

# COVER SHEET

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S.E.C. Registration Number

L B C E X P R E S S H O L D I N G S , I N C .  
( f o r m e r l y F E D E R A L  
R E S O U R C E S I N V E S T M E N T  
G R O U P I N C . )

(Company's Full Name)

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

(Business Address : No. Street/City/Province)

Mahleene G. Go

Contact Person

888-0999

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

SEC Form 17-A

FORM TYPE

2<sup>ND</sup> Monday of June  
of each year

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

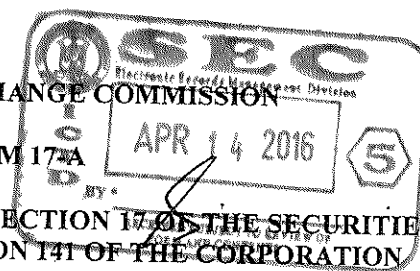
Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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



1. For the fiscal year ended: December 31, 2015
2. SEC Identification Number: ASO93-005277
3. BIR Tax ID No.: 002-648-099-000
4. Exact Name of issuer as specified in its charter: LBC EXPRESS HOLDINGS, INC. (formerly Federal Resources Investment Group Inc.)
5. Province, country or other jurisdiction of incorporation or organization: Philippines
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of principal office and postal code: LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila 1300
8. Issuer's telephone number, including area code: (632) 856-8510
9. Former name, former address, former fiscal year (if changed since last report):  
Federal Resources Investment Group Inc.  
No. 35 San Antonio Street, San Francisco Del Monte, Quezon City

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

As of December 31, 2015:

<u>Title of each class</u>	<u>Number of shares issued and outstanding</u>
Common Shares	1,425,865,471 <sup>1</sup>

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

Name of Stock Exchange: Philippine Stock Exchange  
Class of securities listed: Common Shares<sup>2</sup>

12. Check whether the issuer:

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

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

<sup>2</sup> As of December 31, 2015, 40,899,000 common shares have been listed with the Philippine Stock Exchange. The remaining 1,384,966,471 are subject of listing applications filed with the Philippine Stock Exchange.

Yes(x) No ( )

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

13. Aggregate market value of voting stock held by non-affiliates is \$2,638,666,128 as of the end of 2015.<sup>3</sup>

#### DOCUMENTS INCORPORATED BY REFERENCE

14. Briefly describe documents incorporated by reference and identify the part of the SEC Form 17-A into which the document is incorporated:
- (a) 2015 Consolidated Audited Financial Statements (incorporated as reference for items 6, 7 and 12 of SEC Form 17-A)
  - (b) Annual Corporate Governance Report, including annual updates thereto (incorporated as reference for Part IV of SEC Form 17-A)

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<sup>3</sup> Inclusive of common shares with pending listing applications.

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

For purposes of presenting the financial condition of the Company, the Company has applied the reverse acquisition method of accounting in view of LBC Express Holdings, Inc.'s acquisition of LBC Express, Inc. whereby LBC Express Holdings, Inc. is treated as the accounting acquire. Accordingly, the consolidated financial statements of LBC Express Holdings, Inc. have been prepared as a continuation of consolidated financial statements of LBC Express, Inc. and its subsidiaries.

## **PART I – BUSINESS AND GENERAL INFORMATION**

### **Item 1. BUSINESS**

#### **BUSINESS DEVELOPMENT**

##### **CORPORATE REORGANIZATION**

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

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

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

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

On May 18, 2015, the Company and LBC Development Corporation entered into a Deed of Subscription, whereby LBC Development Corporation, subject to the completion of the mandatory tender offer, subscribed to 59,101,000 common shares out of the unissued authorized capital stock of the Company or 59.10% of the authorized capital stock of the Company. The consideration for the subscribed shares was ₱59,101,000.00 or ₱1.00 per share.

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

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

On 29 July 2015 and in consonance with such change in control, the Board of Directors of the Company approved the acquisition by the Company of all the outstanding shares of stock of LBC Express, Inc., at the time a wholly-owned subsidiary of LBC Development Corporation, at the book value of not less than ₱1 billion. The Board also approved the following:

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

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

On 18 September 2015, pursuant to the authority to issue shares out of the increase in authorized capital stock or out of the unissued capital stock to LBC Development Corporation, the Company and LBC Development Corporation entered into Subscription Agreements, whereby LBC Development Corporation subscribed to, and the Company agreed to issue, 1,146,873,632 additional Common Shares at a subscription price of ₱1.00 per share or an aggregate subscription price of ₱1,146,873,632.00 (the **Additional Subscriptions**), consisting of 475,000,000 shares issued from the increase in the authorized capital stock of the Company and 671,873,632 shares issued out of the authorized and unissued capital stock of the Company, following the approval by the SEC of the increase in the authorized capital stock of the Company from ₱100,000,000.00 divided into 100,000,000 Common Shares with par value of ₱1.00 per Share, to ₱2,000,000,000.00 divided into 2,000,000,000 Common Shares with par value of ₱1.00 per Share. Notices of exemption for the Additional Subscriptions were filed with the SEC on October 13, 2015.

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

#### *Involvement in Bankruptcy or Receivership Proceedings*

As of the end of December 2015, the Company was not involved in any bankruptcy, receivership or any similar proceedings.

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

On 24 September 2015, the LBCEH purchased from LBC Development Corporation a total of 1,041,180,493 shares of stock in LBC Express for an aggregate purchase price of ₱1,384,670,966.00.

**LBC HISTORY**

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

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

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

## **BUSINESS**

### **SERVICES**

The Company's business comprises two primary segments: (a) logistics; and (b) money transfer services.

The table below presents the components of the Company's revenue associated with its business segments for the periods indicated.

	For the years ended November 30,		
	2015	2014	2013
	(₱ in millions)		
<b>Logistics</b>			
Retail .....	4,091.3	3,673.6	3,801.8
Corporate .....	2,199.0	1,968.3	936.3
	6,290.3	5,641.9	4,738.1
<b>Money Transfer Services</b>			
Domestic <sup>(1)</sup> .....	1,186.9	1,317.3	1,334.1
International Inbound <sup>(2)</sup> .....	209.3	97.0	15.2
	1,396.2	1,414.3	1,349.3
<b>Total Service Revenue</b>	<b>7,686.5</b>	<b>7,056.2</b>	<b>6,087.4</b>

*Notes:*

(1) *Comprises fee income from domestic remittances and bills payment collection services.*

(2) *Comprises fee income from international inbound remittances.*

As of November 30, 2015, the logistics business of the Company account for approximately 77.8% of its total revenues while money transfer services account for the remaining 22.2%.

### **Logistics**

The logistics business is the Company's primary source of revenue. The Company serves two primary customer segments within the logistics business: (a) retail customers; and (b) corporate customers. The main services offered to retail customers include courier, air cargo forwarding and balikbayan boxes services. The main services offered to corporate clients include, in addition to courier and freight forwarding services, specialized corporate solutions, or corporate logistics services tailored to the specific needs of the client.

#### ***Retail Logistics***

The Company's primary retail logistics offerings are its "Express" products (comprising courier and air cargo forwarding) and balikbayan boxes.

#### ***Courier***

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

of the National Capital Region of the Philippines, additional insurance and same-day delivery service.

#### *Air Cargo*

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

#### *Balikbayan Boxes*

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

#### *Corporate Logistics*

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

##### *Specialized Corporate Solutions (SCS)*

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

As part of SCS, the Company provides transportation of mail, parcels and cargo via air, land and sea. The Company offers sea freight forwarding services domestically for both full container load (FCL) and less-than-container load (LCL) shipments. LCL services are particularly attractive for small and medium-sized businesses with relatively lower volume shipping requirements. Corporate clients have the option of dropping off their shipments at the Company's container freight stations located near local ports or requesting a pick-up from the Company. The Company also offers flexible payments modes, including payment at origin, payment at destination, payment on account of shipper, and payment on account of consignee. Shipping times for sea freight are more protracted than for air freight, ranging from three to seven days for domestic shipments and seven to 35 days for international shipments. In recent years, the volume of sea freight forwarding services provided by the Company has increased due to the growth in its corporate client portfolio.



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

The Company, through its wholly-owned subsidiary LBC Express Corporate Solutions, Inc., offers Print and Mail Solutions. This involves end-to-end solutions for clients' mailing and printing requirements, including the printing, envelope-stuffing and delivery of invoices, notices, advertisements, direct mail and other bulk mail as well as the issuance of proof-of-delivery reports. Other potential services include full color variable printing, transpromo printing (the combination of personalized materials with transactional printing to make use of transactional documents as a medium for advertisements), book printing, as well as the printing and delivery of documents, passports, visas, account statements and credit cards. Clients who make use of the Company's Print and Mail Solutions include financial institutions, retailers, utilities companies and others.

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

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

### **Money Transfer Services**

Money transfer services is the Company's second primary business segment and comprises both domestic and international money transfer services.

#### ***Domestic***

Domestic money transfer services include (a) remittances and (b) bills payment collection and corporate remittance payout services.

#### ***Remittances***

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

- *Branch retail services* enable customers who make remittances at any Company-owned branch in the Philippines to choose among the following fulfillment options for their beneficiaries:
  - *Instant branch pick-up*, a real-time cash pick-up remittance facility in which funds become instantaneously available for pick-up by the remitter's beneficiary once the sending party has made the payment at a Company-owned branch; the sending party can designate any pick-up location or geographic zone within the Company's domestic network (including both Company-owned branches and branches of its partner, Palawan Pawnshop);
  - *Pesopak*, a service by which remittances are delivered directly to the beneficiary's doorstep, providing an attractive option for situations in which beneficiaries cannot or do not want to visit a branch; the Company offers next day delivery for Pesopak in almost all areas in the Philippines; and
  - *Remit-to-account*, a service by which funds accepted from a sender at a Company branch will be directly deposited to the designated local bank account of the beneficiary.
- *Prepaid remittance cards* are debit cards powered by VISA and issued by local banking institutions with whom the Company has agreements, including RCBC, Philippine Veterans Bank and Union Bank of the Philippines. Through pre-paid remittance cards, senders can purchase a card on behalf of the beneficiary and reload the card instantly at any of the Company's branches or agent-operated locations. The beneficiary is then able to use the funds at any location where VISA cards are accepted.
- *Mobile and online remit services* function in a similar manner as pre-paid phone cards. A customer can purchase a card with a confirmation code, which can then be texted to a beneficiary or entered online at the Company's website. For mobile remit, the beneficiary can then bring the code to the branch location to encash the funds. For online remit, the sender can choose any of the fulfillment options available through branch services (i.e. instant branch pick-up, Pesopak and remit-to-account) for the beneficiary. Mobile and online remit codes are sold in nearly 5,000 locations throughout the Philippines, including the Company's branches, supermarkets and other retailers.

The Company charges a service fee for processing domestic remittances according to a progressive schedule based on the value of the remittance. Fees may also vary depending on the chosen method of fulfillment. For example, remit-to-account and Pesopak deliveries may incur additional service charges. The significant majority of remittances made by customers of the Company are for sums equivalent to approximately ₱13,000 or less.

#### *Bills Payment Collection and Corporate Remittance Payouts*

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

The Company also provides payout services for various corporations and organizations. For example, beneficiaries of the Philippine Social Security System, as well as private insurance carriers with whom the Company has contracted, can collect their benefits at a Company-owned

branch. Likewise, the Company provides payroll services for certain companies, whereby employees can collect salary checks at a branch office. As part of its reciprocal agreement with Palawan Pawnshop, the Company also provides encashment services for beneficiaries of senders who make a remittance at a Palawan Pawnshop branch.

### ***International***

The Company provides fulfillment services for international inbound remittances from 15 countries and territories overseas to the Philippines through its overseas branches and affiliates and its network of international remittance agents.

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

As of the end of December 2015, the Company does not process outbound remittances from the Philippines.

## **OPERATIONS**

### ***Logistics***

Logistics entails the management of the flow of goods from a point of origin to a specified destination, including any ancillary services that may be required to facilitate the process, such as storage and packaging. The Company's courier and freight forwarding services utilize transport by air, sea and land and a set of strategically located warehouses, distribution centers and delivery hubs to provide end-to-end delivery services for its retail and corporate clients.

### ***Air Freight Forwarding***

#### ***Domestic***

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

#### ***International***

The Company's international air freight forwarding and courier services involve a similar process as its domestic air freight forwarding and courier services, namely (1) acceptance (by pick-up or drop-off at an international LBC Express, Inc.-owned, or affiliate-owned branch or agent-operated location), (2) ground transport to a regional distribution center, (3) primary sorting, (4) loading to international aircraft, (5) withdrawal of cargo by Philippine associates at the Central

Exchange in Manila, (6) secondary sorting, (7) further forwarding by air to regional destinations (if necessary) and (8) ground transport, via Company-owned and third party trucks, for delivery to final destination. In the case of shipments originating from overseas, LBC Express, Inc.'s overseas branch, affiliate or agent, as applicable, is responsible for all of the steps from acceptance of the parcel/cargo through loading of the parcel/cargo onto the Philippine-bound airline carrier.

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

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

### ***Ground Delivery Fleet***

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

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

As of November 30, 2015, the Company had a fleet of 195 vehicles, which were all leased. The Company's drivers and couriers are trained in vehicle operation safety, customer service, cash handling and other procedures. Vehicles are acquired on a lease-to-own basis pursuant to finance leases with a typical term of three years to ownership. The Company's vehicle fleet undergoes maintenance on a regularly scheduled basis, and vehicles are typically replaced every five to seven years. The Company began refueling of most of its delivery vehicles in 2014. Comprehensive insurance is maintained for all of the vehicles.

### ***Sea Cargo Forwarding***

As of the end of December 2015, the Company's sea cargo forwarding services are available domestically in Manila, Cebu, Bacolod, Iloilo, Davao, Cagayan de Oro and General Santos, and internationally in 22 countries and territories outside the Philippines.

The Company does not own ships and contracts with third party shipping carriers for these services. Domestic sea transport is provided by Oceanic Container Lines, Inc., 2Go Freight, Lorenzo Shipping Lines, Gothong Southern and Asian Marine Transport Corporation, among others, while international sea transport is provided through Orient Freight International (an international freight forwarding agency). The Company also entered into a partnership agreement with OHL effective August 1, 2013 to engage in international freight forwarding as an NVOCC. This allows the Company to contract directly with international shipping carriers rather than rely on another international freight forwarder. The Company's sea cargo forwarding services are separated into retail operations and corporate operations.

### *Retail*

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

### *Corporate*

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

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

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

### *Specialized Corporate Solutions*

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

### **Money Transfer Services**

#### *Remittances*

##### *Infrastructure*

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

##### *Domestic Partners*

To expand its domestic network for remittance services, the Company and Eight Under Par, Inc. (a Philippine corporation doing business under the trade name "Palawan Pawnshop") entered into a non-exclusive agreement in June 2012 to serve as reciprocal fulfillment agents within the Philippines. Through the agreement, all of Palawan Pawnshop's branches in the Philippines are available to provide instant branch pick-up services for beneficiaries of the Company's remittance customers, and all of the Company's branches in the Philippines in turn provide the same service

for Palawan Pawnshop's customers. Both partners collect a reciprocal percentage of the service fee for performing services on behalf of the other.

The Company believes that its strategic partnership with Palawan Pawnshop has enabled it to greatly expand its geographical reach in the Philippines, particularly in areas where it has fewer Company-owned branches, at minimal expense. As of end of December 2015, Palawan Pawnshop is the Company's only domestic fulfillment agent, although the Company evaluates opportunities for other strategic partnerships as they arise from time to time.

The Company also has relationships with local financial institutions, including RCBC, Philippine Veterans Bank and Union Bank of the Philippines, which issue pre-paid remittance debit cards offered to the Company's customers. With these cards, customers can load the cards at any LBC branch and beneficiaries can withdraw cash from the remittance cards at any of the partner banks' ATMs and branch offices. These cards, which are powered by VISA, are also available for use at any location where VISA cards are accepted.

#### *International Remittance Agents*

To expand its international reach, LBC Express, Inc. has also entered into agreements with affiliates and remittance fulfillment agents in a dozen countries and territories outside of the Philippines. These agents include international remittance houses such as Money Exchange in Spain; Philrem in the United Kingdom; Al Ghurair Exchange, Al Falah Exchange and Speed Remit in the United Arab Emirates; TML Remittance Center and Piacid Express in Malaysia; Far East Express and RJ Mart in Taiwan; and Manila Trading in Australia, among others, as well as Philippine financial institutions with strong international presence such as Metrobank, Land Bank of the Philippines and RCBC. Through the extended networks of its agents, the Company provides fulfillment services for inbound remittances originating from 15 other countries and territories (as of November 30, 2015), although the Company transacts only with its direct agents. Under the terms of the fulfillment partnership agreements that the Company enters into, direct agents are permitted only limited use of the "LBC" name, trademarks and other protected signs when transacting business on behalf of the Company and still carrying on business under their own corporate and trade names. The Company receives a fixed percentage of the agent's revenues in exchange for its services in relation to inbound international remittances. The Company requires most of its remittance agents to maintain a revolving fund for advance funding cover, which must be replenished when the balance falls beneath a set threshold. This is to ensure that the Company bears minimal credit risk when making payouts on behalf of international agents. In addition, most of the agreements have in place a maximum remittance value per transaction as a further risk mitigation tool, typically ranging from ₱75,000 to ₱100,000.

#### *Bills Payment Collection and Corporate Remittance Payouts*

The majority of the Company's bills payment collection services are governed by an agreement with Bayad dated January 21, 2013, under which the Company subcontracts with Bayad to perform third-party bills collection services for a group of vendors, including utility companies, telecommunications companies and others, with whom Bayad has contracted. The term of the agreement is three years with a renewal option thereafter by mutual consent of the parties. The Company collects a service fee from Bayad each month based on the total number of valid transactions it has processed that month. At the close of each business day, a payment transaction report is generated for each vendor and transmitted to Bayad. The Company must then deposit the day's collections into a designated bank account of Bayad by the following day.

The Company also contracts directly with certain organizations, such as the Philippine Social Security System, private insurance companies and certain employers, to serve as a corporate payout agent.

## **MARKETING AND SALES**

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

### **Brand Equity**

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

The Company has recently undertaken a re-launch of the “LBC” brand, which began in November 2013. The re-launch involves an update of the “LBC” logo, a new Company slogan (“We like to move it”), a revamp of its website and re-outfitting of its vehicle fleet and branch offices to reflect the new design. The re-launch of the brand and other measures are intended to promote a positive cultural shift to its business and employees, manifesting the Company’s ethos of constant evolution and adaptation to the times. External consultants were engaged and market research was conducted in planning the re-launch.

### **Corporate Sales Force**

The Company’s corporate sales are conducted through its dedicated sales and marketing teams which, as of November 30, 2015, comprised 14 field account managers in charge of client relationship management. To better manage its corporate accounts, the Company has also invested in sales order management software designed by SAP that helps the Company maintain records on the processing of sales orders, accounts, inquiries, quotations, contracts, billing, returns processing, consignment, sales planning, sales reporting and customer analytics. In addition to automating several aspects of sales record keeping, this program is also expected to help the sales force gain marketing and business intelligence as well as improve customer retention.

### **Advertising**

The Company regularly advertises over media channels such as TV, radio and print. The Company also sponsors community events such as the Ronda Pilipinas, the largest Philippine cycling race, and sporting events of the Filipino world champion boxer Manny Pacquiao.

## **INFORMATION TECHNOLOGY**

### **Operational**

The Company relies on its IT networks and systems for both its Logistics and Money Transfer Services businesses and believes that maintaining advanced technological systems is integral to remaining competitive in its industry. For both its Logistics and Money Transfer Services businesses, the Company utilizes its proprietary integrated POS system for documenting front-end acceptances of shipments, remittances and bill payments. The integrated system enables centralized back-office monitoring of the branch, warehouse and distribution center operations. In addition to the POS system, the Company uses scanning technology for tracking and tracing of packages, as well as a specialized sorting machine unit for high volume mail printed on behalf of certain corporate clients as part of its "Print and Mail" service. The sorting machine unit is capable of sorting approximately 20,000 pieces of mail per hour.

The Company is currently in the process of implementing an updated proprietary IT system that will integrate several components of its existing operational IT systems. The integrated system, VISTRA, will combine the POS system that the Company currently uses to manage its front-end acceptances for shipments, remittances and bills payment collections, the INCA software for sea cargo acceptance and the Company's track and trace scanning system in order to allow for more efficient transactions at the point of sale, improve inventory control and tracking and centralize customer management. In addition, the Company has recently begun the process of outfitting each of its couriers with handheld scanners, which will increase the efficiency and minimize human error in documenting daily pick-ups and deliveries. The Company also plans to adopt put-to-light sorting technology for its non-bulk mail, which will help automate some aspects of the parcel sorting process currently completed manually.

### **Business Management**

The Company uses a comprehensive suite of customized business management solutions software designed and licensed by SAP. The Company has utilized SAP's finance applications for several years now and, in the fourth quarter of fiscal year 2013, has also begun using SAP's software solutions for human resources management, asset management, product development, procurement, supply chain management, sales, route-planning for the Company's delivery fleet and others. The Company believes that the integrated SAP software solutions will bring it both short-term and long-term productivity gains and cost savings. The Company expects to have part one of the fully integrated system in place by fiscal year 2016.

### **Online and Mobile Platform**

To enhance the customer experience, the Company has developed a digital platform that enables online real-time transaction processing and customer service through its website ([www.lbcexpress.com](http://www.lbcexpress.com)). Currently, the Company's website contains several interactive features for its customers, including package tracking, rate calculators and scheduling of pick-ups for parcels and cargo, as well as real-time customer service support through the "Live Talk" capability. The Company also has a mobile phone application, "LBC Mobile Remit," which facilitates remittance transactions for customers by enabling them to release funds to beneficiaries by way of mobile phone.



## **STATUS OF ANY PUBLICLY-ANNOUNCED NEW PRODUCT OR SERVICE**

### **COMPETITION**

#### **Logistics**

The Company believes that it is a leader in the retail logistics industry. In 2012, the Company was the leader in air freight forwarding in the Philippines, with 41.8% of domestic market share based on throughput by weight, according to the Civil Aeronautics Board. The Company believes that it has been the top importer of balikbayan boxes in terms of throughput for the past 20 years. Although the Company has a leading position and significant market share in the courier and air freight forwarding industry, the Company's faces competition from AP Cargo Logistics Network Corporation, Wide Wide World Express, Inc., Ximex Delivery Express, Airfreight 2100, Inc., and JRS Business Corporation. The Company's international competitors include DHL, FedEx and UPS. However, international freight forwarders have historically not been strong competitors of the Company in the Philippines due to certain restrictions on foreign ownership in the cargo industry in the Philippines, as well as the high barriers to entry created by the dispersed geography of the archipelagic nation.

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

#### **Money Transfer Services**

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

## **QUALITY ASSURANCE AND INTERNAL CONTROLS**

### **Quality Assurance**

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

### ***Discrepancy Reporting and Undeliverable Items***

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

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

### ***Cash Collection and Management***

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

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

### **SUPPLIERS**

The Company has a broad base of suppliers. The Company is not dependent on one or a limited number of suppliers.

### **CUSTOMERS**

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

## **TRANSACTIONS WITH RELATED PARTIES**

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

## **INTELLECTUAL PROPERTY**

The Company uses a variety of registered names and marks, including the names “LBC Express, Inc.,” “LBC Express,” “LBC,” “Hari Ng Padala” (Tagalog for “King of Forwarding Services”) and “WWW.LBCEXPRESS.COM” as well as the traditional and the re-designed “LBC” corporate logos (including the new slogan “We like to move it”), the “Team LBC Hari Ng Padala” logo and “LBC Remit Express” logo in connection with its business. Except for the “LBC Remit Express” design and logo registered on July 26, 2012 and expires on July 26, 2022) and the LBC in rectangular box and Pesopak logo (registered on May 31, 2012 and expires on May 31, 2022), which are owned directly by the Company, these marks (collectively, the “LBC Marks”) are owned and licensed to the Company by LBC Development Corporation, the Company’s parent company, pursuant to a trademark licensing agreement. Under the terms of this agreement, the Company has the full and exclusive right to utilize the LBC Marks in consideration for a fixed royalty fee of 3.5% of the Company’s annual gross revenues (defined as all revenue from sales of products and services, direct and indirect, relating to the Company’s business operations). Pursuant to an addendum signed October 25, 2013, the fixed royalty fee was lowered to 2.5%, effective December 1, 2013. Under the agreement, the Company also has the right to extend the use of the LBC marks to its subsidiaries (defined as companies in which the Company holds at least 67% of the voting rights) within the Philippines, as well as to its remittance and cargo/courier/freight forwarding fulfillment service partners and agents in the Philippines and abroad, subject to certain terms and conditions. In practice, foreign agents of the Company are granted very limited use of the “LBC” brand and logos pursuant to the individual agency agreements entered into between them and the Company.

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

## **GOVERNMENT PERMITS AND LICENSES**

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

## **EMPLOYEES**

As of November 30, 2015, the Company had, on a consolidated basis, 7,110 full-time employees, compared to 6,653 full-time employees as of November 30, 2014. The Company continues to add to its workforce on a regular basis in line with the growth of its business.

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

The Company maintains a non-contributory defined benefit plan covering all qualified employees in the Philippines. In addition, in the fourth quarter of fiscal 2013, the Company established an

early retirement option for its employees in the Philippines with a tenure exceeding 10 years. The early retirement option involves a one-time severance payout for employees who opt in based on annual salary and years of service at the Company. The Company expects the early retirement option to bring down the average age and salary of its workforce in the Philippines and to decrease its salaries and wages expense moving forward.

As of the end of December 2015, four Company subsidiaries in the Philippines have entered into collective bargaining agreements with their respective employees, with approximately 712 employee memberships. Approximately 367 of these employees in the Philippines belong to one of the six labor unions (for four subsidiaries) and the remaining approximately 104 employees belong to one of the other five labor unions. The Company believes that there is sufficient coverage by its other, non-unionized subsidiaries to provide back-up support in the event of a disruptive labor dispute at any given unionized subsidiary. In addition, because freight forwarding and messenger services may be considered indispensable to national interest in the Philippines, the Secretary of the Department of Labor and Employment in the Philippines has the discretion to end strikes or certify the same to the National Labor Relations Commission for compulsory arbitration pursuant to Article 263(g) of the Philippine Labor Code, even in cases involving private providers of such services. Such cessation order or arbitration certification would have the effect of automatically enjoining an intended or impending strike or, if one has already taken place, of requiring all striking or locked out employees to immediately return to work and all employers to immediately resume operations. The Company has not experienced any disruptive labor disputes, strikes or threats of strikes for at least the past decade. Management believes that the Company's relationship with its employees in general is satisfactory.

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

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

## **RISKS**

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

- A significant portion of the Company's business activities are conducted in the Philippines and a significant portion of its assets are located in the Philippines, which exposes the Company to risks associated with the Philippines, including the performance of, and impacts of global conditions on, the Philippine economy.
- The Company's business is particularly dependent on the quality as well as the efficient and uninterrupted operation of its IT and computer network systems, and disruptions to these systems could adversely affect its business, financial condition and results of operations.
- The Company may not be able to expand its domestic branch network and its product offerings and expand into new geographical markets or develop its existing international operations successfully, which could limit the Company's ability to grow and increase its profitability.
- If consumer confidence in the Company and the "LBC" brand deteriorates, the Company's business, financial condition and results of operations could be adversely affected.
- The Company relies on third party contractors to provide various services, and unsatisfactory or faulty performance of these contractors could have a material adverse effect on the Company's business.

- The Company faces risks from increases in freight and transportation costs.
- The Company operates in competitive industries, which could limit its ability to maintain or increase its market share and maintain profitability.
- Any deterioration in the Company's employee relations, or any significant increases in the cost of labor, could materially and adversely affect the Company's operations.
- The Company does not own any real property and the Company may be unable to renew leases at the end of their lease periods or obtain new leases on acceptable terms.
- The Company may encounter difficulties in managing the operations of its agents and affiliates effectively.
- The Company's businesses are subject to regulation in the Philippines, and any changes in Government policies could adversely affect the Company's operations and profitability.
- The Company is subject to numerous U.S. and international laws and regulations intended to help detect and prevent money laundering, terrorist financing, fraud and other illicit activity. Failure by the Company, its agents and affiliates to comply with these laws and regulations and increased costs or loss of business associated with compliance with these laws and regulations could have a material adverse effect on the Company's business, financial condition and results of operations.
- The Company faces risks from trade restrictions.
- Any inability of the Company to secure renewals or new licenses for its money transfer operations may have a material adverse effect on its business, prospects, financial condition and results of operations.
- Risks associated with the Company's money transfer operations outside the Philippines could adversely affect the Company's business, financial condition and results of operations.

## **Item 2. PROPERTIES**

### **REAL PROPERTY**

As of the end of December 2015, the Company does not own any real property.

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

In addition, the Company leases the spaces for all of its 1,090 Company-owned branches in the Philippines, as well as its regional distribution centers, delivery hubs, container freight stations and warehouses. The average term of these leases is three to seven years, with renewal options under most of the lease agreements. Branch offices are refurbished approximately every five to seven years, and the Company considers strategic relocation of branch offices from time to time to meet changing market demands.

For its general and administrative activities, the Company leases 2,600 sq. m. of office space in the Star Cruises Centre in Pasay City, Manila, located near its registered office at the LBC Hangar.

For the years ended November 30, 2013, 2014 and 2015, the Company's total rental expense was ₱415.7 million, ₱436.5 million and ₱481.0 million, respectively.

## **EQUIPMENT**

Other property and equipment owned by the Company in the Philippines primarily comprises its fleet of 115 delivery vehicles (as of November 30, 2015), servers, computers and peripheral equipment, software, vaults, handheld scanners, X-ray scanners and its bulk mail sorting machine.

### **Item 3. LEGAL PROCEEDINGS**

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

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

In "Carlos Araneta, LBC Development Corporation and LBC Express, Inc. vs. The Professional Group", Case No. R-PSY-08-03897-CV pending before Branch III of the Pasay Regional Trial Court, Carlos Araneta, LBC Development Corporation and LBC Express, Inc. filed a Petition for Accounting against The Professional Group (TPG). The complaint alleged the need for an accounting considering TPG's position that LBC Development Corporation and LBC Express, Inc. had unremitted collections to TPG in the amount of Php68,154,390.25 while LBC Development Corporation and LBC Express, Inc. incurred expenses in the amount of Php63,001,497.55 (exclusive of interest). The petition was filed for the purpose of seeking a final adjudication on the amount of the parties' obligation in favor of one another under the collecting agent contract between the LBC and TPG. Currently, the case is at the preliminary conference stage with the next hearing.

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

Except for matters taken up during the annual meeting of the stockholders of the Company held on September 4, 2015, there was no other matter submitted to a vote of security holders during the period covered by this Report.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

#### MARKET INFORMATION

The Company's common shares are listed with the PSE. As of the end of December 2015, the total number of shares held by the public was 219,888,844 common shares or 15.42% of the total issued and outstanding capital stock of the Company.

The following table sets forth the share prices of the Company's common shares for the first quarter of 2016 and each quarter of the years 2015 and 2014:

Quarter	High (₱)	Low (₱)
2016		
1ST	12.20	6.20
2015		
4TH	14.50	11.50
3RD	16.98	11.32
2ND	24.80	11.32
1ST	27.55	15.00
2014		
4TH	17.98	11.58
3RD	19.00	10.84
2ND	12.50	10.00
1ST	15.00	8.09

The stock price of each common share of the Company as of the close of the latest practicable trading date, April 12, 2016, is ₱11.00.

#### STOCKHOLDERS

As of the end of December 2015, there were a total of 485 registered holders of common shares of the Company. The following are the top 20 registered holders of the common shares of the Company as of the end of December 2015:

	Name of Stockholder	Nationality	Number of Shares Held	Percentage
1	LBC Development Corporation	Filipino	1,205,974,632	84.58%
2	Vittorio Paulo P. Lim	Filipino	59,663,948	4.18%
3	Mariano D. Martinez, Jr.	Filipino	59,663,946	4.18%
4	Lowell L. Yu	Filipino	59,663,946	4.18%
5	PCD Nominee Corp.	Filipino	39,725,897	2.78%
6	PCD Nominee Corp.	Foreign	553,300	0.04%
7	Joseph T. Tan	Filipino	75,000	Nil
8	Ferdinand S. Santos	Filipino	10,000	Nil
9	Mei Nga Ko	Filipino	10,000	Nil
10	Tommy Kin Hing Tia	Chinese	10,000	Nil
11	Andy Lantin	Filipino	5,000	Nil
12	Alfonso B. Cabual	Filipino	3,000	Nil
13	Jennifer H. Leong	Filipino	3,000	Nil

14	Wilfredo P. Batalla	Filipino	2,000	Nil
15	Gliceria Simbajon	Filipino	2,000	Nil
16	Rommel Apal	Filipino	2,000	Nil
17	Ramil C. Nombre	Filipino	2,000	Nil
18	Erwin L. Villanueva	Filipino	2,000	Nil
19	Rodolfo C. Gatmaitan	Filipino	2,000	Nil
20	Marites M. Virtudes	Filipino	2,000	Nil

## **DIVIDENDS**

### **Dividend Policy**

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

- (a) All requirements of the Corporation Code of the Philippines as well as all other applicable laws, rules, regulations and/or orders;
- (b) Any banking or other funding covenants by which the Company is bound from time to time; and
- (c) The operating and expansion requirements of the Company as mentioned above.

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

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

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

### **Dividend History**

Since the corporate reorganization of the Company, no dividends have been declared by the Company.

## **RECENT SALE OF SECURITIES**

Please refer to the discussion under "Corporate Reorganization" of item 1 ("Business") of this Report for a summary of recent issuances of shares by the Company.



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

**KEY PERFORMANCE INDICATORS**

**Financial Ratios:**

		2015	2014
Current ratio	Current Assets/Current Liabilities	1.18:1	1.12:1
Debt to equity ratio	Total Liabilities/Stockholders' Equity	2.66:1	2.68:1
Debt to total assets ratio	Total Liabilities/Total Assets	0.73:1	0.73:1
Return on average assets	Net income attributable to Parent Company/ Average assets	8.11%	3.74%
Book value per share	Stockholders' Equity/ Total Number Shares	P1.14	P32.42
Earnings/(Loss) per share	Net Income/(Loss)/ Total Number Shares	P0.29	P0.10

**RESULTS OF OPERATIONS**

**Year ended December 31, 2015 compared to the year ended December 31, 2014**

***Service Revenues***

The Company's service revenues increased by 9% to ₱7,686.5 million for the year ended December 31, 2015 from ₱7,056.2 million for the year ended December 31, 2014, primarily due to an increase in revenues from the Logistics segment attributable to growth in both retail and corporate sales.

***Logistics***

Revenues from the Logistics segment grew by 11% to ₱6,290.3 million for the year ended December 31, 2015 from ₱5,641.9 million for the year ended December 31, 2014, primarily due to a growth in the volume of courier services rendered. The growth in volume of services was mainly attributable to the horizontal growth of the Company, evidenced by the addition of 94 new branches in the Philippines and one new branch in the Middle East. This growth also resulted in an incremental increase in the Company's volumes from cargo forwarding services during the year.

Price increase is also implemented at an average of 2% to 5% for Middle East and 7% to 9% for Philippines, effective January and April, 2015, respectively.

***Cost of Services***

Cost of services improved by 3% to ₱5,119.5 million for the year ended December 31, 2015 from ₱5,284.5 million for the year ended December 31, 2014, primarily due to one-off transactions incurred in prior year.

In 2014, the Company spent an estimate of P100-million freight and trucking cost for the donations to the victims of typhoon Yolanda which occurred in November 2013. Majority of donations were from international affiliates, in which the transport fees were shouldered. Further, the impact of port congestion last year which is due to government regulation for truck ban in city of Manila is estimated at P250.0 million.

The Company implemented the Voluntary Early Retirement Program (VERP) in 2014 which resulted to severance expense amounting to P150.0 million. Noted decrease in salaries and benefits for 2015 is 5%.

Depreciation expense is also reduced by 5% as a result of change in useful life of leasehold improvement from 5 years to 8 years and vehicle from 5 years to 10 years

### ***Gross Profit***

Gross profit increased by 45% to P2,566.9 million for the year ended December 31, 2015 from P1,771.7 million for the year ended December 31, 2014, primarily due to the increase in volume and rate of air and courier services and improvement in costs of delivery, salaries and benefits and depreciation expenses.

### ***Operating Expenses***

Operating expenses increased by 22% to P1,947.8 million for the year ended December 31, 2015 from P1,602.6 million for the year ended December 31, 2014.

In 2015, the Company entered into an agreement with IBM for the rental of cloud server and PLDT for use of network infrastructure. Total expense incurred from these transactions is P38.3 million. In addition, the Company incurred P28.8 million cloud subscription expenses during the year.

The Company has directly written-off other receivables amounting to P26.64 million and P0.09 million for 2015 and 2014, respectively, where probability of collection has been determined to be remote. In addition, provision for impairment losses is higher by P25.0 based on the assessment of long outstanding receivable and those accounts under legal proceedings.

Claims and losses increased to P80.6 million for the year ended December 31, 2015 from P23.7 million for the year ended December 2014 which is primarily attributable to returns and undelivered cargoes of corporate clients.

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

Other income, net which comprise of foreign exchange gain, gain on sale of disposal of assets and other miscellaneous expense increased by 78% to P109.6 million for the year ended December 31, 2015 from P61.6 million for the year ended December 31, 2014 primarily resulted from earnings generated from foreign exchange trading.

### ***Finance Costs, Net***

Finance costs, net increased by 38% to ₱41.8 million for the year ended December 31, 2015 from ₱30.4 million for the year ended December 31, 2014, which is traceable to interest on finance lease obligations entered during the year.

### ***Income before Income Tax***

Income before income tax increased by 243% to ₱686.9 million for the year ended December 31, 2015 from ₱200.4 million for the year ended December 31, 2014, primarily due to improvement in revenue and cost of services.

### ***Income Tax Expense***

Income tax expense increased by 375% to ₱270.6 million for the year ended December 31, 2015 from ₱56.9 million for the year ended December 31, 2014, in line with the growth in operating income subject to income taxes.

### ***Net Income for the Year***

As a result of the foregoing, the Company's profit for the year increased by 190% to ₱416.3 million for the year ended December 31, 2015 from ₱143.4 million for the year ended December 31, 2014.

## **FINANCIAL CONDITION**

### **As of December 31, 2015 compared to as of December 31, 2014**

#### ***Assets***

##### ***Current Assets***

Cash and cash equivalents increased by 85% to ₱979.1 million as December 31, 2015 from ₱527.9 million as of December 31, 2014.

Trade and other receivables increased by 15% to ₱1,025.1 million as of December 31, 2015 from ₱893.9 million as of December 31, 2014, primarily due to growth of corporate accounts in the Logistics segment.

Due from related parties increased by 15% to ₱1,763.0 million as of December 31, 2015 from ₱1,533.6 million as of December 31, 2014, primarily due to monthly advance funding to LBC Development amounting to ₱35.0 million and additional advances to Lovable Commerce, Inc. amounting to ₱91.9 million. This is offset by the assumed liabilities of subsidiaries to LBCDC as discussed under "Due to Related Parties" below.

Prepayments and other current assets increased by 65% to ₱443.3 million as of December 31, 2015 from ₱269.4 million as of December 31, 2014, primarily due to the restricted cash of ₱135.3 million representing cash deposit in bank in the name of the Company which was funded by a specific customer in relation to the money remittance service in behalf of the said specific customer. The Company 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 is being diminished as the loan balance gets repaid by the Company.

#### *Non-current Assets*

Property and equipment, net increased by 20% to ₱763.0 million as of December 31, 2015 from ₱636.9 million as of December 31, 2014, primarily due to business expansion which led to net acquisitions of leasehold improvement and computer hardware resulting to an increase by 37% and 84% , respectively, based on net book value.

Intangibles, net increased by 8% to ₱276.4 million as of December 31, 2015 from ₱256.6 million as of December 31, 2014, primarily due to additional costs for SAP and Vistra amounting to ₱66.1 million.

Available for sale investment, decreased by 23% to ₱212.6 million as of December 31, 2015 from ₱277.0 million as of December 31, 2014 due to lower market price from ₱1.42/share to ₱1.09/share.

Deferred tax assets, net decreased by 12% to ₱225.6 million as of December 31, 2015 from ₱256.9 million as of December 31, 2014 as a result of higher non-deductible expenses from retirement benefit and allowance for doubtful accounts.

Security deposits, increased by 21% to ₱209.9 million as of December 31, 2015 from ₱172.8 million as of December 31, 2014, primarily due to increase in branches.

Other noncurrent assets, increased by 12% to ₱61.8 million as of December 31, 2015 from ₱55.4 million as of December 31, 2014 which resulted from the net effect of increase in noncurrent portion of input tax on capital assets and decrease/amortization of noncurrent rent.

#### *Liabilities*

##### *Current Liabilities*

Accounts and other payables increased by 17% to ₱1,830.2 million as of December 31, 2015 from ₱1,564.5 million as of December 31, 2014, which is related to higher operating expenses. New contract entered with IBM for use of cloud server and additions to SAP implementation costs add to the outstanding balance. Further, provisions set up for claims and losses resulted to higher accrual.

Due to related parties decreased by 89% to ₱20.0 million as of December 31, 2015 from ₱183.2 million as of December 31, 2014, as a result of offsetting of assumed liability from subsidiaries amounting to ₱173.7 million against receivable from LBCDC.

Notes payable increased by 46% to ₱1,040.6 as of December 31, 2015 from ₱714.8 million as of December 31, 2014, primarily due to new loan availment from CTBC bank amounting to ₱150.0 million, Landbank of the Philippines amounting to ₱35.2 million and additional ₱232.5 million loan from BDO.

Transmission liability increased by 42% to ₱508.1 million as of December 31, 2015 from ₱359.0 million as of December 31, 2014, primarily due to higher volume and amount of money remittance transactions on the last day of the operations of the year.

Income tax payable increased to ₱130.7 million as of December 31, 2015 from ₱9.3 million as of December 31, 2014, in line with the growth in operating income subject to income taxes.

Current portion of finance lease liabilities decreased by 27% to ₱43.0 million as of December 31, 2015 from ₱59.0 million as of December 31, 2014 due to amortization of existing leases.

#### *Non-current Liabilities*

Retirement benefit obligation increased by 18% to ₱641.8 million as of December 31, 2015 from ₱541.9 million as of December 31, 2014.

Finance lease liabilities (net of current portion) decreased by 40% to ₱74.2 million as of December 31, 2015 from ₱122.6 million as of December 31, 2014 due to amortization of existing leases.

## **LIQUIDITY**

### **Cash Flows**

#### **Years ended December 31, 2015 and December 31, 2014**

##### *Cash flow from operating activities*

The Company's net cash from operating activities is primarily affected by income before income tax, depreciation and amortization, interest expense, retirement benefit expense, interest expense and changes in working capital. The Company's net cash from operating activities were ₱596.8 million, and ₱83.9 million for the years ended December 31, 2015 and 2014, respectively.

For the year ended December 31, 2015, cash flow from operating activities were derived from the normal operations.

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

Cash flow used investing activities for the years ended December 31, 2015 and 2014 were ₱1,722.2 million and ₱427.7 million, respectively.

Payment of cash to effect reverse acquisition amounting to ₱1,325.9 million had the largest impact on cash flow from investing activities for the year ended December 31, 2015. Additions to property and equipment, as part of the expansion, also affected the cash flow from investing activities significantly for the year ended December 31, 2015.

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

Cash flow from financing activities for the years ended December 31, 2015 and 2014 were ₱1,567.0 million and ₱373.9 million, respectively.

For the year ended December 31, 2015, the inflow from financing activities is primarily from the issuance of stocks amounting to ₱1,369.3 million, net of stock issuance cost.

**Item 7. FINANCIAL STATEMENTS**

The 2015 consolidated financial statements of the Company are incorporated herein the accompanying index to exhibits.

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

The consolidated financial statements of the Company as of and for the year ended November 30, 2015 and 2014 were audited by SGV & Co., a member firm of Ernst & Young Global Limited. The consolidated financial statements as of and for the years ended November 30, 2012 and 2013 were audited by Isla Lipana & Co., the Philippine Member Firm of the PriceWaterhouseCoopers Global Network.

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

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

	2015	2014
In millions (P)		
Audit and Audit-Related Fees <sup>(1)</sup>	P8,035,000	P2,500,000
Total .....	<u>P8,035,000</u>	<u>P2,500,000</u>

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

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

The audit committee consists of at least three members of the board of directors, at least one of whom is an independent director, including the chairman of the committee. The audit committee, with respect to an external audit:

- Perform oversight functions over the Company's external auditors; the Audit Committee should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.
- Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts.

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

The following are the members of the Company's audit committee:

- (a) Solita V. Delantar - Chairman
- (b) Miguel Angel A. Camahort - Member
- (c) Enrique V. Rey, Jr. - Member



## PART II – CONTROL AND COMPENSATION INFORMATION

### Item 9. DIRECTORS AND EXECUTIVE OFFICERS

#### DIRECTORS

The Company's by-laws and articles of incorporation provide for the election of nine directors, two of whom shall be independent directors. The board of directors is responsible for the direction and control of the business affairs, and management of the company, and the preservation of its assets and properties. No person can be elected as a director of the company unless he is pre-screened by the nomination committee and is a registered owner of at least one common share of the capital of the Company.

The Company's nomination committee is composed of the following:

- (a) Solita V. Delantar - Chairman
- (b) Miguel Angel A. Camahort - Member
- (c) Enrique V. Rey, Jr. - Member

The table below sets forth each member of the Company's board of directors:

Name	Nationality	Age	Position
Miguel Angel A. Camahort	Filipino	53	Chairman of the Board
Rene E. Fuentes	Filipino	42	Director
Enrique V. Rey, Jr.	Filipino	45	Director
Augusto G. Gan	Filipino	53	Director
Manuel S. Delfin, Jr.	Filipino	54	Director
Mark Werner J. Rosal	Filipino	40	Director
Solita V. Delantar	Filipino	68	Independent Director
Luis N. Yu, Jr.	Filipino	60	Independent Director

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

#### **Miguel Angel A. Camahort**

*Chairman of the Board, Chief Executive Officer and President*

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

#### **Rene E. Fuentes**

*Director*

Mr. Rene E. Fuentes is currently the Senior Vice President for Global Retail Operations of LBC Express, Inc. Prior to joining the Company, Mr. Fuentes served as President of Documents Plus, Inc. from 1996 to 2001, and as Regional Manager, Vice-President of EFC Food Corporation from

1996 to 2001. Mr. Fuentes attended De La Salle University and completed a Key Executive Program in November 2013 at the Harvard Business School.

**Enrique V. Rey Jr.**

*Director and Investor Relations Officer*

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

**Mark Werner J. Rosal**

*Director*

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

**Manuel S. Delfin, Jr.**

*Director*

Dr. Manuel S. Delfin, Jr. is currently a partner in Allied Ophthalmic Consultants. He is a consultant at the Patients First Medical Center and a consultant and the Vice-Chairman of the Department of Ophthalmology at Manila Doctors Hospital. Apart from his medical affiliations, Dr. Delfin currently holds the following positions: (i) Corporate Secretary of the UP Medical Foundation; (ii) President of the Lakan Bakor Foundation; (iii) Treasurer of the Philippine Glaucoma Society; (iv) Director of Happy Wells Management & Corp.; and (v) Director of 77 Avenida Corp. He is likewise a member of the Philippine Glaucoma Foundation. Dr. Delfin graduated with a bachelor's degree in Zoology from the University of the Philippines Diliman, cum laude, in 1982. He obtained his medical degree from the University of the Philippines College of Medicine in 1986 and his residency from the same university in 1990. He received his fellowship in Glaucoma from California Pacific Medical Center, USA, under Dr. Robert L. Stamper, MD and Dr. Marc F. Lieberman, MD.

**Augusto Gan**

*Director*

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

**Solita V. Delantar**  
*Independent Director*

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

**Luis N. Yu, Jr.**  
*Independent Director*

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

**MANAGEMENT AND OFFICERS**

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

<b>Name</b>	<b>Nationality</b>	<b>Age</b>	<b>Position</b>
Miguel Angel A. Camahort	Filipino	53	Chief Executive Officer and President
Enrique V. Rey, Jr.	Filipino	45	Investor Relations Officer
Cristina S. Palma Gil-Fernandez	Filipino	47	Corporate Secretary
Mahleene G. Go	Filipino	35	Assistant Corporate Secretary, Corporate Information Officer and Compliance Officer
Ma. Eloisa Imelda S. Singzon	Filipino	29	Assistant Corporate Information Officer

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

**Miguel Angel A. Camahort**  
*Chief Executive Officer and President*

Please refer to the table of directors above.

**Enrique V. Rey Jr.**  
*Investor Relations Officer*

Please refer to the table of directors above.

**Cristina S. Palma-Gil Fernandez**  
*Corporate Secretary*

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

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

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

**Maria Eloisa Imelda S. Singzon**  
*Alternate Corporate Information Officer*

Maria Eloisa Imelda S. Singzon: Atty. Singzon assumed the position of Alternate Corporate Information Officer of the Company in April 2015. Born on September 18, 1986, Atty. Singzon graduated cum laude with the degree of Bachelor of Science, Business Economics, from the University of the Philippines in 2008, and with the degree of Juris Doctor from Ateneo de Manila School of Law in 2012. She is a Junior Associate at Picazo Buyco Tan Fider & Santos Law Offices from 2013 to present.

#### **SIGNIFICANT EMPLOYEES**

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

#### **FAMILY RELATIONSHIPS**

#### **INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS**

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

#### Item 10. EXECUTIVE COMPENSATION

##### COMPENSATION

The following are the LBCEH's four most highly compensated executive officers for the year ended November 30, 2015:

<u>Name</u>	<u>Position</u>
Miguel Angel A. Camahort	Chief Executive Officer and President
Enrique V. Rey, Jr.	Investor Relations Officer

The following table identifies and summarizes the aggregate compensation of LBCEH's President and the four most highly compensated executive officers of LBCEH in fiscal years 2013, 2014 and 2015:

	<u>Year</u>	<u>Total<sup>(1)</sup></u> <u>(P)</u>
President and the four most highly compensated executive officers named above .....	2013	n/a
	2014	n/a
	2015	n/a
	2016 (est.)	n/a
Aggregate compensation paid to all other officers as a group unnamed.....	2013	n/a
	2014	n/a
	2015	n/a
	2016 (est.)	n/a

*Note:*

(1) Includes salary, bonuses and other income.

##### **Standard Arrangements**

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

##### **Other Arrangements**

There are no other arrangements pursuant to which any director of the Company was compensated, or to be compensated, directly or indirectly, during 2013 for any service provided as a director.

### **EMPLOYMENT CONTRACTS**

The Company has no special employment contracts with the named executive officers.

### **WARRANTS AND OPTIONS OUTSTANDING**

There are no outstanding warrants or options held by the President, the named executive officers, and all officers and directors as a group.

### **Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

**Security Ownership of Certain Record and Beneficial Owners of more than 5% of the Company's voting securities as of 31 January 2016**

<u>Title of Class</u>	<u>Name and Address of Record Owner and Relationship to Issuer</u>	<u>Name of Beneficial Owner</u>	<u>Citizenship</u>	<u>No. of Common Shares Held in the Company</u>	<u>% of Total Outstanding Shares of the Company</u>
Common	LBC Development Corporation General Aviation Center, Domestic Airport Compound, Pasay City (stockholder)	The record owner is the beneficial owner of the shares indicated	Filipino	1,205,974,632	84.58%

### **Security Ownership of Directors and Officers as of 31 January 2016**

<u>Title of Class</u>	<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Citizenship</u>	<u>% of Total Outstanding Shares</u>
Common	Rene E. Fuentes	1 - direct	Filipino	0.0%
Common	Enrique V. Rey, Jr.	1- direct	Filipino	0.0%
Common	Augusto Gan	1 - direct	Filipino	0.0%
Common	Miguel Angel A. Camahort	1 - direct	Filipino	0.0%
Common	Mark Werner J. Rosal	1,000 - direct	Filipino	0.0%
Common	Manuel S. Delfin, Jr.	989 - direct	Filipino	0.0%
Common	Solita V. Delantar	1- direct	Filipino	0.0%
Common	Luis N. Yu, Jr.	1 - direct	Filipino	0.0%

### **Voting Trust Holders of five percent or More**

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

### **CHANGE IN CONTROL**

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

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

## **Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

### **RELATED PARTY TRANSACTIONS**

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

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

Please refer to Note 14 ("Related Party Transactions") to the notes to the 2015 consolidated financial statements of the Company which is incorporated herein in the accompanying index to exhibits.

The Company has the following major transactions with related parties:

#### **Royalty Fee and Licensing Agreement with Parent Company**

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

#### **Cash Advances to and from Related Parties**

The Company regularly makes advances to and from related parties to finance working capital requirements and as part of their cost reimbursements arrangement. These unsecured advances are non-interest bearing and payable on demand.

#### **Delivery fee**

In the normal course of business, the Company fulfills the delivery of balikbayan boxes on behalf of its international affiliates. The Company charges delivery fees for the fulfillment of this service.

#### **PARENT COMPANY/MAJOR HOLDERS**

As of the date of this Report, LBC Development Corporation owns 84.58% of the total issued and outstanding capital stock of the Company.



## **PART IV - CORPORATE GOVERNANCE**

### **Item 13. CORPORATE GOVERNANCE**

Please refer to the attached Annual Corporate Governance Report, which is incorporated herein in the accompanying index to exhibits.

## **PART V - EXHIBITS AND SCHEDULES**

### **Item 14. REPORTS ON SEC FORM 17-C**

(a) **Exhibits** – Please accompanying index to exhibits

(b) **Reports on SEC Form 17-C**

The following current reports have been reported by LBC Express Holdings, Inc. during the year 2015:


	<b>Disclosure</b>	<b>Date of Report</b>
1	SEC 17-C (Clarification of News Report)	23 February 2015
2	SEC 17-C (Audit Committee Self-Assessment)	19 March 2015
3	SEC 17-C (Clarification of News Report)	30 March 2015
4	SEC 17-C (Conduct of Due Diligence)	14 April 2015
5	SEC 17-C (Resignation and Appointment of Officers)	20 April 2015
6	SEC 17-C (Postponement of Annual Stockholders' Meeting)	20 April 2015
7	SEC 17-C (Board Approval re: Issuance of New Shares)	23 April 2015
8	SEC 17-C (Resignation and Appointment of Directors)	28 April 2015
9	SEC 17-C (Subscription of LBC Development Corporation to New Shares)	18 May 2015
10	SEC 17-C (Resignation and Election of Directors and Officers)	18 May 2015
11	SEC 17-C (Reply to Exchange's Query)	18 June 2015
12	SEC 17-C (Notice of Annual Stockholders' Meeting)	6 July 2015
13	SEC 17-C (Change in Control of Company)	22 July 2015
14	SEC 17-C (Board Approval re: Acquisition of Assets, Change in Fiscal Year, Change in Corporate Name, Change in Purpose, Change in Principal Office, Increase in Number of Directors, Increase in Authorized Capital Stock, Issuance of New Shares, Venue of Annual Stockholders' Meeting and Appointment of Board Committee Members)	29 July 2015
15	SEC 17-C (Results of Annual Stockholders' Meeting)	4 September 2015
16	SEC 17-C (Clarification of News Report)	8 September 2015
17	SEC 17-C (Results of Organizational Board Meeting)	18 September 2015
18	SEC 17-C (Setting the Increase in Authorized Capital Stock and Execution of Deeds of Subscription)	18 September 2015
19	SEC 17-C (Follow-on Offering, Acquisition of LBC Express, Inc. Shares, Subscription to and Issuance of New Shares)	2 October 2015
20	SEC 17-C (Clarification of News Report)	6 October 2015
21	SEC 17-C (Clarification of News Report)	9 October 2015
22	SEC 17-C (Amendment of Charter Documents)	12 October 2015
23	SEC 17-C (Change in Auditor)	16 October 2015
24	SEC 17-C (Change in Corporate Name and/or Stock Symbol)	23 October 2015
25	SEC 17-C (Resignation and Appointment of Directors and Officers)	26 October 2015
26	SEC 17-C (Change in Ticker Symbol)	30 October 2015
27	SEC 17-C (Change in Corporate Contact Details and/or Website)	4 November 2015
28	SEC 17-C (Resignation and Appointment of Directors and Officers)	1 December 2015

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized, in the City of Makati on APR 14 2016

**LBC EXPRESS HOLDINGS, INC.**

By:



**Enrique V. Rey, Jr.**  
*Acting Chief Financial Officer and Treasurer*

**SUBSCRIBED AND SWORN** to before me this APR 14 2016 day of 2016, affiants exhibiting to me their respective competent evidence of identities, as follows:

Name	Competent ID	Date and Place of Issue
Enrique V. Rey Jr.	Passport CB 834 CIV	27 Nov 2012 / DFA Manila

Doc. No. 384;  
Book No. 78;  
Page No. 1;  
Series of 2016.



**KATHLYN JANE B. CAINDAY**

Appointment No. M-378  
Notary Public for Makati City  
Until December 31, 2016  
Penthouse, Liberty Center  
104 H.V. dela Costa Street, Makati City  
Roll of Attorneys No. 63528  
PTR No. 53505521 / 01-07-2016 / Makati City  
TUP No. 1019177 / 01-07-2016 / Makati City

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized, in the City of Manila on \_\_\_\_\_.

**LBC EXPRESS HOLDINGS, INC.**

By:




**Mahleene G. Go**  
*Assistant Corporate Secretary*

**SUBSCRIBED AND SWORN** to before me this APR 14 2016 day of 2016, affiants exhibiting to me their respective competent evidence of identities, as follows:

Name	Competent ID	Date and Place of Issue
Mahleene G. Go	Passport No. EC1941000	20 Aug. 2014 in DFA NCR East

Doc. No. 197;  
Book No. 41;  
Page No. 1;  
Series of 2016.



**JOLIZ LAVELLE D. SALGADO**  
Notary Public for the City of Manila  
Notary Office No. 2017  
Manila City  
1000 N. 2nd Street, Manila City  
Roll of Attorneys No. 6438  
PTR No. 3331183 - Manila City 01-07-2016  
JSP No. 1018027 - RSM 01-04-2016

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized, in the City of Makati on APR 04 2016

**LBC EXPRESS HOLDINGS, INC.**

By:




**Miguel Angel A. Camahort**  
*President and Chief Executive Officer*

APR 04 2016  
SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of \_\_\_\_ 2016, affiants exhibiting to me their respective competent evidence of identities, as follows:

Name	Competent ID	Date and Place of Issue
Miguel Angel A Camahort	Passport No. EB9973871	11 Jan. 2014 /DFA Manila

Doc. No. 156;  
Book No. 33;  
Page No. 7;  
Series of 2016.

  
**JOLIEA JANEELLE D. SALGADO**  
Appointment No. M-174  
Notary Public for Makati City  
Until December 31, 2017  
Penthouse, Liberty Center  
104 H.V. dela Costa Street, Makati City  
Roll of Attorneys No. 64438  
PTR No. 5331183 / Makati City / 01-07-2016  
IBP No. 1015829 / RSM / 01-04-2016