

# ***Delivering Value***

***Moving Lives, Businesses, Communities***

**Annual Report 2016**



## What moves us: Our Mission

These are the values that define the kind of service we deliver to our customers:

***Commitment / Integrity / Trust / Customer-Oriented  
Continuous Development / Team-based / Social Responsibility***

We believe that our people are our foremost asset; and the union of our people into teams translates to trust and fairness, shared authority and responsibility. We strive for open communication and transparency, motivating each member of the LBC family with compensation and recognition; working hard towards continuous improvement of our services to achieve customer satisfaction. Our team members and our customer's satisfaction is ultimately what assures the continuity of LBC.

## What drives us: Our Vision

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





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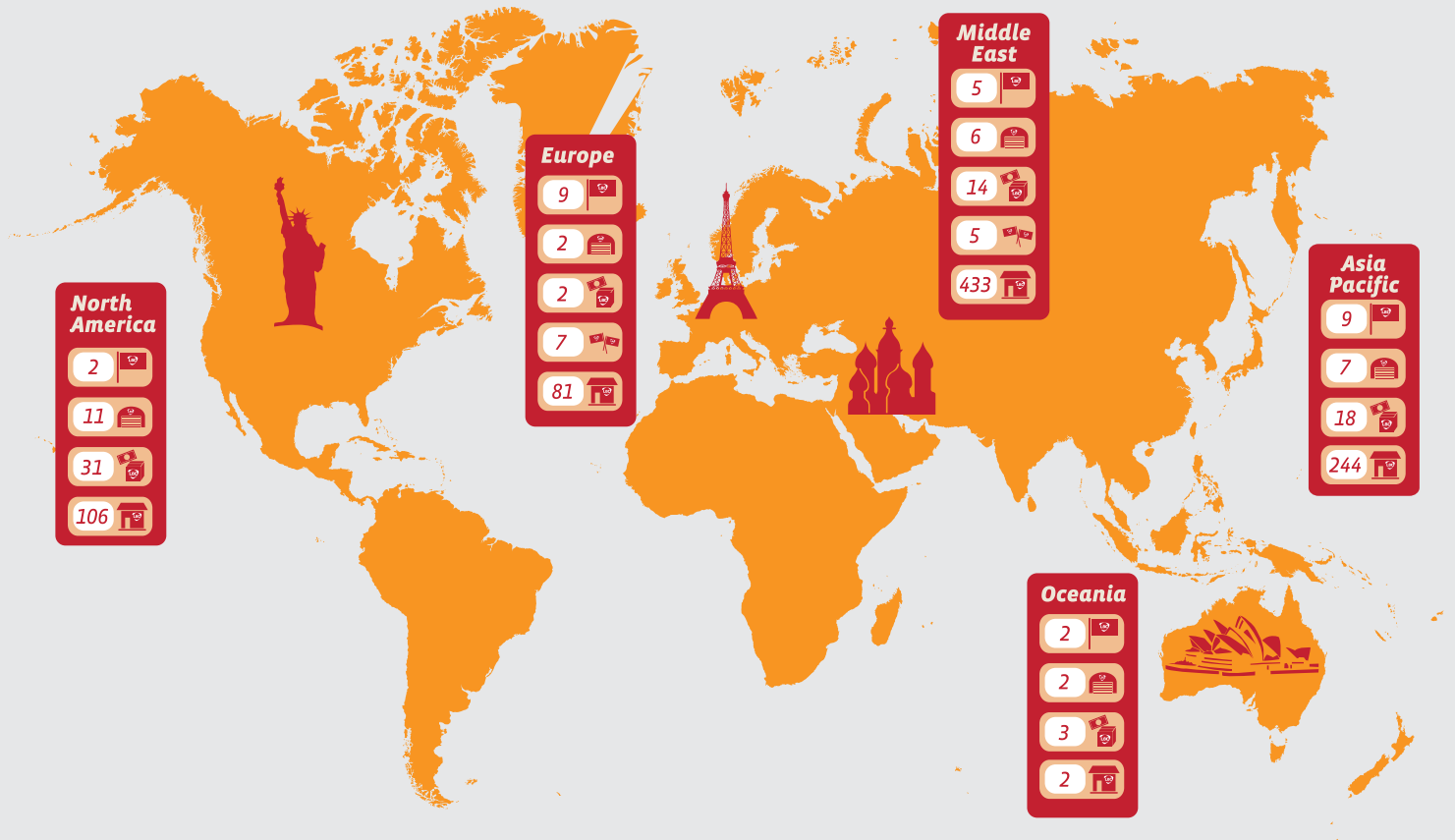
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44 **Audited Financial Statements**



# Across the World: In The Service of the Global Filipino

LBC Express serves millions of Filipinos around the globe in over 20 countries, with a 5,300-strong network comprised of branches, partner and agents.



Countries | 
 Warehouses | 
 Cargo and Remittance Branches | 
 Partner Agent Countries | 
 Partner Agent Branches



Serves over  
20 countries



5,300 branches, partners,  
agents worldwide



Over 6,500  
employees

\*As of end 2016

# ***In the Philippines: Unparalleled Presence***



\* As of end 2016



# Retail Services: Philippines

LBC is a household name and the gold standard for courier services in the Philippines. The brand name itself has become a verb, to connote all things related to “sending” --- in Filipino “magpa - LBC” or “ipa - LBC”

## Logistics

### Next day delivery for documents, parcels and cargo

24-Hour express deliveries to anywhere in the Philippines



#### N-Pouch

Our N-Pouch Service caters to the nationwide delivery of documents in a secure and timely manner.



#### N-Pack

Our N-Pack Service is the safe, secure choice for passports, cellphones, gadgets, and other parcels.



#### Kilo Box

Our Kilo Box Service allows you to send items such as small appliances and gifts anytime, without incurring additional cost.

### International delivery for documents, parcels and cargo

We also offer delivery of documents, parcels and cargo to over 200 destination countries all over the world.



\*LBC Drum available only inbound from Middle East



# Retail Services: Philippines

## Retail Money Express Services



**Interest Peso  
Padala (IPP)**



**Door-to-Door  
Delivery**



**Remit to  
Account**



**Bills  
Express (BX)**

- Cash Pick-up Service that allows customers to send and receive remittance through LBC's more than 1,200 strategically located branches nationwide.
- Beneficiaries can withdraw the money immediately once the sender has made a payment.
- Remittances are delivered directly to the beneficiaries' doorstep, providing an attractive option for situations in which beneficiaries cannot visit a branch.
- LBC offers next day delivery for "Pesopak" in almost all areas in the Philippines.
- Remittance service that allows customers to remit funds straight to the recipients bank accounts. Through LBC's partnership with commercial banks, funds are credited seamlessly.
- An over-the-counter payment facility which offers the service to receive/collect payments through over 1,200 strategically located LBC branches.



# Corporate Services: Philippines

## Logistics



LBC's Logistics Solutions is a combination of air, sea and land freight to maximize efficiency and ensure speed to market nationwide and abroad. By combining our products and extensive network, we offer a seamless mix of freight solutions to match delivery schedules and cost requirements.



**COURIER AND PARCELS**



**GENERAL CARGO**

## Cold Chain Services



We offer dedicated, fully-monitored and temperature-controlled movement of sensitive products anywhere in the Philippines, for volumes of Container or Full Truck Load (FTL).

## Send Tipid

SEND-TIPID is our PREPAID service offering (specifically for our Micro, Small and Medium Enterprise clients) of express delivery. We offer door-to-door services for your parcels anywhere in the Philippines.

## Non-Vessel Operating Common Carrier (NVOCC)



As experts in logistics, we have the capability to import and export domestic and international cargo – moving a full (or less than full) container shipment to gateway ports.

## Specialized Logistics



By understanding our clients' concerns and needs, we provide specialized solutions that will drive value for their business to ensure quality service to their customers nationwide.

# Corporate Services: Philippines

## Warehousing



We offer a wide range of value-added services to improve our corporate clients overall needs and business performance.



**PICKING AND  
PACKING**



**SORTING AND  
KITTING**



**INVENTORY  
MANAGEMENT**

### **Warehouse Management as an Outsourced Service (WMAAS)**

Warehouse Management as an Outsourced Service (WMAAS) is a unique offering from LBC. We will ensure control of your goods and assure you that our services will provide a value-added role in making your supply chains more effective and efficient.

## Corporate Remittance



Through LBC's partnerships with commercial banks, we offer Cash Management Solutions to fit your money movement needs through our Corporate Remittance Services.







**CASH DISBURSEMENT**



**CASH COLLECTION**

- ✓ Accessibility and multi-point payment and collection access – through its more than 1,200 branches nationwide, LBC provides a better and secure mode of payment and collection from our clients and customers, even in remote places.

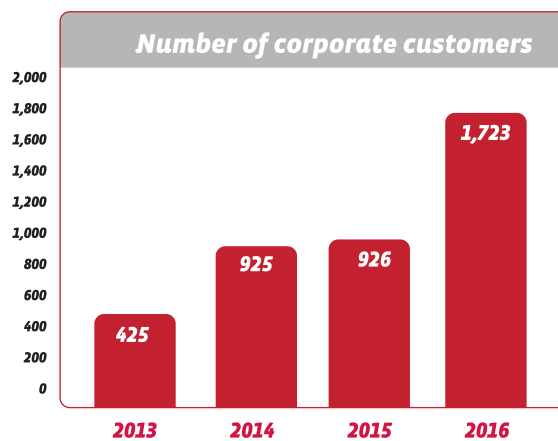
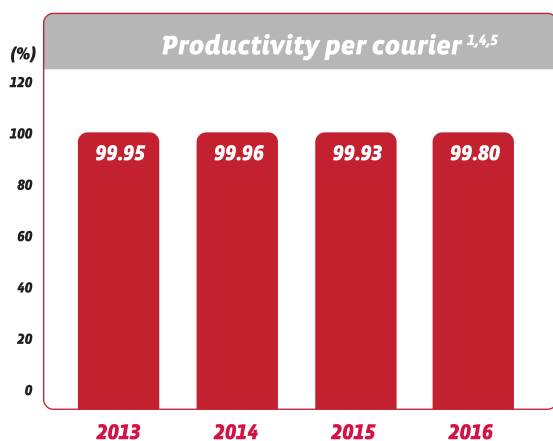
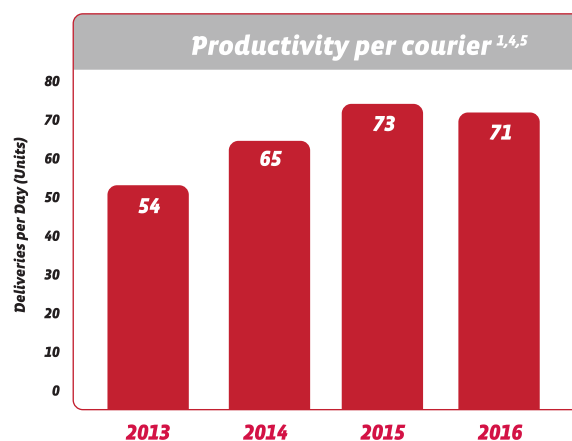
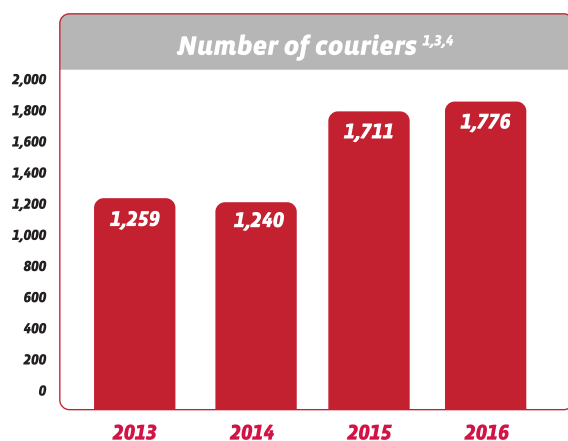
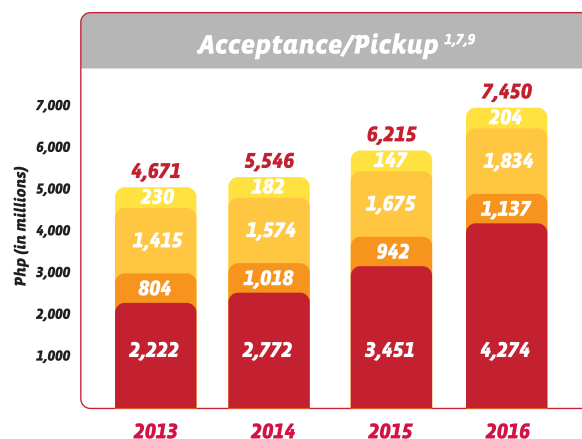
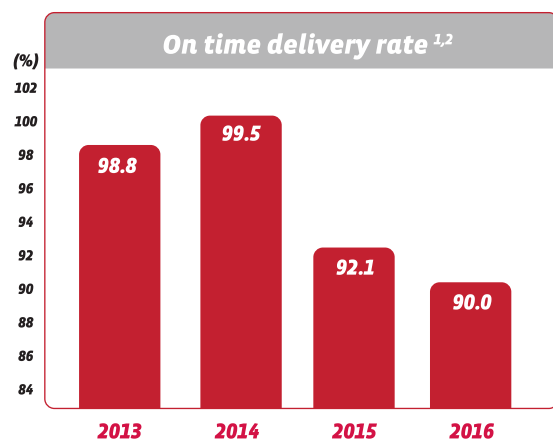
# Our Business at a Glance

	Logistics Services		Money Transfer Services	
	Retail Logistics	Corporate Logistics	Remittance	Bill Payment Collection
				
Service Offerings	<ul style="list-style-type: none"> <li>Courier, Air Cargo, Balikbayan Boxes</li> </ul>	<ul style="list-style-type: none"> <li>Specialized Corporate solutions, freight forwarding, supply chain</li> </ul>	<ul style="list-style-type: none"> <li>Branch retail services, Prepaid remittance Cards, Mobile and Online Remit Services</li> </ul>	<ul style="list-style-type: none"> <li>Bill payments and corporate remittance payouts</li> </ul>
Revenue Contribution	<ul style="list-style-type: none"> <li>57.1%</li> </ul>	<ul style="list-style-type: none"> <li>29.4%</li> </ul>	<ul style="list-style-type: none"> <li>12.6%</li> </ul>	<ul style="list-style-type: none"> <li>0.08%</li> </ul>
Key Financials	<ul style="list-style-type: none"> <li>Revenue: Php 4,964.00m</li> </ul>	<ul style="list-style-type: none"> <li>Revenue: Php 2,557.87m</li> </ul>	<ul style="list-style-type: none"> <li>Revenue: Php 1,099.84m</li> </ul>	<ul style="list-style-type: none"> <li>Revenue: Php 73.69m</li> </ul>
Key Operating Metrics <sup>2</sup>	<ul style="list-style-type: none"> <li>On time delivery rate<sup>2</sup> 90.0%</li> <li>Sorting efficiency<sup>3</sup> 99.8%</li> </ul>	<ul style="list-style-type: none"> <li>Number of corporate customers: 1,723</li> </ul>	<ul style="list-style-type: none"> <li>Number of transactions: 15,680,353</li> <li>Service locations: 3,849</li> </ul>	<ul style="list-style-type: none"> <li>Number of transactions: 15,288,730</li> <li>Service locations: 1,252</li> </ul>

Notes: 1. All figures as of FY16 ended Nov 30  
2. With exemptions of extreme situations  
3. Percentage of correctly routed items over total items accepted



# Key Performance Indicators



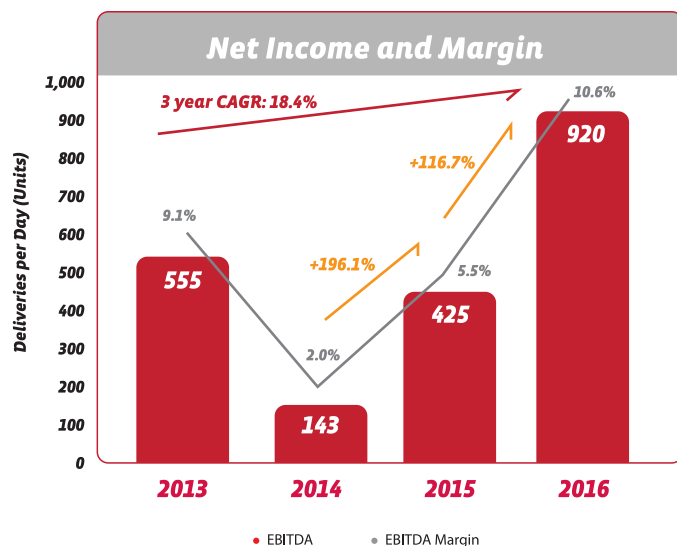
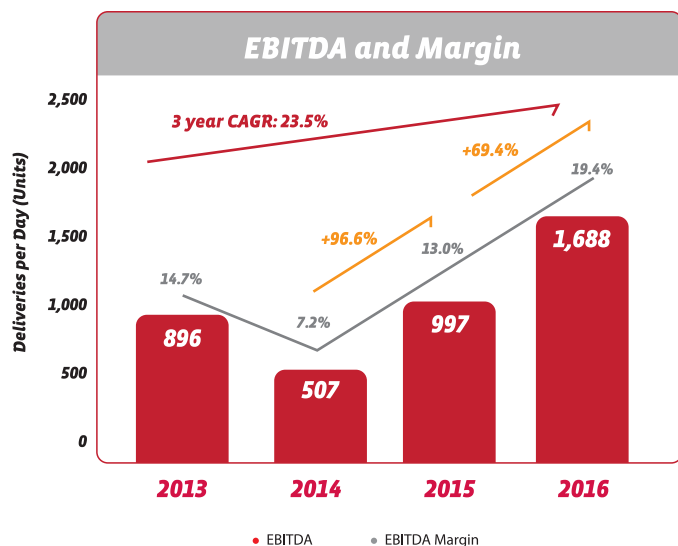
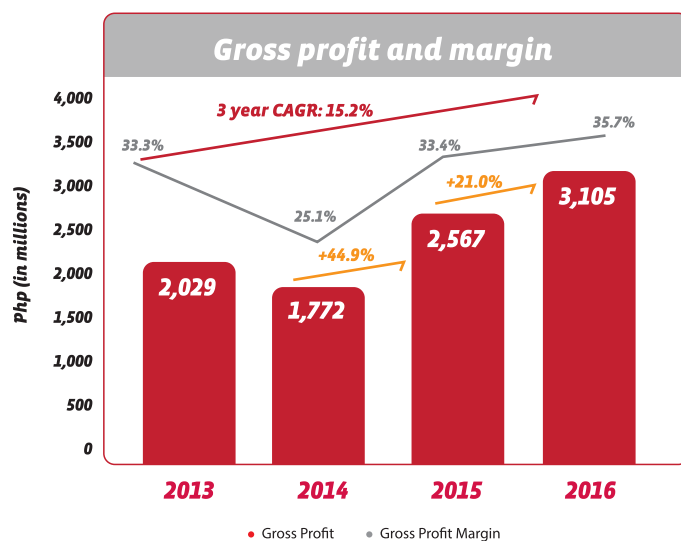
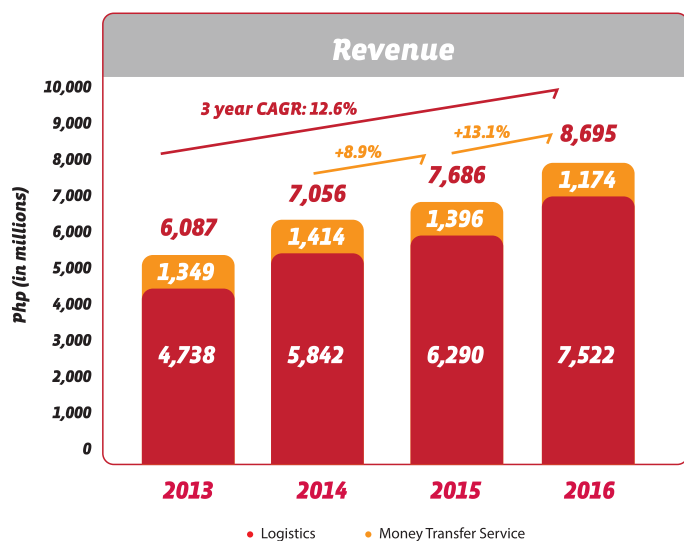
**Notes:**

- 1 Numbers are as of November 30 of the respective years
- 2 With exemptions of extreme situations such as force majeure and house closed; also includes Pesopak deliveries
- 3 Monthly average
- 4 For Philippines only

**5**

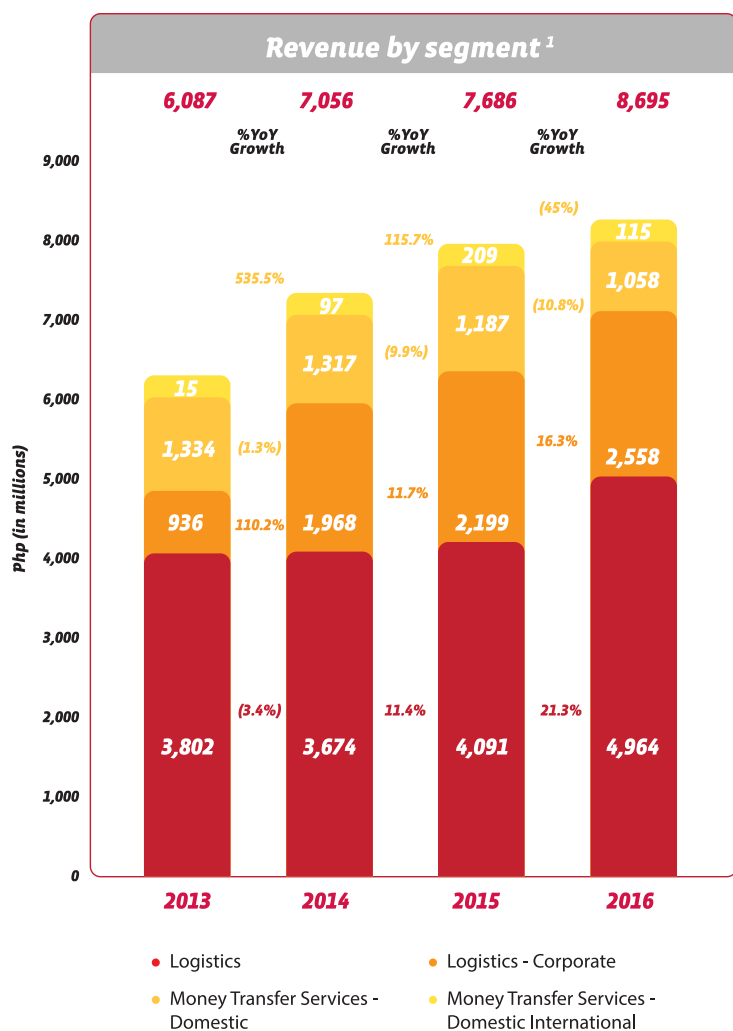
- Number of parcels or cargo delivered by the courier measured on a daily basis; computed based on 6 work days per week
- 6 Percentage of correctly-routed items over total items accepted
  - 7 Includes print & mail and Specialized Corporate Solutions services
  - 8 As of financial year end
  - 9 Includes LBC Express and Subsidiaries

# Key Profit and Loss items<sup>1</sup>



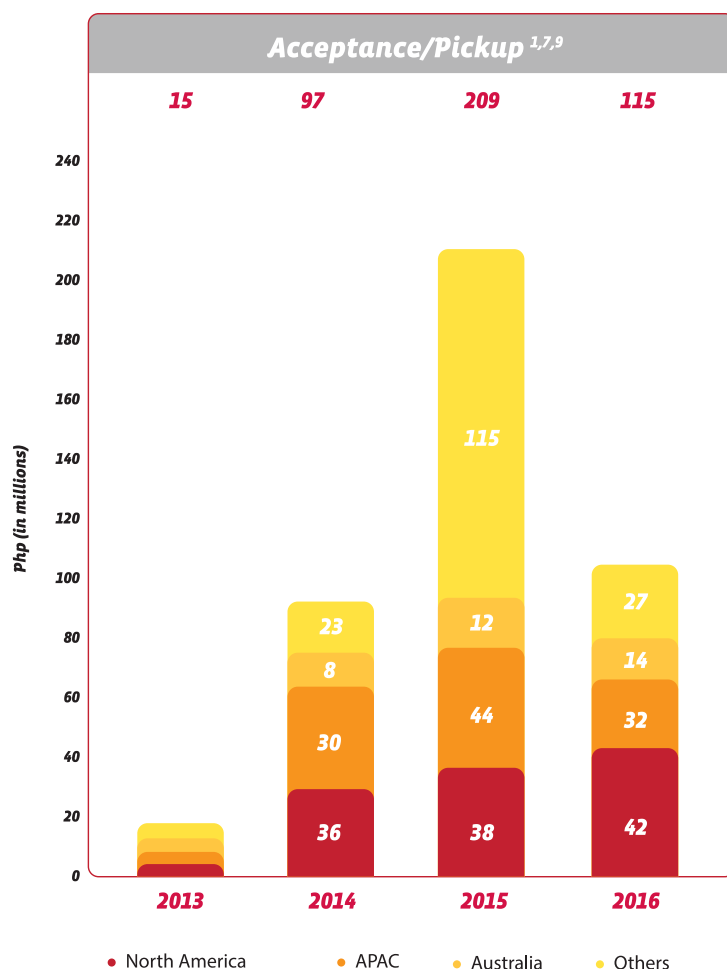
Notes:  
1 Fiscal year end on November 30

# Revenue by segment<sup>1</sup>



## Total

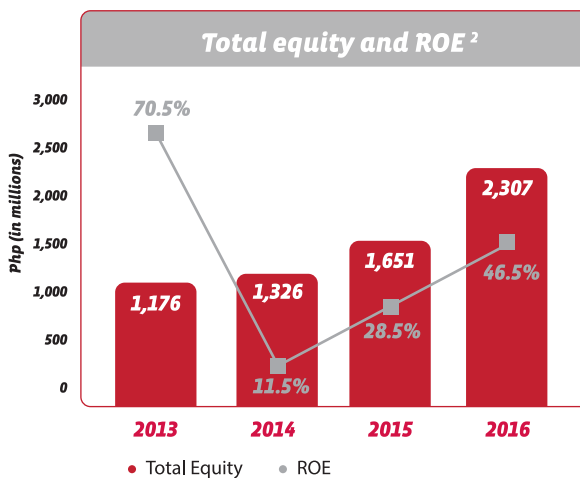
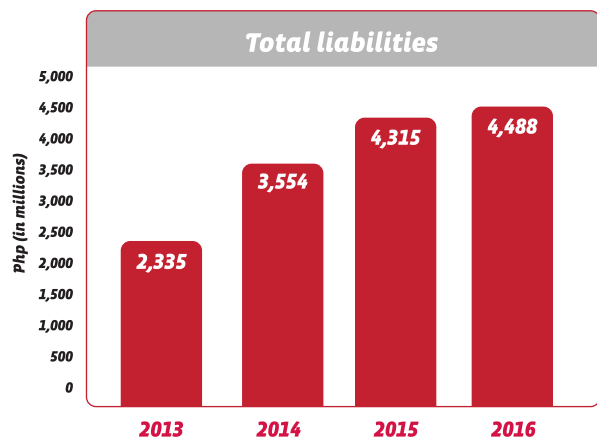
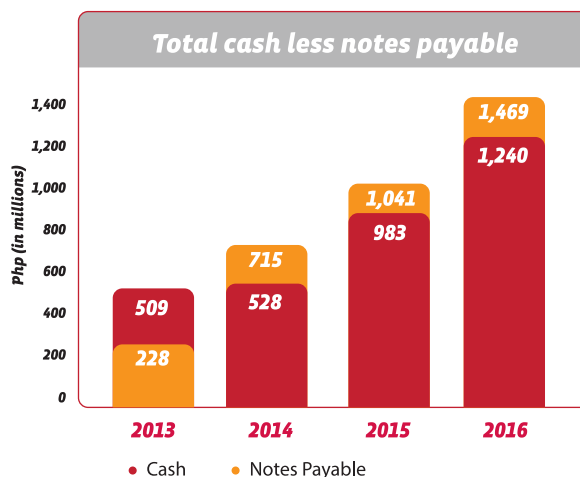
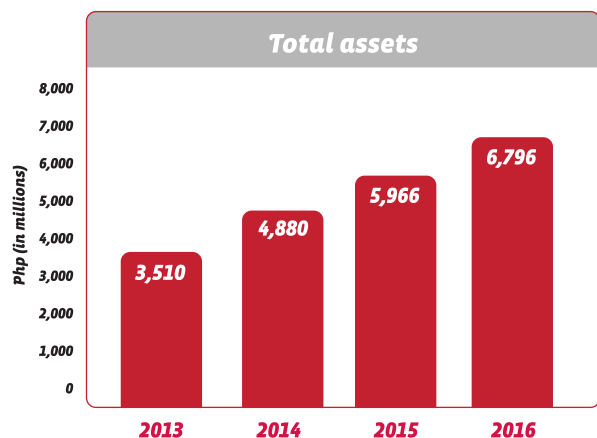
## %YoY growth of each segment



## Total

Note: 1. Fiscal year end on November 30  
 2. APAC excludes Australia and the Philippines  
 3. Others include Middle East, European Union and remittances from Transfast and other agentst

# Key Balance Sheet Items<sup>1</sup>



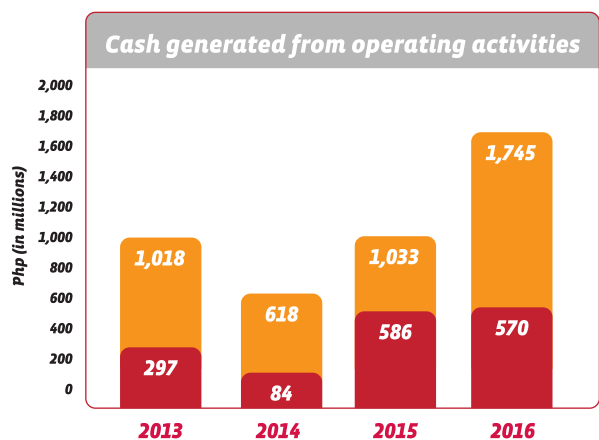
Notes:

1 Fiscal year end on November 30

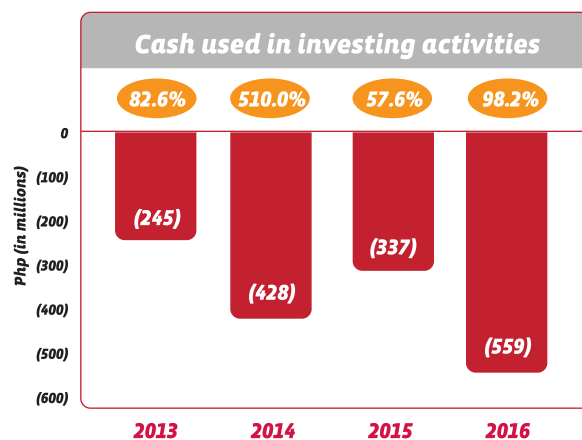
2 ROE is calculated as net income divided by average of current and previous year's total equity



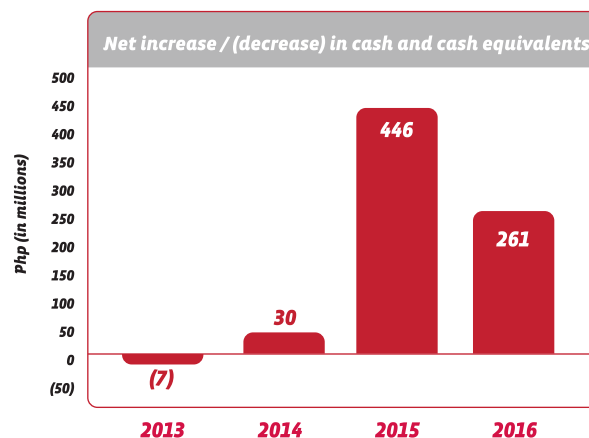
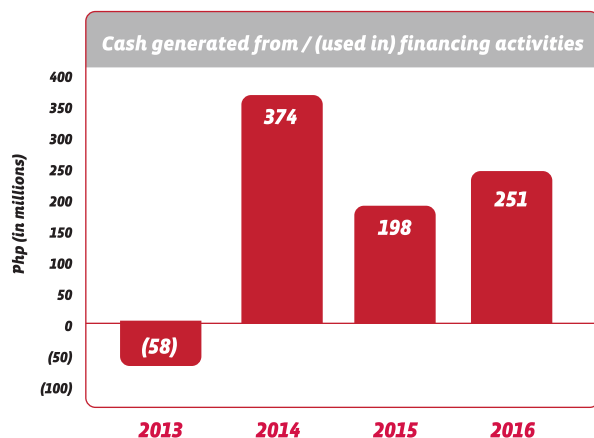
# Cash Flow Analysis<sup>1</sup>



- Cash from operating activities
- Operating income before changes in working capital



- Net cash (used in) investing activities
- Cash used in investing activities as % of cash generated from operations



Notes:  
1 Fiscal year end on November 30

# Our Story: The LBC Timeline



LBC Air Cargo ("LBC Express") became the 1st Filipino-owned courier company with time sensitive cargo deliveries



Luzon Brokerage Corporation was founded.

Within this decade, it operated as a brokerage and air cargo agent, prompting the company to change its name to LBC Cargo, Inc. before it evolved to become an express delivery agent.



Pioneered 24-hour door-to-door delivery

# Our Story: The LBC Timeline



Expanded its Money Transfer Services segment by offering bill payment collection services in the Philippines



Formally changed its name to LBC Express, Inc. and officially entered the domestic remittance business.

By 1987, LBC Express commenced its international money transfer operations by establishing relationships with agents and affiliates in the United States and steadily expanding its network globally to provide fulfillment services for inbound international remittances.



LBC Express began offering corporate remittance fulfillment services for SSS, payroll and insurance benefits on behalf of third party partners; and remittance encashments on behalf of its local remittance partner Palawan Pawnshop.

LBC Express is now known as the market leader in domestic air freight forwarding, with a sizable 41.8% market share in the industry.

## Our Story: The LBC Timeline



Rebranded, and created a new corporate slogan "We Like To Move It," also catalyzing an emphasis in corporate culture.



Achieved 62% market share of overall domestic express in the Philippines.



'ike



# Our Story: The LBC Timeline



Listed in the Philippine Stock Exchange, as LBC Express Holdings, Inc.



Launched its first global brand ambassador, Miss Kris Aquino.

> **Miguel A. Camahort** // Chairman, President &  
Chief Executive Officer

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**At the end of the day, delivering  
is our business, but making sure we  
do that well enough so that we can deliver  
the joy behind every parcel and remittance  
that goes through us, is our responsibility.**



## Dear Fellow Shareholders,

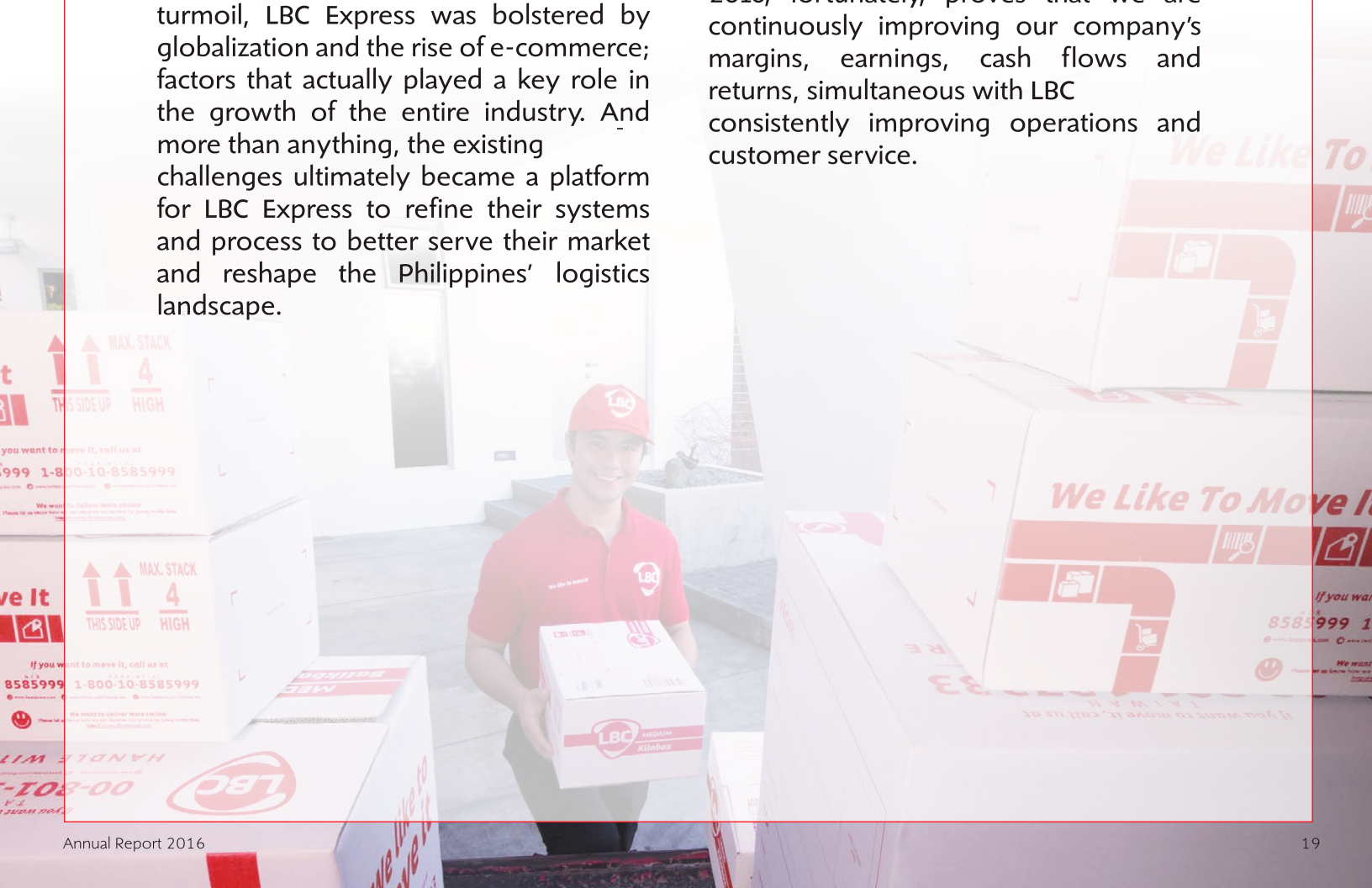
2016 was a great year for the Philippine logistics industry. Because of increased economic activity in the ASEAN region, the recent ratification of the ASEAN Economic (AEC) Framework, the entire business was pegged to grow at by staggering \$41.3 billion across a four-year timeline.

This makes it a very opportune time for our brand, LBC Express, to talk about the opportunities that we were fortunate enough to leverage on so that this once humble, fully Filipino-owned company could grow to become the blue-chip enterprise that it is now.

Despite local political and economic turmoil, LBC Express was bolstered by globalization and the rise of e-commerce; factors that actually played a key role in the growth of the entire industry. And more than anything, the existing challenges ultimately became a platform for LBC Express to refine their systems and process to better serve their market and reshape the Philippines' logistics landscape.

The fact is, in this industry, we have to face a different problem everyday. Challenges will shift and evolve following the times; it's very fluid. And finding the right solutions will require a lot of imagination and creativity. But with an approach anchored on LBC's values, mission and vision, our company continues to reach new heights.

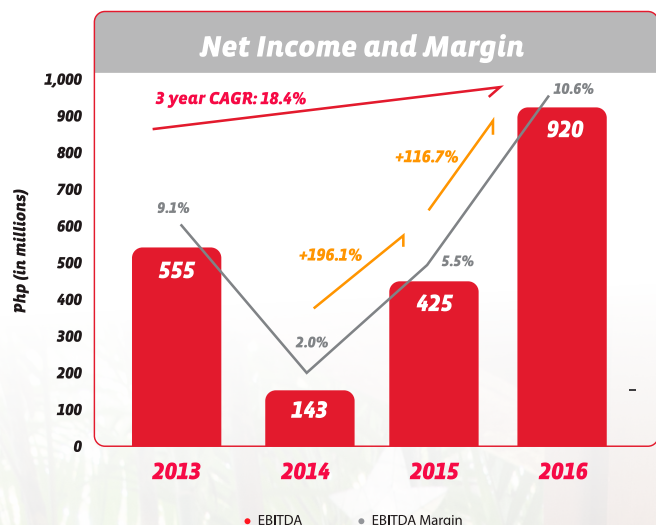
When we wrote our vision, we committed to becoming the access and delivery solutions provider of choice by 2020. We wanted to do this by ensuring that we have the professional and technological capacity to serve Filipino families and businesses through a well-rounded customer experience. And 2016, fortunately, proves that we are continuously improving our company's margins, earnings, cash flows and returns, simultaneous with LBC consistently improving operations and customer service.



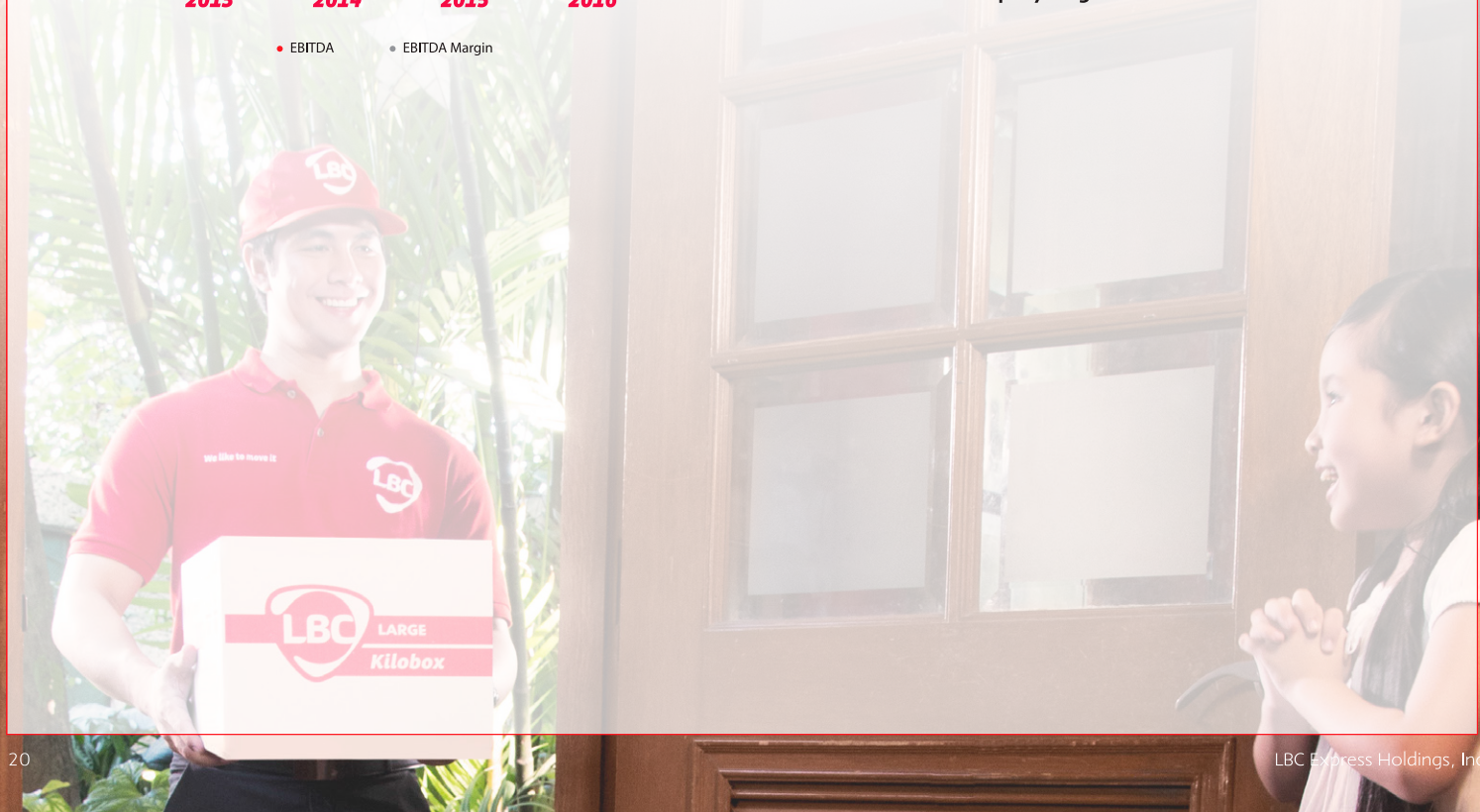


Our net core income from LBC Express, Inc. was at P920.2M, a 117% increase from the previous year, while total comprehensive income was at P1.105B, a 238% increase from previous year. Net income of LBC Express Holdings, Inc., on the other hand, increased by a staggering 120%, reaching P913.9 million by end of the year, due to the rise in air and courier services driven by improved cost of air and sea freight.

Current assets are at P4,601.5 million, a 36 percent increase from last year's numbers, with service revenues increasing by 9 percent due to the strength of the logistics segment in retail and corporate sales. Revenues from the logistics segment grew by 20 percent, due in large part to the additional 48 new branches that opened in the Philippines and the incremental increase in the company's volumes from cargo forwarding services during the year.



Because of our 5,300-strong network comprised of branches, partners and agents, our customer base is massive and diverse. LBC's history and heritage allowed us to grow through the years bolstered by the trust that loyal patrons continue to provide, even to this day. Each investment made, whether it's driven by expansion, technology, convenience, is meant to address what our customers needs. And these investments are paying off.



We're now in a position that allows us to expect this positive financial momentum and company growth to continue well into the next few years. We will continue our successful ventures with key partners, expansions towards automation, modernization of our fleets and are optimistic about seeing high returns, which is essential to growing our company.

**We want to further  
expand our coverage in  
the Philippines and  
around the world.  
We have the facilities.  
We have the know-how.  
We have the advantage.**

We'll continue to expand our network, and get closer to the communities outside of the cities. We'll also be rolling out more products that are very much related to the whole supply chain, warehousing, etc.

At the end of the day, delivering is our business, but making sure we do that well enough so that we can deliver the joy behind every parcel that goes through us, is our responsibility. Last year demonstrates the commitment to our goals and ideals. The years to come define a future that's bright with possibility—and we hope everyone, our customers, team members, stakeholders, and partners continue to lend their confidence in our ability to not only grow LBC, but our dedication to stay true to our company's vision.



**Miguel A. Camahort**





## Operational Highlights

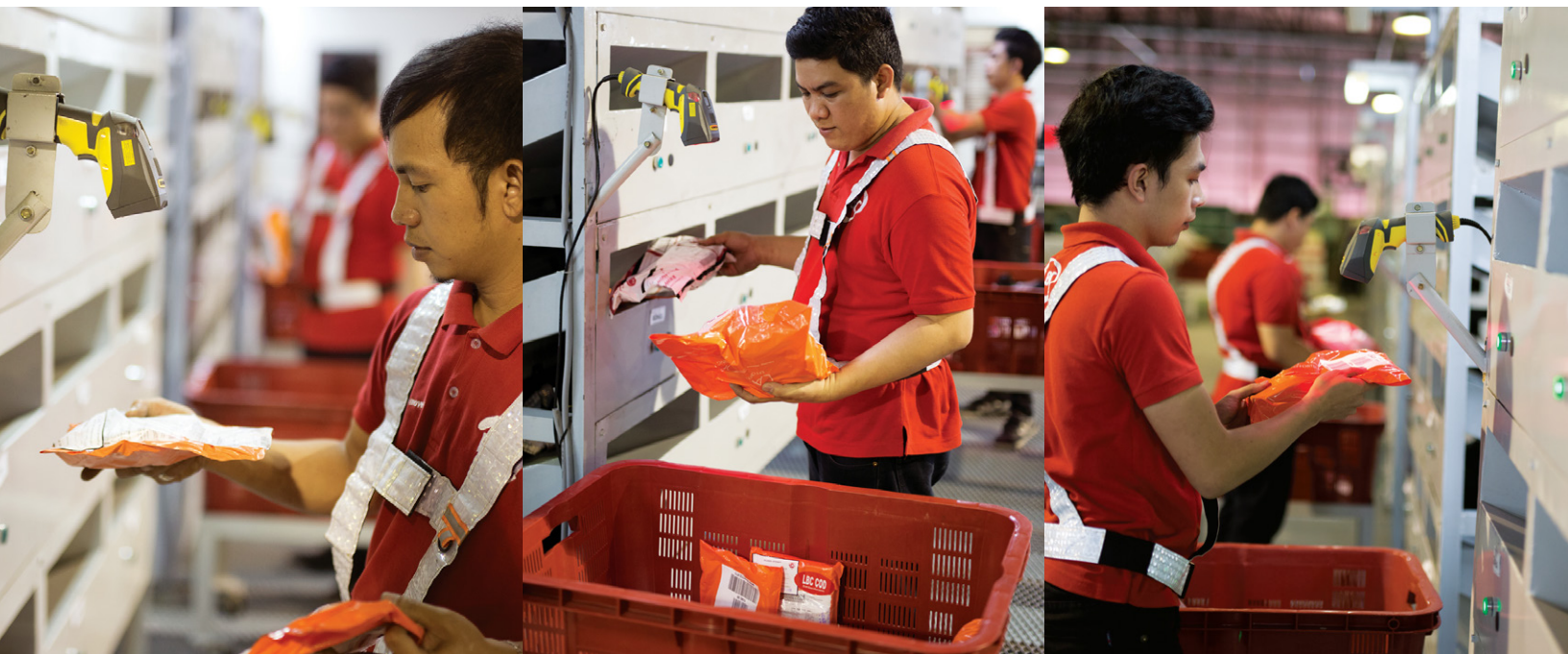
Given the company's positive momentum, LBC Express is taking steps to further its growth and ensure consistency by developing tailored services, e-commerce initiatives and technologies and systems intended to make freight forwarding more efficient. All this is being accomplished following LBC's pioneering culture of leadership in the industry.











## Put-to-Light: Illuminating the Future of Sorting

LBC Express pioneers yet another innovation that will help improve our service to our customers and make more ways for us to make their day.

The first of its kind in the Philippines, LBC launches the Put-to-Light project, a 'put' system that uses light displays to guide operators to the correct allocation of their items

Miguel Camahort, LBC President, introduced the idea of the Put-to-Light for Exchange, deriving from a system called Pick-to-Light (German Technology) used in International Warehousing Operations. Pick-to-Light is a system where items are placed in different trays and when a barcode of picking is scanned, a bulb will light up telling from which tray an item should be picked.

### **SORTING PUT TO EASE**

The Put-to-Light project will address the primary factors affecting the slowdown of sorting, which includes unreadable addresses, defective barcodes, and an associate's unfamiliarity with the address.

Everyday, LBC sorters process 80,000 units, and 60% of these units are documents. With this system, instead of reading the entire address written on the documents and then sorting it to a shelf, a sorter will just scan a barcode printed on the parcel and a bulb will light up indicating which shelf it should be sorted to.

Without the hassle of reading each address, associates will then consume less time in sorting, resulting to a higher productivity rate while minimizing manpower, and an improved sorting efficiency and accuracy through the help of the system's automated program.

### **SUCCESSFUL IMPLEMENTATION**

Results from the pilot run showed that sorters were able to process 1,000 units for only one hour. Without the help of the Put-to-Light system, sorters manually sort the same number of documents within three hours.



## LBC Announces Branch Growth Plans for 2017

"LBC Express is poised to open 100 stores nationwide in 2017," says LBC President, Miguel Camahort.

"Our branch expansion is driven by our customer's expectations for convenience and ease. We continue to push for growth so that we can meet the needs of our customers who demand only the best when it comes to their padala,"

LBC is also planning to open in untapped areas where the convenience of a reliable express delivery service is critical. Additional branches for busy urban areas will also enable LBC to create a seamless branch experience where customer service is at the forefront.





## LBC Express Strengthens Initiatives to Prevent Money Laundering

LBC Express has made the fight against money laundering and terrorist financing a priority.

Their initiatives are driven by the goal of ensuring the integrity and stability of the brand, in the context of how it will impact the nation's economy.

"These activities can significantly undermine the reliability that LBC Express has taken years to build. Beyond that, it will obviously have a destabilizing spillover effect on the country's economy," explains Miguel A. Camahort. "And in an increasingly interconnected world, the consequences of ignoring its impact on the global financial and security landscape can prove to be very damaging."

To that end, members of the LBC Senior Management led by Board Chairperson and Chief Executive Officer, Mr. Santiago G. Araneta together with the President and Chief Operating Officer, Mr. Miguel A. Camahort, joined the first Annual Anti-Money Laundering (AML) Refresher Training held February 16 at Marriott Hotel.

As one of the leading money remittance brands in the country, LBC Express plays a critical role in preventing money laundering and terrorist financing in the country. To that end, LBC heads came together to gain insight from Anti-Money Laundering Council (AMLC), a government agency tasked to implement laws and regulations regarding this matter.

This is another concrete step towards ensuring the safety and security of transacting with LBC.





## Araw ng Aming Ligaya

"We are the number one courier cargo and delivery in the Philippines. Number one," Miguel A. Camahort, President and Chief Operating Officer of LBC proudly begins. "We are also the foremost upcoming and rapidly growing logistics supply chain company in the industry, not only in the country but across the globe. We are a prominent Filipino global brand. We move lives, businesses and communities. But we are more than just that. LBC is a brand about people—the team behind it and the customers that we want to serve."

Happiness may be the newest buzzword in businesses today, especially at a time when industries are putting more focus on the values that drive team and customer loyalty; but the truth is, it's very hard to miss the link between happiness and a successful business.

In the case of LBC Express, the realization led to an entire campaign that will seek to keep team members happy, so that they, in turn, can make the customers that depend on the business happy. Quite simply, it's about delivering happiness—and it has to start from the inside.

From out of eight thousand employees, LBC gathered more than 150 team managers from branches, warehouses and offices across the country to the Bellevue Hotel for an entire day dedicated to understanding the value behind the Aming Ligaya campaign. It began with a few words from President & COO Miguel A. Camahort, whose speech reminded everyone that LBC is a business built on trust and relationships grown between its employees who work hard to "move it" for customers around the world.



## LBC Business Solutions Seeks the first SME Company of the Year with Asia CEO Awards

Nation-building isn't exclusively about country's biggest industry names being able to sustain their growth—it's also about giving small to medium enterprises (SMEs) an opportunity to become locally and globally competitive. After all, SMEs are one of the most important components that help sustain the country's long-term economic goals.

For this reason, the country, led by blue-chip organizations, are turning their attention on the SME agenda—giving them an opportunity to cross borders, reach more customers, and become internationally recognized brands. Case in point, LBC Business Solutions—the biggest name in express delivery and logistics in the country—who is lending their support to SMEs who are seeking to innovate, adapt, learn and improve, to ensure that they are able to stand out in this competitive business landscape.

"As we reach this age of globalization, we come to realize that along with gumption, drive, and heart, cooperation is the secret to success—but not just cooperation with colleagues. We mean cooperation in a more inclusive, wholistic sense; which is why we are wholeheartedly supporting this initiative," begins Javier C. Mantecon, Chief Marketing Officer of LBC.

Asia CEO Awards is one of the largest business awards events in the country and is recognized as one of the most prestigious recognitions in the region. It hopes to promote the ASEAN region as a premier business destination that draws the most prominent personalities in various industries such as outsourcing, communications, logistics, finance and more.

As long-standing partners of Asia CEO Awards, LBC's goal is to present opportunities for SMEs to build bridges with fellow industry players and key stakeholders, ultimately allowing them to showcase what they have to offer on a global scale.





## LBC Express Inc. Partners with ActiveOne Health Inc.

LBC Express Inc., is now an official partner of ActiveOne Health Inc., a company that offers premium health services to premier institutions, managing more than 250 on-site clinic facilities for over 60 corporate clients all over the Philippines.

The partnership between both organizations marks a relationship that will ensure faster, safer and a more reliable system of delivery for ActiveOne's corporate clients.

Given LBC's expansive network, LBC hopes to assure customers that this collaboration will pave the way for more efficient ways to serve the needs of ActiveOne's nationwide market.

"We are committed to meeting the needs of the company and its clients—and ActiveOne is certainly a partner that we can grow with as it fulfills its vision," says Jerome Santos, LBC Express Inc. VP for Corporate Sales.





## For Any Concerns, Call 800-LBC-111

With more and more kababayans sending and receiving packages from all over the world, LBC UAE has set up a new hotline intended to boost convenience and access to customers based in the UAE.

The new toll-free hotline, 800-LBC(522)-111, which was previously based in a call center in the Philippines, has started to migrate operations to UAE, with a team ready to answer calls and attend to customer needs from 6AM to 12MN.

This makes it easier for kababayans to not only communicate their concerns, but allows LBC team members to immediately respond to their inquiries and needs.

“We accommodate around an average of 6,000 to 8,000 calls in a week and LBC is making a move to migrate a full call center team with deep familiarity of the UAE culture here in Dubai in order to better serve our customers by responding to their needs through more efficient customer handling and better response rates. All these efforts are done to ensure that we are providing convenience and clarity with every call placed by our customers,” ends LBC UAE Area Head, Christopher Eusebio.

# Re-Shaping LBC from the Ground, Up with NWOW

LBC Express, Inc. undertakes a new strategy that would not only increase customer satisfaction but also improve team efficiency and productivity.

The system is called New Ways of Working (NWOW), a collective set of solutions or elements to resolve the identified gaps and findings in each level and in the management control system," Javier Mantecon, Chief Marketing Officer.

## HOW THE NWOW IS MADE

"There's a lot of activities before achieving the NWOW," Mantecon said. "The methodology goes first with a focus design. So we review step-by-step all the activities that are being done by any associate in every department/division."

After reviewing the Activity List, the team filters which ones create value and which does not.

"Then we call in the subject-matter experts, the operations heads, the team heads, and we have deliberations on processes. Can this be removed? Can this be streamlined? If we change this, how will it affect other divisions?"

The team draws-up the process and put a management control system to measure it while it is being implemented. Afterwards, they hold a strategic integration with all the Business Unit (BU) heads including Miguel Camahort, LBC President and Chief Operating Officer.

"We sign and we agree that this will become the new ways and this is how it will be monitored. Then, that's when we officially call it the NWOW," Mantecon said.

"It's not a one-way discussion. It's actually a collaborative effort of all the operating heads and business unit owners."

NWOW was piloted into three different branches around NCR as a test to see if the suggested tools and new processes will be effective. Results from this pilot would determine whether the suggested NWOW would be applicable to other regions.





# My Idol My Hero – Meet ka-LBCs who go above and beyond the call of duty



Meet Brennie Salvador

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

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

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

Meet Andy P. Nicdao & William P. Alguso Jr.

Not all heroes walk around with capes. . .

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

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

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

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

Meet Francis Aldrin V. Potolin

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

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

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

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

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

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

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



## LBC Inks Partnership Deal with Philab

The country's pioneer in next generation sequencing for medical and agbio genomics is leveraging on the core capacity of the Philippines' number one express delivery and logistics capabilities through a new partnership agreement.

LBC Business Solutions was recently appointed by Philab Industries Inc. as their new logistics partner, as they push to expand their services to cover educational initiatives.

Working with the Department of Education, Philab will be distributing math and science kits to public schools nationwide.

"Fast, reliable end-to-end solutions are critical for the success of this initiative—that is why Philab trusted LBC. With that said, we are in a prime position to leverage off each other's core competencies and use our expertise to contribute significantly to the government's nation building efforts through education," says Tom Navasero, Philab's Chief Executive Officer.



## LBC Express, Inc. Finalizes Partnership with Ramco Systems

In an effort to streamline internal operations, the deal will see LBC Express applying an automated system of HR, time and attendance, leave management, employee self service and recruitment. It will be initially rolled out locally, but will eventually be implemented across LBC's global operations in an effort to strengthen engagement and efficiency of our team. Moving towards a unified solution will thus allow LBC Express to focus on more strategic HR initiatives that support the company's inherent values.

"Working with Ramco Systems was not a difficult decision. Anchored on LBC's service-centric values, and bolstered by our intent to focus on delivering value and joy in every aspect of our business, LBC looks forward to how we can continue to grow the business with partners who share our interest by our side," says LBC Chief People Officer, Jhayner V. Bhufi.





## Moving Lives Through the Kabayan Corner Initiatives

In the spirit of moving the lives, and not just the packages, of its customers, LBC in collaboration with key partners, sought to give Filipino expatriates in the UAE a direct line for assistance.

Dubbed the Kabayan Corner, LBC is working with the Philippine Consulate of Dubai and Northern Emirates and Gulf Law's Atty. Barney Almazar, the initiative creates a platform that allows Filipinos to a way to send in their concerns directly to the Philippine Consul General, Paul Raymund Cortes via a drop box. These drop boxes are available at LBC branches and Smart Shelters.



It also gives them an opportunity to send in questions and queries that they may have regarding typical OFW concerns such as visa, labor laws, police cases, and marriage—basically any legal concerns that they may have—via tablets provided for at designated areas.

The idea was borne after the Philippine Consul General came across the story of an OFW who lost a child after he was unable to seek assistance. He neither knew where to find the consulate nor did he know how to reach out to the right people.

# Corporate Social Responsibility



The company's success is measured by three main metrics—how they move lives, how they move businesses, how they move communities. As a private, for-profit business, all three are met simply because LBC is a company built on the concept of the joy of moving. But its success has prompted the company to show commitment for social responsibility—leveraging on the strategic investment of their core strength, people, resources and network to really make a difference. All these are mobilized via the company's philanthropic arm, LBC Foundation.









### Disaster Relief

LBC Foundation's disaster relief operations continued after Typhoon Ondoy in Metro Manila to Typhoon Pablo in Mindanao, and Typhoon Sendong in Luzon. When Typhoon Yolanda hit in 2013, LBC Foundation not only amped its relief operations for the affected areas to cope with the overwhelming needs, but also extended aid through rehabilitation and livelihood programs. The foundation focused its effort on rebuilding homes and donating boats to the fishermen who had lost theirs to the storm.

### Community Development

For community development, the brand has partnered with Gawad Kalinga to create homes in provinces that were devastated by typhoons, specifically in Capiz, Compostela Valley and Naga City. There is a lot to be said for the importance of passion in CSR, and this is embodied in the phenomenal work of the Foundation, and shown through the words of Gawad Kalinga advocate Boy Montelibano, who states that "they [LBC] are not building just with their money, but with their hearts". As of 2015, the company has committed a total of 160 houses, with over 60 already completed.



### Youth Development

For youth development, they continue to focus on creating programs that assist kids to overcome post-Yolanda PTSD by developing self-empowerment, building leadership skills and promoting active and healthy lifestyles within a safe environment. Together with organizations, Futbol sa Kalye (or Futkal) and Mifalot, a program using football as a tool to access the youth affected by the devastating effects of the typhoon. The program was designed to assist up to 400 children in overcoming PTSD and restore normalcy through play while building self-esteem, leadership skills, and teamwork while promoting an active and healthy lifestyle in a fun and safe environment.







## Education

LBC's efforts in education included a partnership with the Department of Education for teacher training that aims to equip public school teachers with the skills and tools to improve quality of education in Cavite and Laguna. The foundation has also partnered with World Vision Philippines, sponsoring 150 children from various developmental areas, to give them access to healthcare and education. As part of this vision, LBC also extends its support to the Library Renewal Partnership, who hopes to build 200 community libraries by 2020 thus promoting literacy in the nation.

Drawing on both their internal and customer network, LBC Foundation continues to ship books from the US to public schools around the nation for the Datu Wali Mission and regularly ships donations for Project Pearls, an initiative that seeks to bring much-needed basic necessities to various underserved areas in the country.

But being a developing country, the Philippines faces a lot of challenges, and as a foundation, it is our goal to be able to respond to the most pressing matters. However, anchored on LBC Foundation's goal of moving people forward through empowerment, our next step is to find a way to contribute to nation building, at a grassroots level. To that end, LBC Foundation's focus will not center on moving the Filipino youth forward to have access to quality education—a facet of development that the foundation believes is an equalizer, instilling pride, dignity and responsibility among the receiver.

The goal now is all about working together with them, making them partners for the country's growth.



# Corporate Governance

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

## The Board of Directors

The Articles of Incorporation of the Company provides that the Board of Directors shall be composed of nine (9) members. As of 31 December 2016, the Board of Directors of the Company consists of seven (7) directors, with two (2) seats vacant for election.

As required by the Securities and Exchange Commission ("SEC"), the Company, being a publicly-listed company, is mandated to nominate two (2) independent directors. Thus, of the seven (7) directors of the Company, two (2) were elected as independent directors in accordance with the By-Laws of the Company.

Pursuant to the SEC Memorandum Circular 19-16, the Board of Directors of the Company resolved to increase the number of its independent directors from 2 to 3, subject to the amendment of the Company's By-Laws reflecting such recommendation.

In 2016, the Board of Directors held 6 meetings, five (5) special board meetings and one (1) organizational meeting. All the members of the Board of Directors were present during such meetings, as follows:

## 2016 Board Meetings

Director	18 May 2016 Special	27 May 2016 Special	29 July 2016 Organizational	7 October 2016 Special	11 November 2016 Special	25 November 2016 Special
Miguel Angel A. Camahort	P	P	P	P	P	P
Rene E. Fuentes	P	P	P	P	P	P
Enrique V. Rey, Jr.	P	P	P	P	P	P
Augusto G. Gan	P	P	P	P	P	P
Solita V. Delantar (Independent)	P	P	P	P	P	P
Mark Werner J. Rosal	P	P	P	P	P	P

\*Present

To assist the Board of Directors in discharging its duties and responsibilities, the Board constituted: (1) the Audit Committee; (2) the Nomination Committee; and (3) the Compensation and Remuneration Committee which directly report to the Board in accordance with duly approved procedures. As of 31 December 2016, the board committees and its members are as follows:

### 2016 Board Meetings

Director	Audit Committee	Nomination Committee	Compensation and Remuneration Committee
Miguel Angel A. Camahort	Member	Member	Member
Rene E. Fuentes	P	P	P
Enrique V. Rey, Jr.	P	P	P
Augusto G. Gan	P	P	P
Solita V. Delantar (Independent)	P	P	P
Luis N. Yu, Jr. (Independent)	P	P	P
Miguel Angel A. Camahort	P	P	P

### Audit Committee

The Audit Committee is responsible for company ' s financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. The Audit Committee consists of at least three (3) directors, who shall preferably have accounting and finance backgrounds, one (1) of whom shall be an independent director and another with audit experience. Each member shall have adequate understanding at least or competence at most of the Company's financial management systems. The Chair of the Audit Committee shall be an independent director.

### Nomination Committee

The Nomination Committee was constituted by the Board of Directors to review and evaluate, among others, the qualifications of all persons nominated to the Board and other appointments that require Board approval in accordance with the qualifications and disqualifications provided under the Company's By-Laws and relevant laws. The Nomination Committee shall have at least three (3) members, one of whom must be an independent director.

### Compensation and Remuneration Committee

The Compensation and Remuneration Committee is tasked by the Board of Directors to, among others, establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the corporation's culture, strategy and the business environment in which it operates. The Compensation and Remuneration Committee shall have at least three (3) members, one (1) of whom shall be an independent director.

Pursuant to the SEC Memorandum Circular 19-16, the Board of Directors of the Company resolved to reconstitute the following committees: (1) the Audit Committee; (2) the Corporate Governance Committee which shall replace and assume the functions of the Nomination Committee and the Compensation and Remuneration Committee; (3) the Board Risk Oversight Committee which shall be responsible for the oversight of the Company's Enterprise Risk Management System; and (4) the Related Party Transactions Committee, which shall be tasked with reviewing all material related party transactions of the Company. The establishment of such additional committees shall be effective upon the approval of the Company's By-Laws and the adoption of the respective Charters of said committees.

### External Auditor

The external auditor contributes to the enforcement of good governance through independent examination of the financial records and reports of the Company. The external auditor of the Company is the accounting firm of SyCip Gorres Velayo & Co. ("SGV & Co."). The Board, upon the recommendation of the Company's Audit Committee, approved the reappointment of SGV & Co. as the Company's independent auditor for 2016 based on their performance and qualifications.

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

### Audit and Audit-related Fees

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

	2016	2015
In Millions (PHP)		
Audit and Audit-Related	Php 7,987,500	Php 8,035,000
Total	Php 7,987,500	Php 8,035,000

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

### Compliance Officer

The Board of Directors appoints a Compliance Officer who shall report directly to the Chair of the Board. The Compliance Officer is tasked with, among others, monitoring the compliance by the Company with the rules and regulations of regulatory agencies such as the SEC and the Philippine Stock Exchange ("PSE"), and submitting reports in accordance with the rules of such agencies and other pertinent laws. Updates and the consolidated changes to the Annual Corporate Governance Report of the Company for year 2016 were submitted to the SEC last 10 January 2017. Further, the Company submitted last 31 March 2017 its Compliance Report on Corporate Governance for year 2016.



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As of 31 December 2016, the Company has complied with the principles and practices contained in its Manual on Good Corporate Governance. There were no sanctions imposed on any director, officer, or employee for non-compliance.

### **Disclosure and Transparency**

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

### **Commitment to Good Corporate Governance**

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

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

Consolidated Financial Statements  
December 31, 2016 and 2015

and

Independent Auditor's Report



A member firm of Ernst & Young Global Limited

## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of LBC Express Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, 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, 2016, 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 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

We draw attention to Note 25 to the consolidated financial statements which describes the uncertainty related to the outcome of the case filed against LBC Express, Inc. (LBCE), a subsidiary, 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 case is in relation to a demand letter representing collection of unpaid service fees from June 2006 to August 2011 and service charges on remittance transactions from January 2010 to September 2011. LBCE and LBC Development Corporation, the ultimate parent company, among other defendants, filed a separate Motion to Dismiss the Complaint on January 12, 2016. In a joint resolution dated June 28, 2016, the court resolved to deny the Motions to Dismiss filed by the defendants, including LBCE. On July 18, 2016, LBCE, together with the other defendants, filed a Motion for Reconsideration of the Joint Resolution.





PDIC then filed its Comment/Opposition on August 10, 2016, followed by the defendants' reply on August 26, 2016, PDIC's Rejoinder on September 26, 2016, and defendants' Sur-Rejoinder on November 16, 2016. Thereafter, in an Order dated January 26, 2017, the Motion for Reconsideration was deemed submitted for resolution. On February 23, 2017, LBCE received the court's resolution denying the Motion for Reconsideration of the Joint Resolution. On February 28, 2017, LBCE filed a Motion for Extension of Time to File Answer, asking for additional period of 15 days, or until March 15, 2017 to file Answers. 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. Our opinion is not modified in respect to this matter.

### **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 Company's subsidiary, LBCE, among other respondents, is involved in a case filed by LBC Development Bank, Inc., as represented by its receiver and liquidator, PDIC, for collection of an alleged amount of P1.82 billion. This is significant to our audit because the determination of whether any provision should be recognized and the estimation of potential liability resulting from this case 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 25 to the consolidated financial statements.

#### *Audit Response*

Our audit procedures focused on the evaluation of management's assessment on whether any provision for contingencies should be recognized and the estimation of such amount. We held discussions with management and the Group's legal counsel 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 asked the Group to reconcile with their records.



### **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, 2016, 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, 2016 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.






- 5 -

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

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

SYCIP GORRES VELAYO & CO.



Cyril Jasmin B. Valencia

Partner

CPA Certificate No. 90787

SEC Accreditation No. 1229-AR-1 (Group A),

May 12, 2015, valid until May 11, 2018

Tax Identification No. 162-410-623

BIR Accreditation No. 08-001998-74-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5908770, January 3, 2017, Makati City

March 8, 2017



**LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 4, 20 and 21)	<b>P1,327,790,727</b>	P979,102,489
Trade and other receivables (Notes 5, 14, 20 and 21)	<b>1,526,719,330</b>	1,466,759,522
Due from related parties (Notes 14, 20 and 21)	<b>1,107,999,329</b>	1,321,346,663
Available-for-sale investments (Notes 9, 20 and 21)	<b>250,937,154</b>	—
Prepayments and other current assets (Notes 6, 20 and 21)	<b>388,089,197</b>	443,304,439
Total Current Assets	<b>4,601,535,737</b>	4,210,513,113
<b>Noncurrent Assets</b>		
Property and equipment (Note 7)	<b>840,476,927</b>	763,022,204
Intangible assets (Note 8)	<b>266,047,661</b>	276,381,485
Available-for-sale investments (Notes 9, 20 and 21)	<b>458,391,174</b>	212,596,951
Deferred tax assets - net (Note 17)	<b>274,380,370</b>	225,645,084
Security deposits (Note 18)	<b>226,255,209</b>	209,930,934
Other noncurrent assets (Note 6)	<b>70,150,604</b>	61,806,091
Total Noncurrent Assets	<b>2,135,701,945</b>	1,749,382,749
	<b>P6,737,237,682</b>	P5,959,895,862
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts and other payables (Notes 10, 14, 20 and 21)	<b>P1,294,903,590</b>	P1,832,036,409
Due to related parties (Notes 14, 20 and 21)	<b>18,509,332</b>	18,137,986
Current portion of notes payable (Notes 12, 20 and 21)	<b>666,715,500</b>	1,040,617,833
Transmissions liability (Notes 11, 20 and 21)	<b>467,284,795</b>	508,139,757
Current portion of lease liabilities (Notes 18, 20 and 21)	<b>50,826,683</b>	43,049,537
Income tax payable	<b>254,758,265</b>	130,683,165
Total Current Liabilities	<b>2,752,998,165</b>	3,572,664,687
<b>Noncurrent Liabilities</b>		
Retirement benefit liability (Note 19)	<b>721,026,661</b>	641,812,079
Notes payable - net of current portion (Notes 12, 20 and 21)	<b>692,500,000</b>	—
Lease liabilities - net of current portion (Notes 18, 20 and 21)	<b>73,242,401</b>	74,164,341
Other noncurrent liabilities (Notes 7, 20 and 21)	<b>34,477,440</b>	43,553,548
Total Noncurrent Liabilities	<b>1,521,246,502</b>	759,529,968
	<b>4,274,244,667</b>	4,332,194,655
<b>Equity (Note 13)</b>		
Equity attributable to shareholders of the Parent Company		
Capital stock	<b>1,425,865,471</b>	1,425,865,471
Retained earnings	<b>782,414,079</b>	174,498,871
Accumulated comprehensive income	<b>305,677,402</b>	68,411,150
	<b>2,513,956,952</b>	1,668,775,492
Non-controlling interests	<b>(50,963,937)</b>	(41,074,285)
Total Equity	<b>2,462,993,015</b>	1,627,701,207
	<b>P6,737,237,682</b>	P5,959,895,862

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2016	2015	2014
<b>SERVICE REVENUE</b> (Note 22)	<b>₱8,695,402,622</b>	<b>₱7,686,474,464</b>	<b>₱7,056,227,838</b>
<b>COST OF SERVICES</b> (Note 15)	<b>5,590,513,089</b>	<b>5,119,531,467</b>	<b>5,284,490,318</b>
<b>GROSS PROFIT</b>	<b>3,104,889,533</b>	<b>2,566,942,997</b>	<b>1,771,737,520</b>
<b>OPERATING EXPENSES</b> (Note 16)	<b>1,872,805,197</b>	<b>1,947,792,990</b>	<b>1,602,561,779</b>
<b>OTHER INCOME (CHARGES)</b>			
Foreign exchange gains - net	143,233,568	108,110,678	42,048,592
Interest income (Note 4)	2,365,500	1,539,555	374,768
Interest expense (Notes 12 and 18)	(63,493,537)	(43,314,537)	(30,799,508)
Others- net	10,900,924	1,447,367	19,551,451
	<b>93,006,455</b>	<b>67,783,063</b>	<b>31,175,303</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>1,325,090,791</b>	<b>686,933,070</b>	<b>200,351,044</b>
<b>PROVISION FOR INCOME TAX</b> (Note 17)	<b>411,150,046</b>	<b>270,632,174</b>	<b>56,940,800</b>
<b>NET INCOME</b>	<b>913,940,745</b>	<b>416,300,896</b>	<b>143,410,244</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<b>Items not to be reclassified to profit or loss in subsequent periods</b>			
Remeasurement losses on retirement benefit plan - net of tax (Notes 13 and 19)	(11,989,538)	(42,898,526)	21,302,810
<b>Items that may be reclassified to profit or loss in subsequent periods</b>			
Unrealized fair value gain (loss) on available-for-sale investments (Notes 9 and 13)	246,305,907	(64,364,214)	(6,926,152)
Currency translation gain (loss) - net	725,098	9,394,034	(11,000,991)
	<b>235,041,467</b>	<b>(97,868,706)</b>	<b>3,375,667</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱1,148,982,212</b>	<b>₱318,432,190</b>	<b>₱146,785,911</b>
<b>NET INCOME ATTRIBUTABLE TO:</b>			
Shareholders of the Parent Company	<b>₱921,605,612</b>	<b>₱439,811,552</b>	<b>₱156,820,088</b>
Non-controlling interests	<b>(7,664,867)</b>	<b>(23,510,656)</b>	<b>(13,409,844)</b>
<b>NET INCOME</b>	<b>₱913,940,745</b>	<b>₱416,300,896</b>	<b>₱143,410,244</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Shareholders of the Parent Company	<b>₱1,158,871,864</b>	<b>₱343,474,642</b>	<b>₱159,849,919</b>
Non-controlling interests	<b>(9,889,652)</b>	<b>(25,042,452)</b>	<b>(13,064,008)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱1,148,982,212</b>	<b>₱318,432,190</b>	<b>₱146,785,911</b>
<b>BASIC/DILUTED EARNINGS PER SHARE</b> (Note 24)	<b>₱0.65</b>	<b>₱0.29</b>	<b>₱0.10</b>

*See accompanying Notes to Consolidated Financial Statements.*





**LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Capital Stock (Note 13)	Retained Earnings (Note 13)	Accumulated Comprehensive Income (Loss) (Note 13)	Total For the Year Ended December 31, 2016	Non-controlling Interests	Total Equity
Balances as of January 1, 2016	₱1,425,865,471	₱174,498,871	₱68,411,150	₱1,668,775,492	(₱41,074,285)	₱1,627,701,207
Comprehensive income:						
Net income (loss)	-	921,605,612	-	921,605,612	(7,664,867)	913,940,745
Other comprehensive income (loss)	-	-	237,266,252	237,266,252	(2,224,785)	235,041,467
Total comprehensive income (loss)	-	921,605,612	237,266,252	1,158,871,864	(9,889,652)	1,148,982,212
Dividends declared	-	(313,690,404)	-	(313,690,404)	-	(313,690,404)
Balances as of December 31, 2016	₱1,425,865,471	₱782,414,079	₱305,677,402	₱2,513,956,952	(50,963,937)	₱2,462,993,015

	Capital Stock (Note 13)	Additional Paid- In-Capital (Note 13)	Retained Earnings (Note 13)	Accumulated Comprehensive Income (Loss) (Note 13)	Equity Reserve (Note 2)	Total For the Year Ended December 31, 2015	Non-controlling Interests	Total Equity
Balances as of January 1, 2015	₱40,899,000	₱71,081,190	₱133,861,985	₱164,748,060	₱929,200,314	₱1,339,790,549	(₱13,925,063)	₱1,325,865,486
Issuance of capital stocks	1,384,966,471	-	-	-	-	1,384,966,471	-	1,384,966,471
Share issuance cost	-	(15,660,863)	-	-	-	(15,660,863)	-	(15,660,863)
Effect of pooling-of-interest	-	-	-	-	(1,383,795,307)	(1,383,795,307)	-	(1,383,795,307)
Equity reserve closed to additional paid-in-capital and retained earnings	-	(55,420,327)	(399,174,666)	-	454,594,993	-	-	-
Comprehensive income:								
Net income (loss)	-	-	439,811,552	-	-	439,811,552	(23,510,656)	416,300,896
Other comprehensive loss	-	-	-	(96,336,910)	-	(96,336,910)	(1,531,796)	(97,868,706)
Total comprehensive income (loss)	-	-	439,811,552	(96,336,910)	-	343,474,642	(25,042,452)	318,432,190
Decrease in non-controlling interest	-	-	-	-	-	-	(2,106,770)	(2,106,770)
Balances as of December 31, 2015	₱1,425,865,471	₱-	₱174,498,871	₱68,411,150	₱-	₱1,668,775,492	(₱41,074,285)	₱1,627,701,207

See accompanying Notes to Consolidated Financial Statements.

	Capital Stock (Note 13)	Paid-In-Capital (Note 13)	Additional Retained Earnings (Note 13)	Accumulated Comprehensive Income (Loss) (Note 13)	Equity reserve (Note 2)	Total	Non-controlling Interests	Total Equity
Balances as of January 1, 2014	₱40,899,000	₱71,081,190	₱848,447,901	₱161,718,229	₱57,794,310	₱1,179,940,630	(₱4,324,712)	₱1,175,615,918
Comprehensive income	-	-	156,820,088	-	-	156,820,088	(13,409,844)	143,410,244
Net income (loss)	-	-	-	3,029,831	-	3,029,831	345,836	3,375,667
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income (loss)	-	-	156,820,088	3,029,831	-	159,849,919	(13,064,008)	146,785,911
Capital contribution from non-controlling interest	-	-	-	-	-	-	3,463,657	3,463,657
Movement in legal capital of LBCCE arising from stock dividends closed to equity reserve	-	-	(871,406,004)	-	871,406,004	-	-	-
Balances as of December 31, 2014	₱40,899,000	₱71,081,190	₱133,861,985	₱164,748,060	₱929,200,314	₱1,339,790,549	(₱13,925,063)	₱1,325,865,486

*See accompanying Notes to Consolidated Financial Statements.*



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

	Years Ended December 31		
	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	P1,325,090,791	P686,933,070	P200,351,044
Adjustments for:			
Depreciation and amortization (Notes 7, 8, 15 and 16)	295,345,105	259,384,441	276,126,259
Interest expense (Notes 12 and 18)	63,493,537	43,314,537	30,799,508
Retirement expense, net of benefits paid and contribution to retirement plan (Notes 15,16 and 19)	62,086,673	38,622,205	98,415,401
Unrealized foreign exchange losses (gains) - net	(3,949,023)	(170,476)	12,692,602
Interest income (Note 4)	(2,365,500)	(1,539,555)	(374,768)
Gain on sale of available-for-sale investments	(579,059)	—	—
Loss (gain) on disposal of property and equipment and intangible assets (Notes 7 and 8)	(443,662)	(1,736,918)	103,990
Operating income before changes in working capital	1,738,678,862	1,024,807,304	618,114,036
Changes in working capital:			
Decrease (increase) in:			
Trade and other receivables	(59,959,808)	(17,585,364)	(412,083,251)
Due from related parties (Note 23)	(51,967,085)	(523,484,110)	(480,658,291)
Prepayments and other assets	55,215,242	(173,309,862)	(127,609,390)
Security deposits	(16,324,275)	(37,118,892)	(41,000,347)
Increase (decrease) in:			
Accounts and other payables (Note 23)	(538,852,457)	85,268,161	555,774,263
Transmissions liability	(40,854,962)	149,181,428	262,033,699
Due to related parties (Note 23)	371,346	187,200,107	9,535,359
Net cash generated from operations	1,086,306,863	694,958,772	384,106,078
Interest received	2,365,500	1,539,555	374,768
Income tax paid	(331,353,486)	(99,689,702)	(300,624,147)
Net cash provided by operating activities	757,318,877	596,808,625	83,856,699
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from:			
Redemption of investments in UITF classified as available-for-sale investments	150,000,000	—	—
Disposal of property and equipment and intangible assets	13,454,664	17,707,641	1,922,168
Sale of available-for-sale investments	991,525	—	—
Increase in other noncurrent assets	(8,344,513)	(6,445,494)	—
Advances to a stockholder (Note 1)	—	(58,805,165)	—
Payment of cash to effect reverse acquisition	—	(1,325,865,801)	—
Acquisitions of:			
Intangible assets	(20,471,368)	(36,693,506)	(234,627,194)
Property and equipment (Note 23)	(294,255,624)	(312,060,184)	(194,953,399)
Available-for-sale investments	(400,757,920)	—	—
Net cash used in investing activities	(559,383,236)	(1,722,162,509)	(427,658,425)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from notes payable	1,423,701,286	1,791,790,300	714,780,000
Proceeds from issuance of stocks (net of stock issuance cost)	—	1,369,305,608	—
Dividends paid (Note 23)	(48,375,985)	—	—
Payments of lease liabilities	(53,894,808)	(84,858,055)	(82,423,131)
Interest paid (Note 23)	(61,773,899)	(43,314,537)	(30,799,508)
Payments of notes payable	(1,105,103,619)	(1,465,952,467)	(227,700,975)
Net cash generated from financing activities	154,552,975	1,566,970,849	373,856,386
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>352,488,616</b>	<b>441,616,965</b>	<b>30,054,660</b>
<b>EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(3,800,378)</b>	<b>9,570,984</b>	<b>(11,552,638)</b>
<b>CASH OF THE PARENT COMPANY UPON OBTAINING CONTROL</b>	<b>—</b>	<b>23,120</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>979,102,489</b>	<b>527,891,420</b>	<b>509,389,398</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>P1,327,790,727</b>	<b>P979,102,489</b>	<b>P527,891,420</b>

See accompanying Notes to Consolidated Financial Statements.





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

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

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

The ultimate parent of the Parent Company is LBC Development Corporation (LBCDC).

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

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

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

The previous registered office and principal place of business of the Parent Company was at No. 35 San Antonio Street, San Francisco Del Monte, Quezon City. On October 12, 2015, the SEC approved the change in principal office of the Parent Company to LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila, Philippines.

On April 22, 2015, the Parent Company received deposits for future stocks subscription from LBCDC amounting to ₱59,100,000.

On April 23, 2015, the Board of Directors (BOD) of the Parent Company approved the issuance of 59,101,000 common shares, at ₱1.00 per share, out of the unissued portion of the Parent Company’s authorized capital stock to LBCDC.

On May 18, 2015, the Parent Company and LBCDC entered into a Deed of Subscription, whereby LBCDC, subject to the completion of the mandatory tender offer, subscribed to 59,101,000 common shares out of the unissued authorized capital stock of the Parent Company or approximately 59.10% of the total authorized capital stock of the Parent Company by applying the deposits for future stocks subscription received on April 22, 2015 as the consideration for the subscribed shares at one peso (₱1.00) per share. Accordingly, on the same date, the Parent Company’s previous officers and directors resigned from their respective positions and majority were replaced by the representatives from LBCDC.

On May 18, 2015, a former stockholder entered into a Deed of Assumption of Advances with LBCDC; wherein, LBCDC agreed to assume the cash advances from the Parent Company by a former stockholder which transpired on April 28, 2015 amounting to ₱58,805,165. Accordingly, the Parent Company agreed to such assumption.

On May 22, 2015, LBCDC filed with the SEC its mandatory tender offer report for all the outstanding shares of the Company for a tender offer price of one peso (₱1.00) per share. The mandatory tender offer period commenced on June 8, 2015 and ended on July 7, 2015, during



which period, none of the Tender Offer Shares were tendered by the shareholders of the Parent Company.

On July 14, 2015, LBCDC filed with the SEC its final tender offer report. With the completion of the Tender Offer, LBCDC now owns 59,101,000 common shares representing approximately 59.10% of the issued and outstanding and authorized capital stock of the Parent Company.

On July 22, 2015, the Parent Company issued the stock certificates to LBCDC covering the 59,101,000 common shares subject of the said subscription.

On July 29, 2015 and September 4, 2015, the BOD and stockholders, respectively, approved the following resolutions on the amendment to Charter, By-Laws and other documents:

- The change in the name of Parent Company to “LBC Express Holdings, Inc.”;
- The amendment of the secondary purpose of Parent Company which is primarily to align the purpose to that of a holding company;
- The transfer of Parent Company’s principal office address to LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila, Philippines;
- The increase in the number of directors of Parent Company from seven to nine;
- The increase in the authorized capital stock of Parent Company from ₱100,000,000 divided into 100,000,000 shares with par value of ₱1.00 per share up to ₱3,000,000,000 divided into 3,000,000,000 shares with par value of ₱1.00 per share;
- The change in the fiscal year of Parent Company from calendar year to first day of December of each year to the last day of November of the succeeding year; and
- The definition of dividends.

On July 29, 2015, the BOD approved the change of the trading symbol of the Parent Company’s shares in the PSE from “FED” to “LBC”.

On September 18, 2015, the BOD determined and fixed the amount of the increase in authorized capital stock of Parent Company from ₱100,000,000 divided into 100,000,000 shares with par value of ₱1.00 per share to ₱2,000,000,000 divided into 2,000,000,000 with par value of ₱1.00 per share, and authorized the filing of the increase in authorized capital stock with the SEC.

Moreover, the BOD of Parent Company, in meetings held on July 29, 2015, September 18, 2015 and October 2, 2015, as relevant, and the stockholders of LBCH in the annual general meeting held on September 4, 2015, also approved among others the following transactions:

- The acquisition by the Parent Company of 1,041,180,493 issued and outstanding shares of LBC Express, Inc. (LBCE) at a book value as reflected in the consolidated audited financial statements of LBCE as of November 30, 2014, which book value shall not be less than ₱1,000,000,000 or such other consideration and under such terms and conditions as management may deem beneficial to the interest of the Parent Company;
- The issuance of 475,000,000 new Parent Company shares to LBCDC at the subscription price of ₱1.00 per share out of the increase in authorized capital stock from ₱100,000,000 to ₱2,000,000,000;
- The issuance of 671,873,632 new Parent Company shares to LBCDC out of the increase in authorized capital stock, immediately following the approval by the SEC of the increase in authorized capital stock at the subscription price of ₱1.00 per share, under such terms and conditions as management may deem beneficial;



- The issuance of (i) 59,663,947 shares to Vittorio Lim, (ii) 59,663,946 shares to Mariano D. Martinez, Jr. and (iii) 59,663,946 shares to Lowell L. Yu, or an aggregate of 178,991,839 common shares, from the unissued authorized capital stock of the Parent Company, immediately following the approval by the SEC of the increase in authorized capital stock at the subscription price of ₱1.00 per share, under such terms and conditions as management may deem beneficial.

The foregoing issuances of stocks to LBCDC and / or other investors and/or third parties (with reference to LBCDC or LBCE) was for the purpose of:

- Primarily funding the acquisition by Parent Company of LBCE;
- Funding the acquisition of other potential investments, whether or not related to the business of LBCE; and
- Ensuring compliance by the Parent Company with the minimum public ownership requirements of the PSE.

On September 18, 2015, LBCDC subscribed to 25% of 1,900,000,000 increase in authorized capital stock or equivalent to 475,000,000 common shares at the subscription price of ₱1.00 per share, ₱177,555,495 of which, is immediately paid in cash, conditioned upon and effective immediately following the approval by the SEC of the increase in authorized capital stock.

On the same date, LBCDC subscribed to additional 671,873,632 common shares out of the unissued capital stock of the Parent Company at the subscription price of ₱1.00 per share, in exchange for cash, conditioned upon and effective immediately following the approval by the SEC of the increase in authorized capital stock.

On September 22, 2015, the Parent Company submitted an application for the increase in authorized capital stock from one hundred million pesos (₱100,000,000) divided into one hundred million (100,000,000) shares with par value of one peso (₱1.00) per share to two billion pesos (₱2,000,000,000) divided into two billion number of shares with par value of one peso (₱1.00) per share. On the same date, the amendments to the Articles of Incorporation and By-Laws, except for the change in fiscal year, were likewise submitted to the SEC.

In a Deed of Transfer dated September 24, 2015, the Parent Company purchased from LBCDC the shares of stock of LBCE at a total cash consideration of ₱1,384,670,966. It was also previously agreed that the Parent Company's advances payable by LBCDC amounting to ₱58,805,495 will be offset against the remaining unpaid balance.

On October 2, 2015, certain individuals subscribed to a total of 178,991,839 common shares out of the unissued capital stock of LBCH at the subscription price of ₱1.00 per share, in exchange for cash, conditioned upon and effective immediately following the approval by the SEC of the increase in authorized capital stock.

On October 12, 2015, SEC approved the increase in authorized capital stock of the Parent Company. On the same date, SEC issued a certificate of filing of the Parent Company's amended Articles of Incorporation and amended By-Laws.

On October 16, 2015, the Parent Company issued the stock certificates to LBCDC covering the 1,146,873,632 common shares while on October 21, 2015 the Parent Company issued the stock certificates to certain individuals covering 178,991,839 common shares.





The accompanying consolidated financial statements of the Parent Company and its subsidiaries have been approved and authorized for issue by the Group's BOD on March 8, 2017.

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

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

### Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis except for available-for-sale (AFS) investments that 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 financial statements since it is impracticable for the said subsidiaries to prepare financial statements as of the same date as the reporting date of the Parent Company.

Management exercised judgment in determining whether adjustments should be made in the consolidated financial statements of the Group pertaining to the effects of significant transactions or events of its subsidiaries that occur between December 1, 2016 and the year-end date of the Parent Company's financial statements which is December 31, 2016. The consolidated financial statements were adjusted to effect LBCE's additional avilment and settlement of bank loans in December 2016 amounting to ₱136.72 million and ₱246.24 million, respectively; the adjustment to reflect the increase in fair value of quoted AFS investment by ₱50.72 million for the period December 1 to December 31, 2016, and the settlement of advances to an affiliate on December 21, 2016 amounting to ₱198.00 million. Aside from these, there were no other significant transactions that transpired between December 1, 2016 to December 31, 2016, and between December 1, 2015 to December 31, 2015.

### *Reverse acquisition*

On September 24, 2015, the Parent Company completed the acquisition of LBCE through a cash transaction (see Note 1). For accounting purposes, the transaction was accounted for similar to a reverse acquisition following Philippine Financial Reporting Standard (PFRS) 3, *Business Combination*. LBCE was deemed to be the accounting acquirer under the principles of PFRS 3. In a reverse acquisition, the legal acquirer is identified as the acquiree for accounting purposes because based on the substance of the transaction, the legal acquiree is adjudged to be the entity that gained control over the legal acquirer. Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of the consolidated financial statements of LBCE. The comparative December 31, 2015 information presented in the consolidated statements of comprehensive income are those of LBCE from December 1, 2014 to November 30, 2015 and the Parent Company from July 22, 2015 to November 30, 2015. Because the consolidated financial statements represent a continuation of the consolidated financial statements of LBCE, except for their capital structure, the consolidation will reflect the following:



Before the asset purchase transaction (as at and for the year ended December 31, 2014)

- a) the assets and liabilities of LBCE recognized and measured at their carrying amounts, not at their acquisition-date fair values;
- b) the retained earnings and other equity balances are that of LBCE;
- c) the total equity is that of LBCE but the legal capital (common shares and additional paid-in capital) would be that of the Parent Company;
- d) the resulting equity reserve represents (1) the difference between the legal capital of LBCE and the legal capital of the Parent Company; and (2) and the subsequent movement in legal capital of LBCE; and
- e) the consolidated statement of comprehensive income reflects that of LBCE for the full period and that of LBCH from the date of incorporation.

After the asset purchase transaction (as at and for the year ended December 31, 2015)

- a) the transferred assets and liabilities of LBCE recognized and measured at the pre-combination carrying amounts, not at acquisition-date fair values;
- b) legal capital of the Parent Company;
- c) the retained earnings of LBCE as of December 1, 2014 and accumulated comprehensive income of the Parent Company from July 22, 2015 to December 31, 2015 and LBCE from December 1, 2014 to November 30, 2015;
- d) the comparative consolidated statement of comprehensive income reflected that of LBCE from December 1, 2014 to November 30, 2015, and the statement of comprehensive income of the Parent Company from July 22, 2015 to December 31, 2015.

*Impact of the share purchase agreement which was executed on September 24, 2015 to the consolidated financial statements*

The effect of the execution of the deed of transfer was reflected in the consolidated financial statements as movement in equity, as follows:

Investment recognized by the Parent Company	₱1,384,670,966
Net assets of the Parent Company	875,659
	<u>₱1,383,795,307</u>

The effect of pooling of interest of ₱1,383.80 million is applied against net available APIC of ₱55.42 million, and the remaining amount of ₱399.17 million is applied against retained earnings.

The rollforward analysis of Equity Reserve are as follows:

As of January 1, 2014	₱57,794,310
Movement in legal capital of LBCE arising from dividends declared closed to equity reserve	871,406,004
As of December 31, 2014	929,200,314
Effect of pooling-of-interest	(1,383,795,307)
Total	(454,594,993)
Closed to APIC	55,420,327
Closed to retained earnings	399,174,666
As of December 31, 2015	<u>₱-</u>



The accounting similar to a reverse acquisition applies only to the consolidated financial statements. The Parent Company financial statements will continue to represent LBC Express Holdings, Inc. as a stand-alone entity.

#### Basis of Consolidation

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2016, 2015 and 2014. 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	
			2016	2015
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 - ESI, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - CMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - EMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - MIN, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SEL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - WVIS, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SEM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SCC, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SMCC, 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 WLL	Kuwait	Logistics	49%	49%
LBC Express Bahrain, LLC	Bahrain	Logistics	49%	49%
LBC Express LLC <sup>(1)</sup>	Qatar	Logistics	49%	49%

Note:

1) This entity is a subsidiary of LBC Express Bahrain, LLC which has 49% ownership interest.

There were no changes in the Parent Company's ownership interests in its subsidiaries from January 1, 2014 to December 31, 2016.

#### 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 PAS 39 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.

#### Statement of Compliance

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

#### Reclassification

The Group reclassified certain accounts in the 2015 Consolidated Statement of Financial Position compared to the 2015 previously issued consolidated financial statements to better classify the accounts to its proper nature since portion of the receivables and payables previously presented as due from/to related parties were arising from normal trade activities of the Company.



Below are the details of the reclassifications. The reclassifications did not impact the 2015 Consolidated Statement of Comprehensive Income and Consolidated Statement of Cash Flows.

	December 31, 2015		
	Previous Balance	Reclassification	Revised Balance
<b>Statement of Financial Position</b>			
Trade and other receivables	₱1,025,059,428	₱441,700,094	₱1,466,759,522
Due from related parties	1,763,046,757	(441,700,094)	1,321,346,663
Accounts and other payables	1,830,208,144	1,828,265	1,832,036,409
Due to related parties	19,966,251	(1,828,265)	18,137,986

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact in the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures*, *Investment Entities: Applying the Consolidation Exception*

These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method. These amendments are not applicable to the Group.
- Amendments to PFRS 11, *Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations*

The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. These amendments do not have any impact to the Group as there has been no interest acquired in a joint operation during the period.
- PFRS 14, *Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the consolidated statement of financial position and present movements in these account balances as separate line items in





the consolidated statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its consolidated financial statements. Since the Group is an existing PFRS preparer, this standard would not apply.

- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative*  
The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:
  - That entities shall not reduce the understandability of their consolidated financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - That specific line items in the consolidated statement of income and other comprehensive income and the consolidated statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to consolidated financial statements
  - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The Group has assessed that these amendments do not have significant impact on its consolidated financial statements upon adoption as it is already complying with the amended standard in its presentation.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*  
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are applied prospectively and do not have any impact to the Group, given that the Group has not used a revenue-based method to depreciate or amortize its property, plant and equipment and intangible assets.
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*  
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. These amendments are applied retrospectively and do not have any impact to the Group as the Group does not have any bearer plants.



- Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. These amendments do not have any impact on the Group's consolidated financial statements.

*Annual Improvements to PFRSs 2012 - 2014 Cycle*

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).



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 to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

*Effective beginning on or after January 1, 2017*

- *Amendment to PFRS 12, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*  
The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments are not expected to have any impact to the Group.
- *Amendments to PAS 7, Statement of Cash Flows, Disclosure Initiative*  
The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted. Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.
- *Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*  
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted. These amendments are not expected to have any impact to the Group.

*Effective beginning on or after January 1, 2018*

- *Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*  
The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.





On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted. These amendments are not expected to have any impact to the Group.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9. These amendments are not applicable to the Group.

- *PFRS 15, Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group is currently assessing the impact of this standard.

- *PFRS 9, Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group did not early adopt PFRS 9.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.



- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)  
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments should be applied retrospectively, with earlier application permitted. These amendments are not expected to have any impact to the Group.
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*  
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight. These amendments are not expected to have any impact to the Group.
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*  
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the consolidated financial statements of the reporting period in which the entity first applies the interpretation. The Group is currently assessing the impact of this standard.

*Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*  
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize



interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their consolidated financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of adopting PFRS 16 and plans to adopt the new standard on the required effective date once adopted locally. This standard is expected to significantly impact its leasing arrangements for outlets which are currently accounted for as operating lease, as the Group is already required to recognize the related assets and liabilities in its consolidated statement of financial position.

#### *Deferred effectivity*

- Amendments to PFRS 10 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. These amendments are not expected to have any impact to the Group.

#### Cash and Cash Equivalents

Cash and cash equivalents are stated at face value. Cash and cash equivalents include cash on hand, cash in banks and other short-term highly liquid investments with original maturities of three months or less from the dates of acquisition. Cash in banks 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

##### *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 settlement date.

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

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



As of December 31, 2016 and 2015, the Group's financial assets and financial liabilities are of the nature of loans and receivables, AFS financial assets and other financial liabilities, respectively.

*Determination of fair value*

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

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

*'Day 1' difference*

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

*Loans and receivables*

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

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

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

As of December 31, 2016 and 2015, the Group's loans and receivables include cash and cash equivalents, trade and other receivables, due from related parties, and short-term investments under prepayments and other current 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 consolidated 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.

*Other financial liabilities*

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

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

As of December 31, 2016 and 2015, the Group's other financial liabilities include accounts and other payables (excluding statutory liabilities), due to related parties, notes payable, transmissions liability, finance lease liabilities and other noncurrent liabilities.

Impairment of Financial Assets

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





#### *Loans and receivables*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of estimated cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the 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 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 such credit risk characteristics 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.



### Derecognition of Financial Assets and Financial Liabilities

#### *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 liabilities*

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 Group's 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 consolidated 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.

#### Property and Equipment

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

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

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

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

The assets' residual value, estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment. The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

#### Intangible Assets

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





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

Intangible assets with indefinite useful lives 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.

#### 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. Earned leave credits of 45 days is recognized as a liability and settled when the employee leaves the Group subject to certain conditions.

#### Equity

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

#### *Capital stock*

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

#### *Retained earnings*

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

#### *Equity reserve*

Equity reserve is the result of the application of similar to a pooling-of-interest which represents the difference between the legal capital of the legal acquiree/accounting acquirer as against the legal capital of the legal acquirer/accounting acquiree.

#### Revenue Recognition

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 a certain geographical area where the Group holds a 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*

Other income is recognized when earned.

Cost and Expense Recognition

Cost 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.

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

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

Leases

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

A reassessment is made after inception of the lease only if one of the following applies:

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



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

#### *Group as lessee*

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

Finance leases are capitalized at the commencement of the lease at the inception date, the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of comprehensive income.

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

#### Income Taxes

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

#### *Current tax*

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

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

#### *Deferred tax*

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and net operating losses carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and NOLCO can be utilized.



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

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

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

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

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

#### Foreign Currency-Denominated Transactions and Translations

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

The results and financial position of all the Group's branches outside the Philippines (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- (ii) income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized in other comprehensive income.





#### Related Party Relationships and Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

#### Earnings Per Share ("EPS")

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

#### Segment Reporting

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

#### Provisions

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

#### Contingencies

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

#### Events after the Reporting Date

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



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

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

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

#### Judgments

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

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

LBCE has assessed that it controls the entities in Bahrain, Kuwait and Qatar even at 49% 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.

#### *Identifying a business combination*

The Group determines whether a transaction or an event is a purchase of a business or purchase of an asset by applying PFRS 3 which provides the definition of a business.

The Parent Company is a shell listed Company with only cash of ₱11,840, other current assets of ₱48,394 and due from a related party of ₱58,805,165 as the primary assets as of May 18, 2015 and therefore not comprising a business upon acquisition (see Note 1).

#### *Determining functional currency*

LBCH and its subsidiaries have determined that their functional currency is the Philippine Peso, except for LBC Express WLL, LBC Express Bahrain WLL and LBC Express LLC which are in Kuwaiti Dinar, Bahraini Dinar and Qatari Riyal, respectively. It is the currency of the primary economic environment in which the entities operate.

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

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

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



The Group has entered into various lease arrangements for its business operations (see Note 18). In determining whether the lease is cancellable or not, the Group considered, among others, the significance of the lease term as compared with the estimated useful life of the related asset. The Group has determined, based on an evaluation of the terms and conditions of the arrangement, that the lessor retains all the significant risks and rewards of ownership of the leased property and so accounts for the contract as operating lease.

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

*Determining provisions and contingencies*

The Group is currently involved in various legal proceedings including taxation matters. 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, 2016 and 2015 (see Note 25).

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.

*Estimating useful lives of property and equipment*

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

The carrying amount of property and equipment amounted to P840.48 million and P763.02 million as of December 31, 2016 and 2015, respectively (see Note 7).

*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 in the respective currencies 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 19.

The carrying amount of pension liabilities, net of plan assets, amounted to ₱721.03 million and ₱641.81 million as of December 31, 2016 and 2015, respectively (see Note 19).

*Recognizing deferred tax assets*

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

Realization of future tax benefit related to deferred tax assets is dependent on the Group's ability to generate future taxable income during the periods in which they are expected to be recovered. The Group has considered factors in reaching a conclusion as to the amount of deferred income tax assets recognized as at December 31, 2016 and 2015. Management believes that the Group will be able to generate future taxable income to allow for the realization of deferred tax assets.

Based on management's assessment, the Group recognized deferred tax assets amounting to ₱274.38 million and ₱225.65 million as of December 31, 2016 and 2015, respectively (see Note 17).

*Fair value of financial assets and financial liabilities*

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (see Note 21).

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#### 4. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand	₱174,890,603	₱168,529,471
Cash in banks	939,534,180	791,383,179
Cash equivalents	213,365,944	19,189,839
	<b>₱1,327,790,727</b>	<b>₱979,102,489</b>

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.

Cash in banks and cash equivalents earn interest ranging from 0.25% to 2.25%, 0.25% to 1.13%, and 0.50% to 1.13% per annum in 2016, 2015 and 2014, respectively. Interest income earned from cash and cash equivalents amounted to P2.37 million, P1.54 million, and P0.37 million in 2016, 2015 and 2014, respectively.

## 5. Trade and Other Receivables

This account consists of:

	2016	2015
Trade receivables - outside parties	<b>P1,023,354,253</b>	P1,031,317,740
Trade receivables - related parties (Note 14)	<b>518,466,319</b>	441,700,094
	<b>1,541,820,572</b>	1,473,017,834
Less allowance for impairment losses	<b>55,694,985</b>	39,891,364
	<b>1,486,125,587</b>	1,433,126,470
Other receivables:		
Advances to officers and employees	<b>26,117,789</b>	19,890,562
Others	<b>14,475,954</b>	13,742,490
	<b>P1,526,719,330</b>	P1,466,759,522

Allowance for impairment losses were specifically identified as impaired. These pertain to trade receivables from outside parties.

The movements in allowance for impairment losses of trade receivables follow:

	2016	2015
January 1	<b>P39,891,364</b>	P8,429,845
Provisions (Note 16)	<b>15,803,621</b>	31,461,519
December 31	<b>P55,694,985</b>	P39,891,364

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.

The Group has directly written-off other receivables amounting to P3.22 million, P26.64 million, and P0.09 million in 2016, 2015 and 2014, respectively, where probability of collection has been determined to be remote. These were recognized under operating expenses in the consolidated statements of comprehensive income (see Note 16).

Portion of trade receivable - outside parties amounting to P40.79 million are assigned in relation to a bank loan availed in 2016 (see Note 12).



## 6. Prepayments and Other Assets

This account consists of:

	2016	2015
Input value-added tax (VAT)	<b>₱184,851,516</b>	₱66,908,490
Materials and supplies	<b>104,972,605</b>	115,581,178
Prepayments:		
Rent	<b>41,012,242</b>	62,462,480
Advertising	<b>11,995,164</b>	12,768,802
Insurance	<b>11,576,755</b>	16,482,552
Taxes	<b>4,911,428</b>	2,877,668
Software maintenance cost	<b>4,854,547</b>	5,940,594
Others	<b>15,957,769</b>	6,900,984
Creditable withholding taxes (CWT)	<b>46,767,004</b>	75,696,351
Short-term cash investments	<b>27,340,771</b>	5,011,500
Restricted cash	—	135,278,700
Other current assets	<b>4,000,000</b>	—
	<b>458,239,801</b>	505,909,299
Less allowance for impairment losses	—	798,769
	<b>₱458,239,801</b>	₱505,110,530
Less noncurrent portion of:		
VAT on capital goods	<b>54,943,647</b>	41,805,223
Prepaid rent	<b>15,206,957</b>	20,000,868
Total noncurrent portion	<b>₱70,150,604</b>	₱61,806,091
Total current portion	<b>₱388,089,197</b>	₱443,304,439

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

Materials and supplies carried at cost consist of office supplies, packing materials and official receipts used in the Company's operations. Materials and supplies recognized under cost of services for the years ended December 31, 2016 and 2015 amounted to ₱293.38 million and ₱242.11 million respectively (see Note 15).

Prepaid advertising consists of advances for billboards and multimedia endorsements.

Other prepayments pertain to advance payments of salaries and wages, unamortized dues and subscriptions and licenses.

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.

Restricted cash in bank represents cash deposit in a bank in the name of LBCE which was funded by a specific customer in relation to the money remittance service in behalf of the said specific customer. LBCE availed of a loan from a bank specifically to service the said customer and the cash deposit served as a guarantee to the bank. The cash balance has been fully diminished in 2016 as the loan was fully repaid within the year.





## 7. Property and Equipment

The rollforward analysis of this account follows:

	2016				
	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Office Equipment	Computer Hardware	Construction in Progress
<b>Costs</b>					
At beginning of year	₱493,700,641	₱1,193,415,823	₱536,162,284	₱497,378,871	₱26,897,204
Additions	46,621,479	50,327,150	33,655,196	49,923,302	174,478,510
Reclassifications	5,773,437	145,597,503	34,227,014	6,710,205	(192,308,159)
Disposals	(29,783,513)	(1,769,737)	—	(4,634,612)	—
At end of year	516,312,044	1,387,570,739	604,044,494	549,377,766	9,067,555
<b>Accumulated Depreciation and Amortization</b>					
At beginning of year	357,426,671	798,498,426	466,384,919	362,222,603	—
Depreciation and amortization (Notes 15 and 16)	46,918,944	100,592,013	49,549,725	67,505,204	—
Disposals	(19,641,533)	(1,680,142)	—	(1,881,159)	—
At end of year	384,704,082	897,410,297	515,934,644	427,846,648	—
<b>Net Book Value</b>	<b>₱131,607,962</b>	<b>₱490,160,442</b>	<b>₱88,109,850</b>	<b>₱121,531,118</b>	<b>₱9,067,555</b>
					<b>₱840,476,927</b>

	2015				
	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Office Equipment	Computer Hardware	Construction in Progress
<b>Costs</b>					
At beginning of year	₱557,959,485	₱994,574,429	₱485,087,319	₱379,626,597	₱34,643,995
Additions	19,052,166	44,107,432	40,590,387	86,093,301	194,806,963
Reclassifications	—	159,213,065	11,596,537	31,744,152	(202,553,754)
Disposals	(83,311,010)	(4,479,103)	(1,111,959)	(85,179)	—
At end of year	493,700,641	1,193,415,823	536,162,284	497,378,871	26,897,204
<b>Accumulated Depreciation and Amortization</b>					
At beginning of year	379,458,148	706,521,612	423,155,506	305,903,767	—
Depreciation and amortization (Notes 15 and 16)	46,689,018	95,798,467	43,385,354	56,637,275	—
Disposals	(68,720,495)	(3,821,653)	(155,941)	(318,439)	—
At end of year	357,426,671	798,498,426	466,384,919	362,222,603	—
<b>Net Book Value</b>	<b>₱136,273,970</b>	<b>₱394,917,397</b>	<b>₱69,777,365</b>	<b>₱135,156,268</b>	<b>₱26,897,204</b>
					<b>₱763,022,204</b>



The cost of fully depreciated assets that are still in use amounted to ₱1.69 billion and ₱1.53 billion as of December 31, 2016 and 2015, respectively.

Depreciation charges were recognized as follows:

	2016	2015	2014
Cost of services (Note 15)	<b>₱196,497,941</b>	₱191,503,976	₱201,892,910
Operating expenses (Note 16)	<b>68,067,945</b>	51,006,138	61,850,629
	<b>₱264,565,886</b>	₱242,510,114	₱263,743,539

The Group leases transportation, service and office equipment that are included in the property and equipment and under various finance arrangements ranging for a period of 24 to 60 months (see Note 18).

In 2015, the Company purchased a computer hardware on a long-term payment arrangement. The liability is noninterest bearing and payable over 60 months. As of December 31, 2016, the outstanding liability amounted to ₱43.55 million, ₱34.48 million of which is reported under 'other noncurrent liabilities' in the consolidated statements of financial position.

## 8. Intangible Assets

The rollforward analysis of this account follows:

	2016		
	Software	Construction in Progress	Total
<b>Costs</b>			
At beginning of year	<b>₱134,430,313</b>	<b>₱243,687,774</b>	<b>₱378,118,087</b>
Reclassification	<b>198,861,104</b>	<b>(198,861,104)</b>	<b>-</b>
Additions	<b>2,157,464</b>	<b>18,313,904</b>	<b>20,471,368</b>
Disposal	<b>(55,000)</b>	<b>-</b>	<b>(55,000)</b>
At end of the year	<b>335,393,881</b>	<b>63,140,574</b>	<b>398,534,455</b>
<b>Accumulated Amortization</b>			
At beginning of year	<b>101,736,602</b>	<b>-</b>	<b>101,736,602</b>
Amortization (Note 16)	<b>30,779,219</b>	<b>-</b>	<b>30,779,219</b>
Disposal	<b>(29,027)</b>	<b>-</b>	<b>(29,027)</b>
At end of the year	<b>132,486,794</b>	<b>-</b>	<b>132,486,794</b>
<b>Net Book Value</b>	<b>₱202,907,087</b>	<b>₱63,140,574</b>	<b>₱266,047,661</b>

	2015		
	Software	Construction in Progress	Total
<b>Costs</b>			
At beginning of year	<b>₱113,797,585</b>	<b>₱227,626,996</b>	<b>₱341,424,581</b>
Additions	<b>8,106,307</b>	<b>51,763,196</b>	<b>59,869,503</b>
Disposal	<b>(1,849,559)</b>	<b>(21,326,438)</b>	<b>(23,175,997)</b>
Reclassification	<b>14,375,980</b>	<b>(14,375,980)</b>	<b>-</b>
At end of the year	<b>134,430,313</b>	<b>243,687,774</b>	<b>378,118,087</b>
<b>Accumulated Amortization</b>			
At beginning of year	<b>84,862,275</b>	<b>-</b>	<b>84,862,275</b>
Amortization (Note 16)	<b>16,874,327</b>	<b>-</b>	<b>16,874,327</b>
At end of the year	<b>101,736,602</b>	<b>-</b>	<b>101,736,602</b>
<b>Net Book Value</b>	<b>₱32,693,711</b>	<b>₱243,687,774</b>	<b>₱276,381,485</b>



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

In 2015, the Company reversed the intangible assets with a cost of P21.33 million and its related payable (see Note 14).

There were no capitalized borrowing costs in 2016 and 2015.

## 9. Available-for-Sale Investments

AFS investments represent the Company's investment in unquoted unit investment trust fund and investment in the quoted shares of stock of Araneta Properties, Inc.

Movement of the AFS investments follow:

	2016	2015
Quoted:		
Balance at beginning of year	<b>P212,596,951</b>	P276,961,165
Additions	<b>757,920</b>	—
Sale of shares	<b>(332,450)</b>	—
Unrealized fair value gain (loss)	<b>245,368,753</b>	(64,364,214)
	<b>458,391,174</b>	212,596,951
Unquoted:		
Balance at beginning of year	—	—
Additions	<b>400,000,000</b>	—
Withdrawals	<b>(150,000,000)</b>	—
Unrealized fair value gain	<b>937,154</b>	—
	<b>250,937,154</b>	—
	<b>709,328,328</b>	212,596,951
Less current portion	<b>P250,937,154</b>	P—
Total noncurrent portion	<b>P458,391,174</b>	P212,596,951

The major categories of the Group's investment in unquoted unit investment trust fund comprise primarily of Overnight Deposit Facility and Term Deposit Facility in the Bangko Sentral ng Pilipinas.

Movement in unrealized gain (loss) on AFS investments follow:

	2016	2015
Balance at beginning of year	<b>(P51,169,355)</b>	P13,194,859
Reclassified to profit or loss arising from sale of AFS investments	<b>80,016</b>	—
Unrealized gain (loss) during the year from the following investments:		
Quoted	<b>245,368,753</b>	(64,364,214)
Unquoted	<b>937,154</b>	—
Balance at end of year (Note 13)	<b>P195,216,568</b>	(P51,169,355)





## 10. Accounts and Other Payables

This account consists of:

	2016	2015
Trade payable - outside parties	₱553,696,573	₱685,464,390
Trade payable - related parties (Note 14)	10,239,262	1,828,265
Taxes payable	175,914,534	390,344,268
Accruals:		
Salaries and wages	187,053,321	240,835,169
Rent and utilities	91,142,838	84,559,689
Contracted jobs	61,027,104	58,193,123
Claims and losses	55,388,469	61,113,276
Advertising	21,393,676	36,834,615
Taxes	8,509,450	150,376,792
Outside services	7,086,121	9,609,462
Professional fees	6,980,356	15,748,004
Others	63,177,810	60,609,084
Government agencies contributions payables	21,971,215	18,411,927
Others (Note 14)	31,322,861	18,108,345
	<b>₱1,294,903,590</b>	<b>₱1,832,036,409</b>

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.

Taxes payable include withholding taxes on payment to suppliers and employees' compensation which are settled on a monthly basis and deferred output VAT on uncollected receivables from vat-able sales.

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

Other accruals include accrual for cost of delivery and remittance, maintenance software cost, website development cost and training cost.

Government agencies contribution payable pertains to monthly required remittances to government agencies such as SSS, Pag-ibig and Philhealth.

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.

## 11. Transmissions Liability

Transmissions liability represents money transfer remittances by clients that are still outstanding and not yet encashed by the beneficiaries as at reporting date. These are due and demandable. As of December 31, 2016 and 2015, transmissions liability amounted to ₱467.28 million and ₱508.14 million, respectively.



## 12. Notes Payable

The Group has outstanding notes payable to various local banks. The details of these notes as at December 31, 2016 and 2015 are described below:

2016					
Bank	Date of Availment	Outstanding Balance	Maturity	Interest Rate	Terms
Banco de Oro	Various availments in 2016	₱100,000,000	March 2017	Fixed rate, 4.00%	Clean; Interest payable every month, principal to be paid on maturity date
Banco de Oro	Various availments in 2016	772,500,000	Various maturities in 2016 to 2021	Fixed rate, 4.00%	With mortgage; Interest payable every month, principal payable quarterly
Unionbank of the Philippines	Various availments in 2016	250,000,000	Various maturities in 2017	Fixed rate, 6.00%	Clean; Interest payable every month, principal to be paid on maturity date
Rizal Commercial Banking Corporation (RCBC)	Various availment in 2015	136,715,500	Various maturities in 2017	Fixed rate, 6.00%	Clean; Interest payable every month, principal to be paid on maturity date
China Trust Banking Corporation	December 20, 2016	100,000,000	January 10, 2017	Fixed rate 5.50%	With AR assignment; Interest payable every month, principal to be paid on maturity date
<b>Total</b>		<b>₱1,359,215,500</b>			
<b>Current portion of notes payable</b>		<b>₱666,715,500</b>			
<b>Noncurrent portion</b>		<b>₱692,500,000</b>			
2015					
Bank	Date of Availment	Outstanding Balance	Maturity	Interest Rate	Terms
Banco de Oro	Various availments in 2015	₱207,458,333	Various maturities in 2015 and 2016	Fixed rate, 4.00%	Clean; Interest and principal payable monthly until maturity
Banco de Oro	Various availments in 2015	250,000,000	Various maturities in 2015 and 2016	Fixed rate, 4.00%	Clean; Interest payable every month, principal to be paid on maturity date
Unionbank of the Philippines	Various availments in 2015	100,000,000	Various maturities in 2016	Fixed rate, 6.00%	Clean; Interest payable every month, principal to be paid on maturity date
Rizal Commercial Banking Corporation (RCBC)	Various availment in 2015	298,000,000	Various maturities in 2016	Fixed rate, 6.00%	Clean; Interest payable every month, principal to be paid on maturity date
Chinatrust Bank Corporation	September 2015	150,000,000	January 2016	Fixed rate, 5.00%	Clean; Interest payable every month, principal to be paid on maturity date
Landbank of the Philippines	October 2015	35,159,500	Various maturities in 2016	Fixed rate, 2.50%	Clean; Interest and principal payable monthly until maturity
		<b>₱1,040,617,833</b>			

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 14).

Upon loan availment in 2016, the Group, under a Deed of Assignment of Receivables, agreed to sell, assign and transfer, on a with recourse basis, unto RCBC, certain receivables under 'Trade receivables - outside parties. Total receivables assigned amounted to ₱201.89 million, ₱161.10 million of which was collected in 2016.



Interest expense amounted to ₱40.10 million, ₱18.86 million, and ₱17.39 million in 2016, 2015 and 2014, respectively.

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

### 13. Equity

#### *Capital Stock*

As of December 31, 2016, 2015 and 2014, the details of the Parent Company's capital stock follow:

	2016	
	Number of Shares of Stocks	Amount
Capital stock - ₱1 par value		
Authorized	2,000,000,000	₱2,000,000,000
Issued and outstanding	1,425,865,471	1,425,865,471
	2015	
	Number of Shares of Stocks	Amount
Capital stock - ₱1 par value		
Authorized shares:		
Beginning of year	100,000,000	₱100,000,000
Increase in authorized capital stock	1,900,000,000	1,900,000,000
Balance at end of year	2,000,000,000	₱2,000,000,000
Issued and outstanding shares		
Balance at beginning of year	40,899,000	₱40,899,000
Issuances of shares	1,384,966,471	1,384,966,471
Balance at end of year	1,425,865,471	₱1,425,865,471
	2014	
	Number of Shares of Stocks	Amount
Capital stock - ₱1 par value		
Authorized	100,000,000	₱100,000,000
Issued and outstanding	40,899,000	40,899,000

#### Increase in authorized capital stock

On October 12, 2015, SEC approved the increase of the Parent Company's common stock from ₱100.00 million, divided into 100.00 million shares with par value of ₱1.00 per share to ₱2.00 billion, divided into 2.00 billion shares with par value of ₱1.00 per share.

#### Issuances of new shares

- On May 18, 2015, LBCDC subscribed to 59,101,000 common shares out of the unissued authorized capital stock of the LBCH or approximately 59.10% of the total authorized capital stock of LBCH, before the approval of the increase in authorized capital stock by applying the deposits for future stocks subscription made by LBCDC amounting to ₱59,101,000 on





April 22, 2015, as the consideration for the subscribed shares at one peso (₱1.00) per share. As discussed in Note 1, subsequently, on July 22, 2015, the Parent Company issued the stock certificates to LBCDC covering the 59,101,000 common shares.

- On September 18, 2015, LBCDC subscribed to 25% of 1,900,000,000 increase in authorized capital stock or equivalent to 475,000,000 common shares at the subscription price of ₱1.00 per share, in exchange for cash.

On the same date, LBCDC subscribed to additional 671,873,632 common shares out of the unissued capital stock of the Parent Company at the subscription price of ₱1.00 per share, in exchange for cash.

- On October 2, 2015, certain individuals subscribed to a total of 178,991,839 common shares out of the unissued capital stock of the Parent Company at the subscription price of ₱1.00 per share, in exchange for cash, conditioned upon and effective immediately following the approval by the SEC of the increase in authorized capital stock.

On October 16, 2015, the Parent Company issued the stock certificates to LBCDC covering the 1,146,873,632 common shares while on October 21, 2015 the Parent Company issued the stock certificates to certain individuals covering 178,991,839 common shares.

#### *Retained Earnings*

On October 11, 2016, the BOD of LBCH approved the declaration of cash dividends amounting to ₱313.69 million or ₱0.22 for every issued and outstanding common share, ₱48.38 million of which has been paid in cash to minority shareholders. The portion of dividends attributable to LBCDC was settled on a net basis as disclosed in detail in Note 14.

The Parent Company has incurred a share issuance cost amounting to ₱15.66 million which reduced the additional paid-in-capital as of December 31, 2015.

#### *Accumulated Comprehensive Income*

Details of accumulated comprehensive income as at December 31 follow:

	2016	2015	2014
Remeasurement gain on retirement benefit plan - net of tax (Note 19)	<b>₱107,386,833</b>	₱119,376,370	₱162,274,896
Currency translation gain (loss) - net	<b>3,074,001</b>	204,135	(10,721,695)
Unrealized fair value gain (loss) on AFS investments	<b>195,216,568</b>	(51,169,355)	13,194,859
	<b>305,677,402</b>	68,411,150	164,748,060
Accumulated comprehensive income (loss) attributable to:			
Controlling interest	<b>₱309,059,077</b>	₱69,568,040	₱165,122,965
Non-controlling interest	<b>(₱3,381,675)</b>	(₱1,156,890)	(₱374,905)



#### 14. 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. These transactions include royalty, delivery, service and management fees and loans and cash advances. Except as otherwise indicated, the outstanding accounts with related parties shall be settled in cash. The transactions are made at terms and prices agreed upon by the parties.

Details of related party transactions and balances as at and for the years ended December 31 are as follow:

2016				
	Amount/Volume	Receivable	Terms	Conditions
<u>Due from related parties (Trade receivables)</u>				
<i>Affiliates</i>				
a.) Delivery fee, management fee, financial Instant Peso Padala (IPP) fulfillment fee (Notes 5 and 22)	P400,293,543	P518,466,319	Noninterest-bearing; due and demandable	Unsecured, no impairment
<u>Due from related parties (Non-trade receivables)</u>				
<i>Ultimate parent company</i>				
b.) Advances	P256,403,424	P913,895,352	Noninterest-bearing; due and demandable	Unsecured, no impairment
<i>Affiliates</i>				
b.) Advances	61,550,192	184,806,983	Noninterest-bearing; due and demandable	Unsecured, no impairment
<i>Officer</i>				
b.) Advances	12,599	9,296,994	Noninterest-bearing; due and demandable	Unsecured, no impairment
		P1,107,999,329		
2015				
	Amount/Volume	Receivable	Terms	Conditions
<u>Due from related parties (Trade receivables)</u>				
<i>Affiliates</i>				
a.) Delivery fee, management fee, financial Instant Peso Padala (IPP) fulfillment fee (Notes 5 and 22)	P386,357,006	P441,700,094	Noninterest-bearing; due and demandable	Unsecured, no impairment
<u>Due from related parties (Non-trade receivables)</u>				
<i>Ultimate parent company</i>				
b.) Advances	P246,183,034	P969,953,221	Noninterest-bearing; due and demandable	Unsecured, no impairment
<i>Affiliates</i>				
b.) Advances	91,501,089	342,109,047	Noninterest-bearing; due and demandable	Unsecured, no impairment
<i>Officer</i>				
b.) Advances	5,000,000	9,284,395	Noninterest-bearing; due and demandable	Unsecured, no impairment
		P1,321,346,663		



2016				
	Amount/Volume	Payable	Terms	Conditions
<u>Due to related parties (Trade payables)</u>				
<i>Ultimate Parent Company</i>				
c.) Royalty fee (Notes 10 and 16)	P195,497,630	P10,239,262	Noninterest-bearing; due and demandable	Unsecured
d.) Guarantee fee (Notes 10 and 12)	4,761,905	4,671,229	Noninterest-bearing; due and demandable	Unsecured
		P14,910,491		
<u>Due to related parties (Non-trade payables)</u>				
<i>Ultimate Parent Company</i>				
b.) Advances	P-	P15,694,463	Noninterest-bearing; due and demandable	Unsecured
c.) Dividends declared and payables (Note 13)	265,314,419	-	Noninterest-bearing; due and demandable	Unsecured
<i>Affiliate</i>				
b.) Advances	371,346	2,559,566	Noninterest-bearing; due and demandable	Unsecured
<i>Officer</i>				
c.) Advances	-	255,303	Noninterest-bearing; due and demandable	Unsecured
		P18,509,332		
<u>Key management personnel</u>				
Salaries and wages	P72,217,112	P-	Noninterest-bearing; due and demandable	Unsecured
Other short-term employee benefits	11,250,445	-	Noninterest-bearing; due and demandable	Unsecured
Retirement benefits (Note 19)	28,823,770	149,938,499	Noninterest-bearing; due and demandable	Unsecured
		P149,938,499		
2015				
	Amount/Volume	Payable	Terms	Conditions
<u>Due to related parties (Trade payables)</u>				
<i>Ultimate Parent Company</i>				
c.) Royalty fee (Notes 10 and 16)	P183,522,384	P1,828,265	Noninterest-bearing; due and demandable	Unsecured
<u>Due to related parties (Non-trade payables)</u>				
<i>Ultimate Parent Company</i>				
b.) Advances	P15,694,463	P15,694,463	Noninterest-bearing; due and demandable	Unsecured
<i>Affiliate</i>				
b.) Advances	2,188,220	2,188,220	Noninterest-bearing; due and demandable	Unsecured
<i>Officer</i>				
b.) Advances	255,303	255,303	Noninterest-bearing; due and demandable	Unsecured
		P18,137,986		
<u>Key management personnel</u>				
Salaries and wages	P64,806,279	P-	Noninterest-bearing; due and demandable	Unsecured
Other short-term employee benefits	17,450,693	-	Noninterest-bearing; due and demandable	Unsecured
Retirement benefits (Note 19)	12,693,971	34,151,989	Noninterest-bearing; due and demandable	Unsecured
		P34,151,989		





- a.) In the normal course of business, the Group fulfills the delivery of balikbayan boxes and money remittances, and performs certain administrative functions on behalf of its international affiliates. The Group charges delivery fees and service fees for the fulfillment of these services based on agreed rates.
- 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 2015, the Group agreed to offset its liabilities to LBCDC relating to royalty fees amounting to ₱173.66 million against receivables from LBCDC (see Note 21).

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 25).

- c.) 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%) for 2016 and 2015 of Licensee'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.
- d.) As discussed in Note 12, the Group entered into a loan agreement with BDO which is secured with real estate mortgage on various real estate properties owned by the Group's affiliate. In consideration of the affiliate's accommodation to the Group's request to use these properties as loan collateral, the Group agreed to pay the affiliate, every April 1 of the year starting April 1, 2016, a guarantee fee of 1% of the outstanding loan and until said properties are released by the bank as loan collateral.
- e.) As discussed in Note 13, the BOD of LBCH approved the declaration of cash dividends amounting to ₱313.69 million or ₱0.22 for every issued and outstanding common share. On November 29, 2016 through a Memorandum of Agreement, LBCDC and LBCH agreed to offset the dividends payable of LBCH to LBCDC against LBCDC's payable to the Group amounting to ₱265.31 million (see Note 21). The ₱265.31 million pertains to the share in dividends of LBCDC while the ₱48.38 million pertains to the share of non-controlling interest.

In 2015, the Group terminated the agreement with LBCX.PH, Inc., (formerly Lovablecommerce.com Corporation), an entity owned by a stockholder, to build and operate a software recorded under intangible asset amounting to ₱21.33 million (see Note 23). Such asset and its related payable was transferred to LBCX.PH, Inc.

In 2016, the Group directly wrote off ₱3.09 million due from an affiliate recorded as Trade receivables - related parties under 'Trade and other receivables' in the consolidated statements of financial position.



## 15. Cost of Services

This account consists of:

	2016	2015	2014
Cost of delivery and remittance	<b>₱2,202,333,121</b>	₱1,945,639,263	₱2,060,056,871
Salaries and benefits	<b>1,763,779,517</b>	1,706,004,942	1,796,940,736
Utilities and supplies	<b>661,848,568</b>	589,283,155	563,017,061
Rent (Note 18)	<b>513,079,995</b>	481,018,056	436,508,689
Depreciation and amortization	<b>196,497,941</b>	191,503,976	201,892,910
Repairs and maintenance	<b>94,986,163</b>	73,753,014	67,154,192
Retirement benefit expense (Note 19)	<b>82,137,951</b>	63,699,862	85,066,652
Transportation and travel	<b>46,464,561</b>	51,297,338	54,525,747
Insurance	<b>22,953,471</b>	14,517,977	16,585,803
Others	<b>6,431,801</b>	2,813,884	2,741,657
	<b>₱5,590,513,089</b>	₱5,119,531,467	₱5,284,490,318

## 16. Operating Expenses

This account consists of:

	2016	2015	2014
Salaries and wages	<b>₱407,292,079</b>	₱391,920,328	₱334,524,994
Rent (Note 18)	<b>197,940,252</b>	178,146,664	113,848,812
Royalty	<b>195,497,630</b>	183,522,384	168,993,879
Advertising and promotion	<b>175,801,246</b>	257,545,289	326,307,171
Professional fees	<b>157,701,239</b>	130,648,982	130,647,175
Utilities and supplies	<b>150,384,187</b>	146,961,164	169,230,554
Travel and representation	<b>101,185,071</b>	200,330,445	74,476,641
Depreciation and amortization	<b>98,847,164</b>	67,880,465	74,233,349
Taxes and licenses	<b>97,336,343</b>	87,375,167	78,773,997
Claims and losses	<b>89,125,719</b>	80,616,758	23,732,740
Software maintenance costs	<b>54,359,104</b>	53,603,820	49,305,580
Retirement benefit expense (Note 19)	<b>27,778,715</b>	27,870,055	13,348,749
Insurance	<b>22,927,207</b>	9,779,212	6,605,181
Commission expense	<b>20,042,764</b>	8,844,906	5,960,613
Provision for impairment losses	<b>15,803,621</b>	31,461,519	6,545,265
Repairs and maintenance	<b>5,987,934</b>	4,567,371	6,667,738
Dues and subscriptions	<b>3,788,386</b>	32,915,703	2,879,308
Write-off of receivables	<b>3,215,599</b>	26,642,572	91,393
Others	<b>47,790,937</b>	27,160,186	16,388,640
	<b>₱1,872,805,197</b>	₱1,947,792,990	₱1,602,561,779

Others comprise mainly of donations and penalties.



## 17. Income Taxes

Provision for income tax consists of:

	2016	2015	2014
Current	<b>₱455,428,586</b>	₱221,037,708	₱107,011,954
Deferred	<b>(44,278,540)</b>	49,594,466	(50,071,154)
	<b>₱411,150,046</b>	₱270,632,174	₱56,940,800

Details of the Group's net deferred tax assets as at December 31 follow:

	2016	2015	2014
Retirement benefit liability	<b>₱212,833,851</b>	₱192,543,624	₱162,571,879
Accrued bonus and leave credits	<b>34,764,344</b>	—	52,333,949
Allowance for impairment losses	<b>16,708,496</b>	11,967,409	2,528,954
Deferred lease liability (Note 18)	<b>11,062,231</b>	11,898,523	10,666,165
MCIT	<b>255,394</b>	826,517	1,066,049
NOLCO	<b>209,623</b>	5,699,047	24,825,429
Capitalized borrowing costs	<b>(628,002)</b>	(1,046,671)	(1,046,671)
Unrealized foreign exchange losses (gains)	<b>(1,868,793)</b>	3,756,635	3,807,780
Others	<b>1,043,226</b>	—	107,404
	<b>₱274,380,370</b>	₱225,645,084	₱256,860,938

The movements in net deferred tax asset for the years ended December 31 are as follows:

	2016	2015	2014
December 1	<b>₱225,645,084</b>	₱256,860,938	₱206,985,091
Charged to profit or loss	<b>44,278,540</b>	(49,594,466)	50,071,154
Excess MCIT over RCIT	—	276,504	—
Applied MCIT against income tax due	<b>(681,629)</b>	(282,975)	—
Previously unrecognized:			
NOLCO	—	—	6,560,389
MCIT	—	—	2,374,081
Charged to other comprehensive income	<b>5,138,375</b>	18,385,083	(9,129,777)
	<b>₱274,380,370</b>	₱225,645,084	₱256,860,938

Details of the unrecognized deferred tax assets as at December 31 are as follows:

	2016	2015
NOLCO	<b>₱4,605,778</b>	₱3,142,830
MCIT	<b>2,970</b>	—
Allowance for impairment losses on:		
Property and equipment	<b>3,509,738</b>	3,509,738
Inventories	<b>2,143,781</b>	2,143,781
Receivables	<b>567,078</b>	567,078
Other current assets	<b>239,630</b>	239,630
	<b>₱11,068,975</b>	₱9,603,057





All unrecognized deferred tax assets arise from the standalone balances of LBCH.

As of December 31, 2016 and 2015, 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

## 2016

Year incurred	Amount	Used	Expired	Balance	Year of expiry
2016	P6,244,919	P—	P—	P6,244,919	2019
2015	8,543,160	—	—	8,543,160	2018
2014	1,809,334	546,077	—	1,263,257	2017
2013	19,120,429	5,000,461	14,119,968	—	2016
	<b>P35,717,842</b>	<b>P5,546,538</b>	<b>P14,119,968</b>	<b>P16,051,336</b>	

## 2015

Year incurred	Amount	Used	Expired	Balance	Year of expiry
2015	P8,543,160	P—	P—	P8,543,160	2018
2014	41,324,735	39,515,401	—	1,809,334	2017
2013	19,120,429	—	—	19,120,429	2016
2012	75,395,901	22,665,151	52,730,750	—	2015
	<b>P144,384,225</b>	<b>P62,180,552</b>	<b>P52,730,750</b>	<b>P29,472,923</b>	

## 2014

Year incurred	Amount	Used	Expired	Balance	Year of expiry
2014	P40,061,478	P33,455,607	P—	P6,605,871	2017
2013	17,752,003	—	—	17,752,003	2015
2012	73,719,601	15,326,046	—	58,393,555	2016
2011	131,571,362	43,459,752	88,111,610	—	2014
	<b>P263,104,444</b>	<b>P92,241,405</b>	<b>P88,111,610</b>	<b>P82,751,429</b>	

# MCIT

## 2016

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2016	P110,506	P—	P—	P110,506	2019
2015	276,505	276,505	—	—	2018
2014	447,430	299,572	—	147,858	2017
2013	105,552	105,552	—	—	2016
	<b>P939,993</b>	<b>P681,629</b>	<b>P—</b>	<b>P258,364</b>	



## 2015

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2015	P276,505	P—	P—	P276,505	2018
2014	447,430	—	—	447,430	2017
2013	168,562	63,010	—	105,552	2016
2012	453,027	219,965	233,062	—	2015
	<b>P1,345,524</b>	<b>P282,975</b>	<b>P233,062</b>	<b>P829,487</b>	

## 2014

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2014	P444,460	P—	P—	P444,460	2017
2013	168,562	—	—	168,562	2016
2012	453,027	—	—	453,027	2015
	<b>P1,066,049</b>	<b>P—</b>	<b>P—</b>	<b>P1,066,049</b>	

The reconciliation between income tax expense at the statutory rate and the actual income tax expense presented in the consolidated statements of comprehensive income for the years ended December 31 follows:

	2016	2015	2014
Income tax at the statutory income tax rate	<b>P397,527,237</b>	P206,079,921	P60,105,313
Tax effects of items not subject to statutory rate:			
Nondeductible expense	<b>8,804,269</b>	47,074,574	8,897,895
Expired NOLCO	<b>4,235,990</b>	15,819,225	26,416,683
Expired MCIT	—	233,062	1,752,491
Movement of unrecognized deferred tax assets	<b>1,465,918</b>	1,850,435	(34,364,664)
Nontaxable income	<b>(883,368)</b>	(425,043)	(5,866,918)
	<b>P411,150,046</b>	<b>P270,632,174</b>	<b>P56,940,800</b>

## 18. Lease Commitments

### (a) Operating lease

The following are the operating lease agreements entered into by the Group:

1. Operating lease agreement covering its current corporate office space for a period of five years from October 20, 2016. The lease agreement is renewable at the Group's option at such terms and conditions which may be agreed upon by both parties. The lease agreement includes rental rate escalations during the term of the lease. The lease agreement also requires the Group to pay security deposits.
2. Operating lease agreements covering various service centers and service points within the Philippines for a period of two to five years, renewable at the Group's option at such terms and conditions which may be agreed upon by both parties. These lease agreements include provision for rental rate escalations including payment of security deposits and advance rentals.



3. Operating lease agreement with a local bank covering transportation equipment for a period of three years. The lease agreement does not include escalation rates on monthly payments.

There are no contingent rents for the above lease agreements.

Rent expense was recognized as follows:

	2016	2015	2014
Cost of services (Note 15)	<b>₱513,079,995</b>	₱481,018,056	₱436,508,689
Operating expenses (Note 16)	<b>197,940,252</b>	178,146,664	113,848,812
	<b>₱711,020,247</b>	₱659,164,720	₱550,357,501

The Group maintains security deposits arising from the said operating lease agreements amounting to ₱226.26 million and ₱209.93 million as of December 31, 2016 and 2015, respectively.

The future minimum lease payments from the foregoing noncancellable operating lease agreements follow:

	2016	2015
Not later than 1 year	<b>₱761,315,955</b>	₱695,488,620
Later than 1 year but not later than 5 years	<b>3,346,283,230</b>	3,407,894,223

Deferred lease liability arising from straight line recognition of lease payments amounting to ₱36.87 million and ₱39.66 million as of December 31, 2016 and 2015, respectively, are included in the non-current portion of lease liabilities account in the consolidated statements of financial position.

(b) Finance lease

These involve leases of transportation equipment which were accounted for as finance leases.

The components of the finance lease obligation as at December 31 arising from this lease are as follows:

	2016	2015
Gross finance lease obligations		
Not later than one year	<b>₱62,083,010</b>	₱52,583,498
Later than 1 year but not later than 5 years	<b>44,422,597</b>	42,143,711
	<b>106,505,607</b>	94,727,209
Future finance lease charges on the finance lease		
Not later than one year	<b>(11,256,327)</b>	(9,533,961)
Later than 1 year but not later than 5 years	<b>(8,054,301)</b>	(7,641,113)
	<b>(19,310,628)</b>	(17,175,074)
	<b>₱87,194,979</b>	₱77,552,135





The present value of minimum lease payments is as follows:

	2016	2015
Not later than 1 year	₱50,826,683	₱43,049,537
Later than 1 year but not later than 5 years	36,368,296	34,502,598
	<b>₱87,194,979</b>	<b>₱77,552,135</b>

Interest expense on the above finance lease obligation charged to finance costs amounted to ₱23.40 million, ₱24.45 million and ₱13.41 million in 2016, 2015 and 2014, respectively.

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## 19. Retirement Benefits

The Group has a funded, noncontributory defined benefit retirement plan covering all qualified employees. The retirement plan is intended to provide for benefit payments to employees equivalent to 100% 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. 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. 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 transactions either directly or indirectly through its subsidiaries or with its employees' retirement benefit fund.

Under the existing 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.



Changes in net defined benefit liability in 2016 and 2015 are as follow:

	2016													
	Net benefit cost in consolidated statements of comprehensive income				Remeasurements in other comprehensive income									
	January 1, 2016	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid from plan assets	Benefits paid directly by the Group	Return on plan assets	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Subtotal	Contributions	December 31, 2016
Present value of defined benefit obligation	¥655,439,842	¥77,208,449	¥-	¥33,905,162	¥111,113,611	(¥39,100,905)	¥-	¥-	(¥12,687,351)	(¥130,324,876)	¥159,381,178	¥16,368,951	¥-	¥743,821,499
Fair value of plan assets	(13,627,763)	-	-	(1,196,945)	(1,196,945)	39,100,905	-	758,958	-	-	-	758,958	(47,829,993)	(22,794,838)
Net defined benefit liability	¥641,812,079	¥77,208,449	¥-	¥32,708,217	¥109,916,666	¥-	¥-	¥758,958	(¥12,687,351)	(¥130,324,876)	¥159,381,178	¥17,127,909	(47,829,993)	¥721,026,661
	2015													
	Net benefit cost in consolidated statement of comprehensive income				Remeasurements in other comprehensive income									
	January 1, 2015	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid from plan assets	Benefits paid directly by the Group	Return on plan assets	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Subtotal	Contributions	December 31, 2015
Present value of defined benefit obligation	¥588,667,848	¥65,182,651	¥-	¥27,826,346	¥93,008,997	(¥49,079,805)	(¥37,094,535)	¥-	¥38,413,484	(¥12,321,015)	¥33,844,868	¥59,937,337	¥-	¥655,439,842
Fair value of plan assets	(46,761,584)	-	-	(1,439,080)	(1,439,080)	49,079,805	-	1,346,273	-	-	-	1,346,273	(15,853,177)	(13,627,763)
Net defined benefit liability	¥541,906,264	¥65,182,651	¥-	¥26,387,266	¥91,569,917	¥-	(¥37,094,535)	¥1,346,273	¥38,413,484	(¥12,321,015)	¥33,844,868	¥61,283,610	(¥15,853,177)	¥641,812,079



The major categories of the Group's plan assets follow:

	2016	2015
Cash and cash equivalents	<b>₱10,968,876</b>	<b>₱4,198,714</b>
Equity instruments	<b>1,431,516</b>	1,297,363
Debt instruments:		
Government bonds	<b>9,348,163</b>	7,656,077
Other bonds	<b>893,558</b>	809,489
Others	<b>152,725</b>	(333,880)
	<b>₱22,794,838</b>	<b>₱13,627,763</b>

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 ₱68.20 million to the retirement plan in 2017. 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 loss (gain) recognized in other comprehensive income follows:

	2016	2015	2014
Beginning of year	<b>(₱170,537,671)</b>	<b>(₱231,821,281)</b>	<b>(₱201,388,695)</b>
Actuarial loss (gain) from defined benefit obligation	<b>16,368,951</b>	59,937,337	(32,679,874)
Plan asset remeasurement loss	<b>758,958</b>	1,346,273	2,247,288
End of year, gross	<b>(153,409,762)</b>	<b>(170,537,671)</b>	<b>(231,821,281)</b>
Deferred tax liability	<b>46,022,929</b>	51,161,301	69,546,385
	<b>(₱107,386,833)</b>	<b>(₱119,376,370)</b>	<b>(₱162,274,896)</b>

The principal assumptions used in determining retirement for the defined benefit plans are shown below:

	2016	2015	2014
Discount rate	<b>5.77% to 6.20%</b>	4.71% to 6.12%	4.71% to 5.90%
Salary increase	<b>5.00%</b>	5.00%	5.00%
Attrition rate	<b>14.31%</b>	22.81%	12.49%





*Discount rate*

The discount rate is determined by reference to market yields at the end of the reporting period based on high quality bonds with currency and term similar to the estimated term of the benefit obligation. There is no deep market in high quality corporate bonds in the Philippines and therefore, the Group used as reference the yields in long-term Philippine Treasury Bonds and adjusted to reflect the term similar to the estimated term of the benefit obligation as determined by the actuary.

*Salary increase*

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increase comprises of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

*Attrition rate*

The attrition rate is determined based on historical experience of the Group.

*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:

		2016	2015
	Increase (decrease)	Net defined benefit liability	Net defined benefit liability
Discount rate	+1.00%	(P85,375,618)	(P45,606,262)
	-1.00%	101,845,033	51,012,403
Salary increase	+1.00%	97,741,926	44,194,507
	-1.00%	(83,780,167)	(40,508,416)

The weighted average duration of the defined benefit obligation at the end of the reporting period is 11.90 years.

Shown below is the maturity analysis of retirement benefit payments up to ten years:

	2016	2015
Less than 1 year	P34,032,237	P7,267,396
More than 1 year to 5 years	191,385,358	55,911,329
More than 5 years to 10 years	474,100,134	282,816,562
	P699,517,729	P345,995,287



## 20. Financial Risk Management Objectives and Policies

The Group has various financial assets such as cash and cash equivalents, trade and other receivables, due from related parties, available-for-sale investments and 'short-term investments' under other current assets.

The Group's financial liabilities comprise of accounts and other payables, due to related parties, notes payable, transmissions liability, finance lease liabilities and other noncurrent liabilities. The main purpose of these financial liabilities is to finance 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 income before income tax should the change in the close share price of quoted and unquoted equity securities occur as of December 31, 2016 and 2015 with all other variables held constant.

Change in share price	Effect on other comprehensive income	
	2016	2015
+5.00%	<b>₱35,485,309</b>	₱10,629,848
-5.00%	<b>(35,485,309)</b>	(10,629,848)

### *Interest rate risk*

The Group is not significantly exposed to interest rate risk as the Group's interest rate on its cash and cash equivalents and notes payable are fixed and none of the Group's financial assets and liabilities is measured at fair value. The impact of fluctuation on interest rates on the Group's finance leases will not significantly impact the results of operations.

### *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 following summarizes the maturity profile of the Group's financial assets based on remaining contractual undiscounted collections:

	2016		Total
	Due in less than one year	Due in more than one year	
Cash and cash equivalents			
Cash in bank	₱939,534,180	₱-	₱939,534,180
Cash equivalents	213,365,944	-	213,365,944
Receivables			
Trade	1,486,125,587	-	1,486,125,587
Others	14,475,954	-	14,475,954
Due from related parties	1,107,999,329		1,107,999,329
Available-for-sale investments			
Quoted	-	458,391,174	458,391,174
Unquoted	250,937,154	-	250,937,154
Short-term investment	27,340,771	-	27,340,771
	<b>₱4,039,778,919</b>	<b>₱458,391,174</b>	<b>₱4,498,170,093</b>

	2015		Total
	Due in less than one year	Due in more than one year	
Cash and cash equivalents			
Cash in bank	₱791,383,179	₱-	₱791,383,179
Cash equivalents	19,189,839	-	19,189,839
Receivables			
Trade	1,433,126,470	-	1,433,126,470
Others	13,742,490	-	13,742,490
Due from related parties	1,321,346,663	-	1,321,346,663
Available-for-sale investments	-	212,596,951	212,596,951
Short-term investment	5,011,500	-	5,011,500
	<b>₱3,583,800,141</b>	<b>₱212,596,951</b>	<b>₱3,796,397,092</b>

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:

	2016		Total
	Due in less than one year	Due in more than one year	
Accounts payable and accrued expenses			
Trade payable	₱563,935,835	₱-	₱563,935,835
Accruals	493,249,695	-	493,249,695
Others	31,322,861	-	31,322,861
Due to related parties	18,509,332	-	18,509,332
Notes payable	705,273,544	796,882,740	1,502,156,284
Transmissions liability	467,284,795	-	467,284,795
Lease liabilities	62,083,010	44,422,596	106,505,606
Other noncurrent liabilities	-	34,477,440	34,477,440
	<b>₱2,341,659,072</b>	<b>₱875,782,776</b>	<b>₱3,217,441,848</b>





	2015		Total
	Due in less than one year	Due in more than one year	
Accounts payable and accrued expenses			
Trade payable	P687,292,655	P—	P687,292,655
Accruals	567,502,422	—	567,502,422
Others	18,108,345	—	18,108,345
Due to related parties	18,137,986	—	18,137,986
Notes payable	1,043,663,196	—	1,043,663,196
Transmissions liability	508,139,757	—	508,139,757
Lease liabilities	52,583,498	42,143,711	94,727,209
Other noncurrent liabilities	—	43,553,548	43,553,548
	P2,895,427,859	P85,697,259	P2,981,125,118

Notes payable and lease liabilities include future interest payments.

Payable to government agencies amounting to P206.40 million and P559.13 million as at December 31, 2016 and 2015, respectively, are considered nonfinancial liabilities.

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

#### *Foreign currency risk*

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

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

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



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

	2016	
	Foreign currency	Peso equivalent
<b>Euro</b>	<b>2,851,734</b>	<b>₱150,600,073</b>
<b>Hongkong Dollars</b>	<b>17,813,579</b>	<b>114,363,177</b>
<b>Australian Dollars</b>	<b>2,768,961</b>	<b>103,033,039</b>
<b>Taiwanese Dollars</b>	<b>59,719,397</b>	<b>93,759,453</b>
<b>US Dollars</b>	<b>1,249,172</b>	<b>62,171,290</b>
<b>Great British Pound</b>	<b>194,844</b>	<b>12,039,411</b>

The translation exchange rates used were ₱52.81 to EUR 1, ₱6.42 to HKD 1, ₱37.21 to AUD 1, ₱1.57 to TWD 1, ₱49.77 to USD 1 and ₱61.79 to GBP 1 in 2016.

	2015	
	Foreign currency	Peso equivalent
<b>Euro</b>	<b>2,817,963</b>	<b>₱140,729,072</b>
<b>Taiwanese Dollars</b>	<b>60,803,891</b>	<b>88,165,642</b>
<b>Hongkong Dollars</b>	<b>12,006,592</b>	<b>72,880,013</b>
<b>Australian Dollars</b>	<b>2,046,081</b>	<b>69,628,136</b>
<b>Canadian Dollars</b>	<b>1,433,332</b>	<b>50,768,619</b>
<b>US Dollars</b>	<b>955,395</b>	<b>44,970,443</b>

The translation exchange rates used were ₱49.94 to EUR 1, ₱1.45 to TWD 1, ₱6.07 to HKD 1, ₱34.03 to AUD 1, ₱35.42 to CAD and ₱47.07 to USD 1 in 2015.

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, 2016 and 2015.

Reasonably possible change in foreign exchange rate for every two units of Philippine Peso	Increase (decrease) in income before tax	
	2016	2015
<b>₱2</b>	<b>₱169,195,374</b>	<b>₱158,866,508</b>
<b>(2)</b>	<b>(169,195,374)</b>	<b>(158,866,508)</b>

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 dollar average exchange rates.

The Group recognized ₱143.23 million and ₱108.11 million foreign exchange gains - net, for the years ended December 31, 2016 and 2015, respectively, arising from settled transactions and translation of the Group's cash and cash equivalents, trade receivables, trade and other payables.

#### 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, 2016 and 2015, the credit quality per class of financial assets is as follows:

2016					
	Neither Past Due nor Impaired			Past due and/or Individually Impaired	Total
	High Grade	Standard	Substandard Grade		
Cash in banks and cash equivalents	P1,152,900,124	P-	P-	P-	P1,152,900,124
Trade and other receivables	1,375,320,530	-	-	125,281,011	1,500,601,541
Due from related parties	1,107,999,329	-	-	-	1,107,999,329
Short-term investment	27,340,771	-	-	-	27,340,771
	P3,663,560,754	P-	P-	P125,281,011	P3,788,841,765

2015					
	Neither Past Due nor Impaired			Past due and/or Individually Impaired	Total
	High Grade	Standard	Substandard Grade		
Cash in banks and cash equivalents	P810,573,018	P-	P-	P-	P810,573,018
Trade and other receivables	1,324,437,845	-	-	122,431,115	1,446,868,960
Due from related parties	1,321,346,663	-	-	-	1,321,346,663
Short-term investment	5,011,500	-	-	-	5,011,500
	P3,461,369,026	P-	P-	P122,431,115	P3,583,800,141

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.

As of December 31, 2016 and 2015, the aging analyses of the Group's past due and/or impaired receivables are as follows:

2016					
	Past Due but not Impaired			Impaired Financial Assets	Total
	1 to 30 days	31 to 90 days	Over 90 days		
Trade and other receivables	P32,384,030	P8,880,741	P28,321,255	P55,694,985	P125,281,011



	2015				
	Past Due but not Impaired			Impaired Financial Assets	Total
	1 to 30 days	31 to 90 days	Over 90 days		
Trade and other receivables	₱50,299,498	₱14,088,359	₱18,151,894	₱39,891,364	₱122,431,115

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, 2016 and 2015 amounting to ₱2,462.99 million and ₱1,627.70 million, respectively.

## **21. 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, transmissions liability, and the current portion of notes payable and lease liabilities approximate their fair value. These financial instruments are relatively short-term in nature.

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

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

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 7.5% to 8.00% for 2016 and 2015.

The estimated fair value of other noncurrent liabilities is based on the discounted value of future cash flow using applicable rate of 12.28%.





### Fair Value Hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The quantitative disclosures on fair value measurement hierarchy for assets as of December 31, 2016 and 2015 follow:

2016					
Fair value measurements using					
			Quoted prices in active markets for identical assets (Level 1)	Significant offer observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Carrying values	Total			
<b>Assets measured at fair value</b>					
Quoted equity securities	P458,391,174	P458,391,174	P458,391,174	P-	P-
Unquoted unit investment trust fund	250,937,154	250,937,154	-	250,937,154	-
<b>Liabilities for which fair value are disclosed</b>					
Long-term notes payable	692,500,000	695,225,295	-	-	695,225,295
Non-current lease liabilities	73,242,401	77,401,097	-	-	77,401,097
Other noncurrent liabilities	34,477,440	36,807,633	-	-	36,807,633
2015					
Fair value measurements using					
			Quoted prices in active markets for identical assets (Level 1)	Significant offer observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Carrying values	Total			
<b>Assets measured at fair value</b>					
Quoted equity securities	P212,596,951	P212,596,951	P212,596,951	P-	P-
<b>Liabilities for which fair value are disclosed</b>					
Non-current lease liabilities	74,164,341	75,518,246	-	-	75,518,246
Other noncurrent liabilities	43,553,548	47,055,612	-	-	47,055,612

There was no transfer between Level 1 and Level 2 in the period.

### Offsetting of Financial Instruments

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



The following table represents the recognized financial instruments that are offset as of December 31, 2016 and December 31, 2015, and shows in the 'Net' column what the net impact would be on the Group's consolidated statements of financial position as a result of the offsetting rights.

December 31, 2016			
	Gross Amount	Offsetting	Net Amount
Due from related parties (a)	₱1,373,313,748	₱—	₱1,373,313,748
Dividends payable (a)	—	(265,314,419)	(265,314,419)
	₱1,373,313,748	(₱265,314,419)	₱1,107,999,329

December 31, 2015			
	Gross Amount	Offsetting	Net Amount
Due from related parties (b)	₱1,571,948,066	(₱232,463,417)	₱1,339,484,649
Due to related parties (b)	(252,429,668)	—	(252,429,668)
Royalty payable (b)	—	173,657,922	173,657,922
Purchase of LBCE (c)	—	58,805,495	58,805,495
	(252,429,668)	232,463,417	(19,966,251)
	₱1,319,518,398	₱—	₱1,319,518,398

- 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 Group's royalty payable to LBCDC has been offset against due from LBCDC.
- As discussed in Note 2, the Parent Company's payable to LBCDC arising from purchase of LBCE has been offset against due from LBCDC.

## 22. 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 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.



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

	2016	2015	2014
Logistics			
Retail	<b>₱4,964,000,749</b>	₱4,091,284,562	₱3,673,617,337
Corporate	<b>2,557,865,998</b>	2,199,007,266	1,968,288,045
	<b>7,521,866,747</b>	6,290,291,828	5,641,905,382
Money transfer services			
Domestic	<b>1,058,448,930</b>	1,186,850,428	1,317,278,020
International inbound	<b>115,086,945</b>	209,332,208	97,044,436
	<b>1,173,535,875</b>	1,396,182,636	1,414,322,456
	<b>₱8,695,402,622</b>	₱7,686,474,464	₱7,056,227,838

The revenue of the Company consists mainly of sales to external customers. Revenue arising from service fees charged to affiliates amounted to ₱400.29 million and ₱386.36 million in 2016 and 2015, 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.

### **23. Note to Consolidated Statement of Cash Flows**

In 2016, the Group has the following non-cash transactions under:

#### Operating activities

- a.) Offsetting of due from LBCDC against dividends payable amounting to ₱265.31 million recorded under 'Due from related parties'.

#### Investing activities

- a.) Unpaid acquisitions of property and equipment amounted to ₱60.75 million during the year.

#### Financing activities

- a.) Accrued interest amounted to ₱1.72 million.

In 2015, the Group has the following non-cash transactions under:

#### Operating activities

- a.) Offsetting of royalty payable to LBCDC amounting to ₱173.66 million against due from LBCDC. The net effect of the offsetting of the financial instruments is reflected as part of the 'Due from related parties' in the statements of financial position.

#### Investing activities

- a.) Unpaid acquisitions of property and equipment amounted to ₱76.30 million, ₱52.14 million of which pertains to purchases of computer hardware under long-term payments
- b.) Reversal of intangible assets and related liability amounting to ₱21.33 million.



## 24. Basic/Diluted Earnings Per Share

The following table presents information necessary to calculate earnings per share:

	2016	2015	2014
Net income attributable to equity holders of the Parent Company	<b>₱921,605,612</b>	₱416,300,896	₱143,410,244
Divided by the weighted average number of common shares outstanding	<b>1,425,865,471</b>	1,425,865,471	1,425,865,471
Basic/diluted earnings per share	<b>₱0.65</b>	₱0.29	₱0.10

The basic /diluted earnings per share for the year ended December 31, 2016, 2015 and 2014 were computed as follow:

	December 31, 2016	December 31, 2015	December 31, 2014
Net income attributable to the shareholders of the Parent Company (a)	<b>₱921,605,612</b>	₱416,300,896	₱143,410,244
Common stocks issued at the beginning of the period	<b>1,425,865,471</b>	40,899,000	40,899,000
Common stocks issued during the year	—	1,384,966,471	1,384,966,471
Weighted average number of common stocks outstanding (b)	<b>1,425,865,471</b>	1,425,865,471	1,425,865,471
Basic and diluted earnings per share (a/b)	<b>₱0.65</b>	₱0.29	₱0.10

The basic and dilutive earnings per share are the same due to the absence of dilutive potential common shares.

The denominator used in 2014 represents the issued and outstanding shares as at December 31, 2015 to reflect retroactively, the completed acquisition of LBCE which was accounted for similar to a reverse acquisition (see Note 2).

## 25. Other Matters

### *Closure of LBC Development Bank, Inc.*

On September 9, 2011, the BSP, through Monetary Board Resolution No. 1354, resolved to close and place LBC Development Bank Inc.'s (the "Bank") assets and affairs under receivership.

On December 8, 2011, the Philippine Deposit Insurance Company (PDIC), as the official receiver and liquidator of closed banks, demanded on behalf of the Bank that LBC Holdings USA Corporation (LBC US) pay for its alleged outstanding obligations to LBC Bank amounting to approximately ₱1.00 billion, a claim that LBC US has denied as being baseless and unfounded. No further demand on this matter has been made by the PDIC since then, although there are no assurances that the claim has been waived or abandoned in whole or in part, or that the PDIC will not institute relevant proceedings in court or serve another demand letter to LBC US.

In relation to the Bank's closure and receivership, as discussed in Note 14, the receivables amounting to ₱295.00 million were written-off in 2011.





On March 17 and 29, 2014, the PDIC's external counsel sent letters to LBCE, demanding collection of the alleged amounts totaling ₱1.79 billion. On March 24 and 29, 2014, July 29, 2014, June 17, 2015 and June 26, 2015, the same legal counsel sent collection letters addressed to LBC Systems, Inc. [Formerly LBC Mundial Inc.] [Formerly LBC Mabuhay USA Corporation], demanding the payment of amounts aggregating to ₱911.59 million, all on behalf of the Bank.

On May 15, 2015, the Department of Justice ("DOJ") issued subpoenas to some of the stockholders of the Bank, directing them to submit their counter-affidavits in connection with the conduct of a preliminary investigation over a complaint filed by the PDIC. The preliminary investigation is an inquiry to determine whether there is sufficient ground that the offenses alleged have been committed, and if trial should be held. The stockholders submitted their counter-affidavits, and the matter is now submitted for resolution by the DOJ.

On November 2, 2015, the Bank, through PDIC, filed a civil case against LBCE and LBCDC before the regional trial court of Makati ("RTC"), among other respondents, for a total collection of an alleged amount of ₱1.82 billion (the "Complaint"). The case is in relation to the March 17, 2014 demand letter representing collection of unpaid service fees due from June 2006 to August 2011 and service charges on remittance transactions from January 2010 to September 2011. The increase in the amount from the demand letter to the amount contained in the case was explained by PDIC in the complaint as attributable to their discovery that the supposed payments of LBCE seem to be unsupported by actual cash inflow to the Bank.

On December 28, 2015, the summons, together with a copy of the Complaint and the writ of preliminary attachment, were served on the former Corporate Secretary of LBCE. The writ of preliminary attachment resulted in the following: (a) tagging of the 1,205,974,632 shares of LBCH in the name of LBCDC, and (b) the attachment of various bank accounts of LBCE totaling ₱6.90 million. The tagging of the shares in the record of the stock transfer agent has the effect of preventing the registration or recording of any transfers of shares in the records, unless the writ of attachment is lifted, quashed or discharged.

On January 12, 2016, LBCE and LBCDC, among other defendants, filed with the RTC, a separate Motion to Dismiss the Complaint. On January 21, 2016, LBCE and LBCDC filed their Urgent Motion to Approve the Counterbond and Discharge the Writ of Attachment.

On February 17, 2016, the RTC granted LBCE and LBCDC's motion and issued the order to lift and set aside the writ of preliminary attachment. The order to lift and set aside the preliminary attachment directs the sheriff of the court to deliver to LBCE and LBCDC all properties previously garnished pursuant to the writ of preliminary attachment. The counterbond delivered by LBCE and LBCDC shall stand in place of the properties so released and shall serve as security to satisfy any final judgment in the case.

In a joint resolution dated June 28, 2016 (the "Joint Resolution"), the RTC resolved to deny the Motions to Dismiss filed by the defendants, including LBCE. On July 18, 2016, LBCE, together with the other defendants, filed a Motion for Reconsideration of the Joint Resolution. PDIC then filed its Comment/ Opposition on August 10, 2016, followed by the defendants' reply on August 26, 2016, PDIC's Rejoinder on September 26, 2016, and defendants' Sur-Rejoinder on November 16, 2016. Thereafter, in an Order dated January 26, 2017, the Motion for Reconsideration was deemed submitted for resolution. On February 23, 2017, LBCE received the RTC's resolution denying the Motion for Reconsideration of the Joint Resolution. On February 28, 2017, LBCE filed a Motion for Extension of Time to File Answer, asking for additional period of 15 days, or until March 15, 2017 to file Answers. The ultimate outcome of the case cannot presently be determined.



In relation to the above case, in the opinion of management and in concurrence with its legal counsel, any liability of LBCE is not probable and estimable at this point in time.

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**26. Subsequent Events**

On March 8, 2017, the BOD of LBCE approved the declaration of cash dividends amounting to ₱843.36 million or ₱0.81 for every issued and outstanding common share.



# ***Board of Directors***

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***Miguel Angel A. Camahort***

Chairman of the Board, Chief Executive  
Officer and President

***Rene E. Fuentes***

Director

***Enrique V. Rey, Jr.***

Director

***Augusto G. Gan***

Director

***Mark Werner J. Rosal***

Director

***Solita V. Delantar***

Independent Director

***Luis N. Yu, Jr.***

Independent Director

***LBC Express Holdings, Inc.***

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