1	LBC Development Corporation	Filipino	1,205,974,632	84.58%
2	Lim, Vittorio Paulo P.	Filipino	59,663,948	4.18%
3	Martinez Jr., Mariano D.	Filipino	59,663,946	4.18%
4	Yu, Lowell L.	Filipino	59,663,946	4.18%
5	Pcd Nominee Corporation	Filipino	37,086,795	2.60%
6	Pcd Nominee Corporation	Non-Filipino	3,266,102	0.23%
7	Ko Mei Nga	Filipino	10,000	0.0007%
8	Tia, Tommy Kin Hing	Chinese	10,000	0.0007%
9	Santos, Ferdinand S.	Filipino	10,000	0.0007%
10	Lantin, Andy	Filipino	5,000	0.0004%
11	Leong, Jennifer H.	Filipino	3,000	0.0002%
12	Cabual, Alfonso B.	Filipino	3,000	0.0002%
13	Juatan, Arnel A.	Filipino	2,000	0.0001%

	Name of Stockholder	Nationality	Number Of Shares Held	Percentage
14	Solis, Edward A.	Filipino	2,000	0.0001%
15	Sobrino, Reychie C.	Filipino	2,000	0.0001%
16	Simbajon, Gliceria	Filipino	2,000	0.0001%
17	Siman, Melba J.	Filipino	2,000	0.0001%
18	Sarmiento, Sergio S.	Filipino	2,000	0.0001%
19	Sequena, Marvin O.	Filipino	2,000	0.0001%
20	Sarmiento, Nelson C.	Filipino	2,000	0.0001%

DIVIDENDS

Dividend Policy

The Company has adopted a dividend policy to distribute to its shareholders a portion of its funds that are surplus subject to the operating and expansion needs of the Company, as determined by the board of directors of the Company, in the form of stock and/or cash dividends, subject always to:

(a) All requirements of the Corporation Code of the Philippines as well as all other applicable laws, rules, regulations and/or orders;

(b) Any banking or other funding covenants by which the Company is bound from time to time; and

(c) The operating and expansion requirements of the Company as mentioned above.

The Company's subsidiary, LBC Express, Inc. has adopted the same dividend policy.

Cash dividends are subject to approval by the Company's Board of Directors without need of stockholders' approval. However, property dividends, such as stock dividends, are subject to the approval of the Company's Board of Directors and stockholders.

The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company.

Dividend History

On September 12, 2019, the BOD of LBCH approved the declaration of cash dividends amounting to ₱356.47 million.

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

On April 19, 2017, the BOD of LBCH approved the declaration of cash dividends amounting to ₱827.00 million from unappropriated retained earnings as of March 31, 2017 amounting to ₱849.83 million.

On October 11, 2016, the BOD of LBCH approved the declaration of cash dividends amounting to ₱313.69 million (nil in 2015).

The dividends attributable to LBCDC was settled through application against due from LBCDC.

RECENT SALE OF SECURITIES

There are no recent sale of unregistered securities or exempt securities or recent issuance of securities constituting an exempt transaction.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

KEY PERFORMANCE INDICATORS

Financial Ratios:

	Formula	**2019**	2018	2017
Current ratio[1]	Total Current Assets / Total Current Liabilities	**1.83**	1.71	2.51
Acid Test Ratio[1]	Total Current Assets - Prepayments and other current assets / Total Current Liabilities	**1.64**	1.55	2.35
Solvency Ratio[1]	Net income after tax less non-cash expenses / Total Liabilities	**0.31**	0.23	0.17
Debt-to-equity ratio[1]	Total Liabilities / Stockholder's equity attributable to Parent Company	**2.47**	2.47	2.98
Asset-to-equity ratio[1]	Total Assets / Stockholder's equity attributable to Parent Company	**3.47**	3.47	3.98
Interest rate coverage ratio[1]	Income before interest and tax expense / Interest expense	**5.08**	9.11	9.24
Return on equity[1]	Net income attributable to Parent Company / Stockholder's equity attributable to Parent Company	**19%**	41%	30%
Debt-to-total assets ratio[1]	Total liabilities / Total assets	**0.71**	0.71	0.75
Return on average assets[1]	Net income attributable to Parent Company / Average assets	**6%**	14%	9%
Net profit margin[1]	Net income attributable to Parent Company / Service Fee	**5%**	11%	7%
Book value per share	Stockholder's equity attributable to Parent Company / Total number of shares	**2.54**	2.30	1.66
Basic earnings per share	Net income attributable to Parent Company / Weighted average of common shares outstanding	**0.35**	0.95	0.49
Diluted earnings per share	Net income attributable to Parent Company after impact of conversion of bonds payable / Adjusted weighted average number of common shares for diluted EPS	**0.35**	0.68	0.49

[1]*Excluding impact of PFRS16 adoption*

RESULTS OF OPERATIONS

Year ended December 31, 2019 compared to the year ended December 31, 2018

Service Revenues

The Company's service revenues increased by 23% to ₱15,227.05 million for the year ended December 31, 2019 from ₱12,341.53 million for the year ended December 31, 2018. This growth was principally due to the increase in revenues from both logistics and remittance segment by 25% and 3%, respectively.

There is also a continuous growth in the domestic business mainly from the opening of 70 retail branches, introduction of new products in mid-2018 and domestic retail price increase effective October 2018.

Net contributed revenue of the businesses acquired in 2019 is ₱1,781.11 million.

Cost of Services

Cost of services is higher by 31% to ₱11,183.62 million for the year ended December 31, 2019 from ₱8,563.58 million for the year ended December 31, 2018, relative to the growth in volume for logistics and money transfer services, thus, a 23% surge in cost of delivery and remittance. Further, there is an increase in domestic air freight cost per kilo effective October 2019.

Salaries and benefits related to operations is up by 42% largely from the acquisition of entities in 2019 and 2018.

The net movement in depreciation and rental showed an increase of 45% which arises from the adoption of PFRS16 wherein right-of-use assets were recognized and amortized through time. There are also additional capital expenditures mostly on leasehold improvements and computer equipment associated with the construction or relocation/renovation of branches.

Utilities and supplies expense increased by 15% or ₱151.00 million, driven by higher data connectivity and security expenses primarily from operations of new branches and warehouses.

Gross Profit

Gross profit is favorable by 7% to ₱4,043.43 million for the year ended December 31, 2019 from ₱3,777.95 million for the year ended December 31, 2018, attributable to the increase in revenue amounts from logistic and remittance segment. This is the result of the initiative to expand location and business combination since last year.

Operating Expenses

Operating expenses is higher by 14% to ₱2,752.70 million for the year ended December 31, 2019 from ₱2,410.30 million for the year ended December 31, 2018, caused by the following:

Commission expense, which is mostly related to agents from international subsidiaries, increased by ₱134.21 million during the year, traceable to North America entities which joined the group during the year.

Advertising and promotion expenses grew by 41% or ₱129.06 million, mainly from parallel increases in production costs, radio advertisements, as well as costs for digital/online campaigns and sponsorship. The fluctuation pertains also to the marketing/promotion expenses of newly purchased subsidiaries.

Professional fee is higher by 48% or ₱90.79 million which can be traced from the acquired entities in 2018 and 2019. These fees include payroll, tax and accounting consultancy fees.

Dues and subscriptions were also higher 45% or by ₱28.58 million, primarily attributable to the rate increase for one of the major Information Technology service providers and new subscription to cloud, other software services and applications.

Other Expense, Net

Other expense, net amounting to ₱454.88 million loss for the year ended December 31, 2019 as compared to ₱449.05 million income in 2018 resulted from the following:

- Loss on derivative amounting to ₱642.51 million for the year ended December 31, 2019 as compared to the ₱454.20 million gain last year, is mainly due to the changes in assumptions used in valuation.
- Foreign exchange gain, net is lower by ₱127.50 million which resulted from the foreign exchange trading, and revaluation of US dollar denominated bank and time deposit accounts.
- Interest expense went up by ₱173.04 million mostly from the adoption of PFRS16 which requires recognition of interest from lease liabilities.
- The above mentioned were negated with the gain recognized from a sale of subsidiary on July 1, 2019 and gain on bargain purchase from business combination completed during the year.

Net Income after tax

Net income after tax was lower at ₱475.82 million for the year ended December 31, 2019 from ₱1,349.03 million for the year ended December 31, 2018, primarily due to the following:

- Loss on derivative attributable to the convertible instrument amounting to ₱642.51 million.
- Lower foreign exchange gain by ₱127.50 million;
- First time adoption of PFRS16 resulted to higher depreciation and interest expense, partially offset by the decline in rentals.
- Net income from operation stand at ₱1,783.36 million in 2019 which is 11% higher compared to ₱1,603.52 for the year ended 2018.

Year ended December 31, 2018 compared to the year ended December 31, 2017

Service Revenues

The Group's service revenues increased by 24%, to ₱12,341.53 million for the year ended December 31, 2018, from ₱9,975.38 million, for the year ended December 31, 2017, primarily due to the increase in revenues from the Logistics segment, attributable to growth in both retail and corporate sales by 25% and 35%, respectively.

In 2018, LBCH expanded operations by acquiring one (1) domestic and nine (9) international entities engaged in money remittance, and online and regular logistics services. Net contribution to revenue from these business combinations amounted to ₱889.79 million or 36% of the total increase.

There is also continuous growth in the domestic business, evidenced by the opening of 76 additional retail branches and the introduction of new products mid-2018, with total contribution of these to total revenue amounting to ₱123.67 million. Improvement in the corporate/institutional segment of the Group is also noteworthy, as it expanded its e-commerce directed logistics and warehousing services, while likewise maintaining its annual growth of corporate/institutional accounts.

Cost of Services

Cost of services increased by 30% to ₱8,563.58 million for the year ended December 31, 2018 from ₱6,606.03 million for the year ended December 31, 2017, in relation to volume growth in logistics services. This resulted with a 40% increase in cost of delivery and remittance.

Direct cost was also significantly affected by the increase in fuel rates, largely due to additional taxes imposed in compliance with the TRAIN Law effective January 1, 2018. This inclined carriers, mainly outsourced airlines and truckers, to enforce rate increases during the year.

Gross Profit

Gross profit increased by 12% to ₱3,777.95 million for the year ended December 31, 2018 from ₱3,369.35 million for the year ended December 31, 2017, primarily due to the increase in volume and revenue amounts for logistics services.

Operating Expenses

Operating expenses increased by 19% to ₱2,410.30 million for the year ended December 31, 2018 from ₱2,021.90 million for the year ended December 31, 2017, relative to the following:

Salaries and wages expenses increased by 27% or ₱134.97 million, relative to an annual appraisal resulting from inflation, and the implementation of TRAIN Law which increased fringe benefit tax rate from 32% to 35%.

Advertising and promotion expenses also contributed to the operating expense increase, as it grew by 88% or ₱148.14 million, mainly from parallel increases in production costs, television and radio advertisements, as well as costs for digital/online campaigns.

Provision for impairment losses increased by ₱66.86 million, mainly due to the adoption of the new standard, PFRS 9, which requires recording an allowance for impairment loss for all loans and other debt financial assets not held at fair value at profit and loss. This resulted to the additional provision from the change in forecast and model assumptions.

Dues and subscriptions were also higher by ₱32.80 million, primarily attributable to a Cloud Subscription Fee incurred for the year ended December 31, 2018. This Cloud Subscription, with a contract effective as of August 2017, replaces the maintenance costs; thus, a decline of 25% in the latter account.

Commission expense, which is mostly related to agents from international subsidiaries, increased by ₱26.94 million this year.

Other Income, Net

Gain on derivative amounting to ₱454.20 million is recognized as a result of lower estimated fair value of derivative liability as of December 31, 2018, as compared to the value as of December 31, 2017. This is mostly from decline of share price from ₱17.00 to ₱14.10 per share.

Foreign exchange gain, net is higher by 78% or ₱71.30 million which resulted from the foreign exchange trading, and a revaluation of US dollar denominated time deposit accounts.

Interest income increased to ₱33.45 million in 2018 from ₱16.17 million in 2017, mainly from the continuous roll over of time deposits denominated in local and foreign currency, throughout the year.

Fair value gain on investment through profit and loss amounting to ₱8.49 million is the realized and unrealized fair value valuation gain of unit investment trust fund earned during the year.

Interest expense is up by ₱87.08 million mostly from the accretion of bond payable.

Net Income after tax

Net income after tax increased by 91% to ₱1,349.03 million for the year ended December 31, 2018 from ₱707.92 million for the year ended December 31, 2017, mainly related to the following:

- Growth in gross profit by 16%, resulting from an increase in volumes;
- Recognition of gain from derivative, amounting to ₱454.20 million which compensates the loss incurred in 2017.

FINANCIAL CONDITION

As of December 31, 2019, compared to as of December 31, 2018

Assets

Current Assets

Cash and cash equivalents increased by 7% to ₱4,418.67 million as at December 31, 2019 from ₱4,137.44 million as at December 31, 2018. Refer to analysis of cash flows in “Liquidity” section below.

Trade and other receivable, net is lower by 6% at ₱1,537.85 million as at December 31, 2019 from ₱1,642.13 million as at December 31, 2018 mainly due to sale of a subsidiary in which all receivables related to this entity were no longer included in the year.

Due from related parties is higher by 98% to ₱1,103.81 million as at December 31, 2019 from ₱557.96 million as of December 31, 2018, mainly from the assignment of receivable from QuadX Inc. to LBC Development Corporation (LBCDC).

Investment at fair value through profit or loss is lower by 88% to ₱15.63 million as at December 31, 2019 from ₱131.29 million as at December 31, 2018, primarily from redemption of investments amounting to ₱280.48 million during the year. This was offset by placement of ₱171.00 million for working capital requirement. Related unrealized foreign exchange loss and unrealized fair value loss as at December 31, 2019 amounted to ₱0.63 million and ₱5.29 million, respectively.

Prepayments and other current assets increased by 25% to ₱807.78 million as at December 31, 2019 from ₱647.52 million as at December 31, 2018, mainly traceable to prepaid taxes and insurance, existing short-term cash investment in the books of an acquired entity in 2019 amounting to ₱128.65 million and current portion of loan receivable from Transtech Co. Ltd. amounting to ₱6.09 million.

Non-current Assets
Property and equipment, net increased by 47% to ₱2,110.74 million as at December 31, 2019 from ₱1,436.08 million as at December 31, 2018, primarily due to the purchase of parcels of land.

Right-of-use of assets resulted from the adoption of PFRS16, which requires the recognition of an identifiable asset for the right to directly use the asset being leased in its operating leases.

Intangibles, net declined by 35% to ₱363.75 million as at December 31, 2019 from ₱555.37 million as at December 31, 2018. The decrease was mainly due to sale of a subsidiary for which carrying value of ₱179.11 million was derecognized.

Investment at fair value through other comprehensive income, decrease by 15% to ₱286.74 million as at December 31, 2019 from ₱337.45 million as at December 31, 2018, relative to movement in market price from ₱1.73/share to ₱1.47/share.

Investment in associate increased by 5% to ₱250.64 million at December 31, 2019 from ₱239.02 million as at December 31, 2018 due to equity share in earnings including other comprehensive income of ₱26.62 million, offset by dividend income of ₱15 million.

Security deposit increased by 6% to ₱330.62 million as at December 31, 2019 from ₱312.43 million as at December 31, 2018 due to branches opened, additional security deposit requirement of renewed leases and deposits from acquired businesses.

Deferred tax assets - net increased by 25% to ₱377.56 million as of December 31, 2019 from ₱302.28 million as of December 31, 2018 mainly attributable to the deferred tax recognized related to accrued retirement liability, provision for bonus and leave credits, allowance for impairment losses and PFRS 16 related adjustments which are future tax deductible.

Advances for future investment in shares decreased by 82% to ₱78.73 million as of December 31, 2019 from ₱439.82 million as of December 31, 2018. The beginning balance represents the payment for acquisition of shares of North America entities, wherein the approval was granted effective January 1 and July 1, 2019. In 2019, LBCE subscribed 29,436,968 shares of Terra Barbaza Aviation, Inc. (TBAI) at ₱1.75 per share. LBCE used its outstanding advances to TBAI amounting to ₱51.51 million as payment for the total subscription price. LBCE also subscribed 20,001,250 Common Shares in TBAI from its shareholder amounting to ₱27.21 million representing 25% ownership. Currently, TBAI is in the process of increasing its authorized capital stock. Once the application for the increase in authorized capital stock is approved by SEC, 20,000,000 of the Common Shares purchased by LBCE will be converted to 20,000,000 nonvoting Preferred A shares. Subsequently, the remaining 1,250 Common Shares, will represent 24.86% of the total outstanding Common Shares.

Other noncurrent assets increased by 72% to ₱238.46 million as at December 31, 2019 from ₱138.93 million as at December 31, 2018 mainly due to loan receivable amounting to ₱83.73 million and note receivable of ₱26.81 million during the year.

On September 25, 2019, LBCH entered into a loan agreement with Transtech Co. Ltd amounting to US $1.8 million at 2.3% interest per annum. Notes receivable includes the promissory note from an employee and LBC Holdings USA Corporation (LBC Holdings USA).

Notes receivable from LBC Holdings USA is with interest rate of 4% per annum and payable in 180 equal monthly installments while notes receivable from an employee is payable through salary deduction in monthly installments.

The net decline in goodwill amounting to ₱205.56 million is mainly due to the sale of a subsidiary reducing the account by ₱225.81 million and an increase of ₱19.60 million related to newly acquired equity interest during the year.

Liabilities

Accounts and other payables were up by 16% to ₱3,242.18 million as at December 31, 2019 from ₱2,806.17 million as of December 31, 2018, primarily due to the unpaid acquisitions of property and equipment as at December 31 is higher by ₱641.82 million, mainly from purchase of land;

Due to related parties amounting to ₱33.61 million as at December 31, 2019 is below December 31, 2018 balance amounting to ₱93.99 million attributable to the sale of subsidiary in 2019.

Dividends payable decreased by 95% to ₱14.78 million as at December 31, 2019 from ₱285.17 million due to the settlement and offsetting agreements made during the year. For the year 2019, through a Memorandum of Agreement, LBC Development Corporation (the Ultimate Parent Company) assigned to LBCH a portion of its payable to LBCE for which the latter applied against dividends payable of LBCH with a total amount of ₱493.29 million.

Notes payable (current and noncurrent) increased by 27% to ₱929.72 million as at December 31, 2019 from ₱829.50 million as at December 31, 2018, primarily due to additional notes payable availed amounting to ₱400.00 million and settlement of ₱299.78 million during the year.

Transmissions liability up by 8% to ₱586.89 million as at December 31, 2019 from ₱543.90 million as of December 31, 2018, mainly attributable to a higher amount of merchant liability (from bills payment) and transmission liability by the newly acquired businesses, LBC North America entities, which are not yet claimed as of date.

Lease liabilities (current and noncurrent) is significantly increased to ₱2,001.75 million as at December 31, 2019 from ₱140.07 million as of December 31, 2018, driven by the adoption of PFRS16 which requires recognition of lease liability related to the operating leases.

Bond payable increased by 13% to ₱1,247.02 million as at December 31, 2019 from ₱1,108.42 million as at December 31, 2018, mainly from the accretion of interest, offset by the gain on foreign exchange translation by ₱45.32 million.

Derivative liability increased by 46% to ₱2,048.68 million as at December 31, 2019 from ₱1,406.18 million as of December 31, 2018, related to change in market data assumptions used in valuation.

Income taxes payable is lower by 66% to ₱43.36 million as at December 31, 2019 from ₱126.57 million as at December 31, 2018 primarily resulting from impact of PFRS16 to profit and loss.

Retirement benefit obligation decreased by 5% to ₱637.79 million as at December 31, 2019 from ₱672.27 million as of December 31, 2018 driven by significant amount of contributions in 2019, net actuarial gain and effect of disposal of a subsidiary.

Other liabilities account is lower by 50% to ₱39.79 million as at December 31, 2019 from ₱79.99 million in 2018 due to settlements during the year.

As of December 31, 2018, compared to as of December 31, 2017

Assets

Current Asset
Cash and cash equivalents increased by 10% to ₱4,137.44 million as of December 31, 2018 from ₱3,778.41 million as of December 31, 2017. Refer to the analysis of cash flows in "Liquidity" section below.

Trade and other receivables, net declined by 2% to ₱1,642.13 million as of December 31, 2018 from ₱1,675.80 million as of December 31, 2017, mainly due to improvements in collection efficiency, as evidenced by lower daily sales outstanding (DSO) for the net trade receivable from outside and related parties.

Due from related parties is lower by 16% to ₱557.96 million as of December 31, 2018 from ₱667.72 million as of December 31, 2017, mainly attributable to advances to QUADX Inc. in 2017 which are assigned to LBCH in 2018 as part of the settlement of subscription of shares of QUADX Inc.

Investment at fair value through profit or loss decreased by 70% to ₱131.29 million as of December 31, 2018 from ₱440.76 million as of December 31, 2017, primarily from redemption of investments amounting to ₱1,215.94 million during the year, and offset by the placement of ₱888.58 million for working capital requirement. The redemption was mostly used in the purchase of entities mentioned above, as part of investments.

Prepayments and other current assets increased by 45% to ₱647.52 million as of December 31, 2018 from ₱446.13 million as of December 31, 2017, due to additional prepaid accounts of newly acquired entities amounting to ₱144.75 million, comprised of input value-added tax (VAT), creditable withholding taxes (CWT) and materials and supplies.

Non-current Assets
Property and equipment, net increased by 47% to ₱1,436.08 million as of December 31, 2018 from ₱976.05 million as of December 31, 2017, primarily due to business combination which contributed ₱87.89 million fixed assets during acquisition. Additions to motorcycle fleet and opening of new branches are also factors for the increase in motor vehicle by 88% and leasehold improvements by 16%.

Intangibles, net is higher by 56% to ₱555.36 million as of December 31, 2018 from ₱356.85 million as of December 31, 2017, mostly from the software of the acquired entity engaged in online logistics with net book value amounting to ₱198.22 million as of December 31, 2018. In addition, the LBC Express acquired web filtering software amounting to P15.19 million, on an interest bearing payment arrangement over 18 months.

Investment at fair value through other comprehensive income is lower by 24% to ₱337.45 million as of December 31, 2018 from ₱444.74 million as of December 31, 2017, relative to movement in market price from ₱1.97/share to ₱1.73/share.

Deferred tax assets - net increased by 4% to ₱302.28 million as of December 31, 2018 from ₱289.52 million as of December 31, 2017 pertaining to the recognition of contract liabilities in compliance with PFRS15. Deferred tax related to this amounted to ₱11.38 million.

Security deposit went up by 22% to ₱312.43 million as at December 31, 2018 from ₱255.42 million as at December 31, 2017 largely from opening of new branches, warehouses and the transfer of the head office during the year.

Investment in associate amounting to ₱239.02 million is the result of acquisition of 30% equity interest in Orient Freight International, Inc. on March 19, 2018.

Purchased goodwill amounting to ₱492.45 million resulted from acquisition of equity interest in domestic and overseas entities during the year.

Advances for future investment in shares represents the acquisition of shares of entities under LBC Express Holdings USA Corporation amounting to ₱439.82 million. Regulatory approvals were granted on the purchase of LBC Mundial Corporation and LBC Mabuhay North America Corporation on January 1, 2019 while closing conditions are not yet met for LBC Mabuhay Hawaii Corporation.

Other noncurrent assets consist largely of VAT on capital goods which increased by 64% to ₱138.93 million as of December 31, 2018 from ₱92.16 million as of December 31, 2017.

Liabilities

Accounts and other payables were up by 75% to ₱2,806.17 million as of December 31, 2018 from ₱1,603.11 million as of December 31, 2017, primarily due to the following:

- Higher trade payables to outside parties by 108% or ₱708.91 million which is mainly comprised of delivery and freight related payables.
- Accrual for contracted jobs increased by 57%, mostly from a higher count of direct manpower to accommodate the increase in volume of operations.
- Accrued rent and utilities increased by 37%, related to additional branches and warehouses.
- Total accounts payable from newly acquired entities amounted to ₱589.8 million as of December 31, 2018.

Due to related parties amounting to ₱93.99 million as of December 31, 2018 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 represents the amount declared by LBCH's Board of Directors on December 20, 2018.

Notes payable (current and noncurrent) declined by 20% to ₱829.50 million as of December 31, 2018 from ₱1,041.30 million as of December 31, 2017, primarily attributable to higher settlement of notes payable during the year, amounting to ₱361.80 million, and offset by an additional availment of short-term notes payable amounting to ₱150.00 million.

Transmissions liability dropped by 8% to ₱543.90 million as of December 31, 2018 from ₱588.20 million as of December 31, 2017, mainly attributable to a lower amount of merchant liability (from bills payment), by 9%.

Lease liabilities (current and noncurrent) was higher by 19% to ₱140.07 million as of December 31, 2018 from ₱117.72 million as of December 31, 2017, driven by the additional finance leases related to vehicles entered during the year, amounting to ₱46.00 million.

Retirement benefit liability decreased by 5% to ₱672.26 million as of December 31, 2018 from ₱705.33 million as of December 31, 2017, due to the higher fund contributions made in 2018.

Bond payable increased by 24% to ₱1,108.42 million as of December 31, 2018 from ₱896.19 million as of December 31, 2017, mainly from the accretion of interest and impact of higher exchange rates, amounting to ₱161.65 million and ₱50.58 million, respectively.

Derivative liability declined by 24% to ₱1406.18 million as of December 31, 2018 from ₱1,860.37 million as of December 31, 2017, related to fair value gain resulting from lower share price.

Other liabilities decreased by 32% to ₱79.99 million as of December 31, 2018 from ₱118.33 million as of December 31, 2017, mainly from the amortization of existing liabilities related to computer infrastructure, payroll and logistic systems and IT security tools.

LIQUIDITY

Cash Flows
Years ended December 31, 2019 and December 31, 2018

Cash flow 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, loss on derivative, gain from bargain purchase, gain from sale of subsidiary, equity in net earnings of an associate and changes in working capital. The Company's net cash from operating activities were ₱2,107.42 million and ₱1,616.78 million for the year ended December 31, 2019 and 2018, respectively. The inflow from operating activities were generally from normal operations.

Cash flows from investing activities
Cash used in investing activities for the year ended December 31, 2019 and 2018 amounted to ₱895.017 million and ₱910.50 million. Major investing activities for the period includes acquisition of land, business combination and granting of loans receivable.

Cash flow from financing activities
Net cash used in financing activities for the year ended December 31, 2019 and 2018 amounted to ₱890.49 million and ₱472.06 million, respectively. Transactions for the year include dividends, availment and settlement of notes payable and the impact of the adoption of PFRS16 in leases.

Years ended December 31, 2018 and December 31, 2017

Cash flow from operating activities
The Group’s net cash from operating activities is primarily affected by income before income tax, depreciation and amortization, unrealized foreign exchange gain, retirement benefit expense, interest income and expense, loss on derivatives, unrealized fair value gain from investments through profit and loss, share in equity of net earnings of an associate and, changes in working capital. The Group’s net cash from operating activities were ₱1,616.78 million, and ₱1,386.28 million for the year ended December 31, 2018 and 2017, respectively.

For the year ended December 31, 2018, cash flow from operating activities were derived from the normal operations.

Cash flows used in investing activities
Cash flow used investing activities for the years ended December 31, 2018 and 2017 were ₱910.50 million and ₱834.55 million, respectively. Major activities for the year included:

- Business combination in 2018, in which the net cash payment (net of cash acquired) amounted to ₱43.43 million for all acquired subsidiaries. Settlement related to investment in associate amounted to ₱218.27 million.

- Acquisitions of property and equipment and intangibles amounted to ₱540.14 million and ₱164.33 million, respectively, in 2018 while it amounted to ₱354.91 million and ₱38.45 million, respectively, in 2017.

Cash flow from financing activities

Cash flow (used) from financing activities for the years ended December 31, 2018 and 2017 were (₱472.06 million) and ₱1,922.97 million, respectively.

For the year ended December 31, 2017, the inflow from financing activities is primarily from the issuance of a convertible instrument that generated cash amounting to ₱2,505.66 million.

Item 7. FINANCIAL STATEMENTS

The 2019 consolidated financial statements of the Company are incorporated herein the accompanying index to exhibits.

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

The consolidated financial statements of the Company as at and for the year ended December 31, 2019 and 2018 were audited by SGV & Co., a member firm of Ernst & Young Global Limited.

SGV & Co. has acted as the Company's independent auditor since fiscal year 2014. Cyril Jasmin B. Valencia is the current audit partner for the Company and has served as such since fiscal year 2014. The Company has not had any material disagreements on accounting and financial disclosures with its current independent auditor for the same periods or any subsequent interim period. SGV & Co. has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities of the Company. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

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

	2019	**2018**
In millions (₱)		
Audit and Audit-Related Fees[1]	₱6.83	₱5.68
Total	₱6.83	₱5.68

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

SGV & Co. did not provide services for tax accounting, compliance, advice, planning and any other form of tax services to the Company in the last two fiscal years. Other than the audit of the annual financial statements and the review of the interim financial statements, SGV & Co. did not provide any other services to the Company in the last two fiscal years.

In relation to the audit of the Company's annual financial statements, the Company's Corporate Governance Manual, provides that the audit committee shall, among other activities (i) review the reports submitted by the internal and external auditors; (ii) ensure that other non-audit work provided by the external auditors are not in conflict with their functions as external auditors; and (iii) coordinate, monitor and facilitate compliance with laws, rules and regulations.

The Audit Committee is composed of at least three appropriately qualified non-executive members of the Board of Directors, the majority of whom, including the Chairman, is an Independent Director. The Audit Committee, with respect to an external audit:

- Perform oversight functions over the Company's external auditors. It ensures the independence of internal and external auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.

- Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.

- Evaluate and determine the non-audit work, if any, of the external auditor, and periodically review the non-audit fees paid to the external auditor in relation to the total fees paid to him and to the Company's overall consultancy expenses. The committee should disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Company's annual report and annual corporate governance report;

- Review the reports submitted by the external auditors.

The following are the members of the Company's Audit Committee:

a) Solita V. Delantar - Chairman
b) Luis N. Yu, Jr. - Member
c) Anthony A. Abad - Member

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

LBCH's by-laws and articles of incorporation provide for the election of nine directors, two of whom shall be independent directors. The Board of Directors is responsible for the direction and control of the business affairs, and management of the company, and the preservation of its assets and properties. No person can be elected as a director of the company unless he is pre-screened by the Corporate Governance (formerly Nomination and Renumeration) Committee and is a registered owner of at least one common share of the capital of LBCH.

The Company's Corporate Governance Committee is composed of the following:

a) Anthony A. Abad - Chairman
b) Solita V. Delantar - Member
c) Luis N. Yu, Jr. - Member

The table below sets forth each member of the LBCH's Board of Directors:

Name	Nationality	Age	Position
Miguel Angel A. Camahort	Filipino	57	Chairman of the Board
Rene E. Fuentes	Filipino	46	Director
Enrique V. Rey, Jr.	Filipino	49	Director
Augusto G. Gan	Filipino	57	Director
Mark Werner J. Rosal	Filipino	45	Director
Jason Michael Rosenblatt	American	43	Director
Anthony A. Abad	Filipino	56	Independent Director
Solita V. Delantar	Filipino	76	Independent Director
Luis N. Yu, Jr.	Filipino	64	Independent Director

The business experience of each of the directors is set forth below.

Miguel Angel A. Camahort
Chairman of the Board

Mr. Miguel Angel A. Camahort is the Chairman of the Board of Directors and President of LBCH. He is also the President and Chief Operating Officer of LBCE., the operating company of LBCH. Prior to joining the LBC Group, Mr. Camahort was Senior Vice-President and Chief Operating Officer of Aboitiz One, Inc. from 2007 to 2009, and Aboitiz Transport System Corporation (ATSC) Solutions Division from 2004 to 2007. He also served as a Senior Vice-President and Chief Operating Officer of Aboitiz Transport System Corp. (formerly, William, Gothong & Aboitiz, Inc.) in the Freight Division from 1999 to 2003; prior to which, he was President of Davao Integrated Stevedoring Services Corporation (DIPSCCOR), from 1999 to 2003. Mr. Camahort holds a Bachelor of Science degree in Business Administration and Economics from Notre Dame de Namur University (formerly, the College of Notre Dame) in California, U.S.A.

Rene E. Fuentes
Director

Mr. Rene E. Fuentes is currently the Executive Vice-President and Chief Operating Officer of the International Sales and Operations division of LBCE., the operating company of LBCH. He previously held the Senior Vice-President for Global Retail Operations position of the same company, from 2015 to 2019. Prior to joining the LBC Group in 2001, Mr. Fuentes served as President of Documents Plus, Inc. from 1996 to 2001, and as Regional Manager, Vice-President of EFC Food Corporation from 1996 to 2001. Mr. Fuentes attended the De La Salle University, and completed a Key Executive Program in November 2013 at the Harvard Business School.

Enrique V. Rey, Jr.
Director

Mr. Enrique V. Rey Jr. assumed the position of Investor Relations Officer of the Company on September 2015 and elected as the Chief Finance Officer of LBCH on September 2017 after being an officer-in-charge for the same position since December 2015. Mr. Rey, Jr. was also a director of LBC Systems, Inc. from 2008 to 2010 and LBC Mundial Inc. from 2005 to 2008. Prior to joining the Company, Mr. Rey, Jr. worked for Coca-Cola Phil ATS, where he was the Senior Head of Sales from 2003 to 2005 and the Associate Vice President for Institutional Sales from 2000 to 2003. Mr. Rey, Jr. attended De La Salle University and completed a Management program at the Ateneo Business School. Mr. Rey, Jr. has also attended INSEAD and received training in Finance. Since 2010, Mr. Rey, Jr. has been a member of the Institute of Internal Auditors.

Augusto G. Gan
Director

Mr. Augusto G. Gan was appointed Director of LBCH in September 2015. He has also been a Director of LBC Express, Inc., the operating company of LBCH, since 2013. Mr. Gan concurrently serves as a Director of Atlantic Gulf and Pacific Company, Investment and Capital Corp. of the Philippines, Pick Szeged ZRT and Sole-Mizo Zrt. He is also the Managing Director of Ganesp Ventures and the Chairman of the Board of Anders Consulting Ltd. Previously, Mr. Gan was the President of the Delphi Group from 2001 to 2012 and the Chief Executive Officer of Novasage Incorporations (HK) from 2006 to 2007. He has also served as a Director of AFP Group Ltd. (HK) from 2005 to 2007 and ISM Communication from 2003 to 2004, as well as the Chairman of the Boards of Cambridge Holdings from 1995 to 2000 and Qualibrand Industries from 1988 to 2001. Mr. Gan holds a Master in Business Management degree from the Asian Institute of Management.

Mark Werner J. Rosal
Director

Atty. Mark Rosal became a Director of LBCH on April 28, 2015. Born in Cebu City, Atty. Rosal, prior to taking up Law, obtained a Bachelor’s Degree in Physical Therapy from the Cebu Velez College, and is a registered Physical Therapist. Atty. Rosal subsequently graduated in the top 5% of his law school batch at the University of San Carlos, Cebu City, in 2002, and was admitted to the Philippine Bar in 2003. He spent his early years in the practice of law at Balgos and Perez Law Offices and Angara Cruz Concepcion Regala and Abello (ACCRALAW). Currently, he is the Managing Partner of Rosal Bacalla Fortuna Helmuth and Virtudazo Law Offices, a Cebu-based law firm. Atty. Rosal's field of practice is Corporate Law, Mergers and Acquisitions, Real Estate Law, Estate Planning, and Company Labor Law matters. He holds various positions and performs multiple roles in various private corporations such as Cebu Agaru Motors Inc., Wide Gain Property Holdings, Inc., Sem-Ros Food Corp , Rural Bank of Talisay, (Cebu) Inc., and OneMeridaLand Corp.

Jason Michael Rosenblatt
Director

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

Anthony A. Abad
Independent Director

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

Solita V. Delantar
Independent Director

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

Luis N. Yu, Jr.
Independent Director

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

MANAGEMENT AND OFFICERS

LBCH's executive officers and management team cooperate with its Board by preparing appropriate information and documents concerning the Company's business operations, financial condition and results of operations for its review. The table below sets forth each member of the LBCH's management:

Name	Nationality	Age	Position
Miguel Angel A. Camahort	Filipino	57	Chief Executive Officer and President
Enrique V. Rey, Jr.	Filipino	49	Investor Relations Officer, Chief Finance Officer and Chief Risk Officer
Cristina S. Palma Gil-Fernandez	Filipino	51	Corporate Secretary
Rosalie H. Infantado	Filipino	44	Treasurer
Mahleene G. Go	Filipino	39	Assistant Corporate Secretary, Corporate Information Officer and Compliance Officer
Ernesto C. Naval III	Filipino	27	Alternate Corporate Information Officer
Jeric C. Baquiran	Filipino	42	Chief Audit Executive

The business experience of each of the LBCH's officers is set forth below.

Miguel Angel A. Camahort
Chief Executive Officer and President

Please refer to the table of directors above.

Enrique V. Rey Jr.
Chief Finance Officer, Investor Relations Officer

Please refer to the table of directors above.

Cristina S. Palma-Gil Fernandez
Corporate Secretary

Atty. Palma Gil-Fernandez assumed the position of Corporate Secretary of LBCH in September 2015. Atty. Palma Gil-Fernandez graduated with a Bachelor of Arts degree, Major in History (Honors) from the University of San Francisco in 1989, and with a Juris Doctor degree, second honors, from the Ateneo de Manila University in 1995. She is currently a Partner at Picazo Buyco Tan Fider & Santos Law Offices and has 25 years of experience in corporate and commercial law, with emphasis on the practice areas of banking, securities and capital markets (equity and debt), corporate reorganizations and restructurings and real estate.

Rosalie H. Infantado
Treasurer

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

Mahleene G. Go
Assistant Corporate Secretary, Corporate Information Officer and Compliance Officer

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

Ernesto C. Naval III
Alternate Corporate Information Officer

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

The Board has established committees to assist in exercising its authority in monitoring the performance of the business of the Company. The committees, as detailed below, provide specific and focused means for the Board to address relevant issues including those related to corporate governance.

Jeric C. Baquiran
Chief Audit Executive

Mr. Jeric C. Baquiran was appointed Chief Audit Executive of the Company in March 2019. He joined LBC Express in 2006, and since 2015 has lead the Corporate Audit department for the company, as Senior Manager of the Corporate Audit Department. Mr. Baquiran graduated from Saint Mary's University, Bayombong, with a Bachelor of Science degree in Accountancy in 1999. He passed the Certified Public Accountancy Licensure Examination in May 2000. Prior to joining LBC, he held audit positions at DCCD Engineering Corporation (2000 to 2003), and Lapanday Foods Corporation (2003 to 2005).

The Board has established committees to assist in exercising its authority in monitoring the performance of the business of the Company. The committees, as detailed below, provide specific and focused means for the Board to address relevant issues including those related to corporate governance.

	Committees			
	Audit	**Corporate Governance**	**Related Party Transactions**	**Board Risk Oversight**
Solita V. Delantar	Chairman	Member		Member
Luis N. Yu, Jr.	Member	Member	Member	Chairman
Anthony A. Abad	Member	Chairman	Chairman	
Enrique V. Rey, Jr.				Member
Augusto G. Gan			Member	

SIGNIFICANT EMPLOYEES

The Company considers its entire work force as significant employees. Everyone is expected to work together as a team to achieve the Company's goals and objectives.

FAMILY RELATIONSHIPS

As of the date of this Report, there are no family relationships between Directors and members of the Company's senior management known to the Company.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

The Company believes that none of the Company's directors, nominees for election as director, or executive officers have in the five-year period prior to the date of this Report: (1) had any petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within a two-year period of that time; (2) have been convicted by final judgment in a criminal proceeding, domestic or foreign, or have been subjected to a pending judicial proceeding of a criminal nature, domestic or foreign, excluding traffic violations and other minor offenses; (3) have been the subject of any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities; or (4) have been found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, such judgment having not been reversed, suspended, or vacated.

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 totalling ₱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 for the collection of the sum of ₱1.82 billion. 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 Petition for Certiorari is entitled *"LBC Express, Inc. and LBC Development Corporation vs. Hon. Maximo M. De Leon and LBC Development Bank, as represented by its receiver/liquidator, the Philippine Deposit Insurance Corporation,"* and docketed as CA-G.R. SP No. 150698.

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 who will preside over the trial. The case was re-raffled to Branch 134 of the Makati Regional Trial Court.

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.

On March 6, 2019, with respect to CA-G.R. SP No. 150698, 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 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 on March 21, 2019. On 18 July 2019, they received a copy of the Court of Appeals' resolution denying the motion for reconsideration. LBCE and LBCDC filed an appeal to the Supreme Court on September 2, 2019 assailing the Court of Appeals Decision and Resolution. The appeal with the Supreme Court is entitled *"LBC Express, Inc. and LBC Development Corporation v. Hon. Maximo M. De Leon, Presiding Judge of the Regional Trial Court of Makati Branch 143 and LBC Development Bank as represented by its receiver/liquidator, the Philippine Deposit Insurance Corporation"* and docketed as G.R. No. 248539. The appeal was initially assigned to the Third Division of the Supreme Court. In the appeal, LBCE and LBCDC are praying for the dismissal of the Complaint because PDIC failed to obtain leave from the liquidation court to file the Complaint before the Regional Trial Court, contrary to the provisions of the Rules of Court and established jurisprudence. PDIC has filed its Comment on January 11, 2020. The Supreme Court has not resolved the appeal as of today.

Meanwhile, PDIC has pre-marked its evidence during pre-marking conferences held on March 6 and 11, 2019. LBCE on the other hand pre-marked its evidence on March 22, 2019 and 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.

At the pre-trial hearing on May 2, 2019, the judge released his Order, whereby he: (a) noted that several of the individual defendants have already received summons, (b) consequently, granted the motion of LBCE to defer pre-trial proceedings in order to have an orderly and organized pre-trial, (c) cancelled the pre-trial hearing until the other defendants have filed their answers, and (d) denied the PDIC's motion to declare the defendants in default. The judge also denied the motion to dismiss of one defendant.

Meanwhile, three out of four individual defendants have already received summons and have filed motions to dismiss the case, all of which were denied by the court. The two individual defendants have filed their motion for reconsideration which has not been resolved by the court. When the motion for reconsideration is denied, the two individual defendants will have to file their answers.

While waiting for the other individual defendants to file their respective answers, PDIC, LBCE and LBCDC and the other individual defendants have proceeded to pre-mark their respective documentary exhibits in preparation for eventual pre-trial. The court has not set a date for the pre-trial.

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.

Item 10. EXECUTIVE COMPENSATION

COMPENSATION

There are no employees under LBC Express Holdings, Inc.

Standard Arrangements

Other than payment of reasonable per diem as may be determined by the Board of Directors for every meeting, there are no standard arrangements pursuant to which directors of LBCH are compensated, or were compensated, directly or indirectly, for any services provided as a Director and for their committee participation or special assignments for 2010 up to the present.

Other Arrangements

There are no other arrangements pursuant to which any director of LBCH was compensated, or to be compensated, directly or indirectly, during 2019 for any service provided as a Director.

EMPLOYMENT CONTRACTS

LBCH has no special employment contracts with the named Executive Officers.

WARRANTS AND OPTIONS OUTSTANDING

There are no outstanding warrants or options held by the President, the named Executive Officers, and all Officers and Directors as a group.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Record and Beneficial Owners of more than 5% of the LBCH's voting securities as of December 31, 2019.

Title of Class	Name and Address of Record Owner and Relationship to Issuer	Name of Beneficial Owner	Citizenship	No. of Common Shares Held in LBCH	% of Total Outstanding Shares of LBCH
Common	LBC Development Corporation General Aviation Center, Domestic Airport Compound, Pasay City (stockholder)	The record owner is the beneficial owner of the shares indicated	Filipino	1,206,178,232	84.59%

Security Ownership of Directors and Officers as of December 31, 2019

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	% of Total Outstanding Shares
Common	Rene E. Fuentes	1- direct	Filipino	0.0%
Common	Enrique V. Rey, Jr.	1- direct	Filipino	0.0%
Common	Augusto G. Gan	1- direct	Filipino	0.0%
Common	Miguel Angel A. Camahort	1- direct	Filipino	0.0%

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	% of Total Outstanding Shares
Common	Mark Werner J. Rosal	1,000 - direct	Filipino	0.0%
Common	Solita V. Delantar	1- direct	Filipino	0.0%
Common	Luis N. Yu, Jr.	1- direct	Filipino	0.0%
Common	Antonio A. Abad	101-direct	Filipino	0.0%
Common	Jason Michael Rosenblatt	1-direct	Filipino	0.0%

Voting Trust Holders of five percent or More

There were no persons holding more than five percent of a class of shares of LBCH under a voting trust or similar agreement as of the date of this Prospectus.

CHANGE IN CONTROL

On May 18, 2015, LBC Development Corporation subscribed to 59,101,000 common shares of the Company (equivalent to 59.10% of the total issued and outstanding capital stock of the Company as of said date) which resulted in LBC Development Corporation acquiring control of the Company.

On September 18, 2015, LBC Development Corporation subscribed to an additional 1,146,873,632 common shares which were issued on October 12, 2015 following the approval by the SEC of the Company's application to increase its authorized capital stock from ₱100,000,000.00 divided into 100,000,000 common shares with par value of ₱1.00 per share, to ₱2,000,000,000.00 divided into 2,000,000,000 common shares with par value of ₱1.00 per share. As of the date of this Report, LBC Development Corporation holds a total of 1,205,974,632 common shares of the Company or 84.58% of the Company's total issued and outstanding capital stock of the Company.

As of December 31, 2019, there are no arrangements which would delay, defer or prevent a change in control of the Company.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

RELATED PARTY TRANSACTIONS

The Company and its subsidiaries in their ordinary course of business, engage in transactions with related parties and affiliates consisting of its parent company (LBC Development Corporation) and entities under common control. These transactions include royalty, service and management fee arrangements and loans and advances.

It is a policy of the Company that related party transactions are entered into on terms which are not more favourable to the related party than those generally available to third parties dealing at arm's length basis and are not detrimental to unrelated shareholders. All related party transactions shall be reviewed by the appropriate approving authority, as may be determined by the board of directors. In the event of a related party transaction involving a director, the relevant director should make a full disclosure of any actual or potential conflict of interest and must abstain from participating in the deliberation and voting on the approval of the proposed transaction and any action to be taken to address the conflict.

Please refer to Note 18 ("Related Party Transactions") to the notes to the 2019 consolidated financial statements of the Company which is incorporated herein in the accompanying index to exhibits.

The Company has the following major transactions with related parties:

Royalty Fee and Licensing Agreement with Parent Company

LBC Express, Inc. and LBC Development Corporation have entered into a trademark licensing agreement dated November 29, 2007 under which LBC Development Corporation has granted the Company the full and exclusive right within the Philippines to use LBC Marks including the names "LBC Express, Inc.," "LBC Express," "LBC", "*Hari Ng Padala*" (Filipino for "King of Forwarding Services") and "WWW.LBCEXPRESS.COM" as well as the "LBC" corporate logo and the "Team LBC *Hari Ng Padala*" logo.

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

Cash Advances to and from Related Parties

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.

Fulfillment Fee and Brokerage Fees

In the normal course of business, the Group fulfills the delivery of *balikbayan* boxes and money remittances, and performs certain administrative functions on behalf of its international affiliates. The Group charges delivery fees and service fees for the fulfillment of these services based on agreed rates.

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.

Guarantee Fee

LBCE 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 Company'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 outstanding loan and until said properties are released by the bank as loan collateral.

Business Combinations

On May 29, 2019, LBCH sold all its 1,860,214 common shares in QUADX Inc. to LBCE for ₱ 186,021,400 or ₱100 per share payable no later than two years from the execution of deed of absolute sale of share, subject to any extension as may be agreed in writing by the parties.

On July 1, 2019, LBCE sold all its QUADX Inc. shares to LBCDC for ₱186.02 million, payable no later than two years from the date of sale, subject to any extension as may be agreed in writing by the parties. On the same date, LBCE, LBCDC and QUADX Inc. entered into a Deed of Assignment of Receivables whereas LBCE agreed to assign, transfer and convey its receivables from QUADX Inc. as of March 31, 2019 amounting to ₱832.64 million to LBCDC which shall be paid in full, from time to time starting July 1, 2019 and no later than two years from the date of the execution of the Deed, subject to any extension as may be agreed in writing by LBCE and LBCDC. The balance of the assigned receivables which remain unpaid amounted to ₱832.64 million as of December 31, 2019.

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 16, 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 various dates in 2019, the Parent Company was granted the regulatory approvals on the purchase of LBC Mundial Corporation, LBC Mabuhay North America Corporation and LBC Mabuhay Hawaii Corporation (see Note 4).

In 2019, LBCE subscribed 20,000,000 Preferred A shares and 29,436,968 Preferred B Shares of Terra Barbaza Aviation, Inc. (TBAI) amounting to ₱78.73 million. The Preferred A Shares will be issued upon conversion of the 20,000,000 Common Shares in TBAI arising from the 20,001,250 Common Shares purchased by LBCE from a common shareholder in January 2020.

Currently, TBAI is in the process of application of its authorized capital stock for Preferred A and B Shares. Once the application is approved by the SEC, 20,000,000 of the Common Shares purchased by LBCE from the common shareholder will be converted to 20,000,000 non-voting Preferred A Shares. The remaining 1,250 Common Shares will then represent 24.86% of the total outstanding Common Shares.

Notes receivable

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 installments. As of December 31, 2019, total outstanding notes receivable amounted to ₱30.75 million, ₱26.81 million of which is presented as noncurrent under "Other noncurrent assets". Interest income earned from notes receivable amounted to ₱1.21 million for the year ended December 31, 2019.

Dividends

On September 12, 2019, the BOD of LBCH approved the declaration of cash dividends amounting to ₱356.47 million.

On June 6, 2019, LBCH recognized cash dividends from OFII amounting to ₱15.00 million for its 30% interest on OFII.

PARENT COMPANY/MAJOR HOLDERS

As of the date of this Report, LBC Development Corporation owns 84.59% of the total issued and outstanding capital stock of the Company.

PART IV - CORPORATE GOVERNANCE

Item 13. CORPORATE GOVERNANCE

Please refer to the Integrated Annual Corporate Governance Report submitted on May 30, 2019.

PART V - EXHIBITS AND SCHEDULES

Item 14. REPORTS ON SEC FORM 17-C

(a) Exhibits - Please accompanying index to exhibits

(b) Reports on SEC Form 17-C

The following current reports have been reported by LBC Express Holdings, Inc. during the year 2019:

	Disclosure	**Date of Report**
1	SEC 17-C (Change in Directors/Officers) (Appointment of Lead Independent Director, Chief Risk Officer, Chief Audit Executive and Committee Members)	12 March 2019
2	SEC 17-C (Material Information/Transaction) (Approval of the Consolidated Audited Financial Statements of the Company and its Subsidiaries as of 31 December 2018)	12 April 2019
3	SEC 17-C (Notice of Annual or Special Stockholder's Meeting) (Rescheduling of the Annual Stockholders' Meeting)	16 May 2019
4	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Sale of shares in QUADX Inc.)	29 May 2019
5	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Sale by LBC Express, Inc. of its shareholdings in QuadX, Inc. to LBC Development Corporation)	1 July 2019
6	SEC 17-C (Press Release) (Press release on the Company's performance for the 2nd Quarter of the financial year ending 2019)	19 August 2019
7	SEC 17-C (Declaration of Cash Dividends) (Declaration of Cash Dividends)	12 September 2019
8	SEC 17-C (Change in Corporate Contact Details and/or Website References) (New Company Contact Numbers)	26 September 2019
9	SEC 17-C (Material Information/Transaction) (Withdrawal of Listing Application)	4 October 2019
10	SEC 17-C (Board Approval of Revised Related Party Transactions Policy and Material Related Party Transactions Policy)	28 October 2019
11	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of shares in Mermaid Co., Ltd.)	31 October 2019
12	SEC 17-C (Press Release) (Press release on the Company's performance for the 3rd Quarter of the financial year ending 2019)	15 November 2019

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized. in the City of PASAY CITY on JUN 09 2020.

LBC EXPRESS HOLDINGS, INC.

By:

Miguel Angel A. Camahort
Chief Executive Officer and President

SUBSCRIBED AND SWORN to before me this JUN 09 2020 day of 2020, affiants exhibiting to me their respective competent evidence of identities, as follows:

Name	Competent ID	Date and Place of Issue
Miguel Angel A. Camahort	Passport No. P3510481A	Jun 28, 2017; DFA Manila

Doc. No. 312;
Book No. 80;
Page No. 64;
Series of 2020.

NOEL L. DUQUE
NOTARY PUBLIC
Until December 31, 2020 Comm. 19-15
10 E-COM Center MOA, Pasay City
IBP No. 0899287 / 01-02-20 / PPLM
PTR No. 7017975 / 01-02-20 / PC
Roll No. 48387 MCLE VI-022292/4-14-22

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized, in the City of PASAY CITY on JUN 0 9 2020.

LBC EXPRESS HOLDINGS, INC.

By:

Enrique V. Rey, Jr.
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this ____ day of JUN 0 9 2020 2020, affiants exhibiting to me their respective competent evidence of identities, as follows:

Name	Competent ID	Date and Place of Issue
Enrique V. Rey, Jr.	Passport No. P3355001A	June 9, 2017; DFA Manila

Doc. No. 310;
Book No. 79;
Page No. 10;
Series of 2020.

NOEL A. DUQUE
NOTARY PUBLIC
Until December 31, 2020 Comm. 19-15
10 E-COM Center MOA, Pasay City
IBP No. 0899287 / 01-02-20 / PPLM
PTR No. 7017975 / 01-02-20 / PC
Roll No. 48387 MCLE VI-0222927/4-14-22

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized, in the City of PASAY CITY on JUN 09 2020.

LBC EXPRESS HOLDINGS, INC.

By:

Rosalie H. Infantado
Treasurer

SUBSCRIBED AND SWORN to before me this ____ day of JUN 09 2020 2020, affiants exhibiting to me their respective competent evidence of identities, as follows:

Name	Competent ID	Date and Place of Issue
Rosalie H. Infantado	Passport No. P3399617B	01 October 2019 / DFA Manila

Doc. No. 206;
Book No. 80;
Page No. 41;
Series of 2020.

NOEL S. DUQUE
NOTARY PUBLIC
Until December 31, 2020 Comm. 19-15
10 E-COM Center MOA, Pasay City
IBP No. 0899287 / 01-02-20 / PPLM
PTR No. 7017075 / 01-02-20 / PC
Roll No. 48387 MCLE VI-0222924-14-22

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized, in the City of MAKATI CITY on JUN 1 1 2020.

LBC EXPRESS HOLDINGS, INC.

By:

Cristina S. Palma Gil-Fernandez
Corporate Secretary

SUBSCRIBED AND SWORN to before me this JUN 1 1 2020 day of ____ 2020, affiants exhibiting to me their respective competent evidence of identities, as follows:

Name	Competent ID	Date and Place of Issue
Cristina S. Palma Gil-Fernandez	Philippine Passport No. P5655630A	18 January 2019 DFA-NCR South

Doc. No. 70;
Book No. II;
Page No. 15;
Series of 2020.

MARIA KARINA D. KAPUNAN
Appointment No. M-285
Notary Public for Makati City
Until December 31, 2020
Liberty Center- Picazo Law
104 H.V. Dela Costa Street, Makati City
Roll of Attorney's No. 71701
PTR No. 8148375/Makati City/01-20-2020
IBP No. 101854/Quezon City/01-07-2020
MCLE Compliance No. VI-0024615/4-10-2019

LBC Express Holdings, Inc.

Moving Towards Sustainability

2018 Sustainability Report

Globalization has fueled greater connectedness between people and businesses, and along with it the tremendous growth of LBC. As the Philippines' pioneer and market leader in express delivery, shipping, courier and remittance services, we are taking our success as an opportunity for greater responsibility by moving towards sustainable logistics.

Sustainability is nothing new to us at LBC. We have always strove to do the right thing, such as introducing certified biodegradable pouches way before the fight against plastic waste became widespread.

This time we are taking sustainability front and center. While this report is a response to regulation, as the country's leader in logistics we want to make sure we take it a step further and that sustainability reporting grows in strategic value to the company. By becoming the first local provider of sustainable logistics in the country, we also assert our position as a key player in global logistics, where sustainability is fast becoming the norm.

Starting this journey in 2019 was a chance for us to look more closely at the environmental and social impacts of our business, the initiatives where we can create the best value as we operate, and how to manage those impacts. We conducted a roundtable interview with senior management and an internal survey of 155 respondents representing all departments across our operations to identify these material sustainability issues.

- **Environment:**
    - Energy use in terms of fuel consumption for vehicles and electricity use and efficiency in operations
    - Use of raw materials and recycled input materials in operations to minimize waste
    - Compliance with laws and regulations
- **Social issues:**
    - Employee hiring and retention
    - Compensation and benefits
    - Employee training and development (including lifelong learning)
- **Product responsibility:**
    - Customer satisfaction
    - Innovation and future technologies
    - Data security, protection and privacy

Inside are stories and information on these key sustainability issues, some of which are actually LBC strongholds that we are quite proud of, such as product responsibility, human resources, and our financial performance. Given the spread and complexity of our operations, we decided to focus on available environmental performance data from Central Exchange, our 24-hour facility where all deliveries are centralized and sorted before delivery. We expect to improve on the scope and collection of our environmental data over the next few years.

We look forward to your comments and suggestions on how we can improve our next report and make it relevant to you, our stakeholders. For comments, suggestions, and clarifications on the sustainability statements in this report, please email Rea L. Gomez at rlgomez@lbcexpress.com.

About LBC

THE LBC WAY

What Moves and Drives Us

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

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

What We Are All About

Our Culture

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

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

Our Brand Attributes

Clarity

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

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

Certainty

We believe in providing our various stakeholders with certainty through:

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

Convenience

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

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

What We Commit To

Our Brand Promise:

"A friend who makes your day"

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

What Inspires Us

Our Brand Tagline:

"We like to move it"

1 **History and Network**
Integrate core competencies to create a solid foundation for our service commitment.

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

3 **Quality and Service**
Apply new capabilities to win customers through quality and customer satisfaction

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

Our Business At A Glance

LOGISTICS	Retail	Corporate
	COURIER AIR CARGO BALIKBAYAN BOXES	BUSINESS SOLUTIONS SPECIALIZED CORPORATE SOLUTIONS FREIGHT FORWARDING E-COMMERCE
Revenue Contribution (%)	57.4%	34.9%
Revenue (in million pesos)	P7,186.36	P4,365.11

MONEY	Remittance	Payment Solutions
	MONEY EXPRESS INSTANT PESO PADALA PESOPAK DELIVERY	BILLS PAYMENT CASH ON PICK-UP/ CASH ON DELIVERY
Revenue Contribution (%)	6.4%	1.3%
Revenue (in million pesos)	P795.56	P167.15

A Successful Global Business

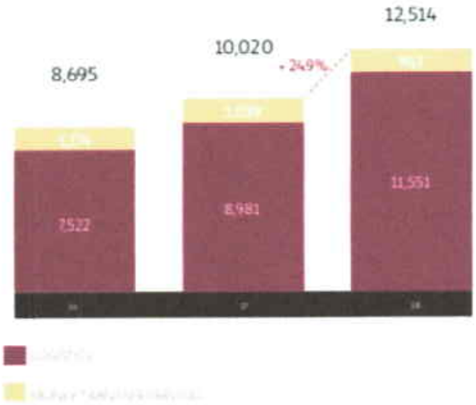
Growth is our responsibility to the globalized Filipino. As we expand our presence, LBC remains the brand that they can trust to connect them, no matter where they are in the world, meaningfully back home.

- P12.34 billion in revenues
- Present in 30 countries worldwide
- 1,397 branches in the Philippines
- 899,115 balikbayan boxes delivered
- 27.67 million remittance transactions
- 277,513 international parcels forwarded

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

₱12.51B

REVENUES



REVENUE
(IN PHP MILLIONS)

A brand that's synonymous to reliability and trust.

The gold standard for Global Filipinos.

A recognized name that's accessible wherever Filipinos are.

27.67

MILLION REMITTANCE TRANSACTIONS IN 2018

33.95

TONS DOMESTIC AIR CARGO FORWARDED IN 2018

899,115

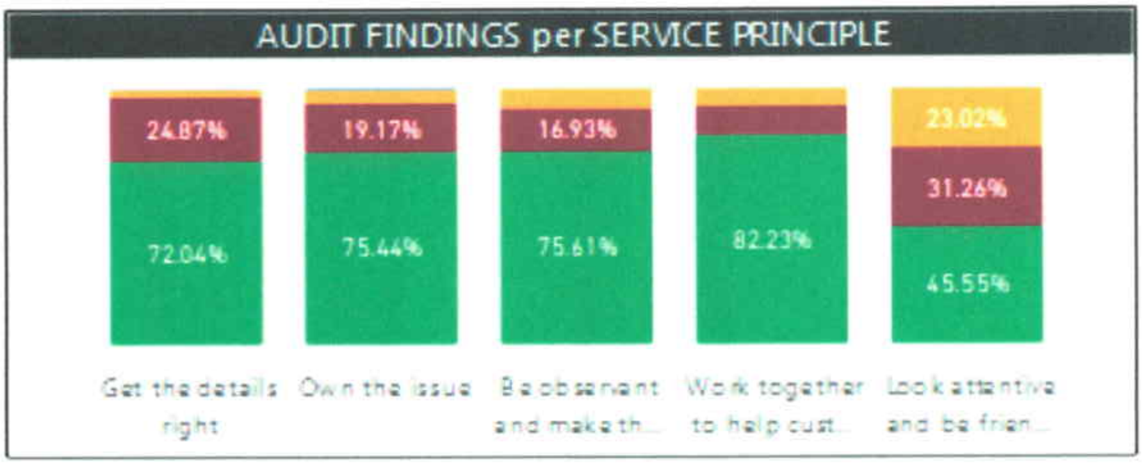
BALIKBAYAN BOXES FORWARDED IN 2018

277,513

INTERNATIONAL PARCELS FORWARDED IN 2018

Caring for the Customer amidst Changes

As markets change, LBC also transforms while continuously improving standard of product responsibility and accountability that LBC is known for. Digital transformation enhances our ability to deliver solutions aligned with our brand attributes and upholding our service principles throughout.



	Target	2018	2017	2016
On-time delivery rate	90%	88.09%	89.4%	90%
Productivity per courier	90%	65%	70%	99.8%
Customer Care Answer level	95%	95%	96%	96%
Customer Care Average handling time (minutes)	3.9	3.83	3.58	3.23
Customer Care Total response time (minutes)	45	44	55	45
Customer Care Complaint management – • ***closure rate*** • ***closure rate w/in 24 hours***	80% 80%	100% 84%	100% 62%	100% 20%

Going Above and Beyond—

Meet LBC's Brennie Salvador

'We like to move it' --that's LBC Express' tagline. But for LBC employees, it's more than just a catchphrase for the country's largest and most trusted courier and logistics company. It's the very reason why they do what they do, and go above and beyond their job description.

Fundamentally, it's something that's easier said than done—because delivering true customer service that exceeds customer expectations, which prompts emotional connections that lead to loyal patronage, comes down to people.

For companies like LBC, who wants to embed this kind of commitment to customer service at every level of the brand, it's about hiring great team members with a positive attitude towards training, who share LBC's inherent service-oriented culture, empowering and recognizing the simple things that employees do to make customers happy...people like Brennie Salvador.

Over the holidays—one of the busiest seasons for any courier—one particular shipment for Teodorico Lafarte, was delayed. The packet contained a passport and visa for Lafarte's relative, Chonita Dianal, who was set to leave the country on December 26, 2015.

Upon checking, the package was confirmed to be already in transit, loaded and bound for Bacolod, scheduled for arrival at 9:30PM on Christmas Eve—a time when LBC employees were scheduled only for half-day of work so that they could spend the holidays with family and loved ones.

At this point, Brennie demonstrated just how LBC employees demonstrate exceptional customer service. Brennie gathered his team members, to let them all know that they should all go home at 7PM to be with family, while he took it upon himself to personally pick up the urgent package and make sure it is delivered to Chonita Dianal.

"The package was delivered promptly, with time to spare, on December 24, at 10:30 PM," Brennie proudly shares.

He got home at around 11PM on Christmas Eve, just in time to welcome Christmas Day with his family.

Exceptional customer service shouldn't be hard to come by, especially at LBC. Brennie's story is a great example. It goes beyond a successful transaction between LBC and a customer; it's anchored on an emotional connection that builds trust and reliability, as well as appreciation between two people. And that can make all the difference in the world.

Heroes Come In All Shapes And Sizes

"I would like to commend two of your staff, namely: Mr. Andy Nicdao & Mr. William Alguso Jr. (V. Luna, QC Branch).

Yesterday, August 2, 2016, I was able to retrieve two letters which were erroneously addressed. Though I saw in the email that such letters were alredy "in transit", (they were brought to your office last August 1, 2016, at about 5PM), when I talked to them yesterday, they assured me that they will try their best to help me. That was 8:30AM. At about 12pm in the afternoon, Mr. Nicdao called me and informed me that the letters were already retreived. I was really thankful uponknowing that they relentlessly thried their best to contact the concerned delivery personnel just to be able to get hold of the letters Such acts of conisderation and their sincerity to help is highly laudable!

I congratulate the entire LBC for having such personnel, a manifestation that your company continously imbibe the value of committed frontline services, worthy of your clients' trust for a loyal client like me. It would not be a surprise if the company's growth is sustained in the future years, even in the next generations to come."

Meet Andy Nicdao and William Alguso Jr., who both prove that the simple act of going the extra mile for Esmeralda Paz D. Manalang, can tangibly represent what the joy of moving can do for others. By making sure that Esmeralda received her letters on time, they have added another loyal customer to LBC's growing business.

There are heroes who sacrifice their lives to save the world...and then there are those whose dedication to their jobs manage to touch the lives of their customers. The latter are heroes in their own right, deserving of the spotlight, as much as any caped crusader.

To that end, the story of Andy Nicdao and William Alguso Jr. LBC Employees from the V. Luna Quezon City branch, and what they did for one Esmeralda Paz Manalang, stands as a perfect example.

"I was waiting for two letters that were erroneously addressed. And I spoke to both Andy and William who assured me that they will try their best to help me. That was at 8:30AM," tells Esmeralda. "At about 12pm in the afternoon, Mr. Nicdao called me and informed me that the letters were already retreived."

On any given day, an LBC branch will receive <insert number of letters>. All of which have to be sorted and sent out for delivery. And while figuring out where Esmeralda's letters went are part of their job, the pair going out of their way to make sure that it arrives safely and immediately in her hands on the same day she approached them was something that only committed frontline members dedicated to representing what LBC stands for, demonstrating the joy of moving.

"I congratulate the entire LBC for having such personnel, it proves that your company continuously imbibes the value of committed frontline services, worthy of your clients' trust," Esmeralda shares.

Coordinating Meaningful Relationships

> *"Gusto ko lang magpasalamat kay Francis. He help all the way and he extend extra mile kasi yung document ko is very urgent. He coordinated to personnel to those branches, siya din ang nag-follow dun. That's amazing effort for customer service, and I thank him very much sobrang nagpapasalamat ako for him. Kung hindi dahil sa kanya hindi ko makukuha ang document ko."*

Mary Nancy Arciaga heaps on the praise for Francis who willingly coordinated, followed up and delivered exceptional customer service just to make sure an urgent document was brought safely to her.

It's rare that a company can effectively ingrain their corporate vision and values into their team members, so much so that their employees are able to deliver above and beyond what is expected of them.

The importance of LBC to its customers can sometimes be lost in the minute of making sure that the company receives and delivers everything efficiently. But each package and parcel ultimately represents something to its sender or recipient—something important, sentimental, urgent.

Such is the case for Nancy Arciaga, who was waiting on an urgent document and commended LBC customer associate, Francis Potolin for understanding the importance behind her delivery.

"He coordinated everything and spoke to everyone across various branches...he followed up with everyone. That's amazing effort and customer service," Nancy explains.

It's a simple act of kindness driven by what it means to be an LBC employee—understanding the importance of the joy of moving; demonstrating clearly what *Aming Ligaya* stands for.

"I thank him very much. *Kung hindi dahil sa kanya, hindi ko makukuha ang document ko,*" Nancy ends.

Building Bridges Through the Joy of Moving

We had a customer named Francisco "Kiko" Mercado. He was a customer and used to send his shipments at Dasma Bayan (DAS01) and Waltermart Dasma (DSM03). His shipments usually consisting of internet routers and antennas. His business seems to grow faster that it has came to the point that he sent shipments, almost, everyday.

As a business minded person, he has to think of his clients satisfaction, as always. He has to be sure that all his orders/shipments will meet his promised delivery date to his clients. And time came that he needs to rush the product for his clients. Unfortunately, the 2 branches were already at their cutoff time. He then rushed and drove to SM Dasma to send the packages before its cutoff at 8PM.

He arrived at SM Dasma branch 15mins before the cutoff time. He was immediately assisted by our associate in duty, Mr. Jerruel Costales, for him to meet the (24hr) next day delivery.

After then, he became our a not so consistent nor a regular customer. He only sent packages at SM Dasma if he has a late orders and need those to be rushed.

He was then remembered for his buzzer beater routine everytime he sends packages. The associates, especially Mr. Costales, always started a happy conversations and jokes with him until He got used on it. Mr. Costales built a good relationship with him and eventually encouraged Mr. Kiko to regularly send his shipments at SM Dasma branch. He also offered to Mr. Kiko his effort to pickup the customer's shipments at the Mall entrance if needed.

Mr. Kiko became our regular, consistent, loyal, and super cool customer for more than a year. According to him, aside from late cutoff of the branch, the associates are all friendly and so light to talk and laugh with. He used to talk, laugh, had jokes to associates on duty especially to Mr. Costales who really made his day so cool and light since the very first day of interaction.

Until today, Mr. Kiko is our active and loyal customer at SM Dasma Branch. Thank you to him. Hands down to this customer. And thank you to Mr. Jerruel Costales who indeed offered his good service to Mr. Francisco "Kiko" Mercado.

Here's how Jerruel Z. Costales demonstrates the joy in moving...by proving that LBC's concept of what make them happy—*Aming Ligaya*--can build relationships. In fact, Francis Mercado touts Jerruel's exceptional customer service as the main reason why he has maintained a loyal and easy-going relationship with the team that runs his favorite LBC branch.

For LBC, the concept behind the joy of moving or *aming ligaya* is so much more than a catch phrase. In fact, it holds so much value for the company that consistently, their employees do what they can to make sure that it's a value shared not only amongst colleagues, but their customers as well.

Long-time customer Francisco Mercado, a small business owner, can attest to this. Francisco, or Kiko as he is fondly called, would regularly send shipments to his customers via LBC.

As his business grew, customer satisfaction became a major focus—which of course included having his customers' shipments sent promptly, on the committed dates of delivery; something that he knew he could always trust LBC to do.

One particular transaction howver, required Kiko to deliver his shipments on a day where he missed the cutoff times of the LBC branches he frequented. This led him to head over to another branch, rushing to deliver his important shipment before the designated 8PM cutoff, where he was promptly assisted by Jerruel Costales.

From this simple display of customer attentiveness, efficiency and effort, Kiko has since become a regular, loyal and one of the branch's favorite customers. The joy of moving is exemplified not only by the great service but the relationship that has since grown between customer and LBC associate.

Going the Extra Mile with Dio

Nowadays, we used to see the delivery task is being carried by most men, considering that the type of work is tough and can only be handled effectively by them. A brighter side was seen in EVIS area just recently, a lady sales associate performed the role of courier in Guiuan branch when the branch experienced the unpredictable manpower crisis, wherein the regular Courier went on leave (sick-leave) and resignation of second Courier, and such effort was admired by each one of us.

Diocelyn B. Tan, known as "Dio", a 26 year old woman, a good wife and a responsible mother of her child, 5 years in service, sales associate of Guiuan branch in EVIS area, showed off an extra ordinary work just to bring joy and *satisfaction to our customers. In the absence of their Couriers, Dio always volunteer herself with no hesitation to act as courier just to deliver those incoming shipments of their branch for the day despite how tough the work of being a courier, like the risk along the way while in the process of delivery as well as the unstable weather conditions. She performed her duties more than her job description, from sales associate to courier, doing beyond what is expected from her in the fulfillment of commitment towards our valued customers.*

Truly Dio shows an impressive work and should be called a role model associate that everyone should look up to. Walk-in customers and netizens salutes and appreciates her for not all women can do such things like Dio does. She just proved that "Women can do what men can".

A simple word that described her act is "COMMITMENT" that brings joy to our customers. Impossible things happens, like what Dio did, every associates should open up for something new in environment not for appreciation nor a recognition but for aiming a good image, bringing joy and improving service for our customer's satisfaction. Two thumbs up for Dio, She is not only a lady courier that can be proud of, but everyone's Idol and hero.

Meet Diocelyn B. Tan, who is making the effort to demonstrate what the joy of moving means.

How? By literally doing the heavy lifting herself to get the job done. When the branch is unexpectedly short on manpower but the customers still expect their deliveries on time, Dio will voluntarily roll up her sleeves and take on the challenge of one of the most difficult facets of the business.

It's typical to see the men of LBC doing the heavy lifting. It's a tough job, and somebody's got to do it. Diocelyn "Dio" Tan knows that—which is why, when push comes to shove and LBC needs to get the job done, she herself is willing to roll up her sleeves and make the literal effort to do it for customers.
What better proof is there of the joy of moving than by taking on the duties typically assigned to male couriers.

"There was one day that we experienced an unexpected manpower crisis, where our regular couriers were on sick leave and the other had just resigned," explains Dio's manager.

Dio was quick to act on it however, choosing to quickly to bring joy and satisfaction to customer by taking on the job herself. In the absence of the branch's couriers, Dio volunteered without hesitation to bring the shipments in promptly.

Her commitment to her job truly brings joy to customers. "Every associate in LBC should bring something new to our work—delivering joy, demonstrating *kung ano ang aming ligaya* and improving service for our customer's satisfaction," she shares.

Our Sustainability State of Play: From ESG data to business intelligence

At 74 years of service, LBC have grown its service, impact, and commitment to its community. Today, LBC is a data-rich leading logistics company serving 30 countries around the world. To further our positive impact in the community we serve, we are turning our data into sustainable business intelligence to ensure that LBC continues to endure and grow in the next 100 years.

For the 2019 State of Play report, the project team requested environment, human resource (social), and other basic information. As a preliminary report, the project team collected partial data for 3 core information: GHG emission, employment profile, and employee safety. Key findings include:

- ***Available data.*** LBC has the data in-house and is ready to collect the full set of required data point for the next sustainability report. There are opportunities to train staff across business units to collect these data sets regularly and ahead of the next sustainability report deadline.
- ***Infrastructure.*** The data is available across various systems – digitally or mentally tracked. What needs to be tracked? How will it be tracked and recorded? What systems are in place that can be expanded to collect environmental and HR metrics specific to the sustainability report. Are there feedback loops that encourage behavior change? LBC has been making its operations leaner, providing service to its community beyond compliance. An infrastructure will formalize and recognize employee effort across the organization.
- ***Prioritizing Report Quality.*** LBC serves communities in diverse geographic zones. As such, culture and impact may be localized to a city or even to a single location. Gathering partial data for this report showed that the data is susceptible to selective narrative. A wider scope of data collection is recommended for the next report.

As LBC prepares for a GRI-based annual sustainability report, the list below illustrates data that was not collected, partially collected, and completely collected to form a full checklist.

CHECKLIST:

To be collected*	Partially collected	Complete data

*This does not indicate that LBC does not have the data. The data may not have been collected at this time.

Environment

The ***environment*** data collected was obtained from the Central Exchange Station (CES). As a preliminary report, CES is meant to be representative of the data collection process.

487 tonnes CO2e represents the Scope 1 emission of CES. The scope includes shuttle vans to and from CES and, at this time excludes, the trucks used for delivery. Scope 1 emission calculated is not representative of the whole fleet. However, it highlights the availability of data components needed for calculation in the next report.

1381 tonnes CO2e represents the Scope 2 emission of CES. This scope includes 100% of the electricity consumed in 2018.

Energy

Stationary fuel	Vehicle fuel	Electricity consumed
	fuel **6633 GJ** Ghg **487 tonnes CO2e**	kwH **6981 GJ** Ghg **1381 tonnes CO2e**

Water & Effluents

Water withdrawal	Water discharge	Water consumption
Water **13,334 CBM**		

Waste

Hazardous waste	Non hazardous waste
	Plastic + Wood **60,000 kg**

Human Resources (Social)

The ***human resource*** data collected represents Philippine nationwide LBC workforce. Full sets of data from training to its employment profile is available internally and this positions LBC to highlight its workforce narrative in the next report. Sample data available for this report includes:

- Gender diversity split at 35% female and 65% male
- New hire rate is 44%
- Turnover rate is 28%

To move from data to business intelligence, LBC can leverage these metrics to advance workforce sustainability and retention.

Employment data

Employment Type	Gender	Employment Level*	Age
Regular 72% Probationary 21% Contractual Project Other 7%	F 35% M 65%	SM 0.34% MM 1.71% Sup 5.92% RF 92.02%	<30 45% 30-50 51% >50 4%

*SM – Senior Management, MM – Middle Management, Sup – Supervisor, RF – Rank & File

New hire

Age*	Gender*	Overall
<30 46% 30-50 26% >50 5%	F 34% M 50%	New hire **44%**

*Refers to the % of new hire.
ie 46% of employees below 30 yrs old are new hires
ie 34% of females are new hires

Turnover

Age	Gender*	Overall
<30 30% 30-50 15% >50 15%	F 30% M 27%	Turnover **28%**

*Refers to the % of new hire.
ie 30 % of employees below 30 yrs old were turnedover
ie 30% of females were turnedover

Freedom of association

CBA Participants
Participants **11%**

Training

Employment Level*	Gender*	Training Cost
SM 37% MM 75% Sup 77% RF 33%	F 43% M 48%	

*Refers to the percentage of training attendees vs their corresponding total category.
ie 37% of Senior Management received training.
ie 43% of females received training

OHS

Fatal cases	Occupational injury	Lost working days	Occupational disease
Total **5**	Total **4**	Total **0**	Total **0**

Safe man hours	Safety drills	Hours of health & safety training

Other
Information on customer service, cyber-security, and corporate social responsibility are found in other parts of this report.

Additionally, supply chain is not required but is one of the material topics for the logistics industry. LBC's next sustainability report is an opportunity to highlight LBC's supply chain standards, practices, and policies.

Product Responsibility: A Strong Brand Moving with the Times

Filipinos everywhere know that our brand is synonymous with convenience, reliability, and affordability. Backed by more than seven decades of heritage and experience, LBC also stands for the agility to move fast in these changing times. Over the years we have adapted to evolving markets, customers, and regulations by also transforming the way we work and the way we move, while ensuring clarity, certainty, and convenience for our customers.

Through Digital Transformation, we are leveraging digital technology and information to meet the needs of time-conscious, perpetually connected, and better-informed markets and customers. Launched in 2017, Digital Transformation is at the heart of LBC's product responsibility. As our global reach expands and volumes for delivery increase, we upgrade and automate all our key processes and technologies and integrate of these changes into our culture. Through Digital Transformation, we achieve greater efficiencies, accelerated business activities, better employee competencies, and improved partner relationships and customer satisfaction.

We have enhanced efficiencies in Central Exchange Station, our 24/7 consolidating facility in Metro Manila, which sorts approximately 175,000 packages per day from all over the Philippines daily by integrating the "Put-to-Light" (PTL) sorting system. This light-directed sortation system is a quick, convenient, and highly intuitive approach to automating the very tedious work of manually sorting parcels and packages, and operators are trained quicker compared to other sorting technologies. Seeking to further expand the breadth of our operations over the coming years, the technology provides us with the agility to manage quick volume changes better than other technologies.

- o Increased accuracy by 99%
- o Faster sorting by 30%

Powered by Digital Transformation, we remain driven to stay ahead and become the country's first and leading brand in sustainable logistics. Through our processes and our people, we are equipping ourselves with the knowledge, skills, and tools to foster growth and deliver superior cargo, courier, and remittance solutions while minimizing operational inefficiencies that have negative environmental and social impacts.

LBC's Global Gold Standard of Quality the Longest-running in the Industry

In 2019, LBC Express marked its ninth year of being certified with the ISO 9001: 2015 Quality Management Standard, and became one of the few logistics companies in the country with the longest-running ISO certification for quality management. LBC Express also has the most number of sites certified with this stringent international gold standard of quality, which is based on a risk-based thinking approach following the Plan-Do-Check-Act framework. The ISO certification assures customers and all stakeholders that quality is integrated into every aspect of our operations, so that brand attributes are observed throughout, active management supervision is present, and employees are professionally and technologically equipped to meet customer expectations and ensure customer satisfaction.

"We started working towards earning this recognition back in 2011 in an attempt to highlight the brand's focus on quality, reliability and customer satisfaction. Since then, we've successfully maintained the certification for six year, where it has expanded towards other aspects of the business, including Central Exchange, Warehousing, Remittance and Payment Solutions," explains Mariz Bacabac, LBC Senior Manager for Quality Standards.

LBC easily maintains the esteemed recognition, this time focusing on risk-based thinking.

"This was a shift from simple compliance to the typical set of policies and processes, towards taking a more forward-thinking approach focused on knowing and addressing the risk and opportunities that the business may face," adds Bacabac.

And following LBC's thrust for growth, the preparations included not just a single facet of the business but across Corporate Solutions services, all branches nationwide, remittance and payment solutions, contact center, and headquarters. In addition, new concepts were introduced as part of the training where the system ensured that various teams understood its relevance for internal operations.

"We are extremely proud of our team and their efforts to transition from the processed-based approach towards the new risk-based certification. LBC's core service advantage stems from being agile and this translated into our internal operations as well."

ISO certification is a sought after recognition that is based on a company's ability to deliver strong quality management principles anchored on strong customer focus, motivation, process approach and continuous improvement and review. Renewing the certification for another year reaffirms LBC's strength in meeting and satisfying customer needs.

The company's goal now is to ensure LBC lives up to the certification's expectations, by consistently delivering the high quality service that they have committed to.

"There's no better proof of show of our commitment to quality than renewing our certification to ISO 9001. It highlights that we will always put our customers, shareholders, partners and suppliers, as well as employees and team members first," ends Bacabac.

The 3Cs of Delivery

According to reports, the Philippine Logistics Industry is seen to grow into a $41.3 billion industry in four years' time. Due to increased economic activity in the ASEAN region, and the recent ratification of the ASEAN Economic Community (AEC) Framework, which gives the Philippines access to markets in the region, international cargo, courier, and logistics services will definitely see a spike in the demand. From the simple and usual *padala* via envelopes or balikbayan boxes, to the much larger half- or full-container cargo services, most, if not all, logistics services across land, sea, and air, will be utilized in this foreseen escalation in regional commerce.

The logistics industry at large, in the Philippines, at least, has gotten a lot of practice from the many challenges that plague it, most of which are infrastructure- and trust-related. Aside from that, couriers have also gained a lot of insight from serving the 2.4 million strong OFW community, 25% of which working in the Middle-East. It is through this experience that LBC Express, Inc., the country's largest courier, cargo, and logistics company was able to distill effective service into three Cs: Certainty, Clarity, and Convenience.

Certainty
At the root of it all, logistics is a business of trust. By sending out their *padala*, customers are trusting the courier to get the package to its recipient securely, and on-time. It can be quite daunting especially with the common problems that plague the Philippines such as traffic and extreme weather. But it can be done through dedicated manpower and a fleet of vehicles ready to deploy at any given time.

LBC's over 10,000 employees are ready serve and are committed to get a package to its destination, some even going above and beyond the call of duty at the risk of missing out some important holidays. These employees then have access to a massive fleet of motorcycles, trucks, and delivery vans to ensure a prompt and safe delivery.

Through the manpower and infrastructure, both local and international, that LBC has built up over the years, customers can be assured that their *padala* is treated with the utmost respect and care that it deserves.

Clarity
In logisitics, especially when it involves hard-earned money, clarity is one of the things the customers need to be able to put their trust in a courier service. It should be clear how much money they will be sending, how the recipients will get it securely, and how much the entire transaction will cost.

LBC has always operated at a level of clarity that is easy to understand for most customers. The in-store staff are always ready to answer any inquiries from customers and all of the costs for the services are shown up front.

LBC understands that transparency increases confidence and assurance for the customers. Should there be any disputes in any service transaction, LBC's Hotline and Facebook page are always ready to answer and help resolve any problems or concerns.

Convenience
Being able to reach your customers, anytime, anywhere is crucial to keeping your brand relevant and always top-of-mind. Convenience and ease-of-access helps boost brand recall and customer satisfaction.

LBC has over 1,400 locations worldwide and it's still growing though a multitude of international partners who help make LBC more accessible to the Filipinos all over the world. Those who can't go to branches themselves can even have their packages picked up from their homes. The LBC Hotline also provides an easier for customers to reach them.

"We believe that, to the customers, a package is more than just a bunch of items to be sent home," said LBC President and COO Miguel Camahort. "We like to go deeper than that. We understand that what they are ultimately sending is their love from a distance, especially the OFWs. It's more *padama* than it is *padala*," he explained.

"Having these three Cs is one way of simplifying what service should be," Camahort added. "But it is in no way simplifying, nor trivializing what a package means. Through the 3Cs we hope to give our customers, both retail and businesses, the best service that they deserve," he concluded.

Moving Spaces, Going the Extra Mile

At LBC, we understand that we move more than goods or remittances—we move spaces. At the heart of the Filipino concept of "*padala*" is the need for connection between a parent and a child, a husband and a wife, loved ones separated by great distances. We know that each hard-earned package and remittance is a way to bridge the distance.

It is a reality made more poignant among domestic workers in Hong Kong and Singapore, economic powers with skyrocketing property values and large Filipino migrant populations. There, overseas Filipinos find themselves working and living in such small quarters, they often don't have any space to move.

Attuned to the realities and needs of migrant Filipinos in Hong Kong, 95% of whom are domestic helpers, LBC HK designed a promo that "allowed them to store their 'padala' in the LBC branch due to the limited space in their employer's home," says its country head Arnold E. Cereno.

Available for free for four months, the unique promo recognizes the reality that it takes time for a migrant mother, a husband, to put together a '*padala*', buying a few items at a time, given their limited resources.

"Once the OFW is ready with her care package, we pull it out of storage and she can convert it into a balikbayan box to send home to her loved ones." Arnold considers this chance to "help *nanays* send their *padala* and hear their stories" the highlight of his work in LBC. He realizes that "we are a bridge to their loved ones in the Philippines."

LBC is such a trusted name among migrants, and is so strongly associated with moving spaces to foster connections that its Singapore branch in Lucky Plaza mall effectively transforms into community center of sorts for Filipino migrant workers. There they gather regularly, hang out and chat as they pack their balikbayan boxes within the branch premises. They know that no company places equal care to their *padala* like LBC, and that the business is built on the intangible value—the sentiment—behind each package.

"The busy Sunday crowd will always be my favorite," says Singapore country head Rose Sharon F. Tordesillas who welcomes the cheerful bustle. "Watching them and listening to their stories while they label and pack every item into the box is very moving. It depicts the story of a family member who sacrifices everything to provide the best for their loved ones back home."

Both the Hong Kong and Singapore branches show not only LBC's importance to the Filipino community abroad, but also how LBC must continuously evolve and customize solutions to match the needs of customers on the ground. Arnold and Sharon agree that customer preferences are rapidly changing, competitors are proliferating, and investors and government are starting to exert pressure on businesses, more apparent in the more mature markets where they operate.

"Sustainability is very important to LBC because we need to secure our long-term prosperity given these changes we are facing," says Sharon.

Arnold adds, "sustainability allows LBC to be the first to ensure superb services to our customers," amidst greater competition and tighter regulation.

Both country heads agree that there will always be changes, threats and challenges, but "sustainability means we can continue to take care of our employees and provide exceptional service to all our stakeholders."

A Consciousness for the Environment

Energy and waste are among the top sustainability issues for the logistics and transport sector, and similarly what came up as aspects of our operations that are material for our stakeholders. Here we share select highlights and initiatives that seek to manage the impacts of these two issues on the environment. We are proud to share that these initiatives were undertaken voluntarily prior to any pressure or requirement as part of our management's decision to do the right thing.

In logistics, the best practice is for environmental responsibility to deliver greater operational efficiencies and enjoy cost savings. With our sustainability agenda, we expand our long-standing consciousness for the environment so that it will allow us to meet business and operational targets and strengthen our brand equity as a responsible business. Thus, we look forward to improving our collection of environmental data in the next report to sufficiently reflect our entire operation's impacts and allow our stakeholders to accurately assess our performance.

Biodegradable Before it was Fashionable

- Introduced in 2012
- 140,000 pouches issued daily (2018 average)
- Certified 100% oxo-biodegradable

- Breaks down in 1 to ½ years* when exposed to degradation promoters such as heat, light, or microorganisms such as those in landfills
- Does not emit methane when degrading vs. other plastics, including plastics with cornstarch-based additives
- Certified safe for human use

*Actual amount of time may vary depending on exposure

Other Biodegradable LBC "Receptacles" or Packaging

Here Comes the Sun: Solar-powered Warehousing

Automation, while increasing efficiency and accuracy, improving processes, and minimizing costs, also means greater energy consumption. This is especially true in logistics warehouses, where operations run 24/7: the more things are automated, the more energy we consume.

Sustainability will allow us to manage the impact of our enterprise-wide digitization as we explore opportunities for better energy management. As a start, in our Davao warehouse, we have installed solar panels to provide us with a solar-generated power system that has approximately 100 kW of power capacity, 35% of the 300 kW maximum required power needed in the warehouse.

With the addition of solar power to our energy mix, we can potentially experience reductions in energy costs. A greener energy mix also allows us to study the potential of neutralizing a percentage of the emissions we generate in our operations. We look forward to sharing the results of this initiative in our next report.

LBC has engaged an agreement with GREEN ENERGY to supply the Company with energy from a Solar-generated power system at its warehouse facility in Davao City. Equipment for installation will handle an approximately 100KW power capacity. Almost 35% of the 300KW maximum required power will be produced to generate power for the Davao warehouse's requirements.

Advantages of Solar Energy:

- Renewable Energy Source
    - Among all the benefits of solar panels, the most important thing is that solar energy is a truly renewable energy source. It can be harnessed in all areas of the world and is available every day. We cannot run out of solar energy, unlike some of the other sources of energy. Solar energy will be accessible as long as we have the sun, therefore sunlight will be available to us for at least 5 billion years when according to scientists the sun is going to die.

- Reduces Electricity Bills
    - Since you will be meeting some of your energy needs with the electricity your solar system has generated, your energy bills will drop. How much you save on your bill will be dependent on the size of the solar system and your electricity or heat usage. Moreover, not only will you be saving on the electricity bill, there is also a possibility to receive payments for the surplus energy that you export back to the grid. If you generate more electricity than you use (considering that your solar panel system is connected to the grid).

- Diverse Applications
    - Solar energy can be used for diverse purposes. You can generate electricity (photovoltaics) or heat (solar thermal). Solar energy can be used to produce electricity in areas without access to the energy grid, to distill water in regions with limited clean water supplies and to power satellites in space. Solar energy

can also be integrated into the materials used for buildings. Not long ago Sharp introduced transparent solar energy windows.

Solar Energy Benefits:

- Low Maintenance Costs
    - Solar energy systems generally don't require a lot of maintenance. You only need to keep them relatively clean, so cleaning them a couple of times per year will do the job. If in doubt, you can always rely on specialized cleaning companies, which offer this service from around £25-£35. Most reliable solar panel manufacturers offer 20-25 years warranty. Also, as there are no moving parts, there is no wear and tear. The inverter is usually the only part that needs to be changed after 5-10 years because it is continuously working to convert solar energy into electricity and heat (solar PV vs. solar thermal). Apart from the inverter, the cables also need maintenance to ensure your solar power system runs at maximum efficiency. So, after covering the initial cost of the solar system, you can expect very little spending on maintenance and repair work.

- Technology Development
    - Technology in the solar power industry is constantly advancing and improvements will intensify in the future. Innovations in quantum physics and nanotechnology can potentially increase the effectiveness of solar panels and double, or even triple, the electrical input of the solar power systems.

Our Commitment to our People

Expanding from local to global, LBC depends on its employees to ensure quality and excellence throughout this crucial period of growth. How LBC creates and shares value with our people through our employee development programs came up as key sustainability topic so that they are able to develop their skills, increase their productivity, and most importantly improve their lives in pace with our growth.

Growing Leaders from the Ground

LBC is proud of the fact that a large marjority of our senior management have grown organically with the company, not the least of which is our EVP-COO for Philippine Operations, Mr. Oliver Lazaro Valentin, who started as an account executive in our forwarding services almost 30 years ago. We see the potential in each ka-LBC to be a leader, thus invest in growing and developing their knowledge, skills, and capacity to one day be part of our management pool and lead the company. Key personnel development programs include Learning Management System, which includes e-Learning, Development Programs for Supervisors, Service Excellence Program, and a Career Development and Succession Planning (CDSP) initiative, among others. We have started a Competency-based System to ensure the effective performance of the functions and responsibilities of all employees no matter what their position is and help identify and address their development needs together with their supervisors. Every year, we conduct an assessment called Leadership Practices Inventory to study and enhance the leadership behavior of supervisors to top management.

- o 592 leaders trained and evaluated in 2018

Graph1 . Distribution per Strategic Business Unit

Graph 2. Distribution per Position Level

LEADERSHIP PRACTICES	2015	2016	2017	2018
MODEL THE WAY	3.35	3.38	3.45	3.51
INSPIRE A SHARED VISION	3.32	3.34	3.43	3.47
CHALLENGE THE PROCESS	3.28	3.35	3.42	3.46
ENABLE OTHERS TO ACT	3.43	3.45	3.51	3.55
ENCOURAGE THE HEART	3.38	3.41	3.49	3.52
OVER ALL	3.35	3.38	3.46	3.51

- 2018 Training Programs Offered: to a total of 9,518 employees
  - 39% - Compliance, Leadership, Functional/Technical Training
  - 61% - Customer Service Training (Service Excellence Program)

Ka-LBC: Engaged Employees Driven by Values

At the heart of Digital Transformation is People Transformation. We know that our investments in technology and innovation will only be fully realized with an engaged and skilled workforce driven by values and the passion to deliver customer excellence.

Every year we conduct a Values Validation Survey and an Employee Engagement Survey to ensure that each Ka-LBC demonstrates and embodies our core values and commits to LBC's mission so that they are able to give their best to their work each day. We are pleased to share that LBC's Mission and Purpose as well as the Opportunity to Do Best are among the top three engagement drivers of the company in 2018.

- Organization-wide Employee Engagement Survey, 2018
  - 100% employees surveyed
  - 4.06 out of 5 – Employee engagement score
  - 80% - Employee satisfaction score
  - 84.5% - Willingness to promote LBC as an employer
  - 84.5% - Happiness at work (Very Happy, Happy)

- Organization-wide Values Validation Ratings:
  - All Values have improved over the last three years.

CORE VALUES	2015	2016	2017	2018
HUMILITY	3.59	3.57	3.68	3.70
INTEGRITY	3.60	3.59	3.68	3.70
COMMITMENT	3.55	3.54	3.64	3.68
CUSTOMER FIRST	3.57	3.54	3.66	3.68
TRUST	3.57	3.55	3.67	3.69
TEAMWORK	3.57	3.54	3.66	3.70
POSITIVE THINKING	3.55	3.54	3.65	3.68
INNOVATIVE	3.49	3.48	3.61	3.65
SOCIAL RESPONSIBILITY	3.51	3.49	3.62	3.67
OVER ALL	**3.57**	**3.53**	**3.65**	**3.69**

The Value of Joy in the Workplace

Sometimes, a job is nothing more than a means to an end—a way to make ends meet, a way to pay the bills, a way to create some semblance of security amid uncertain economic times.

Other times, if you're lucky, a job becomes a career—a way to find fulfillment through your job, a way to affirm skills, grow and learn new ones, a way to enjoy what you do everyday. Such is the case for LBC Express. Known as the country's largest express delivery and logistics company in the industry, LBC has just launched a new campaign that focuses on the *joy* behind what they do.

As a service oriented industry, it might comes as a surprise how joy made its way to LBC's roster of values. Diligence—maybe, respect—definitely, hard work—for sure, but joy, while common in personal values, are typically absent in corporate ones.

"Why, though?" asks President of LBC Express, Miguel A. Camahort. "When it is this very value that drives the kind of work that we deliver to our customers; when it's the reaction we want to draw from our customers."

It's the same sentiment that is echoed by hundreds of LBC employees. Because while job description and salary is important, there's another factor that one should always consider before joining a company—culture. And LBC's culture, as evidenced by the tenure of its employees and the loyalty they have shown, has made a massive impact on their team's happiness and success in the organization.

"*I started in the main office, in the hangar in the South. I lived in North Luzon in Bulacan and I had to board somewhere closely by. I have a husband and child, who I would see weekends because I had to be close to work. I work as a customer associate. I like handling difficult customers—this is where I get to exercise patience. As the years went by, I was able to hone this skill and build relationships with regular customers. And as a mother, because I experienced what it's like to leave your family behind in some way, this made what our customers do for their families more relatable. It makes me so happy* *to be in someway instrumental to reaching out to their loved ones. Everything is worth it, as long as you love what you do, and you're happy with what you do,"* says Helen Lopez, who has been working with LBC for 22 years.

"I started my career in LBC in 1987. I was a security guard, then a delivery man for almost 4 years. Then in 1992, I was lucky and I was promoted and moved to Dagupan City, my hometown. Eventually, I was brought back to Manila and even became a team leader. The company has been very supportive to me and that helped me invest in small businesses. Bumili ako ng tricycle, nagtayo ako ng carinderia, and I ran it using all the things I learned from LBC. If LBC has its own vision and mission and values, you should have your own as well. It helps that I share these concepts with the company. And as an employee, I'm very happy," shares Romulo Cruz who has been with LBC for 29 years.

"Meron kaming mga suki—mga regulars—nakakakwentuhan namin tungkol sa buhay buhay, pinapa-merienda kami. Kung baga, naging kaibigan na namin kasi halos buwan buwan may pinapadeliver sa kanila. Kahit first time namin nahatiran, parang kaibigan na namin sila kasi panatag na loob namin na nahatid namin ang package nila ng maayos. Siyempre yung ganda serbisyo namin ay nakadepende sa mga pinaglalaanan ng trabaho namin—ang mga anak ko, halimbawa—pero papasok parin dun yung mahal ko talaga trabaho ko; masaya ako ako sa ginagawa ko. Sa trabahong ito—gusto ko lang ipaalala sa mga bago na maging proud kayo sa ginagawa nyo. Kahit na minsan pinagpapawisan, kahit na mahirap dahil bumabagyo—alam natin na may umaasa sa amin," shares Jonas Navalta, who has been part of the Quezon City Delivery Team.

"I've experienced instances that customers will knock on our doors just as you've closed the store to say that they need your help because it's an emergency. There are times na talagang gagawan mo ng paraan. Hanga't kaya talaga. Here, I really learned how to value the people you work with—treat them as you would your friends; at magpakita ka ng malasakit, bigyan mo sila ng importansya, lalo na ang customers. Nagagawa mo lang yan kung enjoy ka sa trabaho mo.," says Cora Vizcarra, a Customer Associate for LBC who has been working for the company for 32 years.

Take a close look at these stories and you'll realize that it is bound by the joy that they have for what they do. Their inherent enthusiasm for the job boils down to the support LBC has for *the joy of moving*—and how that translates to love for their job.

"We often ask our employees if they can imagine what it would be like if they didn't exist; if one day they woke up and LBC wasn't there—for them and for loyal LBC patrons—what would the world be like? And it hits them, how important what they do is. Doing their job knowing that it makes them happy? That's the cherry on top of the icing," ends Camahort.

Exploring the Key to Corporate Loyalty and Longevity

The reality is, people spend dedicating their adult lives to work more than any other endeavor. It's no wonder then that attitudes towards work, personal employee values, corporate strategies and technology evolve at such a rapid pace—and when companies are unable to keep up with these changes, it creates a gap between corporations and employees; one that translates to disengagement, little motivation, and low morale.

While most bluechip organizations run their companies as though the team members that actually do the legwork and make company expansion and growth possible are expendable, there are some that have managed to build a culture anchored on shared values, openess and encouragement. This allows employees to actually invest in the growth of the organization, instead of seeing their jobs as a tedious and daily form of drudgery.

Perhaps the key is to acknowledge that there will be a gap between corporate values and personal ones. And companies, such as LBC Express, the country's number one express delivery and logistics service, is lucky to have found team members that closely share their own corporate values. It's because of this that the company is able to attract and retain top talent, grow leaders, and thrive in a constantly evolving workplace—a prime example being Angelito Latayan.

"I've been in LBC for 24 years. 24 years of service," Latayan, Area Manager of South East Luzon, shares with a smile. "After graduation, this was my first job—and I'm hoping this will be my last."

Latayan started as a frontliner for the company. Sitting behind a desk at an LBC branch, he would accept money, cargo, parcel and process the deliveries day in and day out. From there, he tried his hand out with the delivery team—by far one of the most challenging aspects of the business—and eventualy found his way to the Corporate Sales Group, became a member of the operations staff, and then became an Area Manager.

His dynamic movement inside the organization is a testament to the kind of investmnet that an organization should make towards the growth of their team. And it's the same reason that employees themselves go above and beyond the call of duty to make sure that this investment is returned to the company.

"*Madami tayong mga kwentong ganyan*. From job related concerns to love life," he laughs. "This company has nurtured my growth as a leader, and one of the more important things I've learned is *hindi lang naman puro* professional *ang kailangan mo asikasuhin* as a leader. Anything that happens beyond the call of duty, magagawan natin ng paraan yan—and that translates to the growth of the organization as a whole."

It all boils down to the joy that he feels—for doing his job well, for delivering on his promises to customers, for being a part of an organization that values and recognizes the effort that loyal employees consistently give.

"The more *na nakakatulong ka*...the more *na natuturuan mo rin ang sarili mo*. The more you realize *gaano ka kahalaga sa kumpanya*."

Similarly, Latayan recognizes just how important the company has been to his personal growth as well, inside and outside of the professional spectrum.

"*Dito na napalaki mga anak ko*," he shares. "But *kung sa work ang paguusapan*, from the start, my mentors taught me that work doesn't have to be a simple means to an end. *Dapat pag nag trabaho ka, may malasakit. At hangang ngayon, naapply ko ang* service princples *ng kumpanya sa lahat ng ginagawa ko*. Definintely, *kung may malasakit* ka, you're always doing your best. And you reap the rewards of that.

Why Should You Care— Employee Engagement In An Every Evolving Corporate Setting

The general principles of employee engagement are meant to bolster commitment, strengthen loyalty, invest time, skills and energy into personal growth, with the ultimate goal of supporting overall company interests.

But it has to start somewhere.

It helps when a company makes a concerted effort to make sure that their team members are given opportunities to strengthen engagement with the organization. However, it has to be anchored on something that already resonates with them to begin with—and that's where personal values come in.

"When I first joined LBC, I came in with dedication and loyalty, values which ultimately translated towards the job, the customers, the team I worked with, and the company. In the 34 years I have spent with the company, that has always been my guide," explains Reynold De Castro, a 58-year old employee of the country's number one express delivery and logistics company, LBC Express.

LBC has always known that their team members are the main source of their competitive advantage. Sharing long-held values with tenured employees gives them an opportunity to take care of their team members and create an engaged workforce that gives them an edge in today's business landscape. How? Because they have a team that actually cares.

De Castro is a prime example. His personal tenets of loyalty and dedication translates not only to the organization's growth but to how he handles customers, his colleagues, and new hires. This makes the idea of sharing personal values with the company you work for, a business imperative, not just an HR buzzword.

This also means De Castro plays a key role in the ever growing business of LBC—because no one reflects the vision of an organization more than each employee's immediate leader.

"I was lucky that what I believed in fit well with what LBC valued. I started as a cargo representative, now known as a customer associate, became part of the accounting team, then moved to human resources, became branch manager...now I'm the delivery manager for North NCR. That's 34 years and counting. LBC was my first job, first and only. I'm happy enough with the company that I want to retire here," he adds.

That said, his outlook clearly demonstrates how he is coaching younger team members and new hires for success aligned with corporate goals, empowering them to communication, opening channels for feedback and ensuring that employees continue to feel valued in the organization he has grown to love.

At the end of the day, team members who share the same principles stay to become examples of corporate values because they know they're investing in something worthwhile. They care, because they know that the organization cares for them as well. This recognition sends a powerful message to employees: that the organization is with them for the long haul, and will understand what's important to them, inside and outside of work.

"Best thing I learned in LBC is the importance of being there for everyone who is part of the team. Invest enough in your job that you get to know them and start to feel like family—that you can be there for them. Know how you can help. It's what we do for our customers, and it's the best thing we can do for our team members," he ends.

What Drives Employee Commitment?

Generally, employees find satisfaction in their jobs when they find one that is perfectly in sync with their skills and interests. So it's quite surprising to find out that Rodel Roque, who has spent nearly three decades with LBC, graduated with a degree in associate marine engineering.

It's a degree that could have easily taken him halfway across the world as a seaman. Instead, he chose to build a career with what is now the country's number one express delivery company.

"I started, May 7, 1988," Rodel recalls with a smile. That's a total of 28 years with a company that Rodel largely considers his family, an intrinsic part of his life.

"*Unang kailangan nila nun, pick up driver. Ngayon tawag nila shuttler.* From there, *naging dispatcher ako...tapos ngayon, customer associate ako.*"

This kind of dedication to an organization can be attributed to several aspects—their leaders, the company's systems and values, and the employees themselves. Evidently, Rodel has the drive to learn the business and a long-term objective to grow with LBC. But having a mentor and a company that shared his enthusiasm and values worked to create an ideal work environment.

"*Dati noon, kapag tapos na* shift *ko, hindi ako umuuwi kaagad. Pumipirmi ako sa* branch. *Tumutulong ako sa iba, pinagaaralan ko pano yung ginagawa nung iba. Kung paano yung sistema,*" he explains. "Cora Vizcara was my mentor," he adds, referring to a fellow tenured employee who showed him the ropes as he worked through the different departments of the organization.

Rodel's approach to work proves that while loyalty, dedication and engagement to the job will depend on multiple drivers, the ultimate driver for success and longevity in the workplace still rests with the employee. And while Rodel was indeed lucky enough to have been given mentorship and guidance, as well as work in a company that was supportive of his efforts, it was still up to him to find passion and show commitment to achieve his goal.

In his 28 years with LBC, he has seen the organization grow—and with it, Rodel himself flourished with the company. He cites his love for his job and his colleagues as a big factor, something which perfeclty fits with LBC's new campaign, *Aming Ligaya*, which communicates the value of what they do. The joy of moving is something that he hopes new team members joining the LBC family finds and takes to heart.

"*Hindi naman ako magtatagal sa trabaho kung hindi ako masaya—28 years yun. At 28 years kong na-e-enjoy ang trabaho ko at ang nagagawa ko para sa mga customers namin,*" he ends.

Success in Traditionally Male-Dominated Work Environments

Marites Gonzales began her career in LBC over a decade ago in the office administration department, on the path to eventually becoming a key piece of the most awarded delivery hub established in the company's history.

The Tandang Sora, Quezon City delivery branch is obviously a male-dominated work environment. And between organizing the paperwork and keeping the delivery team in line, the momentous task of proving herself and what she can do for the team became evident.

In male dominated work environments, it's typical for women to have to deal with contradictory factors on a daily basis. State your opinion, but don't come off too strong.

Give decisive direction, but make sure you don't seem pushy. Be ambitious and work towards it, just don't make it too obvious.

It's a double-standard that would normally make working in such environments difficult—if the double-standard even existed at all.

You see, apart from the expected horsing around you can expect in largely male populated industries, Marites somehow found herself in a place where the team saw past gender. Instead, focus shifted on getting the job done right and making sure that the joy of moving, whether it be packages or lives, was felt by everyone, from customers to team members.

"*14 years na po ako sa LBC...at tatlo lang kaming babae dito sa* delivery hub. Yes, male dominated workplace, *pero parang pamilya kami. Maraming biruan, bonding...*" she explains.

The dynamics within the hub is perhaps a reflection of the kind of values that LBC advocates. It demonstrates that when a team is working towards a common objective and is driven by a common goal, what they can achieve is exceptional.

"Four-time winner *na kami ng* service excellence awards. *Masasabi kong kasi pinagtutulungan namin marating 'to . Basta't kakayanin, magtutulungan kami,*" she explains. *"Dito sa* branch *namin, may malasakit kami. Sa customer, sa ka trabaho namin—yun na siguro yung dahilan bakit ang ganda ng takbo ng hub namin. At masaya kami na nakakatulong kami kahit na sa maliit na paraan lang."*

What Motivates Employees to Stay and Thrive with A Company

Leandro Libradilla first started in LBC when he was just 21-years-old after finishing school. As far as milestones go, this was a big one. It was his first job, after all. But little did he know then that it was also going to mark his first step towards what would become a nearly four-decade long career with a company set to become a leader in its industry.

"Thirty-seven years ago, *nung kakapasok ko palang, maliit palang ang* LBC *nun.* I started as a courier and after a few weeks, I got an appointment as a full time employee," he recalls. "After a few months, I transferred to any position available that was offered to me. Airport representative, manifest clerk, delivery...I was all around."

Anding, as he was fondly called at work, became part of LBC at a time when the LBC name was yet to be recognized as a global brand signifying trust and dependability. It was well on its way to becoming a household name, however. Even at that early of its growth, it was a company that was already driven by the need to deliver smiles to its customers, which was made possible through the hard work and effort of its team members.

"*Kung kaya nila, dapat kaya ko rin* became my motto. I saw the effort that team members put into getting the job done right and how they wanted to do it well. I wanted to prove to myself that I could do that too," Anding says. That was his motivation--and he rarely turned down an opportunity to try something new and learn with a company that was steadily becoming a leading name in the industry.

His efforts proved to be worth it. As Anding joined different departments and teams, he quickly learned the ins and outs of the logistics and delivery industry. And as LBC grew year after year to become a globally recognized name in the business, Anding grew along with them. From starting out as a courier, his collective experience spent learning the ropes of every department in LBC he was given an opportunity to work with became the backbone for his current position, which he holds with pride--as the Area Manager for the whole Eastern Visayas.

"*Napamahal na ako sa trabaho ko*. And now, with my experience in LBC, I make it a point to sit down new hires and inject in their minds that they are not only joining the number brand in the business, they are joining a family. LBC works because we understand what is important to us and our customers. *Ito ang ating ligaya*," he shares.

And that's what the joy of moving is all about—moving the lives of customers, of team members and the brand itself.

Delivering Great Customer Service Is Simpler Than You Think

LBC built a globally recognized company based on their ability to deliver not just their customer's packages, but their ability to deliver exceptional customer service.

That's no easy feat. It's an increasingly competitive industry that has to meet ever evolving customer demands, amid a workforce that constantly deals with high attrition.

The company credits their success on their commitment to their loyal customers, of course. But these customers would not have built a relationship with LBC if it weren't for their employees—team members who have stayed through the years, saw the company grow, shared the company values, and demonstrated it in everything that they did for its patrons.

Taking Cora Vizcara's example, given her 32 years in LBC, it all boils down to this: believe in the service that you are delivering and empathize with the customer's needs.

It's that simple.

"*Para sa akin, ang laki ng nagagawa ng malasakit para sa customers. Pahalagahan mo ang trabaho na ginagawa mo para sa kanila, pahalagahan mo ang mga padala nila,*" she explains.

Fortunately, this is a value that Cora shares with LBC, making it easier to deliver on the kind of care and service that she believes customers deserve. Across the three decades that she has spent with LBC, a common understanding of what brings joy to the stakeholders that made this company what is is today became a major factor not only for LBC's success but her own as well.

"Yung konsepto ng aming ligaya ng LBC...totoo yun. Nakakataba ng puso yung nagiging kaibigan mo na ang mga customers mo dahil pinakitaan mo sila ng malasakit," Cora adds. "*Bilang frontliner—dapat napapakita mo ang halaga nung customer, kasi ikaw ang* representative *ng kumpanya."*

Cora is a steadfast examples of what LBC's *Aming Ligaya* truly stands for. For her, along with many other tenured employees, delivering great customer service means doing so consistently. Other can go above and beyond the call of duty once in a while, it's another thing to do so all the time. That's what she constantly strives for, and what she hopes the new generation of LBC employees will take to heart.

All In the Family—
How A Company Nurtures Employees Through the Years

By and large, a company's corporate culture will be shaped by the way they do business. For example, in the case of LBC, the country's number one express delivery and logistics company, their values are strongly anchored on the joy of moving.

To customers, this means that LBC employees will do what they can to get the job done, simply because they realize the significance of what they do. For LBC employees, this means that the company will do what they can to make sure that being part of the LBC family will move their lives.

While LBC may be a globally recognized company now, they continue to encourage loyalty and build relationships with their team members by advocating the strengths of being part of an organization that truly believes in their people. And it's the reason why employees like Heli Sulib, Sr., have stayed with the company for over three decades.

"Thirty-two years. I started after graduation, *nung* February 12, 1984. Thirty-two fruitful years," he proudly says. "I started as a courier, with the delivery team—motor and van. After five years, I was appointed as delivery dispatcher. After a few years, I was appointed as the head of the distribution center. And now, I am the delivery manager of Cebu and Tagbilaran."

His career path with LBC demonstrates how a company is able to develop employees across varied roles, making them feel valued and a real part of something big. But it's the connection between what people do everyday and the overarching, longterm goals of an organization that is crucial to the fuilfillment they feel for their jobs.

Someone like Sulib, who passionately believes in what he does, is driven by his role in LBC, and its mission of delivering smiles to its customers.

"Init o ulan, sisikapin namin na madeliver lahat para mapasaya ang customer. Pag nagpapasalamat na ang customer na napadala on time *ang* package *nila, yung ang pinaka*-fulfilling *para sa akin,"* he insists.

Sulib, fortunately for LBC, is one among many. He, alongside other tenured members of the LBC family, illustrates how people can become a business' competitive advantage, simply because they put passion into everything they do. The strength of the business is therefore, anchored on their commitment, and is nearly impossible to replicate unless a company sincerely shares these values with team members.

And to new employees coming to join the fold, he has this to say—*"Payo ko sa mga baguhan, i*-enjoy *nyo trabaho nyo. Ilaan nyo ang* investment *ng oras at pagod nyo sa kumpanyang paglalaanan rin kayo. Ang dami kong natutunan dito, at marami pa akong natutunan. Dito na ako magreretire talaga.*"

How LBC's *Aming Ligaya* Shapes Employee Fulfillment

A thriving, productive, and dynamic workplace, run by dedicated employees is attainable. The question is, is this something that you can claim for the company that you work for?

According to Romulo C. Cruz, this is something that his employer, LBC Express Inc., who he has been with for 29 years, has known and established through the decades.

The company takes pride in the kind of joy that they are able to deliver to customers. The employees find fulfillment in delivering that joy, as demonstrated by the drive they have to get the job done. And what keeps this cycle going is LBC's knowledge that employee happiness matters.

"I actually started as a security guard here," Romula begins. "But I started my career in LBC in November 1987...with the delivery team. *Tapos naging customer associate.* Nung 1992, *sinwerte, na*-promote *ako...*"

Even before the rest of the corporate landscape focused on the idea that individual talents, regardless of what position you held in the company, positie attitudes, and shared values were relevant to their longevity and growth, LBC was already at the forefront.

"*Masasabi kong* the company is very supportive *sa empleyado. Sa* 29 years ko *sa kumpanya, tatlo ang kolehiyo ko noon, napagtapos ko sila. Nakapagpatayo ko ng mga* small businesses—*bumili ako ng tatlong tricycle, at nagtayo ng carinderia*," he shares. *"Aral at puhunan, masasabi kong galing sa LBC yun."*

He credits his personal success to all the things he learned with LBC.

"Kung ang LBC may vision, mission, *at* core values, *dapat meron ka rin. Sa kumpanya,* it was integrity, customer first, trust, confidence. *Madami yan—pero yan ang mga nangingibabaw sakin dahil importante na shini-share mo yan. At yung pamamahala ng negosyo ko ngayon, natutunan ko rin yan sa LBC."*

Romulo is a firm believer in the opportunities that employers can bring their employees, if they find the right match. Pegged against his own experiences with LBC, he highlights the company's understanding of what their tagline *Aming Ligaya* means, not only to its customers, but to its employees as well.

"Lahat ng miyembro ng LBC, natututo hindi lang sa trabaho, pati sa buhay. Hindi ko sinasabi na masaya lagi, na madali—pero shempre mahal natin ang trabaho natin. Fufilled ako as an employee, in short," he ends with a smile.

A Partner for Economic Growth

The development of micro, small and medium enterprises (MSMEs) is the cornerstone of inclusive economic growth. MSMEs help create jobs, allow people to get out of poverty, and promote a more equitable distribution of income that leads to social cohesion and stability. However, they have limited financial resources, often lack technological capacity, and face challenges accessing a wider network of customers.

In the Philippines MSMEs, which include a growing number of online sellers, comprise 96.6% of the total number of registered businesses, so that their potential for delivering benefits to the national economy is tremendous. Recognizing this, LBC develops delivery and payment solutions that allow these businesses to grow. With LBC as partner, they have on their side the secure technology, reliability of transactions, and service excellence that our brand is known for.

In 2018, LBC launched Cash on Pickup (COP) and Cash on Delivery (COD), harnessing not only our core strengths as courier service provider and payment collection channel, but our growing list of LBC's serviceable areas. This allows businesses to reach more customers, and customers to shop anywhere and feel empowered as a consumer.

With COP, buyers can now add any LBC branch as a pickup point of their merchandise, where payment will also be collected. This provides both seller and buyer the benefit of a safe, seamless, and convenient transaction. Sellers are assured that they will get paid and buyers know that they will receive the product in good condition. COD, in turn, allows the buyer to pay for the item upon delivery, which will be remitted to the seller.

These two solutions testify to LBC's ability to remain responsive to the both small and seismic shifts in retail and consumer preference and behavior with reliability and convenience. They also allow the unbanked to start participating in economic activities, while being protected by LBC's robust compliance system and stringent monitoring standards.

Currently, the Philippine operations of eBay, one of the leading e-commerce sites in the world, also use these solutions, attesting to the level of quality that LBC strives to meet customer needs no matter the size their transaction or business so that everyone can be part of a more inclusive economy. As LBC Chief Marketing Officer Javier Mantecon says, "LBC believes that MSMEs are going to power the nation in many years to come. With LBC, they have a better chance of surviving and thriving as they become more efficient, more productive, and find their expertise so they can challenge large enterprises."

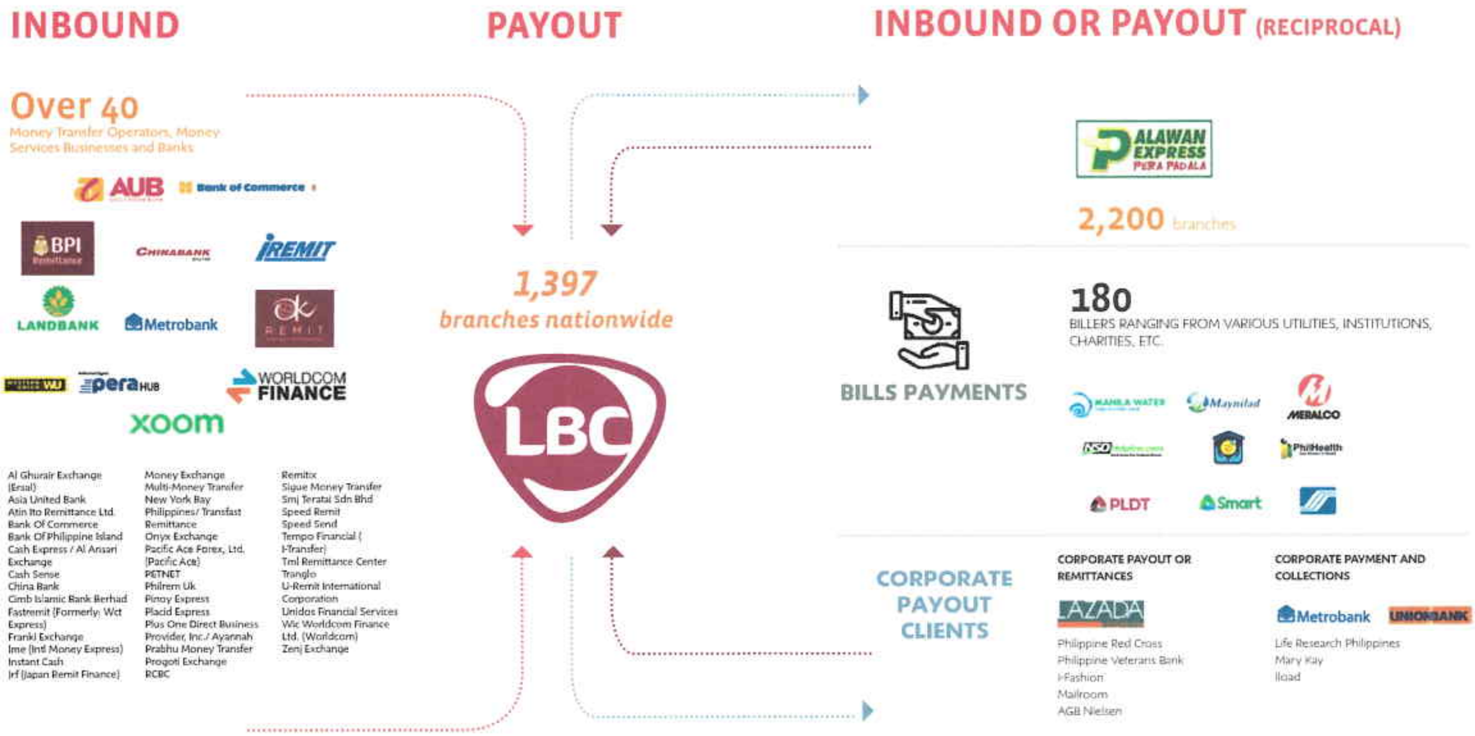
Spotlight: Moving Money, Moving Lives

- 1,463,250 million customers served in 2018
- Present in 13 countries for inbound remittances
- P23,516,189 million of inbound remittances
- P135,556,048 million remitted from urban center to rural areas in 2018
- 33 remittance partners nationwide
- 1,401 remittance branches of LBC Express, agents and 30 affiliates nationwide

As the Filipino becomes more globalized, the ability to regularly send money back home in a secure and reliable way is an utmost concern. These remittances and money transfers address basic needs, send children to school, secure roofs over people's heads, fund sari-sari stores and startups, and create local economic activity in the rural areas.

Given the significance of money transfer services not only to its beneficiaries but also to sustainable development, our money services business leverages LBC Express' delivery services' wide network of branches and delivery fleet. We offer various fulfillment options for this this service in almost all areas of the Philippines such as instant branch pickup, doorstep delivery through Pesopak, and deposit to the beneficiary's local bank account. Prepaid VISA remittance cards are also available to those who want the convenience of instant reloads in LBC branches that the beneficiary can then use in establishments that accept VISA.

Through its money services, LBC helps address the needs of vulnerable groups immediately and facilitate development by providing capital to local communities with fragile economies.



Corporate Social Responsibility: LBC Foundation

The LBC Foundation is all about moving people forward.

As a trusted corporate citizen, the LBC Foundation seeks to create and re-distribute wealth by responding to the needs of society and working towards a sustainable form of support for the underserved Filipino.

LBC FOUNDATION

MOVE IT FORWARD

How?

- By enriching life and culture, encouraging the development and education, and empowering those who serve the poor for nation building.
- By creating maximum impact by bridging those leading change in their respective fields, and fostering a partnership that benefits the organization's stakeholders first.

Our intention is driven by shared values that are the benchmark of everything that we do...

The LBCF Values

Excellence
LBC Foundation strives to maximize its resources in achieving significant social impact.

Commitment
LBC Foundation is dedicated to transforming lives

Collaboration
LBC Foundation recognizes that creating access and opportunities for Filipinos involves strategic partnerships with diverse stakeholders

Integrity

LBC Foundation will act in a transparent manner in all its activities; demonstrating accountability.

Bayanihan
A thread that binds. LBC Foundation believes in the benefit of mutual aid or cooperative endeavour in community development.

LBC Foundation upholds these core values:

EXCELLENCE	COMMITMENT	COLLABORATION	INTEGRITY	*BAYANIHAN* *A thread that binds*
Strives to maximize its resources in achieving significant social impact	Dedicated to transforming lives	Recognizes that creating access and opportunities for Filipinos involves strategic partnerships with diverse stakeholders	Will act in a transparent manner in all its activities, demonstrating accountability	Believes in the benefit of mutual aid or cooperative endeavor in community development

The LBCF Vision

To transform and empower communities by helping Filipinos move towards a better quality of life.

- Does it excite you?
- Does it tell the world about the good you want to do?
- Is it bigger than you? (In other words, is it more than you can do alone?)
- Is it simple?
- Is it clear?
- Is it about what you can give? (not about what you'll get)

The LBCF Mission

To create access and opportunities for the underserved Filipino through capacity building, strategic partnerships, and engagement.

- Does it tell the world about the purpose of LBCF?
- Is it clear and simple?
- Will it help keep you focused on the right things?
- Does it link in well with the Vision and tell people your part in delivering it?

In 2018, The LBC Foundation:

- 159 community members served
- 2 new classrooms built & outfitted in Batangas
- 2 classrooms built & outfitted in Dumaguete
- 2 classrooms built & outfitted in Ifugao
- Ph1 million worth of in-kind donations:
    - o Ph824,684 million on educational tools and 1 16p diesel-engine boat donated to transport students
    - o Ph206,951 million worth of free cargo services to assist 20 NGOs 101 children supported through World Vision
- 230 scholars (kindergarten, elementary, and high school)
- 1,149 volunteers and 3,037 volunteer hours in various programs throughout the country

Volunteerism & Corporate Culture

In a modern world where we are more aware of the lives of others, there is increasing pressure on corporations to give back to the community through charity work. Nowadays, it is seen as a regular practice for a company to engage in Corporate Social Responsibility (CSR), as it can be deemed to be a small step towards improving a nation's development, and even Fortune 500 firms such as Starbucks place huge importance on the principle of volunteerism.

However, there are some claims, supported by Professor Aneel Karnani, who believe that CSR is used as a "distraction" by many companies, believing that it can be considered to be a farce, and insisting that government regulation is the only way to ensure that CSR is used appropriately.

Despite Karnani's arguments, there is also resounding evidence to the contrary. Gawad Kalinga is a nation building movement, who recently participated in the LBC Foundation's Ka-Liga Tournament, along with other NGOs such as the Fairplay for All Foundation and Futkal Tondo. This tournament gave children a chance to rebuild their morale, letting them experience fair play and enjoy a moment of freedom without any worries.

The LBC Foundation is the Corporate Social Responsibility arm of the LBC Group, the country's largest courier, logistics and remittance company, and has created close partnerships and friendships with these NGOs, due to their alignment in their mutual goal to build a better Philippines. The LBC Foundation has participated in a number of activities to help the community, recently culminating in the successful construction of houses in 2013 in Baluarte, Quezon City, which has rekindled hope for 27 families after the tragic loss of their homes. There is a lot to be said for the importance of passion in CSR, and this is embodied in the phenomenal work of the LBC Foundation, and shown through the words of Gawad Kalinga advocate Boy Montelibano, who states that "they [LBC] are not building just with their money, but with their hearts".
The LBCF has also recently had their first college graduate from their scholarship programme for qualified and deserving employees' children. A programme that looks at the promotion of education for all, LBCF have been incredibly triumphant with this endeavor, as Ralph Picardal graduated in October 2015, and gave his complete gratitude to the LBCF for supporting him throughout, referring to the group as an "advocate for youth".

"LBC employees are always ready to serve, and ready to go the extra mile, whether it's for their primary functions at LBC or through volunteer work for the foundation," said Nena Wuthrich, Executive Director of LBCF. "It's always a pleasure for us to do everything we can to serve our customers, so we carry that culture and spirit over to foundation activities that improve lives, businesses, and, especially, communities," she concluded.

According to Small Business Trends, around 67% of employees say that CSR is a strong or essential motivator in how they choose their jobs. With supportive garrison of 6,000 employees, the LBC Foundation has shown that passion for voluntarism reaches the hearts of the people, and the result of that is clear, as the group has the correct mentality and ability to be able to achieve their aim of building a better Philippines.

How LBC Moves Communities Through Volunteerism in Emergency Situations

When natural disaster strikes, communities come together to provide aid and assist in recovery or rebuilding efforts.

Often missing from all the action are the private sector—organizations who, given their scale, are likely more capable of offering manpower and resources towards these initiatives. Arguably, disaster preparedness and emergency response is something that would fall under the purview of the government; but private corporations such as LBC are now leading the way with programs that intend to protect and help communities during emergency situations.

"Most people are aware of the active role that non-profit organizations take in disaster relief or emergency response. But private organizations that are willing to engage their internal team and resources often play a role that's just as important," begins Chris Guidotti of LBC, who spearheads the LBC Emergency Response Team. "Private companies have the manpower and funding, which can easily align with government and NGO goals to mobilize a more responsive approach to emergency situations."

The relationship between businesses and the communities they move in now becomes a jump off point for discussions on a private company's ability to contribute to the cycle of preparation, response and recovery of underserved areas in the Philippines.

For LBC, who is recognized as one of the largest companies handling courier and cargo logistics in the country, with an employee base of over 10,000, it became the catalyst to seek out and mobilize individuals within the organization who shared the company's views on giving back to the community.

"We are fortunate to have a team of people behind this initiative who readily volunteer their time and effort for this project, making them some of the most reliable people to call during emergency situations," Guidotti notes.

They were dubbed the LBC Heroes—each member of this 25-man team are volunteers from across LBC's different business units—from the frontliners to executive management—readily giving their time, expertise and resources to ensure that communities are able to respond to emergency situations with their help. They undergo training with the Philippine Red Cross and Philippine Coast Guard as well, emphasizing just how integral the public-private synergy can be.

Among their primary resources is a fully-equipped Emergency Response Vehicle (ERV), allowing them to easily travel around the city and position themselves in areas where they can lend a hand.

The ERV is deployed whenever there is a storm warning. A long-standing partnership with www.weather.com.ph allows the team to be alerted of high-risk areas during heavy rains or storms. This allows them to easily pinpoint and deploy their resources accordingly—as in the case of last year's category 4 typhoon Lando, where the LBC Heroes were deployed to Barangay San Roque in Cabanatuan City, Nueva Ecija where they were able to provide medical assistance onsite for over a hundred members of the town.

"But it's not everyday that there's a natural disaster to take care of—and we wanted to maximize our resources for communities. So we also make an effort to be present to provide emergency response during local events," he adds.

In more recent efforts, the team joined festivities for the Black Nazarene, where the LBC Heroes combined with resources from a total of 57 private and government medical groups addressed the medical emergencies for one of the biggest religious festivities in the country. The team was also present during the Pahiyas Festival in Lucban—an annual flower festival known for drawing local and tourist crowds to provide basic first aid to participants.

"The spirit of collaboration is central to our efforts—from our volunteers to our government partners to our community leaders. Whether it's a major disaster or simply the fact that we want to be there to mitigate emergencies, we are fortunate to have a team of people behind this initiative who has demonstrated an admirable level of commitment to this project," Guidotti ends.

Safeguarding Business Integrity

With each LBC *padala*, we commit to peace of mind. We invest in and leverage the latest technology to provide our customers clear and correct information on our delivery process, schedule, and costs so that customers, whether it is the sender or the receiver, feel secure. As such ensuring the integrity not only of our people but also of our systems and operations is paramount to us. Customers and corporate clients need to be able to trust our processes, feel protected, and receive the same high level of excellence and convenience in each transaction amidst the growing complexity of the regulations and pressures we face in both local and international regimes and across borders.

Investing in Cyber-security

The Company has invested tens of million to upgrade its network infrastructure for greater security. LBC was the first to partner with NTT Security for its Managed Security Operations Center (SOC) in the Philippines. Regular Network Penetration Tests, Vulnerability Scans and audits are being conducted on LBC's infrastructure.

Our enterprise-wide Digital Transformation program has allowed us to maintain our competitive edge as we scale up our business and establish a truly global footprint. Throughout this growth we do not compromise on the need to secure and protect business and customer data, which is central to maintaining LBC's success and positive reputation.

Since the launch of our Digital Transformation program we have implemented the following:

- increased our investments in IT security by 300%;
- partnered with one of the world's leading global technology company in the management of our security operations center;
- placed several layers of protection through our infrastructure and software applications;
- implemented advanced programs to protect the organization against malicious threats;
- installed powerful and proactive data leakage prevention tools to ensure data privacy throughout our operations, among others.

Because the nature of cyber-security threats evolve even as their presence remains constant, LBC has a comprehensive cyber-security program that allows us to periodically assess a wide spectrum of cyber-security risks and conduct tests and audits on our systems. We have backup servers for built-redundancies in the event of business interruptions due to a cyber-attack. Training programs are available to all employees to help them identify vulnerabilities, raise their awareness on proactive and preventive practices, and teach them to be vigilant. Similarly, employees who handle customer data are trained in protocols and practices that protect customer information. We do not sell customer data for marketing purposes.

A Strong Commitment to Compliance

FRAMEWORK OF LBC AML COMPLIANCE PROGRAM

LBC ANTI-MONEY LAUNDERING STATEMENT

LBC Express conducts its business with the highest ethical standards and is committed in preventing the use of its services and products to facilitate money laundering.

LBC Express believes it has an obligation to participate in the international effort to shut down avenues that money launderers and other criminal use to help fund criminal activities.

2018 Achievements

- 68 alleged scam transactions stopped
- P701,703 customers' money saved from fraud
- 1,430 Suspicious Transaction Records (STRs) filed, 42% increase from 2017
- 99.88% of STRs considered High Value

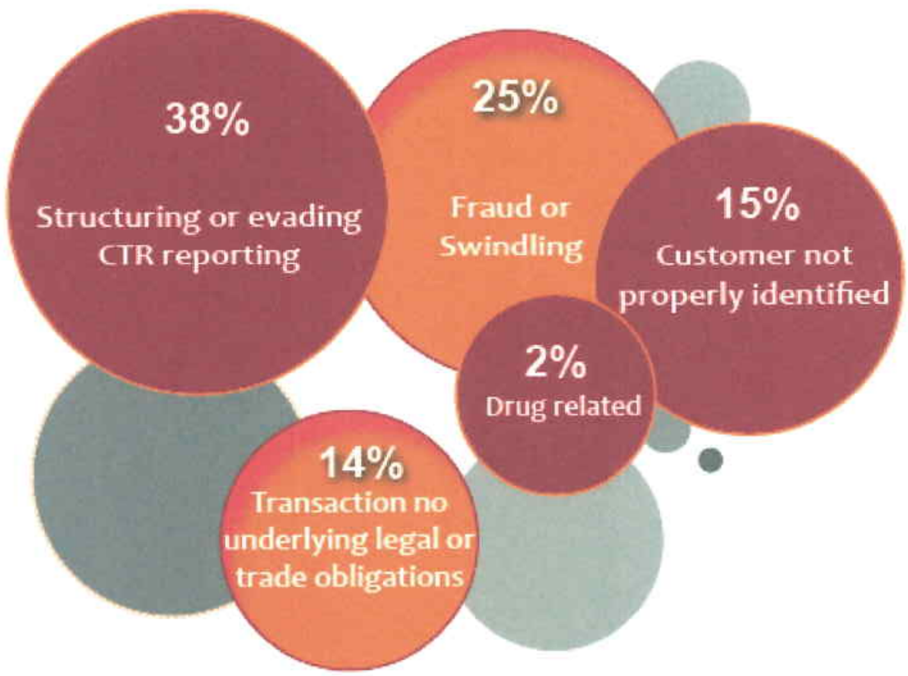
- 32 out of 33 remittance partners reviewed under Enhanced Due Diligence (1 remittance partner submitted incomplete documents thus the review is pending.)

We have a strong compliance and anti-money laundering program that protects our customers and our business from illegal transactions and malicious use of our systems. Guided by our policy and framework, the Compliance team monitors domestic and international remittance transactions based on risk and materiality to identify which ones need further investigation.

We have a regular reporting mechanism in place for Suspicious Transactions, Suspicious Activities, and Suspicious Matters. When there are reasonable grounds to suspect that a transaction may be related to terrorist or illegal activity or money laundering, we file reports with the relevant financial intelligence units of the various jurisdictions where our remittance business operates. In the case of the Philippines, this is the Anti-Money Laundering Council (AMLC).

In 2018, 99.88% of the 1,430 Suspicious Transactions Reports submitted by LBC Express to the AMLC were considered to have High Value for investigation purposes. This attests to the reliability of the parameters our company has identified in our transaction monitoring, which has been recognized by the AMLC with a high rating in its AML Risk Rating System along with our strong and good governance. At the same time, the number STRs we filed was low considering the scale of our business.

From 2015 to 2018, the top 5 reasons for filing STRs with AMLC



Other 2018 highlights include:

- LBC Express successfully re-registered its Remittance License with the Bangko Sentral ng Pilipinas after it adapted a new framework to supervise and govern its oversight of Money Service Businesses in the country in 2017. Through the new regulation, we also commit to consumer protection in the areas of disclosure and transparency, protection of client information, fair treatment, effective recourse, and financial education.

- LBC Express was the first to sign the Information Sharing Protocol with the AMLC, a public-private partnership that promotes cooperation and coordination to effectively prevent, control, detect and investigate money laundering, terrorism and financing of terrorism in the Philippines.

- LBC Express is one of the representatives from the Money Service Business sector for the Mutual Evaluation Process (MEP). Conducted by the Asia Pacific Group (APG) on Money Laundering, the MEP determines a country's level of compliance with international standards on anti-money laundering and combating the financing of terrorism. Poor country performance can have negative impacts on financial institutions and the economy in general as it will entail more stringent requirements for the inflow and outflow of financial transactions for that country. LBC Express is proud to have been selected by the BSP and AMLC to demonstrate that these standards are in place and effectively met and implemented.

- The Compliance Department completed the submission of 2018 Year-end Report to demonstrate compliance with the Anti-Money Laundering Act and Anti-Money Laundering Laws in international jurisdictions where LBC operates money remittance services.

- LBC Compliance Officer Irene Victoria C. Isidoro-Torres, LLB, CAMS was elected as vice president of the Association of Remittance Company Compliance Officers – Philippines (ARCCO – Phil), which represents various Money Services Businesses (MSB) such as remittance companies and pawnshops. The association, made up of compliance officers from various MSBs, advocates industry position with regulators and leads dialogues for reforms. Atty. Torres has been a Certified Anti-Money Laundering Specialist (CAMS) since 2008, and oversees all the legal and regulatory obligations of the company.

IRENE V. C. ISIDORO-TORRES, LLB*, CAMS ***

Bachelor of Laws (LLB, 1996) University of the Philippines College of Law
Admitted to the Philippine Bar 1997
****Certified Anti-Money Laundering Specialist Since 2008 DPO ACE 1 & 2**
Certified December 2018 (Certification Program of the National Privacy Commission)

AREAS OF SPECIALIZATION

Anti-Money Laundering (AML), Bank Secrecy Act (BSA), Regulatory & Remittance Compliance, Data Privacy, Credit Card Regulations, Partnership & Corporation Law, Contract Negotiation Corporate Recovery, Mergers and Acquisition, Restructuring and Rehabilitation.

AFFILIATIONS

• 2008 to present, Member, Association of Certified Anti-Money Laundering Specialist (ACAMS).
• 1997 to present, Lifetime Member, Integrated Bar of the Philippines • 2018 Sectoral Representative Data Privacy Council, Transport and Logistics
• 2018-2019 Vice President of Association of Remittance Company Compliance Officers – Philippines (ARCCO) TEACHING
• 2011-2012. Lecturer. University of the City of Valenzuela. Partnership & Corporation Law.

LBC's Commitment: Moving Towards Sustainable Logistics

Our Digital Transformation program ushered for LBC the need to disrupt our business model and accelerate our activities to keep ourselves ahead of the pack. This will allow us to remain the brand of choice among consumers and exceed their expectations. Given the times we are in, we recognize that as we grow and get faster, LBC creates impacts on the environment, society, and all our stakeholders.

As a business that has always believed in doing things responsibly, LBC is ready to become a leader in sustainable logistics. Our leadership in the Philippine logistics sector gives us the opportunity to set the pace of sustainable logistics in the country and be a strong competitor in the global logistics sector, where sustainability is now the standard. We will do so by committing to the following:

As the leading logistics company in the Philippines, we have

- Integrating sustainability into LBC's business strategy so that it contributes to the value of the company and make it a growth driver;
- Elevate to the Board level the environmental and social risks and opportunities that the sector and the business face;
- Improve our data collection and management to provide our stakeholders with a more accurate way to assess our performance;
- Design products and services with built-in sustainability features so that we make it easier for our customers to choose greener solutions;
- Manage and mitigate the environmental impacts of our widespread automation by identifying areas for greater efficiencies and optimization in our operations;
- Engage regularly with all stakeholders to better understand our impacts and identify material sustainability topics that affect them and our business.

Like digital transformation, sustainability is a recognition that we can no longer run our business as usual given the development challenges that our planet and our society face. This preliminary report kickstarts our journey towards improvement. As our President and CEO Miguel A. Camahort reminds us, “For decades, we’ve always been pacesetters. Those who quickly move can also quickly improve. So fast doesn’t just win the race. It gets a head start to the next one.”

United Nations Sustainable Development Goals

LBC is committed to supporting the following UN Sustainable Development Goals:

1	**No Poverty**
3	**Good Health and Well-Being**
4	**Quality Education**
5	**Gender Equality**
8	**Decent Work and Economic Growth**
9	**Industry, Innovation, and Infrastructure**
12	**Responsible Consumption and Production**
13	**Climate Action**
16	**Peace, Justice and Strong Institutions**
17	**Partnerships for the Goals**

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A	S	O	9	3	0	0	5	2	7	7

COMPANY NAME

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

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

LBC HANGAR, GENERAL AVIATION CENTRE, DOMESTIC AIRPORT ROAD, PASAY CITY, METRO MANILA

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A	SEC	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
N/A	8-856-8522	N/A

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

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Enrique V. Rey, Jr.	evrey@lbcexpress.com	8-856-8510	–

CONTACT PERSON's ADDRESS

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

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

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

LBC Express Holdings, Inc.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of LBC Express Holdings, Inc. and its subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Signature: ______________________
MIGUEL ANGEL A. CAMAHORT
Chief Executive Officer and President

Signature: ______________________
ENRIQUE V. REY, JR.
Chief Finance Officer

Signed this 28th day of May 2020.

SUBSCRIBED AND SWORN to before me in City of Pasay on JUN 0 9 2020 affiants personally appeared before me and exhibited to me their Tax Identification Nos.

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

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Page No. 67 :
Book No. IV :
Series of 2020.

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BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8 - MAKATI
Revenue District Office No. 51
PASAY CITY
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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of LBC Express Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 29 of the consolidated financial statements which describes the uncertainty related to the outcome of the case filed against LBC Express, Inc. (LBCE), among other respondents, by LBC Development Bank, Inc., as represented by its receiver and liquidator, the Philippine Deposit Insurance Corporation (PDIC) for collection of an alleged amount of ₱1.82 billion. The claim pertains to allegedly unpaid service fees from June 2006 to August 2011 and unpaid service charges on remittance transactions from January 2010 to September 2011.

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To date, the pre-trial of the case has been deferred due to pending motions to dismiss and to implead some individual defendants. The case will then be referred to mediation and judicial dispute resolution. If mediation fails, only then will the case be scheduled for pre-trial, during which the parties will present to the court the issues for resolution, the evidences and witnesses and other matters to be resolved at trial. The court has yet to receive the evidences of the parties and thereafter decide the case.

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

Key Audit Matters

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

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

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

The Parent Company's subsidiary, LBC Express, Inc. (LBCE), among other respondents, is involved in a case filed by LBC Development Bank, Inc., as represented by its receiver and liquidator, the Philippine Deposit Insurance Corporation (PDIC), for collection of an alleged amount of ₱1.82 billion. This is significant to our audit because the determination of whether any provision for potential liability from this case should be recognized and the estimation of such amount require significant judgment by the management given the inherent uncertainty over its outcome. The Group's disclosures about the case and basis of management's assessments are included in Note 29 to the consolidated financial statements.

Audit Response

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

Adoption and implementation of PFRS 16, Leases

Effective January 1, 2019, the Group adopted the new standard on leases, PFRS 16, *Leases*, using the modified retrospective approach. The Group's adoption of PFRS 16 is significant to our audit because the Group has high volume of lease agreements; the recorded amounts are material to the consolidated financial statements; and the adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the extension option is enforceable and whether the Group is reasonably certain to exercise the option to extend or terminate the lease, and in determining the incremental borrowing rate.

The adoption resulted in the recognition of right of use assets and lease liabilities amounting to ₱2,155.42 million and ₱2,048.42 million as of January 1, 2019, respectively, and the recognition of depreciation expense and interest expense of ₱745.04 million and ₱135.71 million, respectively, for the year ended December 31, 2019. Furthermore, the Group reassessed the useful lives of the non-movable leasehold improvements on the premises of the affected lease contracts as a result of the assessment of the lease terms upon adoption of PFRS 16, which resulted in decrease in retained earnings by ₱132.81 million as at January 1, 2019, net of income tax.

The disclosures in relation to the adoption of PFRS 16 are included in Note 2 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the determination of the incremental borrowing rate and lease term, the application of the short-term and low-value assets exemptions, the selection of the transition approach and any election of available practical expedients.

To test the completeness of the population of the lease contracts, we obtained the list of lease agreements in prior year where rent expenses have been recognized. The list was reconciled to the current year list. On a test basis, we inspected lease agreements, identified their contractual terms and conditions and traced these contractual terms and conditions to the lease calculation prepared by management.

For selected lease contracts with renewal and/or termination option, we reviewed the enforceability of the extension and/or termination option. We also reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation and the impact of the change in useful lives of the non-movable leasehold improvements, prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Accounting for business combination

In 2019, the Parent Company completed the acquisitions of entities, including entities under common control for a purchase consideration of ₱439.31 million. The business combinations were accounted under acquisition method which resulted in recognition of goodwill and gain on bargain purchase of ₱0.65 million and ₱20.47 million, respectively. We considered the accounting for these acquisitions to be a key audit matter because it required significant management judgment in assessing whether the business combinations between entities under common control have a substance from the perspective of the Parent Company, for the business combinations to qualify for the acquisition method. In addition, it involves judgment and estimation in identifying the underlying assets and liabilities and in determining their fair values.

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

Audit Response

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

Recoverability of Goodwill

Under PAS 36, *Impairment of Assets*, the Group is required to perform an impairment test on goodwill annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. As of December 31, 2019, the Group has goodwill that is primarily attributable to LBC Aircargo (S) PTE LTD, LBC Australia PTY Limited and LBC Money Transfer PTY Limited, each is considered to be a separate cash generating unit (CGU), amounting to ₱286.89 million which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically for the annual and long-term revenue growth rates, capital expenditures and discount rates.

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

Audit Response

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia
Partner
CPA Certificate No. 90787
SEC Accreditation No. 1737-A (Group A),
January 24, 2019, valid until January 23, 2022
Tax Identification No. 162-410-623
BIR Accreditation No. 08-001998-74-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125312, January 7, 2020, Makati City

May 28, 2020

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

	December 31 2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 24 and 25)	**₱4,418,669,253**	₱4,137,439,144
Trade and other receivables (Notes 4, 6, 18, 24 and 25)	**1,537,848,554**	1,642,133,769
Due from related parties (Notes 18, 24 and 25)	**1,103,805,387**	557,958,095
Investment at fair value through profit or loss (Notes 10, 24 and 25)	**15,629,263**	131,294,744
Prepayments and other current assets (Notes 2, 7, 12, 24 and 25)	**807,780,151**	647,518,135
Total Current Assets	**7,883,732,608**	7,116,343,887
Noncurrent Assets		
Property and equipment (Notes 2 and 8)	**2,110,735,060**	1,436,080,000
Right-of-use assets (Notes 2 and 22)	**1,885,830,072**	–
Intangible assets (Note 9)	**363,746,898**	555,369,656
Investment at fair value through other comprehensive income (Notes 10, 24 and 25)	**286,738,308**	337,453,928
Deferred tax assets - net (Notes 2 and 21)	**377,561,496**	302,277,269
Security deposits (Note 22)	**330,624,118**	312,431,108
Investment in an associate (Note 11)	**250,638,683**	239,019,848
Advances for future investment in shares (Note 18)	**78,727,321**	439,823,608
Goodwill (Note 4)	**286,887,944**	492,446,084
Other noncurrent assets (Notes 7, 12, 18 and 24)	**238,462,851**	138,929,366
Total Noncurrent Assets	**6,209,952,751**	4,253,830,867
	₱14,093,685,359	₱11,370,174,754

	2019	2018
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 13, 18, 24 and 25)	**₱3,242,180,861**	₱2,806,169,280
Due to related parties (Notes 18, 24 and 25)	**33,611,365**	93,992,129
Dividends payable (Notes 17, 18, 24 and 25)	**14,775,250**	285,173,094
Current portion of notes payable (Notes 15, 24 and 25)	**376,666,667**	297,000,000
Transmissions liability (Notes 14, 18, 24 and 25)	**586,888,109**	543,895,836
Income tax payable	**43,362,953**	126,565,090
Current portion of lease liabilities (Notes 2, 22, 24 and 25)	**645,014,412**	20,271,292
Total Current Liabilities	**4,942,499,617**	4,173,066,721
Noncurrent Liabilities		
Derivative liability (Notes 16, 24 and 25)	**2,048,681,561**	1,406,175,427
Bond payable (Notes 16, 24 and 25)	**1,247,021,058**	1,108,417,074
Retirement benefit liability - net (Note 23)	**637,794,685**	672,265,144
Notes payable - net of current portion (Notes 15, 24 and 25)	**553,055,555**	532,500,000
Lease liabilities - net of current portion (Notes 2, 22, 24 and 25)	**1,356,731,239**	119,797,742
Other noncurrent liabilities (Notes 9, 24 and 25)	**39,787,939**	79,986,182
Total Noncurrent Liabilities	**5,883,072,037**	3,919,141,569
	10,825,571,654	8,092,208,290
Equity		
Equity attributable to shareholders of the Parent Company		
Capital stock (Note 17)	**1,425,865,471**	1,425,865,471
Retained earnings (Notes 2 and 17)	**1,621,371,760**	1,625,483,991
Accumulated comprehensive income	**193,677,606**	241,328,367
	3,240,914,837	3,292,677,829
Non-controlling interests	**27,198,868**	(14,711,365)
Total Equity	**3,268,113,705**	3,277,966,464
	₱14,093,685,359	₱11,370,174,754

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2019	2018	2017
SERVICE REVENUE (Note 26 and 30)	**₱15,227,052,746**	₱12,341,528,914	₱9,975,384,899
COST OF SERVICES (Note 19)	**11,183,621,581**	8,563,582,476	6,606,032,273
GROSS PROFIT	**4,043,431,165**	3,777,946,438	3,369,352,626
OPERATING EXPENSES (Note 20)	**2,752,704,321**	2,410,297,761	2,021,904,507
OPERATING INCOME	**1,290,726,844**	1,367,648,677	1,347,448,119
OTHER INCOME (CHARGES)			
Gain on disposal of a subsidiary (Note 4)	**443,755,622**	–	–
Interest income (Notes 5 and 7, 12 and 18)	**46,607,074**	33,454,657	16,169,689
Foreign exchange gains - net (Notes 20 and 24)	**35,773,986**	163,270,294	91,981,180
Equity in net earnings of an associate (Note 11)	**26,154,472**	11,103,396	–
Fair value gain (loss) on investment at fair value through profit or loss (Note 10)	**(5,292,340)**	8,492,280	–
Interest expense (Notes 8, 9, 15, 16, 18 and 22)	**(396,933,010)**	(223,895,998)	(136,816,952)
Gain (loss) on derivative (Note 16)	**(642,506,134)**	454,198,052	(199,950,820)
Others - net (Note 4)	**37,556,063**	2,425,888	7,938,629
	(454,884,267)	449,048,569	(220,678,274)
INCOME BEFORE INCOME TAX	**835,842,577**	1,816,697,246	1,126,769,845
PROVISION FOR INCOME TAX (Note 21)	**360,022,399**	467,666,189	418,854,463
NET INCOME	**475,820,178**	1,349,031,057	707,915,382
OTHER COMPREHENSIVE INCOME (LOSS)			
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains on retirement benefit plan - net of tax (Notes 17 and 23)	**27,696,955**	21,659,053	37,895,818
Share in other comprehensive income of an associate (Notes 11 and 17)	**464,363**	–	–
Unrealized fair value loss on equity investment at fair value through other comprehensive income (Notes 10 and 17)	**(50,715,620)**	(107,283,041)	–
Items that may be reclassified to profit or loss in subsequent periods			
Unrealized fair value loss on available-for-sale investment	–	–	(13,473,623)
Currency translation loss - net	**(26,439,558)**	(1,597,643)	(2,861,602)
	(48,993,860)	(87,221,631)	21,560,593
TOTAL COMPREHENSIVE INCOME	**₱426,826,318**	₱1,261,809,426	₱729,475,975
NET INCOME ATTRIBUTABLE TO:			
Shareholders of the Parent Company (Note 28)	**₱494,574,503**	₱1,359,766,592	₱703,876,073
Non-controlling interests	**(18,754,325)**	(10,735,535)	4,039,309
NET INCOME	**₱475,820,178**	₱1,349,031,057	₱707,915,382
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Shareholders of the Parent Company (Note 28)	**₱446,923,742**	₱1,275,292,376	₱725,118,990
Non-controlling interests	**(20,097,424)**	(13,482,950)	4,356,985
TOTAL COMPREHENSIVE INCOME	**₱426,826,318**	₱1,261,809,426	₱729,475,975
EARNINGS PER SHARE (Note 28)			
Basic	**₱0.35**	**₱0.95**	**₱0.49**
Diluted	**₱0.35**	**₱0.68**	**₱0.49**

See accompanying Notes to Consolidated Financial Statements.

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

	Equity Attributable to Shareholders of the Parent Company					
	Capital Stock (Notes 1 and 17)	Retained Earnings (Note 17)	Accumulated Comprehensive Income (Note 17)	Total	Non-controlling Interests	Total Equity
			For the Year Ended December 31, 2019			
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)	–	(142,220,366)	–	(142,220,366)	–	(142,220,366)
Balances as at January 1, 2019, as restated	1,425,865,471	1,483,263,625	241,328,367	3,150,457,463	(14,711,365)	3,135,746,098
Comprehensive income:						
Net income	–	494,574,503	–	494,574,503	(18,754,325)	475,820,178
Other comprehensive loss	–	–	(47,650,761)	(47,650,761)	(1,343,099)	(48,993,860)
Total comprehensive income (loss)	–	494,574,503	(47,650,761)	446,923,742	(20,097,424)	426,826,318
Issuance of additional noncontrolling interest:						
Non-controlling interests arising from additional investment	–	–	–	–	4,943,610	4,943,610
Disposal of a subsidiary (Note 4)	–	–	–	–	77,998,195	77,998,195
Dividends declared (Note 17)	–	(356,466,368)	–	(356,466,368)	(20,934,148)	(377,400,516)
Balances as of December 31, 2019	₱1,425,865,471	₱1,621,371,760	₱193,677,606	₱3,240,914,837	₱27,198,868	₱3,268,113,705

	Equity Attributable to Shareholders of the Parent Company					
	Capital Stock (Notes 1 and 17)	Retained Earnings (Note 17)	Accumulated Comprehensive Income (Note 17)	Total	Non-controlling Interests	Total Equity
			For the Year Ended December 31, 2018			
Balances as at January 1, 2018	₱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	–	(108,397,686)	(1,117,736)	(109,515,422)	–	(109,515,422)
Balances as at January 1, 2019, as restated	1,425,865,471	550,890,493	325,802,583	2,302,558,547	(46,606,952)	2,255,951,595
Comprehensive income:						
Net income	–	1,359,766,592	–	1,359,766,592	(10,735,535)	1,349,031,057
Other comprehensive loss	–	–	(84,474,216)	(84,474,216)	(2,747,415)	(87,221,631)
Total comprehensive income (loss)	–	1,359,766,592	(84,474,216)	1,275,292,376	(13,482,950)	1,261,809,426
Issuance of additional capital stock	–	–	–	–	2,666,545	2,666,545
Non-controlling interests arising from business combination (Note 4)	–	–	–	–	42,711,992	42,711,992
Dividends declared (Note 17)	–	(285,173,094)	–	(285,173,094)	–	(285,173,094)
Balances as of December 31, 2018	₱1,425,865,471	₱1,625,483,991	₱241,328,367	₱3,292,677,829	(14,711,365)	₱3,277,966,464

	Equity Attributable to Shareholders of the Parent Company					
	Capital Stock (Notes 1 and 17)	Retained Earnings (Note 17)	Accumulated Comprehensive Income (Note 17)	Total	Non-controlling Interests	Total Equity
			For the Year Ended December 31, 2017			
Balances as of January 1, 2017	₱1,425,865,471	₱782,414,079	₱305,677,402	₱2,513,956,952	(₱50,963,937)	₱2,462,993,015
Comprehensive income:						
Net income	–	703,876,073	–	703,876,073	4,039,309	707,915,382
Other comprehensive income	–	–	21,242,917	21,242,917	317,676	21,560,593
Total comprehensive income	–	703,876,073	21,242,917	725,118,990	4,356,985	729,475,975
Dividends declared (Note 17)	–	(827,001,973)	–	(827,001,973)	–	(827,001,973)
Balances as of December 31, 2017	₱1,425,865,471	₱659,288,179	₱326,920,319	₱2,412,073,969	(₱46,606,952)	₱2,365,467,017

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱835,842,577**	₱1,816,697,246	₱1,126,769,845
Adjustments for:			
Depreciation and amortization (Notes 2, 8, 9, 19, 20 and 22)	**1,358,221,618**	405,366,112	320,756,856
Interest expense (Notes 8, 9, 15, 16, 18 and 22)	**396,933,010**	223,895,998	136,816,952
Loss (gain) on disposal of property and equipment and intangible assets (Note 8)	**2,001,348**	1,295,215	(2,145,151)
Retirement expense, net of benefits paid and contribution to retirement plan (Notes 19, 20 and 23)	**12,013,117**	(5,079,634)	38,435,988
Gain on bargain purchase (Note 4)	**(20,474,024)**	(6,615,953)	–
Realized gain on redemption available-for-sale investments	**–**	–	(4,361,295)
Gain on disposal of a subsidiary (Note 4)	**(443,755,622)**	–	–
Fair value gain on investment at fair value through profit or loss (Note 10)	**5,292,340**	(8,492,280)	–
Equity in net earnings of an associate (Note 11)	**(26,154,472)**	(11,103,396)	–
Interest income (Notes 5,7 12 and 18)	**(46,607,074)**	(33,454,657)	(16,169,689)
Unrealized foreign exchange gain (loss)	**(27,114,808)**	(75,820,537)	14,975,028
Loss (gain) on derivative (Note 16)	**642,506,134**	(454,198,052)	199,950,820
Operating income before changes in working capital	**2,688,704,144**	1,852,490,062	1,815,029,354
Changes in working capital:			
Decrease (increase) in:			
Trade and other receivables	**(1,075,260,707)**	225,796,968	(146,353,368)
Prepayments and other assets	**(283,410,485)**	(155,270,869)	(58,041,963)
Security deposits	**(24,664,884)**	(33,339,511)	(29,171,710)
Other noncurrent assets	**(81,049,657)**	(44,590,712)	(13,014,373)
Increase (decrease) in:			
Accounts and other payables (Note 27)	**1,347,332,231**	349,469,580	263,449,497
Transmissions liability	**(2,324,547)**	(109,907,958)	120,918,861
Net cash generated from operations	**2,569,326,095**	2,084,647,560	1,952,816,298
Interest received	**46,607,074**	33,454,657	13,440,565
Income tax paid	**(508,516,906)**	(501,318,880)	(579,977,276)
Net cash provided by operating activities	**2,107,416,263**	1,616,783,337	1,386,279,587
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Redemption of investments classified as (Note 10):			
Investment at fair value through profit or loss	**280,748,100**	1,215,938,291	–
Available-for-sale investments	**–**	–	1,206,361,295
Disposal of property and equipment and intangible assets (Notes 8 and 9)	**8,866,161**	6,122,794	5,639,892
Decrease in cash due to disposal of a subsidiary	**(362,489,501)**	–	–
(Increase) decrease in due from related parties (Note 27)	**(46,588,893)**	162,015,580	(259,183,593)
Acquisitions of:			
Subsidiaries, net of cash acquired (Note 4)	**578,902,978**	(43,432,802)	–

(Forward)

	Years Ended December 31		
	2019	2018	2017
Intangible assets (Notes 9 and 27)	**(₱118,090,942)**	(₱164,330,859)	(₱38,449,650)
Investment in an associate (Note 11)	**–**	(218,265,077)	–
Property and equipment (Notes 8 and 27)	**(1,065,364,093)**	(540,140,832)	(354,905,072)
Investments at fair value through profit or loss (Note 10)	**(171,000,000)**	(888,580,000)	–
Available-for-sale investments	**–**	–	(1,394,016,400)
Advances for future investment in shares (Note 18)	**–**	(439,823,608)	–
Net cash used in investing activities	**(895,016,190)**	(910,496,513)	(834,553,528)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable	**400,000,000**	150,000,000	369,899,521
Decrease in due to related parties	**43,215,678**	(128,178,571)	(15,711,444)
Payments of:			
Dividends (Note 27)	**(133,570,637)**	–	(127,536,686)
Interest (Note 27)	**(211,548,516)**	(62,327,013)	(75,601,767)
Notes payable	**(299,777,778)**	(361,800,000)	(687,815,021)
Lease and other noncurrent liabilities (Note 27)	**(688,810,597)**	(69,751,123)	(45,924,991)
Issuance of convertible bond (Notes 16 and 27)	**–**	–	2,505,658,750
Net cash provided by (used in) financing activities	**(890,491,850)**	(472,056,707)	1,922,968,362
NET INCREASE IN CASH AND CASH EQUIVALENTS	**321,908,223**	234,230,117	2,474,694,421
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(40,678,114)**	124,800,535	(24,076,656)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,137,439,144**	3,778,408,492	1,327,790,727
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱4,418,669,253**	₱4,137,439,144	₱3,778,408,492

See accompanying Notes to Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

FED, before it was acquired by LBCH, undertook an Initial Public Offering and on December 21, 2001, FED'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; performance of other allied general services from one place of destination to another within and outside of the Philippines; and foreign exchange trading.

On various dates in 2018 and in 2019, the Parent Company acquired, through business combination, fourteen (14) entities. All are domiciled outside the Philippines, except for QUADX Inc. Details of the acquisitions are discussed in Note 4.

On May 29, 2019, the Parent Company sold all its 1,860,214 common shares in QUADX Inc. to LBC Express, Inc. (LBCE) which the latter later sold to LBCDC on July 1, 2019. Details of the disposal are discussed in Note 4.

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

The accompanying consolidated financial statements of the Parent Company and its subsidiaries have been approved and authorized for issue by the Board of Directors (BOD) on May 28, 2020.

2. Summary of Significant Accounting and Financial Reporting Policies

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

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

Difference in accounting periods
The Group consolidated the non-coterminous financial statements of its subsidiaries using their November 30 fiscal year end except for LBC Mabuhay (B) Sdn. Bhd, with June 30 year end and QUADX, Inc., QuadX Pte. Ltd., LBC Mabuhay (Malaysia) Sdn. Bhd, LBC Mabuhay Remittance Sdn. Bhd, and Mermaid Co., Ltd. with December 31 year end which are aligned with the Parent Company since it is impracticable for the said subsidiaries to prepare financial statements as of the same date as the reporting date of the Parent Company.

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

The consolidated financial statements as of December 31, 2019 were adjusted to effect LBCE's settlement of bank loans in December 2019 amounting to ₱12.64 million and adjustment to reflect the decrease in fair value of investment at (FVOCI) by ₱25.36 million for the period December 1 to December 31, 2019.

The consolidated financial statements as of December 31, 2018 were adjusted to effect LBCE's additional settlement of bank loans in December 2018 amounting to ₱11.25 million and adjustment to reflect the decrease in (FVOCI) by ₱23.41 million for the period December 1 to December 31, 2018.

Aside from these, there were no other significant transactions that transpired between December 1, 2019 to December 31, 2019, and between December 1, 2018 to December 31, 2018.

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

Basis of Consolidation
The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2019 and 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

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

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

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

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

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

	Country of incorporation	Principal activities	**Ownership Interest 2019**	**Ownership Interest 2018**
LBC Express, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - MM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - CL, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - NL, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - VIS, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SL, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SCS, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express Corporate Solutions, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - CMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - EMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - MIN, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SMM, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - SEL, Inc.	Philippines	Logistics and money remittance	**100%**	100%
LBC Express - WVIS, Inc.	Philippines	Logistics and money remittance	**100%**	100%

(Forward)

	Country of incorporation	Principal activities	Ownership Interest 2019	2018
LBC Express - SEM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SCC, Inc.	Philippines	Logistics and money remittance	100%	100%
South Mindanao Courier Co., Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - NEMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - NWMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Systems, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express Bahrain WLL	Bahrain	Logistics	49%	49%
LBC Express Shipping Company WLL	Kuwait	Logistics	49%	49%
LBC Express LLC [1]	Qatar	Logistics	49%	49%
LBC Mabuhay Saipan Inc.	Saipan	Logistics and money remittance	100%	100%
LBC Aircargo (S) PTE. LTD	Singapore	Logistics	100%	100%
LBC Express Airfreight (S) PTE. LTD.	Singapore	Logistics	100%	100%
LBC Money Transfer PTY Limited	Australia	Money remittance	100%	100%
LBC Australia PTY Limited	Australia	Logistics	100%	100%
LBC Mabuhay (Malaysia) SDN BHD.	Malaysia	Logistics	93%	93%
QUADX Inc. [2]	Philippines	E-com web and logistics	–	86%
QuadX Pte. Ltd.	Singapore	Digital logistics	86%	86%
LBC Mabuhay (B) Sdn Bhd	Brunei	Logistics	50%	50%
LBC Mabuhay Remittance Sdn Bhd	Brunei	Money remittance	50%	50%
LBC Mundial Corporation	United States of America	Logistics and money remittance	100%	–
LBC Mundial Nevada Corporation	United States of America	Logistics and money remittance	100%	–
LBC Mabuhay North America Corporation	United States of America	Logistics and money remittance	100%	–
LBC Mundial Cargo Corporation	Canada	Logistics	100%	–
LBC Mabuhay Remittance Corporation	Canada	Money remittance	100%	–
LBC Mabuhay Hawaii Corporation	United States of America	Logistics and money remittance	100%	–
Mermaid Co., Ltd	Japan	Logistics	100%	–

Note:
1) This entity is a subsidiary of LBC Express Shipping Company WLL which has 49% ownership interest.
2) On July 1, 2019, LBCE sold all its QUADX Inc. shares to LBCDC (see Note 4).

The Parent Company, although it owns 49%-50% of the voting share of LBC Express Bahrain WLL, LBC Express Shipping Company WLL, LBC Express LLC, LBC Mabuhay (B) Sdn Bhd and LBC Mabuhay Remittance Sdn Bhd, in substance controls said entities since: (a) the activities of the subsidiaries are being conducted on behalf of the Parent Company according to its specific business need so that the Parent Company obtains benefits from the subsidiaries' operations; and (b) the Parent Company has the decision-making powers to obtain the majority of the benefits of the activities of the subsidiaries.

The money remittance business is performed by LBCE and that its subsidiaries only act as service agents for LBCE.

Non-Controlling Interests
As at December 31, 2019, the Group has subsidiaries with non-controlling interests. Percentage of equity held by non-controlling interests in 2019 and 2018 are as follows:

	Country of incorporation	2019	2018
LBC Express Bahrain, WLL	Bahrain	**51%**	51%
LBC Express Shipping Company WLL	Kuwait	**51%**	51%
LBC Express LLC	Qatar	**26%**	26%
LBC Mabuhay (Malaysia) SDN BHD.	Malaysia	**7%**	7%
QUADX Inc.	Philippines	–	14%
QuadX Pte. Ltd.	Singapore	**14%**	14%
LBC Mabuhay (B) Sdn Bhd	Brunei	**50%**	50%
LBC Mabuhay Remittance Sdn Bhd	Brunei	**50%**	50%

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

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

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

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

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

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

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

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

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

Acquisition and Disposal of Subsidiary

The Parent Company's purchase of the entities from LBC Express Holdings USA Corporation, was completed effective January 1, 2019 and July 1, 2019, upon approval by the US Regulatory bodies that oversee and/or regulate these entities. Moreover, the purchase of Mermaid Co., Ltd. was completed on December 12, 2019 upon approval of Governmental Authorities of Japan.

The Parent Company exercised control on the following entities (see Note 4):

Entity Name	Effectivity	Country of Incorporation	Principal Activities	% Ownership
LBC Mundial Corporation	January 1, 2019	United States of America	Logistics and money remittance	100%
LBC Mundial Nevada Corporation	January 1, 2019	United States of America	Logistics and money remittance	100%
LBC Mabuhay North America Corporation	January 1, 2019	United States of America	Logistics and money remittance	100%
LBC Mundial Cargo Corporation	January 1, 2019	Canada	Logistics	100%
LBC Mabuhay Remittance Corporation	January 1, 2019	Canada	Remittance	100%
LBC Mabuhay Hawaii Corporation	July 1, 2019	United States of America	Logistics and money remittance	100%
Mermaid Co., Ltd.	December 12, 2019	Japan	Logistics	100%

Disposal of QUADX Inc.

QUADX Inc., an 86.11% owned subsidiary was disposed on July 1, 2019. Details are discussed in Note 4.

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

Changes in Accounting Policies and Disclosures
The Group applied PFRS 16 for the first time effective January 1, 2019 using modified retrospective approach. The nature and effect of the changes as a result of adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2019, unless otherwise stated, they do not have significant impact on the consolidated financial statements.

- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard 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. Lessor accounting under PFRS 16 is substantially unchanged under PAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

  The Group adopted PFRS 16 using the modified retrospective approach of adoption with the date of initial application of January 1, 2019. The modified retrospective approach does not require restatement of previous financial statements. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4, at the date of initial application. The Group also elected to use the exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which underlying asset is of low value ('low-value assets').

  The effect of adoption of PFRS 16 as at January 1, 2019 is as follows:

	Increase (decrease)
Assets	
Right-of-use assets	₱2,155,417,664
Property and equipment	(262,957,226)
Prepayments and other current assets	(33,758,402)
Deferred tax asset	47,501,914
Total assets	1,906,203,950
Liabilities	
Lease liabilities	2,048,424,316
Total liabilities	2,048,424,316
Equity	
Retained earnings	(142,220,366)
Total equity	(₱142,220,366)

  a. Nature of the effect of adoption of PFRS 16

  The Group has entered into several lease arrangements for vehicles, equipment, office spaces, branches and warehouse rentals. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized, and the lease payments were recognized as rent expense in the statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under Prepayments and other current assets and Accounts and other payables, respectively. Accordingly, cash payments relating to operating leases were classified as operating activities in the statement of cash flows.

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group. Consequently, the principal portion of cash repayments of the lease liabilities is now classified as a financing activity in the statement of cash flows.

- *Leases previously classified as finance leases*
  The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under PAS 17) but reclassified the leased assets from Property and equipment to Right-of-use assets account. The requirements of PFRS 16 was applied to these leases from January 1, 2019.

- *Leases previously accounted for as operating leases*
  The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases are based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

- *Amortization of leasehold improvements*
  The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Accordingly, the Group changed the useful lives of its non-movable leasehold improvements on the premises of the affected lease contracts based on the determined lease terms as a result of PFRS 16 adoption.

The recognition of right-of-use asset and lease liability resulted to recognition of deferred tax liability and deferred tax asset, respectively, upon adoption. This were presented on a net basis. Also, the Group recognized deferred tax asset based on the difference between actual lease payments and the profit or loss impact recorded in the statement of comprehensive income which includes amortization and interest expense in accordance with PFRS 16. Deferred tax asset is recorded on the net amount, on a per entity basis.

The Group recognized deferred tax asset arising from the acceleration of amortization due to the change in the useful lives of non-movable leasehold improvements which was charged against retained earnings, beginning. This will be a deductible temporary difference over the remaining revised useful life. This resulted to the increase of deferred tax asset amounting to ₱56.92 million.

The Group also applied the available practical expedients wherein it:
- used a single discount rate to a portfolio of leases with reasonably similar characteristics
- applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Based on the foregoing, as at January 1, 2019:
- right-of-use assets of ₱2,155.42 million were recognized and presented separately in the consolidated statement of financial position. This includes the leased assets recognized previously under finance leases with a carrying value of ₱73.23 million that were reclassified from Property and equipment.
- additional lease liabilities of ₱2,110.31 million were recognized and included under lease liabilities
- prepayments and other current assets of ₱33.76 million, deferred tax asset of ₱16.51 million and deferred lease liability of ₱61.89 million related to previous operating leases under PAS 17 were derecognized. The prepayments and deferred lease liability were adjusted against the right-of-use assets and the deferred tax asset was adjusted to retained earnings.
- deferred tax asset increased by ₱7.10 million because of the deferred tax impact of the changes in right-of-use assets and lease liabilities. This was adjusted against retained earnings.
- decrease in retained earnings of ₱132.81 million net of deferred tax asset of ₱56.92 million arising from the acceleration of amortization of leasehold improvements. Accordingly, this resulted to the decrease in the net carrying amount of leasehold improvements by ₱189.73 million.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

	January 1, 2019
Operating lease commitments as at December 31, 2018	₱5,393,873,956
Less:	
Commitments relating to short-term leases	(1,755,796,594)
Commitments relating to leases of low-value assets	(34,039,089)
Operating lease commitments after short term leases and leases of low value assets	3,604,038,273
Weighted average incremental borrowing rate as at January 1, 2019	6.32%
Discounted operating lease commitments at January 1, 2019	2,110,316,898
Add:	
Commitments relating to leases previously classified as finance leases	78,176,452
Lease liabilities as at January 1, 2019	₱2,188,493,350

b. Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of PFRS 16, which have been applied from the date of initial application:

- *Right-of-use assets*
The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

- *Lease liabilities*
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

  In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Short-term leases and leases of low-value assets*
The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below US $5,000 or ₱260,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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

Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, 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.

- 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 into 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/or joint venture, the amendments do not have an impact on its consolidated financial statements for the year ended December 31, 2019.

- 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

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

  Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to the taxability of certain income and the non-deductibility of certain expenses for income tax reporting purposes. This interpretation did not have any impact to the Group's consolidated financial statements because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of its current and deferred taxes.

  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 have currently no impact to the Group.

- 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. These amendments have currently no impact to the Group.

- 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. These amendments have currently no impact to the Group.

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 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 have no impact on the consolidated financial statements 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.

The amendments will apply on future disclosures of the Group.

Deferred effectivity

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

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. 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 postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed 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.

- 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

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 noncurrent liabilities, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

Financial Assets and Financial Liabilities

Financial instruments upon adoption of PFRS 9

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

Financial Assets

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

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

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

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

Purchases or sales of financial assets that require delivery of assets within a I 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.

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, loans receivable, notes receivable, due from related parties and restricted cash under other current assets.

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

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

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

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

As at December 31, 2019 and 2018, the Group has no debt instruments at FVOCI.

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

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

As at December 31, 2019 and 2018, the Group measures its quoted investment in share of stock at FVOCI (see Note 10).

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

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

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

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

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

As at December 31, 2019 and 2018, the Group measures its unquoted investment at FVPL (see Note 10).

Impairment of Financial Assets
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, loans receivable, notes receivable, short-term investments, cash and cash equivalents and restricted cash, the Group applies the general approach.

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

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, lease liabilities dividends payable, other noncurrent liabilities and bond payable.

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

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

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

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

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

The Group's derivative liability is classified under this category (Notes 16, 24 and 25).

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

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

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

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

Financial instruments prior to adoption of PFRS 9

Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by

regulation or convention in the marketplace are recognized on the trade date, which is the date when the Group commits to purchase or sell the asset.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in profit or loss. The embedded derivatives of the Group pertain to the equity conversion and redemption options components of the issued convertible debt instrument (see Note 16).

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

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

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as customer type, payment history, past-due status and term. Future cash flows in a group of similar financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

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

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

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

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

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

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

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

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

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

Input Value-Added Taxes (VAT)
Input tax represents the VAT due or paid on purchases of goods and services subjected to VAT that the Group can claim against any future liability to the Bureau of Internal Revenue (BIR) for output VAT on sale of goods and services subjected to VAT. The input tax can also be recovered as tax credit under certain circumstances against future income tax liability of the Group upon approval of the BIR and/or Bureau of Customs. Input tax is stated at its estimated net realizable values. A valuation allowance is provided for any portion of the input tax that cannot be claimed against output tax or recovered as tax credit against future income tax liability. This includes deferred input VAT on unpaid purchase of services which are incurred and billings which have been received as of reporting date, and input VAT arising from the purchase of capital goods exceeding ₱1.00 million deferred for the succeeding period. Noncurrent portion of input VAT is deferred and amortized over the useful life of the capital goods or sixty (60) months, whichever is lower.

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

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

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

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

	Years
Computer hardware	3 to 5
Furniture, fixtures and office equipment	3 to 5
Transportation equipment	3 to 10
Leasehold improvements on:	
Branches	2 to 8 years or lease term (whichever is shorter)
Office buildings and warehouses	2 to 20 years or lease term (whichever is shorter)

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

The assets' residual value, estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment or if constructed in a leased asset, whichever is shorter between the lease term and useful life.

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

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

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

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

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

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

Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:
- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development

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

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

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

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets

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

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

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

Employee Benefits

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

Defined benefit costs comprise the following:

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

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined retirement benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in OCI account, "Remeasurement gains (losses) on retirement benefit plan", are not reclassified to profit or loss in subsequent periods. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related liabilities). If the fair value of the plan assets is higher than the present value of the defined retirement benefit liability, the measurement of the resulting defined retirement benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

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

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

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

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

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

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

<u>Revenue Recognition</u>

Revenue from contracts with customers upon adoption of PFRS 15
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements.

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

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

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

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

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

Revenue recognition prior to adoption of PFRS 15
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless when the payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, returns, rebates and sales tax. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent.

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

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

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

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

Other income under PFRS 15 and PAS 18
Other income is recognized when earned.

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

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

Leases *(Upon adoption of PFRS 16 beginning January 1, 2019)*
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets of 2 to 20 years.

The right-of-use assets are also subject to impairment. See discussion on impairment of non-financial assets.

Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases (STL) and leases of low-value assets
The Group applies the STL recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. The Group applies the low-value assets recognition exemption to leases of underlying assets with a value, when new, of US$5,000 or ₱260,000 and below. Lease payments on short-term leases and low-value assets are recognized as expense on a straight-line basis over the lease term.

Leases *(Prior to adoption of PFRS 16 beginning January 1, 2019)*
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

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

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

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

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

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

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

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

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and net operating losses carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and NOLCO can be utilized.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

Provisions are included in current liabilities, except for those with maturities greater than 12 months after the reporting period, which are then classified as noncurrent liabilities. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is recognized in profit or loss.

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

Consolidation of entities in which the Group holds 50% or less than 50% ownership
LBCE has assessed that it controls the entities located in Bahrain, Kuwait, Qatar and Brunei even at 49% - 50% ownership due to the following reasons:
(a) it has the power to direct the relevant activities (e.g. operations, hiring of people, setting up of rates) of the entities. It has the full discretion on its day to day operations and decides on major transactions these entities enter into.
(b) it is exposed to variable returns of the entities.
(c) given its participation in the relevant activities of the entities, it is able to affect the returns of the entities.

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

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

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

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

No provision for probable losses arising from legal contingencies was recognized in the consolidated financial statements for the years ended December 31, 2019 and 2018 (see Note 29).

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

The carrying amount of the investment in associate amounted to ₱250.64 million and ₱239.02 million as of December 31, 2019 and 2018, respectively. (see Note 11).

Lease commitments

Determination of the non-cancellable term of the lease - Group as a lessee (Upon adoption of PFRS 16)
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its existing leases to lease the assets for additional terms of two to five years. The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

The Group assessed whether it has the right to use the asset beyond the non-cancellable period by determining if the optional periods are enforceable. In assessing the enforceability of a contract, the Group considered whether the lessor can refuse to agree to a request from the lessee to extend the lease. Accordingly, if the Group determined that there are enforceable rights and obligations are beyond the initial non-cancellable period, the Group considered those optional periods in the assessment of lease term.

Group as a lessee (Prior to adoption of PFRS 16)
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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

The Group has entered into various lease arrangements for its business operations (see Note 22). In determining whether the lease is cancellable or not, the Group considered, among others, the significance of the lease term as compared with the estimated useful life of the related asset. The Group has determined, based on an evaluation of the terms and conditions of the arrangement, that the lessor retains all the significant risks and rewards of ownership of the leased property and so accounts for the contract as operating lease.

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

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 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.

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

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

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

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

Trade and other receivables, net of allowance for doubtful accounts, amounted to ₱1,537.85 million and ₱1,642.13 million as of December 31, 2019 and 2018, respectively (see Note 6). The carrying amount of due from related parties amounted to ₱1,103.81 million and to ₱557.96 million as of December 31, 2019 and 2018, respectively (see Note 18).

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

The application of the acquisition method requires certain estimates and assumptions especially in the determination of the fair values of acquired net assets. Except for software, the fair valuation of identifiable financial assets and liabilities which mostly composed the acquired net assets are based on contractual amounts that are expected to be fully collected or settled within one year. 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 7.01% to 9.30%. The growth rate used beyond the forecasted period for different cash-generating units ranges from 1% to 2%.

As at December 31, 2019 and 2018, the Group has determined that its goodwill amounting to ₱286.89 million and ₱492.45 million, respectively, is not impaired (see Note 4).

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

As a result of the assessment of the lease terms based on the abovementioned guidelines under PFRS 16, the Group revisited the useful lives of its non-movable leasehold improvements on the premises of the affected lease contracts. This resulted in acceleration of amortization amounting to ₱305.20 million in which it decreased retained earnings as of November 30, 2018 amounting to ₱132.81 million, net of income tax effect, and decreased net income for the year ended November 30, 2019 amounting to ₱80.83 million due to the effect of accelerated depreciation, net of income tax.

Below shows the expected impact in the amortization of leasehold improvements due to change in estimated useful lives:

Year	Increase (decrease)
2020	36,401,857
2021	(32,238,610)
2022	(71,301,489)
2023	(77,257,020)
2024	(68,832,562)
2025	(51,302,360)
2026	(40,666,418)

There are no other changes in the estimates of the lives of property and equipment other than the above-mentioned changes in leasehold improvements.

The carrying amount of property and equipment amounted to ₱2,110.74 million and ₱1,436.08 million as of December 31, 2019 and 2018, respectively (see Note 8).

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

In determining the appropriate discount rate, management considers the interest rate of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation adjusted based on the manner of cash outflow of settling the pension liability.

The mortality rate is based on publicly available mortality tables in the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases is based on expected salary rate increase over the duration of the obligation. Attrition rate is based on historical experiences. Further details about the assumptions used are provided in Note 23.

The carrying amount of retirement benefit liabilities, net of plan assets, amounted to ₱637.79 million and ₱672.27 million as of December 31, 2019 and 2018, respectively (see Note 23).

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

Realization of future tax benefit related to deferred tax assets is dependent on each entity's ability within the Group to generate future taxable income during the periods in which they are expected to be recovered. The Group has considered factors in reaching a conclusion as to the amount of deferred tax assets recognized as at December 31, 2019 and 2018. Management believes that the entities within the Group will be able to generate future taxable income to allow for the realization of deferred tax assets.

Based on management's assessment, the Group recognized net deferred tax assets amounting to ₱377.56 million and ₱302.28 million as of December 31, 2019 and 2018, respectively (see Note 21).

Estimating fair value of embedded derivatives
The fair value of embedded derivatives, related to the issuance of convertible bond recorded in the consolidated statement of financial position as derivative liability, is measured using binomial pyramid model. The inputs to this model are taken from a combination of observable markets and unobservable market data. Changes in inputs about these factors could affect the reported fair value of the embedded derivatives and impact profit or loss (see Note 25).

The carrying value of the derivative liability amounted to ₱2,048.68 million and ₱1,406.18 million as of December 31, 2019 and 2018, respectively.

4. Business Combinations, Goodwill and Disposal of a Subsidiary

Business Combinations in 2019

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 (LBC US Entities). 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.

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.

Effective January 1, 2019, the Parent Company's purchase of LBC Mundial Corporation and LBC Mabuhay North America Corporation was completed upon approval by the US Regulatory bodies that oversee and/or regulate the following entities:

- LBC Mundial Corporation (LBC Mundial) which operates as a cargo and remittance company in California, USA. The Parent Company purchased 4,192,546 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation. LBC Mundial wholly owns LBC Mundial Nevada Corporation which operates as a cargo company in Nevada, USA.
- LBC Mabuhay North America Corporation (LBC North America) which operates as a cargo and remittance company in New Jersey. The Parent Company purchased 1,605,273 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation. LBC North America wholly owns LBC Mundial Cargo Corporation which operates as a cargo company in Canada and LBC Mundial Remittance Corporation, a money remittance company in Canada.

On July 1, 2019, the Parent Company's purchase of LBC Mabuhay Hawaii Corporation, which operates as a cargo and remittance company in Hawaii, was completed upon the approval by the US regulatory bodies. The Parent Company purchased 1,536,408 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.

Mermaid Co. Ltd.

On October 31, 2019, the Parent Company acquired all 180 shares of Mermaid Co. Ltd., for a total purchase price of US $200,000 or ₱10.21 million. Mermaid operates as a service for the shipping of household and other goods from expatriates living in Japan to their respective home countries, known as the "Balikbayan Box". On December 12, 2019, the purchase of Mermaid was completed upon approval of Governmental Authorities of Japan.

Identifiable assets acquired and liabilities assumed

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

The fair values of the identifiable assets acquired and liabilities assumed, including goodwill, as at the date of acquisitions are shown below:

	LBC Mundial Corporation and Subsidiary	LBC Mabuhay North America Corporation and Subsidiaries	LBC Mabuhay Hawaii Corporation	Mermaid Co., Ltd.*	Total
Percentage of ownership of Parent Company	100%	100%	100%	100%	
Assets					
Cash and cash equivalents	₱416,992,734	₱135,914,809	₱36,067,228	₱134,807	₱589,109,578
Trade receivables	9,163,278	637,890	5,067	182,521	9,988,756
Receivable from related parties	30,133,703	7,036,075	452,802	–	37,622,580
Notes receivable, current	4,247,143	–	–	–	4,247,143
Prepayments and other current assets	40,832,026	9,176,472	3,609,667	4,384,621	58,002,786
Total current assets	501,368,884	152,765,246	40,134,764	4,701,949	698,970,843
Right-of-use asset	166,435,879	13,413,892	10,665,735	–	190,515,506
Property and equipment	3,274,227	82,025	491,098	305,970	4,153,320
Intangibles	–	–	–	189,789	189,789
Deferred tax asset	–	452,765	–	–	452,765
Notes receivable, noncurrent	31,538,054	–	–	–	31,538,054
Security deposit	8,894,924	1,496,027	782,903	–	11,173,854
Other noncurrent asset	7,908,600	8,009,888	2,565,346	–	18,483,834
Total noncurrent asset	218,051,684	23,454,597	14,505,082	495,759	256,507,122
Total asset	719,420,568	176,219,843	54,639,846	5,197,708	955,477,965
Liabilities					
Accounts and other payables	101,525,750	35,127,065	9,406,274	9,526,091	155,585,180
Payable to related parties	3,335,795	63,974,339	–	5,060,886	72,371,020
Transmission liability	36,637,211	1,461,726	7,217,883	–	45,316,820
Income tax payable	34,770,283	3,004,012	3,927,678	–	41,701,973
Lease liabilities	166,435,879	13,413,892	10,910,415	–	190,760,186
Total liabilities	342,704,918	116,981,034	31,462,250	14,586,977	505,735,179
Net assets attributable to Parent Company	**376,715,650**	**59,238,809**	**23,177,596**	**(9,389,269)**	**449,742,786**
Add: Purchased goodwill	–	655,654	–	19,595,869	20,251,523
Less: Gain on bargain purchase	14,818,114	–	5,655,910	–	20,474,024
Purchase consideration	**₱361,897,536**	**₱59,894,463**	**₱17,521,686**	**₱10,206,600**	**₱449,520,285**

The purchase price allocation for the acquisitions of Mermaid has been prepared on a preliminary basis due to unavailability of information to facilitate fair value computation. This includes information necessary for the valuation of property and equipment and other intangible assets, if any. Reasonable changes are expected as additional information becomes available. The accounts that are subject to provisional accounting are property and equipment, intangible assets and goodwill or bargain purchase gain. The provisional goodwill of ₱19.60 million arising from the acquisition of Mermaid represents the fair value of expected synergies, revenue growth and future developments that do not meet the recognition criteria for intangible assets.

Purchase consideration and net cash flows
There were no contingent considerations in the above acquisitions during the year. 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	LBC Mabuhay Hawaii Corporation	Mermaid Co., Ltd.	Total
Application of 2018 advances for future investment in shares	₱361,897,536	₱59,894,464	₱18,031,608	₱–	₱439,823,608
Cash paid in 2019	–	–	–	(10,206,600)	(10,206,600)
Cash acquired in 2019	416,992,734	135,914,809	36,067,228	134,807	589,109,578

The purchase considerations for the acquisitions of LBC US Entities are paid in full which were paid in advance by the Parent Company in 2018. The gain on bargain purchase was recognized under "Others - net" of "Other income (charges)" in the consolidated statements of comprehensive income.

The share in revenue and net income included in the statement of comprehensive income of each of the acquired entities from the acquisition dates to December 31, 2019 follows:

	LBC Mundial Corporation and Subsidiary	LBC Mabuhay North America Corporation and Subsidiaries	LBC Mabuhay Hawaii Corporation	Mermaid Co., Ltd.	Total
Share in revenue	₱1,577,681,870	₱389,396,161	₱57,504,330	₱–	₱2,024,582,361
Share in net income	58,909,340	32,452,260	1,212,153	–	92,573,753

Had the business combinations took place at the beginning of 2019, 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, 2019 would have been as follow:

	LBC Mundial Corporation and Subsidiary	LBC Mabuhay North America Corporation and Subsidiaries	LBC Mabuhay Hawaii Corporation	Mermaid Co., Ltd.	Total
Share in revenue	₱1,747,424,949	₱398,101,467	₱142,096,777	₱8,808,979	₱2,296,432,172
Share in net income (loss)	64,164,718	6,542,091	12,381,077	(901,906)	82,185,980

Business Combinations in 2018

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

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

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

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

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

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

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

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

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

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

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

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

<u>LBC Mabuhay (B) Sdn Bhd and LBC Mabuhay Remittance Sdn Bhd</u>
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.

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

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

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

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

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

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

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

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

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

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

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

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

Disposal of QUADX Inc.

On May 29, 2019, the Parent Company sold all its 1,860,214 common shares in QUADX Inc. to LBCE for a cash consideration of ₱186,021,400 or ₱100 per share payable no later than two years from the date of sale, subject to any extension as may be agreed in writing by the parties.

On July 1, 2019, LBCE then sold all its QUADX Inc. shares to LBCDC for the same cash consideration payable no later than two years from the date of sale, subject to any extension as may be agreed in writing by the parties. On the same date, LBCE, LBCDC and QUADX entered into a Deed of Assignment of Receivables whereas LBCE agreed to assign, transfer and convey its receivables from QUADX as of March 31, 2019 to LBCDC which shall be paid in full, from time to time starting July 1, 2019 and no later than two years from the date of the execution of the Deed, subject to any extension as may be agreed in writing by LBCE and LBCDC.

QUADX Inc. owns, maintains and operates an e-com website including but not limited to an online marketplace, online marketing services, and an online retail store. The divestment by the Parent Company of its QUADX Inc. shares is being made pursuant to the plans of the Parent Company to refocus the strategic direction for QUADX Inc., which may include implementing certain organizational changes, with a view of turning around the losses of QUADX Inc.

Following the loss of control of QUADX Inc., LBCH derecognized the carrying amounts of the assets (including goodwill) and liabilities of QUADX Inc. and the carrying amount of NCI including any components of OCI attributable to NCI. LBCH also recognized the fair value of the consideration received and any resulting difference as gain or loss in profit and loss attributable to the Parent Company.

The carrying amounts of assets and liabilities which were derecognized as at the date of disposal of QUADX, Inc. and the net effect of the sale are shown below:

Carrying Values	June 30, 2019
Assets	
Cash and cash equivalents	₱362,489,501
Trade receivables	175,125,106
Prepayments and other current assets	176,198,512
Total current assets	713,813,119
Right-of-use asset	83,095,195
Property and equipment	149,263,508
Intangible assets	179,116,525
Security deposit	17,645,728
Goodwill	225,809,663
Total noncurrent assets	654,930,619
Total assets	1,368,743,738
Liabilities	
Accounts and other payables	1,571,695,687
Deferred tax liability	15,572,341
Due to related parties	191,958,000
Lease liabilities- current portion	42,245,711
Total current liabilities	1,821,471,739
Retirement benefit liability	7,052,146
Lease liabilities- noncurrent portion	49,854,132
Total noncurrent liabilities	56,906,278
Total liabilities	1,878,378,017

(Forward)

Carrying Values	June 30, 2019
Net liabilities	(₱509,634,279)
Fair value of intangible assets	(51,907,801)
Total net liabilities	(561,542,080)
Net liabilities attributable to Parent Company (86.11%)	(483,543,885)
Less: Goodwill	225,809,663
Net liabilities attributable to Parent Company - after goodwill	(257,734,222)
Transaction Price	(186,021,400)
Gain on sale of QUADX Inc.	(₱443,755,622)

Impairment testing of Goodwill
The Group performed its annual impairment testing of goodwill amounting to ₱286.89 million as of December 31, 2019 which are primarily related to the acquisitions of LBC Taiwan, and LBC Australia Cargo and LBC Australia Money.

The key assumptions used in determining the recoverable amount based on value-in-use calculations as of December 31, 2019 are as follows:

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 9.00% and 7.70% in 2019 and 2018, respectively, and long-term growth rate of 1.00% in 2019 and 2018. 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 in 2019 and 2018 are 8.68% and 9.90%, respectively. The discount rates are 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 10.00% and 9.40% in 2019 and 2018, respectively, and long-term growth rate of 2.00% in 2019 and 2018. Direct costs and capital expenditures are forecasted to follow the trend of revenue except for those that are non-variable. Discount rate used in 2019 and 2018 are 10.72% and 12.20%, respectively. This is 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.

LBC Australia Money
Goodwill arising from the acquisition of LBC Australia Money amounted to ₱15.83 million. The value-in-use calculation is based on the forecast approved by the management over explicit period of five years. Similar to LBC Australia Cargo, 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, which include the opening of additional branches. Revenue is projected to increase at a compounded annual growth rate of 7.00% and 4.00% in 2019 and 2018, and long-term growth rate of 2.00% in 2019 and 2018. Direct costs and capital expenditures are forecasted to follow the trend of revenue except for those that are non-variable. Discount rate used in 2019

and 2018 are 9.56% and 11.03%, respectively 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
LBC Taiwan	7.0%	-2.0%	12.0%
LBC Australia Cargo	8.0%	None*	62.0%
LBC Australia Money	6.0%	-4.0%	40.0%

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

Based on the assessment of the value in use of the acquirees, the recoverable amount of the acquirees exceeded their carrying amounts plus goodwill, hence, no impairment was recognized as at December 31, 2019 and 2018 in relation to the goodwill.

5. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	**₱341,090,334**	₱358,706,343
Cash in banks	**2,281,905,425**	2,122,353,939
Cash equivalents	**1,795,673,494**	1,656,378,862
	₱4,418,669,253	₱4,137,439,144

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

Cash in banks and cash equivalents earn interest ranging from 0.25% to 6.00% per annum in 2019 and 2018. Interest income earned from cash and cash equivalents amounted to ₱43.04 million, ₱33.25 million and ₱16.04 million in 2019, 2018 and 2017, respectively.

6. Trade and Other Receivables

This account consists of:

	2019	2018
Trade receivables - outside parties	**₱1,327,605,105**	₱1,440,348,470
Trade receivables - related parties (Note 18)	**311,922,475**	253,208,381
	1,639,527,580	1,693,556,851
Less allowance for impairment losses	**172,728,970**	147,238,593
	1,466,798,610	1,546,318,258

(Forward)

	2019	2018
Other receivables:		
Advances to officers and employees	**₱41,224,668**	₱33,771,196
Others	**29,825,276**	62,044,315
	₱1,537,848,554	₱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 amount of trade receivables written off in 2019 and 2018 amounted to nil and ₱4.86 million, respectively. Trade receivables written off were deemed uncollectible and were previously provided with allowance.

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 consolidated statements of comprehensive income.

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

Loss allowance	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
As at January 1, 2019	**₱21,466,711**	**₱125,771,882**	**₱147,238,593**
Disposal of a subsidiary	–	**(8,300,642)**	**(8,300,642)**
New financial assets originated	**19,696,765**	–	**19,696,765**
New credit impaired financial asset	–	**7,002,147**	**7,002,147**
Financial assets derecognized	**(15,781,151)**	–	**(15,781,151)**
Transfers	**(15,548,831)**	**15,548,831**	–
Change in forecast and model assumptions	**22,873,258**	–	**22,873,258**
As at December 31, 2019	**₱32,706,752**	**₱140,022,218**	**₱172,728,970**

Loss allowance	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
As at January 1, 2018	₱14,805,695	₱57,252,950	₱72,058,645
Write-off	–	(4,858,761)	(4,858,761)
New financial assets originated	21,457,341	–	21,457,341
New credit impaired financial assets	–	73,377,693	73,377,693
Financial assets derecognized	(20,440,390)	–	(20,440,390)
Change in forecast and model assumptions	5,644,065	–	5,644,065
As at December 31, 2018	₱21,466,711	₱125,771,882	₱147,238,593

7. Prepayments and Other Assets

This account consists of:

	2019	2018
Input value-added tax (VAT)	**₱266,979,479**	₱324,539,993
Materials and supplies	**153,172,883**	148,990,229
Prepayments:		
Insurance	**32,820,513**	20,923,820
Employee benefits	**24,072,852**	18,209,303
Taxes	**20,004,932**	11,410,009
Rent	**13,116,426**	62,533,385
Software maintenance	**11,906,850**	18,275,638
Repairs	**9,204,873**	566,848
Advertising	**9,037,843**	8,857,794
Dues and subscriptions	**3,862,321**	3,794,116
Others	**39,150,228**	34,030,275
Creditable withholding taxes (CWTs)	**166,582,305**	104,471,039
Short-term cash investments	**128,645,081**	–
Loan receivable (Note 12)	**89,816,880**	–
Restricted cash in bank	**31,342,587**	19,528,338
Notes receivable (Note 18)	**26,814,836**	–
Others	**19,712,113**	11,115,483
	1,046,243,002	787,246,270
Less allowance for impairment losses	**–**	798,769
	1,046,243,002	786,447,501
Less: noncurrent portion	**238,462,851**	138,929,366
	₱807,780,151	₱647,518,135

Details of noncurrent portion follow:

	2019	2018
VAT on capital goods	**107,598,218**	99,134,137
Loan receivable (Note 12)	**83,727,600**	–
Notes receivable (Note 18)	**26,814,836**	–
Advance payment to a supplier	**9,000,000**	9,000,000
Prepaid rent	**3,060,405**	30,366,589
Other assets	**8,261,792**	428,640
	₱238,462,851	₱138,929,366

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

Materials and supplies consist of office supplies, packing materials and official receipts to be used in the Group's operations. Materials and supplies recognized under cost of services in profit or loss for the years ended December 31, 2019, 2018 and 2017 amounted to ₱582.52 million, ₱482.51 million and ₱334.17 million, respectively (see Note 19).

Prepaid insurance consists of unamortized portion of various vehicle and Group life insurance.

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

Prepaid taxes primarily consist of unamortized portion of business permits.

Prepaid rent as of December 31, 2019 are advance payments for short-term leases and leases of low-value assets and the comparative amount as of December 31, 2018 are advance payments for rental of the Group's branches and warehouses which will be applied against future billings due within 12 months.

Prepaid advertising consists of advances for billboards and multimedia endorsements.

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

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

Short-term cash investments are time deposits with maturity of more than three months from the date of acquisition but not exceeding one year. The interest income earned from the short-term cash investments and restricted cash in bank amounted to ₱1.83 million, ₱0.20 million and ₱0.13 million in 2019, 2018 and 2017, respectively.

Loans receivable pertains to receivable of the Parent Company from Transtech Co., Ltd. (see Note 12).

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

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

Notes receivable pertains to receivable from LBC Express Holdings USA Corporation (see Note 18).

In 2019, the noncurrent portion of prepaid rent pertains to advance payments for rental of the Group's leases of low-value assets while the comparative amount in 2018 pertains to advance payments of leases of the Group's branches and warehouses. These payments are to be applied in the last two to three months of the lease term which is beyond 12 months after balance sheet date.

8. **Property and Equipment**

The rollforward analysis of this account follows:

	2019						
	Transportation Equipment	**Leasehold Improvements**	**Furniture, Fixtures and Office Equipment**	**Computer Hardware**	**Land**	**Construction in Progress**	**Total**
Costs							
At beginning of year	₱671,381,507	₱1,506,615,476	₱695,846,319	₱723,884,444	₱–	₱201,932,044	₱3,799,659,790
Effect of PFRS 16 adoption (Note 2)	(109,390,217)	–	–	–	–	–	(109,390,217)
As at January 1, 2019, as restated	561,991,290	1,506,615,476	695,846,319	723,884,444	–	201,932,044	3,690,269,573
Additions	56,712,511	33,350,608	79,176,384	341,487,120	1,031,257,734	51,491,776	1,593,476,133
Additions through business combinations (Note 4)	218,786	1,893,554	701,610	1,339,370	–	–	4,153,320
Reclassifications	–	247,052,890	–	–	–	(247,052,890)	–
Disposals	(11,520,583)	(16,930,231)	(113,781,901)	(8,136,456)	–	–	(150,369,171)
Disposals due to sale of a subsidiary (Note 4)	–	(39,955,160)	(26,056,908)	(115,860,254)	–	–	(181,872,322)
At end of year	607,402,004	1,732,027,137	635,885,504	942,714,224	1,031,257,734	6,370,930	4,955,657,533
Accumulated depreciation and amortization							
At beginning of year	367,929,355	832,443,089	588,846,283	574,361,063	–	–	2,363,579,790
Effect of PFRS 16 adoption (Note 2)	(36,155,271)	189,722,280	–	–	–	–	153,567,009
As at January 1, 2019, as restated	331,774,084	1,022,165,369	588,846,283	574,361,063	–	–	2,517,146,799
Depreciation and amortization (Notes 19 and 20)	52,260,347	258,400,514	64,420,702	126,988,587	–	–	502,070,150
Disposals	(10,876,094)	(13,779,881)	(108,892,961)	(8,136,726)	–	–	(141,685,662)
Disposals due to sale of a subsidiary (Note 4)	–	(11,244,962)	(9,293,675)	(12,070,177)	–	–	(32,608,814)
At end of year	373,158,337	1,255,541,040	535,080,349	681,142,747	–	–	2,844,922,473
Net Book Value	₱234,243,667	₱476,486,097	₱100,805,155	₱261,571,477	₱1,031,257,734	₱6,370,930	₱2,110,735,060

	2018						
	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Office Equipment	Computer Hardware	Land	Construction in Progress	Total
Costs							
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	194,811,391	74,166,146	64,709,188	99,185,770	–	258,436,827	691,309,322
Additions through business combinations (Note 4)	2,274,146	13,565,882	11,895,269	5,814,797	–	54,344,897	87,894,991
Reclassifications	–	128,151,314	–	–	–	(128,151,314)	–
Disposals	(25,183,098)	(283,846,556)	(38,214,537)	(1,635,423)	–	–	(348,879,614)
At end of year	671,381,507	1,506,615,476	695,846,319	723,884,444	–	201,932,044	3,799,659,790
Accumulated depreciation and amortization							
At beginning of year	337,955,230	991,124,111	568,035,973	496,166,376	–	–	2,393,281,690
Depreciation and amortization (Notes 19 and 20)	50,285,548	123,241,100	58,900,285	79,332,772	–	–	311,759,705
Disposals	(20,311,423)	(281,922,122)	(38,089,975)	(1,138,085)	–	–	(341,461,605)
At end of year	367,929,355	832,443,089	588,846,283	574,361,063	–	–	2,363,579,790
Net Book Value	₱303,452,152	₱674,172,387	₱107,000,036	₱149,523,381	₱–	₱201,932,044	₱1,436,080,000

The cost of fully depreciated assets that are still in use amounted to ₱1,793.57 million and ₱1,753.33 million as of December 31, 2019 and 2018, respectively.

Depreciation charges were recognized as follows:

	2019	2018	2017
Cost of services (Note 19)	**₱452,061,329**	₱270,815,638	₱218,336,609
Operating expenses (Note 20)	**49,687,501**	40,944,067	37,396,437
	₱501,748,830	₱311,759,705	₱255,733,046

Upon adoption of PFRS 16, the Group reclassified leased vehicles under finance leases to right-of-use assets with carrying value amounting to ₱73.23 million (see Note 2).

In 2015, the Group purchased a computer hardware on a long-term payment arrangement. The liability is non-interest bearing and payable over 60 months. As of December 31, 2019, the outstanding liability amounted to ₱12.85 million which is reported under 'Accounts and other payables' in the consolidated statements of financial position. Interest expense arising from the amortization of the deferred interest amounted to ₱2.23 million and ₱3.48 million in 2019 and 2018, respectively.

On April 15, 2019, LBCE entered into a Contract to Sell (CTS) with a third party for the purchase of parcels of land for a total consideration of ₱916.89 million. The land will be used as the future office site of the Group. LBCE paid ₱275.07 million in 2019, while the remaining purchase price amounting to ₱641.82 million shall be paid by LBCE through a bank financing not later than one year from the CTS date and is currently reported under 'Accounts and other payables'. This was subsequently paid in February 10, 2020 (see Note 31). The remaining unpaid purchase price of land amounting to ₱641.82 million shall be paid through bank financing. Accordingly, the seller agrees and undertakes that, upon execution of the CTS and the initial down payment, the seller will turn over the physical possession of the subject property to LBCE. Capitalized direct expenses include transfer fees, capital gains tax, documentary stamp taxes and notarial fees amounting to ₱114.37 million.

In 2019 and 2018, the Group recognized loss on sale and retirement of assets amounting to ₱2.00 million and ₱1.29 million, respectively.

There were no capitalized borrowing costs as of December 31, 2019 and 2018.

9. Intangible Assets

The rollforward analysis of this account follows:

	2019		
	Software	**Development in Progress**	**Total**
Costs			
At beginning of year	**₱727,554,102**	**₱118,932,565**	**₱846,486,667**
Additions	**18,936,016**	**86,491,215**	**105,427,231**
Additions through business combination (Note 4)	**189,789**	**–**	**189,789**
Reclassification	**70,201,092**	**(70,201,092)**	**–**
Retirement	**(95,347,817)**	**–**	**(95,347,817)**
Derecognition	**–**	**(2,184,000)**	**(2,184,000)**

(Forward)

	2019		
	Software	**Development in Progress**	**Total**
Disposals due to sale of a subsidiary (Note 4)	**(₱175,332,342)**	**(₱61,473,865)**	**(₱236,806,207)**
At end of year	**546,200,840**	**71,564,823**	**617,765,663**
Accumulated Amortization			
At beginning of year	**291,117,011**	**–**	**291,117,011**
Amortization (Notes 19 and 20)	**115,939,253**	**–**	**115,939,253**
Retirement	**(95,347,817)**	**–**	**(95,347,817)**
Disposals due to sale of a subsidiary (Note 4)	**(57,689,682)**	**–**	**(57,689,682)**
At end of year	**254,018,765**	**–**	**254,018,765**
Net Book Value	**₱292,182,075**	**₱71,564,823**	**₱363,746,898**

	2018		
	Software	Development in Progress	Total
Costs			
At beginning of year	₱549,820,615	₱4,540,000	₱554,360,615
Additions	89,568,335	87,426,235	176,994,570
Additions through business combination	83,965,152	31,166,330	115,131,482
Reclassification	4,200,000	(4,200,000)	–
At end of year	727,554,102	118,932,565	846,486,667
Accumulated Amortization			
At beginning of year	197,510,604	–	197,510,604
Amortization (Notes 19 and 20)	93,606,407	–	93,606,407
At end of year	291,117,011	–	291,117,011
Net Book Value	₱436,437,091	₱118,932,565	₱555,369,656

In 2017, the Group purchased an IT security tool, a new payroll system and a logistics software on an non-interest-bearing long-term payment arrangement payable over 36 to 60 months. As at December 31, 2019, the outstanding liability related to purchase of these intangible assets amounted to ₱65.81 million, ₱39.79 million of which is presented under "other noncurrent liabilities" in the consolidated statement of financial position. Interest expense arising from the amortization of deferred interest amounted to ₱4.11 million and ₱5.50 million in 2019 and 2018, respectively.

In 2018, a web filtering software was acquired on an interest-bearing payment arrangement over 18 months. As at December 31, 2019, the outstanding liability related to the purchase amounted to ₱1.69 million which is presented under 'accounts and other payables' in the consolidated statement of financial position. Interest expense arising from the amortization of deferred interest amounted to ₱0.17 million and ₱0.08 million in 2019 and 2018, respectively.

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

There were no capitalized borrowing costs in 2019 and 2018.

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

Investment at FVPL represent the Group's investment in unit investment trust fund.

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

Movements of the investments at FVPL and FVOCI follow:

	December 31, 2019	
	FVPL	**FVOCI**
As at January 1, 2019	**₱131,294,744**	**₱337,453,928**
Additions	**171,000,000**	–
Redemption	**(280,748,100)**	–
Unrealized foreign exchange loss	**(625,041)**	–
Unrealized fair value loss during the year	**(5,292,340)**	**(50,715,620)**
	₱15,629,263	**₱286,738,308**

	December 31, 2018	
	FVPL	FVOCI
As at January 1, 2018	₱440,763,495	₱444,736,969
Additions	888,580,000	–
Additions through business combination	9,271,183	–
Unrealized foreign exchange loss	126,077	–
Redemption	(1,215,938,291)	–
Unrealized fair value gain (loss) during the year	8,492,280	(107,283,041)
	₱131,294,744	₱337,453,928

The unrealized fair value loss and gain of ₱5.29 million and ₱8.49 million related to investment at FVPL in 2019 and 2018, respectively, is presented under 'Other income (charges)' in the consolidated statements of comprehensive income.

Movement in unrealized gain on investment at FVOCI follow:

	2019	2018
Balance at beginning of period	**₱73,342,166**	₱180,625,207
Unrealized loss during the year from quoted investments:	**(50,715,620)**	(107,283,041)
Balance at end of year (Note 17)	**₱22,626,546**	₱73,342,166

11. Investment in an Associate

Movement in the investment is as follows:

	2019	2018
Costs		
At January 1	**₱227,916,452**	₱–
Additions:		
Share in equity	–	109,956,952
Excess of purchase price over fair value of net assets	–	108,873,250
Costs directly attributable to the investments	–	9,086,250
	227,916,452	227,916,452
Accumulated Equity on Net Earnings		
At January 1	**11,103,396**	–
Equity share in net earnings	**26,154,472**	11,103,396
Less: Dividend income (Note 18)	**(15,000,000)**	–
	22,257,868	11,103,396
Other Comprehensive Income		
At January 1	–	–
Equity share in other comprehensive income	**464,363**	–
	464,363	–
Carrying Value	**₱250,638,683**	₱239,019,848

On March 19, 2018, the Parent Company invested in 30% of Orient Freight International, Inc. (OFII), a company involved in freight forwarding, warehousing and customs brokerage businesses operating within the Philippines. The acquisition for a total cost of shares of ₱218.83 million resulted in an implied goodwill of ₱108.87 million representing the fair value of expected synergies, revenue growth and future developments that do not meet the recognition criteria for intangible assets.

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 Group's interest in OFII is accounted for using the equity method in the consolidated financial statements. The concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

In 2018, the Group recognized equity in net earnings of an associate amounting to ₱11.10 million which represents the Group's share in the associate's earnings from March 19 to December 31, 2018 while for 2019, the Group recognized equity in net earnings and other comprehensive income of an associate amounting to ₱26.15 million and ₱0.46 million, respectively. These are presented under "Other income (charges)" and other comprehensive income in the consolidated statements of comprehensive income. No impairment loss was recognized for the investment in associate in 2019 and 2018.

The summarized statements of financial position of the associate follow:

	2019	2018
Current assets	**₱486,432,103**	₱484,718,655
Noncurrent assets	**138,556,567**	124,186,956
Current liabilities	**180,680,848**	220,511,830
Noncurrent liabilities	**60,067,553**	30,275,751
Equity	**384,240,270**	358,118,030

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

	2019
Revenue	₱1,334,969,460
Cost and expenses	1,247,787,887
Net income	87,181,573
Other comprehensive income	1,547,878
Total comprehensive income	₱88,729,451
Group's share in total comprehensive income	₱26,618,835

12. Receivables and Trademark Agreement with Transtech

On September 25, 2019, LBCH extended a 15-year 2.3% interest-bearing loan to Transtech Co. Ltd. (Transtech) amounting to \$1.80 million. Transtech, an entity incorporated in Japan, is involved in freight forwarding, warehousing, and packing business. Its services include forwarding of Balikbayan boxes from Japan to the Philippines.

Transtech shall pay interests on a quarterly basis. The Loan Agreement also constitutes a pledge by Transtech on its trademark for the benefit of LBCH, to secure LBCH's claims to the repayment of the loaned amount in case of default as defined in the Loan Agreement.

Subsequently, on September 30, 2019, Transtech granted LBCH an exclusive license to use its registered trademark subject to restrictions for a period of 10 years with automatic renewal of 3 years unless otherwise discontinued in writing by either parties. LBCH may, in its discretion, use the trademark in combination with any text, graphics, mark, or any other indication. As consideration for the exclusive use of license, LBCH shall pay royalty of \$0.13 million annually.

In 2019, LBCH incurred royalty fee amounting to ₱1.59 million wherein the related payable was offset to LBCH's interest receivable and loan receivable from Transtech amounting to ₱0.06 million and ₱1.53 million, respectively.

As of December 31, 2019, the outstanding balance of the loans receivable amounted to ₱89.82 million, ₱6.09 million of which is presented under 'Prepayment and other current assets' representing the short-term portion and the long-term portion of ₱83.73 million is presented under 'Other noncurrent assets'. Interest income earned amounted to ₱0.53 million in 2019.

13. Accounts and Other Payables

This account consists of:

	2019	2018
Trade payable - outside parties	**₱1,713,008,285**	₱1,353,449,343
Trade payable - related parties (Note 18)	**9,862,896**	370,163
Accruals:		
Salaries, wages and other benefits	**341,631,303**	277,249,320
Advertising	**118,284,036**	94,836,141
Rent and utilities	**106,876,470**	124,727,982
Contracted jobs	**89,419,768**	191,243,940
Claims and losses	**61,523,772**	79,870,576
Taxes	**34,192,766**	16,366,752
Professional fees	**22,894,903**	24,776,017
Outside services	**14,588,459**	11,414,949
Fixed assets	**11,732,556**	17,629,915
Software maintenance	**9,450,532**	9,184,268
Others	**42,809,771**	63,105,153
Deferred output VAT	**323,055,911**	300,135,756
Contract liabilities	**197,168,011**	83,666,589
Taxes payable	**70,132,689**	91,174,576
Government agencies contributions payables	**29,855,611**	26,136,084
Subscription payable	**–**	9,651,375
Others	**45,693,122**	31,180,381
	₱3,242,180,861	₱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.

Accruals mainly pertain to liabilities of the Group related to operations which are awaiting for actual billings from supplies (except for taxes).

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

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.

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

Government agencies 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.

14. 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 ₱586.89 million (₱10.70 million of which is payable to an affiliate) (see Note 18) ₱543.90 million as at December 31, 2019 and 2018, respectively.

15. Notes Payable

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

		2019			
Bank	**Date of Availment**	**Outstanding Balance**	**Maturity**	**Interest Rate**	**Payment Terms**
Banco de Oro	October 2019	₱60,000,000	April 2020	5.25%, subject to repricing	Clean; Interest payable every month, principal to be paid on maturity date
Banco de Oro	September 2019	150,000,000	March 2020	5.25%, subject to repricing	Clean; Interest payable every month, principal to be paid on maturity date
Banco de Oro	Various availments in 2016	532,500,000	Various maturities in 2018 to 2021	5.25%, subject to repricing	With mortgage; Interest payable every month, principal payable quarterly
Unionbank of the Philippines	April 2019	₱70,200,000	April 2024	7.826%, fixed rate	Clean; Interest payable every month, principal to be paid on maturity date
Unionbank of the Philippines	June 2019	19,800,000	April 2024	7.053%, fixed rate	Clean; Interest and principal payable every quarter
Unionbank of the Philippines	August 2019	50,000,000	January 2020	7.00%, subject to repricing	Clean; Interest and principal payable every quarter
Rizal Commercial Banking Corporation	October 2019	47,222,222	October 2020	6.55%, fixed rate	Clean; Interest and principal payable every month
Total		₱929,722,222			
Current portion		₱376,666,667			
Noncurrent portion		₱553,055,555			

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

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 18).

A short-term loan availed in 2018 with BDO amounting to ₱150.00 million was rolled over in March and September 2019. The balance is still outstanding as of December 31, 2019. Also, a short-term loan availed in December 2018 with BDO amounting to ₱60.00 million was rolled over in April and October 2019 and is still outstanding as of December 31, 2019.

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

Interest expense amounted to ₱63.64 million, ₱40.62 million, and ₱55.08 million in 2019, 2018 and 2017, respectively

16. Convertible Instrument

This account consists of:

	2019	2018
Derivative liability		
Balance at beginning of year	**₱1,406,175,427**	₱1,860,373,479
Fair value loss (gain) on derivative	**642,506,134**	(454,198,052)
	₱2,048,681,561	₱1,406,175,427
Bond payable		
Balance at beginning of year	**₱1,108,417,074**	₱896,185,059
Accretion of interest	**182,124,669**	159,106,145
Unrealized foreign exchange loss (gain)	**(45,319,435)**	50,577,641
Amortization of issuance cost	**1,798,750**	2,548,229
	₱1,247,021,058	₱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 4, 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 initially 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 as follow:

- effective on three years (3) from issuance date (the Reset Date) - if the 30-day Trading Day Weighted Average Price (TDWAP) of the Parent Company's common shares on the Principal Market prior to the Reset Date is not higher than the initial conversion price, the conversion price shall be adjusted on the Reset Date to the 30-day TDWAP prior to Reset Date;
- upon issuance of common shares for a consideration less than the conversion price in effect - the conversion price shall be reduced to the price of the new issuance;
- upon subdivision or combination (i.e., stock dividend, stock split, recapitalization or otherwise) - the conversion price in effect shall be proportionately reduced or increased; and
- other events or voluntary adjustment.

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

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

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

On October 3, 2017, the Parent Company entered into a pledge supplement with CP Briks whereby the Parent Company constituted in favor of CP Briks a pledge over all of the Parent Company's shares in LBCE consisting of 1,041,180,504 common shares, representing 100% of the total issued and outstanding capital stock of LBCE.

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

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

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

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

The determination and calculation of the foregoing financial ratios are based on the agreement and interpretation of relevant parties subject to the terms of the convertible instrument. The Group is in compliance with the above covenants as at December 31, 2019, the latest Relevant Period subsequent to the issuance of the convertible instrument. Relevant period means each period of twelve (12) months ending on the last day of the Parent Company's financial year.

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 18).
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. Effective January 1, 2019, the Parent Company was granted the regulatory approvals on the purchase of the following entities under LBC USA Corporation:
        - LBC Mundial Corporation (LBC Mundial) 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 (LBC North America) 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.

    iii. Effective July 1, 2019, the Parent Company's purchase of LBC Mabuhay Hawaii Corporation, who operates as a cargo and remittance company in Hawaii, was completed upon the approval by the US regulatory bodies. The Parent Company purchased 1,536,408 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.

iv. 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.

v. 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.

vi. 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.

vii. The documentation requirements for the acquisition of the remaining overseas entity is 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 entity in 2020, after which the Group expects (on the basis of LBCDC's manifestations) settlement by LBCDC of all of its obligations to the Parent Company, except for the assigned receivables from QUADX Inc. which will be settled based on agreed terms (see Note 18). As at report date, LBCDC has not settled its obligations to the Parent Company pending completion of acquisition of the remaining overseas entity.

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).

17. Equity

Capital Stock
As of December 31, 2019, 2018 and 2017, the details of the Parent Company's capital stock follow:

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

	Number of shares registered	Issue/ Offer price	Date of approval	Number of holders as of yearend
At January 1, 2015	40,899,000	₱1/share		
Add: Additional issuance	1,384,966,471	₱1/share	July 22, October 16 and October 21, 2015	
December 31, 2015	1,425,865,471			485
Add: Movement	–			–
December 31, 2016	1,425,865,471			485
Add: Movement	–			1
December 31, 2017	1,425,865,471			486
Add: Movement	–			1
December 31, 2018	1,425,865,471			487
Add: Movement	–			–
December 31, 2019	1,425,865,471			487

Retained earnings
The unappropriated retained earnings include accumulated equity in undistributed net earnings of the consolidated subsidiaries amounted to ₱1,478.71 million and ₱1,058.50 million as of December 31, 2019 and 2018, respectively. These are not available for dividend declaration until declared by the BOD of the respective subsidiaries.

In accordance with Securities Regulation Code Rule 68, As Amended (2019), Annex 68-D, the Parent Company's retained earnings available for dividend declaration as of December 31, 2019 and 2018 amounted to ₱501.09 million and ₱972.31 million, respectively.

Cash dividends
On May 7, 2019, the BOD of LBC Express Shipping Company WLL (Kuwait) declared cash dividends of KWD 2,500 per common share held by stockholders. The related noncontrolling interest amounting to ₱20.93 million is presented in the statement of changes in equity.

On September 12, 2019, the BOD of LBCH approved the declaration of cash dividends amounting to ₱356.47 million of which ₱14.78 million remains unpaid as of December 31, 2019.

On December 20, 2018 and April 19, 2017, the BOD of LBCH approved the declaration of cash dividends amounting to ₱285.17 million and ₱827.00 million, respectively.

On February 8, 2019 and November 4, 2019, through a Memorandum of Agreement, LBCDC assigned to LBCH a portion of its payable to LBCE amounting to ₱229.37 million and ₱263.92 million, respectively. The same amount was offset against the dividends payable of LBCE to LBCH.

Accumulated comprehensive income
Details of accumulated comprehensive income as at December 31 follow:

	2019	2018
Remeasurement gain on retirement benefit plan net of tax (Note 23)	**₱194,638,659**	₱166,941,704
Unrealized fair value gain on investment at FVOCI (Note 10)	**22,626,546**	73,342,166
Share in other comprehensive income of an associate (Note 11)	**464,363**	–
Currency translation loss	**(30,182,365)**	(3,742,807)
	187,547,203	236,541,063
Accumulated comprehensive income (loss) attributable to:		
Controlling interest	**₱193,677,606**	₱241,328,367
Non-controlling interest	**(₱6,130,403)**	(₱4,787,304)

18. Related Party Transactions

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

Details of related party transactions and balances as at and for the years ended December 31 are follow:

	2019			
	Amount/Volume	**Receivable (Payable)**	**Terms**	**Conditions**
Due from related parties (Trade receivables)				
Affiliates - under common control				
a.) Delivery fee, management fee, financial Instant Peso Padala (IPP) fulfillment fee (Notes 6 and 26)	**₱231,954,134**	**₱311,922,475**	**Noninterest-bearing; due and demandable**	**Unsecured, no impairment**
		₱311,922,475		
Due from related parties (Non-trade receivables)				
Ultimate parent company				
b.) Advances	**₱1,018,089,621**	**₱1,000,220,309**	**Noninterest-bearing; due and demandable**	**Unsecured, no impairment**
Affiliates - under common control				
b.) Advances	**57,057,956**	**61,212,739**	**Noninterest-bearing; due and demandable**	**Unsecured, no impairment**
Officer				
b.) Advances	**29,149,637**	**38,434,032**	**Noninterest-bearing; due and demandable**	**Unsecured, no impairment**
g.) Notes receivable current portion	**3,938,307**	**3,938,307**	**Interest-bearing; fixed monthly payment**	**Unsecured, no impairment**
		₱1,103,805,387		

(Forward)

	2019			
	Amount/Volume	**Receivable (Payable)**	**Terms**	**Conditions**
Due from related parties				
g.) Other noncurrent assets	**₱26,814,836**	**₱26,814,836**	**Interest-bearing; fixed monthly payment**	**Unsecured, no impairment**
Due from related parties (Advances for future investments in shares)				
f) Advances for future investments in shares	**₱78,727,321**	**₱78,727,321**	**Noninterest-bearing; for settlement of the subscription of shares**	**Unsecured, no impairment**
Dividend receivable				
h.) Associate (Note 11)	**₱15,000,000**	**₱–**	**Noninterest-bearing; due and demandable**	**Unsecured, no impairment**
Due to related parties (Trade payables)				
Ultimate Parent Company				
c.) Royalty fee (Note 13)	**₱–**	**(₱138,500)**	**Noninterest-bearing; due and demandable**	**Unsecured**
Associate				
e.) Sea freight and brokerage (Note 13)	**692,112,798**	**(9,724,396)**	**Noninterest-bearing; due and demandable**	**Unsecured**
d.) Guarantee fee	**7,142,857**	**–**	**Noninterest-bearing; due and demandable**	**Unsecured**
		(₱9,862,896)		
Due to a related party (Non-trade payables)				
Affiliates - under common control				
b.) Advances	**₱13,057,092**	**(₱33,173,265)**	**Noninterest-bearing; due and demandable**	**Unsecured**
Officer				
b.) Advances	**–**	**(438,100)**	**Noninterest-bearing; due and demandable**	**Unsecured**
		(₱33,611,365)		
Due to a related party (Transmissions liability)				
Affiliates - under common control				
a.) Money remittance payable (Note 14)	**₱668,926,130**	**(₱10,700,530)**	**Noninterest-bearing; due and demandable**	**Unsecured,**
		(₱10,700,530)		

	2018			
	Amount/Volume	Receivable (Payable)	Terms	Conditions
Due from related parties (Trade receivables)				
Affiliates - under common control				
a.) Delivery fee, management fee, financial Instant Peso Padala (IPP) fulfillment fee (Notes 6 and 26)	₱633,301,209	₱253,208,381	Noninterest-bearing; due and demandable	Unsecured, no impairment
Due from related parties (Non-trade receivables)				
Ultimate parent company				
b.) Advances	₱78,829,228	₱493,736,678	Noninterest-bearing; due and demandable	Unsecured, no impairment
Affiliates - under common control				
b.) Advances	5,362,674	54,937,022	Noninterest-bearing; due and demandable	Unsecured, no impairment
Officer				
b.) Advances	–	9,284,395	Noninterest-bearing; due and demandable	Unsecured, no impairment
		₱557,958,095		

(Forward)

	2018			
	Amount/Volume	Receivable (Payable)	Terms	Conditions
Due from related parties (Advances for future investment in shares)				
f) Advances for future investments in shares	₱439,823,608	₱439,823,608	Noninterest-bearing; for settlement of the subscription of shares	Unsecured, no impairment
Due to related parties (Trade payables)				
Ultimate Parent Company				
c.) Royalty fee (Note 13)	₱–	(₱370,163)	Noninterest-bearing; due and demandable	Unsecured
d.) Guarantee fee	7,142,857	–	Noninterest-bearing; due and demandable	Unsecured
		(₱370,163)		
Due to a related party (Non-trade payables)				
Affiliates - under common control				
b.) Advances	₱18,347,124	(₱18,347,124)	Noninterest-bearing; due and demandable	Unsecured
Officer				
b.) Advances	75,645,005	(75,645,005)	Noninterest-bearing; due and demandable	Unsecured
Associate				
e.) Sea freight and brokerage (Note 13)	238,045,486	–	Noninterest-bearing; due and demandable	Unsecured
		(₱93,992,129)		

Compensation of Key Management Personnel:

	For the years ended December 31	
	2019	2018
Salaries and wages	**₱92,634,449**	₱148,311,625
Retirement benefits (Note 23)	**10,136,064**	17,781,850
Other short-term employee benefits	**18,199,598**	20,090,642
	₱120,970,111	₱186,184,117

a.) In the normal course of business, the Group fulfills the delivery of balikbayan boxes, fulfillment of money remittances and performs certain administrative functions on behalf of its affiliates. The Group charges delivery fees and service fees for the fulfillment of these services based on agreed rates.

b.) The Group regularly makes advances to and from related parties to finance working capital requirements and as part of their cost reimbursements arrangement. These unsecured advances are non-interest bearing and payable on demand.

In prior years, the Group has outstanding advances of ₱295.00 million to LBC Development Bank, an entity under common control of LBCDC. In 2011, management assessed that these advances are not recoverable. Accordingly, the said asset was written-off from the books in 2011 (see Note 29).

On May 29, 2019, LBCH sold all its 1,860,214 common shares in QUADX Inc. to LBCE for ₱186,021,400 or ₱100 per share payable no later than two years from the execution of deed of absolute sale of share, subject to any extension as may be agreed in writing by the parties.

On July 1, 2019, LBCE sold all its QUADX Inc. shares to LBCDC for ₱186.02 million, payable no later than two years from the date of sale, subject to any extension as may be agreed in writing by the parties. On the same date, LBCE, LBCDC and QUADX Inc. entered into a Deed of Assignment of Receivables whereas LBCE agreed to assign, transfer and convey its receivables from QUADX Inc. as of March 31, 2019 amounting to ₱832.64 million to LBCDC which shall be paid in full, from time to time starting July 1, 2019 and no later than two years from the date of the execution of the Deed, subject to any extension as may be agreed in writing by LBCE and LBCDC. The balance of the assigned receivables which remain unpaid amounted to ₱832.64 million as of December 31, 2019.

On December 20, 2018, the BOD of LBCH approved the declaration of cash dividends amounting to ₱285.17 million. On February 8, 2019, through a Memorandum of Agreement, LBCDC assigned to LBCH a portion of its payable to LBCE amounting to ₱229.37 million. The same amount was offset against the dividends payable of LBCE to LBCH.

On September 12, 2019, the BOD of LBCH declared cash dividends amounting to ₱356.47 million. On November 4, 2019, through a Memorandum of Agreement, LBCDC assigned to LBCH a portion of its payable to LBCE amounting to ₱263.92 million. The same amount was offset against the dividends payable of LBCE to LBCH.

Furthermore, upon completion of the acquisition of the remaining entity, as disclosed in Note 16, LBCH expects settlement by LBCDC of all of its obligations to LBCH, except for the assigned receivables from QUADX Inc. which will be settled based on abovementioned agreed terms.

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 Group'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 15, 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. Effective April 1, 2016, 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 in 12 equal monthly installment, a guarantee fee of 1% of the face value of the loan and until said properties are released by the bank as loan collateral. The guarantee fee is reported as part of interest expense in the consolidated statements of comprehensive income amounting to ₱7.14 million in 2019 and 2018.

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 16, 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 various dates in 2019, the Parent Company was granted the regulatory approvals on the purchase of LBC Mundial Corporation, LBC Mabuhay North America Corporation and LBC Mabuhay Hawaii Corporation (see Note 4).

In 2019, LBCE subscribed 20,000,000 Preferred A shares and 29,436,968 Preferred B Shares of Terra Barbaza Aviation, Inc. (TBAI) amounting to ₱78.73 million. The Preferred A Shares will be issued upon conversion of the 20,000,000 Common Shares in TBAI arising from the 20,001,250 Common Shares purchased by LBCE from a common shareholder in January 2020.

Currently, TBAI is in the process of application of its authorized capital stock for Preferred A and B Shares. Once the application is approved by the SEC, 20,000,000 of the Common Shares purchased by LBCE from the common shareholder will be converted to 20,000,000 non-voting Preferred A Shares. The remaining 1,250 Common Shares will then represent 24.86% of the total outstanding Common Shares.

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 installments. As of December 31, 2019, total outstanding notes receivable amounted to ₱30.75 million, ₱26.81 million of which is presented as noncurrent under "Other noncurrent assets". Interest income earned from notes receivable amounted to ₱1.21 million for the year ended December 31, 2019.

h.) On June 6, 2019, LBCH recognized cash dividends from OFII amounting to ₱15.00 million for its 30% interest on OFII.

Aside from required approval of related party transactions explicitly stated in the Corporation Code, the Group has established its own related party transaction policy stating that any related party transaction involving amount or value greater than 10% of the Group's total assets are deemed 'Material Related Party Transactions'. Such transactions shall be reviewed by the Related Party Transaction Committee (RPTC) prior to its endorsement for the Board's Approval. Moreover, any related party transaction involving less than 10% of the Group's total assets will be submitted to the President and CEO for review.

19. Cost of Services

This account consists of:

	2019	2018	2017
Cost of delivery and remittance	**₱4,789,579,359**	₱3,900,239,963	₱2,791,389,663
Salaries and benefits	**3,215,237,590**	2,268,340,538	1,971,535,268
Depreciation and amortization (Notes 8, 9 and 22)	**1,159,320,196**	297,930,769	218,336,609
Utilities and supplies	**1,146,927,498**	995,938,157	741,527,993
Rent (Note 22)	**337,103,136**	735,362,813	592,537,376
Transportation and travel	**138,311,964**	76,031,963	59,625,803
Repairs and maintenance	**130,612,248**	109,976,084	104,274,720
Retirement benefit expense (Note 23)	**107,658,451**	95,432,277	97,492,614
Insurance	**63,357,345**	27,801,301	23,123,645
Collection fee	**32,311,743**	14,696,301	–
Software subscriptions	**19,069,346**	10,946,037	–
Others	**44,132,705**	30,886,273	6,188,582
	₱11,183,621,581	₱8,563,582,476	₱6,606,032,273

Others pertain to bank charges, bank service fees and other miscellaneous expenses.

20. Operating Expenses and Foreign Exchange Gains - net

Operating expenses consist of:

	2019	2018	2017
Salaries and wages	**₱603,819,368**	₱633,900,980	₱498,926,061
Advertising and promotion	**446,347,513**	317,301,731	169,158,792
Professional fees	**279,474,804**	188,686,108	212,871,262
Taxes and licenses	**207,271,978**	143,541,786	115,012,736
Depreciation and amortization (Notes 8, 9 and 22)	**198,901,422**	107,435,343	102,420,247
Utilities and supplies	**195,986,551**	165,492,496	146,510,196
Commission expense	**184,362,259**	50,154,725	23,213,721
Travel and representation	**175,581,692**	191,028,402	137,903,579
Rent (Note 22)	**116,239,904**	267,514,997	239,070,492
Dues and subscriptions	**92,668,959**	64,084,638	31,281,219
Losses	**53,768,993**	44,237,668	3,054,020
Software maintenance costs	**45,209,189**	44,644,420	59,376,627
Provision for expected credit losses (Note 6)	**33,791,019**	80,038,709	13,179,997
Retirement benefit expense (Note 23)	**31,895,990**	34,092,793	30,313,927
Insurance	**23,777,054**	23,366,371	22,448,728
Repairs and maintenance	**4,795,948**	5,453,651	4,878,630
Royalty	**1,585,750**	–	176,443,696
Others	**57,225,928**	49,322,943	35,840,577
	₱2,752,704,321	₱2,410,297,761	₱2,021,904,507

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

Foreign exchange gains - net arises from the following:

	2019	2018	2017
Cash and cash equivalents	**₱7,542,551**	₱68,745,839	₱85,738,141
Advances to affiliates - net	**(8,772,515)**	51,327,603	18,177,223
Bonds payable	**45,319,435**	50,577,641	(8,610,668)
Trade payable	**(8,315,485)**	(7,380,789)	(952,875)
Available for sale investments	**–**	–	(2,370,641)
	₱35,773,986	₱163,270,294	₱91,981,180

21. Income Taxes

Provision for consists of:

	2019	2018	2017
Current	**₱383,692,852**	₱486,668,102	₱450,239,197
Deferred	**(23,670,453)**	(19,001,913)	(31,384,734)
	₱360,022,399	₱467,666,189	₱418,854,463

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

	2019	2018
Deferred tax assets arising from:		
Retirement benefit liability	**₱188,327,061**	₱197,105,840
Allowance for impairment loss	**58,184,772**	48,132,334
Accrued employee benefits	**51,484,181**	47,742,542
Deferred lease liability	**43,019,847**	16,512,220
NOLCO	**16,828,168**	15,117,586
Contract liabilities	**13,849,738**	11,376,223
Depreciation charged to retained earnings, beginning	**13,847,894**	–
Unrealized foreign exchange losses	**5,030,963**	–
MCIT	**248,063**	2,345,628
Others	**13,493,165**	7,087,049
	₱404,313,852	₱345,419,422
Deferred tax liabilities arising from:		
Capitalized borrowing costs	**₱–**	(₱209,334)
Unamortized fair value adjustments arising from business combination	**–**	(19,634,690)
Unrealized foreign exchange gains	**(20,530,140)**	(20,285,223)
Others	**(6,222,216)**	(3,012,906)
	(26,752,356)	(43,142,153)
	₱377,561,496	₱302,277,269

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

	2019	2018
January 1, 2018, as previously reported	**₱302,277,269**	₱289,524,039
Effect of adoption of new standards (Note 2)	**47,501,914**	15,579,542
January 1, 2018, as restated	**349,779,183**	305,103,581
Effect of disposal of a subsidiary	**15,572,341**	–
Charged to profit or loss	**23,670,453**	19,001,913
Effect of business combination	**452,765**	(12,342,690)
Applied MCIT against income tax due	**(80,056)**	(30,502)
Recorded under other comprehensive income	**(11,833,190)**	(9,455,033)
	₱377,561,496	₱302,277,269

On December 31, 2019 and 2018, deductible/taxable temporary differences for which no deferred tax asset/liability is recognized in the consolidated statement of financial position amounted to nil and ₱161.80 million, respectively. Details of the 2018 unrecognized deferred tax assets, net of deferred tax liabilities, solely arising from QUADX INC, follow:

	2018
NOLCO	₱152,462,140
Allowance for impairment losses on receivables	8,300,642
Deferred lease liability	3,096,873
Unrealized foreign exchange loss - net	640,616
	₱164,500,271

As of December 31, 2019, the NOLCO that can be claimed as deductions from future taxable income and excess MCIT over RCIT that can be credited against future tax liability follow. These NOLCO and excess of MCIT over RCIT came from LBCH and other subsidiaries.

NOLCO

2019

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2019	**₱11,946,859**	**₱–**	**₱–**	**₱11,946,859**	**2022**
2018	**17,993,197**	**–**	**–**	**17,993,197**	**2021**
2017	**26,242,165**	**88,473**	**–**	**26,153,692**	**2020**
2016	**6,244,919**	**–**	**6,244,919**	**–**	**2019**
	₱62,427,140	**₱88,473**	**₱6,244,919**	**₱56,093,748**	

MCIT

2019

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2019	**₱207,984**	**₱–**	**₱–**	**₱207,984**	**2022**
2018	**28,504**	**–**	**–**	**28,504**	**2021**
2017	**11,627**	**52**	**–**	**11,575**	**2020**
2016	**80,004**	**80,004**	**–**	**–**	**2019**
	₱328,119	**₱80,056**	**₱–**	**₱248,063**	

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

	2019	2018	2017
Income tax at the statutory income tax rate	**₱250,752,773**	₱545,009,174	₱338,030,954
Tax effects of items not subject to statutory rate:			
Nondeductible expense	**272,805,753**	50,699,903	78,770,504
Movement in unrecognized deferred tax assets	**75,925,562**	28,027,640	7,884,619
Expired MCIT	**–**	–	144,888
Expired NOLCO	**1,873,476**	31,809,041	–
Change to OSD of subsidiaries	**(19,014,565)**	(20,719,179)	–
Nontaxable income	**(202,381,696)**	(166,073,589)	(5,976,502)
Others	**(19,938,904)**	(1,086,801)	–
	₱360,022,399	₱467,666,189	₱418,854,463

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

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

For the years ended December 31, 2019 and 2018, eighteen (18) of LBCE's Subsidiaries opted to use OSD in computing the current provision for income tax.

22. Lease Commitments

(a) Operating lease

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

1. Operating lease agreement covering its previous corporate office space, originally for a period of five years staring 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. Lease agreements covering various service centers and service points within the Philippines for a period of one (1) to eight (8) years except for one (1) warehouse which has a lease term of twenty (20) 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. Lease agreement with a local bank covering transportation equipment for a period of three to five years. The lease agreement does not include escalation rates on monthly payments.

There are no contingent rents for the above lease agreements.

(a) Right-of-use assets and related lease liabilities

The amounts recognized in the consolidated statement of financial position and consolidated statement of comprehensive income is shown as follow:

	Right-of-use assets				
	Office and Warehouses	Vehicles	Machinery and Equipment	Total	Lease liabilities
As at January 1, 2019, as previously stated	₱–	₱–	₱–	₱–	(₱140,069,034)
Effect of PFRS 16 adoption	2,053,766,086	76,338,649	25,312,929	2,155,417,664	(2,048,424,316)
As at January 1, 2019, as restated	2,053,766,086	76,338,649	25,312,929	2,155,417,664	(2,188,493,350)
Additions through business combinations	133,861,706	20,613,585	36,040,215	190,515,506	(190,760,186)
Additions	329,349,728	33,854,584	–	363,204,312	(363,204,312)
Amortization	(680,846,232)	(28,985,675)	(30,380,308)	(740,212,215)	–
Disposal of right of use assets and derecognition of lease liabilities due to loss of control of a subsidiary	(83,095,195)	–	–	(83,095,195)	92,099,843
Payments of principal	–	–	–	–	648,612,354
Payments of interests	–	–	–	–	135,712,457
Accretion of interests	–	–	–	–	(135,712,457)
As at December 31, 2019	**₱1,753,036,093**	**₱101,821,143**	**₱30,972,836**	**₱1,885,830,072**	**(₱2,001,745,651)**

The Group recognized rent expense from short-term leases of ₱440.49 million and leases of low-value assets of ₱12.85 million for period ended December 31, 2019 (see Notes 19 and 20).

The amortization expense recognized under cost of services and operating expenses in the consolidated statement of comprehensive income in 2019 amounted to ₱666.23 million and ₱73.98 million, respectively (see Notes 19 and 20).

Lease liabilities recognized under PFRS 16 amounted to ₱2,001.75 million, ₱645.01 million of which is presented under current liabilities. The Group also reclassified from Property and equipment recognized under finance lease to Right-of-use assets amounting to ₱73.23 million (see Note 2). Interest expense arising from the accretion of lease liability amounted to ₱135.71 million as of December 31, 2019.

The following summarized the maturity profile of the Group's undiscounted lease payments as of December 31, 2019:

	2019
Less than 1 year	₱707,225,934
More than 1 year to 2 years	546,292,822
More than 2 years to 3 years	377,793,964
More than 3 years to 4 years	257,464,486
More than 5 years	342,200,874
	₱2,230,978,080

The future minimum lease payments from the foregoing non-cancellable operating lease agreements as of December 31, 2018 is as follow:

	2018
Less than 1 year	₱993,980,968
More than 1 year to 2 years	967,537,697
More than 2 years to 3 years	984,162,808
More than 3 years to 4 years	1,016,479,648
More than 5 years	1,431,712,835
	₱5,393,873,956

(b) Rent Expenses

The rent expenses recognized under cost of services and operating expenses in the consolidated statement of comprehensive income for the year ended December 31, 2019 are considered short-term leases or low value assets where the recognition exemption is applied.

	2019	2018	2017
Cost of services (Note 19)	**₱337,103,136**	₱735,362,813	₱592,537,376
Operating expenses (Note 20)	**116,239,904**	267,514,997	239,070,492
	₱453,343,040	₱1,002,877,810	₱831,607,868

The comparative rent expenses in 2018 and 2017 are based on PAS 17.

Deferred lease liability arising from straight line recognition of lease payments under PAS 17 amounting to ₱61.89 million for the year ended December 31, 2018 is included in the non-current portion of lease liabilities account in the consolidated financial position.

The Group maintains security deposits arising from the said operating lease agreements amounting to ₱330.62 million and ₱312.43 million as of December 31, 2019 and 2018, respectively.

(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 December 31, 2018 arising from these leases are as follow:

	December 31, 2018 (Audited)
Gross finance lease obligations	
Not later than one year	₱26,943,343
Later than 1 year but not later than 5 years	65,479,002
	92,422,345
Future finance lease charges on the finance lease	
Not later than one year	(6,672,051)
Later than 1 year but not later than 5 years	(7,573,842)
	(14,245,893)
	₱78,176,452

The present value of minimum lease payments is as follows:

	December 31, 2018 (Audited)
Not later than 1 year	₱20,271,292
Later than 1 year but not later than 5 years	57,905,160
	₱78,176,452

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

23. Retirement Benefits

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

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

Under the existing Philippine regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The Group's retirement plan meets the minimum retirement benefit specified under Republic Act 7641.

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

Changes in net defined benefit liability in 2019 and 2018 are as follow:

2019

			Net benefit cost in statements of comprehensive income					Remeasurements in other comprehensive income						
	January 1, 2019	Effect of disposal of a subsidiary	Current service cost	Net interest	Subtotal	Benefits paid from plan assets	Benefits paid by the Group	Return on plan assets	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Subtotal	Contributions	December 31, 2019
Present value of defined benefit obligation	₱803,245,359	(₱10,028,911)	₱88,579,096	₱65,948,354	₱154,527,450	(₱40,894,226)	(₱888,414)	₱–	(₱54,488,253)	₱19,377,955	(₱2,598,750)	(₱37,709,048)	₱–	₱868,252,210
Fair value of plan assets	(130,980,215)	2,976,765	–	(14,973,009)	(14,973,009)	40,894,226	–	(1,722,382)	–	–	–	(1,722,382)	(126,652,910)	(230,457,525)
Net defined benefit liability	₱672,265,144	(₱7,052,146)	₱88,579,096	₱50,975,345	₱139,554,441	₱–	(₱888,414)	(₱1,722,382)	(₱54,488,253)	₱19,377,955	(₱2,598,750)	(₱39,431,430)	(₱126,652,910)	₱637,794,685

2018

			Net benefit cost in statements of comprehensive income						Remeasurements in other comprehensive income						
	January 1, 2018	Effect of business combination	Current service cost	Past service costs	Net interest	Subtotal	Benefits paid from plan assets	Benefits paid by the Group	Return on plan assets	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Subtotal	Contributions	December 31, 2018
Present value of defined benefit obligation	₱760,203,734	₱5,096,164	₱85,055,277	₱1,666,018	₱48,995,208	₱135,716,503	(₱60,327,054)	(₱654,712)	₱–	₱–	(₱191,167,733)	₱154,378,457	(₱36,789,276)	₱–	₱803,245,359
Fair value of plan assets	(54,877,967)	(2,000,000)	–	–	(6,191,433)	(6,191,433)	60,327,054	–	5,712,123	–	–	–	5,712,123	(133,949,992)	(130,980,215)
Net defined benefit liability	₱705,325,767	₱3,096,164	₱85,055,277	1,666,018	₱42,803,775	₱129,525,070	₱–	(₱654,712)	₱5,712,123	₱–	(₱191,167,733)	₱154,378,457	(₱31,077,153)	(₱133,949,992)	₱672,265,144

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

	2019	2018
Cash and cash equivalents	**₱132,973,992**	₱69,060,537
Equity instruments	**3,318,588**	3,422,043
Debt instruments:		
Government bonds	**86,767,258**	60,200,262
Other bonds	**4,079,098**	1,896,351
Others	**3,318,589**	(3,598,978)
	₱230,457,525	₱130,980,215

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

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

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

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

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

The Group expects to contribute ₱136.00 million to the retirement plan in 2020. The retirement plan does not have a formal funding policy. The funding requirement is mainly driven by the availability of excess fund from the Group's operations.

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

	2019	2018	2017
Beginning of year	**(₱238,623,797)**	(₱207,546,644)	(₱153,409,762)
Actuarial gain from defined benefit obligation	**(37,709,048)**	(36,789,276)	(56,427,639)
Plan asset remeasurement (gain) loss	**(1,722,382)**	5,712,123	2,290,757
End of year, gross	**(278,055,227)**	(238,623,797)	(207,546,644)
Deferred tax effect	**83,416,568**	71,682,093	62,263,993
	(₱194,638,659)	(₱166,941,704)	(₱145,282,651)

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

	2019	2018	2017
Discount rate	**3.70% to 5.61%**	4.19% to 8.47%	5.86% to 5.99%
Salary increase	**3.00%**	5.00%	5.00%

Discount rate
The discount rate is determined by reference to spot yield curve at the end of the reporting period based on government bonds with currency and term similar to the estimated term of the benefit obligation. The Group used as reference long-term Philippine Treasury Bonds adjusted to create virtual zero-coupon bonds as of the reporting date and to reflect the term similar to the estimated term of the benefit obligation as determined by the actuary.

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

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

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

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

		2019	2018
	Increase (decrease)	**Net defined benefit liability**	Net defined benefit liability
Discount rate	+1.00%	**(₱52,602,743)**	(₱69,736,582)
	-1.00%	**58,868,532**	86,230,575
Salary increase	+1.00%	**59,824,546**	88,020,831
	-1.00%	**(54,352,982)**	(76,617,155)

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

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

	2019	2018
Less than 1 year	**₱144,482,338**	₱71,301,366
More than 1 year to 5 years	**499,866,127**	324,908,578
More than 5 years to 10 years	**562,978,187**	560,811,225
	₱1,207,326,652	₱957,021,169

24. 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, 'short-term investments' under other current assets, loan receivable and notes receivable.

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, lease liabilities, dividends payable, bonds payable, derivative liability and other noncurrent liabilities. The main purpose of these financial liabilities is to finance for the Group's operations.

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

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

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

The following table shows the effect on total comprehensive income should the change in the close share price of quoted equity securities occur as of December 31, 2019 and 2018 with all other variables held constant.

	Effect on total comprehensive income	
	2019	2018
Change in share price		
+5.00%	**₱14,336,915**	₱16,872,696
-5.00%	**(14,336,915)**	(16,872,696)
Change in NAV		
+5.00%	**₱781,463**	₱5,587,405
-5.00%	**(781,463)**	(5,587,405)

The Group is also exposed to equity price risk in the fair value of the derivative liability due to the embedded equity conversion feature. Furthermore, the derivative liability has an "in the money" redemption option with a minimum rate of return at a given point in time in the future which makes the embedded conversion feature value close to zero or nil. Hence, the impact of the changes in the share price in the valuation of the derivative liability is minimal.

Interest rate risk and credit spread sensitivity analysis
Except for the credit spread used in the valuation of the convertible redeemable bond, the Group's exposure to the risk of changes in market interest rate relates primarily to its notes payable that are subject to repricing. The Group regularly monitors its interest rate exposure in interest rates movements. Management minimizes its interest rate risk by resorting to short-term financing, as

needed and believes that cash generated from normal operations are sufficient to pay its obligation as they fall due.

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

	Effect in fair value	
	2019	2018
Credit spread +1%	**₱57,425,852**	₱58,315,936
Credit spread -1%	**(60,301,921)**	(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 and unit investment trust fund which seek to ensure the security and liquidity of investment while optimizing yield.

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

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

	2019		
	Due in less than one year	**Due in more than one year**	**Total**
Cash and cash equivalents			
Cash in bank	**₱2,281,905,425**	**₱–**	**₱2,281,905,425**
Cash equivalents	**1,795,673,494**	**–**	**1,795,673,494**
Receivables			
Trade	**1,466,798,610**	**–**	**₱1,466,798,610**
Others	**29,825,276**	**–**	**29,825,276**
Due from related parties	**1,103,805,387**	**–**	**1,103,805,387**
Prepayments and other current assets	**166,076,948**	**–**	**166,076,948**

(Forward)

	2019		
	Due in less than one year	**Due in more than one year**	**Total**
FVPL	**₱15,629,263**	**₱–**	**₱15,629,263**
FVOCI	–	**286,738,308**	**286,738,308**
Notes receivable	*–	**26,814,836**	**26,814,836**
Loans receivable	**–	**83,727,600**	**83,727,600**
	₱6,859,714,403	**₱397,280,744**	**₱7,256,995,147**

**Current portion is classified under Due from related parties*
***Current portion is classified under Prepayments and other current assets*

	2018		
	Due in less than one year	Due in more than one year	Total
Cash and cash equivalents			
Cash in bank	₱2,122,353,939	₱–	₱2,122,353,939
Cash equivalents	1,656,378,862	–	1,656,378,862
Receivables			
Trade	1,546,318,258	–	1,546,318,258
Others	62,044,315	–	62,044,315
Due from related parties	557,958,095	–	557,958,095
FVOCI	–	337,453,928	337,453,928
FVPL	131,294,744	–	131,294,744
	₱6,076,348,213	₱337,453,928	₱6,413,802,141

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

	2019		
	Due in less than one year	**Due in more than one year**	**Total**
Accounts payable and accrued expenses			
Trade payable	**₱1,722,871,181**	**₱–**	**₱1,722,871,181**
Accruals	**819,211,570**	–	**819,211,570**
Others	**45,693,122**	–	**45,693,122**
Due to related parties	**33,611,365**	–	**33,611,365**
Notes payable	**376,666,667**	**553,055,555**	**929,722,222**
Transmissions liability	**586,888,109**	–	**586,888,109**
Derivative liability	–	**2,048,681,561**	**2,048,681,561**
Bond payable	–	**2,893,079,676**	**2,893,079,676**
Lease liabilities	**707,225,934**	**1,523,752,146**	**2,230,978,080**
Other noncurrent liabilities	–	**39,787,939**	**39,787,939**
	₱4,292,167,948	**₱7,058,356,877**	**₱11,350,524,825**

	2018		
	Due in less than one year	Due in more than one year	Total
Accounts payable and accrued expenses			
Trade payable	₱1,353,819,506	₱–	₱1,353,819,506
Accruals	894,038,261	–	894,038,261
Others	31,180,381	–	31,180,381
Due to related parties	93,992,129	–	93,992,129
Notes payable	297,000,000	532,500,000	829,500,000
Transmissions liability	543,895,836	–	543,895,836
Derivative liability	–	1,406,175,427	1,406,175,427
Bond payable	–	3,535,585,810	3,535,585,810
Lease liabilities	26,943,343	65,479,002	92,422,345
Other noncurrent liabilities	–	79,986,182	79,986,182
	₱3,240,869,456	₱5,619,726,421	₱8,860,595,877

Notes payable and lease liabilities include future interest payments.

Payable to government agencies, including accrued taxes and taxes payable amounting to ₱457.24 million and ₱433.81 million as at December 31, 2019 and 2018, respectively, are considered nonfinancial liabilities (see Note 13).

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

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

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

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

Information on the Group's foreign currency-denominated monetary assets and liability recorded under 'cash and cash equivalents', 'trade and other receivables' and 'bond payable', respectively, assets and liabilities related to convertible instrument in the consolidated statements of financial position and their Philippine Peso equivalents follow:

	2019	
	Foreign currency	**Peso equivalent**
Assets:		
Euro	**3,059,119**	**₱171,096,526**
Hongkong Dollar	**18,234,261**	**118,340,354**
US Dollars	**1,770,000**	**89,809,800**
Japanese yen	**18,297,353**	**8,416,782**
Liabilities:		
US Dollars	**(24,737,217)**	**(1,255,166,391)**

The translation exchange rates used were ₱55.93 to EUR 1, ₱6.49 to HKD 1, ₱50.74 to USD 1, ₱0.46 to JPY 1 in 2019.

	2018	
	Foreign currency	Peso equivalent
Assets:		
Euro	2,960,871	₱177,119,303
Hongkong Dollars	16,166,668	108,640,009
US Dollars	4,895,355	257,544,627
Japanese yen	13,106,738	6,029,099
Canadian dollar	872	34,584
Liabilities:		
US Dollars	(21,213,491)	(1,118,460,095)

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

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

Reasonably possible change in foreign exchange rate for every two units of Philippine Peso	Increase (decrease) in income before tax 2019	2018
₱2	**(₱33,247,032)**	(₱31,834,026)
(2)	**33,247,032**	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 foreign currency exchange rates.

The Group recognized ₱35.77 million, ₱163.27 million and ₱91.98 million foreign exchange gains - net, for the years ended December 31, 2019, 2018 and 2017, respectively, arising from settled transactions and translation of the Group's cash and cash equivalents, trade receivables and payables, advances to affiliates - net and bond payable (see Note 20).

Credit risk

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

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

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

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

As of December 31, 2019 and 2018, the credit quality per class of financial assets is as follows:

	2019				
	Neither Past Due nor Impaired			**Past due and/or Individually Impaired**	**Total**
	High Grade	**Standard**	**Substandard Grade**		
Cash in banks and cash equivalents	**₱4,077,578,919**	**₱–**	**₱–**	**₱–**	**₱4,077,578,919**
Trade and other receivables	**1,468,306,583**	**–**	**–**	**201,046,273**	**1,669,352,856**
Due from related parties	**1,103,805,387**	**–**	**–**	**–**	**1,103,805,387**
	₱6,649,690,889	**₱–**	**₱–**	**₱201,046,273**	**₱6,850,737,162**

	2018				
	Neither Past Due nor Impaired			Past due and/or Individually Impaired	Total
	High Grade	Standard	Substandard Grade		
Cash in banks and cash equivalents	₱3,778,732,801	₱–	₱–	₱–	₱3,778,732,801
Trade and other receivables	1,499,339,604	–	–	256,261,562	1,755,601,166
Due from related parties	557,958,095	–	–	–	557,958,095
	₱5,836,030,500	₱–	₱–	₱256,261,562	₱6,092,292,062

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

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

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

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

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

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

December 31, 2019	GDP growth rate	Associated ECL on trade receivables
Base case (33%)	6.90%	₱57,576,323
Upside case (33%)	9.90%	57,576,324
Downside case (33%)	3.90%	57,576,323
		₱172,728,970

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

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

	2019				
	Past Due but not Impaired			**Impaired Financial**	
	1 to 30 days	**31 to 90 days**	**Over 90 days**	**Assets**	**Total**
Trade and other receivables	**₱17,186,796**	**₱11,042,249**	**₱87,500,758**	**₱172,728,970**	**₱201,046,273**

	2018				
	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	₱147,238,593	₱256,261,562

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

Capital Management

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

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

The capital that the Group manages is equal to the total equity as shown in the consolidated statements of financial position at December 31, 2019 and 2018 amounting to ₱3,268.11 million and ₱3,277.97 million, respectively.

25. Fair Values and Offsetting Arrangements

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

The carrying amounts of cash and cash equivalents, trade and other receivables, due from/to related parties, short-term cash investments, accounts and other payables, dividends payable, transmissions liability, and the current portion of notes payable and lease liabilities approximate their fair value because these financial instruments are relatively short-term in nature.

The fair value of financial assets at FVOCI is the current closing price while the financial asset at FVPL is based on the published net asset value per unit as of reporting date.

The estimated fair value of long-term portion of notes payable is based on the discounted value of future cash flow using applicable rates ranging from 4.00% to 7.83% in 2019 and 5.10% to 6.97% in 2018.

The fair value of the long-term portion of lease liabilities is based on the discounted value of future cash flow using applicable interest rates ranging from 3.00% to 3.55% in 2019 and 5.10% to 6.97% in 2018.

The estimated fair value of other noncurrent liabilities is based on the discounted value of future cash flow using applicable rate of 3.00% to 3.55% in 2019 and 5.10% to 6.97% in 2018.

The estimated fair value of derivative liability as at December 31, 2019 and 2018 is based on an indirect method of valuing multiple embedded derivatives. This valuation technique using binomial pyramid model uses stock prices and stock price volatility. This valuation method compares the fair value of the option-free instrument against the fair value of the hybrid convertible instrument. The difference of the fair values is assigned as the value of the embedded derivatives.

The significant unobservable input in the fair value is the stock price volatility of 15.97% in 2019. A 5% increase (5% decrease) in the stock price volatility would not materially affect the fair value of the derivative liability.

The plain bond is determined by discounting the cash flows, which is simply the principal at maturity, using discount rate of 14.10%. The discount rate is composed of the matched to maturity risk free rate and the option adjusted spread (OAS) of 12%.

The estimated fair value of other noncurrent liabilities is based on the discounted value of future cash flow using applicable rate of 5.10% to 6.94% in 2019 and 5.10% to 6.94% in 2018.

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

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

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

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

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

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

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

	2019				
			Fair value measurements using		
	Carrying values	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
FVOCI	**₱286,738,309**	**₱286,738,309**	**₱286,738,309**	**₱–**	**₱–**
FVPL	**15,629,263**	**15,629,263**	**–**	**15,629,263**	**–**
Liability measured at fair value					
Derivative liability	**2,048,681,561**	**2,048,681,561**	**–**	**–**	**2,048,681,561**
Liabilities for which fair value are disclosed					
Bond payable	**1,247,021,058**	**1,350,898,104**	**–**	**–**	**1,350,898,104**
Long-term notes payable	**553,055,555**	**560,121,284**	**–**	**–**	**560,121,284**
Noncurrent lease liabilities	**1,356,731,239**	**1,352,153,074**	**–**	**–**	**1,352,153,074**
Other noncurrent liabilities	**39,787,939**	**44,440,039**	**–**	**–**	**44,440,039**

	2018				
			Fair value measurements using		
	Carrying values	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
FVOCI	₱337,453,928	₱337,453,928	₱337,453,928	₱–	₱–
FVPL	131,294,744	131,294,744	–	131,294,744	–
Liability measured at fair value					
Derivative liability	1,406,175,427	1,406,175,427	–	–	1,406,175,427
Liabilities for which fair value are disclosed					
Bond payable	1,108,417,074	1,104,307,001	–	–	1,104,307,001
Long-term notes payable	532,500,000	508,026,630	–	–	508,026,630
Noncurrent lease liabilities	119,797,742	119,797,742	–	–	119,797,742
Other noncurrent liabilities	79,986,182	71,378,284	–	–	71,378,284

For the years ended December 31, 2019 and 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.

Offsetting of Financial Instruments

The following table represents the recognized financial instruments that are offset as of December 31, 2019 and shows in the 'Net' column the net impact on the Group's consolidated statements of financial position as a result of the offsetting rights.

	December 31, 2019		
Dividend Offsetting	Gross Amount	Offsetting	Net Amount
Due from related parties	₱1,597,098,962	₱–	₱1,597,098,962
Dividends payable	–	(493,293,575)	(493,293,575)
	₱1,597,098,962	(₱493,293,575)	₱1,103,805,387
Royalty Offsetting			
Loans receivable	₱94,071,600	₱–	₱94,071,600
Interest receivable (1)	529,517	–	529,517
Royalty payable (2)	–	(1,585,750)	(1,585,750)
	₱94,601,117	(1,585,750)	₱93,015,367

(1) included in other receivable in trade and other receivable
(2) included in others in accounts and other payables

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

The Parent Company's royalty payable has been offset to its loan receivable and interest receivable (See Note 12).

26. Segment Reporting

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

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

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

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

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

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

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

	For the year ended December 31, 2019		
Segments	**Logistics**	**Money transfer services**	**Total**
Type of Customer			
Retail	**₱9,944,616,061**	**₱925,774,882**	**₱10,870,390,943**
Corporate	**4,290,142,425**	**66,519,378**	**4,356,661,803**
Total revenue from contracts with customer	**₱14,234,758,486**	**₱992,294,260**	**₱15,227,052,746**
Geographic Markets			
Domestic	**₱10,272,693,597**	**₱659,080,286**	**10,931,773,883**
Overseas	**3,962,064,889**	**333,213,974**	**4,295,278,863**
Total revenue from contracts with customer	**₱14,234,758,486**	**₱992,294,260**	**₱15,227,052,746**

	For the year ended December 31, 2018		
Segments	Logistics	Money transfer services	Total
Type of Customer			
Retail	₱7,186,362,654	₱859,566,586	₱8,045,929,240
Corporate	4,192,458,708	103,140,966	4,295,599,674
Total revenue from contracts with customer	₱11,378,821,362	₱962,707,552	₱12,341,528,914
Geographic Markets			
Domestic	₱9,302,781,460	₱799,485,028	₱10,102,266,488
Overseas	2,076,039,902	163,222,524	2,239,262,426
Total revenue from contracts with customer	₱11,378,821,362	₱962,707,552	₱12,341,528,914

	For the year ended December 31, 2017		
Segments	Logistics	Money transfer services	Total
Type of Customer			
Retail	₱5,751,655,749	₱995,471,285	₱6,747,127,034
Corporate	3,184,782,260	43,475,605	3,228,257,865
Total revenue from contracts with customer	₱8,936,438,009	₱1,038,946,890	₱9,975,384,899
Geographic Markets			
Domestic	₱7,479,822,046	₱907,122,704	₱8,386,944,750
Overseas	1,456,615,963	131,824,186	1,588,440,149
Total revenue from contracts with customer	₱8,936,438,009	₱1,038,946,890	₱9,975,384,899

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

The revenue of the Group consists mainly of sales to external customers. Revenue arising from service fees charged to affiliates amounted to ₱231.95 million, ₱633.30 million and ₱658.03 million in 2019, 2018 and 2017, respectively.

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

27. Note to Consolidated Statement of Cash Flows

In 2019, the Group has the following non-cash transactions under;

Investing Activities

a.) Unpaid acquisition of property and equipment amounting to ₱653.54 million.

b.) Offsetting of due from LBCDC against dividend payable amounting to ₱493.29 million recorded under 'Due from related parties' (see Note 18).

c.) Offsetting of loans receivable and interest receivable against royalty fee recorded under 'accounts and other payables' amounting to ₱1.52 million and ₱.06 million, respectively (Note 12).

d.) Increase in receivable from LBCDC amounting to ₱1,018.66 million arising from the disposal of QUADX, Inc. in which ₱186.02 million pertains to the selling price of QUADX, Inc. and ₱832.64 million pertains to the assigned receivables (see Note 18).

e.) Decrease in due from related parties amounting to ₱78.73 million due to application of payment for advances for future investment in shares.

Financing Activities

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

			Non-cash activities						
	December 31, 2018	Cash Flows	Leasing arrangements	Interest	Offsetting of dividends	Foreign exchange movement	Fair value changes	Effect of business combination and disposal of a subsidiary (Note 4)	Dividend declaration	December 31, 2019
Notes payable	₱829,500,000	₱100,222,222	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱929,722,222
Lease and other non-current liabilities	220,055,216	(688,810,597)	2,411,628,628	–	–	–	–	98,660,343	–	2,041,533,590
Convertible bond (bond and derivative liability)	2,514,592,501	–	–	183,923,419	–	(45,319,435)	642,506,134	–	–	3,295,702,619
Dividends payable	285,173,094	(133,570,637)	–	–	(493,293,575)	–	–	–	356,466,368	14,775,250
Interest payable	1,570,160	(211,548,516)	–	213,009,591	–	–	–	–	–	3,031,235
Due to related parties	93,992,129	43,215,678	–	–	–	–	–	(124,530,590)	20,934,148	33,611,365
Total liabilities from financing activities	₱3,944,883,100	(₱890,491,850)	₱2,411,628,628	₱396,933,010	(₱493,293,575)	(₱45,319,435)	₱642,506,134	(₱25,870,247)	₱377,400,516	₱6,318,376,281

Relates to fair value changes of derivative liability

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

Investing Activities

f.) Fair value adjustment of intangible assets amounting to ₱81.25 million arising from the result of business combination

g.) Unpaid acquisitions of property and equipment and intangible assets amounting to ₱151.17 million and ₱12.66 million, respectively

h.) Acquisition of investments in QUADX Inc. through the conversion of assigned advances to equity recorded under 'Due from related parties' amounting to ₱186.02 million

Financing Activities

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

			Non-cash activities						
	December 31, 2017	Cash Flows	Leasing arrangements	Interest	Dividends declared	Foreign exchange movement	Fair value changes	Effect of business combination (Note 4)	December 31, 2018
Notes payable	₱1,041,300,000	(₱211,800,000)	₱–	₱–	₱–	₱–	₱–	₱–	₱829,500,000
Lease and other non-current liabilities	236,050,436	(69,751,123)	26,569,188	–	–	–	–	6,915,423	199,783,924
Convertible bond (bond and derivative liability)	2,756,558,538	–	–	161,654,374	–	50,577,641	(454,198,052)*	–	2,514,592,501
Dividends payable	–	–	–	–	285,173,094	–	–	–	285,173,094
Interest payable	1,655,549	(62,327,013)	–	62,241,624	–	–	–	–	1,570,160
Due to related parties	2,542,585	(128,178,571)	–	–	–	–	–	219,628,115	93,992,129
Total liabilities from financing activities	₱4,038,107,108	(₱472,056,707)	₱26,569,188	₱223,895,998	₱285,173,094	₱50,577,641	(₱454,198,052)	₱226,543,538	₱3,924,611,808

Relates to fair value changes of derivative liability

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

Investing Activities

a.) Unpaid acquisitions of property and equipment amounting to ₱60.75 million during the year.

b.) Offsetting of due from LBCDC against dividends payable amounting to ₱265.31 million recorded under 'Due from related parties'.

Financing Activities

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

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

Relates to fair value changes of derivative liability

28. 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:

	2019	2018	2017
Net income attributable to equity holder of the Parent Company	**₱494,574,503**	₱1,359,766,592	₱703,876,073
Add loss (profit) impact of assumed conversion of bonds payable	**794,705,949**	(257,139,329)	–
	₱1,289,280,452	₱1,102,627,263	₱703,876,073
Weighted average number of common shares outstanding	**1,425,865,471**	1,425,865,471	1,425,865,471
Dilutive shares arising from convertible debt	**195,169,231**	202,784,615	–
Adjusted weighted average number of common shares for diluted EPS	**1,621,034,702**	1,628,650,086	1,425,865,471
Basic EPS	**₱0.35**	₱0.95	₱0.49
Diluted EPS	**₱0.35**	₱0.68	₱0.49

In 2019 and 2017, the Parent Company did not consider the effect of the assumed conversion of convertible debt since these are anti-dilutive. As such, the diluted EPS is the same as the basic EPS.

29. 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 and appointed Philippine Deposit Insurance Company (PDIC) as the Bank's official receiver and liquidator.

On December 8, 2011, the Bank, thru PDIC, demanded LBC Holdings USA Corporation (LBC US) to pay its alleged outstanding obligations amounting to approximately ₱1.00 billion, a claim that LBC US has denied for being baseless and unfounded.

In prior years, the Group has outstanding advances of ₱295.00 million to the Bank, an entity under common control of LBCDC. In 2011, upon the Bank's closure and receivership, management assessed that these advances are not recoverable. Accordingly, the receivables amounting to ₱295.00 million were written-off.

On March 17 and 29, 2014, PDIC's external counsel sent demand/collection letters to LBC Express, Inc. (LBCE), for collection of the alleged amounts totaling ₱1.79 billion. It also sent demand/collection letter to LBC Systems, Inc. [Formerly LBC Mundial Inc.] [Formerly LBC Mabuhay USA Corporation], demanding the payment of amounts aggregating to ₱911.59 million on March 24 and 29, 2014, July 29, 2014, June 17, 2015 and June 26, 2015.

On November 2, 2015, the Bank, represented by the PDIC, filed a case against LBCE and LBCDC, together with other respondents, before the Makati City Regional Trial Court (RTC) for a total collection of ₱1.82 billion 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. PDIC justified the increase in the amount from the demand letters due to their discovery that the supposed payments of LBCE were allegedly unsupported by actual cash inflow to the Bank.

On December 28, 2015, summons and 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.

On January 12, 2016, LBCE and LBCDC, together with other defendants, filed motions to dismiss the Complaint which was denied by the RTC, which denial was affirmed by the Court of Appeals (CA). LBCE and LBCDC filed an appeal to the Supreme Court on September 2, 2019 assailing the denial of the motions to dismiss. The Supreme Court has not resolved the appeal as of today.

On January 21, 2016, LBCE and LBCDC filed its Urgent Motion to Approve the Counterbond and Discharge the Writ of Attachment which was resolved in favor of LBCE and LBCDC. 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.

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

On or about September 3, 2018, PDIC filed a motion for issuance of alias summons to five individual defendants, who were former officers and directors of the 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. Since PDIC was still trying to serve summons on the five individual defendants and thus, for orderly proceedings, LBCE and other defendants filed motions to defer pre-trial until the RTC had acquired jurisdiction over the remaining defendants.

On January 18, 2019, PDIC filed its Pre-Trial Brief. LBCE and other defendants, on the other hand, filed its own Pre-Trial Brief without prejudice to their pending motions to defer Pre-Trial.

On May 2, 2019, at the pre-trial hearing, the judge released his Order, whereby, among others, he granted the motion to defer pre-trial proceedings in order to have an orderly and organized pre-trial and deferred pre-trial hearing until the other defendants have received summons and filed their answers. In the meantime, the parties have proceeded to pre-mark their respective documentary exhibits in preparation for eventual pre-trial. Four of the five individual defendants have already received summons and have filed motions to dismiss the case, all of which are pending resolution.

While waiting for the other defendant to file their respective answers, PDIC, LBCE, LBCDC and the other defendants have proceeded to pre-mark their respective documentary exhibits in preparation for eventual pre-trial.

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.

30. Reclassification

Contracts with customers require the Group to compensate its customers in the form of penalties in the event of product damage, product loss and/or late return and deliveries. The Group previously accounted for these penalties as an operating expense under Claims and losses. Subsequently, management has assessed that these penalties are considered as a variable consideration being directly linked to the performance of the Group's service obligation as stipulated in the contracts with customers. Accordingly, the penalties form part of the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised services to its customers, which shall be accounted as a reduction in service revenue.

For the twelve months ended December 31, 2019, 2018 and 2017, the Group recognized variable consideration amounting to ₱145.27 million and 172.65 million, and ₱44.73 respectively, presented as a reduction in service revenue, from the previous classification as part of operating expenses.

31. Subsequent Events

Purchase of shares of Terra Barbaza
On January 30, 2020, LBCE purchased 20,001,250 Common Shares in TBAI from its shareholder amounting to ₱27.21 million representing 25.00% ownership. Currently, TBAI is in the process of increasing its authorized capital stock. Once the application for the increase in authorized capital stock is approved by the SEC, 20,000,000 of the Common Shares purchased by LBCE will be converted to 20,000,000 non-voting Preferred A Shares. Subsequently, the remaining 1,250 Common Shares, will represent 24.86% of the total outstanding Common Shares.

Loan Availment from banks for capital expenditures
On February 10, 2020, LBCE availed a 5-year interest-bearing loan amounting to ₱641.82 million to finance the 70% unpaid balance on the acquisition of land. Subsequently on April 13, 2020, LBCE availed a 3-year interest-bearing loan amounting to ₱250.00 million to finance other capital expenditures.

Loan Availment from a bank for working capital requirements
On May 4, 2020, LBCE availed a 90-day interest-bearing loan amounting to ₱200.00 million to finance its working capital requirements.

Impact of the recent Coronavirus situation
To contain the COVID-19 pandemic, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum to impose stringent social distancing measures in the National Capital Region. Consequently, on March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months, and placed Luzon under Enhanced Community Quarantine (ECQ) until April 14, 2020; this was later extended to May 15, 2020 and was further extended to May 31, 2020. Under the ECQ, strict home quarantine was implemented in Luzon, and establishments providing basic necessities were allowed operational, likewise restricting land, air and sea travel. However, the movement of cargo within, to and from Luzon was unhampered amid the ECQ, subject to the guidelines from the Inter-Agency Task Force (IATF).

In order to remain operational during the pandemic period, the Group activated its Business Continuity Plans in order to continue to fulfill services much needed during this crisis period. The Group's delivery lead times have been extended due to security and travel restrictions. Likewise, the

Group has implemented contactless delivery and other safety and security measures within operations, and maintains stringent measures and protocols set by the government including social distancing and regular sanitation of branches, hubs and warehouses, and other facilities, including all cargo. The Group has also adapted a skeletal manpower model, in its office, delivery and courier operations, and has suspended operations of selected branches in various locations, until further notice. All frontliners are ensured of their safety and well-being, and are provided with safety and protection gear, point-to-point shuttles for easier commute, free meals, medical assistance and allowances, among others. Rapid Testing is also underway, fulfilling the Group's commitment to health and safety, not just for its employees, but also, in turn, for its customers.

The Group considers the events surrounding the Covid-19 pandemic as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the pandemic could have a material impact on the Group's 2020 financial results, and periods thereafter. Considering the evolving nature of this pandemic, the Group cannot determine at this time the impact to its financial position, performance and cash flows. The Group continues to monitor and assess the situation, and its risks, and adapts capacities to mitigate risks. The Group is resolved to stand firm on its commitment to being an essential public service.

SGV
Building a better working world

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

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

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

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LBC Express Holdings, Inc. and its Subsidiaries (the Group) as at and for the years ended December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, included in this Form 17-A, and have issued our report thereon dated May 28, 2020. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and are not part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia

Cyril Jasmin B. Valencia
Partner
CPA Certificate No. 90787
SEC Accreditation No. 1737-A (Group A),
January 24, 2019, valid until January 23, 2022
Tax Identification No. 162-410-623
BIR Accreditation No. 08-001998-74-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125312, January 7, 2020, Makati City

May 28, 2020

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

SUPPLEMENTARY SCHEDULES

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE A: FINANCIAL ASSETS
DECEMBER 31, 2019

Name of issuing entity and association of each issue	Number of shares	Amount shown in the balance sheet	Income received and accrued	Value Based on Market Quotation and End of Reporting Period
Financial assets at fair value through other comprehensive income - Araneta Properties, Inc.	195,060,074	₱286,738,308	₱–	N/A
Financial assets at fair value through profit or loss	–	15,629,263	–	
		302,367,571	–	N/A
Financial assets at amortized costs:				
Cash in bank and cash equivalents	–	4,077,578,919	43,036,423	N/A
Short-term investment		128,645,081	–	N/A
Restricted cash in bank		31,342,587	1,832,017	N/A
Trade and other receivables	–	1,496,623,886	–	N/A
Due from related parties	–	1,103,805,387	–	N/A
Notes receivable (noncurrent)	–	26,814,836	1,209,117	N/A
Loans receivable (current and noncurrent)	–	89,816,880	529,517	N/A
	–	6,954,627,576	46,607,074	
		₱7,256,995,147	₱46,607,074	

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

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

DECEMBER 31, 2019

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at end of period
Fernando G. Araneta, *Chief Strategy Officer*	₱9,284,395	₱–	₱–	₱–	₱9,284,395	₱–	₱9,284,395
Miguel Angel A. Camahort, *Chief Executive Officer*	–	724,955	–	–	724,955	–	724,955
Other beneficial owners	–	28,424,682	–	–	28,424,682	–	28,424,682

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

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

DECEMBER 31, 2019

Name of Subsidiaries		Balance at beginning of period	Additions	Amounts collected/paid	Sale of Subsidiary	Current	Not current	Balance at end of period
LBC Express, Inc.	PARENT	(₱1,449,705,535)	(₱3,862,378,998)	₱3,433,363,340	₱–	(₱1,878,721,193)	₱–	(₱1,878,721,193)
LBC Express, Inc. - MM	A201	88,859,943	279,940,275	(272,337,634)	–	96,462,584	–	96,462,584
LBC Express, Inc. - SCC	A202	2,034,879	79,983,995	(65,855,023)	–	16,163,851	–	16,163,851
LBC Express, Inc. - NEMM	A203	23,557,736	205,923,171	(208,333,932)	–	21,146,975	–	21,146,975
LBC Express, Inc. - NWMM	A204	33,029,647	132,535,984	(135,951,863)	–	29,613,768	–	29,613,768
LBC Express, Inc. - EMM	A205	20,777,434	110,454,597	(107,535,792)	–	23,696,239	–	23,696,239
LBC Express, Inc. - SMM	A206	15,668,254	134,299,219	(133,831,396)	–	16,136,077	–	16,136,077
LBC Express, Inc. - CMM	A207	18,055,227	161,888,767	(163,679,985)	–	16,264,009	–	16,264,009
LBC Express, Inc. - SL	A301	55,450,649	255,588,529	(249,627,003)	–	61,412,175	–	61,412,175
LBC Express, Inc. - SEL	A302	40,325,375	160,663,193	(156,921,480)	–	44,067,088	–	44,067,088
LBC Express, Inc. - CL	A303	28,468,803	201,344,662	(194,010,725)	–	35,802,740	–	35,802,740
LBC Express, Inc. - NL	A304	38,234,559	204,839,663	(208,677,386)	–	34,396,836	–	34,396,836
LBC Express, Inc. - VIS	A401	40,255,138	254,927,989	(234,825,117)	–	60,358,010	–	60,358,010
LBC Express, Inc. - WVIS	A402	30,250,181	189,698,832	(181,520,298)	–	38,428,715	–	38,428,715
LBC Express, Inc. - MIN	A501	47,577,642	219,894,401	(220,704,856)	–	46,767,187	–	46,767,187
LBC Express, Inc. - SEM	A502	35,824,456	133,771,120	(131,969,454)	–	37,626,122	–	37,626,122
LBC Express, Inc. - SMCC	A503	9,668,993	35,674,654	(31,125,611)	–	14,218,036	–	14,218,036
LBC Express, Inc. - ESI	A901	(3,707,949)	7,550,721	(8,860,638)	–	(5,017,866)	–	(5,017,866)
LBC Express, Inc. - SCS	A902	(5,505,694)	194,096,341	(149,666,292)	–	38,924,355	–	38,924,355
LBC Systems, Inc.	A903	(57,956,971)	14,776,405	(12,303,808)	–	(55,484,374)	–	(55,484,374)
LBC Express WLL	Kuwait	11,958,091	(55,383,002)	64,374,836	–	20,949,925	–	20,949,925
LBC Express Bahrain WLL	Bahrain	(7,583,930)	(8,363,367)	(4,971,850)	–	(20,919,147)	–	(20,919,147)
LBC Express LLC	Qatar	(74,726,249)	(20,352,213)	24,070,764	–	(71,007,698)	–	(71,007,698)
LBC Mabuhay Saipan, Inc.	Saipan	(7,964,299)	(12,055,050)	(28,252,328)	–	(48,271,677)	–	(48,271,677)
LBC Aircargo (S) Pte. Ltd	Taiwan	(144,696,541)	(3,733,325)	5,012,985	–	(143,416,881)	–	(143,416,881)
LBC Money Transfer PTY Limited	Australia	(65,411,340)	(11,366,844)	6,335,038	–	(70,443,146)	–	(70,443,146)
LBC Airfreight (S) Pte. Ltd	Singapore	90,555,342	(30,526,370)	45,117,519	–	105,146,491	–	105,146,491
LBC Australia PTY Limited	Australia	16,426,181	(36,068,296)	29,755,227	–	10,113,112	–	10,113,112
LBC Mabuhay (Malaysia) SDN BHD	Malaysia	9,936,942	(13,175,954)	8,642,960	–	5,403,948	–	5,403,948
LBC Mabuhay (B) SDN BHD	Brunei	24,897,408	(3,860,773)	1,204,272	–	22,240,907	–	22,240,907
LBC Mabuhay Remittance SDN BHD	Brunei	16,277,820	(8,176,284)	(3,068,501)	–	5,033,035	–	5,033,035
LBC Mundial Corporation	United States of America	–	(277,243,016)	270,605,226	–	(6,637,790)	–	(6,637,790)
LBC Mabuhay North America Corporation	United States of America	–	62,512,612	(62,512,612)	–	–	–	–
QUADX Inc.	Philippines	(501,127,188)	–	–	501,127,188	–	–	–
QUADX Pte Ltd.	Singapore	(12,379,165)	–	26,049,259	–	13,670,094	–	13,670,094
Mermaid Co., Ltd.	Japan	–	–	–	–	(5,060,886)	–	(5,060,886)
		(₱1,632,674,161)	(₱1,302,318,362)	₱947,987,842	₱501,127,188	(₱1,490,938,379)	₱–	(₱1,490,938,379)

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE D: LONG TERM DEBT

DECEMBER 31, 2019

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current liabilities" in related balance sheet	Amount shown under caption "Noncurrent liabilities" in related balance sheet
Notes payable	₱929,722,222	₱376,666,667	₱553,055,555
Lease liabilities	2,001,745,651	645,014,412	1,356,731,239
Bond payable	1,247,021,058	–	1,247,021,058
Derivative liability	2,048,681,561	–	2,048,681,561
Other liabilities	80,339,394	40,551,455	39,787,939
	₱6,307,509,886	₱1,062,232,534	₱5,245,277,352

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE E: INDEBTEDNESS TO RELATED PARTIES

DECEMBER 31, 2019

Name of related party	Balance at beginning of period	Balance at end of period
Fernando G. Araneta, *Chief Strategy Officer*	₱75,645,005	₱43,741
LBC Insurance Agency, Inc.	–	13,057,902
Blue Eagle and LBC Services Pte. Ltd.	13,592,157	17,508,283
Others	4,754,967	3,001,439
	₱93,992,129	₱33,611,365

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE F: GUARANTEES OF SECURITIES OF OTHER ISSUERS

DECEMBER 31, 2019

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

NOT APPLICABLE

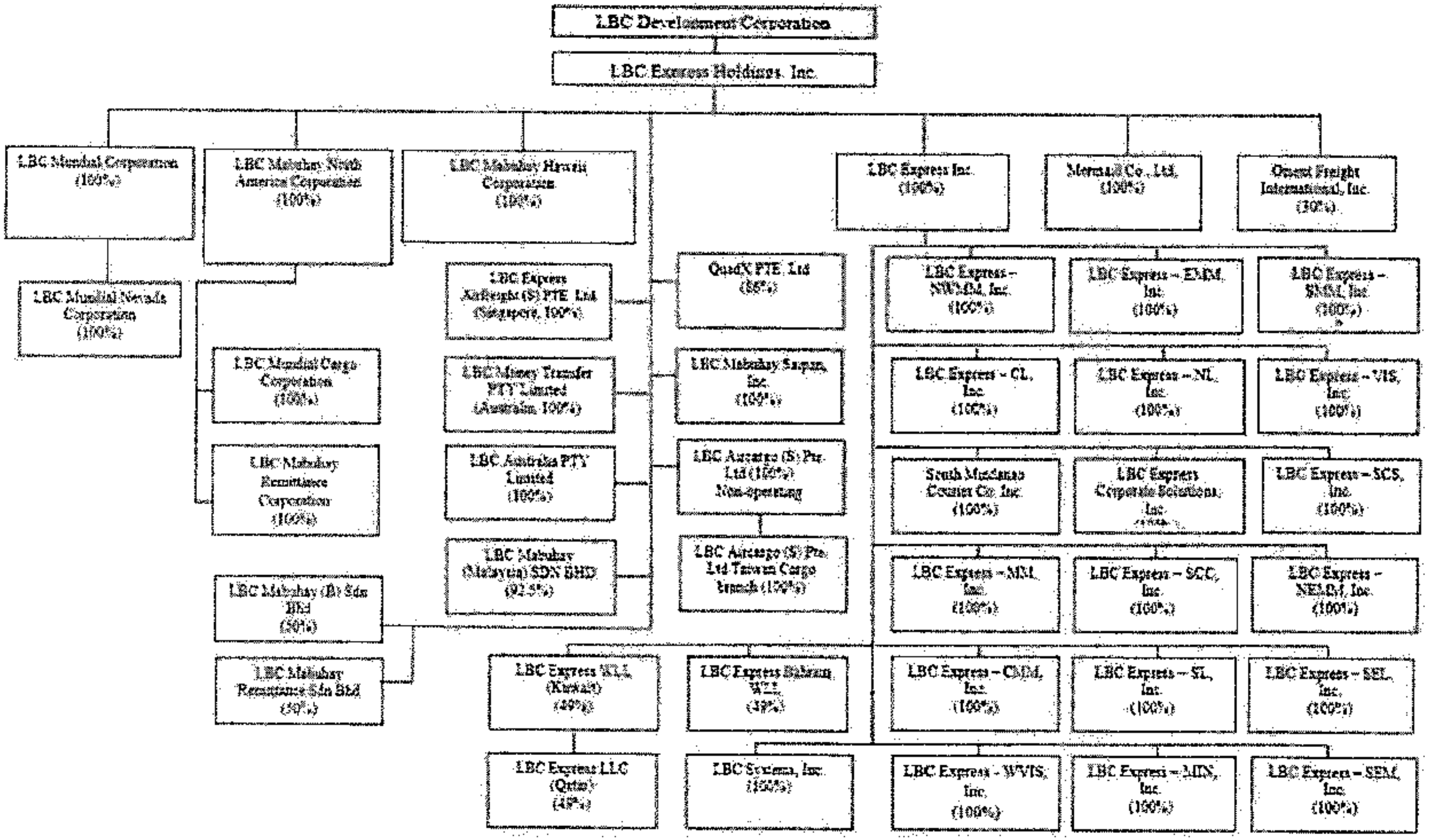
LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE G: CAPITAL STOCK

DECEMBER 31, 2019

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

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
DECEMBER 31, 2019



RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
As of DECEMBER 31, 2019

LBC EXPRESS HOLDINGS, INC.
LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila

Unappropriated Retained Earnings, beginning		**₱1,436,086,955**
Adjustments:		
Fair value adjustment (M2M gains)	(454,198,052)	
Unrealized foreign exchange gain - net (after tax, except those attributable to cash and cash equivalents)	(9,582,222)	**(463,780,274)**
Unappropriated Retained Earnings, as adjusted to available for dividend distribution as at January 1, 2019		**972,306,681**
Less: Net Loss actually incurred during the period		
Net loss during the period closed to Retained Earnings	**85,512,042**	
Less: Non-actual / unrealized income net		
Equity in net income of associate/joint venture	–	
Unrealized foreign exchange gain - net (after tax, except those attributable to cash and cash equivalents)	29,241,287	
Unrealized actuarial gain		
Fair value adjustment (M2M gains)	–	
Fair value adjustment of investment property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP gain	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	–	
Subtotal	29,241,287	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS / GAAP – loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
Net loss actually incurred during the period		**114,753,329**
Add (Less):		
Dividend declarations during the period	(356,466,368)	
Appropriations of Retained Earnings during the period	–	
Reversals of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	–	
Subtotal		**(356,466,368)**
Total Retained Earnings, end of the year available for dividend		**₱501,086,984**

SGV
Building a better working world

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

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LBC Express Holdings, Inc. and its Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated May 28, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia

Cyril Jasmin B. Valencia
Partner
CPA Certificate No. 90787
SEC Accreditation No. 1737-A (Group A),
January 24, 2019, valid until January 23, 2022
Tax Identification No. 162-410-623
BIR Accreditation No. 08-001998-74-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125312, January 7, 2020, Makati City

May 28, 2020

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
FOR THE YEAR ENDED DECEMBER 31, 2019

Financial Soundness Indicators

Below are the financial ratios that are relevant to the Group as of December 31, 2019 and 2018:

Financial ratios	Formula	Current Year		Prior Year	
Current ratio[1]	Total Current Assets	7,917,491,010	1.83	7,116,343,887	1.71
	Total Current Liabilities	4,315,773,611		4,173,066,721	
Acid Test Ratio[1]	Total Current Assets - Prepayments and other current assets	7,075,952,457	1.64	6,468,825,752	1.55
	Current Liabilities	4,315,773,611		4,173,066,721	
Solvency Ratio[1]	Net Income After Tax – Non-Cash Expenses	2,756,936,476	0.31	1,840,825,099	0.23
	Total Liabilities	8,934,316,454		8,092,208,290	
Debt-to-equity ratio[1]	Total liabilities	8,934,316,454	2.47	8,092,208,290	2.47
	Stockholder's equity attributable to Parent Company	3,620,773,101		3,277,966,464	
Asset-to-equity ratio[1]	Total Assets	12,555,089,555	3.47	11,370,174,754	3.47
	Stockholder's equity attributable to Parent Company	3,620,773,101		3,277,966,464	
Interest rate coverage ratio[1]	Income before interest and tax expense	1,326,256,485	5.08	2,040,593,244	9.11
	Interest Expense	261,220,553		223,895,998	
Return on equity[1]	Net income attributable to Parent Company	705,013,533	0.19	1,359,766,592	0.41
	Stockholder's equity attributable to Parent Company	3,620,773,101		3,277,966,464	
Debt to total assets ratio[1]	Total liabilities	8,934,316,454	0.71	8,092,208,290	0.71
	Total assets	12,555,089,555		11,370,174,754	
Return on average assets[1]	Net income attributable to Parent Company	705,013,533	0.06	1,359,766,592	0.14
	Average assets	11,962,632,155		9,611,513,378	
Net profit margin[1]	Net income attributable to Parent Company	705,013,533	0.05	1,359,766,592	0.11
	Service fee	15,250,379,654		12,318,202,006	
Book value per share	Stockholder's equity attributable to Parent Company	3,620,773,101	2.54	3,277,966,464	2.30
	Total number of shares	1,425,865,471		1,425,865,471	
Basic earnings per share	Net income attributable to Parent Company	494,574,503	0.35	1,359,766,592	0.95
	Weighted average number of common shares outstanding	1,425,865,471		1,425,865,471	
Diluted earnings per share	Net income attributable to Parent Company after impact of conversion of bonds payable	494,574,503	0.35	1,102,627,263	0.68
	Adjusted weighted average number of common shares for diluted EPS	1,425,865,471		1,628,650,086	

[1]*Excluding impact on adoption of PFRS 16, Leases*

FS FOR FILING WITH SEC

AFTER THE BIR HAS DULY STAMPED "RECEIVED."

COVER SHEET
for
AUDITED FINANCIAL STATEMENT

SEC Registration Number

AS093-005277

COMPANY NAME

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

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

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

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

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
N/A	8-856-8522	N/A

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

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Enrique V. Rey, Jr.	evrey@lbcexpress.com	8-856-8510	N/A

CONTACT PERSON's ADDRESS

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

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

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

LBC Express Holdings, Inc.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of LBC Express Holdings, Inc. (formerly Federal Resources Investment Group) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Signature: ____________________
MIGUEL ANGEL A. CAMAHORT
Chief Executive Officer and President

Signature: ____________________
ENRIQUE V. REY, JR.
Chief Finance Officer

Signed this 28th day of May 2020.

BUREAU OF INTERNAL REVENUE
RECEIVED

JUN 11 2020

SUBSCRIBED AND SWORN to before me in City of Pasay on JUN 09 2020 affiants personally appeared before me and exhibited to me their Tax Identification Nos.

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

Doc. No. 326 :
Page No. 67 :
Book No. IV :
Series of 2020.

NOEL L. DUQUE
NOTARY PUBLIC
Until December 31, 2020 Comm. 19-15
10 E-COM Center MOA, Pasay City
IBP No. 0899287 / 01-02-20 / PPLM
PTR No. 7017975 / 01-02-20 / PC
Roll No. 48387 MCLE VI-022292/4-14-22

BUREAU OF INTERNAL REVENUE
RECEIVED
JUN 11 2020

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Building a better working world

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of LBC Express Holdings, Inc. (the Parent Company), which comprise the parent company statements of financial position as at December 31, 2019 and 2018, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Parent Company to cease to continue as a going concern.

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia
Partner
CPA Certificate No. 90787
SEC Accreditation No. 1737-A (Group A),
January 24, 2019, valid until January 23, 2022
Tax Identification No. 162-410-623
BIR Accreditation No. 08-001998-74-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125312, January 7, 2020, Makati City

May 28, 2020

BUREAU OF INTERNAL REVENUE
RECEIVED
INITIAL:

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

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 17)	**₱1,838,629,131**	₱1,548,935,345
Receivables (Notes 5, 8, 13, 14, 17 and 18)	**718,559,131**	1,582,609,349
Due from related parties (Notes 14, 17 and 18)	**405,424,317**	2,548,124
Investment at fair value through profit or loss (Notes 7, 17 and 18)	**1,046,312**	1,009,832
Prepayments and other current assets (Note 6 and 10)	**18,198,795**	10,040,713
Total Current Assets	**2,981,857,686**	3,145,143,363
Noncurrent Assets		
Investment in an associate (Note 8)	**227,916,452**	227,916,452
Investment in subsidiaries (Note 9)	**2,194,053,032**	1,930,554,146
Deferred tax assets (Note 16)	**533,038**	–
Advances for future investment in shares (Note 14)	**–**	439,823,608
Other noncurrent assets (Note 6 and 10)	**388,350,925**	–
Total Noncurrent Assets	**2,810,853,447**	2,598,294,206
	₱5,792,711,133	₱5,743,437,569
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 11 and 17)	**₱6,795,180**	₱21,235,719
Dividend payable (Notes 14, 17 and 18)	**14,775,250**	285,173,094
Due to related parties (Notes 14, and 17)	**43,741**	266,771
Total Current Liabilities	**21,614,171**	306,675,584
Noncurrent Liabilities		
Derivative liability (Notes 12, 17 and 18)	**2,048,681,561**	1,406,175,427
Bond payable (Notes 12, 17 and 18)	**1,247,021,058**	1,108,417,074
Deferred tax liability (Note 16)	**–**	4,796,731
Total Noncurrent Liabilities	**3,295,702,619**	2,519,389,232
	3,317,316,790	2,826,064,816
Equity		
Capital stock (Note 13)	**1,425,865,471**	1,425,865,471
Additional paid in capital	**55,420,327**	55,420,327
Retained earnings	**994,108,545**	1,436,086,955
Total Equity	**2,475,394,343**	2,917,372,753
	₱5,792,711,133	₱5,743,437,569

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
INCOME		
Dividends (Notes 9 and 14)	**₱723,002,743**	₱1,582,594,366
Service fees (Note 14)	**30,872,114**	29,929,719
Interest (Note 4, 10 and 14)	**43,078,225**	23,164,559
	796,953,082	1,635,688,644
OPERATING EXPENSES (Note 15)	**51,687,177**	48,013,659
OTHER INCOME (EXPENSE)		
Gain (loss) on derivative (Note 12)	**(642,506,134)**	454,198,052
Foreign exchange gain (loss) - net	**(9,571,924)**	91,210,437
Interest expense (Note 12)	**(183,923,419)**	(161,654,374)
Others - net (Note 7)	**101,745**	3,913,821
	(835,899,732)	387,667,936
INCOME (LOSS) BEFORE INCOME TAX	**(90,633,827)**	1,975,342,921
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 16)	**(5,121,785)**	4,825,235
NET INCOME (LOSS)	**(85,512,042)**	1,970,517,686
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱85,512,042)**	₱1,970,517,686

See accompanying Notes to Parent Company Financial Statements.

LBC EXPRESS HOLDINGS, INC.
(Formerly Federal Resources Investment Group Inc.)
PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Share Capital (Note 13)	**Share Premium**	**Retained Earnings** (Note 13)	**Total**
		For the year ended December 31, 2019		
Balances as at January 1, 2019	**₱1,425,865,471**	**₱55,420,327**	**₱1,436,086,955**	**₱2,917,372,753**
Comprehensive income				
Net loss	–	–	**(85,512,042)**	**(85,512,042)**
Other comprehensive income	–	–	–	–
Total comprehensive loss	–	–	**(85,512,042)**	**(85,512,042)**
Dividends declared (Note 14)	–	–	**(356,466,368)**	**(356,466,368)**
Balances as of December 31, 2019	**₱1,425,865,471**	**₱55,420,327**	**₱994,108,545**	**₱2,475,394,343**

	Share Capital (Note 13)	Share Premium	Retained Earnings (Deficit) (Note 13)	Total
		For the year ended December 31, 2018		
Balances as at January 1, 2018	₱1,425,865,471	₱55,420,327	(₱249,257,637)	₱1,232,028,161
Comprehensive income				
Net income	–	–	1,970,517,686	1,970,517,686
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	1,970,517,686	1,970,517,686
Dividends declared (Note 14)	–	–	(285,173,094)	(285,173,094)
Balances as of December 31, 2018	₱1,425,865,471	₱55,420,327	₱1,436,086,955	₱2,917,372,753

See accompanying Notes to Parent Company Financial Statements.

LBC EXPRESS HOLDINGS, INC.
(Formerly Federal Resources Investment Group Inc.)
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**(₱90,633,827)**	₱1,975,342,921
Adjustments for:		
Interest expense (Note 12)	**183,923,419**	161,654,374
Unrealized fair value gain on investment at fair value through profit or loss (Note 7)	**(36,480)**	(9,832)
Interest income (Notes 4, 10 and 14)	**(43,078,225)**	(23,164,559)
Unrealized foreign exchange loss (gain) - net	**9,571,924**	(91,210,437)
Loss (gain) on derivative (Note 12)	**642,506,134**	(454,198,052)
Dividend income (Notes 9 and 14)	**(723,002,743)**	(1,582,594,366)
Operating loss before changes in working capital	**(20,749,798)**	(14,179,951)
Changes in working capital:		
Decrease (increase) in:		
Receivables	**(10,075,318)**	3,666,122
Prepayments and other current assets	**(10,116,086)**	(7,086,359)
Other noncurrent assets	**(390,855,625)**	–
Decrease in accounts and other payables	**(12,854,789)**	(4,187,623)
Net cash used in operations	**(444,651,616)**	(21,787,811)
Interest received	**42,127,088**	23,164,559
Net cash provided by (used in) operating activities	**(402,524,528)**	1,376,748
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from redemption of investment at fair value through profit or loss	**20,000,000**	617,757,777
Advances for future investment in shares (Note 14)	–	(439,823,608)
Dividends received (Notes 18 and 19)	**1,092,480,591**	–
Acquisitions of:		
Investment in an associate (Notes 8 and 19)	–	(218,265,077)
Investment at fair value through profit or loss (Note 7)	**(20,000,000)**	(328,580,000)
Investments in subsidiaries (Note 9)	**(10,206,600)**	(359,861,780)
Increase in due from related parties (Notes 14 and 19)	**(216,960,049)**	(150,081,862)
Net cash provided by (used in) investing activities	**865,313,942**	(878,854,550)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in due to related parties	–	266,771
Dividends paid	**(121,750,437)**	–
Net cash provided by (used in) financing activities	**(121,750,437)**	266,771
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**341,038,977**	(877,211,031)
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(51,345,191)**	141,788,078
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,548,935,345**	2,284,358,298
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,838,629,131**	₱1,548,935,345

See accompanying Notes to Parent Company Financial Statements.

1. Corporate Information

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

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

FED, before it was acquired by LBCH, undertook an Initial Public Offering and on December 21, 2001, FED'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; performance of other allied general services from one place of destination to another within and outside of the Philippines; and foreign exchange trading.

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

The accompanying financial statements of the Parent Company has been approved and authorized for issue by the Parent Company's Board of Directors (BOD) on May 28, 2020.

2. Summary of Significant Accounting Policies

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

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

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

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

Except otherwise stated, the adoption of the new accounting standards, amendments and interpretations which apply for the first time in 2019, do not have an impact on the separate financial statements of the Parent Company.

- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard 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. Lessor accounting under PFRS 16 is substantially unchanged under PAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 did not have an impact for leases where the Parent Company is the lessor.

  This Standard had no significant impact to the Parent Company.

- 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 had no impact on the financial statements of the Parent Company.

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

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

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

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. The amendments had no impact on the financial statements of the Parent Company as it did not have any plan amendments, curtailments, or settlements during the period.

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

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

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

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Parent Company does not have such long-term interests in its associate and/or joint venture, the amendments do not have an impact on its financial statements for the year ended December 31, 2019.

- 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

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Parent Company considered whether it has any uncertain tax positions, particularly those relating to the taxability of certain income and the non-deductibility of certain expenses for income tax reporting purposes. This interpretation did not have any impact to the Parent Company's financial statements because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of its current and deferred taxes.

- *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 have currently no impact to the Parent Company.

  - 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. These amendments have currently no impact to the Parent Company.

  - 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. These amendments have currently no impact to the Parent Company.

Standards Issued But Not Yet Effective

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

Effective beginning on or after January 1, 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 have no impact on the financial statements of the Parent Company.

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

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

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

The amendments will apply on future disclosures of the Parent Company.

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.

PFRS 17 is not applicable to the Parent Company since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

Deferred effectivity

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

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

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

  These amendments are not expected to have any impact to the Parent Company.

<u>Current versus Noncurrent Classification</u>
The Parent Company presents assets and liabilities in the statement of financial position based on current or noncurrent classification.

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

All other assets are classified as noncurrent.

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

All other liabilities are classified as noncurrent.

Deferred income tax asset is classified as noncurrent asset.

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

Fair Value Measurement
The Parent Company measures financial instruments at fair value at each reporting date.

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

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

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

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

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Financial Assets and Financial Liabilities

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 Parent Company's business model for managing them. The Parent Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

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

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

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

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

The Parent Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:
- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit and loss (FVPL)

Accordingly, the Parent Company classifies and measures its unquoted investments at FVPL.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

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

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

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

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

Contractual cash flows assessment
For each financial asset, the Parent Company assesses the contractual terms to identify whether the instrument is consistent with the concept of SPPI.

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

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

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

Financial assets at amortized cost (debt instrument)
This category is the most relevant to the Parent Company. The Parent Company measures its financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

This category generally applies to cash and cash equivalents, dividends receivables, loans receivable and due from related parties.

Financial assets at fair value through OCI (debt instruments)
The Parent Company measures debt instruments at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and;
- Selling and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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

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

As at December 31, 2019, the Parent Company has no debt instruments at FVOCI.

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

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

As at December 31, 2019, the Parent Company has no equity instruments through OCI.

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

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

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

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

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

As at December 31, 2019, the Parent Company measures its unquoted investment at FVPL (see Note 7).

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

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

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

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

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

As of December 31, 2019, the Parent Company has not determined any expected credit loss for its financial assets subject for impairment.

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

Financial Liabilities

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

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

The Parent Company's financial liabilities include accounts and other payables (excluding taxes payable), due to related parties, dividends payable and bond payable.

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

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

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

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

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

The Parent Company's derivative liability is classified under this category (Notes 12, 17 and 18).

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

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

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

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

Determination of Fair Value
The fair value of financial assets and financial liabilities traded in active markets is based on quoted market price at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

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

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

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

Impairment of Nonfinancial Assets
The Parent Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Parent Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in

use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

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

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

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

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

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

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

Investment in Subsidiaries
Investment in subsidiaries is accounted for using the cost method less any accumulated impairment in value, in the financial statements of the Parent Company in accordance with PAS 27. On acquisition date of the investment, the excess of the cost of investment over the investor's share in the net fair

value of the investee's identifiable assets, liabilities and contingent liabilities is included in the carrying amount of the investment and not amortized.

The Parent Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Parent Company controls an investee if and only if the Parent Company has all the following:
- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

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

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

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

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

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in the statement of comprehensive income. The embedded derivatives of the Parent Company pertain to the equity conversion and redemption options components of the issued convertible debt instrument (see Note 12).

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

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

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

Revenue Recognition

Revenue from contract with customers
Revenue is recognized based on a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The requirements of revenue from contract with customers do not have significant impact on the Parent Company's financial statements since its revenue is primarily derived from dividend, interest income and service which are distinct performance obligations with specific transaction price. The existing accounting policies of these revenue streams are already in accordance with PFRS 15.

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

Service fees
Service revenue is recognized when services are rendered.

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

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

Other income
Other income is recognized when earned.

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

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

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

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

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

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and net operating losses carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and NOLCO can be utilized.

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

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

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

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

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

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

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

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

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

3. Significant Accounting Judgments and Estimates

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

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

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

Determining significant influence over an investee company
The Parent Company determined that it exercises significant influence over its associate by considering, among others, its ownership interest (holding 30% of the voting power of the investee), board representation and other contractual terms (see Note 8).

The carrying amount of the investment in associate amounted to ₱227.92 million as of December 31, 2019 and 2018 (see Note 8).

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

Assessing impairment losses on financial assets
The measurement of impairment losses 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.

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 Parent Company's impairment calculations are outputs of statistical models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the impairment models that are considered accounting judgements and estimates include:
- the Parent Company's criteria defining default and for assessing if there has been a significant increase in credit risk;
- the segmentation of financial assets when impairment is assessed on a collective basis;
- development of impairment models, including the various formulas and the choice of inputs;
- determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the impairment models.

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

The Parent Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management based on collection experience and other factors that affect the collectability of the accounts.

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

The factors that the Parent Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

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

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Parent Company is required to make estimates and assumptions that can materially affect the financial statements. Management assessed that other current assets amounting to ₱0.80 million were impaired as at December 31, 2018 (see Note 6).

Estimating fair value of embedded derivatives
The fair value of embedded derivatives, related to the issuance of convertible bond recorded in the statement of financial position as derivative liability, is measured using binomial pyramid model. The inputs to this model are taken from a combination of observable markets and unobservable market data. Changes in inputs about these factors could affect the reported fair value of the embedded derivatives and impact profit or loss (see Note 12).

The carrying value of the derivative liability amounted to ₱2,048.68 million and ₱1,406.18 million as at December 31, 2019 and 2018, respectively.

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

Realization of future tax benefit related to deferred tax assets is dependent on the Parent Company's ability to generate future taxable income during the periods in which they are expected to be recovered. The Parent Company has considered factors in reaching a conclusion as to the amount of deferred tax assets recognized as at December 31, 2019 and 2018. Management believes that the Parent Company will be able to generate future taxable income to allow for the realization of deferred tax assets.

Based on management's assessment, the Parent Company recognized deferred tax assets, net of deferred tax liabilities, amounting to ₱0.53 million and nil as of December 31, 2019 and 2018, respectively (see Note 16).

4. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash in banks	**₱108,222,231**	₱172,066,438
Cash equivalents	**1,730,406,900**	1,376,868,907
	₱1,838,629,131	₱1,548,935,345

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

Cash and cash equivalents earn interest at the prevailing bank deposit rates ranging from 0.25% to 6.00% in 2019 and 2018. Interest income earned from cash and cash equivalents amounted to ₱34.21 million and ₱23.16 million in 2019 and 2018, respectively.

5. Receivables

This account consists of:

	2019	2018
Dividend receivable (Note 14)	**₱708,002,743**	₱1,582,594,366
Accrued interest receivable	**466,087**	–
Other receivable	**10,090,301**	14,983
	₱718,559,131	₱1,582,609,349

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

Accrued interest receivable pertains to the accrual of interest from loans receivable from Transtech Co., Ltd. (see Note 10).

Other receivable pertains to the receivable of the Parent Company from third parties.

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

6. Prepayments and Other Current Assets

This account consists of:

	2019	2018
Loans receivable (Note 10 and 14)	**₱394,440,205**	₱–
Input value-added tax (VAT)	**8,283,594**	5,804,480
Prepaid expenses	**2,445,094**	2,445,094
Creditable withholding taxes (CWTs)	**1,376,558**	800,326
Deferred input VAT	**4,269**	1,789,582
	406,549,720	10,839,482
Less allowance for impairment losses	**–**	798,769
Less noncurrent portion (Note 10 and 14)	**388,350,925**	–
	₱18,198,795	₱10,040,713

Loans receivable pertains to receivable of the Parent Company from Transtech Co., Ltd. and LBCE (see Note 10 and 14).

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

Prepaid expenses pertain to advance payment of service fee for cloud subscription services (see Note 14). The service fee is paid at the beginning of each quarter.

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

Noncurrent portion pertains to the noncurrent portion of the Parents Company's loans receivable to Transtech Co., Ltd. (see Note 10) and LBCE (see Note 14).

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

Investment at FVPL represents the Parent Company's investment in unit investment trust fund.

Movement of the investment at FVPL follow:

	2019	2018
Balance at beginning of period	**₱1,009,832**	₱290,177,777
Additions	**20,000,000**	328,580,000
Redemption	**(20,000,000)**	(617,757,777)
Unrealized fair value gain during the year	**36,480**	9,832
	₱1,046,312	₱1,009,832

In 2019 and 2018, the Parent Company recognized unrealized fair value gain of ₱36,480 and ₱9,832 related to investment at FVPL. This is presented under "Others - net" of "Other income (expenses) in the statements of comprehensive income.

8. Investment in an Associate

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

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

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

The Parent Company incurred costs directly attributable to the investment amounting to ₱9.09 million which was considered as part of cost of investment.

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

The fair values of the financial information of the Parent Company's investment in OFII as at the date of acquisition follows:

Current assets	₱499,483,690
Noncurrent assets	107,949,001
Current liabilities	(207,702,753)
Noncurrent liabilities	(33,206,763)
Equity	366,523,175
Share in equity - 30%	109,956,952
Excess of purchase price over fair value of net asset	108,873,250
Costs directly attributable to the investment	9,086,250
Carrying amount of the investment	₱227,916,452

No impairment loss was recognized for the investment in associate in 2019 and 2018.

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

Revenue	₱1,334,969,460
Cost and expenses	1,247,787,887
Net income	87,181,573
Other comprehensive income	1,547,878
Total comprehensive income	₱88,729,451

On June 6, 2019, LBCH recognized dividend income from OFII amounting to ₱15.00 million for its 30% interest on OFII.

9. Investment in Subsidiaries

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

	Country of Incorporation	Principal activities	Ownership	2019	2018
LBC Express, Inc.	Philippines	Logistics and money remittance	100%	**₱1,384,670,966**	₱1,384,670,966
LBC Mundial Corporation	United States of America	Logistics and money remittance	100%	**361,897,536**	–
LBC Express Airfreight (S) PTE. LTD.	Singapore	Logistics	100%	**129,013,585**	129,013,585
LBC Australia PTY Limited	Australia	Logistics	100%	**98,462,863**	98,462,863
LBC Mabuhay North America Corporation	United States of America	Logistics and money remittance	100%	**59,894,464**	–
QuadX Pte. Ltd.	Singapore	Digital logistics	86%	**36,340,659**	36,340,659
LBC Mabuhay Remittance Sdn Bhd	Brunei	Money remittance	50%	**30,166,598**	30,166,598
LBC Mabuhay (Malaysia) Sdn Bhd	Malaysia	Logistics	93%	**24,682,710**	24,682,710
LBC Mabuhay Hawaii Corporation	United States of America	Logistics and money remittance	100%	**17,521,686**	–
LBC Mabuhay (B) Sdn Bhd	Brunei	Logistics	50%	**12,220,413**	12,220,413
LBC Mabuhay Saipan Inc.	Saipan	Logistics and money remittance	100%	**10,782,538**	10,782,538
LBC Money Transfer PTY Limited	Australia	Money remittance	100%	**10,392,254**	10,392,254
Mermaid Co., Ltd	Japan	Logistics	100%	**10,206,600**	–
LBC Aircargo (S) Pte. Ltd	Singapore	Logistics	100%	**7,800,160**	7,800,160
QUADX Inc	Philippines	E-com web and logistics	–	**–**	186,021,400
				₱2,194,053,032	₱1,930,554,146

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

No allowance for impairment loss was recognized in the Parent Company's financial statements in 2019 and 2018.

<u>QUADX Inc.</u>
On March 19, 2018, through a Deed of Assignment, LBCE assigned its receivables from QUADX Inc. to the Parent Company amounting to ₱186.02 million. On the same date, the Parent Company and QUADX Inc. entered into a Subscription Agreement to subscribe and issue a total of 1,860,214 shares of stock of QUADX Inc. through the conversion of the assigned advances to equity which represents 86.11% ownership by the Parent Company. The increase in authorized capital stock of QUADX Inc. was approved by the SEC on June 14, 2018. QUADX Inc owns and operates e-commerce websites and primarily offers shipping, re-packing and consolidation facilities, multi-payment platforms, and digital services that serves clients in the Philippines.

On May 29, 2019, LBCH sold all its 1,860,214 common shares in QUADX Inc. to LBCE for ₱186,021,400 or ₱100 per share payable no later than two years from the execution of deed of absolute sale of share, subject to any extension as may be agreed in writing by the parties.

On July 1, 2019, LBCE sold all its 1,860,214 common shares in QUADX Inc. to LBCDC for ₱186,021,400 or ₱100 per share payable no later than two years from the date of execution of the deed of absolute sale of shares.

Overseas Entities
All entities acquired from overseas, except Mermaid Co., Ltd. and QuadX Pte. Ltd., are entities under common control of the Araneta Family.

Mermaid Co., Ltd
On October 31, 2019, the Parent Company acquired all 180 shares of Mermaid Co. Ltd., for a total purchase price of US $200,000 or ₱10.21 million. Mermaid operates as a service for the shipping of household and other goods from expatriates living in Japan to their respective home countries, known as the "Balikbayan Box". On December 12, 2019, the purchase of Mermaid was completed upon approval of Governmental Authorities of Japan.

LBC Mundial Corporation (LBC Mundial) and LBC Mabuhay North America Corporation (LBC North America)
Effective January 1, 2019, the Parent Company's purchase of LBC Mundial Corporation and LBC Mabuhay North America Corporation was completed upon approval by the US regulatory bodies. The Parent Company acquired 100% ownership of LBC Mundial and LBC North America with a purchase price of US $6,864,000 and US $1,136,000, respectively. The total amount of ₱421.97 million are paid in full which was paid in advance by the Parent Company in 2018. These companies operate as a cargo and remittance company in California, USA and New Jersey, respectively.

LBC Mabuhay Hawaii Corporation
Effective July 1, 2019, the Parent Company's purchase of LBC Mabuhay Hawaii Corporation, who operates as a cargo and remittance company in Hawaii, was completed upon the approval by the US regulatory bodies. The Parent Company purchased 1,536,408 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation with a purchase price of US $342,000 or ₱17.52 million.

QuadX Pte. Ltd.
On April 4, 2018, the BOD of the Parent Company approved the acquisition of 86.11% equity interest in QuadX Pte. Ltd., an entity domiciled in Singapore, through the following: (a) the purchase of 862 ordinary shares of QuadX Pte. Ltd. held by an individual shareholder, at the sale price of US $1.00 per share; and (b) the subscription to 85,248 ordinary shares out of the unissued capital stock of QuadX Pte. Ltd. at the subscription price of US $1.00 per share.

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

QuadX Pte. Ltd. is engaged in digital logistics business.

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

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

Details follow:

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

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

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

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

Dividend Declarations of a Subsidiary
On November 29, 2019 and December 20, 2018, the BOD of LBCE approved the declaration of cash dividends amounting to ₱708.00 million and ₱1,582.59 million, respectively (see Note 13 and 14).

10. Receivables and Trademark Agreement with Transtech

On September 25, 2019, LBCH extended a 15-year 2.3% interest-bearing loan to Transtech Co. Ltd. (Transtech) amounting to \$1.80 million. Transtech, an entity incorporated in Japan, is involved in freight forwarding, warehousing, and packing business. Its services include forwarding of Balikbayan boxes from Japan to the Philippines.

Transtech shall pay interests on a quarterly basis. The Loan Agreement also constitutes a pledge by Transtech on its trademark for the benefit of LBCH, to secure LBCH's claims to the repayment of the loaned amount in case of default as defined in the Loan Agreement.

Subsequently, on September 30, 2019, Transtech granted LBCH an exclusive license to use its registered trademark subject to restrictions. LBCH may, in its discretion, use the trademark in combination with any text, graphics, mark, or any other indication. As consideration for the exclusive use of license, LBCH shall pay royalty of $0.13 million annually.

In 2019, LBCH incurred royalty fee amounting to ₱1.59 million wherein the related payable was offset to LBCH's accrued interest receivable and loan receivable from Transtech amounting to ₱0.06 million and ₱1.53 million, respectively.

As of December 31, 2019, the outstanding balance of the loans receivable amounted to ₱89.82 million, ₱6.09 million of which is presented under 'Prepayment and other current assets' representing short-term portion and the long-term portion of ₱83.73 million is presented under 'Other noncurrent assets'. Interest income earned amounted to ₱0.53 million in 2019.

11. Accounts and Other Payables

This account consists of:

	2019	2018
Accruals:		
Professional fees	**₱3,502,040**	₱1,630,308
Dues and subscriptions	**–**	7,599,764
Deferred output VAT	**2,584,113**	579,297
Accounts payable	**294,921**	559,109
Output VAT	**135,129**	927,332
Withholding tax payable	**23,674**	33,231
Subscription payable	**–**	9,651,375
Other payable	**255,303**	255,303
	₱6,795,180	₱21,235,719

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

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

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

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

Subscription payable pertains to the unpaid subscription to the shares of OFII which was settled in 2019.

12. Convertible Instrument

This account consists of:

	2019	2018
Derivative liability		
Balance at beginning of year	**₱1,406,175,427**	₱1,860,373,479
Fair value loss (gain) on derivative	**642,506,134**	(454,198,052)
	₱2,048,681,561	₱1,406,175,427
Bond payable		
Balance at beginning of year	**₱1,108,417,074**	₱896,185,059
Accretion of interest	**182,124,669**	159,106,145
Unrealized foreign exchange loss (gain)	**(45,319,435)**	50,577,641
Amortization of issuance cost	**1,798,750**	2,548,229
	₱1,247,021,058	₱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 4, 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 initially 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 as follow:

- effective on three years (3) from issuance date (the Reset Date) - if the 30-day Trading Day Weighted Average Price (TDWAP) of the Parent Company's common shares on the Principal Market prior to the Reset Date is not higher than the initial conversion price, the conversion price shall be adjusted on the Reset Date to the 30-day TDWAP prior to Reset Date;
- upon issuance of common shares for a consideration less than the conversion price in effect - the conversion price shall be reduced to the price of the new issuance;
- upon subdivision or combination (i.e., stock dividend, stock split, recapitalization or otherwise) - the conversion price in effect shall be proportionately reduced or increased; and
- other events or voluntary adjustment.

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

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

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

On October 3, 2017, the Parent Company entered into a pledge supplement with CP Briks whereby the Parent Company constituted in favor of CP Briks a pledge over all of the Parent Company's shares in LBCE consisting of 1,041,180,504 common shares, representing 100% of the total issued and outstanding capital stock of LBCE.

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

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

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

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

The determination and calculation of the foregoing financial ratios are based on the agreement and interpretation of relevant parties subject to the terms of the convertible instrument. The Parent Company is in compliance with the above covenants as at December 31, 2019, the latest Relevant Period subsequent to the issuance of the convertible instrument. Relevant period means each period of twelve (12) months ending on the last day of the Parent Company's financial year.

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 18).

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. Effective January 1, 2019, the Parent Company was granted the regulatory approvals on the purchase of the following entities under LBC USA Corporation:
- LBC Mundial Corporation (LBC Mundial) 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 (LBC North America) 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.

iii. Effective July 1, 2019, the Parent Company's purchase of LBC Mabuhay Hawaii Corporation, who operates as a cargo and remittance company in Hawaii, was completed upon the approval by the US regulatory bodies. The Parent Company purchased 1,536,408 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.

iv. 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.

v. 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.

vi. On October 15, 2018, the Parent Company acquired the following overseas entities:
   a. LBC Mabuhay Remittance Sdn. Bhd. which operates as a remittance company in Brunei. The Parent Company purchased one (1) share which represents 50% equity interest at the subscription price of US $557,804 per share.
   b. LBC Mabuhay (B) SDN BHD which operates as a cargo company in Brunei. The Parent Company acquired 50% of LBC Mabuhay (B) SDN BHD for a total purchase price of US $225,965.

vii. The documentation requirements for the acquisition of the remaining overseas entity is 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 entity in 2020, after which the Parent

Company expects (on the basis of LBCDC's manifestations) settlement by LBCDC of all of its obligations to the Parent Company, except for the assigned receivables from QUADX Inc. which will be settled based on agreed terms. As at report date, LBCDC has not settled its obligations to the Parent Company pending completion of acquisition of the remaining overseas entity.

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).

13. Equity

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

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

Retained Earnings
On September 12, 2019, the BOD of LBCH approved the declaration of cash dividends amounting to ₱356.47 million.

On February 8, 2019 and November 4, 2019, through a Memorandum of Agreement, LBCDC assigned to LBCH a portion of its payable to LBCE amounting to ₱229.37 million and ₱263.92 million, respectively. On March 18, 2019, LBCE paid stockholders of LBCH amounting to ₱11.82 million. The same amounts were offset against the dividends payable of LBCE to LBCH (see Note 18).

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

14. Related Party Transactions

In the normal course of business, the Parent Company transacts with related parties consisting of its ultimate parent company, its subsidiary and its stockholder and officer. Affiliates include those entities in which the owners of the Parent Company have ownership interests. These transactions include loans, cash advances, dividends and dues and subscription. Except as otherwise indicated, the outstanding accounts with related parties shall be settled in cash. The transactions are made at terms and prices agreed upon by the parties.

Details of related party transactions and balances as at and for the years ended December 31, 2019 and 2018 are as follow:

	2019			
	Amount/Volume	Receivable	Terms	Conditions
Due from a related party				
Subsidiary				
a.) Service fee	₱30,872,114	₱19,956,615	Non-interest bearing; due and demandable	Unsecured, no impairment
b.) Cash advances	135,000,000	135,000,000	Non-interest bearing; due and demandable	Unsecured, no impairment
c.) Disposal of subsidiary	186,021,400	186,021,400	Non-interest bearing; due and demandable	Unsecured, no impairment
d.) Dividends earned and receivable	708,002,743	708,002,743	Non-interest bearing; due and demandable	Unsecured, no impairment
e.) Loan receivable- current portion	35,600,000	35,600,000	Interest bearing; fixed quarterly payments	Unsecured, no impairment
Interest income	8,338,686	421,620	Interest bearing; due and demandable	Unsecured, no impairment
Officers/beneficial owners				
f.) Advances	28,424,682	28,424,682	Non-interest bearing; due and demandable	Unsecured, no impairment
Associate				
g.) Dividends earned and receivable	15,000,000	–	Non-interest bearing; due and demandable	Unsecured, no impairment
		₱1,113,427,060		
Due from a related party				
e.) Loan receivable- noncurrent portion	₱304,623,325	₱304,623,325	Interest bearing; fixed quarterly payments	Unsecured, no impairment
Due to related parties				
h.) Dividends declared	₱356,466,368	₱14,775,250	Non-interest bearing; due and demandable	Unsecured
Officer (Advances)	–	43,741	Non-interest bearing; due and demandable	Unsecured
		₱14,818,991		

	2018			
	Amount/Volume	Receivable	Terms	Conditions
Due from a related party				
Subsidiary				
a.) Service fee	₱29,929,719	₱2,548,124	Non-interest bearing; due and demandable	Unsecured, no impairment
d.) Dividends earned and receivable	1,582,594,366	1,582,594,366	Non-interest bearing; due and demandable	Unsecured, no impairment
j) Advances for acquisition of shares	439,823,608	439,823,608	Non-interest bearing; due and demandable	Unsecured, no impairment
		₱2,024,966,098		
Due to related parties				
h.) Dividends declared	₱285,173,094	₱285,173,094	Non-interest bearing; due and demandable	Unsecured
Affiliate - under common control				
i.) Advances	221,323	221,323	Non-interest bearing; due and demandable	Unsecured
Officer (Advances)	–	45,448	Non-interest bearing; due and demandable	Unsecured
		₱285,439,865		

a.) On June 30, 2017, LBCH signed an agreement with SAP Philippines, Inc. to acquire cloud services named HANA Enterprise Cloud for Production with Subscription Software ("HEC

Subscription") for 60 months commencing on August 1, 2017 and ending on July 31, 2022. Subsequently, in a Memorandum of Agreement, LBCH gave LBCE the right to use the HEC Subscription and in turn shall pay LBCH a service fee equivalent to cost plus margin of five percent (5%). The service fee shall be paid at the beginning of each quarter. The mark-up will also be applied for any cost of consultancy services that will arise during the period of the subscription.

b.) In December 2019, the Parent Company made advances to LBCE to finance its working capital requirements. These advances are non-interest bearing and payable on demand.

c.) On May 29, 2019, LBCH sold all its 1,860,214 common shares in QUADX Inc. to LBCE for ₱186,021,400 or ₱100 per share payable no later than two years from the execution of deed of absolute sale of share, subject to any extension as may be agreed in writing by the parties.

d.) LBCH recognized dividend income from LBCE amounting to ₱708.00 million in 2019 and ₱1,582.59 million in 2018. On February 8, 2019 and November 4, 2019, through a Memorandum of Agreement, LBCDC assigned to LBCH a portion of its payable to LBCE amounting to ₱229.37 million and ₱263.92 million, respectively. On March 18, 2019, LBCE paid stockholders of LBCH amounting to ₱11.82 million. The same amounts were offset against the dividends payable of LBCE to LBCH.

e.) On April 29, 2019, LBCH entered into a loan agreement with LBCE amounting to ₱183.38 million at 4% interest per annum. Additional loans were granted to LBCE in the following months dated June 3, 2019 and July 22, 2019 amounting to ₱91.69 million and ₱80.93 million, respectively, with quarterly principal payments and monthly interest payments at 4% per annum. As of December 31, 2019, total outstanding loans receivable amounted to ₱340.22 million, ₱304.62 million of which is presented as noncurrent under "Other noncurrent assets". Interest income earned from loans receivable amounted to ₱8.34 million in 2019 of which ₱0.42 million is still unpaid.

f.) The Parent Company 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.

g.) On June 6, 2019, LBCH recognized dividend income from OFII amounting to ₱15.00 million for its 30% interest on OFII.

h.) On September 12, 2019, the BOD of LBCH approved declaration of cash dividends amounting to ₱356.47 million, in which ₱301.49 million is payable to LBCDC and remaining amount of ₱54.97 million is payable to the Parent Company's minority shareholders. In 2019, the Parent Company fully paid its dividends payable to its minority shareholder.

On February 8, 2019 and November 4, 2019, through a Memorandum of Agreement, LBCDC assigned to LBCH a portion of its payable to LBCE amounting to ₱229.37 million and ₱263.92 million, respectively. The total amount of ₱493.29 million was offset against the Parent Company's dividend payable to LBCDC. Also, in March 2019, LBCE paid LBCDC in behalf of LBCH amounting to ₱11.82 million. Moreover, in November 2019, LBCH paid LBDC in cash amounting to ₱22.80 million. As of December 31, 2019 the remaining dividend payable to LBDC amounted to ₱14.78 million.

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

j.) On March 7, 2018, the BOD of the Parent Company approved the purchase of shares of the entities under LBC Express Holdings USA Corporation. The acquisition is expected to benefit the Parent Company by contributing to its global revenue streams. On the same date, the share purchase agreements (SPA) were executed by the Parent Company and LBC Express Holdings USA Corporation with a total share purchase price amounting to US $8.34 million, subject to certain closing conditions. 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 various dates in 2019, the Parent Company was granted the regulatory approvals on the purchase of LBC Mundial Corporation, LBC Mabuhay North America Corporation and LBC Mabuhay Hawaii Corporation (see Note 9).

The Parent Company's key management personnel are employed by LBCE. As such, the compensation and other benefits of key management personnel are recorded in the books of LBCE.

Aside from required approval of related party transactions explicitly stated in the Corporation Code, the Parent Company has established its own related party transaction policy stating that any related party transaction involving amount or value greater than 10% of the Parent Company's total consolidated assets are deemed 'Material Related Party Transactions'. Such transactions shall be reviewed by the Related Party Transaction Committee (RPTC) prior to its endorsement for the Board's Approval. Moreover, any related party transaction involving less than 10% of the Group's total assets will be submitted to the President and CEO for review.

15. Operating Expenses

This account consists of:

	2019	2018
Dues and subscriptions	**₱29,341,123**	₱28,346,180
Professional fees	**14,768,737**	13,092,833
Taxes and licenses	**3,738,016**	769,644
Royalty fees	**1,585,750**	–
Outside services	**640,435**	3,720,893
Others	**1,613,116**	2,084,109
	₱51,687,177	₱48,013,659

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

16. Income Taxes

Provision for (benefit from) income tax consists of:

	2019	2018
Current	**₱207,984**	₱28,504
Deferred	**(5,329,769)**	4,796,731
	(₱5,121,785)	₱4,825,235

The provision for current tax represents MCIT in 2019 and 2018.

Details of the Parent Company's net deferred tax asset (liability) as of December 31, 2019 and 2018 follow:

	2019	2018
Deferred tax assets arising from:		
Allowance for impairment losses on:		
Property and equipment	**₱3,509,738**	₱3,509,738
Inventories	**2,143,781**	2,143,781
Receivables	**567,078**	567,078
Other current assets	**239,630**	239,630
NOLCO	**16,828,168**	15,117,586
MCIT	**248,063**	40,079
	23,536,458	21,617,892
Deferred tax liabilities arising from:		
Unrealized foreign exchange gains	**(20,530,139)**	(23,401,717)
Others	**(2,473,281)**	(3,012,906)
	(23,003,420)	(26,414,623)
	₱533,038	(₱4,796,731)

In 2019 and 2018, the Parent Company recognized deferred tax assets which were applied against the deferred tax liabilities.

There were no unrecognized deferred tax assets as of December 31, 2019 and 2018.

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

	2019	2018
Income tax at the statutory income tax rate	**(₱27,190,148)**	₱592,602,876
Tax effects of the items not subject to statutory rate:		
Nontaxable income	**(227,194,354)**	(619,161,240)
Movement in unrecognized deferred tax asset	**–**	(18,953,595)
Expired NOLCO	**1,873,476**	2,353,325
Nondeductible expense	**247,389,241**	47,983,869
	(₱5,121,785)	₱4,825,235

The NOLCO that can be claimed as deductions from future taxable income and excess MCIT over RCIT that can be credited against future tax liability follow:

NOLCO

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2019	**₱11,946,859**	**₱–**	**₱–**	**₱11,946,859**	**2022**
2018	**17,993,197**	**–**	**–**	**17,993,197**	**2021**
2017	**26,153,838**	**–**	**–**	**26,153,838**	**2020**
2016	**6,244,919**	**–**	**6,244,919**	**–**	**2019**
	₱62,338,813	**₱–**	**₱6,244,919**	**₱56,093,894**	

MCIT

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2019	**₱207,984**	**₱–**	**₱–**	**₱207,984**	**2022**
2018	**₱28,504**	**₱–**	**₱–**	**₱28,504**	**2021**
2017	**11,575**	**–**	**–**	**11,575**	**2020**
	₱248,063	**₱–**	**₱–**	**₱248,063**	

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

17. Financial Risk Management Objectives and Policies

The Parent Company has various financial assets such as cash and cash equivalents, receivables, loans receivable, prepayment and other currents assets, due from related parties and investment at FVPL.

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

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

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

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

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

The following table shows the effect on other comprehensive income should the change in the net asset value (NAV) of the quoted equity securities occur as at December 31, 2019 and 2018 with all other variables held constant.

	Effect on other comprehensive income	
Change in NAV	**2019**	2018
+5.00%	**₱52,316**	₱50,492
-5.00%	**(52,316)**	(50,492)

The Parent Company is also exposed to equity price risk in the fair value of the derivative liability due to the embedded equity conversion feature. Furthermore, the derivative liability has an "in the money" redemption option with a minimum rate of return at a given point in time in the future which makes the embedded conversion feature value close to zero or nil. Hence, the impact of the changes in the share price in the valuation of the derivative liability is minimal.

Interest rate risk and credit spread sensitivity analysis
Except for the credit spread used in the valuation of the convertible redeemable bond, the Parent Company is not significantly exposed to interest rate risk as the Parent Company's interest rate on its cash and cash equivalents is fixed. The Parent Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

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

	Effect in fair value	
	2019	2018
Credit spread +1%	**₱57,452,852**	₱58,315,936
Credit spread -1%	**(60,301,921)**	(63,189,129)

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

Information of the Parent Company's foreign currency-denominated monetary asset and liability recorded under loan receivable and bond payable, respectively, in the statements of financial position and its Philippine Peso equivalents as at December 31, 2019 follow:

	2019	
	Foreign currency	**Peso equivalent**
Asset:		
US Dollars	**1,770,000**	**₱89,809,800**
Liability:		
US Dollars	**(24,737,217)**	**(1,255,166,391)**

The translation exchange rate used was ₱50.74 to USD 1 as at December 31, 2019.

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

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

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

Reasonably possible change in foreign exchange rate for every two units of Philippine Peso	Increase (decrease) in income before tax 2019	2018
₱2	**(₱45,934,434)**	(₱42,426,982)
(2)	**45,934,434**	42,426,982

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

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

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

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

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

Aging analysis of loans and receivables

As at December 31, 2019 and 2018, the aging analysis of loans and receivables follow:

	2019					
		Neither past	**Past due but not impaired**			
	Total	**due nor impaired**	**30-60 days**	**60-90 days**	**Over 90 days**	**Impaired**
Cash and cash equivalents	**₱1,838,629,131**	**₱1,838,629,131**	**₱–**	**₱–**	**₱–**	**₱–**
Receivables	**718,559,131**	**718,559,131**	–	–	–	–
Prepayment and other current assets	**6,089,280**	**6,089,280**	–	–	–	–
Loans receivable	**388,350,925**	**388,350,925**	–	–	–	–
Due from related parties	**405,424,317**	**405,424,317**	–	–	–	–
Investment at FVPL	**1,046,312**	**1,046,312**	–	–	–	–
	₱3,358,099,096	**₱3,358,099,096**	**₱–**	**₱–**	**₱–**	**₱–**

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

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

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

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

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

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

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

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

	2019			
	High Grade	**Medium Grade**	**Low Grade**	**Total**
Cash in banks and cash equivalents	**₱1,838,629,131**	**₱–**	**₱–**	**₱1,838,629,131**
Receivables	**718,559,131**	**–**	**–**	**718,559,131**
Prepayments and other current assets	**6,089,280**	**–**	**–**	**6,089,280**
Loans receivable	**388,350,925**	**–**	**–**	**388,350,925**
Due from related parties	**405,424,317**	**–**	**–**	**405,424,317**
Investment at FVPL	**1,046,312**	**–**	**–**	**1,046,312**
	₱3,358,099,096	**₱–**	**₱–**	**₱3,358,099,096**

	2018			
	High Grade	Medium Grade	Low Grade	Total
Cash in banks and cash equivalents	₱1,548,935,345	₱–	₱–	₱1,548,935,345
Receivables	1,582,609,349	–	–	1,582,609,349
Due from related parties	2,548,124	–	1,865,563	4,413,687
Investment at FVPL	1,009,832	–	–	1,009,832
	₱3,135,102,650	₱–	₱1,865,563	₱3,136,968,213

Liquidity risk

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

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

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

The following table summarizes the maturity profile of the Parent Company's financial assets and financial liabilities as at December 31, 2019 and 2018 based on remaining contractual undiscounted collections and payments:

	2019		
	Due in less than one year	**Due in more than one year**	**Total**
Financial assets			
Cash and cash equivalents			
Cash in banks	**₱108,222,231**	**₱–**	**₱108,222,231**
Cash equivalents	**1,730,406,900**	**–**	**1,730,406,900**
Receivables	**718,559,131**	**–**	**718,559,131**
Prepayments and other current assets	**6,089,280***	**–**	**6,089,280**
Loans receivable	**–**	**388,350,925**	**388,350,925**
Due from related parties	**405,424,317**	**–**	**405,424,317**
Investment at FVPL	**1,046,312**	**–**	**1,046,312**
	₱2,969,748,171	**₱388,350,925**	**₱3,358,099,096**
Financial liabilities			
Accounts and other payables	**₱4,052,264**	**₱–**	**₱4,052,264**
Due to related parties	**14,818,991**	**–**	**14,818,991**
Derivative liability	**–**	**2,048,681,561**	**2,048,681,561**
Bond payable	**–**	**2,893,079,676**	**2,893,079,676**
	₱18,871,255	**₱4,941,761,237**	**₱4,960,632,492**

**Current portion is classified under Prepayments and other current assets and Due from related parties.*

	2018		
	Due in less than one year	Due in more than one year	Total
Financial assets			
Cash and cash equivalents			
Cash in banks	₱172,066,438	₱–	₱172,066,438
Cash equivalents	1,376,868,907	–	1,376,868,907
Receivables	1,582,609,349	–	1,582,609,349
Due from related parties	2,548,124	–	2,548,124
Investment at FVPL	1,009,832	–	1,009,832
	₱3,135,102,650	₱–	₱3,135,102,650
Financial liabilities			
Accounts and other payables	₱19,695,859	₱–	₱19,695,859
Due to related parties	285,439,865	–	285,439,865
Derivative liability	–	1,406,175,427	1,406,175,427
Bond payable	–	3,535,585,810	3,535,585,810
	₱305,135,724	₱4,941,761,237	₱5,246,896,961

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

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

No changes were made in the Parent Company's objectives, policies or processes as at December 31, 2019 and 2018. The Parent Company is not subject to externally imposed capital requirements.

The capital that the Parent Company manages is equal to the total equity as shown in the statements of financial position at December 31, 2019 and 2018 amounting to ₱2,475.39 million and ₱2,917.37 million, respectively.

18. Fair Values and Offsetting Arrangements

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

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

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

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

The significant unobservable input in the fair value is the stock price volatility of 15.97% in 2019. A 5% increase (5% decrease) in the stock price volatility would not materially affect the fair value of the derivative liability.

The plain bond is determined by discounting the cash flows, which is simply the principal at maturity, using discount rate of 3.36%. The discount rate is composed of the matched to maturity risk free rate and the option adjusted spread (OAS) of 12%.

Fair Value Hierarchy
The Parent Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

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

		2019			
		Fair value measurements using			
	Carrying values	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Unquoted unit investment trust fund	₱1,046,312	₱1,046,312	₱–	₱1,046,312	₱–
Liabilities measured at fair value					
Derivative liability	2,048,681,561	2,048,681,561	–	–	2,048,681,561
Liabilities for which fair value are disclosed					
Bond Payable	1,247,021,058	1,350,898,104	–	–	1,350,898,104

		2018			
		Fair value measurements using			
	Carrying values	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Unquoted unit investment trust fund	₱1,009,832	₱1,009,832	₱–	₱1,009,832	₱–
Liabilities measured at fair value					
Derivative liability	1,406,175,427	1,406,175,427	–	–	1,406,175,427
Liabilities for which fair value are disclosed					
Bond Payable	1,108,417,074	1,104,307,001	–	–	1,104,307,001

During the years ended December 31, 2019 and 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.

Offsetting of Financial Instruments

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

The table represents the recognized financial instruments that are offset as at December 31, 2019 (nil in 2018) and shows in the 'Net' column is the net impact on the Parent Company's statements of financial position as a result of the offsetting rights.

			December 31, 2019		
Dividend Offsetting	**Gross amount**	**Offsetting**	**Cash receipt**	**Cash paid**	**Net amount**
Dividends receivable	**₱2,305,597,109**	**(₱505,113,775)**	**(₱1,092,480,591)**	**₱–**	**₱708,002,743**
Dividends payable	**(641,639,462)**	**505,113,775**	–	**121,750,437**	**(14,775,250)**

			December 31, 2019		
Royalty Offsetting	**Gross Amount**	**Offsetting**	**Cash received**	**Cash paid**	**Net Amount**
Loans receivable	**₱91,339,200**	**(₱1,522,320)**	**₱–**	**₱–**	**₱89,816,880**
Accrued interest receivable	**529,517**	**(63,430)**	–	–	**466,087**
Royalty payable [1]	**(1,585,750)**	**1,585,750**	–	–	–

[1] *included under accounts and other payables*

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

The Parent Company's royalty payable has been offset against loan receivable and interest receivable from Transtech

19. Note to Statement of Cash Flows

In 2019, the Parent Company has the following non-cash transactions under:

<u>Investing Activities</u>

a.) Uncollected selling price for the sale of QuadX, Inc. amounting to ₱186.02 million.

b.) Application of advances for future subscription amounting to ₱439.82 million upon approval of US regulatory bodies on the purchase of LBC Mundial Corporation, LBC Mabuhay North America Corporation and LBC Mabuhay Hawaii Corporation.

c.) Offsetting of dividends receivable and dividends payable amounting to ₱505.11 million.

<u>Financing Activities</u>

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

	December 31, 2018	Cash Flows	Interest	Dividends declared	Offsetting	Foreign exchange movement	Fair value changes	December 31, 2019
Convertible bond (bond and derivative liability)	₱2,514,592,501	₱–	₱183,923,419	₱–	₱–	(₱45,319,435)	₱642,506,134	₱3,295,702,619
Due to related parties	266,771	–	–	–	(222,490)	(540)	–	43,741
Dividends payable	285,173,094	(121,750,437)	–	356,466,368	(505,113,775)	–	–	14,775,250
Total liabilities from financing activities	₱2,800,032,366	(₱121,750,437)	₱183,923,419	₱356,466,368	(₱505,336,265)	(₱45,319,975)	₱642,506,134	₱3,310,521,610

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

<u>Investing Activities</u>

d.) Acquisition of investments in QUADX Inc. through the conversion of assigned advances to equity recorded under 'Due from related parties' amounting to ₱186.02 million.

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

<u>Financing Activities</u>

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

	December 31, 2017	Cash Flows	Interest	Dividends declared	Foreign exchange movement	Fair value changes	December 31, 2018
Convertible bond (bond and derivative liability)	₱2,756,558,538	₱–	₱161,654,374	₱–	₱50,577,641	(₱454,198,052)	₱2,514,592,501
Due to related parties	–	266,771	–	–	–	–	266,771
Dividends payable	–		–	285,173,094	–	–	285,173,094
Total liabilities from financing activities	₱2,756,558,538	₱266,771	₱161,654,374	₱285,173,094	₱50,577,641	(₱454,198,052)	₱2,800,032,366

20. Subsequent Events

Loan extension to related party
On April 1, 2020, the Parent Company extended a 3-year interest-bearing loan to LBCE, amounting to ₱100.00 million to finance the latter's working capital requirements.

Impact of the recent Coronavirus situation
To contain the COVID-19 pandemic, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum to impose stringent social distancing measures in the National Capital Region. Consequently, on March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months, and placed Luzon under Enhanced Community Quarantine (ECQ) until April 14, 2020; this was later extended to May 15, 2020 and was further extended to May 31, 2020. Under the ECQ, strict home quarantine was implemented in Luzon, and establishments providing basic necessities were allowed operational, likewise restricting land, air and sea travel. However, the movement of cargo within, to and from Luzon was unhampered amid the ECQ, subject to the guidelines from the Inter-Agency Task Force (IATF).

As a Holding Company, the Covid-19 pandemic has no material impact on the Parent Company's stand-alone financial statements. Moreover, the impact of the pandemic on its operating subsidiaries are disclosed separately in its subsidiaries' stand-alone financial statements and in the Parent Company's consolidated financial statements.

SGV
Building a better working world

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of LBC Express Holdings, Inc. (the Parent Company) as of and for the year ended December 31, 2019 on which we have rendered the attached report dated May 28, 2020.

In compliance with Revised Securities Regulation Code Rule No. 68, As, we are stating that the Parent Company has four hundred seventy-five (475) stockholders owning one hundred (100) or more shares.

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia
Partner
CPA Certificate No. 90787
SEC Accreditation No. 1737-A (Group A),
January 24, 2019, valid until January 23, 2022
Tax Identification No. 162-410-623
BIR Accreditation No. 08-001998-74-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125312, January 7, 2020, Makati City

May 28, 2020

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INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of LBC Express Holdings, Inc. (the Parent Company) as at and for the years ended December 31, 2019 and 2018 and have issued our report thereon dated May 28, 2020. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule of Retained Earnings Available for Dividend Declaration is the responsibility of the Parent Company's management. This schedule is presented for purposes of complying with Revised Securities Regulation Code Rule 68 and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia

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May 28, 2020

LBC EXPRESS HOLDINGS, INC.

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

For The Year Ended December 31, 2019

Unappropriated Retained Earnings, beginning		**₱1,436,086,955**
Adjustments:		
Deferred tax asset that reduced the amount of income tax expense of prior periods		(463,780,274)
Unappropriated Retained Earnings, as adjusted to available for dividend distribution as at January 1, 2019		**972,306,681**
Less: Net Loss actually incurred during the period		
Net loss during the period closed to Retained Earnings	**85,512,042**	
Less: Non-actual / unrealized income net		
Equity in net income of associate/joint venture	–	
Unrealized foreign exchange gain - net (after tax, except those attributable to cash and cash equivalents)	29,241,287	
Unrealized actuarial gain		
Fair value adjustment (M2M gains)	–	
Fair value adjustment of investment property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP gain	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	–	
Subtotal	29,241,287	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS / GAAP – loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
Net loss actually incurred during the period		**114,753,329**
Add (Less):		
Dividend declarations during the period	(356,466,368)	
Appropriations of Retained Earnings during the period	–	
Reversals of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	–	
Subtotal		**(356,466,368)**
Total Retained Earnings, end of the year available for dividend		**₱501,086,984**