COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S O 9 3 0 0 5 2 7 7

COMPANY NAME

L B C E X P R E S S H O L D I N G S , I N C . A N D
 S U B S I D I A R I E S

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

L B C H A N G A R , G E N E R A L A V I A T I O N C
E N T R E , D O M E S T I C A I R P O R T R O A D , P
A S A Y C I T Y , M E T R O M A N I L A

Form Type	Department requiring the report	Secondary License Type, If Applicable
1 7 - A	S E C	

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.

BUREAU OF INTERNAL REVENUE
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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
REVENUE REGION NO. 8 - MAKATI
Revenue District Office No. 51
PASAY CITY
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JUN 11 2020

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

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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.

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.

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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.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia

Cyril Jasmin B. Valencia
Partner
CPA Certificate No. 90787
SEC Accreditation No. 1737-A (Group A),
January 24, 2019, valid until January 23, 2022
Tax Identification No. 162-410-623
BIR Accreditation No. 08-001998-74-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 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**

JUN 1 1 2020

See accompanying Notes to Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Shareholders of the Parent Company					
	Capital Stock (Notes 1 and 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)

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	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.

<u>Basis of Preparation</u>
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.

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

<u>Basis of Consolidation</u>
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	**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

<u>Current versus Noncurrent Classification</u>
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 l 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.

<u>Derecognition of Financial Assets and Financial Liabilities Under PFRS 9 and PAS 39</u>

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.

<u>Earnings Per Share ("EPS")</u>
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.

<u>Segment Reporting</u>
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.

<u>Provisions</u>
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.

<u>Mermaid Co. Ltd.</u>
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:

<u>Investing Activities</u>

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:

	December 31, 2018	Cash Flows	Non-cash activities: 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

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ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT 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

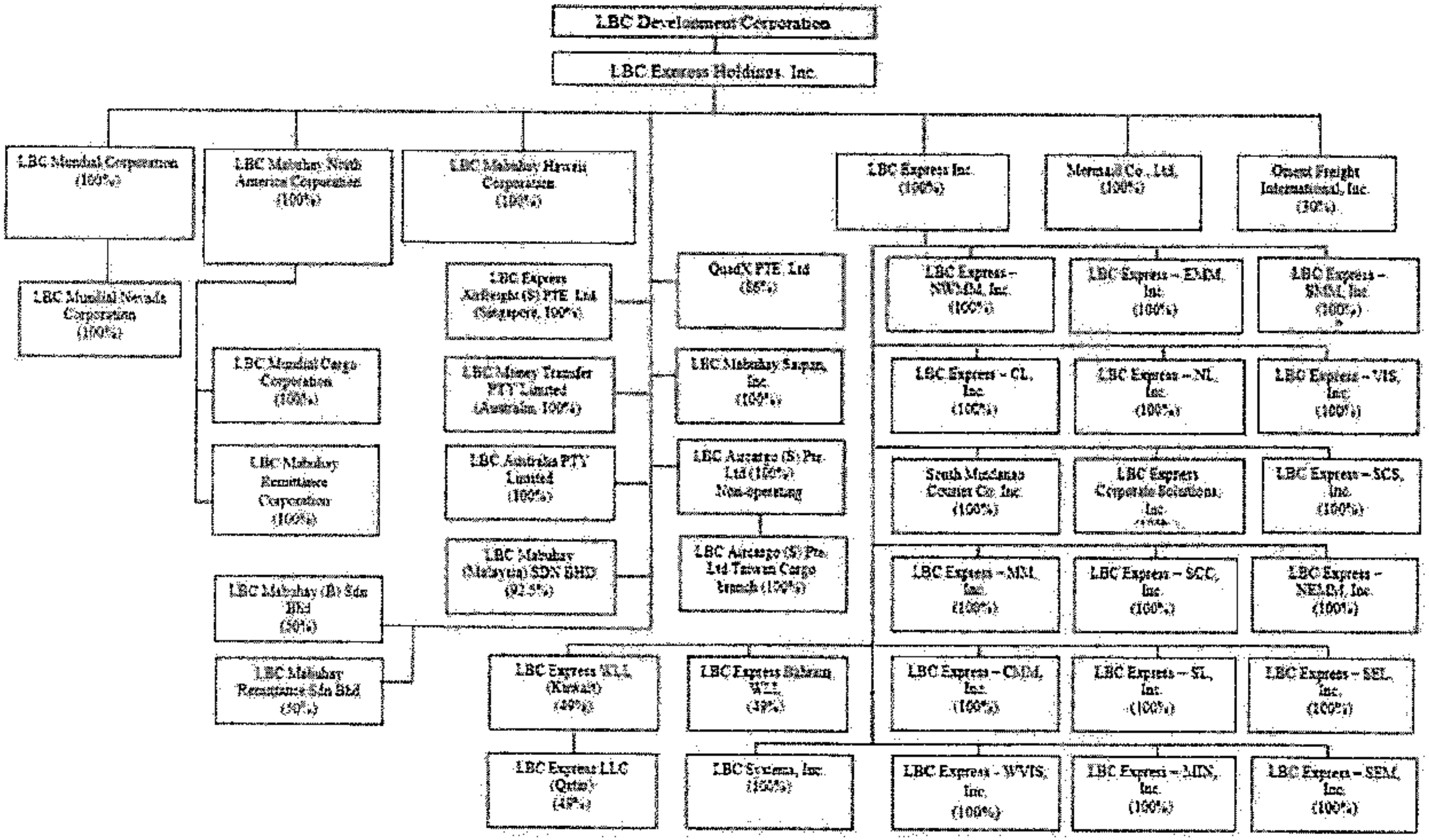
LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

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**

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Building a better working world

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

INDEPENDENT AUDITOR'S REPORT ON 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*