

Annex D

COVER SHEET

AS093-005277

S.E.C. Registration Number

LBC EXPRESS HOLDINGS, INC.
(formerly FEDERAL
RESOURCES INVESTMENT
GROUP INC.)

(Company's Full Name)

LBC HANGAR, GENERAL
AVIATION CENTRE, DOMESTIC
AIRPORT ROAD, PASAY CITY

(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

2nd 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.

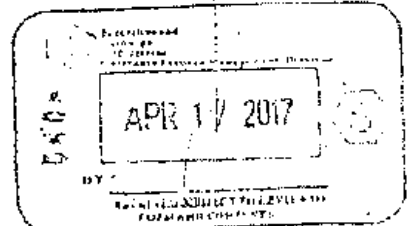
Cashier

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, 2016
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, county 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, 2016:

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

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 Shares²

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

¹ Inclusive of 1,388,357,471 common shares which are exempt from registration.

² As of December 31, 2016, 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.

Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):

Yes (x) No ()

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

Yes (x) No ()

13. Aggregate market value of voting stock held by non-affiliates is ₱3,293,949,698 as of March 31, 2017.³

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) 2016 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)

³ 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 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 (the **Additional Subscriptions**), consisting of 475,000,000 shares issued from the increase in the authorized capital stock of the Company and 671,873,632 shares issued out of the authorized and unissued capital stock of the Company, following the approval by the SEC of the increase in the authorized capital stock of the Company from ₱100,000,000.00 divided into 100,000,000 Common Shares with par value of ₱1.00 per Share, to ₱2,000,000,000.00 divided into 2,000,000,000 Common Shares with par value of ₱1.00 per Share. Notices of exemption for the Additional Subscriptions were filed with the SEC on October 13, 2015.

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

On 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 2016, 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.

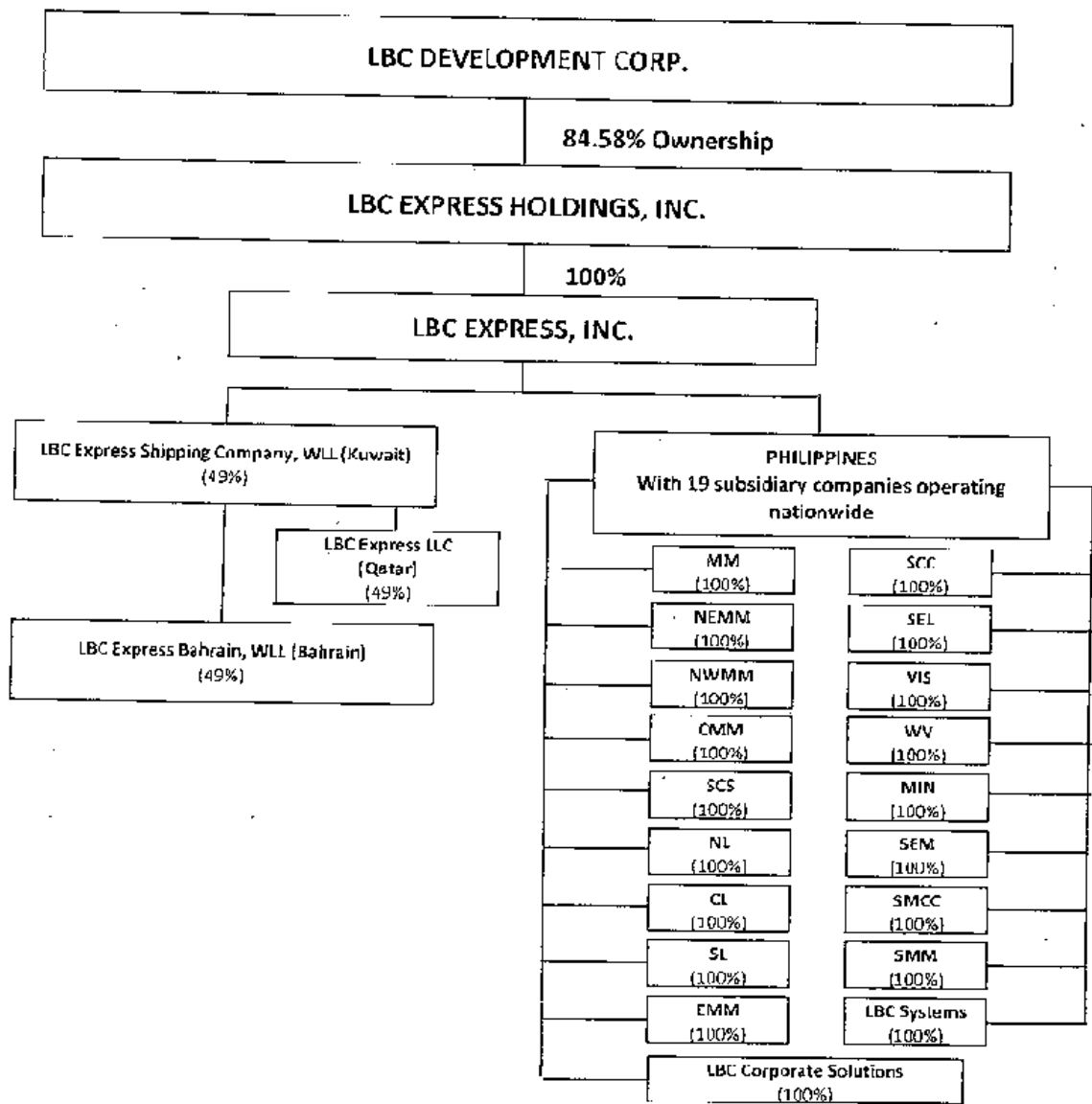
LBC HISTORY

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.

The following diagram illustrates the operating ownership structure of the Company as of the date of this Report:



The 19 subsidiaries of the Company which are incorporated in the Philippines are involved in logistics and money remittance operations while the entities incorporated in Kuwait, Bahrain and Qatar are involved in logistics activities only.

Except for LBC Express - SMCC, Inc. and LBC Express - SMM, Inc., the principal offices of the 17 other subsidiaries named above are located in the General Aviation Center, Domestic Road, Pasay City. The principal office of LBC Express - SMCC is located in Door No. 7, Yabon Building, Darimco Silaw, Dadiangas West, General Santos City, while the principal office address of LBC Express - SMM, Inc. is located at the 3rd Floor Sycamore Centre, Alabang Zapote Road, Alabang, Muntinlupa City.

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 December 31,		
	2016	2015	2014
	(P in millions)		
Logistics			
Retail	4,964.0	4,091.3	3,673.6
Corporate	2,557.9	2,199.0	1,968.3
	7,521.9	6,290.3	5,641.9
Money Transfer Services			
Domestic ⁽¹⁾	1,058.4	1,186.9	1,317.3
International Inbound ⁽²⁾	115.1	209.3	97.0
	1,173.5	1,396.2	1,414.3
Total Service Revenue	8,695.4	7,686.5	7,056.2

Notes:

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

(2) Comprises fee income from international inbound remittances.

As of December 31, 2016, the logistics business of the Company account for approximately 86.5% of its total revenues while money transfer services account for the remaining 13.5%.

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

Retail Logistics comprised 66%, 65% and 65%, respectively, of the Company's service revenue from Logistics for the years ended December 31, 2016, 2015 and 2014. 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 workers 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 are the Company's second primary business segment and comprise both domestic and international money transfer services. For the years ended December 31, 2016, 2015 and 2014, revenues from Money Transfer Services were ₱1,173.5 million, ₱1,396.2 million and ₱1,414.3 million, representing 13%, 18% and 20% respectively, of the Company's overall service revenue.

Domestic

Domestic money transfer services include (a) remittances and (b) bills payment collection and corporate remittance payout services. For the years ended December 31, 2016, 2015 and 2014, service fees from domestic Money Transfer Services were ₱1,058.4 million, ₱1,186.9 million and ₱1,317.3 million, representing 90%, 85% and 93%, respectively, of the Company's total service revenues from Money Transfer Services.

Remittances

Remittances are transfers of funds between customers from one location to another. The Company is licensed by the Bangko Sentral ng Pilipinas (BSP) to serve as a remittance agent in the Philippines for both domestic remittances (wherein both the sender and the beneficiary are located within the Philippines) and international inbound remittances (wherein the sender is located outside the Philippines and the beneficiary is located within the Philippines). Retail customers in the Philippines, particularly the unbanked population and others who are underserved by traditional banking institutions, account for the majority of the Company's domestic remittance customers. The Company offers domestic remittance services in the form of (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 over 16 countries and territories overseas (as of November 30, 2016) to the Philippines through its overseas branches and affiliates and its network of 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; Al Ghurair Exchange, Al Falah Exchange and Speed Remit in the United Arab Emirates; TML Remittance Center and Placid 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 provided fulfillment services for inbound remittances, although the it transacts only with its direct agents. Under the terms of the fulfillment partnership agreements that the Company enters into, direct agents are permitted only limited use of the "LBC" name, trademarks and other protected signs when transacting business on behalf of the Company and still carrying on business under their own corporate and trade names. The Company receives a fixed percentage of the agent's revenues in exchange for its services in relation to inbound international remittances. The Company requires most of its remittance agents to maintain a revolving fund for advance funding cover, which must be replenished when the balance falls beneath a set threshold. This is to ensure that the Company bears minimal credit risk when making payouts on behalf of international agents. In addition, most of the agreements have in place a maximum remittance value per transaction as a further risk mitigation tool, typically ranging from ₱75,000 to ₱100,000.

The basic process for domestic remittances is as follows:

- Remittances from origins are accepted via point-of-sale system. Encashment branch will check the possible match using the Auto-Scrubbing Process (Sender and Beneficiary names are checked against the International Sanctions List) and ensure the validity of transaction. Data processing will be performed as well as fund allocation. Payout, delivery, credit to bank et.al are the methods in fulfillment of the transactions.
- International BX Product. Associate from international branches will enter the transaction details and submit to partner bank (Bank of Commerce) for validation. Bank of Commerce will send reference number and institution confirmation number to the branch which accepted the transactions and the latter will collect payment and print the receipt.

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 2016, the Company does not process outbound remittances from the Philippines. For the years ended December 31, 2016, 2015 and 2014, service fees from international inbound remittances were ₱115.1 million, ₱209.3 and ₱97.0 million, accounting for 9.8%, 15.0% and 6.9%, respectively, of the Company's total service revenues from Money Transfer Services.

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.

- Acceptance is the receipt by the Company of the customer's parcels and cargo, either through its pick-up service or at one of the Company's 1,252 customer contact points in the Philippines (as of November 30, 2016) where customers can drop off parcels and cargo. All parcels and cargo must be accompanied by a waybill from the customer providing the recipient's name, shipping address, description of contents, estimated value and other pertinent information. Upon receipt of the customer's parcel or cargo, the receiving agent affixes a barcode onto the package and scans the package, beginning the tracking process. The parcel or package is rescanned at every subsequent touch point throughout the transport process until its final destination.
- At the close of business each day (approximately 7:00 p.m.), all packages are delivered by the Company's vehicle fleet to a regional distribution center. The primary distribution center is the Central Exchange, located at the Company's corporate headquarters in the General Aviation Center of the old domestic airport in Manila, where all packages collected from, passing through or destined for Metro Manila are aggregated. Packages collected in other areas are aggregated at one of 12 regional distribution centers located near airports throughout the country. Upon receipt, the exchange team scans in all packages and prints a manifest (i.e. an itemized inventory) listing all of the barcodes. The manifest is used to check the number of shipments scanned in against the number of shipments that are later scanned out.
- Throughout the night, the exchange team engages in primary sorting at the distribution centers and labels parcels and cargo bound for different destinations regionally in the Philippines to prepare them for onward transmission by air or land. All packages to be transported by air are scanned by X-ray machines for detection of illegal and contraband goods. In the Central Exchange, the Company houses its own X-ray machines which are

located inside the Company's hangar and operated by independent airline employees. This bypasses the need to transport the cargo to the airline carriers' facilities for scanning, increasing the efficiency of the Company's sorting process.

- By morning, all packages bound for other provinces and cities are loaded onto the first and second flights of the day operated by Cebu Pacific Air and Philippine Airlines.
- When the planes arrive at the destination airport, a team of employees withdraws shipments and again scans the barcodes and sorts the items, segregating parcels and cargo destined for different zones. The items may also be sorted at the Company's regional hubs (secondary distribution centers) for more efficient distribution to smaller cities and municipalities.
- Packages are then loaded onto the Company's delivery vehicles, which either transport the items to a delivery hub for secondary sorting, or directly to the final destination if already within the zone of delivery.

International

The 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, 2016, the Company had a fleet of 1,678 vehicles (including 1,164 motorcycles and 514 vans), of which 307 were 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 2016, 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.

The basic forwarding process for Balikbayan Boxes is as follows:

- Acceptance of Balikbayan Boxes is handled by the Company (in the case of domestic shipments) or the LBC Express, Inc.'s overseas branch, or affiliate (in the case of inbound international shipments). Balikbayan Boxes are typically picked up by delivery trucks, as they tend to be larger in terms of weight and volume.
- Upon acceptance, all cargo is input into the Company's INCA acceptance system by a delivery team, which produces a delivery dispatch report and cross checks each shipment for discrepancies when units are consigned to the international freight forwarder.
- Balikbayan Boxes are sorted and placed into containers at the local warehouse or distribution center of the LBC Express, Inc.'s branch or affiliate/agent. Once a container is full, the Company can arrange for pick-up from the international freight forwarder or local shipping partner, as applicable. Because the throughput of goods shipped by the Company is substantial, containers are usually filled within one to two days.
- The Company's international freight forwarder (in the case of inbound international shipments) or the Company's local shipping partners (in the case of domestic shipments) will then collect the cargo from the warehouse or distribution center and load the items onto a ship.
- International inbound Balikbayan Boxes are in transit for three to four days (for shipments within Asia) or 30 to 35 days (for shipments from Europe or North America) prior to

arriving in Manila. All such Balikbayan Boxes are received by the international freight forwarder at the Port of Manila and consigned to the Company at the Vitas Harbor Center Warehouse. Intra-Philippine shipments, which generally take between two and five days to arrive at their destination, are received at regional warehouses and distribution centers. For international inbound shipments, the Company's customs brokers facilitate procedures necessary to be undertaken with the Philippine Bureau of Customs, while its international freight forwarder arranges for customs brokerage in the international jurisdictions.

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

Corporate

For corporate sea cargo shipments, 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.

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

Domestic Partners

To expand its domestic network for remittance services, 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 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 2016, 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.

The basic process for domestic remittances is as follows:

- Branch Retail services enable customers who make remittances at any Company-owned branch in the Philippines to choose among the fulfillment options for their beneficiaries. Upon acceptance from the sender, there is an online facility that would process the request. Encashment alert is sent to the specified branch and the latter ensures fund availability to serve the consignee.
 - *Peso pak*, a service by which remittances are delivered directly to the beneficiary's doorstep.

- *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);
 - *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.

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 Placid 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 16 other countries and territories (as of November 30, 2016), 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.

The basic process for domestic remittances is as follows:

- Remittances from origins are accepted via point-of-sale system. Encashment branch will check the possible match using the Auto-Scrubbing Process (Sender and Beneficiary names are checked against the International Sanctions List) and ensure the validity of transaction. Data processing will be performed as well as fund allocation. Payout, delivery, credit to bank et.al are the methods in fulfillment of the transactions.
- International BX Product. Associate from international branches will enter the transaction details and submit to partner bank (Bank of Commerce) for validation. Bank of Commerce will send reference number and institution confirmation number to the branch which accepted the transactions and the latter will collect payment and print the receipt.

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.

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

- **Bills payment.** The Company serves as a third party bills payment collection sub-agent for various 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.
 - **Via POS.** The customer will fill out details necessary to the transaction, in which the branch associate will enter to the POS. Cash transaction amount and pass-on fee is collected from the customer, if applicable. The branch does the data sending (from local server to production server). LBC Backroom will perform all necessary validation procedures before closing of transaction.
 - **Via PCS/Bayad Center.** The customer will fill out details necessary to the transaction, in which the branch associate will enter to the PCS. Cash transaction amount and pass-on fee is collected from the customer, if applicable. The transaction will be uploaded to CIS Bayad Center per PC/Terminal followed by data import and sending. CIS Bayad Center, in return, sends report and confirmation of the validity of transactions. LBC Backroom will perform all necessary validation procedures before closing of transaction.
- **Corporate transactions.** The Company also provides payout services for various corporations and organizations. The processor will acknowledge corporate transactions via email and validate payments by corporate client. LBC backroom will confirm fund allocation, assign tracking numbers and perform recording to complete the transaction processing.

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, 2016, comprised 10 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.

INFORMATION TECHNOLOGY

Operational

The Company has invested in technology in recent years. 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 courier and cargo shipments. It would integrate seamlessly to its track and trace scanning system to allow for more efficient tracking of transactions, improve inventory control, and centralize customer management. In addition, the Company has outfitted each of its couriers with handheld scanners, which will increase efficiency and minimize human error in documenting daily pick-ups and deliveries. These handhelds will also utilize GPS technology to improve its delivery performance. The Company has also implemented a put-to-light sorting technology for its non-bulk mail, which will help automate some aspects of the parcel sorting process. The Company has also signed up with Interlocks to update its remittance platform by creating an e-wallet for its customers allowing access via any browser or mobile device. This will be implemented in the 4th quarter of 2017.

The Company has also upgraded its current network infrastructure to allow for a more secure and reliable environment. This has enabled the Company to improve its network availability significantly.

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 Financial Accounting and Controlling (SAP FICO), Sales and Distribution (SAP SD) and Materials Management (SAP MM) modules. It has recently signed a deal with RAMCO Systems in 4th quarter of 2016 for its Human Resources Systems which will be implemented in the 2nd quarter of this year.

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

Online and Mobile Platform

To enhance the customer experience, the Company has developed a digital platform that enables online real-time transaction processing and customer service through its website (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 website is mobile responsive allowing the same functionality from any mobile device.

STATUS OF ANY PUBLICLY-ANNOUNCED NEW PRODUCT OR SERVICE

There are no new products or services announced to the public that were not yet launched as of December 31, 2016.

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.

Business Continuity

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

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

- *Information Technology.* With respect to technology, the Company has back-up servers managed by its IT service provider with built-in redundancies for its various systems in which operational and customer data is stored. In the event of system downtimes, the

Company has in place a back-up system whereby communication is maintained through mobile text messaging.

- *Transportation (Logistics).* Although the Company relies on airline and shipping carriers for its daily freight forwarding operations, it also has in place alternative procedures in the event that an airline or shipping carrier is unavailable. For example, when flights are grounded due to severe weather, the Company's vehicle fleet is capable of making deliveries by ground. Although ground deliveries may take longer than air cargo shipments, this enables the Company to continue its service even when other modes of transportation may be unavailable. When its usual shipping carriers are unavailable, the Company also makes use of its vehicle fleet. The vehicles can make deliveries to any region accessible by land, or can make use of RORO ("roll-on-roll-off") car ferries to reach locations that require sea transport.
- *Funding Insufficiencies (Remittances).* Although the Global Remittance Team monitors and makes daily estimates of the funding needs of each branch, on occasion, there may be insufficient funds at a given location to encash a remittance. In such a case, the Company has in place procedures for either nearby branches to deliver the necessary sums, or for authorized personnel to withdraw the cash from one of the Company's local bank accounts.

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, 2016, the Company had, on a consolidated basis, 6,539 full-time employees, compared to 6,363 full-time employees as of November 30, 2015. 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.

The following table sets out the number of employees of LBC Express, Inc. by job function as of November 30, 2016:

	Number of Employees
Management and Administrative Associates	172
Central Exchange and Regional Distribution Center Associates.....	243
Branch Associates	3,555
Drivers and Couriers	1,375
Other.....	1,194
Total.....	6,539

Note:

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

As of the end of November 2016, four Company subsidiaries in the Philippines have entered into collective bargaining agreements with their respective employees, with approximately 709 employee memberships. Approximately 365 of these employees in the Philippines belong to one of the six labor unions (for four subsidiaries) and the remaining approximately 100 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 messengerial services may be considered indispensable to national interest in the Philippines, the Secretary of the Department of Labor and Employment in the Philippines has the discretion to end strikes or certify the same to the National Labor Relations Commission for compulsory arbitration pursuant to Article 263(g) of the Philippine Labor Code, even in cases involving private providers of such services. Such cessation order or arbitration certification would have the effect of automatically enjoining an intended or impending strike or, if one has already taken place, of requiring all striking or locked out employees to immediately return to work and all employers to immediately resume operations. The Company has not experienced any disruptive labor disputes, strikes or threats of strikes for at least the past decade. Management believes that the Company's relationship with its employees in general is satisfactory.

The 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 2016, 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 1,252 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 December 31, 2016, 2015 and 2014, the Company's total rental expense was ₱513.1 million, ₱481.0 million and ₱436.5 million, respectively.

EQUIPMENT

Other property and equipment owned by the Company in the Philippines primarily comprises its fleet of 1,484 delivery vehicles (as of November 30, 2016), 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. On February 2, 2016, the case was dismissed on the ground that the parties have executed a Memorandum of Understanding concerning their disagreements and/or misunderstanding and that they have amicably settled their disputes.

On November 2, 2015, LBC Development Bank, Inc., through PDIC, filed a case against LBC Express, Inc. and LBC Development Corporation, among other respondents, for a total collection of P1.82 billion. The case is in relation to the March 17, 2014 demand letter representing collection of unpaid service fees due from June 2006 to August 2011 and service charges on remittance transactions from January 2010 to September 2011. The increase in the amount from the demand letter to the amount contained in the case was explained by PDIC in the complaint as attributed to their discovery that the supposed payments of LBC Express, Inc. seem to be unsupported by actual cash inflow to LBC Development Bank.

On December 28, 2015, the summons, together with a copy of the Complaint of LBC Development Bank, Inc., and the writ of preliminary attachment were served on the former Corporate Secretary of LBC Express, Inc. The writ of preliminary attachment resulted to the (a) tagging of the 1,205,974,632 shares of LBC Express Holdings, Inc. owned by LBC Development Corporation and; (b) the attachment of various banks accounts of LBC Express, Inc. totalling 6.90 million. The tagging of the shares in the record of the stock transfer agent has the effect of preventing the registration or recording of any shares in the records, unless the writ of attachment is lifted, quashed or discharged.

On January 12, 2016, LBC Express, Inc. filed with the regional court, its Motion to Dismiss the Complaint for the collection of the sum of P1.82 billion and on January 21, 2016, filed its Urgent Motion to Dismiss the Complaint for the collection of the sum of P1.82 billion and on January 21, 2016, filed its Urgent Motion to Approve the Counterbond and Discharge the Writ of Attachment.

On February 17, 2016, the regional trial court issued the order to lift and set aside the writ of preliminary attachment. The order to lift and set aside the preliminary attachment directs the sheriff of the court to deliver to LBC Express Inc. and LBC Development Corporation all properties previously garnished pursuant to the writ of preliminary attachment. The counterbond delivered by LBC Express, Inc. and LBC Development Corporation, which is for an amount equal to P1.82 billion, the total amount of the claim, shall stand in place of the properties so released and shall serve as security to satisfy any final judgement in the case.

Pursuant to the Order of the Makati City Regional Trial Court – Branch 143 dated 17 February 2016 setting aside the writ of preliminary attachment and garnishment, RCDC Stock Transfer Department has effected, as of 13 July 2016, the lifting of the (i) tagging of LBC Express Development Corporation's 1,205,974,632 shares in the Company and (ii) garnishment of PLDT preferred shares of LBC Development Corporation.

In a Joint Resolution dated 28 June 2016, the court resolved to deny the Motion to Dismiss filed by LBC Express, Inc., as well as the other defendants. On 18 July 2016, LBC Express, Inc., together with the other defendants, filed a Motion for Reconsideration of the Joint Resolution.

In its Resolution dated 16 February 2017, the court resolved to deny the defendants' Motion for Reconsideration and directed the defendants to file their respective Answers within the remaining period. On 28 February 2017, LBC Express, Inc. filed its *Ad Cautelam* Motion for Extension of Time to File Answer, asking for an additional period of 15 days, or until 15 March 2017, within which to file its Answer. On 15 March 2017, LBC Express, Inc. filed its *Ad Cautelam* Motion for Further Extension of Time to File Answer, asking for a further extension of 15 days, or until 30 March 2017, within which to file its Answer.

The ultimate outcome of the case cannot be presently determined.

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 July 29, 2016, 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 2016, the total number of shares held by the public was 219,889,833 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 2017 and each quarter of the years 2016 and 2015:

Quarter	High (₱)	Low (₱)
2016		
4 TH	16.00	11.50
3 RD	14.88	10.50
2 ND	15.00	10.14
1 ST	12.20	6.20
2015		
4 TH	14.50	11.50
3 RD	16.98	11.32
2 ND	24.80	11.32
1 ST	27.55	15.02
2014		
4 TH	15.90	7.76
3 RD	10.00	6.00
2 ND	11.00	5.30
1 ST	13.98	8.88

The stock price of each common share of the Company as of the close of the latest practicable trading date, March 31, 2016, is ₱14.98.

STOCKHOLDERS

As of the end of December 2016, there were a total of 486 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 2016:

	Name of Stockholder	Nationality	Number of Shares Held	Percentage
1	I.B.C 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	Tower Securities, Inc.	Filipino	17,748,498	1.24%
6	SB Equities, Inc.	Filipino	4,864,700	0.34%
7	The First Resources Management and Securities Corp.	Filipino	4,806,402	0.34%
8	The Hongkong and Shanghai Banking Corp. Ltd.	Chinese	2,500,000	0.18%
9	Wealth Securities, Inc.	Filipino	1,658,500	0.12%

10	Coherco Securities, Inc.	Filipino	1,277,100	0.09%
11	COL Financial Group, Inc.	Filipino	890,511	0.06%
12	Alpha Securities Corp.	Filipino	486,700	0.03%
13	Abacus Securities, Corp.	Filipino	351,205	0.02%
14	R. Nubla Securities, Inc.	Filipino	195,200	0.01%
15	Triton Securities Corp.	Filipino	181,000	0.01%
16	Globalink Securities & Stocks, Inc.	Filipino	135,800	0.01%
17	Philstocks Financial, Inc.	Filipino	134,011	0.01%
18	AB Capital Securities, Inc.	Filipino	134,000	0.01%
19	R.S. Lim & Co., Inc.	Filipino	117,900	0.01%
20	Evergreen Stock Brokerage & Sec., Inc.	Filipino	117,800	0.01%

DIVIDENDS

Dividend Policy

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

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

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

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

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

Dividend History

On October 11, 2016, the Board of Directors of LBCEH approved the declaration of cash dividends amounting to P313.69 million or P0.22 for every issued and outstanding common share.

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 *(all information in this item is updated)*

KEY PERFORMANCE INDICATORS

Financial Ratios:

		2016	2015
Current ratio	Current Assets/Current Liabilities	1.67	1.18
Debt to equity ratio	Total Liabilities/Stockholders' Equity	1.74	2.66
Debt to total assets ratio	Total Liabilities/Total Assets	0.63	0.73
Return on average assets	Net income attributable to Parent Company/ Average assets	14.52%	8.11%
Book value per share	Stockholders' Equity/ Total Number Shares	P1.73	P1.14
Earnings/(Loss) per share	Net Income/(Loss)/ Total Number Shares	P0.65	P0.29

RESULTS OF OPERATIONS

Year ended December 31, 2016 compared to the year ended December 31, 2015

Service Revenues

The Company's service revenues increased by 13% to P8,695.4 million for the year ended December 31, 2016 from P7,686.5 million for the year ended December 31, 2015, 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 20% to P7,521.9 million for the year ended December 31, 2016 from P6,290.3 million for the year ended December 31, 2015, 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 48 new branches in the Philippines. 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 7% to 9% for Philippines, effective April, 2015, respectively, which resulted to higher price variance for the months of January to March.

Cost of Services

Cost of services increased by 9% to P5,590.5 million for the year ended December 31, 2016 from P5,119.5 million for the year ended December 31, 2015 mainly attributable to higher revenue by 13%.

While the improvement in percentage to revenue to 64% in 2017 from 67% is primarily due to favorable cost ratio which resulted from the lower average freight rates of major carrier for the utilization of mid-day flights and maximizing the use of sea carrier with lower rates. Other fixed costs such as salaries and wages, rent, utilities and depreciation remain at a reasonable level with only 6% increment.

Gross Profit

Gross profit increased by 21% to ₱3,104.9 million for the year ended December 31, 2016 from ₱2,556.9 million for the year ended December 31, 2015, primarily due to the increase in volume and rate of air and courier services and improvement in costs of air and sea freight.

Operating Expenses

Operating expenses decreased by 4% to ₱1,872.8 million for the year ended December 31, 2016 from ₱1,947.8 million for the year ended December 31, 2015.

Significant reduction of advertising expense by 32% or ₱81.7 million is mainly attributable to non-incurrence of boxing sports sponsorship (Pacquiao) and decrease in media advertising and production related to brand awareness.

The Company had assessed a lower amount of provision for impairment losses on receivables at ₱15.8 million for 2016 while ₱31.4 million for 2015. Incidences that causes write-off of receivables also lowered resulting to another ₱23.4 million reduction in expenses.

The above decreases are offset by increase in professional fees by 11% or ₱19.8 million which is mainly related to acquired services of consultants for overall process improvement of the company.

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 41% to ₱154.1 million for the year ended December 31, 2016 from ₱109.6 million for the year ended December 31, 2015 primarily resulted from earnings generated from foreign exchange trading.

Finance Costs, Net

Finance costs, net increased by 46% to ₱61.1 million for the year ended December 31, 2016 from ₱41.8 million for the year ended December 31, 2015, which is related to availment of long-term loans during the year.

Income before Income Tax

Income before income tax increased by 93% to ₱1,325.1 million for the year ended December 31, 2016 from ₱686.9 million for the year ended December 31, 2015, primarily due to improvement in revenue and costs.

Income Tax Expense

Income tax expense increased by 52% to ₱411.2 million for the year ended December 31, 2016 from ₱270.6 million for the year ended December 31, 2015 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 120% to ₱913.9 million for the year ended December 31, 2016 from ₱416.3 million for the year ended December 31, 2015.

FINANCIAL CONDITION

As of December 31, 2016 compared to as of December 31, 2015

Assets

Current Assets

Cash and cash equivalents increased by 36% to ₱1,327.8 million as December 31, 2016 from ₱979.1 million as of December 31, 2015.

Trade and other receivables increased by 4% to ₱1,526.7 million as of December 31, 2016 from ₱1,466.8 million as of December 31, 2015, primarily due to growth of receivables from affiliates for the company's fulfillment services. Amount of remittance and cargo service fees is higher by 4% to ₱400.3 million for 2016 and ₱386.4 for 2015.

Due from related parties decreased by 16% to ₱1,108.0 million as of December 31, 2016 from ₱1,321.3 million as of December 31, 2015, primarily due to settlement amounting to ₱198.0 million before the end of the current year.

Available-for-sale investments amounting to ₱250.9 million represents the Company's investment in unquoted unit investment trust fund.

Prepayments and other current assets decreased by 12% to ₱388.1 million as of December 31, 2016 from ₱443.3 million as of December 31, 2015, 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. This is fully settled during the current year.

Non-current Assets

Property and equipment, net increased by 10% to ₱840.0 million as of December 31, 2016 from ₱763.0 million as of December 31, 2015, primarily due to business expansion which led to net acquisitions of leasehold improvement and furniture and fixtures resulting to an increase by 24% and 26%, respectively, based on net book value.

Intangibles, net decreased by 4% to ₱266.0 million as of December 31, 2016, from ₱276.4 million as of December 31, 2015, primarily due to lower SAP related additions for this year.

Available for sale investment, higher by 116% to ₱458.3 million as of December 31, 2016, from ₱212.6 million as of December 31, 2015, as market price increased from ₱1.09/share to ₱2.09/share.

Deferred tax assets, net increased by 22% to ₱274.4 million as of December 31, 2016, from ₱225.6 million as of December 31, 2015, as a result of higher non-deductible expenses from retirement benefit and accrued bonus and leave credits.

Security deposits, increased by 8% to ₱226.3 million as of December 31, 2016, from ₱209.9 million as of December 31, 2015, primarily due to increase in branches.

Other noncurrent assets, increased by 14% to ₱70.2 million as of December 31, 2016, from ₱61.8 million as of December 31, 2015, which resulted from the increase in noncurrent portion of input tax on capital assets.

Liabilities

Accounts and other payables decreased by 29% to ₱1,294.9 million as of December 31, 2016, from ₱1,832.0 million as of December 31, 2015, primarily due to reduction in trade payable by 19%. This is mainly attributable to improvement of operating expenses.

Notes payable (current and noncurrent) increased by 31% to ₱1,359.2 as of December 31, 2016, from ₱1,040.6 million as of December 31, 2015, primarily due to higher outstanding loan from BDO bank. The Company availed five-year term loan from the said bank during the year.

Transmission liability decreased by 8% to ₱467.3 million as of December 31, 2016, from ₱508.1 million as of December 31, 2015, primarily due to lower volume and amount of money remittance transactions on the last day of the operations of the year.

Income tax payable increased by 95% to ₱254.8 million as of December 31, 2016, from ₱130.7 million as of December 31, 2015, in line with the growth in operating income subject to income taxes.

Finance lease liabilities (current and noncurrent) increased by 6% to ₱124.1 million as of December 31, 2016, from ₱117.2 million as of December 31, 2015, due to additional service vehicles acquired through finance lease during the year.

Retirement benefit obligation increased by 12% to ₱721.0 million as of December 31, 2016, from ₱641.8 million as of December 31, 2015.

LIQUIDITY

Cash Flows

Years ended December 31, 2016 and December 31, 2015

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 ₱757.3 million, and ₱596.8 million for the year ended December 31, 2016 and 2015, respectively.

For the year ended December 31, 2016, 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, 2016 and 2015 were ₱559.4 million and ₱1,722.2 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.

Cash flow from financing activities

Cash flow from financing activities for the years ended December 31, 2016 and 2015 were ₱154.6 million and ₱1,567.0 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 2016 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 December 31, 2016 and 2015 were audited by SGV & Co., a member firm of Ernst & Young Global Limited.

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

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

	2016	2015
In millions (P)		
Audit and Audit-Related Fees ⁽¹⁾	P7,987,500	P8,035,000
Total	P7,987,500	P8,035,000

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

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

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

The audit committee 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	54	Chairman of the Board
Rene E. Fuentes	Filipino	43	Director
Enrique V. Rey, Jr.	Filipino	45	Director
Augusto G. Gan	Filipino	52	Director
Mark Werner J. Rosal	Filipino	40	Director
Solita V. Delantar	Filipino	73	Independent Director
Luis N. Yu, Jr.	Filipino	61	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*

Mr. Enrique V. Rey Jr. assumed the position of Investor Relations Officer of the Company on September 2015 and the acting Treasurer and acting Chief Finance Officer on December 2015. Mr. Rey, Jr. was also a director of LBC Systems, Inc. from 2008 to 2010 and LBC Mundial Inc. from 2005 to 2008. Prior to joining the Company, Mr. Rey, Jr. worked for Coca-Cola Phil ATS, where he was the Senior Head of Sales from 2003 to 2005 and the Associate Vice President for Institutional Sales from 2000 to 2003. Mr. Rey, Jr. attended De La Salle University and completed a Management program at the Ateneo Business School. Mr. Rey, Jr. has also 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 (ACCRA LAW). 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).

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:

Name	Nationality	Age	Position
Miguel Angel A. Camahort	Filipino	54	Chief Executive Officer and President
Enrique V. Rey, Jr.	Filipino	45	Investor Relations Officer, Acting Treasurer and Acting Chief Finance Officer
Cristina S. Palma Gil-Fernandez	Filipino	48	Corporate Secretary
Mahleene G. Go	Filipino	36	Assistant Corporate Secretary, Corporate Information Officer and Compliance Officer
Ma. Eloisa Imelda S. Singzon	Filipino	30	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, Acting Treasurer and Acting Chief Finance 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

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

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

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

business, securities, commodities or banking activities; or (4) have been found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, such judgment having not been reversed, suspended, or vacated.

On 9 September 2011, pursuant to Monetary Board Resolution No. 1354, the Monetary Board prohibited LBC Bank (which is controlled by the Araneta Family) from doing business in the Philippines, ordered it closed, and placed it under the receivership of the PDIC based on the following:

1. LBC Bank has insufficient realizable assets to meet liabilities;
2. LBC Bank cannot continue in business without involving probable losses to its depositors and creditors; and
3. LBC Bank has willfully violated the Cease and Desist Order of the Monetary Board dated 12 March 2010 for acts or transactions which are considered unsafe and unsound banking practices and other acts or transactions constituting fraud or dissipation of the assets of the institution and considering the failure of the Board of Directors/management of LBC Bank to restore the bank's financial health and viability despite considerable time given to address the financial problems, and that the bank had been accorded due process.

The PDIC thereafter stepped in as receiver and prepared its report on LBC Bank's status. Based on the Rehabilitation Report of PDIC, the conclusion/ recommendation was that LBC Bank could not be rehabilitated or otherwise placed in such a condition that it can be permitted to resume business with safety to its depositors, creditors, and the general public considering that:

1. the estimated realizable value of its assets (ERVA) as of 31 December 2011 in the amount of Php1.7 billion is deficient by Php4.96 billion to cover estimated liabilities aggregating to Php6.6 billion. Additional capital infusion of Php5.96 billion is needed to meet the Php1 billion minimum capital requirement for a thrift bank with head office located in Metro Manila; and
2. the rehabilitation proposal submitted by the LBC Group of Companies and the Rizal Banking Corporation via asset purchase agreement was found not viable.

On 5 July 2012, the MB of the BSP issued Resolution No. 1088 directing PDIC to proceed with the liquidation of LBC Bank on the basis of the Rehabilitation Report.

The PDIC has filed various criminal and administrative complaints against certain members of the Araneta Family in relation to the receivership of LBC Bank, which are described below:

- Mr. Juan Carlos Araneta, Mr. Santiago Araneta, Mr. Fernando Araneta and Ms. Ma. Monica G. Araneta (the "Araneta Siblings") were named as respondents in their capacity as stockholders and/or directors LBC Bank in a complaint for estafa, falsification of commercial documents and conducting business in an unsafe and unsound manner that was filed by the PDIC before the prosecutor's office. PDIC alleged that the Araneta Siblings, in conspiracy with the other respondents, made it appear that they infused capital into LBC Bank in the amount of approximately 39 Million-Pesos to cover a capital deficiency as required by the BSP. On 18 April 2016, the complaint against all the respondents were dismissed. The PDIC filed a Petition for Review with the Department of Justice ("DOJ") to appeal the dismissal. The appeal is currently pending with the DOJ.
- Mr. Juan Carlos Araneta, Mr. Santiago Araneta and Mr. Fernando Araneta were named as respondents in their capacity as stockholders and/or directors of LBC Bank in a complaint for

syndicated estafa, falsification of commercial documents and conducting business in an unsafe and unsound manner that was filed by the PDIC before the prosecutor's office. PDIC alleged, among others, that LBC Bank took out a 30 Million Peso loan from Chinabank "to generate funds for the purpose of remittance." The loan, however, was not recorded as "Bills Payable" nor as any other liability in LBC Bank's books, but was used to credit 30 Million Pesos from "Miscellaneous Assets," which is one of the accounts used to record the advances. It further alleged that the loan proceeds were then transferred to LBC Development Corporation, which then issued a check in favor of LBC Bank for the same amount supposedly as payment for the advances. LBC Bank then allegedly paid its loan to Chinabank prior to maturity date using LBC Bank's own funds. The case was submitted for resolution on 28 March 2016.

- Mr. Juan Carlos Araneta, Mr. Santiago Araneta and Mr. Fernando Araneta were named as respondents in their capacity as stockholders and/or directors of LBC Bank in a complaint for syndicated estafa, falsification of commercial documents and conducting business in an unsafe and unsound manner that was filed by the PDIC before the prosecutor's office. PDIC alleged that LBC Bank obtained three loans from Chinabank in the amount of approximately 50 Million Pesos, which were secured by a Hold-Put Agreement on LBC's existing Foreign Currency Deposit Unit Time Deposits with Chinabank. The loans all indicated that the proceeds were intended for LBC Bank's "working capital" and yet were not recorded as "Bills Payables" or liabilities in the books of LBC Bank. The proceeds from the loan were allegedly credited by Chinabank to LBC Bank's Current/Savings Bank Account, and then used as partial payment to the "advance to affiliates". Thereafter, LBC Bank used the proceeds of the matured time deposits to pay the loans to Chinabank. The case was submitted for resolution on 25 May 2016.

- Mr. Juan Carlos Araneta, Mr. Santiago Araneta and Mr. Fernando Araneta were named as respondents in their capacity as stockholders and/or directors of LBC Bank in a complaint for syndicated estafa, falsification of commercial documents and unsound business practices that was filed by the PDIC before the prosecutor's office. PDIC alleged that Foreign Currency Remittances received by LBC Mabuhay were not deposited to LBC Bank's Dollar Account with CalBank resulting in Funding Gaps or "short remittances." Despite this, LBC Bank continued to pay the full amount of the remittance instructions resulting in Advances by LBC Bank in favor of LBC Mabuhay, supposedly in violation of the Memorandum of Understanding between LBC Bank and the BSP. The case was submitted for resolution on 25 May 2016.

- Mr. Juan Carlos Araneta, Mr. Santiago Araneta, Mr. Fernando Araneta and Mr. Carlos G. Araneta were named as respondents in their capacity as stockholders and/or directors of LBC Bank in a complaint for unsafe and unsound business practices that was filed by the PDIC before the the prosecutor's office. PDIC alleged that the respondents committed acts or omissions constituting unsafe and unsound business practice by entering into Service Agreements with LBC Express, Inc., whose terms were supposedly manifestly and grossly disadvantageous to Bank. The Respondents allegedly failed to enforce payment of service fees, thereby causing undue injury and/or unwarranted benefits, advantage, or preference to LBC Express, Inc. through manifest partiality and bad faith that resulted in a material loss or damage to the liquidity or solvency of LBC Bank and to the latter's depositors, creditors, and the general public. The case was submitted for resolution on 11 August 2016.

- An administrative complaint was filed by the PDIC before the the prosecutor's office against Mr. Juan Carlos Araneta, Mr. Santiago Araneta, Mr. Fernando Araneta and Mr. Carlos G. Araneta in their capacity as stockholders and/or directors of LBC Bank. PDIC alleged that the respondents had caused LBC Bank to enter into manifestly and grossly disadvantageous Service Agreements with LBC Express, inc.. In these Service Agreements, the LBC Bank would act as a payout or distribution agent for the remittances to the beneficiaries of LBC Express Inc.. In return, LBC Express would pay LBC Bank service fees on a per transaction basis. PDIC accused the respondents of not enforcing the payment of the service fees due from LBC Express in favor of LBC Bank. These actions allegedly amount to "commission of any other

irregularities and/or conducting business in an unsafe or unsound manner," which violate Section 21(f) of RA 3591. The case was submitted for resolution on 27 September 2016.

Item 10. EXECUTIVE COMPENSATION

COMPENSATION

There are no employees under LBCEH.

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 2017.

<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 2017

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	% of Total Outstanding Shares
Common	Rene E. Fuentes	1- direct	Filipino	0.0%
Common	Enrique V. Rey, Jr.	1- direct	Filipino	0.0%
Common	Augusto 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	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 P100,000,000.00 divided into 100,000,000 common shares with par value of P1.00 per share, to P2,000,000,000.00 divided into 2,000,000,000 common shares with par value of P1.00 per share. As of the date of this Report, LBC Development Corporation holds a total of 1,205,974,632 common shares of the Company or 84.58% of the Company's total issued and outstanding capital stock of the Company.

As of December 31, 2016, there are no arrangements which would delay, defer or prevent a change in control of the Company.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

RELATED PARTY TRANSACTIONS

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

It is a policy of the Company that related party transactions are entered into on terms which are not more 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 2016 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.

Fulfillment Fee

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

Guarantee Fee

The Group entered into a loan agreement with BDO which is secured with real estate mortgage on various real estate properties owned by the Group's affiliate. In consideration of the affiliate's accommodation to the Group's request to use these properties as loan collateral, the Group agreed to pay the affiliate, every April 1 of the year starting April 1, 2016, a guarantee fee of 1% of the outstanding loan and until said properties are released by the bank as loan collateral.

Dividends

The BOD of LBCH approved the declaration of cash dividends amounting to ₱313.69 million or ₱0.22 for every issued and outstanding common share. On November 29, 2016 through a Memorandum of Agreement, LBCDC and LBCH agreed to offset the dividends payable of LBCH to LBCDC against LBCDC's payable to the Group amounting to ₱265.31 million (see Note 21 of the notes to the 2016 consolidated financial statements of the Company which is incorporated herein in the accompanying index to exhibits). The ₱265.31 million pertains to the share in dividends of LBCDC while the ₱48.38 million pertains to the share of non-controlling interest.

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 Annual Corporate Governance Report filed on January 10, 2017.

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 2016:

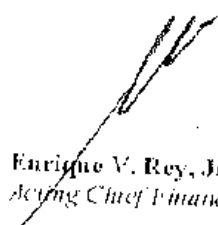
	Disclosure	Date of Report
1	SEC 17-C (Legal Proceedings) (Civil Case against LBC Development Corporation and LBC Express, Inc.)	04 January 2016
2	SEC 17-C (Material Information/Transaction) (additional information on disclosure made on 04 January 2016) (Letter Reply)	07 January 2016
3	SEC 17-C (Reply to Exchange's Query) (Writ of Preliminary Attachment in relation to Civil Case No. 15-1528)	08 January 2016
4	SEC 17-C (Reply to Exchange's Query) (Civil Case against LBC Development Corporation and LBC Express, Inc.)	13 January 2016
5	SEC 17-C (Reply to Exchange's Query) (Civil Case No. 15-1258 against LBC Development Corporation and LBC Express, Inc.)	18 January 2016
6	SEC 17-C (Clarification on News Reports) (Clarification on news article under Cocktales column entitled "LBC sinks deep into garnishment" posted in Interaksyon.com on January 18, 2016)	19 January 2016
7	SEC 17-C (Material Information/Transactions) (Letter Reply)	22 January 2016
8	SEC 17-C (Legal Proceedings) (Update on Civil Case No. 15-1258 against, among others, LBC Development Corporation and LBC Express, Inc.)	23 February 2016
9	SEC 17-C (Further update on Civil Case NO. 15-1258 against, among others, LBC Development Corporation and LBC Express, Inc.)	14 July 2016
10	SEC 17-C (Clarification on the news article entitled "LBC Express income seen to hit P1 billion by year-end" posted on Business Mirror (Internet Edition) on 31 July 2016")	02 August 2016
11	SEC 17-C (Declaration of cash dividends by the Company's subsidiary, LBC Express, Inc.)	03 October 2016
12	SEC 17-C (Declaration of Cash Dividends)	11 October 2016
13	SEC 17-C (Amend) (Declaration of Cash Dividends)	11 October 2016
14	SEC 17-C (Press release on the Company's performance for the 3rd quarter of 2016)	17 November 2016
15	SEC 17-C (Amend) (Press release on the Company's performance for the 3rd quarter of 2016)	18 November 2016
16	SEC 17-C (Clarification on the news article entitled "LBC eyes P1.2-B follow on offer" posted on the Philippine Star website, philSTAR.com, 18 November 2016)	18 November 2016
17	SEC 17-C (Confirmation of authority to conduct a follow-on offering of 69,101,000 shares of the Corporation (FOO consists of 59,101,000 secondary shares and 10,000,000 primary shares))	28 November 2016
18	SEC 17-C (Filing of Registration Statement in relation to the public offering by the Company (the "Follow-on Offering") of up to 69,101,000 common shares (the "Offer Shares"))	02 December 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 _____ on 26 2017.

LBC EXPRESS HOLDINGS, INC.

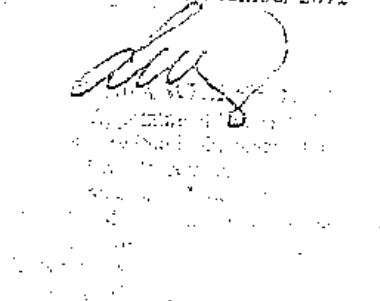
By:


Enrique V. Rey, Jr.
Acting Chief Finance Officer and Treasurer

SUBSCRIBED AND SWORN to before me this _____ day of _____ 2017, affiants exhibiting to me their respective competent evidence of identities, as follows:

Name	Competent ID	Date and Place of Issue
Enrique V. Rey, Jr.	Passport No. EH6834094	DFA Manila/27 November 2012

Doc. No. 146
Book No. 11
Page No. 18
Series of 2017.



Notary Public
Enrique V. Rey, Jr.
Acting Chief Finance Officer and Treasurer
LBC EXPRESS HOLDINGS, INC.

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 _____ on _____

LBC EXPRESS HOLDINGS, INC.

By:


Miguel Angel A. Camahort
President and Chief Executive Officer

SUBSCRIBED AND SWORN to before me this _____ day of _____ 2017, affiants exhibiting to me their respective competent evidence of identities, as follows:

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

Doc. No. 166
Book No. 1
Page No. 1
Series of 2017.

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 _____ on _____ 2017.

LBC EXPRESS HOLDINGS, INC.

By:


Mahleene G. Go
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me this _____ day of _____ 2017, affiant exhibiting to me her competent evidence of identity, as follows:

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

Doe. No. 298;
Book No. 41;
Page No. 42;
Series of 2017.


Notary Public
My Commission Expires _____
Notary Seal



Express
Holdings, Inc.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of LBC Express Holdings, Inc. (formerly Federal Resources Investment Group) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

SGV & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

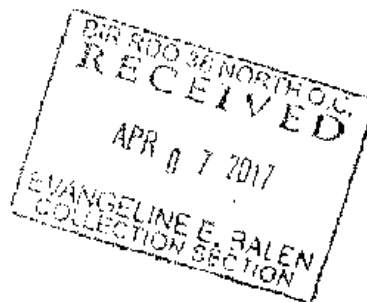
Signature: _____

MIGUEL ANGEL A. CAMAHORT - Chairman of the Board, President
and Chief Executive Officer

Signature: _____

ENRIQUE V. REY - Acting Chief Finance Officer

Signed this _____ day of _____ 2017.



SUBSCRIBED AND SWORN to before me in City of Pasay on MAR 30 2017 affiants
personally appeared before me and exhibited to me their Tax Identification Nos.

<u>NAME</u>	<u>TIN</u>
Miguel Angel A. Canahort	101-292-392
Enrique V. Rey, Jr.	172-264-046

Doc. No. 43
Page No. 10
Book No. 111
Series of 2017.

NOTARY PUBLIC
NOEL L. DORNE
NOTARY PUBLIC
Term: December 31, 2018 Comm. 1 /
100 Arcebas Ave., Pasay City
ISP No. 1000000 / 1-3-17 / PPLM
PIT No. 0074075 / 1-3-17 / 90
Roll No. 43537 MOLF IV-13045

COVER SHEET

for
AUDITED FINANCIAL STATEMENT

SEC Registration Number

A S 0 9 3 - 0 0 5 2 7 7

COMPANY NAME

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

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

L B C H a n g a r , G e n e r a l A v i a t i o n C
e n t r e , D o m e s t i c A i r p o r t R o a d ,
P a s a y C i t y , M e t r o M a n i l a

Form Type

A A F S

Department requiring the report

S E C

Secondary License Type, if Applicable

COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number

856-8522

Mobile Number

N/A

No. of Stockholders

483

Annual Meeting (Month / Day)

Second Monday of June

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Enrique V. Rey

Email Address

evrey@lbcexpress.com

Telephone Number/s

856-8510

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

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

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

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



LINE E. SALEN
REGISTRATION SECTION

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
LBC Express Holdings, Inc.
LBC Hangar, General Aviation Center,
Domestic Airport Compound
Pasay City, Metro Manila

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of LBC Express Holdings, Inc. (the Company), which comprise the parent company statements of financial position as at December 31, 2016 and 2015, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

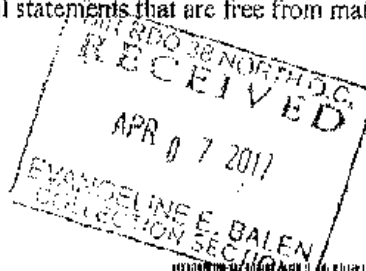
In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the parent company financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

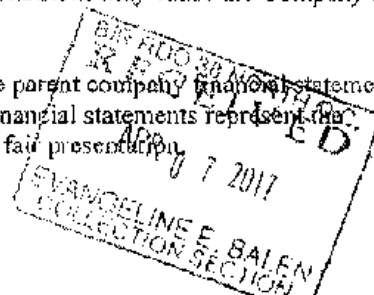
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

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

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

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

The supplementary information required under Revenue Regulations 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of LBC Express Holdings, Inc. in a separate schedule. Revenue Regulations 15-2010 requires the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68, as Amended (2011). Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

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

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia
Cyril Jasmin B. Valencia

Partner

CPA Certificate No. 90787

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

May 12, 2015, valid until May 11, 2018

Tax Identification No. 162-410-623

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

February 27, 2015, valid until February 26, 2018

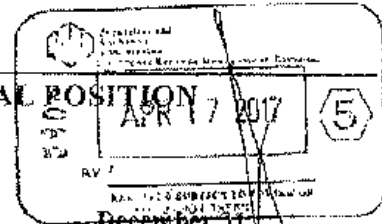
PTR No. 5908770, January 3, 2017, Makati City

March 8, 2017



LBC EXPRESS HOLDINGS, INC.
(Formerly Federal Resources Investment Group Inc.)

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION



December 31, 2016 2015

ASSETS

Current Assets

Cash (Notes 4 and 12)	P564,340	P250,735
Dividends receivable (Notes 9 and 12)	118,999,179	-
Due from a related party (Notes 9 and 12)	12,599	-
Prepayments and other current assets (Note 5)	1,394,509	551,546
Total Current Assets	120,970,627	802,281

Noncurrent Assets

Investment in a subsidiary (Note 6)	1,384,670,966	1,384,670,966
	P1,505,641,593	P1,385,473,247

LIABILITIES AND EQUITY

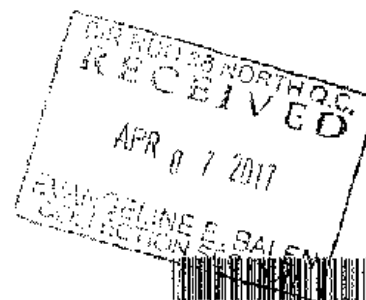
Current Liabilities

Accounts and other payables (Notes 7 and 12)	P135,634	P886,825
Due to related parties (Notes 9 and 12)	15,949,766	22,813,325
Total Current Liabilities	16,085,400	23,700,150

Equity (Note 8)

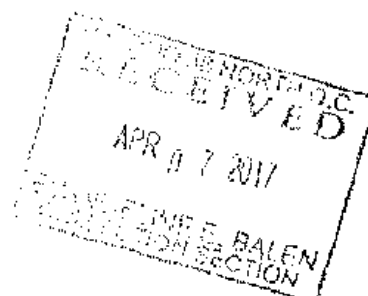
Capital stock	1,425,865,471	1,425,865,471
Additional paid in capital	55,420,327	55,420,327
Retained earnings (deficit)	8,270,395	(119,512,701)
Total Equity	1,489,556,193	1,361,773,097
	P1,505,641,593	P1,385,473,247

See accompanying Notes to Parent Company Financial Statements.



LBC EXPRESS HOLDINGS, INC.**(Formerly Federal Resources Investment Group Inc.)****PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31	
	2016	2015
INCOME		
Dividends (Notes 6 and 9)	P447,707,612	P-
Interest (Note 4)	10,808	5,980
Others	2,993	-
	447,721,413	5,980
OPERATING EXPENSES (Note 10)	6,247,913	8,414,150
NET INCOME (LOSS)	441,473,500	(8,408,170)
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE INCOME (LOSS)	P441,473,500	(P8,408,170)

See accompanying Notes to Parent Company Financial Statements.

LBC EXPRESS HOLDINGS, INC.
(Formerly Federal Resources Investment Group Inc.)

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Share Capital (Note 8)	Share Premium (Note 8)	Retained Earnings (Deficit) (Note 8)	Total
For the year ended December 31, 2016				
Balances as of January 1, 2016	P1,425,865,471	P55,420,327	(P119,512,701)	P1,361,773,097
Total comprehensive income	-	-	441,473,500	441,473,500
Dividends declared	-	-	(313,690,404)	(313,690,404)
Balances as of December 31, 2016	P1,425,865,471	P55,420,327	P8,270,395	P1,489,556,193
For the year ended December 31, 2015				
Balances as of January 1, 2015	P40,899,090	P71,081,190	(P111,104,531)	P875,659
Issuance of shares during the year	1,384,966,471	-	-	1,384,966,471
Share issuance cost	-	(15,660,863)	-	(15,660,863)
Total comprehensive loss	-	-	(8,408,170)	(8,408,170)
Balances as of December 31, 2015	P1,425,865,471	P55,420,327	(P119,512,701)	P1,361,773,097

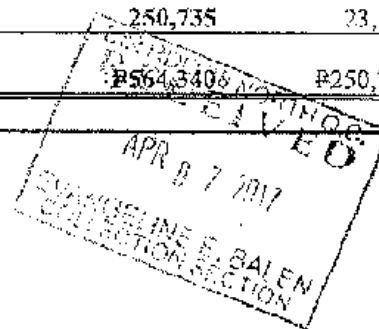
See accompanying Notes to Parent Company Financial Statements.



LBC EXPRESS HOLDINGS, INC.*(Formerly Federal Resources Investment Group Inc.)***PARENT COMPANY STATEMENTS OF CASH FLOWS**

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	P441,473,500	(P8,408,170)
Adjustments for:		
Dividend income (Note 6)	(447,707,612)	-
Interest income (Note 4)	(10,808)	(5,980)
Operating loss before changes in working capital	(6,244,920)	(8,414,150)
Changes in working capital:		
Decrease (increase) in:		
Receivables	-	2,208,000
Due from a related party (Notes 9 and 12)	(12,599)	-
Prepayments and other current assets	(842,963)	16,993
Increase (decrease) in:		
Accounts payable and other payables	(751,191)	886,825
Due to related parties (Notes 9 and 12)	(6,863,559)	20,889,325
Net cash used in operations	(14,715,232)	15,586,993
Interest received	10,808	5,980
Net cash generated from (used in) operating activities	(14,704,424)	15,592,973
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received (Note 9)	63,394,014	-
Payments made to investment in a subsidiary (Note 6)	-	(1,325,865,801)
Advances to a stockholder (Note 6)	-	(58,805,165)
Net cash used in investing activities	63,394,014	(1,384,670,966)
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from issuance of shares, net of stock issuance cost (Note 8)	-	1,369,305,608
Dividends paid (Note 9)	(48,375,985)	-
Net cash generated from (used in) financing activities	(48,375,985)	1,369,305,608
NET INCREASE IN CASH	313,605	227,615
CASH AT BEGINNING OF YEAR	250,735	23,120
CASH AT END OF YEAR (Note 4)	P564,340	P250,735

See accompanying Notes to Parent Company Financial Statements.



LBC EXPRESS HOLDINGS, INC.

(Formerly Federal Resources Investment Group Inc.)

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

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

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

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

On April 23, 2015, the Board of Directors (BOD) of the 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 LBCDC.

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

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



On May 22, 2015, LBCDC filed with the SEC its mandatory tender offer report for all the outstanding shares of the Company for a tender offer price of one peso (₱1.00) per share. The mandatory tender offer period commenced on June 8, 2015 and ended on July 7, 2015, during which period, none of the Tender Offer Shares were tendered by the shareholders of the Company.

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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



The accompanying financial statements of the Company has been approved and authorized for issue by the Company's BOD on March 8, 2017.

2. Summary of Significant Accounting Policies

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

Basis of Preparation

The financial statements of the Company have been prepared using the historical cost basis. The financial statements are presented in Philippine Peso (P), which is also the Company's functional currency. All amounts are rounded off to the nearest peso unit unless otherwise indicated.

Statement of Compliance

The accompanying financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

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

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures*, *Investment Entities: Applying the Consolidation Exception*
These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method. These amendments are not applicable to the Company.
- Amendments to PFRS 11, *Joint Arrangements*, *Accounting for Acquisitions of Interests in Joint Operations*
The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. These amendments do not have any impact to the Company.



- *PFRS 14, Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Company is an existing PFRS preparer, this standard would not apply.
- *Amendments to PAS 1, Presentation of Financial Statements, Disclosure Initiative*
The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:
 - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
 - That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
 - That entities have flexibility as to the order in which they present the notes to financial statements
 - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

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



will apply. These amendments are applied retrospectively and do not have any impact to the Company as the Company does not have any bearer plants.

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

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

Annual Improvements to PFRSs 2012 - 2014 Cycle

- *Amendment to PFRS 5, Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *Amendment to PFRS 7, Financial Instruments: Disclosures, Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *Amendment to PFRS 7, Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- *Amendment to PAS 19, Employee Benefits, Discount Rate: Regional Market Issue*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *Amendment to PAS 34, Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).



Standards issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

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

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

Effective beginning on or after January 1, 2018

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



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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. This standard is not applicable to the Company.

- PFRS 9, *Financial Instruments*

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

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



- *Amendments to PAS 26, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments should be applied retrospectively, with earlier application permitted. These amendments are not expected to have any impact to the Company.
- *Amendments to PAS 40, Investment Property, Transfers of Investment Property*
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight. These amendments are not expected to have any impact to the Company.
- *Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration*
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Company is currently assessing the impact of this standard.

Effective beginning on or after January 1, 2019

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



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

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

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Company is currently assessing the impact of adopting PFRS 16 and plans to adopt the new standard on the required effective date once adopted locally. This standard has no significant impact to the Company.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. These amendments are not expected to have any impact to the Company.

Cash

Cash includes cash in banks which are stated at face value and earn interest at prevailing bank deposit rates.

Fair Value Measurement

The Company measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.



The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset on the highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Assets and Financial Liabilities

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial assets and financial liabilities

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

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



Determination of fair value

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

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

'Day 1' difference

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

Loans and receivables

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

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

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

As of December 31, 2016 and 2015, the Company's loans and receivables include cash, dividends receivable and due from a related party.

Other financial liabilities

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



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

As of December 31, 2016 and 2015, the Company's other financial liabilities include accounts and other payables (excluding withholding taxes payable) and due to related parties.

Impairment of Financial Assets

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

Loans and receivables

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of estimated cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as customer type, payment history, past-due status and term.



Future cash flows in a group of similar financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

Derecognition of Financial Assets and Financial Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- a) the rights to receive cash flows from the asset have expired, or
- b) the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Company statement of comprehensive income.

Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.



Prepayments and Other Current Assets

Other assets in the form of input value-added tax is recognized as assets to the extent it is probable that the benefit will flow to the Company. This is derecognized when there is a legally enforceable right to apply the recognized amounts against the related tax liability within the period prescribed by the relevant tax laws.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investment in Subsidiary

Investment in subsidiary is accounted for using the cost method less any accumulated impairment in use, in the separate financial statements of the Company in accordance with PAS 27. On acquisition date of the investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is included in the carrying amount of the investment and not amortized.

The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Company controls an investee if and only if the Company has all the following:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and



- the ability to use its power over the investee to affect its returns.

The Company recognizes income from the investment only to the extent that the Company receives distributions from accumulated income of the subsidiary arising after the date of acquisition. Distribution received in excess of such income is regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Equity

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

Capital stock

The Company records common stocks at par value and the amount of the contribution in excess of par value is accounted for as share premium. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

Retained Earnings (deficit)

Retained earnings represent net accumulated earnings (losses) of the Company, net of dividends declared, less any adjustments arising from application of new accounting standards, policies or corrections of errors applied retrospectively.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably regardless when the payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, returns, rebates and sales tax. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Dividend income

Dividend income is recognized when the Company's right to receive payment is established, which is generally when shareholders approve the dividend. This is recognized as dividend income in the statement of comprehensive income.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. Interest income from bank deposits is presented net of applicable tax withheld by the banks.

Other income

Other income is recognized when earned.

Expense Recognition

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be reliably measured.

Expenses are recognized in the statement of comprehensive income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;



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

Income Taxes

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

Current tax

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

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

Deferred tax

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

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

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

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

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



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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

Contingencies

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

Events after the Reporting Date

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

3. Significant Accounting Judgments and Estimates

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

Recognition of deferred tax assets

As of December 31, 2016 and 2015, the Company did not recognize deferred income tax assets on deductible temporary differences and carry forward benefit of NOLCO and MCIT amounting to ₱36.89 million and ₱32.01 million, respectively, as management assessed that there will be no future available taxable income against which the deferred income tax assets can be utilized (see Note 11).

Provision for impairment losses of financial asset

The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management based on collection experience and other factors that affect the collectability of the accounts. Management assessed that ₱1.87 million receivables from officers and stockholders were impaired as of December 31, 2016 and 2015 (see Note 9).

Provision for impairment losses of nonfinancial assets

The Company assesses impairment on nonfinancial assets (i.e. inventory, property and equipment and other assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.



The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements. Management assessed that inventories and property and equipment amounting to ₱7.14 million and ₱11.70 million were fully impaired, while other current assets amounting to ₱0.80 million was impaired as of December 31, 2016 and 2015.

4. Cash

This account consists of cash in banks amounting to ₱564,340 and ₱250,735 million as of December 31, 2016 and 2015, respectively.

Cash in banks earn interest at the prevailing bank deposit rates ranging from 0.25% to 1.13% and 0.5% to 1.13% in 2016 and 2015, respectively.

Interest income earned from bank deposits amounted to ₱10,808 and ₱5,980 in 2016 and 2015, respectively.

5. Prepayments and Other Current Assets

This account consists of:

	2016	2015
Input value-added tax (VAT)	₱2,187,028	₱1,343,485
Prepaid expenses	6,250	6,830
	2,193,278	1,350,315
Less allowance for impairment losses	798,769	798,769
	₱1,394,509	₱551,546

Input VAT arises from domestic purchases of goods and services and may be offset against output tax.



6. Investment in a Subsidiary

This account pertains to the Company's acquisition of 100% ownership interest in LBCE. In a Deed of Transfer dated September 24, 2015, the Company purchased from LBCDC the shares of stock of LBCE at a total cash consideration of ₱1,384.67 million. It was also previously agreed that the Company's advances to LBCDC amounting to ₱58.81 million will be set-off against the remaining unpaid balance.

Dividend Declarations of a Subsidiary

On September 30, 2016, the BOD of LBCE approved the declaration of cash dividends amounting to ₱447.71 million or ₱0.43 for every issued and outstanding common share. On November 29, 2016, through a Memorandum of Agreement, LBCDC assigned to LBCH a portion of its payable to LBCE amounting to ₱265.31 million. The same amount was offset against the dividends payable of LBCE to LBCH. LBCE settled ₱63.39 million in cash and the outstanding dividends receivable of ₱119.00 million as of December 31, 2016 is expected to be settled in 2017 (see Note 12).

7. Accounts and Other Payables

This account consists of:

	2016	2015
Accounts payable	₱131,745	₱-
Withholding tax payable	3,889	15,647
Accrued expenses	-	871,178
	₱135,634	₱886,825

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

Withholding tax payable pertains to taxes withheld on payment to suppliers and employees' compensation which are settled on a monthly basis.

8. Equity

Capital Stock

The details of the Company's capital stock as at December 31, 2016 and 2015 follow:

	2016	
	Number of Shares	Amount
Capital stock - ₱1 par value		
Authorized	2,000,000,000	₱2,000,000,000
Issued and outstanding	1,425,865,471	1,425,865,471



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

Increase in authorized capital stock

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

Issuances of new shares

- On May 18, 2015, LBCDC subscribed to 59,101,000 common shares out of the unissued authorized capital stock of the LBCH or approximately 59.10% of the total authorized capital stock of LBCH, before the approval of the increase in authorized capital stock by applying the deposits for future stocks subscription made by LBCDC amounting to ₱59,101,000 on April 22, 2015, as the consideration for the subscribed shares at one peso (₱1.00) per share. As discussed in Note 1, subsequently, on July 22, 2015, the Parent Company issued the stock certificates to LBCDC covering the 59,101,000 common shares.
- On September 18, 2015, LBCDC subscribed to 25% of 1,900,000,000 increase in authorized capital stock or equivalent to 475,000,000 common shares at the subscription price of ₱1.00 per share, in exchange for cash.

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

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

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

Retained Earnings

On October 11, 2016, the BOD of LBCH approved the declaration of cash dividends amounting to ₱313.69 million or ₱0.22 for every issued and outstanding common share, ₱48.38 million of which has been paid in cash to minority shareholders. The portion of dividends attributable to LBCDC was settled on a net basis as disclosed in detail in Note 12.



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

9. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence which include affiliates.

Transactions with related parties are made at normal market prices. There have been no guarantees provided or received for any related party receivables or payables. Except as otherwise indicated, the outstanding accounts with related parties shall be settled in cash. The transactions are made at terms and prices agreed upon by the parties.

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

	2016			
	Amount/Volume	Receivable (Payable)	Terms	Conditions
<u>Due from a related party</u>				
<i>Officer and stockholder</i>				
a.) Advances	₱12,599	₱12,599	Non-interest bearing; due and demandable	Unsecured, no impairment
<u>Receivables</u>				
<i>Subsidiary</i>				
b.) Dividends earned and receivable	₱447,707,612	₱118,999,179	Non-interest bearing; due and demandable	Unsecured, no impairment
<i>Officers and stockholders</i>				
c.) Advances		1,865,563	Non-interest bearing; due and demandable	Unsecured, with full provision for impairment
Allowance for impairment	--	(1,865,563)		
		₱118,999,179		
	2015			
	Amount/Volume	Receivable (Payable)	Terms	Conditions
<u>Due to related parties</u>				
<i>Ultimate parent</i>				
c.) Advances	₱--	(₱15,694,463)	Non-interest bearing; due and demandable	Unsecured
d.) Dividends declared	245,314,419	--	Non-interest bearing; due and demandable	Unsecured
<i>Minority interest</i>				
e.) Dividends declared	48,375,986	--		
<i>Subsidiary</i>				
e.) Advances	15,918,829	--	Non-interest bearing; due and demandable	Unsecured
<i>Officers</i>				
f.) Advances	--	(255,303)	Non-interest bearing; due and demandable	Unsecured
		(₱15,949,766)		



2015				
	Amount/Volume	Receivable (Payable)	Terms	Conditions
<u>Receivables</u>				
<i>Officers and stockholders</i>				
c.) Advances	P=	P1,865,563	Non-interest bearing; due and demandable	Unsecured, with full provision for impairment
Allowance for impairment		(1,865,563)		
		P=		
<u>Due to related parties</u>				
<i>Ultimate parent</i>				
c.) Advances	P15,694,463	(P15,694,463)	Non-interest bearing; due and demandable	Unsecured
<i>Subsidiary</i>				
f.) Advances	6,863,559	(6,863,559)	Non-interest bearing; due and demandable	Unsecured
<i>Officer</i>				
g.) Advances	255,303	(255,303)	Non-interest bearing; due and demandable	Unsecured
		(P22,813,325)		

- a.) These are expenses paid by the Company on behalf of its officer and stockholder.
- b.) LBCH recognized dividend income from LBCE amounting to P447.71 million, P119.00 million of which are outstanding as of December 31, 2016.
- c.) In previous years, the Company granted noninterest-bearing loans to its previous officers and stockholders. These loans have no fixed term of repayment. The balance of such loans as of December 31, 2016 and 2015 which is shown as part of Receivables amounted to P1.87 million, which were fully impaired.
- d.) This mainly consists of advances for the costs directly attributable to the amendment of Articles of Incorporation and By-Laws and increase in authorized capital stock and documentary stamp taxes related to issuance of new shares.
- e.) As discussed in Note 11, the BOD of LBCH approved the declaration of cash dividends amounting to P313.69 million or P0.22 for every issued and outstanding common share. On November 29, 2016 through a Memorandum of Assignment, LBCDC and LBCH agreed to offset the dividends payable of LBCH to LBCDC against LBCDC's payable to LBCE amounting to P265.31 million. The P265.31 million pertains to the share in dividends of LBCDC while the P48.38 million pertains to the share of non-controlling interest.
- f.) These are expenses of the Company directly paid by LBCE.
- g.) Since the Company does not have current commercial operation, cash requirement to cover some operating expenses are provided by a certain officer. The cash advances are not subject to interest and have no fixed repayments period.



10. Operating Expenses

This account consists of:

	2016	2015
Professional fees	₱4,360,893	₱6,958,800
Entertainment and representation	369,780	-
Taxes and licenses	367,689	574,296
Dividends issuance expense	44,654	-
Impairment losses	-	568,539
Others	1,104,897	312,515
	<u>₱6,247,913</u>	<u>₱8,414,150</u>

Others pertain to transaction costs directly attributable to the listing of shares.

11. Income Taxes

The reconciliation of the income tax on pretax income computed at the statutory rate to income tax expense attributable to operations is as follows:

	2016	2015
Income tax at the statutory income tax rate	₱132,442,050	(₱2,522,451)
Tax effects of the items not subject to statutory rate:		
Dividend income	(134,312,284)	-
Movement in unrecognized deferred tax asset	1,465,918	1,850,435
NOLCO - expired	410,528	502,890
Nondeductible expense	-	170,920
MCIT	(2,970)	-
Interest income subject to final tax	(3,242)	(1,794)
	<u>₱-</u>	<u>₱-</u>

The Company did not recognize any deferred tax assets as of December 31, 2016 and December 31, 2015 since it does not expect to have sufficient future taxable income against which the deferred tax assets can be utilized.

Details of the unrecognized deferred tax assets as at December 31, 2016 and December 31, 2015 are as follows:

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



As of December 31, 2016 and 2015, the NOLCO that can be claimed as deductions from future taxable income and excess MCIT over RCIT that can be credited against future tax liability follow:

NOLCO

2016

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2016	P6,244,919	P-	P-	P6,244,919	2019
2015	7,844,416	-	-	7,844,416	2018
2014	1,263,257	-	-	1,263,257	2017
2013	1,368,426	-	1,368,426	-	2016
	P16,721,018	P-	P1,368,426	P15,352,592	

2015

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2015	P7,844,416	P-	P-	P7,844,416	2018
2014	1,263,257	-	-	1,263,257	2017
2013	1,368,426	-	-	1,368,426	2016
2012	1,676,300	-	1,676,300	-	2015
	P12,152,399	P-	P1,676,300	P10,476,099	

MCIT

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2014	P-	P2,970	P-	P2,970	2017

12. Financial Assets and Financial Liabilities

Fair Value Information

Due to the short-term nature of the Company's financial assets and financial liabilities, the carrying values reasonably approximate their fair values at year-end.

Financial assets include cash in banks, due from a related party and dividends receivable. Financial liabilities include accounts and other payables (excluding withholding taxes payable) and due to related parties which are all classified as other financial liabilities.

Fair Value Hierarchy

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

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



As of December 31, 2016 and 2015, the Company has no financial assets and financial liabilities carried at fair value.

Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash in banks, dividends receivable, due from a related party, accounts and other payables (excluding withholdings taxes payable) and due to related parties. The main purpose of these financial instruments is to raise fund for the Company's operations. The Company's accounts and other payables and due to related parties arise directly from its operations.

The main risks currently arising from the Company's financial instruments are credit risk and liquidity risk.

Credit risk

Credit risk is the risk that counterparty will not meet its obligation under a financial asset or financial liability or customer contract, leading to a financial loss.

Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

As for the cash in banks, the maximum exposure to credit risk from this financial assets arise from the default of the counterparty with a maximum exposure equal to their carrying amounts.

Aging analysis of loans and receivables

As of December 31, 2016 and 2015, the aging analysis of loans and receivables follows:

2016						
	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			30-60 days	60-90 days	Over 90 days	
Cash in banks	₱564,340	₱564,340	₱-	₱-	₱-	₱-
Dividends receivable	118,999,179	118,999,179	-	-	-	-
Due from related parties	1,878,162	12,599	-	-	-	1,865,563
	₱121,441,681	₱119,576,118	₱-	₱-	₱-	₱1,865,563

2015						
	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			30-60 days	60-90 days	Over 90 days	
Cash in banks	₱250,735	₱250,735	₱-	₱-	₱-	₱-
Due from related parties	1,865,563	-	-	-	-	1,865,563
	₱2,116,298	₱250,735	₱-	₱-	₱-	₱1,865,563

The credit quality of the financial assets was determined as follows:

Cash are composed of bank deposits made with reputable financial institutions and hence, grades as "high grade".

Except for those receivables provided with allowance in previous years, presented as impaired, receivables are considered high grade due to the Company's positive collection experience.

High grade accounts are considered to be of high credit rating value. The counterparties have a very remote likelihood of default.



Medium grade accounts are active accounts with minimal instances of payment default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to the Company's collection efforts and update payments accordingly.

Low grade accounts pertain to accounts which have impairment based on historical trend or customer's unfavorable operating conditions. Accounts under this group show possible or actual loss to the Company as a result of default in payment of the counterparty despite the regular follow-up actions and extended payment terms.

The tables below show the credit quality of the Company's financial assets:

	2016			
	High Grade	Medium Grade	Low Grade	Total
Cash in banks	P564,340	P-	P-	P564,340
Dividends receivable	118,999,179	-	-	118,999,179
Due from related parties	12,599	-	1,865,563	1,878,162
	P119,576,118	P-	P1,865,563	P121,441,681

	2015			
	High Grade	Medium Grade	Low Grade	Total
Cash in banks	P250,735	P-	P-	P250,735
Due from related parties	-	-	1,865,563	1,865,563
	P250,735	P-	P1,865,563	P2,116,298

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial assets and financial liabilities. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or the counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated.

The following table summarizes the maturity profile of the Company's financial assets and financial liabilities of December 31, 2016 and 2015 based on remaining contractual undiscounted collections and payments:

	2016		Total
	On demand	Less than 1 year	
Loans and Receivables			
Cash in banks	P564,340	P-	P564,340
Dividends receivable	118,999,179	-	118,999,179
Due from a related party	12,599	-	12,599
	P119,576,118	P-	P119,576,118
Other Financial Liabilities			
Accounts and other payables	P-	P131,745	P131,745
Due to related parties	-	15,949,766	15,949,766
	P-	P16,081,511	P16,081,511



	2015		Total
	On demand	Less than 1 year	
Loans and Receivables			
Cash in banks	P250,735	P-	P250,735
Other Financial Liabilities			
Accounts and other payables	P-	P871,178	P871,178
Due to related parties	-	22,813,325	22,813,325
	P-	P23,684,503	P23,684,503

Capital Management

Generally, the primary objective of the Company's capital management is to ensure that it continuously strives and maintains a strong credit standing and healthy capital ratios in order to support its business and maximize shareholders' value.

The Company manages its capital structure and makes adjustments as may be necessary in light of changes in the business and general economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the Company's objectives, policies or processes as of December 31, 2016 and 2015. The Company is not subject to externally imposed capital requirements.

Offsetting of Financial Instruments

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

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

	December 31, 2016		
	Gross Amount	Offsetting	Net Amount
Dividends receivable(a)	P384,313,598	P-	P384,313,598
Dividends payable (a)	-	(P265,314,419)	(265,314,419)
	P384,313,598	(P265,314,419)	P118,999,179

- a. The Company's dividends payable to LBCDC has been offset against the dividends receivable from LBCE.





**Express
Holdings, Inc.**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of LBC Express Holdings, Inc. and its subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SGV & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature: _____

A handwritten signature in black ink, appearing to be "Miguel Angel A. Camahort", written over a horizontal line.

MIGUEL ANGEL A. CAMAHORT – Chairman of the Board, President and
Chief Executive Officer

Signature: _____

A handwritten signature in black ink, appearing to be "Enrique V. Rey", written over a horizontal line.

ENRIQUE V. REY – Acting Chief Finance Officer

Signed this ____ day of _____, 2017.

SUBSCRIBED AND SWORN to before me in City of Pasay on MAR 30 2017 affiants
personally appeared before me and exhibited to me their Tax Identification Nos,

<u>NAME</u>	<u>TIN</u>
Miguel Angel A. Camahort	101-292-392
Enrique V. Rey, Jr.	172-264-046

NOTARY PUBLIC

NOEL L. SORUE

NOTARY PUBLIC
Until December 31, 2018 Comm. 17
100 Andrews Ave., Pasay City
EDU. No. 1657030 / 1-3-17 / PPLM
PTR No. 527273 / 1-3-17 / PC
RAE No. 45007 / MCLE IV-13645

Doc. No. 44 ;
Page No. 10 ;
Book No. 111 ;
Series of 2017.

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S O 9 3 0 0 5 2 7 7

COMPANY NAME

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

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

G e n e r a l A v i a t i o n C e n t e r , D o m e s
t i c A i r p o r t C o m p o u n d , P a s a y C i
t y , M e t r o M a n i l a

Form Type

1 7 - A

Department requiring the report

S E C

Secondary License Type, if Applicable

COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number

856-8522

Mobile Number

N/A

No. of Stockholders

485

Annual Meeting (Month / Day)

Second Monday of June

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Enrique V. Rey

Email Address

evrey@lbcexpress.com

Telephone Number/s

856-8510

Mobile Number

CONTACT PERSON'S ADDRESS

General Aviation Center, Domestic Airport Compound, Pasay City, Metro Manila

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

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
LBC Express Holdings, Inc. and Subsidiaries
General Aviation Center, Domestic Airport Compound
Pasay City, Metro Manila

Opinion

We have audited the consolidated financial statements of LBC Express Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 25 to the consolidated financial statements which describes the uncertainty related to the outcome of the case filed against LBC Express, Inc. (LBCE), a subsidiary, among other respondents, by LBC Development Bank, Inc., as represented by its receiver and liquidator, the Philippine Deposit Insurance Corporation (PDIC) for collection of an alleged amount of ₱1.82 billion. The case is in relation to a demand letter representing collection of unpaid service fees from June 2006 to August 2011 and service charges on remittance transactions from January 2010 to September 2011. LBCE and LBC Development Corporation, the ultimate parent company, among other defendants, filed a separate Motion to Dismiss the Complaint on January 12, 2016. In a joint resolution dated June 28, 2016, the court resolved to deny the Motions to Dismiss filed by the defendants, including LBCE. On July 18, 2016, LBCE, together with the other defendants, filed a Motion for Reconsideration of the Joint Resolution.

PDIC then filed its Comment/Opposition on August 10, 2016, followed by the defendants' reply on August 26, 2016, PDIC's Rejoinder on September 26, 2016, and defendants' Sur-Rejoinder on November 16, 2016. Thereafter, in an Order dated January 26, 2017, the Motion for Reconsideration was deemed submitted for resolution. On February 23, 2017, LBCE received the court's resolution denying the Motion for Reconsideration of the Joint Resolution. On February 28, 2017, LBCE filed a Motion for Extension of Time to File Answer, asking for additional period of 15 days, or until March 15, 2017 to file Answers. The ultimate outcome of the case cannot presently be determined. In the opinion of management and in concurrence with its legal counsel, any liability of LBCE arising from the case is not probable and estimable at this point in time. Our opinion is not modified in respect to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Assessment of potential liability in relation to the closure of LBC Development Bank, Inc.

The Company's subsidiary, LBCE, among other respondents, is involved in a case filed by LBC Development Bank, Inc., as represented by its receiver and liquidator, PDIC, for collection of an alleged amount of P1.82 billion. This is significant to our audit because the determination of whether any provision should be recognized and the estimation of potential liability resulting from this case require significant judgment by the management given the inherent uncertainty over its outcome. The Group's disclosures about the case and basis of management's assessments are included in Note 25 to the consolidated financial statements.

Audit Response

Our audit procedures focused on the evaluation of management's assessment on whether any provision for contingencies should be recognized and the estimation of such amount. We held discussions with management and the Group's legal counsel and obtained the written reply of the Group's external legal counsel on the status of the case and their assessment of any potential liability. We also sent a confirmation letter to PDIC and obtained their reply which we asked the Group to reconcile with their records.



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Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



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

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

SYCIP GORRES VELAYO & CO.

Cyril Jasmin B. Valencia
Cyril Jasmin B. Valencia

Partner

CPA Certificate No. 90787

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

May 12, 2015, valid until May 11, 2018

Tax Identification No. 162-410-623

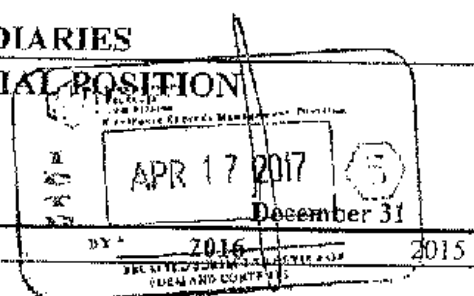
BIR Accreditation No. 08-001998-74-2015,

February 27, 2015, valid until February 26, 2018

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

March 8, 2017

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



ASSETS

Current Assets

Cash and cash equivalents (Notes 4, 20 and 21)	₱1,327,790,727	₱979,102,489
Trade and other receivables (Notes 5, 14, 20 and 21)	1,526,719,330	1,466,759,522
Due from related parties (Notes 14, 20 and 21)	1,107,999,329	1,321,346,663
Available-for-sale investments (Notes 9, 20 and 21)	250,937,154	—
Prepayments and other current assets (Notes 6, 20 and 21)	388,089,197	443,304,439
Total Current Assets	4,601,535,737	4,210,513,113

Noncurrent Assets

Property and equipment (Note 7)	840,476,927	763,022,204
Intangible assets (Note 8)	266,047,661	276,381,485
Available-for-sale investments (Notes 9, 20 and 21)	458,391,174	212,596,951
Deferred tax assets - net (Note 17)	274,380,370	225,645,084
Security deposits (Note 18)	226,255,209	209,930,934
Other noncurrent assets (Note 6)	70,150,604	61,806,091
Total Noncurrent Assets	2,135,701,945	1,749,382,749
	₱6,737,237,682	₱5,959,895,862

LIABILITIES AND EQUITY

Current Liabilities

Accounts and other payables (Notes 10, 14, 20 and 21)	₱1,294,903,590	₱1,832,036,409
Due to related parties (Notes 14, 20 and 21)	18,509,332	18,137,986
Current portion of notes payable (Notes 12, 20 and 21)	666,715,500	1,040,617,833
Transmissions liability (Notes 11, 20 and 21)	467,284,795	508,139,757
Current portion of lease liabilities (Notes 18, 20 and 21)	50,826,683	43,049,537
Income tax payable	254,758,265	130,683,165
Total Current Liabilities	2,752,998,165	3,572,664,687

Noncurrent Liabilities

Retirement benefit liability (Note 19)	721,026,661	641,812,079
Notes payable - net of current portion (Notes 12, 20 and 21)	692,500,000	—
Lease liabilities - net of current portion (Notes 18, 20 and 21)	73,242,401	74,164,341
Other noncurrent liabilities (Notes 7, 20 and 21)	34,477,440	43,553,548
Total Noncurrent Liabilities	1,521,246,502	759,529,968
	4,274,244,667	4,332,194,655

Equity (Note 13)

Equity attributable to shareholders of the Parent Company

Capital stock	1,425,865,471	1,425,865,471
Retained earnings	782,414,079	174,498,871
Accumulated comprehensive income	305,677,402	68,411,150
	2,513,956,952	1,668,775,492
Non-controlling interests	(50,963,937)	(41,074,285)
Total Equity	2,462,993,015	1,627,701,207
	₱6,737,237,682	₱5,959,895,862

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2016	2015	2014
SERVICE REVENUE (Note 22)	P8,695,402,622	P7,686,474,464	P7,056,227,838
COST OF SERVICES (Note 15)	5,590,513,089	5,119,531,467	5,284,490,318
GROSS PROFIT	3,104,889,533	2,566,942,997	1,771,737,520
OPERATING EXPENSES (Note 16)	1,872,805,197	1,947,792,990	1,602,561,779
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	143,233,568	108,110,678	42,048,592
Interest income (Note 4)	2,365,500	1,539,555	374,768
Interest expense (Notes 12 and 18)	(63,493,537)	(43,314,537)	(30,799,508)
Others- net	10,900,924	1,447,367	19,551,451
	93,006,455	67,783,063	31,175,303
INCOME BEFORE INCOME TAX	1,325,090,791	686,933,070	200,351,044
PROVISION FOR INCOME TAX (Note 17)	411,150,046	270,632,174	56,940,800
NET INCOME	913,940,745	416,300,896	143,410,244
OTHER COMPREHENSIVE INCOME (LOSS)			
Items not to be reclassified to profit or loss in subsequent periods			
Remeasurement losses on retirement benefit plan - net of tax (Notes 13 and 19)	(11,989,538)	(42,898,526)	21,302,810
Items that may be reclassified to profit or loss in subsequent periods			
Unrealized fair value gain (loss) on available-for-sale investments (Notes 9 and 13)	246,305,907	(64,364,214)	(6,926,152)
Currency translation gain (loss) - net	725,098	9,394,034	(11,000,991)
	235,041,467	(97,868,706)	3,375,667
TOTAL COMPREHENSIVE INCOME	P1,148,982,212	P318,432,190	P146,785,911
NET INCOME ATTRIBUTABLE TO:			
Shareholders of the Parent Company	P921,605,612	P439,811,552	P156,820,088
Non-controlling interests	(7,664,867)	(23,510,656)	(13,409,844)
NET INCOME	P913,940,745	P416,300,896	P143,410,244
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Shareholders of the Parent Company	P1,158,871,864	P343,474,642	P159,849,919
Non-controlling interests	(9,889,652)	(25,042,452)	(13,064,008)
TOTAL COMPREHENSIVE INCOME	P1,148,982,212	P318,432,190	P146,785,911
BASIC/DILUTED EARNINGS PER SHARE (Note 24)	P0.65	P0.29	P0.10

See accompanying Notes to Consolidated Financial Statements.

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

	Capital Stock (Note 13)	Retained Earnings (Note 13)	Accumulated Comprehensive Income (Loss) (Note 13)	Total	Non-controlling Interests	Total Equity
For the Year Ended December 31, 2016						
Balances as of January 1, 2016	P1,425,865,471	P174,498,871	P68,411,150	P1,668,775,492	(P41,074,285)	P1,627,701,207
Comprehensive income:						
Net income (loss)	-	921,605,612	-	921,605,612	(7,664,867)	913,940,745
Other comprehensive income (loss)	-	-	237,266,252	237,266,252	(2,224,785)	235,041,467
Total comprehensive income (loss)	-	921,605,612	237,266,252	1,158,871,864	(9,889,652)	1,148,982,212
Dividends declared	-	(313,690,404)	-	(313,690,404)	-	(313,690,404)
Balances as of December 31, 2016	P1,425,865,471	P782,414,079	P305,677,402	P2,513,956,952	(50,963,937)	P2,462,993,015

	Capital Stock (Note 15)	Additional Paid- In-Capital (Note 13)	Retained Earnings (Note 13)	Accumulated Comprehensive Income (Loss) (Note 13)	Equity Reserve (Note 2)	Total	Non-controlling Interests	Total Equity
For the Year Ended December 31, 2015								
Balances as of January 1, 2015	P40,359,000	P71,081,190	P133,861,985	P164,748,060	P929,200,314	P1,339,790,549	(P13,925,063)	P1,325,865,486
Issuances of capital stocks	1,384,966,471	-	-	-	-	1,384,966,471	-	1,384,966,471
Share issuance cost	-	(15,660,863)	-	-	-	(15,660,863)	-	(15,660,863)
Effect of pooling-of-interest	-	-	-	-	(1,383,795,307)	(1,383,795,307)	-	(1,383,795,307)
Equity reserve closed to additional	-	-	-	-	-	-	-	-
paid-in-capital and retained earnings	-	(55,420,327)	(399,174,666)	-	454,394,993	-	-	-
Comprehensive income:								
Net income (loss)	-	-	439,811,552	-	-	439,811,552	(23,510,656)	416,300,896
Other comprehensive loss	-	-	-	(96,336,910)	-	(96,336,910)	(1,531,796)	(97,868,706)
Total comprehensive income (loss)	-	-	439,811,552	(96,336,910)	-	343,474,642	(25,042,452)	318,432,190
Decrease in non-controlling interest	-	-	-	-	-	-	(2,106,770)	(2,106,770)
Balances as of December 31, 2015	P1,425,865,471	P-	P174,498,871	P68,411,150	P-	P1,668,775,492	(P41,074,285)	P1,627,701,207

See accompanying Notes to Consolidated Financial Statements.



	Capital Stock (Note 13)	Additional Paid-In-Capital (Note 13)	Retained Earnings (Note 13)	Accumulated Comprehensive Income (Loss) (Note 13)	Equity reserve (Note 2)	Total	Non-controlling Interests	Total Equity
For the Year Ended December 31, 2014								
Balances as of January 1, 2014	P40,899,000	P71,081,190	P848,447,901	P161,718,229	P57,794,310	P1,179,940,630	(P4,324,712)	P1,175,615,918
Comprehensive income								
Net income (loss)	-	-	156,820,088	-	-	156,820,088	(13,409,844)	143,410,244
Other comprehensive income	-	-	-	3,029,831	-	3,029,831	345,836	3,375,667
Total comprehensive income (loss)	-	-	156,820,088	3,029,831	-	159,849,919	(13,064,008)	146,785,911
Capital contribution from non-controlling interest	-	-	-	-	-	-	3,463,657	3,463,657
Movement in legal capital of LBCE arising from stock dividends closed to equity reserve	-	-	(871,406,004)	-	871,406,004	-	-	-
Balances as of December 31, 2014	P40,899,000	P71,081,190	P133,861,985	P164,748,060	P929,200,314	P1,339,790,549	(P13,925,063)	P1,325,865,486

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	P1,325,090,791	P686,933,070	P200,351,044
Adjustments for:			
Depreciation and amortization (Notes 7, 8, 15 and 16)	285,345,105	259,384,441	276,126,259
Interest expense (Notes 12 and 18)	63,493,537	43,314,537	30,799,508
Retirement expense, net of benefits paid and contribution to retirement plan (Notes 15, 16 and 19)	62,086,673	38,622,205	98,415,401
Unrealized foreign exchange losses (gains) - net	(3,949,023)	(170,476)	12,692,602
Interest income (Note 4)	(2,365,500)	(1,539,555)	(374,768)
Gain on sale of available-for-sale investments	(579,059)	-	-
Loss (gain) on disposal of property and equipment and intangible assets (Notes 7 and 8)	(443,662)	(1,736,918)	103,990
Operating income before changes in working capital	1,738,678,862	1,024,807,304	618,114,036
Changes in working capital:			
Decrease (increase) in:			
Trade and other receivables	(59,959,808)	(17,583,364)	(412,083,251)
Due from related parties (Note 23)	(51,967,085)	(523,484,110)	(480,658,291)
Prepayments and other assets	55,215,242	(173,309,862)	(127,609,390)
Security deposits	(16,324,275)	(37,118,892)	(41,000,347)
Increase (decrease) in:			
Accounts and other payables (Note 23)	(538,852,457)	85,268,161	555,774,263
Transmissions liability	(40,854,962)	149,181,428	262,033,699
Due to related parties (Note 23)	371,346	187,200,107	9,535,359
Net cash generated from operations	1,086,306,863	694,958,772	384,106,078
Interest received	2,365,500	1,539,555	374,768
Income tax paid	(331,353,486)	(99,689,702)	(300,624,147)
Net cash provided by operating activities	757,318,877	596,808,625	83,856,699
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Redemption of investments in UITF classified as available-for-sale investments	150,000,000	-	-
Disposal of property and equipment and intangible assets	13,454,664	17,707,641	1,922,168
Sale of available-for-sale investments	991,525	-	-
Increase in other noncurrent assets	(8,344,513)	(6,445,494)	-
Advances to a stockholder (Note 1)	-	(58,305,165)	-
Payment of cash to effect reverse acquisition	-	(1,325,865,801)	-
Acquisitions of:			
Intangible assets	(20,471,368)	(36,693,506)	(234,627,194)
Property and equipment (Note 23)	(294,255,624)	(312,060,184)	(194,953,399)
Available-for-sale investments	(400,757,920)	-	-
Net cash used in investing activities	(559,383,236)	(1,722,162,509)	(427,658,425)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable	1,423,701,286	1,791,790,300	714,780,000
Proceeds from issuance of stocks (net of stock issuance cost)	-	1,369,505,608	-
Dividends paid (Note 23)	(48,375,985)	-	-
Payments of lease liabilities	(53,894,808)	(84,858,055)	(82,423,131)
Interest paid (Note 23)	(61,773,899)	(43,314,537)	(30,799,508)
Payments of notes payable	(1,105,103,619)	(1,465,952,467)	(227,700,975)
Net cash generated from financing activities	154,552,975	1,566,970,849	373,856,386
NET INCREASE IN CASH AND CASH EQUIVALENTS	352,488,616	441,616,965	30,054,660
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3,800,378)	9,570,984	(11,552,638)
CASH OF THE PARENT COMPANY UPON OBTAINING CONTROL	-	23,120	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	979,102,489	527,891,420	509,389,398
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P1,327,790,727	P979,102,489	P527,891,420

See accompanying Notes to Consolidated Financial Statements.

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting and Financial Reporting Policies

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

Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis except for available-for-sale (AFS) investments that have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), which is also the Group's functional currency. All amounts are rounded off to the nearest peso unit unless otherwise indicated.

Difference in accounting periods

The Group consolidated the non-coterminous financial statements of its subsidiaries using their November 30 fiscal year end financial statements since it is impracticable for the said subsidiaries to prepare financial statements as of the same date as the reporting date of the Parent Company.

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

Reverse acquisition

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

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

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

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

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

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

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

Investment recognized by the Parent Company	P1,384,670,966
Net assets of the Parent Company	875,659
	<u>P1,383,795,307</u>

The effect of pooling of interest of P1,383.80 million is applied against net available APIC of P55.42 million, and the remaining amount of P399.17 million is applied against retained earnings.

The rollforward analysis of Equity Reserve are as follows:

As of January 1, 2014	P57,794,310
Movement in legal capital of LBCE arising from dividends declared closed to equity reserve	871,406,004
As of December 31, 2014	929,200,314
Effect of pooling-of-interest	(1,383,795,307)
Total	(454,594,993)
Closed to APIC	55,420,327
Closed to retained earnings	399,174,666
As of December 31, 2015	<u>P-</u>

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

Basis of Consolidation

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full. The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2016, 2015 and 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Non-controlling interests (NCI) represent the portion of profit or loss and net assets in subsidiaries not owned by the Group and are presented separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and within equity in the consolidated statement of financial position, separately from the Parent Company's equity. Any equity instruments issued by a subsidiary that are not owned by LBCH are non-controlling interests including preferred shares and options under share-based transactions.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of LBCH and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests

- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies LBCH's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

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

	Country of incorporation	Principal activities	Ownership Interest	
			2016	2015
LBC Express, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - MM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - CL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - NL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - VIS, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SCS, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - ESI, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - CMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - EMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - MIN, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SEL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - WVIS, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SEM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SCC, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SMCC, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - NEMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - NWMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Systems, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express WLL	Kuwait	Logistics	49%	49%
LBC Express Bahrain, LLC	Bahrain	Logistics	49%	49%
LBC Express LLC (1)	Qatar	Logistics	49%	49%

Notes:

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

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

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed in the consolidated statement of comprehensive income.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with PFRS 8, *Operating Segment*.

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill or profit or loss is recognized as a result.

Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Statement of Compliance

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

Reclassification

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

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

	December 31, 2015		
	Previous Balance	Reclassification	Revised Balance
Statement of Financial Position			
Trade and other receivables	P1,025,059,428	P441,700,094	P1,466,759,522
Due from related parties	1,763,046,757	(441,700,094)	1,321,346,663
Accounts and other payables	1,830,208,144	1,828,265	1,832,036,409
Due to related parties	19,966,251	(1,828,265)	18,137,986

Changes in Accounting Policies and Disclosures

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

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures*, *Investment Entities: Applying the Consolidation Exception*
These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method. These amendments are not applicable to the Group.
- Amendments to PFRS 11, *Joint Arrangements*, *Accounting for Acquisitions of Interests in Joint Operations*
The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. These amendments do not have any impact to the Group as there has been no interest acquired in a joint operation during the period.
- PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the consolidated statement of financial position and present movements in these account balances as separate line items in

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

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

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

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

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

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

Annual Improvements to PFRSs 2012 - 2014 Cycle

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

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

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

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

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

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

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

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

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

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

Standards issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

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

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

Effective beginning on or after January 1, 2018

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

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

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

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

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

- *PFRS 15, Revenue from Contracts with Customers*

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

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

- *PFRS 9, Financial Instruments*

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

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

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments should be applied retrospectively, with earlier application permitted. These amendments are not expected to have any impact to the Group.
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight. These amendments are not expected to have any impact to the Group.
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the consolidated financial statements of the reporting period in which the entity first applies the interpretation. The Group is currently assessing the impact of this standard.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

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

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

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

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

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. These amendments are not expected to have any impact to the Group.

Cash and Cash Equivalents

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

Fair Value Measurement

The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset on the highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Assets and Financial Liabilities

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition of financial assets and financial liabilities

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

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

Determination of fair value

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

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

'Day 1' difference

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

Loans and receivables

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

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

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

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

Available-for-sale financial assets

AFS financial assets pertain to equity investments. Equity instruments classified as AFS are those that are neither classified as held for trading nor designated as FVPL.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited to unrealized gain (loss) on AFS financial assets account until the investment is derecognized, at which time the cumulative gain or loss is recognized in other income, or the investment is determined to be impaired, when the cumulative loss is reclassified from unrealized gain (loss) on AFS financial assets account to the consolidated statement of profit or loss in other expenses. Dividend earned whilst holding AFS financial assets is reported as dividend income.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.

Other financial liabilities

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

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

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

Impairment of Financial Assets

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

Loans and receivables

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of estimated cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, payment history, past-due status and term.

Future cash flows in a group of similar financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that investment is impaired. In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Generally, the Group treats 'significant' as 20% or more and 'prolonged' as greater than twelve months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss is removed from equity and recognized in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss, but its increases in the fair value after impairment are recognized directly in other comprehensive income.

Derecognition of Financial Assets and Financial Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- a) the rights to receive cash flows from the asset have expired, or
- b) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Group's consolidated statement of comprehensive income.

Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Prepayments and Other Assets

Prepayments substantially consisting of rent and advertising are recognized in the event that payment has substantially been made in advance for the purchase of goods or services for which delivery or performance has not yet occurred. Prepayments are measured at undiscounted amounts and derecognized in the consolidated statement of financial position as they expire with the passage of time, or through use and consumption.

Materials and supplies consist of the supplies, inks, packing materials and receipt used in the Group's operations. Materials and supplies are initially measured at the cost of purchase, which comprise the purchase price less trade discounts, rebates and other similar deductions. Materials and supplies are subsequently measured at the lower of cost and net realizable value. Cost is determined using average cost formula. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Materials and supplies are derecognized when consumed.

Other assets in the form of input value-added tax and creditable withholding tax are recognized as assets to the extent it is probable that the benefit will flow to the Group. These are derecognized when there is a legally enforceable right to apply the recognized amounts against the related tax liability within the period prescribed by the relevant tax laws.

Property and Equipment

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

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

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

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

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

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

Intangible Assets

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

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

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in operating expenses. During the period of development, the asset is tested for impairment annually.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Employee Benefits

The Group has a noncontributory defined retirement benefit plan. The net defined retirement benefit liability or asset is the aggregate of the present value of the defined retirement benefit liability at the end of reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service costs
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by an independent qualified actuary.

Net interest on the net defined retirement benefit liability or asset is the change during the period in the net defined retirement benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined retirement benefit liability or asset. Net interest on the net defined retirement benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined retirement benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in OCI account, "Remeasurement gains (losses) on retirement benefit plan", are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected

period until the settlement of the related liabilities). If the fair value of the plan assets is higher than the present value of the defined retirement benefit liability, the measurement of the resulting defined retirement benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit retirement liability is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave credits in excess of 45 days is expected to be settled wholly within twelve months after the end of the annual reporting date. Earned leave credits of 45 days is recognized as a liability and settled when the employee leaves the Group subject to certain conditions.

Equity

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

Capital stock

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

Retained earnings

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

Equity reserve

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless when the payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, returns,

rebates and sales tax. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

Service fees

The Group recognizes revenue from inbound and outbound courier, cargo and money transfer facilities when services are rendered and delivered, risk and rewards are transferred to customers and collection of amounts billed to customers are reasonably assured.

Service arising from money transfer is considered to have been rendered when the principal amount of money has been transferred to a certain geographical area where the Group holds a branch and the same is ready for withdrawal by the intended beneficiary.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. Interest income from bank deposits is presented net of applicable tax withheld by the banks.

Other income

Other income is recognized when earned.

Cost and Expense Recognition

Cost and expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be reliably measured.

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

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

Leases

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

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

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

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

Group as lessee

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

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

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

Income Taxes

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

Current tax

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

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

Deferred tax

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

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

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

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

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

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

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

Foreign Currency-Denominated Transactions and Translations

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

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

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

Related Party Relationships and Transactions

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

Earnings Per Share ("EPS")

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

Segment Reporting

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

Provisions

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

Contingencies

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

Events after the Reporting Date

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

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

LBCCE has assessed that it controls the entities in Bahrain, Kuwait and Qatar even at 49% ownership due to the following reasons:

- (a) it has the power to direct the relevant activities (e.g. operations, hiring of people, setting up of rates) of the entities. It has the full discretion on its day to day operations and decides on major transactions these entities enter into.
- (b) it is exposed to variable returns of the entities.
- (c) given its participation in the relevant activities of the entities, it is able to affect the returns of the entities.

Identifying a business combination

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

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

Determining functional currency

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

Lease commitments - Group as lessee

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

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

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

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

Determining provisions and contingencies

The Group is currently involved in various legal proceedings including taxation matters. The estimate of the probable costs for the resolutions of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

No provision for probable losses arising from legal contingencies was recognized in the consolidated financial statements for the years ended December 31, 2016 and 2015 (see Note 25).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Estimating useful lives of property and equipment

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

The carrying amount of property and equipment amounted to ₱840.48 million and ₱763.02 million as of December 31, 2016 and 2015, respectively (see Note 7).

Estimating pension cost

The cost of defined benefit pension plans and other post-employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and attrition. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rate of government bonds in the respective currencies with extrapolated maturities corresponding to the expected duration of the defined benefit obligation adjusted based on the manner of cash outflow of settling the pension liability.

The mortality rate is based on publicly available mortality tables in the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases is based on expected salary rate increase over the duration of the obligation. Attrition rate is based on historical experiences. Further details about the assumptions used are provided in Note 19.

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

Recognizing deferred tax assets

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

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

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

Fair value of financial assets and financial liabilities

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

4. Cash and Cash Equivalents

This account consists of:

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

Cash in banks earn interest at the respective bank deposit rates.

Cash equivalents include short-term placements made for varying periods of up to three months.

Cash in banks and cash equivalents earn interest ranging from 0.25% to 2.25%, 0.25% to 1.13%, and 0.50% to 1.13% per annum in 2016, 2015 and 2014, respectively. Interest income earned from cash and cash equivalents amounted to ₱2.37 million, ₱1.54 million, and ₱0.37 million in 2016, 2015 and 2014, respectively.

5. Trade and Other Receivables

This account consists of:

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

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

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

	2016	2015
January 1	₱39,891,364	₱8,429,845
Provisions (Note 16)	15,803,621	31,461,519
December 31	₱55,694,985	₱39,891,364

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

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

The Group has directly written-off other receivables amounting to ₱3.22 million, ₱26.64 million, and ₱0.09 million in 2016, 2015 and 2014, respectively, where probability of collection has been determined to be remote. These were recognized under operating expenses in the consolidated statements of comprehensive income (see Note 16).

Portion of trade receivable - outside parties amounting to ₱40.79 million are assigned in relation to a bank loan availed in 2016 (see Note 12).

6. Prepayments and Other Assets

This account consists of:

	2016	2015
Input value-added tax (VAT)	P184,851,516	P66,908,490
Materials and supplies	104,972,605	115,581,178
Prepayments:		
Rent	41,012,242	62,462,480
Advertising	11,995,164	12,768,802
Insurance	11,576,755	16,482,552
Taxes	4,911,428	2,877,668
Software maintenance cost	4,854,547	5,940,594
Others	15,957,769	6,900,984
Creditable withholding taxes (CWT)	46,767,004	75,696,351
Short-term cash investments	27,340,771	5,011,500
Restricted cash	-	135,278,700
Other current assets	4,000,000	-
	458,239,801	505,909,299
Less allowance for impairment losses	-	798,769
	P458,239,801	P505,110,530
Less noncurrent portion of:		
VAT on capital goods	54,943,647	41,805,223
Prepaid rent	15,206,957	20,000,868
Total noncurrent portion	P70,150,604	P61,806,091
Total current portion	P388,089,197	P443,304,439

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

Materials and supplies carried at cost consist of office supplies, packing materials and official receipts used in the Company's operations. Materials and supplies recognized under cost of services for the years ended December 31, 2016 and 2015 amounted to P293.38 million and P242.11 million respectively (see Note 15).

Prepaid advertising consists of advances for billboards and multimedia endorsements.

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

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

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

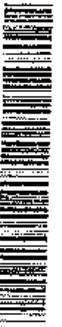
Restricted cash in bank represents cash deposit in a bank in the name of LBCE which was funded by a specific customer in relation to the money remittance service in behalf of the said specific customer. LBCE availed of a loan from a bank specifically to service the said customer and the cash deposit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

7. Property and Equipment

The rollforward analysis of this account follows:

Costs	2016				
	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Office Equipment	Computer Hardware	Construction in Progress
At beginning of year	\$493,700,641	\$1,193,415,823	\$536,162,284	\$497,378,871	\$26,897,204
Additions	46,621,479	50,327,150	33,655,196	49,923,302	174,478,510
Reclassifications	5,773,437	145,597,503	34,227,014	6,710,205	(192,308,159)
Disposals	(29,783,513)	(1,769,737)	-	(4,634,612)	-
At end of year	516,512,044	1,387,570,739	604,044,494	549,377,766	9,067,555
Accumulated Depreciation and Amortization					
At beginning of year	357,426,671	798,498,426	466,384,919	362,227,603	-
Depreciation and amortization (Notes 15 and 16)	46,918,944	100,592,013	49,549,725	67,505,204	-
Disposals	(19,541,533)	(1,680,142)	-	(1,881,159)	-
At end of year	384,704,082	897,410,297	515,254,644	427,846,648	-
Net Book Value	\$131,807,962	\$490,160,442	\$88,109,850	\$121,531,118	\$9,067,555
					\$840,476,927

Costs	2015				
	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Office Equipment	Computer Hardware	Construction in Progress
At beginning of year	\$557,939,485	\$994,574,429	\$485,037,319	\$379,626,597	\$34,643,995
Additions	19,052,166	44,107,432	40,590,387	86,093,301	194,806,963
Reclassifications	-	159,213,065	11,596,537	31,744,152	(202,553,754)
Disposals	(83,311,010)	(4,479,103)	(1,111,959)	(85,179)	-
At end of year	493,700,641	1,193,415,823	536,162,284	497,378,871	26,897,204
Accumulated Depreciation and Amortization					
At beginning of year	379,453,148	706,521,612	423,155,506	305,903,767	-
Depreciation and amortization (Notes 15 and 16)	46,689,018	95,798,467	43,385,354	56,637,275	-
Disposals	(68,720,495)	(3,821,653)	(155,941)	(318,439)	-
At end of year	357,426,671	798,498,426	466,384,919	362,227,603	-
Net Book Value	\$136,273,970	\$394,917,397	\$69,777,365	\$135,156,268	\$26,897,204
					\$763,022,204



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

Depreciation charges were recognized as follows:

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

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

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

8. Intangible Assets

The rollforward analysis of this account follows:

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

	2015		
	Software	Construction in Progress	Total
Costs			
At beginning of year	₱113,797,585	₱227,626,996	₱341,424,581
Additions	8,106,207	51,763,196	59,869,503
Disposal	(1,849,559)	(21,326,438)	(23,175,997)
Reclassification	14,375,980	(14,375,980)	-
At end of the year	134,430,313	243,687,774	378,118,087
Accumulated Amortization			
At beginning of year	84,862,275	-	84,862,275
Amortization (Note 16)	16,874,327	-	16,874,327
At end of the year	101,736,602	-	101,736,602
Net Book Value	₱32,693,711	₱243,687,774	₱276,381,485

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

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

There were no capitalized borrowing costs in 2016 and 2015.

9. Available-for-Sale Investments

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

Movement of the AFS investments follow:

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

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

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

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

10. Accounts and Other Payables

This account consists of:

	2016	2015
Trade payable - outside parties	P553,696,573	P685,464,390
Trade payable - related parties (Note 14)	10,239,262	1,828,265
Taxes payable	175,914,534	390,344,268
Accruals:		
Salaries and wages	187,053,321	240,835,169
Rent and utilities	91,142,838	84,559,689
Contracted jobs	61,027,104	58,193,123
Claims and losses	55,388,469	61,113,276
Advertising	21,393,676	36,834,615
Taxes	8,509,450	150,376,792
Outside services	7,086,121	9,609,462
Professional fees	6,980,356	15,748,004
Others	63,177,810	60,609,084
Government agencies contributions payables	21,971,215	18,411,927
Others (Note 14)	31,322,861	18,108,345
	P1,294,903,590	P1,832,036,409

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

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

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

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

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

Other payables include employees' salary loan deductions payable to third parties, guarantee fee payable to a related party and payables arising from expenses incurred in relation to transactions with nontrade suppliers.

11. Transmissions Liability

Transmissions liability represents money transfer remittances by clients that are still outstanding and not yet encashed by the beneficiaries as at reporting date. These are due and demandable. As of December 31, 2016 and 2015, transmissions liability amounted to P467.28 million and P508.14 million, respectively.

12. Notes Payable

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

2016					
Bank	Date of Availment	Outstanding Balance	Maturity	Interest Rate	Terms
Banco de Oro	Various availments in 2016	P100,000,000	March 2017	Fixed rate, 4.00%	Clean; Interest payable every month, principal to be paid on maturity date
Banco de Oro	Various availments in 2016	772,500,000	Various maturities in 2016 to 2021	Fixed rate, 4.00%	With mortgage; Interest payable every month, principal payable quarterly
Unionbank of the Philippines	Various availments in 2016	250,000,000	Various maturities in 2017	Fixed rate, 6.00%	Clean; Interest payable every month, principal to be paid on maturity date
Rizal Commercial Banking Corporation (RCBC)	Various availment in 2015	136,715,500	Various maturities in 2017	Fixed rate, 6.00%	Clean; Interest payable every month, principal to be paid on maturity date
China Trust Banking Corporation	December 20, 2016	100,000,000	January 10, 2017	Fixed rate 5.50%	With AR assignment; Interest payable every month, principal to be paid on maturity date
Total		P1,359,215,500			
Current portion of notes payable		P666,715,500			
Noncurrent portion		P692,500,000			

2015					
Bank	Date of Availment	Outstanding Balance	Maturity	Interest Rate	Terms
Banco de Oro	Various availments in 2015	P207,458,333	Various maturities in 2015 and 2016	Fixed rate, 4.00%	Clean; interest and principal payable monthly until maturity
Banco de Oro	Various availments in 2015	250,000,000	Various maturities in 2015 and 2016	Fixed rate, 4.00%	Clean; Interest payable every month, principal to be paid on maturity date
Unionbank of the Philippines	Various availments in 2015	100,000,000	Various maturities in 2016	Fixed rate, 6.00%	Clean; Interest payable every month, principal to be paid on maturity date
Rizal Commercial Banking Corporation (RCBC)	Various availment in 2015	298,000,000	Various maturities in 2016	Fixed rate, 6.00%	Clean; Interest payable every month, principal to be paid on maturity date
China Trust Bank Corporation	September 2015	150,000,000	January 2016	Fixed rate, 5.00%	Clean; Interest payable every month, principal to be paid on maturity date
Landbank of the Philippines	October 2015	35,159,500	Various maturities in 2016	Fixed rate, 2.50%	Clean; Interest and principal payable monthly until maturity
		P1,040,617,833			

The Notes Facility Agreement entered by the Group with Banco De Oro (BDO) in May 2016 is with a credit line facility amounting to P800.00 million. The loan is secured with real estate mortgage on land owned by the Group's affiliate (see Note 14).

Upon loan availment in 2016, the Group, under a Deed of Assignment of Receivables, agreed to sell, assign and transfer, on a with recourse basis, unto RCBC, certain receivables under 'Trade receivables - outside parties. Total receivables assigned amounted to P201.89 million, P161.10 million of which was collected in 2016.

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

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

13. Equity

Capital Stock

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

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

Increase in authorized capital stock

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

Issuances of new shares

- On May 18, 2015, LBCDC subscribed to 39,101,000 common shares out of the unissued authorized capital stock of the LBCH or approximately 59.10% of the total authorized capital stock of LBCH, before the approval of the increase in authorized capital stock by applying the deposits for future stocks subscription made by LBCDC amounting to ₱59,101,000 on

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

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

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

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

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

Retained Earnings

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

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

Accumulated Comprehensive Income

Details of accumulated comprehensive income as at December 31 follow:

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

14. Related Party Transactions

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

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

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

		2016		
	Amount/Volume	Payable	Terms	Conditions
<u>Due to related parties (Trade payables)</u>				
<i>Ultimate Parent Company</i>				
c.) Royalty fee (Notes 10 and 16)	P198,497,630	P10,239,262	Noninterest-bearing; due and demandable	Unsecured
d.) Guarantee fee (Notes 10 and 12)	4,761,985	4,671,229	Noninterest-bearing; due and demandable	Unsecured
		P14,910,491		
<u>Due to related parties (Non-trade payables)</u>				
<i>Ultimate Parent Company</i>				
b.) Advances	P-	P15,694,463	Noninterest-bearing; due and demandable	Unsecured
e.) Dividends declared and payables (Note 13)	265,314,419	-	Noninterest-bearing; due and demandable	Unsecured
<i>Affiliates</i>				
b.) Advances	371,346	2,559,566	Noninterest-bearing; due and demandable	Unsecured
<i>Officer</i>				
c.) Advances	-	255,303	Noninterest-bearing; due and demandable	Unsecured
		P18,509,332		
<u>Key management personnel</u>				
Salaries and wages	P72,217,512	P-	Noninterest-bearing; due and demandable	Unsecured
Other short-term employee benefits	11,250,446	-	Noninterest-bearing; due and demandable	Unsecured
Retirement benefits (Note 19)	28,823,774	149,938,499	Noninterest-bearing; due and demandable	Unsecured
		P149,938,499		
		2015		
	Amount/Volume	Payable	Terms	Conditions
<u>Due to related parties (Trade payables)</u>				
<i>Ultimate Parent Company</i>				
c.) Royalty fee (Notes 10 and 16)	P183,522,384	P1,828,265	Noninterest-bearing; due and demandable	Unsecured
<u>Due to related parties (Non-trade payables)</u>				
<i>Ultimate Parent Company</i>				
b.) Advances	P15,694,463	P15,694,463	Noninterest-bearing; due and demandable	Unsecured
<i>Affiliate</i>				
b.) Advances	2,188,220	2,188,220	Noninterest-bearing; due and demandable	Unsecured
<i>Officer</i>				
b.) Advances	255,303	255,303	Noninterest-bearing; due and demandable	Unsecured
		P18,137,986		
<u>Key management personnel</u>				
Salaries and wages	P64,806,279	P-	Noninterest-bearing; due and demandable	Unsecured
Other short-term employee benefits	17,456,693	-	Noninterest-bearing; due and demandable	Unsecured
Retirement benefits (Note 19)	12,693,921	14,151,989	Noninterest-bearing; due and demandable	Unsecured
		P34,151,989		

- a.) In the normal course of business, the Group fulfills the delivery of balikbayan boxes and money remittances, and performs certain administrative functions on behalf of its international affiliates. The Group charges delivery fees and service fees for the fulfillment of these services based on agreed rates.
- b.) The Group regularly makes advances to and from related parties to finance working capital requirements and as part of their cost reimbursements arrangement. These unsecured advances are non-interest bearing and payable on demand.

In 2015, the Group agreed to offset its liabilities to LBCDC relating to royalty fees amounting to ₱173.66 million against receivables from LBCDC (see Note 21).

In prior years, the Group has outstanding advances of ₱295.00 million to LBC Development Bank, an entity under common control of LBCDC. In 2011, management assessed that these advances are not recoverable. Accordingly, the said asset was written-off from the books in 2011 (see Note 25).

- c.) LBCDC (Licensor), the Ultimate Parent Company, granted to the Group (Licensee) the full and exclusive right to use the LBC Marks within the Philippines in consideration for a continuing royalty rate of two point five percent (2.5%) for 2016 and 2015 of Licensee's gross revenues which is defined as any and all revenue from all sales of products and services, including all other income of every kind and nature directly and/or indirectly arising from, related to and/or connected with Licensee's business operations (including, without limitation, any proceeds from business interruption insurance, if any), whether for cash or credit, wherever made, earned, realized or accrued, excluding any sales discounts and/or rebates, value added tax.
- d.) As discussed in Note 12, the Group entered into a loan agreement with BDO which is secured with real estate mortgage on various real estate properties owned by the Group's affiliate. In consideration of the affiliate's accommodation to the Group's request to use these properties as loan collateral, the Group agreed to pay the affiliate, every April 1 of the year starting April 1, 2016, a guarantee fee of 1% of the outstanding loan and until said properties are released by the bank as loan collateral.
- e.) As discussed in Note 13, the BOD of LBCH approved the declaration of cash dividends amounting to ₱313.69 million or ₱0.22 for every issued and outstanding common share. On November 29, 2016 through a Memorandum of Agreement, LBCDC and LBCH agreed to offset the dividends payable of LBCH to LBCDC against LBCDC's payable to the Group amounting to ₱265.31 million (see Note 21). The ₱265.31 million pertains to the share in dividends of LBCDC while the ₱48.38 million pertains to the share of non-controlling interest.

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

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

15. Cost of Services

This account consists of:

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

16. Operating Expenses

This account consists of:

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

Others comprise mainly of donations and penalties.

17. Income Taxes

Provision for income tax consists of:

	2016	2015	2014
Current	P455,428,586	P221,037,708	P107,011,954
Deferred	(44,278,540)	49,594,466	(50,071,154)
	<u>P411,150,046</u>	<u>P270,632,174</u>	<u>P56,940,800</u>

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

	2016	2015	2014
Retirement benefit liability	P212,833,851	P192,543,624	P162,571,879
Accrued bonus and leave credits	34,764,344	-	52,333,949
Allowance for impairment losses	16,708,496	11,967,409	2,528,954
Deferred lease liability (Note 18)	11,062,231	11,898,523	10,666,165
MCIT	255,394	826,517	1,066,049
NOLCO	209,623	5,699,047	24,825,429
Capitalized borrowing costs	(628,002)	(1,046,671)	(1,046,671)
Unrealized foreign exchange losses (gains)	(1,868,793)	3,756,635	3,807,780
Others	1,043,226	-	107,404
	<u>P274,380,370</u>	<u>P225,645,084</u>	<u>P256,860,938</u>

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

	2016	2015	2014
December 1	P225,645,084	P256,860,938	P206,985,091
Charged to profit or loss	44,278,540	(49,594,466)	50,071,154
Excess MCIT over RCIT	-	276,504	-
Applied MCIT against income tax due	(681,629)	(282,975)	-
Previously unrecognized:			
NOLCO	-	-	6,560,389
MCIT	-	-	2,374,081
Charged to other comprehensive income	5,138,375	18,385,083	(9,129,777)
	<u>P274,380,370</u>	<u>P225,645,084</u>	<u>P256,860,938</u>

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

	2016	2015
NOLCO	P4,605,778	P3,142,830
MCIT	2,970	-
Allowance for impairment losses on:		
Property and equipment	3,509,738	3,509,738
Inventories	2,143,781	2,143,781
Receivables	567,078	567,078
Other current assets	239,630	239,630
	<u>P11,068,975</u>	<u>P9,603,057</u>

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

As of December 31, 2016 and 2015, the NOLCO that can be claimed as deductions from future taxable income and excess MCIT over RCIT that can be credited against future tax liability follow. These NOLCO and excess of MCIT over RCIT came from LBCH and other subsidiaries.

NOLCO

2016

Year incurred	Amount	Used	Expired	Balance	Year of expiry
2016	₱6,244,919	₱-	₱-	₱6,244,919	2019
2015	8,543,160	-	-	8,543,160	2018
2014	1,809,334	546,077	-	1,263,257	2017
2013	19,120,429	5,000,461	14,119,968	-	2016
	₱35,717,842	₱5,546,538	₱14,119,968	₱16,051,336	

2015

Year incurred	Amount	Used	Expired	Balance	Year of expiry
2015	₱8,543,160	₱-	₱-	₱8,543,160	2018
2014	41,324,735	39,515,401	-	1,809,334	2017
2013	19,120,429	-	-	19,120,429	2016
2012	75,395,901	22,665,151	52,730,750	-	2015
	₱144,384,225	₱62,180,552	₱52,730,750	₱29,472,923	

2014

Year incurred	Amount	Used	Expired	Balance	Year of expiry
2014	₱40,061,478	₱33,455,607	₱-	₱6,605,871	2017
2013	17,752,003	-	-	17,752,003	2015
2012	75,719,601	15,326,046	-	58,393,555	2016
2011	131,571,362	43,459,752	88,111,610	-	2014
	₱263,104,444	₱92,241,405	₱88,111,610	₱82,751,429	

MCIT

2016

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2016	₱110,506	₱-	₱-	₱110,506	2019
2015	276,505	276,505	-	-	2018
2014	447,430	299,572	-	147,858	2017
2013	105,552	105,552	-	-	2016
	₱939,993	₱681,629	₱-	₱258,364	

2015

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2015	₱276,505	₱-	₱-	₱276,505	2018
2014	447,430	-	-	447,430	2017
2013	168,562	63,010	-	105,552	2016
2012	453,027	219,965	233,062	-	2015
	₱1,345,524	₱282,975	₱233,062	₱829,487	

2014

Year Incurred	Amount	Used	Expired	Balance	Expiry Date
2014	₱444,460	₱-	₱-	₱444,460	2017
2013	168,562	-	-	168,562	2016
2012	453,027	-	-	453,027	2015
	₱1,066,049	₱-	₱-	₱1,066,049	

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

	2016	2015	2014
Income tax at the statutory income tax rate	₱397,527,237	₱206,079,921	₱60,105,313
Tax effects of items not subject to statutory rate:			
Nondeductible expense	8,804,269	47,074,574	8,897,895
Expired NOLCO	4,235,990	15,819,225	26,416,683
Expired MCIT	-	233,062	1,752,491
Movement of unrecognized deferred tax assets	1,465,918	1,850,435	(34,364,664)
Nontaxable income	(883,368)	(425,043)	(5,866,918)
	₱411,150,046	₱270,632,174	₱56,940,800

18. Lease Commitments

(a) Operating lease

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

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



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

There are no contingent rents for the above lease agreements.

Rent expense was recognized as follows:

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

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

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

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

Deferred lease liability arising from straight line recognition of lease payments amounting to ₱36.87 million and ₱19.66 million as of December 31, 2016 and 2015, respectively, are included in the non-current portion of lease liabilities account in the consolidated statements of financial position.

(b) Finance lease

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

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

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



The present value of minimum lease payments is as follows:

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

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

19. Retirement Benefits

The Group has a funded, noncontributory defined benefit retirement plan covering all qualified employees. The retirement plan is intended to provide for benefit payments to employees equivalent to 100% to 130% of the employee's final monthly basic salary for every year of credited service. Benefits are paid in lump sum upon retirement or separation in accordance with the terms of the Plan. Any qualified employee who voluntarily resigns from the service of the Group after completing at least 10 years of service, shall receive a benefit equal to a percentage of his accrued retirement benefits. The Group updates the actuarial valuation every year by hiring the services of a third party qualified actuary. The latest actuarial valuation report was as of reporting date.

The Retirement Plan Trustee, as appointed by the Group in the Trust Agreement executed between the Group and the duly appointed Retirement Plan Trustee, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund. The Retirement Plan Trustee may seek the advice of a counsel and appoint an investment manager or managers to manage the Retirement Fund, an independent accountant to audit the Fund and an actuary to value the Retirement Fund. The Group has no transactions either directly or indirectly through its subsidiaries or with its employees' retirement benefit fund.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The Group's retirement plan meets the minimum retirement benefit specified under Republic Act 7641.



2016

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	January 1, 2015	Current service cost	Post service cost	Net interest	Subtotal	Benefits paid from plan assets	Benefits paid directly by the Group	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Subtotal	Contributions	December 31, 2015
Present value of defined benefit obligation	\$588,667,848	\$45,182,651	P-	\$27,826,546	\$63,008,997	\$49,079,805	\$57,094,535	\$58,413,484	(\$12,321,015)	\$33,844,868	\$59,937,337	P-	\$655,439,842
Fair value of plan assets	(46,701,580)	-	-	(1,432,086)	(1,439,480)	43,079,805	-	-	-	-	1,346,273	(15,853,177)	(13,627,763)
Net defined benefit liability	\$541,966,264	\$45,182,651	P-	\$26,394,460	\$61,569,517	P-	(\$37,094,535)	\$38,413,484	(\$12,321,015)	\$33,844,868	\$61,283,610	(\$15,853,177)	\$641,812,079

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

	2016	2015
Cash and cash equivalents	P10,968,876	P4,198,714
Equity instruments	1,431,516	1,297,363
Debt instruments:		
Government bonds	9,348,163	7,656,077
Other bonds	893,558	809,489
Others	152,725	(333,880)
	P22,794,838	P13,627,763

All equity and debt instruments held have quoted prices in active market.

The equity instruments are investment in stocks of a holding company of a conglomerate listed in the Philippines stock market engaged in various businesses.

The Retirement Trust Fund assets are valued by the fund manager at fair value using the mark-to-market valuation.

The Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund are at the Group's discretion. However, in the event a benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable by the Group to the Retirement Fund.

The Retirement Plan Trustee monitors regularly the status of the plan assets and liabilities to ensure availability of funds upon retirement of personnel.

The Group expects to contribute P68.20 million to the retirement plan in 2017. The retirement plan does not have a formal funding policy. The funding requirement is mainly driven by the availability of excess fund from the Group's operations.

The movement in actuarial loss (gain) recognized in other comprehensive income follows:

	2016	2015	2014
Beginning of year	(P170,537,671)	(P231,821,281)	(P201,388,695)
Actuarial loss (gain) from defined benefit obligation	16,368,951	59,937,337	(32,679,874)
Plan asset remeasurement loss	758,958	1,346,273	2,247,288
End of year, gross	(153,409,762)	(170,537,671)	(231,821,281)
Deferred tax liability	46,022,929	51,161,301	69,546,385
	(P107,386,833)	(P119,376,370)	(P162,274,896)

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

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



Discount rate

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

Salary increase

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

Attrition rate

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

Demographic assumptions

Assumptions regarding mortality experience are set based on published statistics and experience in the Philippines.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit liability as of the end of reporting date, assuming if all other assumptions were held constant:

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

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

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

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



20. Financial Risk Management Objectives and Policies

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

The Group's financial liabilities comprise of accounts and other payables, due to related parties, notes payable, transmissions liability, finance lease liabilities and other noncurrent liabilities. The main purpose of these financial liabilities is to finance the Group's operations.

The main risks arising from the Group's financial instruments are price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. The BOD reviews and approves policies for managing each of these risks which are summarized below.

Price risk

The Group closely monitors the prices of its equity securities as well as macroeconomic and entity-specific factors which could directly or indirectly affect the prices of these instruments. In case of an expected decline in its portfolio of equity securities, the Group readily disposes or trades the securities for replacement with more viable and less risky investments.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers, or factors affecting all instruments traded in the market.

The following table shows the effect on income before income tax should the change in the close share price of quoted and unquoted equity securities occur as of December 31, 2016 and 2015 with all other variables held constant.

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

Interest rate risk

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

Liquidity risk

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

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

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



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

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

	2016		Total
	Due in less than one year	Due in more than one year	
Cash and cash equivalents			
Cash in bank	P939,534,180	P-	P939,534,180
Cash equivalents	213,365,944	-	213,365,944
Receivables			
Trade	1,486,125,587	-	1,486,125,587
Others	14,475,954	-	14,475,954
Due from related parties	1,107,999,329		1,107,999,329
Available-for-sale investments			
Quoted	-	458,391,174	458,391,174
Unquoted	250,937,154	-	250,937,154
Short-term investment	27,340,771	-	27,340,771
	P4,039,778,919	P458,391,174	P4,498,170,093

	2015		Total
	Due in less than one year	Due in more than one year	
Cash and cash equivalents			
Cash in bank	P791,383,179	P-	P791,383,179
Cash equivalents	19,189,839	-	19,189,839
Receivables			
Trade	1,433,126,470	-	1,433,126,470
Others	13,742,490	-	13,742,490
Due from related parties	1,321,346,663	-	1,321,346,663
Available-for-sale investments	-	212,596,951	212,596,951
Short-term investment	5,011,500	-	5,011,500
	P3,583,800,141	P212,596,951	P3,796,397,092

Except as indicated, the Group's financial liabilities based on undiscounted cash flows as shown below are due and expected to be paid within 12 months after the reporting period, which is the earlier of the contractual maturity date or the expected settlement date:

	2016		Total
	Due in less than one year	Due in more than one year	
Accounts payable and accrued expenses			
Trade payable	P563,935,835	P-	P563,935,835
Accruals	493,249,695	-	493,249,695
Others	31,322,861	-	31,322,861
Due to related parties	18,509,332	-	18,509,332
Notes payable	705,273,544	796,882,740	1,502,156,284
Transmissions liability	467,284,795	-	467,284,795
Lease liabilities	62,083,010	44,422,596	106,505,606
Other noncurrent liabilities	-	34,477,440	34,477,440
	P2,341,659,072	P875,782,776	P3,217,441,848



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

Notes payable and lease liabilities include future interest payments.

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

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

Foreign currency risk

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

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

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



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

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

The translation exchange rates used were ₱52.81 to EUR 1, ₱6.42 to HKD 1, ₱37.21 to AUD 1, ₱1.52 to TWD 1, ₱49.77 to USD 1 and ₱61.79 to GBP 1 in 2016.

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

The translation exchange rates used were ₱49.94 to EUR 1, ₱1.45 to TWD 1, ₱6.07 to HKD 1, ₱34.03 to AUD 1, ₱35.43 to Cdn and ₱47.07 to USD 1 in 2015.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Group's income before tax (due to changes in the fair value of monetary assets and liabilities) as at December 31, 2016 and 2015.

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

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

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

Credit risk

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

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



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

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

As of December 31, 2016 and 2015, the credit quality per class of financial assets is as follows:

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

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

The Group's basis in grading its receivables are as follow:

High grade - these are receivables which have a high probability of collection (i.e., the counterparty has the apparent ability to satisfy its obligation and the security on receivables readily enforceable).

Standard - these are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but have been outstanding for a certain period of time.

Substandard - these are receivables that can be collected provided the Group makes persistent effort to collect them.

Cash in banks and cash equivalents are deposited/placed in banks that are stable as they qualify either as universal or commercial banks. Universal and commercial banks represent the largest single group, resource-wide, of financial institutions in the country the Group is operating. They offer the widest variety of banking services among financial institutions. These financial assets are classified as high grade due to the counterparties' low probability of insolvency.

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

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



	2015				
	Past Due but not Impaired			Impaired	
	1 to 30 days	31 to 90 days	Over 90 days	Financial Assets	Total
Trade and other receivables	P50,299,498	P14,088,359	P18,151,894	P39,891,364	P122,431,115

There are no collaterals held by the Group with respect to trade receivables that have been identified as past due but not impaired.

Capital Management

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

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

The capital that the Group manages is equal to the total equity as shown in the consolidated statements of financial position at December 31, 2016 and 2015 amounting to P2,462.99 million and P1,627.70 million, respectively.

21. Fair Values and Offsetting Arrangements

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

The carrying amounts of cash and cash equivalents, trade and other receivables, due from/to related parties, short-term cash investments, accounts and other payables, transmissions liability, and the current portion of notes payable and lease liabilities approximate their fair value. These financial instruments are relatively short-term in nature.

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

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

The fair value of the long-term portion of lease liabilities is based on the discounted value of future cash flow using applicable interest rates ranging from 7.5% to 8.00% for 2016 and 2015.

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



Fair Value Hierarchy

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

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

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

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

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

Offsetting of Financial Instruments

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



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

December 31, 2016			
	Gross Amount	Offsetting	Net Amount
Due from related parties (a)	P1,373,313,748	P-	P1,373,313,748
Dividends payable (a)	-	(265,314,419)	(265,314,419)
	P1,373,313,748	(P265,314,419)	P1,107,999,329

December 31, 2015			
	Gross Amount	Offsetting	Net Amount
Due from related parties (b)	P1,571,948,066	(P232,463,417)	P1,339,484,649
Due to related parties (b)	(252,429,668)	-	(252,429,668)
Royalty payable (b)	-	173,657,922	173,657,922
Purchase of LBCB (c)	-	58,805,495	58,805,495
	(252,429,668)	232,463,417	(19,966,251)
	P1,319,518,398	P-	P1,319,518,398

- The Parent Company's dividends payable to LBCDC has been offset against due from LBCDC. The Parent Company and LBCDC have the intention of settling on a net basis.
- The Group's royalty payable to LBCDC has been offset against due from LBCDC.
- As discussed in Note 2, the Parent Company's payable to LBCDC arising from purchase of LBCB has been offset against due from LBCDC.

22. Segment Reporting

Management has determined the operating segments based on the information reviewed by the executive committee for purposes of allocating resources and assessing performance.

The Group's two main operating segments comprise of logistics and money transfer services. The executive committee considers the business from product perspective.

The Group's logistics products are geared toward both retail and corporate clients. The main services offered under the Group's logistics business are domestic and international courier and freight forwarding services (by way of air, sea and ground transport).

Money transfer services comprise remittance services (including branch retail services, prepaid remittance cards and online and mobile remit) and bills payment collection and corporate remittance payout services. Money transfer services include international presence through its branches which comprises international inbound remittance services.

The Group only reports revenue line item for this segmentation. Assets and liabilities and cost and expenses are shared together by these two segments and, as such, cannot be reliably separated.

The Group has no significant customer which contributes 10.00% or more to the revenue of the Group.



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

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

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

Seasonality of Operation

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

23. Note to Consolidated Statement of Cash Flows

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

Operating activities

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

Investing activities

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

Financing activities

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

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

Operating activities

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

Investing activities

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



24. Basic/Diluted Earnings Per Share

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

	2016	2015	2014
Net income attributable to equity holders of the Parent Company	P921,605,612	P416,300,896	P143,410,244
Divided by the weighted average number of common shares outstanding	1,425,865,471	1,425,865,471	1,425,865,471
Basic/diluted earnings per share	P0.65	P0.29	P0.10

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

	December 31, 2016	December 31, 2015	December 31, 2014
Net income attributable to the shareholders of the Parent Company (a)	P921,605,612	P416,300,896	P143,410,244
Common stocks issued at the beginning of the period	1,425,865,471	40,899,000	40,899,000
Common stocks issued during the year	—	1,384,966,471	1,384,966,471
Weighted average number of common stocks outstanding (b)	1,425,865,471	1,425,865,471	1,425,865,471
Basic and diluted earnings per share (a/b)	P0.65	P0.29	P0.10

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

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

25. Other Matters

Closure of LBC Development Bank, Inc.

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

On December 8, 2011, the Philippine Deposit Insurance Company (PDIC), as the official receiver and liquidator of closed banks, demanded on behalf of the Bank that LBC Holdings USA Corporation (LBC US) pay for its alleged outstanding obligations to LBC Bank amounting to approximately P1.00 billion, a claim that LBC US has denied as being baseless and unfounded. No further demand on this matter has been made by the PDIC since then, although there are no assurances that the claim has been waived or abandoned in whole or in part, or that the PDIC will not institute relevant proceedings in court or serve another demand letter to LBC US.

In relation to the Bank's closure and receivership, as discussed in Note 14, the receivables amounting to P295.00 million were written-off in 2011.



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

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

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

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

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

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

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



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

26. Subsequent Events

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



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
LBC Express Holdings, Inc. and Subsidiaries
General Aviation Center, Domestic Airport Compound
Pasay City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LBC Express Holdings, Inc. and its subsidiaries (the Group) as at and for the years ended December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated March 8, 2017. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule No. 68, As Amended (2011) and are not part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Cyril J. Valencia
Cyril J. Valencia

Partner

CPA Certificate No. 90787

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

May 12, 2015, valid until May 11, 2018

Tax Identification No. 162-410-623

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

February 27, 2015, valid until February 26, 2018

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

March 8, 2017



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

SUPPLEMENTARY SCHEDULES

- Report of Independent Auditors' on supplementary schedules

- Supplementary schedules required by Annex 68-E

Schedule A: Financial Assets

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

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

Schedule D: Intangible Assets

Schedule E: Long Term Debt

Schedule F: Indebtedness to Related Parties

Schedule G: Guarantees of Securities of other Issuers

Schedule H: Capital Stock

- Map of the relationships of the companies within the Group
- Reconciliation of retained earnings available for dividend declaration
- Schedule of financial soundness indicators
- Schedule of all the effective standards and interpretations

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE A: FINANCIAL ASSETS

DECEMBER 31, 2016

Name of issuing entity and association of each issue	Number of shares	Amount shown in the balance sheet	Income received and accrued
Available-for-sale investments			
Quoted - Araneta Properties, Inc.	195,060,074	P458,391,174	P-
Unquoted	-	250,937,154	-
Loans and receivables			
Cash in bank and cash equivalents	-	1,152,900,124	-
Trade and other receivables	-	1,500,601,541	-
Due from related parties	-	1,107,999,329	-
Short term investments	-	27,340,771	-
		3,788,841,765	
		P4,498,170,093	P-

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

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

DECEMBER 31, 2016

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non current	Balance at end of period
Fernando G. Arancibia, <i>Chief Strategy Officer</i>	P9,284,395	P-	P-	P-	P9,284,395	P-	P9,284,395
Solita S. Delantar <i>Independent Director</i>	-	12,599	-	-	12,599	-	12,599
	P9,284,395	P12,599	P-	P-	P9,296,994	P-	P9,296,994

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

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

DECEMBER 31, 2016

Name of Subsidiaries	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
LBC Express, Inc.	P6,863,559	P447,707,617	(P335,571,997)	-	P118,999,179	-	P118,999,179
LBC Express, Inc. - MM	133,096,667	227,014,667	(240,793,561)	-	119,317,773	-	119,317,773
LBC Express, Inc. - SCC	30,290,079	162,850,905	(177,373,411)	-	15,767,573	-	15,767,573
LBC Express, Inc. - NEMM	33,987,406	112,198,448	(118,989,006)	-	27,196,848	-	27,196,848
LBC Express, Inc. - NWM	45,588,991	116,095,443	(120,555,085)	-	41,129,349	-	41,129,349
LBC Express, Inc. - EMM	27,520,050	70,976,346	(74,900,014)	-	23,596,382	-	23,596,382
LBC Express, Inc. - SMM	32,488,226	123,829,233	(133,313,624)	-	23,003,835	-	23,003,835
LBC Express, Inc. - CMM	31,912,075	102,449,625	(108,592,250)	-	25,769,450	-	25,769,450
LBC Express, Inc. - SL	77,550,509	210,304,712	(219,937,867)	-	67,917,354	-	67,917,354
LBC Express, Inc. - SEL	51,486,142	139,730,778	(140,003,543)	-	51,213,377	-	51,213,377
LBC Express, Inc. - CL	40,837,196	150,182,386	(155,447,003)	-	35,572,579	-	35,572,579
LBC Express, Inc. - NL	43,903,827	146,097,828	(151,336,949)	-	38,664,706	-	38,664,706
LBC Express, Inc. - VIS	89,345,682	212,693,322	(225,411,121)	-	76,627,883	-	76,627,883
LBC Express, Inc. - WVIS	57,032,947	135,244,692	(147,410,322)	-	44,867,317	-	44,867,317
LBC Express, Inc. - MIN	65,616,333	164,091,720	(176,238,701)	-	53,469,352	-	53,469,352
LBC Express, Inc. - SEM	45,361,440	107,608,833	(111,210,428)	-	41,759,845	-	41,759,845
LBC Express, Inc. - SMCC	14,559,432	32,803,868	(33,035,401)	-	14,327,899	-	14,327,899
LBC Express, Inc. - ESI	3,625,505	26,078,044	(36,647,081)	-	(6,943,532)	-	(6,943,532)
LBC Express, Inc. - SCS	33,383,931	190,920,252	(210,937,371)	-	13,366,812	-	13,366,812
LBC Systems, Inc.	(60,655,872)	37,662,574	(36,462,018)	-	(59,455,316)	-	(59,455,316)
LBC Express WLL	(6,415,148)	(42,276,187)	29,504,196	-	(19,187,139)	-	(19,187,139)
LBC Express Bahrain WLL	(25,035,210)	(3,807,060)	(8,069,121)	-	(36,911,391)	-	(36,911,391)
LBC Express LLC	(38,414,310)	(10,924,996)	(11,142,258)	-	(60,481,564)	-	(60,481,564)
	P733,929,457	P2,859,533,050	(P2,943,873,936)	P-	P649,588,571	P-	P649,588,571

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE D: INTANGIBLE ASSETS
DECEMBER 31, 2016

Description	Beginning balance	Additions at cost	Charged to costs and expenses	Disposals	Reclassifications	Ending balance
Software	₱32,693,711	₱2,157,464				
Development in Progress	243,687,774	18,313,904	(₱30,779,219)	(₱25,973)	₱198,861,104	₱202,907,087
	₱276,381,485	₱20,471,368	(₱30,779,219)	(₱25,973)	(198,861,104)	63,140,574
					₱-	₱266,047,661

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE E: LONG TERM DEBT

DECEMBER 31, 2016

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current liabilities" in related balance sheet	Amount shown under caption "Noncurrent liabilities" in related balance sheet
Notes payable	P1,359,215,500		
Obligation under finance lease	87,194,980	P666,715,500	P692,500,000
Obligation arising from purchase of computer hardware	43,553,548	50,826,683	36,368,297
	P1,489,964,028	9,076,108	34,477,440
		P726,618,291	P763,345,737

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE F: INDEBTEDNESS TO RELATED PARTIES
DECEMBER 31, 2016

Name of related party	Balance at beginning of period	Balance at end of period
LBC Development Corporation	P15,694,463	P15,694,463
Other affiliates (various)	2,443,523	2,814,869
	P18,137,986	P18,509,332

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE G: GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2016

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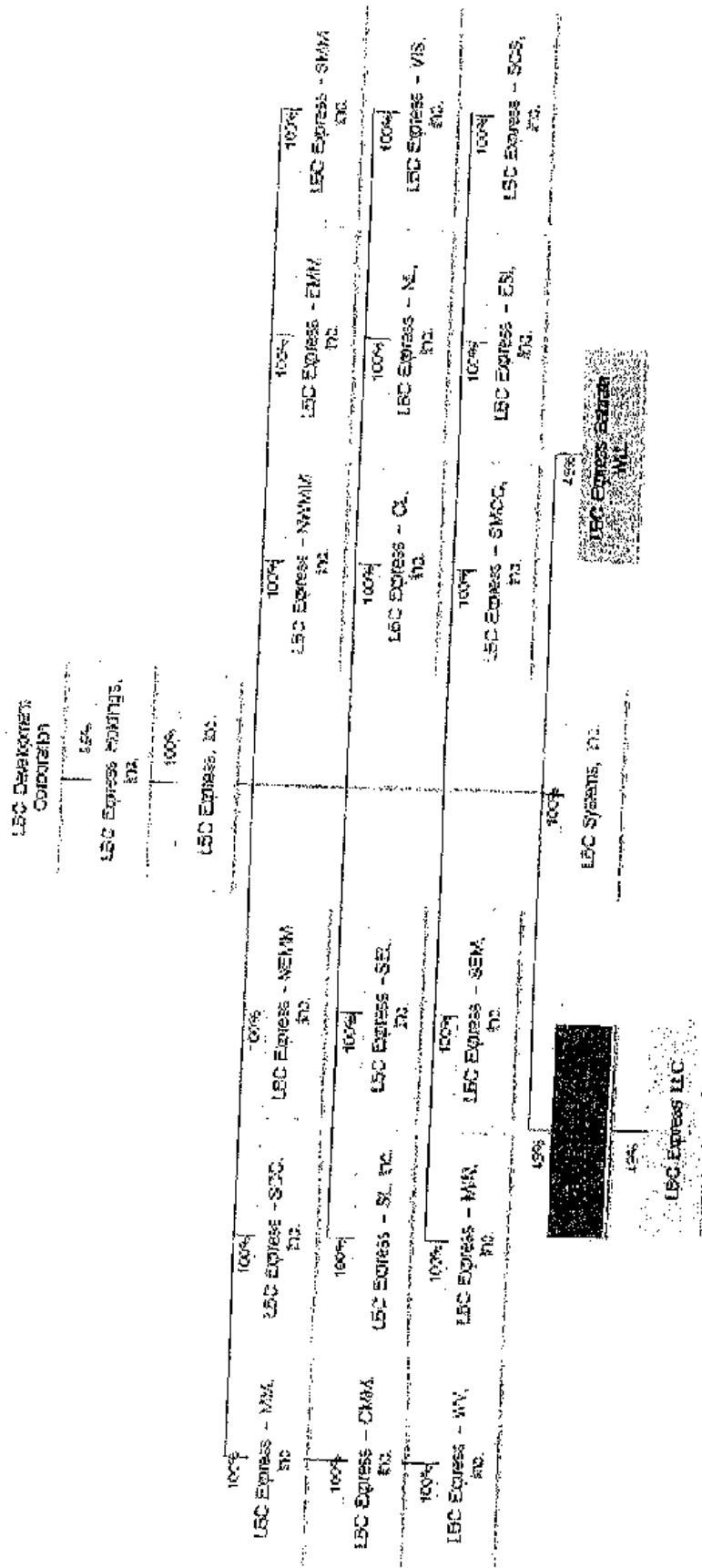
NOT APPLICABLE

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE H: CAPITAL STOCK
DECEMBER 31, 2016

Title of issue	Number of shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
Common stock - ₱1 par value	2,000,000,000	1,425,865,471	-	1,205,975,638	1,006	219,888,827

STATE OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
DECEMBER 31, 2016

DECEMBER 31, 2016



RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

As of December 31, 2016

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
General Aviation Center, Domestic Airport, Pasay City, Metro Manila

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning	(P119,512,701)
Add: Net Income actually earned/realized during the period	
Net income during the period closed to Retained Earnings	441,473,500
Less:	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents); Unrealized actuarial gain	-
Fair value adjustment (M2M gains)	-
Fair value adjustment of investment property resulting to gain	-
Adjustment due to deviation from PFRS/GAAP gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Deferred tax assets	-
Subtotal	-
Add: Non actual losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS / GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
Add(Less):	
Dividend declarations during the period	(313,690,404)
Appropriations of Retained Earnings during the period	-
Reversals of appropriations	-
Effects of prior period adjustments	-
Treasury shares	-
Effect of pooling-of-interest method	-
Total Retained Earnings, end	
Available for dividend declaration	P8,270,395

LBC EXPRESS HOLDINGS, INC. AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

Financial Soundness Indicators

Below are the financial ratios that are relevant to the Group for the years ended December 31, 2016 and 2015:

Financial ratios		2016	2015
Current ratio	Current assets	1.67:1	1.18:1
	Current liabilities		
Debt to equity ratio	Total liabilities	1.74:1	2.66:1
	Stockholders' Equity		
Debt to total assets ratio	Total liabilities	0.63:1	0.73:1
	Total assets		
Return on average assets	Net income attributable to		
	Parent Company	14.52%	8.11%
	Average assets		
Book value per share	Stockholders' equity	₱1.73	₱1.14
	Total number of shares		
Earnings per share	Net income	₱0.65	₱0.29
	Total number of shares		

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

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as "Part I" and "Part II", respectively. It also prescribed the additional schedule requirements for large entities showing a list of all effective standards and interpretations under Philippine Financial Reporting Standards (PFRS).

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2016:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing Cost			✓
	Amendments to PFRS 1: Meaning of "Effective PFRS"			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Definition of Vesting Condition			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	No Adopted	No Applicable
PFRS 3	Business Combinations	✓		
	Accounting for Contingent Consideration in a Business Combination			✓
	Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Servicing Contracts	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures *		✓	
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
	Amendments to PFRS 7: Hedge Accounting (2013 version) *		✓	
PFRS 8	Operating Segments	✓		
	Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments *	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures *		✓	
	Financial Instruments: Classification and Measurement (2010 version) *		✓	
	Amendments to PFRS 9: Hedge Accounting (2013 version) *		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities			✓
	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short Term Receivable and Payable	✓		
	Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 16	Leases *		✓	
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the Requirements for Comparative Information	✓		
	Amendments to PAS 1: Presentation of financial statements - disclosure initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendment to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses *		✓	
PAS 16	Property, Plant and Equipment	✓		
	Revaluation Method - Proportionate Restatement of			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
	Accumulated Depreciation and Amortization			
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Regional Market Issue Regarding Discount Rate			✓
	Amendments to PAS 19: Defined Benefit Plan: Employee Contributions			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24	Related Party Disclosures - Key Management Personnel	✓		
	Related Party Disclosures - Key Management Personnel (Amended)	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Separate Financial Statements	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements		✓	
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures			✓
	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PAS 28: Investment Entities			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendment to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets			✓
	Amendments to PAS 39: Reclassification of Financial Assets – Effective Date and Transition			✓
	Amendments to PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property			✓
	Amendments to PAS 40: Clarification on Ancillary Services			✓
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
IFRIC 7	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
IFRIC 8	<i>Scope of PFRS 2</i>			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC 9: Embedded Derivatives			✓
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate *			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		

* These standards are not yet effective as of December 31, 2016.

In addition, the IASB has issued the following new standards that have not yet been adopted locally by the SEC and FRSC. The Group is currently assessing the impact of these new standards and plans to adopt them on their required effective dates once adopted locally.

- IFRS 15, *Revenue from Contracts with Customers* (effective January 1, 2018)

Standards tagged as "Not applicable" have been adopted by the Group but have no significant covered transactions for the year ended December 31, 2016.

Standards tagged as "Not adopted" are standards issued but not yet effective as of December 31, 2016. The Group will adopt the Standards and Interpretations when these become effective.

COVER SHEET

AS093-005277
S.E.C. Registration Number

LBC EXPRESS HOLDINGS, INC.
(formerly FEDERAL
RESOURCES INVESTMENT
GROUP INC.)
(Company's Full Name)

LBC HANGAR, GENERAL
AVIATION CENTRE, DOMESTIC
AIRPORT ROAD, PASAY CITY
(Business Address : No. Street/City/Province)

Enrique V. Rey, Jr.
Contact Person

858-8510
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

Letter Reply
FORM TYPE

2nd 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
Document I.D.

LCU
Cashier

STAMPS

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY, METRO MANILA) S.S.



SECRETARY'S CERTIFICATE

I, **MAHLEENE G. GO**, of legal age, Filipino, and with office address at the Penthouse, Liberty Center, 104 H.V. dela Costa Street, Salcedo Village, Makati City, after having been duly sworn in accordance with law, hereby certify that:

1. I am the duly appointed and incumbent Assistant Corporate Secretary of **LBC EXPRESS HOLDINGS, INC.** (the "Corporation"), a corporation duly organized and existing under the laws of the Republic of the Philippines, with office address at the LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila.

2. In compliance with the requirements set forth in SEC Memorandum Circular No. 12, series of 2014, the Corporation submits herewith the accompanying consolidated changes and updates to its Annual Corporate Governance Report for the year 2016.

IN WITNESS WHEREOF, I have hereunto affixed my signature this 10 JAN 2017
at Makati City, Metro Manila.

MAHLEENE G. GO
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me on 10 JAN 2017, affiant exhibiting to me her Passport No. EC1941000 issued on 20 August 2014 at DFA NCR-East.

Doc. No. 488;
Page No. 99;
Book No. IV;
Series of 2017.

PATRICIA JANELLI A. DAVIDE
Appointment No. M-173
Notary Public for Makati City
Until December 31, 2017
Penthouse Liberty Center
104 H.V. dela Costa Street, Makati City
Roll of Attorneys No. 63977
PTR No. 5913727/Makati City/01-04-2017
IBP No. LRN-013919/June 2015/Cebu City

SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT

1. Report is filed for the year: 2016[†]
2. Exact name of issuer as specified in its charter: LBC EXPRESS HOLDINGS, INC. (formerly
FEDERAL RESOURCES INVESTMENT GROUP INC.)
3. Address of principal office: LBC Hangar, General Aviation Center, Domestic Airport
Road, Pasay City
Postal Code: 1300
4. SEC Identification Number: ASO93-005277
5.
(For SEC Use only)
Industry Classification Code
6. BIR Tax Identification No.: 002-648-099-000
7. Issuer's telephone number, including area code: (632) 856 8510
8. Former name or former address, if changed since last report: Federal Resources Investment
Group Inc. / No. 35 San Antonio Street, San Francisco del Monte, Quezon City 1105

[†] Updates as of 31 December 2016 are underscored and highlighted in yellow.

**CONSOLIDATED CHANGES / UPDATES
IN THE ANNUAL CORPORATE
GOVERNANCE REPORT
(ACGR)**

FOR THE YEAR 2016

A. BOARD MATTERS

(1) Board of Directors

Number of directors per Articles of Incorporation	Nine (9)
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Actual number of directors for the year	Seven (7)
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(a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED), or Independent Director (ID)]	If Nominee, Identify the Principal	Nominator in the Last Election (if ID, State the Relationship with the Nominator)	Date First Elected	Date Last Elected (if ID, State the Number of Years Served as ID)	Elected When (Annual / Special Meeting)	No. of Years Served as Director as of 31 December 2016
<u>Miguel Angel A. Camahort</u>	<u>ED</u>	<u>N/A</u>	<u>LBC Development Corporation</u>	<u>18 May 2015</u>	<u>29 July 2016</u>	<u>Annual</u>	<u>1 year</u>
<u>Rene E. Fuentes</u>	<u>NED</u>	<u>N/A</u>	<u>LBC Development Corporation</u>	<u>26 October 2015</u>	<u>29 July 2016</u>	<u>Annual</u>	<u>1 year</u>
<u>Enrique V. Rev. Jr.</u>	<u>ED</u>	<u>N/A</u>	<u>LBC Development Corporation</u>	<u>28 October 2015</u>	<u>29 July 2016</u>	<u>Annual</u>	<u>1 year</u>
<u>Augusto G. Gan</u>	<u>NED</u>	<u>N/A</u>	<u>LBC Development Corporation</u>	<u>4 September 2015</u>	<u>29 July 2016</u>	<u>Annual</u>	<u>1 year</u>
<u>Mark Werner J. Rosal</u>	<u>NED</u>	<u>N/A</u>	<u>LBC Development Corporation</u>	<u>28 April 2015</u>	<u>29 July 2016</u>	<u>Annual</u>	<u>1 year</u>
<u>Solita V. Delantar</u>	<u>ID</u>	<u>N/A</u>	<u>Klarence Tan Dy / None</u>	<u>18 May 2015</u>	<u>29 July 2016</u>	<u>Annual</u>	<u>1 year</u>
<u>Luis N. Yu, Jr.</u>	<u>ID</u>	<u>N/A</u>	<u>Klarence Tan Dy / None</u>	<u>28 April 2015</u>	<u>29 July 2016</u>	<u>Annual</u>	<u>1 year</u>

(b) Provide a brief summary of the corporate governance policy that the Board of Directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and Board responsibilities.

The Company's Board of Directors has adopted all the provisions of the Revised Code of Corporate Governance (SEC Memorandum Circular No. 6, Series of 2009), which are embodied in the Company's Revised Manual on Corporate Governance (RMCG) submitted to the Securities and Exchange Commission (SEC) on 8 April 2010. The Board of Directors is primarily responsible for the governance of the Company.

As provided for in the Company's RMCG, it is the duty of the Board to promote the rights of stockholders. The Board shall respect the rights of the stockholders as provided for in the Corporation Code and ensure the equitable treatment of all stockholders, including minority and foreign stockholders. On disclosure duties, all essential and material information about the Company shall be publicly and timely disclosed through the appropriate Philippine Stock Exchange (PSE) mechanisms and submissions to the SEC. The Board's responsibilities, duties, and functions are defined in the Company's RMCG. It is the Board's responsibility to foster the long-term success of the Company, and to sustain its competitiveness and profitability in a

manner consistent with its corporate objectives and the best interests of its stockholders.

(c) **How often does the Board review and approve the vision and mission?**

Annually.

(d) **Directorship in Other Companies**

(i) **Directorship in the Company's Group^a**

Identify, as and if applicable, the members of the Company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent); Indicate if Director is also the Chairman
Miguel Angel A. Camahort	LBC Express, Inc.; LBC Express Corporate Solutions, Inc.	ED
Rene F. Fuentes	LBC Express Ltd.; LBC Money Transfer Ltd.; LBC Express GmbH	NED
Enrique V. Rey, Jr.	LBC Express, Inc.	ED
Augusto G. Gan	LBC Express, Inc.	NED
Mark Werner J. Rosal	None	N/A
Solita V. Delantar	LBC Express, Inc.	ID
Luis N. Yu, Jr.	None	N/A

(ii) **Directorship in Other Listed Companies**

Identify, as and if applicable, the members of the Company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent); Indicate if Director is also the Chairman
Miguel Angel A. Camahort	None	N/A
Rene E. Fuentes	None	N/A
Enrique V. Rey, Jr.	None	N/A
Augusto G. Gan	None	N/A
Mark Werner J. Rosal	None	N/A
Solita V. Delantar	None	N/A
Luis N. Yu, Jr.	8990 Holdings, Inc.	Director

(iii) **Relationship within the Company and its Group**

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the Company and/or in its Group:

Director's Name	Name of Significant Shareholder	Description of Relationship
Miguel Angel A. Camahort	None	N/A

^aThe Group is composed of the parent, subsidiaries, associates, and joint ventures of the Company.

Rene E. Fuentes	None	N/A
Enrique V. Rey, Jr.	None	N/A
Augusto G. Gan	None	N/A
Mark Werner J. Rosal	None	N/A
Solita V. Delantar	None	N/A
Luis N. Yu, Jr.	None	N/A

- (iv) Has the Company set a limit on the number of Board seats in other companies (publicly-listed, ordinary, and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five (5) board seats in other publicly-listed companies imposed and observed? If yes, briefly describe other guidelines:

Yes, the limit of five (5) board seats in other publicly-listed companies is being imposed and observed. The other guidelines are as follows:

	Guidelines	Maximum Number of Directorships in Other Companies
Executive Director Non-Executive Director CEO	The CEO and other Executive Directors are covered by a lower Indicative limit for membership in other boards. A similar limit applies to Independent or Non-Executive Directors who, at the same time, serve as full time executives in other corporations.	The Nomination Committee has considered several guidelines on the number of directorships that board members can hold in stock and non-stock corporations. The optimum number should take into consideration the capacity of a director to diligently and efficiently perform his/her duties and responsibilities.

(e) **Shareholding in the Company**

Complete the following table on the members of the Company's Board of Directors who directly and indirectly own shares in the Company:

Name of Director	Number of Direct Shares	Number of Indirect Shares / Through (Name of Record Owner)	% of Capital Stock
Miguel Angel A. Camahort	1	N/A	Nil
Rene E. Fuentes	1	N/A	Nil
Enrique V. Rey, Jr.	1	N/A	Nil
Augusto G. Gan	1	N/A	Nil
Mark Werner J. Rosal	1,000	N/A	0.00007%
Solita V. Delantar	1	N/A	Nil
Luis N. Yu, Jr.	1	N/A	Nil
TOTAL	1,006	N/A	0.00007%

(2) **Chairman and CEO**

- (a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

() Yes

(X) No

Although Miguel Angel A. Camahort holds the position of both Chairman of the Board of Directors and Chief Executive Officer of the Company, the roles and responsibilities of the Chairman of the Board of Directors and CEO are defined in the By-Laws and Revised Corporate Governance Manual to ensure that the Board gets the benefit of independent views and perspectives.

Identify the Chairman and CEO:

Chairman	Miguel Angel A. Camahort
CEO	Miguel Angel A. Camahort

(b) Roles, Accountabilities, and Deliverables

Define and clarify the roles, accountabilities, and deliverables of the Chairman and CEO.

	Chairman	Chief Executive Officer
Roles Accountabilities Deliverables	<p>The Chairman shall preside at the meetings of the directors and the stockholders.</p> <p>He/she shall also exercise such powers and perform such duties as the Board of Directors may assign to him/her.</p> <p>He/she shall ensure that the meetings of the Board are held in accordance with the by-laws or as he/she may deem necessary;</p> <p>He/she shall supervise the preparation of the agenda of the meeting, in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management, and the directors; and</p> <p>He/she shall maintain qualitative and timely lines of communication and information between the Board and Management.</p>	<p>The President shall be the Chief Executive Officer of the Company and shall also have the administration and direction of the long-term as well as the day-to-day business affairs of the Company. The President/CEO shall exercise the following functions:</p> <p>To preside at the meetings of the Board of Directors and of the stockholders in the absence of the Chairman;</p> <p>To initiate and develop corporate objectives and policies and formulate long range strategies, projects, plans, and programs for the approval of the Board;</p> <p>To have general supervision and management of the business affairs and property of the Company;</p> <p>To prepare such statements and reports of the Company as may be required by law and make reports to the Board and stockholders; and</p> <p>To perform such other duties as delegated or entrusted to him/her by the Board of Directors.</p>

(3) Explain how the Board of Directors plans for the succession of the CEO/Managing Director/President and the top key management positions.

Selection and planning for the succession of the CEO/President and the top key management positions are among the most important responsibilities of the Company's Board of Directors. The Company's succession process will be managed by the Incumbent CEO, with the Nomination Committee overseeing the process, reviewing the candidates, and providing advice throughout. The Board shall review succession planning with the incumbent CEO on a regular basis.

(4) Other Executive, Non-Executive, and Independent Directors

Does the Company have a policy of ensuring diversity of experience and background of Directors in the Board? Please explain.

Yes, the Company has a policy of ensuring the diversity of experience and background of directors in the Board. As provided for in the Company's RMCG, the Nomination Committee shall review and evaluate the qualifications of all persons nominated to the Board in accordance with the Company's RMCG, the Corporation Code, the Securities Regulation Code, and other relevant laws. The executive, non-executive, and independent directors should possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

Does it ensure that at least one Non-Executive Director has an experience in the sector or industry the Company belongs to? Please explain.

Yes, as provided for in the Company's RMCG, one of the qualifications of a director is membership in good standing in relevant industry, business, or professional organizations. Also, as provided for in the Company's Audit Committee Charter, each member of the Committee shall have adequate understanding at least or competence at most, of the Company's financial management systems and environment, as well as the Company's business and the industry in which it operates.

Define and clarify the roles, accountabilities, and deliverables of the Executive, Non-Executive, and Independent Directors:

	Executive Director	Non-Executive Director	Independent Director
Roles Accountabilities Deliverables	The role of the CEO and other Executive Directors is to design, develop, and implement strategic plans for the Company in a cost-effective and time-efficient manner. The CEO is responsible for the day-to-day operation of the Company, is accountable to the Chairman of the Board, and reports to the Board on a regular basis. The CEO and Executive Director lead the Company and develop the Company's organizational culture.	The primary function of Non-Executive Directors is to promote the success of the Company. The key responsibility of the Non-Executive Directors is to provide general guidance and a different perspective on matters of concern. The role of Non-Executive Directors in strategy formation is to provide a creative and informed contribution to the Board by giving objective criticism and advice on the Company's objectives and plans.	The role of an Independent Director includes improving governance standards. An Independent Director plays an active role in various corporate Governance committees created by the Board such as the Audit Committee, Nomination Committee, and Compensation and Remuneration Committee to ensure good governance.

Provide the Company's definition of "independence" and describe the Company's compliance to the definition.

The Company's definition of director's independence follows the definition of an independent director, as stated in the Securities Regulation Code (SRC) Rule 38 (Requirements on Nomination and Election of Independent Directors). Under the said rule, an Independent

Director is defined as a person who, apart from his/her fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to materially interfere with, his/her exercise of independent judgment in carrying out his/her responsibilities as a director.

Ms. Solita V. Delantar and Mr. Luis N. Yu, Jr., the incumbent Independent directors of the Company, having possessed the qualifications and none of the disqualifications of an independent director, were nominated in accordance with the guidelines for the nomination and election of independent directors pursuant to SRC Rule 38.

Does the Company have a term limit of five (5) consecutive years for Independent Directors? If after two (2) years, the Company wishes to bring back an Independent Director who had served for five (5) years, does it limit the term for no more than four (4) additional years? Please explain.

Yes, the Company shall abide by the provisions of the SEC Rule (per SEC Memorandum Circular No. 9, Series of 2011) on term limits for Independent Directors. As stated in the said SEC Rule, independent directors can serve as such for five (5) consecutive years. Upon completion of the five-year service period, an independent director shall be eligible for election as such in the same company unless the independent director has undergone a "cooling off" period of two (2) years. An independent director re-elected as such in the same company after the "cooling off" period can serve for another five (5) consecutive years. After serving as Independent director for ten (10) years, the independent director shall be perpetually barred from being elected as such in the same company.

Note: The Company's RMCG is set to be further revised and updated in light of SEC Memorandum Circular No. 19, series of 2016, promulgating the Revised Code of Corporate Governance for Publicly-Listed Companies (effective 1 January 2017). Pursuant to the said Memorandum Circular, the new manual on corporate governance shall be submitted to the SEC on or before 31 May 2017.

(5) **Changes in the Board of Directors (Executive, Non-Executive, and Independent Directors)**

(a) **Resignation / Death / Removal**

Indicate any changes in the composition of the Board of Directors that happened during the period:

Name of Director	Position	Date of Cessation	Reason
Manuel S. Delfin, Jr.	NED	29 July 2016	Not nominated as member of the Board of Directors for the year 2016

(b) **Selection / Appointment, Re-election, Disqualification, Removal, Reinstatement, and Suspension**

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement, and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
A. Selection / Appointment		
Executive Directors Non-Executive Directors Independent Directors	The Board shall be composed of nine (9) directors, who shall be elected at the Annual Stockholders' Meeting, to hold office until the next annual meeting and until their respective	In addition to the qualifications for membership in the Board provided for in the Corporation Code, the Securities Regulation Code,

	<p>successors have been elected and qualified. The Company shall have at least two (2) independent directors or such number of independent directors that twenty percent (20%) of the members of the Board, whichever is easier, but in no case less than two (2). The Nomination Committee is responsible for reviewing and evaluating the qualifications of all persons nominated to the Board and other appointments that require Board approval in accordance with the qualifications and disqualification provided under the Corporation Code, Securities Regulation Code, other relevant laws and the Company's RMCG.</p>	<p>and other relevant laws, the Company's RMCG provides for additional qualifications which include, among others, the following:</p> <ul style="list-style-type: none"> • Practical understanding of the business of the Corporation; • Membership in good standing in relevant industry, business, or professional organizations; • Previous business experience; • Proven to possess integrity, and probity; and • Assiduous. <p>A director should not be an active member of more than five (5) publicly-listed companies and members of the Audit Committee should not serve on more than three (3) publicly-listed company audit committees.</p> <p>The nomination and election of Independent Directors shall be governed by the provisions of SRC Rule 38.</p>
B. Reappointment		
Executive Directors Non-Executive Directors Independent Directors	The Nomination Committee shall review the continued appropriateness on the Board membership and shall make recommendations on the re-appointment of directors, in consultation with the Chairman of the Board.	The director's continuing service on the Board is in the best interest of the Company.
C. Permanent Disqualification		
Executive Directors Non-Executive Directors Independent Directors	The Nomination Committee shall determine and inform the Board if there is any ground for the permanent disqualification of a director, and shall make recommendations for appropriate action.	The grounds for the permanent disqualification of a director are stated in the Company's RMCG.
D. Temporary Disqualification		
Executive Directors Non-Executive Directors Independent Directors	<p>The Nomination Committee shall determine and inform the Board if there is any reason for the temporary disqualification of a director, and shall make recommendations for appropriate action.</p> <p>A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to</p>	The reasons for the temporary disqualification of a director are stated in the Company's RMCG.

	remedy or correct the disqualification. If he/she fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.	
E. Removal		
Executive Directors Non-Executive Directors Independent Directors	On the removal of a director, the Company shall follow the Corporation Code provision (Sec. 28) on Removal of Directors or Trustees.	Permanent disqualification or temporary disqualification if not remedied or corrected.
F. Reinstatement		
Executive Directors Non-Executive Directors Independent Directors	The Nomination Committee shall determine the appropriateness of the reinstatement of a director.	The director's reinstatement to the Board is in the best interests of the Company.
G. Suspension		
Executive Directors Non-Executive Directors Independent Directors	The Nomination Committee shall determine and make recommendations to the Board relating to the continuance in office of a director, including the suspension and termination subject to the law.	The reasons for the temporary disqualification of a director are stated in the Company's RMCG.

Voting Results of the last Annual General Meeting (29 July 2016)

Name of Director	Votes Received
<u>Miguel Angel A. Camahort</u>	1,205,974,632
<u>Rene E. Fuentes</u>	1,205,974,632
<u>Enrique V. Rey, Jr.</u>	1,205,974,632
<u>Augusto G. Gan</u>	1,205,974,632
<u>Mark Werner J. Rosal</u>	1,205,974,632
<u>Solita V. Delantar</u>	1,205,974,632
<u>Luis N. Yu, Jr.</u>	1,205,974,632

(6) Orientation and Education Program

(a) Disclose details of the Company's orientation program for new directors, if any.

The Company's orientation program is generally conducted in one or more sessions within six (6) months of the annual meeting at which new directors are elected or the date on which new directors are appointed, as applicable. The orientation program aims to acquaint the new directors with the Company's business. The program includes presentations by senior management to familiarize new directors with the Company's strategic plans, its compliance programs, and significant financial and risk management issues.

(b) State any in-house training and external courses attended by Directors and Senior Management² for the past three (3) years:

On 11 December 2015, the Directors and Senior Management attended an Exclusive Corporate Governance Seminar facilitated by Legis Forum, Inc.

On 19 December 2016, the Directors and Senior Management attended a Corporate Governance Seminar conducted by Risks, Opportunities, Assessment, and Management (ROAM), Inc.

(c) Continuing Education Programs for Directors: Programs, Seminars, and Roundtables Attended during the Year

² "Senior Management" refers to the CEO and other persons having authority and responsibility for planning, directing, and controlling the activities of the Company.

Name of Director/Officer	Date of Training	Program	Name of Training Institution
<u>Miguel Angel A. Camahort</u>	<u>19 December 2016</u>	<u>Corporate Governance Seminar</u>	<u>ROAM, Inc.</u>
<u>Rene E. Fuentes</u>	<u>19 December 2016</u>	<u>Corporate Governance Seminar</u>	<u>ROAM, Inc.</u>
<u>Enrique V. Rey, Jr.</u>	<u>19 December 2016</u>	<u>Corporate Governance Seminar</u>	<u>ROAM, Inc.</u>
<u>Mahleene G. Go</u>	<u>10 November 2016</u>	<u>Disclosure Rules Seminar</u>	<u>Philippine Stock Exchange, Inc.</u>
	<u>19 December 2016</u>	<u>Corporate Governance Seminar</u>	<u>ROAM, Inc.</u>
<u>Ma. Eloisa Imelda S. Singzon</u>	<u>10 November 2016</u>	<u>Disclosure Rules Seminar</u>	<u>Philippine Stock Exchange, Inc.</u>
	<u>19 December 2016</u>	<u>Corporate Governance Seminar</u>	<u>ROAM, Inc.</u>

B. CODE OF BUSINESS ETHICS

- (1) Discuss briefly the Company's policies on the following business conduct or ethics affecting directors, senior management, and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	<p>The basic principle to be observed is that a director should not use his/her position to profit or gain some benefit or advantage for himself/herself and/or his/her related interests. He/she should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a director, he/she should fully and immediately disclose and should not participate in the decision-making process. A director who has a continuing material conflict of interest should seriously consider resigning from his position.</p> <p>A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the Company, or stands to acquire or gain financial advantage at the expense of the Company.</p>	Similar to the Company's policies for directors.	No employees may engage in any business or undertaking that is directly or indirectly in competition with that of the Company, or engage directly or indirectly in any undertaking or activity prejudicial to the interest of the Company, its customers, and to the performance of his/her job or work assignment.

(b) Conduct of Business and Fair Dealings	A director shall not compete with the Company by providing service to a competitor as employee, officer, or director or in a similar capacity, profit, or assist others to profit, from confidential information or business opportunities that are available because of service to the Company; improperly influence or attempt to influence any business transaction between the Company and another entity in which a director has a direct or indirect financial interest or acts an employee, officer, or director in a similar capacity; or take unfair advantage of any customer, supplier, competitor, or other person through manipulation, concealment, misrepresentation of material acts or other unfair-dealing practice.	Similar to the Company's policies for directors.	Similar to the Company's policies for directors.
(c) Receipt of Gifts from Third Parties	A director shall not solicit nor accept gifts, payments, loans, services, or any form of compensation from suppliers, customers, competitors, or others seeking to do business with the Company.	Similar to the Company's policies for directors for directors.	Similar to the Company's policies for directors
(d) Compliance with Laws and Regulations	<p>It is the Company's policy to comply fully with all laws governing its operations, and to conduct its affairs keeping with moral, legal, and ethical standards. Each director shall comply with all applicable laws, rules and regulations, and the provisions of the Company's RMCG.</p> <p>Under the Company's Audit Committee Charter, the Audit Committee shall ascertain whether the Company has an effective process for determining risks and exposure to litigation and claims from non-compliance with laws and regulations.</p> <p>The Board shall appoint a Compliance Officer who shall monitor compliance by the Company with the RMCG and all relevant laws, rules, and regulations, as well as regulatory requirements.</p>	All members of senior management shall comply with all applicable laws, rules and regulations, and the provisions of the Company's RMCG.	All employees shall comply with all applicable laws, rules and regulations, and the provisions of the Company's RMCG.

(e) Respect for Trade Secrets / Use of Non-Public Information	A director should keep secure and confidential all non-public information he/she may acquire or learn by reason of his/her position as director. He/she should not reveal confidential information to unauthorized persons without the authority of the Board.	A senior executive should keep secure and confidential all non-public information he/she may acquire or learn by reason of his/her position as such. He/she should not reveal confidential information to unauthorized persons without the authority of the Board.	All employees are expected to keep in strict confidence all information and data, records and documents pertaining to the Company's business and/or affairs and no unauthorized disclosure or reproduction of the same shall be made by the employee during or after employment with the Company.
(f) Use of Company Funds, Assets, and Information	A director shall protect the Company's funds, assets, and information, and shall not use the Company's funds, assets, and information to pursue personal opportunities or gain. A director shall ensure the efficient use of the Company's assets and that no Company funds, assets, or information shall be used for any unlawful purpose.	Similar to the Company's policies for directors.	Similar to the Company's policies for directors.
(g) Employment and Labor Laws and Policies	The Compensation and Remuneration Committee shall ensure the implementation of applicable employment and labor laws and policies. The Company shall recognize the unique position of employees as individuals with a vital stake in their work and at the same time with inherent obligations to themselves and their own families.	Senior management shall support the implementation and enforcement of Applicable employment and labor laws and policies.	It is the policy of the Company to select and hire only individuals who possess the best qualifications for the job and have potential to grow and move up in the Company. Management believes that the continued progress and success of the Company depends, to a great extent, on its human resources.
(h) Disciplinary Action	Directors and senior executives are subject to disciplinary action for violations of business ethics. Subject to and in accordance with the Company's RMCG, the Board of Directors shall determine the appropriate disciplinary action.		Every employee is expected to observe and comply with Company rules and regulations. When rules and regulations are violated or when an employee disregards or fails to comply with rules and regulations, the Company will have no alternative but to take corrective and disciplinary measures.

(i) Whistle Blower	Directors and senior executives are encouraged to promptly contact the Chairman of the Board or the Compliance Officer if any director or senior executive believes that he/she has observed illegal or unethical behavior by any employee, officer, or director, or by anyone purporting to be acting on the Company's behalf. Any such reports may be made anonymously. Confidentiality will be maintained to the extent permitted by law.		
(j) Conflict Resolution	The Board of Directors shall establish an alternative dispute resolution system so that conflicts and differences with counterparties, particularly with shareholders and other key stakeholders, would be settled in a fair and expeditious manner.	Senior management must have the appropriate people management skills and competency in managing conflict such as in dealing with issues, use of official processes, participative approach, monitoring team relationships, and acting as a role model.	All employee complaints and grievances should be discussed with the Company's Human Resources department.

- (2) Has the code of ethics or conduct been disseminated to all Directors, Senior Management, and employees?

The Company has disseminated to all Directors, Senior Management, and employees the Company's Code of Business Conduct and Ethics.

- (3) Discuss how the Company implements and monitors compliance with the code of ethics or conduct.

The Compliance Officer will be designated to monitor compliance with the code of conduct and ethics.

- (4) Related Party Transactions

(a) Policies and Procedures

Describe the Company's policies and procedures for the review, approval or ratification, monitoring, and recording of related party transactions between and among the Company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers, and directors, including their spouses, children, and dependent siblings and parents, and of interlocking director relationships of members of the Board.

Related Party Transactions	Policies and Procedures
(1) Parent Company	The Board, through the Audit Committee, shall review significant related party transactions (RPTs) and recommend approval or ratification. The Company will be transparent and consistent in reporting RPTs and a summary of such transactions shall be included
(2) Joint Ventures	
(3) Subsidiaries	
(4) Entities under Common Control	
(5) Substantial Stockholders	
(6) Officers including Spouse / Children / Siblings / Parents	

(7) Directors including Spouse / Children / Siblings / Parents	In the Company's Annual Report, The Company shall promptly disclose to shareholders all material transactions with affiliates of the controlling shareholders, directors, or management.
(8) Interlocking Director Relationship of Board of Directors	

(b) **Conflict of Interest**

(i) **Directors / Officers and 5% or More Shareholders**

Identify any actual or probable conflict of interest to which directors / officers / 5% or more shareholders may be involved.

	Details of Conflict of Interest (Actual or Probable)
Name of Director/s	N/A
Name of Officer/s	N/A
Name of Significant Shareholders	N/A

(ii) **Mechanism**

Describe the mechanism laid down to detect, determine, and resolve any possible conflict of interest between the Company and/or its group and their directors, officers, and significant shareholders.

	Directors / Officers / Significant Shareholders
Company	Directors, officers, and significant shareholders shall fully disclose their active private or other business interests promptly and any other personal matters which may lead to potential or actual conflicts of interest with the Company. Their dealings with the Company must always be at arm's length to avoid possibility of actual or potential conflict of interest. The Board shall review and resolve any conflict of interest situations.

(5) **Family, Commercial, and Contractual Relations**

- (a) Indicate, if applicable, any relation of a family,⁴ commercial, contractual, or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the Company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description of Relationship
N/A	N/A	N/A

- (b) Indicate, if applicable, any relation of a commercial, contractual, or business nature that exists between the holders of significant equity (5% or more) and the Company:

There is no relation of a commercial, contractual, or business nature that exists between the holders of significant equity (5% or more) and the Company.

Names of Related Significant Shareholders	Type of Relationship	Brief Description of Relationship
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⁴ Family relationship up to the fourth civil degree, either by consanguinity or affinity.

N/A	N/A	N/A
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- (c) Indicate any shareholder agreements that may have an impact on the control, ownership, and strategic direction of the Company:

There are no shareholder agreements that may impact on the control, ownership and strategic direction of the Company.

Names of Shareholders	% of Capital Stock Affected (Parties)	Brief Description of Transaction
N/A	N/A	N/A

(6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the Company for the last three (3) years in amicably settling conflicts or differences between the Company and its stockholders, and the Company and third parties, including regulatory authorities.

	Alternative Dispute Resolution System
Company and Stockholders Company and Third Parties Company and Regulatory Authorities	Disputes between the Company and the stockholders, stakeholders, and regulators, if any, are resolved by negotiation and mediation. Through negotiation and mediation, the Company can strive for conflict prevention rather than conflict resolution.

C. BOARD MEETINGS & ATTENDANCE

- (1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

Per the Company's By-Laws, the Board of Directors' meetings shall be held no less than once every quarter of each year. The Board of Directors' meetings are scheduled during the quarter.

- (2) Attendance of Directors

Board	Name	Date of Election	No. of Meetings Held during the Year	No. of Meetings Attended	%
Chairman, President, and CEO	Miguel Angel A. Camahort	29 July 2016	6	6	100%
Member	Rene E. Fuentes	29 July 2016	6	6	100%
Investors Relations Officer, Acting Treasurer, and Acting Chief Finance Officer	Enrique V. Rey, Jr.	29 July 2016	6	6	100%
Member	Augusto G. Gan	29 July 2016	6	5	83%
Member	Mark Werner J. Rosal	29 July 2016	6	6	100%
Independent Director	Solita V. Delantar	29 July 2016	6	6	100%
Independent Director	Luis N. Yu, Jr.	29 July 2016	6	5	83%

- (3) Do Non-Executive Directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

None.

- (4) Is the minimum quorum requirement for Board decisions set at two-thirds of Board members? Please explain.

No. As provided for in the Company's By-laws, a majority of the number of directors as fixed in the Articles of Corporation shall constitute a quorum for the transaction of corporate business, and every decision of at least a majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of a majority of all the members of the Board.

- (5) Access to Information

- (a) How many days in advance are Board papers³ for Board of Directors' meetings provided to the Board?

At least two (2) days in advance.

- (b) Do Board members have independent access to Management and the Corporate Secretary?

Yes, Board members have independent access to Management and the Corporate Secretary.

- (c) State the policy of the role of the Company Secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc.?

The Company Secretary's roles and responsibilities are defined in the Company's By-Laws and RMCG and include assisting the Chairman in preparing the Board agenda, facilitating training of directors, and keeping directors updated regarding any relevant statutory and regulatory changes.

- (d) Is the Company Secretary trained in legal, accountancy, or company secretarial practices? Please explain should the answer be in the negative.

Yes. Atty. Cristina S. Palma Gil-Fernandez, the Corporate Secretary, is trained in legal and company secretarial services.

- (e) Committee Procedures

(X) Yes

() No

Committee	Details of the Procedures
Executive Audit Nomination Remuneration	The Board Committees shall have full access to management, personnel, and records for the purpose of performance of their duties and responsibilities.

- (6) External Advice

Indicate whether or not a procedure exists whereby Directors can receive external advice and, if so, provide details:

Procedures	Details
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³ Board papers consist of complete and adequate information about the matters to be taken in the Board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts, and internal financial documents.

The Directors may obtain external legal counsel or independent professional advice if they consider it necessary in the performance of their duties.	The Directors shall be provided with sufficient resources by the Company to discharge their duties.
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(7) Change/s in Existing Policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the Company and the reason/s for the change:

No changes were introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the Company.

Existing Policies	Changes	Reason
N/A	N/A	N/A

D. REMUNERATION MATTERS

(1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

Existing Policies	Changes	Reason
(1) Fixed remuneration	N/A	N/A
(2) Variable remuneration	N/A	N/A
(3) <i>Per diem</i> allowance	N/A	N/A
(4) Bonus	N/A	N/A
(5) Stock Options and Other Financial Instruments	N/A	N/A
(6) Others (Specify)	N/A	N/A

(2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the Company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors Non-Executive Directors	Due to the minimal operations of the Company, there were no compensation / salaries for the year 2016 as the Directors / officers voluntarily declined their respective compensation / salaries.	N/A	N/A

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits in-kind, and other emoluments) of Board of Directors? Provide details for the last three (3) years.

No. There were no other fees, allowances, benefits-in-kind, and other emoluments given to directors during the last three (3) fiscal years.

Remuneration Scheme	Date of Stockholders' Approval
N/A	N/A

(3) Aggregate Remuneration

Remuneration Item	Executive Directors	Non- Executive Directors (Other than Independent Directors)	Independent Directors
(1) Fixed remuneration	N/A	N/A	N/A
(2) Variable remuneration	N/A	N/A	N/A
(3) <i>Par diem</i> allowance	N/A	N/A	N/A
(4) Bonuses	N/A	N/A	N/A
(5) Stock Options and/or Other Financial Instruments	N/A	N/A	N/A
(6) Others (Specify)	N/A	N/A	N/A
TOTAL			

Remuneration Item	Executive Directors	Non- Executive Directors (Other than Independent Directors)	Independent Directors
(1) Advances	N/A	N/A	N/A
(2) Credit Granted	N/A	N/A	N/A
(3) Pension Plan/s Contributions	N/A	N/A	N/A
(4) Pension Plans, Obligations Incurred	N/A	N/A	N/A
(5) Life Insurance Premium	N/A	N/A	N/A
(6) Hospitalization Plan	N/A	N/A	N/A
(7) Car Plan	N/A	N/A	N/A
(8) Others (Specify)	N/A	N/A	N/A
TOTAL			

(4) Stock Rights, Options, and Warrants

(a) Board of Directors

Complete the following table on the members of the Company's Board of Directors who own or are entitled to stock rights, options or warrants over the Company's shares.

There are no stock warrants or options outstanding.

During the Annual Stockholders' Meeting held on 13 August 2007, the stockholders owning or representing at least two thirds (2/3) of the outstanding capital stock approved the stock option for the Company's deserving employees, officers, and Board members to be derived from the Company's unissued authorized capital stock up to the extent of ten percent (10%) of the outstanding capital stock of the Company, subject for approval by the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE).

The terms and conditions governing the stock option plan still have to be determined and approved by the Board of Directors. The application for said stock option plan has yet to be filed with the SEC and PSE.

Director's Name	Number of Direct Option / Rights / Warrants	Number of Indirect Option / Rights / Warrants	Number of Equivalent Shares	Total % of Capital Stock
N/A	N/A	N/A	N/A	N/A

(b) **Amendments of Incentive Programs**

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders Meeting.

There were no amendments and discontinuance of any incentive programs introduced, including the criteria used in the creation of the program.

Incentive Program	Amendments	Date of Stockholders' Approval
N/A	N/A	N/A

(5) **Remuneration of Management**

Identify the five (5) members of management who are not at the same time Executive Directors and indicate the total remuneration received during the financial year.

Name of Officer / Position	Total Remuneration
N/A	N/A

E. BOARD COMMITTEES

(1) **Number of Members, Functions, and Responsibilities**

Provide details on the number of members of each committee, its functions, key responsibilities, and the power/authority delegated to it by the Board:

Committee	No. of Members			Committee Charter	Functions; Key Responsibilities	Power
	Executive Director (ED)	Non-Executive Director (NED)	Independent Director			
Audit	2		1	Yes	To assist the Board in the performance of oversight responsibility for The financial reporting process, system of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations.	The Committee shall have full access to management, personnel, and records for the performance of its duties and responsibilities. The Committee shall be provided with sufficient resources by the Company to discharge its duties.
Nomination	2		1	Yes (For finalization)	To review and evaluate the qualifications of all persons nominated to the Board and assess the effectiveness of	

					the Board's processes and procedures in the replacement of Directors.	
Remuneration	2		1	Yes (For finalization)	To establish a formal and transparent procedure for developing a policy on remuneration of directors and officers and ensure that their compensation is consistent with the Company's culture strategy and the business.	

(2) Committee Members

(a) Audit Committee

Office	Name	Date of Appointment	No. of Meetings Held during the Year	No. of Meetings Attended	%	Length of Service in the Committee
Chairperson (ID)	Solita V. Delantar	29 July 2016	1	1	100%	1 year
Member (ED)	Miguel Angel A. Camahort	29 July 2016	1	1	100%	1 year
Member (ED)	Enrique V. Rey, Jr.	29 July 2016	1	1	100%	1 year

Disclose the profile or qualifications of the Audit Committee members.

Solita V. Delantar concurrently serves as independent director on the Board of Directors at LBC Express, Inc. and Executive Director at PMAP Human Resources Management Foundation (since July 2013). Previously, Ms. Delantar served as independent director of Anchor Land Holdings, Inc. (2007 to 2015), Vice President at PONTICELLI, Inc. (2006 to 2015), Vice-President, Human Resources Management & Development Administration (November 1999 to September 2003), Consultant (July 1997 to July 1998), Vice-President, Finance & Administration (May 1988 to 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.

Miguel Angel A. Camahort is a Director and the 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.

Enrique V. Rey, Jr. is a Director, Investors Relations Officer, Acting Treasurer, and Acting Chief Finance Officer of the Company. He is also a director and the Vice President of the Corporate Audit and Compliance Division of LBC Express, Inc. Currently, he is a member of the Institute of Internal Auditors of the Philippines. He previously served as a director for LBC Mundial from 2005 to 2008 and a director for LBC Systems from 2008 to 2010. Prior to joining the LBC Group, he served as the AVP for Institutional Sales of Coca-Cola Philippines from 2000 to 2003. Mr. Rey holds a Bachelor of Science degree in Management from the De La Salle University.

Describe the Audit Committee's responsibility relative to the External Auditor.

- Review and evaluate, at least annually, the performance of the External Auditors (including lead partner), their compliance with auditing standards, and make recommendations to the Board each year with respect to the appointment and observance of required rotation process of the External Auditor.
- Prior to the commencement of the audit, discuss with the External Auditor the proposed audit scope, approach, fees and expenses of the audit and ensure proper coordination if more than one audit firm is involved in the audit activity, to secure proper coverage and minimize duplication of efforts.
- Review the performance of the External Auditors, and exercise final approval on the appointment or discharge of the auditors. Review compliance with auditing standards.
- Review and confirm the professional qualifications, competence and independence of the External Auditor by, among others, obtaining statements from the auditors on relationships between such auditors and the Company, including non-audit services, and discuss the relationship with the auditors.
- Evaluate and determine any non-audit work performed by the External Auditors, including the fees, and ensure that such work will not conflict with the External Auditor's duties as such or threaten its independence.
- Provide oversight over the completeness and timeliness of communication with External Auditors as to critical policies, alternative treatments, observations on internal controls, audit adjustments, independence, limitations on the audit work set by the management, and other material issues that affect the audit and financial reporting.

(b) Nomination Committee

Office	Name	Date of Appointment	No. of Meetings Held during the Year	No. of Meetings Attended	%	Length of Service in the Committee
<u>Chairperson (ID)</u>	<u>Solita V. Delantar</u>	<u>29 July 2016</u>	<u>1</u>	<u>1</u>	<u>100%</u>	<u>1 year</u>
<u>Member (ED)</u>	<u>Miguel Angel A. Camahort</u>	<u>29 July 2016</u>	<u>1</u>	<u>1</u>	<u>100%</u>	<u>1 year</u>
<u>Member (ED)</u>	<u>Enrique V. Rey, Jr.</u>	<u>29 July 2016</u>	<u>1</u>	<u>1</u>	<u>100%</u>	<u>1 year</u>

(c) Remuneration Committee

Office	Name	Date of Appointment	No. of Meetings	No. of Meetings	%	Length of Service in
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			Held during the Year	Attended		the Committee
Chairperson (ID)	Solita V. Delantar	29 July 2016	1	1	100%	1 year
Member (ED)	Miguel Angel A. Camahort	29 July 2016	1	1	100%	1 year
Member (ED)	Enrique V. Rev, Jr.	29 July 2016	1	1	100%	1 year

(3) Changes in Committee Members

Committee	Name	Reason
Audit	N/A	N/A
Nomination	N/A	N/A
Remuneration	N/A	N/A

(4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Committee	Work Done	Issues Addressed
Audit	The Audit Committee performed its functions, duties, and responsibilities as stated in the Audit Committee Charter, specifically in assisting the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations. In addition, the Audit Committee recommended the <u>reappointment of the external auditor</u> .	N/A
Nomination	The Nomination Committee performed its functions in accordance with its duties and responsibilities as stated in the Company's RMCG, specifically on the review and evaluation of the qualifications of the Board nominees.	N/A
Remuneration	The Compensation and Remuneration Committee performed its functions in accordance with its duties and responsibilities as stated in the Company's RMCG.	N/A

(5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Committee	Planned Programs	Issues to be Addressed
Audit	Conduct an Annual Self-Assessment on Performance for the year <u>2016</u> Review the Company's RMCG for	N/A

	necessary updates in light of SEC Memorandum Circular No. 19, series of 2016, promulgating the Revised Code of Corporate Governance for Publicly-Listed Companies (effective 1 January 2017).	
Nomination	N/A	N/A
Remuneration	N/A	N/A

F. RISK MANAGEMENT SYSTEM

(1) Disclose the following:

(a) Overall risk management philosophy of the Company:

Risk management is a fundamental part of the Company's strategy and effective corporate governance. The Company adopts a philosophy aimed at maximizing business opportunities and minimizing adverse outcomes, thereby enhancing shareholder value by effectively balancing risk and reward.

(b) A statement that the Directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof:

The Directors have reviewed the effectiveness of the risk management system and its adequacy.

(c) Period covered by the review:

Year 2012

(d) How often the risk management system is reviewed and the Directors' criteria for assessing its effectiveness; and

The Board of Directors, the Audit Committee, and Management meet regularly to identify key risk areas and performance indicators and monitor these factors with due diligence and to assess and manage risks involved in the businesses of the Company.

(e) Where no review was conducted during the year, an explanation why not.

N/A

(2) Risk Policy

(a) Company

Give a general description of the Company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
Financial Risks Economic Risks Competitive Risks Regulatory Risks	The Board and the Audit Committee are responsible for determining the Company's risk profile, overseeing the Company's risk management framework, reviewing the Company's key risks mitigation strategies, and ensuring the effectiveness of risk management policies and	The identification and management of risk reduce the uncertainty associated with the execution of the Company's business strategies and allow the Company to maximize opportunities that may arise, thereby enhancing shareholder value by

	<p>procedures.</p> <p>Management has the primary responsibility of identifying, managing, and reporting the key risks faced by the Company. Management is also responsible for ensuring that the risk management framework is effectively implemented within all areas of the respective business units.</p> <p>The Company's Board of Directors, the Audit Committee, and Management meet regularly to identify key risk areas and performance indicators, and monitor these factors with due diligence and to assess and manage risks involved in the businesses of the Company.</p>	effectively balancing risk and reward.
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Risk Exposure	Risk Management Policy	Objective
<p>Financial Risks</p> <p>The main risks arising from the Group's financial assets and liabilities are foreign exchange and interest rate, market, liquidity, access to financing resources, and increased credit risks.</p>	<p>Risks are properly identified, evaluated, and managed, specifically in the areas of managing credit, market, liquidity, access to financing resources, and other risks.</p> <p>Financial reports must comply with established internal policies and procedures, pertinent accounting and auditing standards, and other regulatory requirements.</p>	To manage and report exposure to such risks.
<p>Economic Risks</p> <p>Changes in domestic, regional, and global economic conditions may have a material adverse effect on the demand for the Company's business (mining and real estate).</p>	The Company's planning and management review processes involve the periodic monitoring of budgets and expenses.	To minimize the risk of over-investment.
<p>Competitive Risks</p> <p>The real estate market in the Philippines is highly competitive as new players enter the market and may limit market share.</p>	The Company continues to identify and assess the evolving customer needs and preference.	To be able to compete and strengthen customer loyalty.
<p>Regulatory Risks</p> <p>The Group's operations on mining and real estate are subject to extensive government regulations which may impact or limit the flexibility to respond to market conditions, competition, new</p>	Regular participation in discussions and consultations with the respective regulatory authorities and the industry to propose changes and provide feedback on regulatory reforms and development.	To avoid any material adverse effect on the Group's financial performance and operations.

technologies, or changes in cost structures.		
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(b) **Minority Shareholders**

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
High level of shareholder control

(3) **Control System Setup**

(a) **Company**

Briefly describe the control systems set up to assess, manage, and control the main issue/s faced by the Company:

Risk Exposure	Risk Management (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Operational Risks	Once risks have been identified, assessment must be made on the potential severity of negative impact (such as damage or loss) and the probability of occurrence.	Risk assessment should produce such information for the management to understand that the primary risks are easy to understand and that the risk management decisions may be prioritized. The most widely accepted formula for risk quantification is: Rate (or probability) of occurrence multiplied by the impact of the event equals risk magnitude.

Risk Exposure	Risk Management (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
Financial, Economic, Competitive, and Regulatory Risks	Once risks have been identified, assessment must be made on the potential severity of negative impact (such as damage or loss) and the probability of occurrence.	Since the impact of risk is not easy to estimate as it is often difficult to estimate the potential loss in the event of risk occurrence, it is absolutely necessary to periodically re-assess risks and intensify/relax mitigation measures, as necessary. Potential risk treatment techniques include: <ul style="list-style-type: none"> • Avoidance (eliminate, withdraw from or not become involved) • Reduction (optimize – mitigate) • Sharing (transfer – outsource or insure) • Retention (accept and budget)

(b) **Committee**

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee / Unit	Control Mechanism	Details of Its Functions
Audit Committee	Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal, and other risks of the Company.	Regular receipt from Management of Information on risk exposures and risk management activities.

G. INTERNAL AUDIT AND CONTROL

(1) **Internal Control System**

Disclose the following information pertaining to the internal control system of the Company:

(a) **Explain how the internal control system is defined for the Company:**

Internal control system is defined in the Company's RMCG as the framework under which internal controls are developed and implemented (alone or in concert with other policies or procedures) to manage and control a particular risk or business activity, or combination of risks or business activities, to which the Company is exposed.

(b) **A statement that the Directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate:**

The Directors have reviewed the effectiveness of the internal control system and considered them effective and adequate.

(c) **Period covered by the review:**

Year 2015

(d) **How often internal controls are reviewed and the Directors' criteria for assessing the effectiveness of the internal control system; and**

The Audit Committee is primarily responsible for reviewing internal controls, and its internal control duties and responsibilities are defined in the Audit Committee Charter. The Directors' criteria for assessing the effectiveness of the internal control system are stated in the Company's RMCG under the title Internal Control Responsibilities of the Board.

(e) **Where no review was conducted during the year, an explanation why not.**

N/A

(2) **Internal Audit**

(a) **Role, Scope, and Internal Audit Function**

Give a general description of the role, scope of internal audit work, and other details of the internal audit function.

Role	Scope	Indicate Whether In-House or Outsourced Internal Audit	Name of Chief Internal Auditor / Auditing Firm	Reporting Process
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		Function		
Internal audit is defined as an independent and objective assurance activity designed to add value to and improve the Company's operations; and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control, and governance processes.	<p>The primary objective of the internal audit function is to provide reasonable assurance to Management that:</p> <ul style="list-style-type: none"> • Financial and operating information is accurate and reliable; • Policies, procedures, plans, laws, and regulations are complied with; • Assets are safeguarded against loss and theft; • Resources are used economically and efficiently; and • Established program / operating goals and objectives will be met. 	In-House	Jeric Daquiran, in an interim capacity	Reports directly to the Audit Committee

- (b) Do the appointment and/or removal of the Internal Auditor or the accounting/auditing firm or corporation to which the internal audit function is outsourced require the approval of the Audit Committee?

Yes, the approval of the Audit committee is required.

- (c) Discuss the Internal Auditor's reporting relationship with the Audit Committee. Does the Internal Auditor have direct and unfettered access to the Board of Directors and the Audit Committee and to all records, properties, and personnel?

The Internal Auditor shall functionally report directly to the Audit Committee. The Internal Auditor has direct and unfettered access to the Board of Directors and the Audit Committee and to all records, properties, and personnel.

- (d) Resignation, Re-assignment, and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

Name of Audit Staff	Reason
N/A	N/A

- (e) Progress against Plans, Issues, Findings, and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings, and examination trends.

The Internal Auditor has just been engaged recently.

Progress Against Plans	Currently conducting examination based on plans.
Issues ⁶ Findings ⁷ Examination Trends	Documentation of issues, findings, and trends as a result of the examination will be prepared upon completion of examination.

The relationship among progress, plans, issues, and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- (1) Preparation of an audit plan inclusive of a timeline and milestones;
- (2) Conduct of examination based on the plan;
- (3) Evaluation of the progress in the implementation of the plan;
- (4) Documentation of issues and findings as a result of the examination;
- (5) Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;
- (6) Conduct of the foregoing procedures on a regular basis.

(f) **Audit Control Policies and Procedures**

Disclose all internal audit controls, policies, and procedures that have been established by the Company, and the result of an assessment as to whether the established controls, policies, and procedures have been implemented under the column "Implementation."

Policies and Procedures	Implementation
The internal audit controls, policies, and procedures are stated in the Company's Audit Committee Charter.	The Company's Internal Auditor has just been engaged recently.

(g) **Mechanisms and Safeguards**

State the mechanism established by the Company to safeguard the independence of the auditors, financial analysts, investment banks, and rating agencies (e.g., restrictions on trading in the Company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an External Auditor may provide to the Company):

Auditors (Internal and External)	Financial Analysts	Investment Banks	Rating Agencies
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			

⁶ "Issues" are compliance matters that arise from adopting different interpretations.

⁷ "Findings" are those with concrete basis under the Company's policies and rules.

<p>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.</p> <p>The non-audit work, if allowed, should be disclosed in the Company's annual report.</p>			
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- (h) State the officers (preferably the Chairman and the CEO) who will have to attest to the Company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers, and employees of the Company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

The President/CEO, together with the Compliance Officer, signed and attested to the Company's full compliance with the SEC Code of Corporate Governance for the year 2012. The confirmation on compliance will include the statement that all directors, officers, and employees of the Company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

Note: The Company's RMCG is set to be further revised and updated in light of SEC Memorandum Circular No. 19, series of 2016, promulgating the Revised Code of Corporate Governance for Publicly-Listed Companies (effective 1 January 2017). Pursuant to the said Memorandum Circular, the new manual on corporate governance shall be submitted to the SEC on or before 31 May 2017.

H. ROLE OF STAKEHOLDERS

- (1) Disclose the Company's policy and activities relative to the following:

	Policy	Activities
Customers' welfare	Offer products and services that meet clients' needs and expectations in a fair and professional manner.	For the Company's Sta. Rosa Homes real estate project, the housing units are delivered to buyers in the quality, time, and price agreed upon.
Supplier/contractor selection practice Safeguarding creditors' rights	Conduct business affairs with suppliers, creditors, and other counterparties according to contracted trading terms and conditions in a fair and ethical manner. Avoid any dishonest actions that may infringe upon the rights of counterparties as established by law or through mutual agreements.	Suppliers and contractors are paid promptly.
Environmentally friendly value-chain Community interaction	Aim to achieve consistently high standards of behavior towards society and the environment. Adhere to the safety and pollution control standards in business operations.	The Company provided employment for construction workers and security personnel.

Anti-corruption programs and procedures	Zero tolerance. The Company is committed to the highest level of ethical behavior and compliance with laws and regulations. The Company expects that all employees and business partners will conduct themselves in accordance with the Company's values, policies, and procedures and the laws relating to bribery and corruption.	No director, officer, or employee shall solicit or accept gifts, payments, loans, services, or any form of compensation from suppliers, customers, competitors, or others seeking to do business with the Company.
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- (2) Does the Company have a separate corporate responsibility (CR) report/section or sustainability report/section?

N/A. The Company will comply and have a separate corporate social responsibility report.

- (3) Performance-enhancing mechanisms for employee participation

- (a) What is the Company's policy for its employees' safety, health, and welfare?

The Company recognizes its duties as an employer to ensure the health, safety, and welfare of all its employees.

- (b) Show data relating to health, safety, and welfare of its employees.

The Company has minimal operations at present.

- (c) State the Company's training and development programs for its employees. Show the data.

N/A

- (d) State the Company's reward/compensation policy that accounts for the performance of the Company beyond short-term financial measures.

N/A

- (4) What are the Company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behavior? Explain how employees are protected from retaliation.

The employees are encouraged to freely communicate their concerns about illegal or unethical practices to the Board and their rights should not be compromised for doing so. Any such report may be made anonymously. Confidentiality will be maintained, to the extent permitted by law.

I. DISCLOSURE AND TRANSPARENCY

- (1) Ownership Structure

- (a) Holding 5% Shareholding or More (as of 30 September 2016)

Shareholder	Number of Shares	Percentage	Beneficial Owner
LBC Development Corporation	1,205,974,632	84.58%	N/A

Name of Senior Management	Number of Direct Shares	Number of Indirect Shares / Through (Name of Record)	% of Capital Stock
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		Owner)	
N/A	N/A	N/A	N/A

(2) Does the Annual Report disclose the following?

Key risks	Yes
Corporate objectives	Yes
Financial performance indicators	Yes
Non-financial performance indicators	No
Dividend policy	Yes
Details of whistle-blowing policy	No
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	Yes
Training and/or continuing education program attended by each director/commissioner	No
Number of board of directors/commissioners meetings held during the year	No
Attendance details of each director/commissioner in respect of meetings held	No
Details of remuneration of the CEO and each member of the board of directors/commissioners	Yes

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

The number of Board of Directors' meetings held during the year and the attendance details of each director were reported in the Certificate of Attendance of Directors submitted to the SEC earlier, however, the Company will include all the required disclosures in this year's Annual Report.

(3) External Auditor's Fee

Name of Auditor	Audit Fee	Non-Audit Fee
SyCip Gorres Velayo & Co.	Php8,035,000.00 ^a	None

(4) Medium of Communication

List down the modes of communication that the Company is using for disseminating information:

- Mailing of Annual Report to stockholders
- Submission of disclosures/reports to the PSE and SEC

(5) Date of Release of Audited Financial Report

The Audited Financial Statements for the fiscal year ended 31 December 2015 were released on 9 March 2016.

(6) Company Website

Does the Company have a website disclosing up-to-date information about the following?

Business operations	Yes
Financial statements/reports (current and prior years)	Yes
Materials provided in briefings to analysts and media	Yes

^a Represents Audit and Audit-Related Fees, which include 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 2015.

Shareholding structure	Yes
Group corporate structure	N/A
Downloadable annual report	Yes
Notice of AGM and/or EGM	Yes
Company's constitution (company's by-laws, memorandum and articles of association)	Yes

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

(7) **Disclosure of RPT**

RPT	Relationship	Nature
<p>1. The Group regularly makes advances to and from related parties to finance working capital requirements and as part of their cost reimbursements arrangement. These unsecured advances are non-interest bearing and payable on demand.</p> <p><u>In prior years, the Group had outstanding advances of Php295 million to LBC Development Bank, an entity under common control of LBC Development Corporation. In 2011, Management made an assessment of the recoverability of the said advance and concluded that these are not recoverable. Accordingly, the said asset was written-off from the books of the Group in 2011.</u></p>		
<p>2. In the normal course of business, the Group fulfills the delivery of <i>balikhayan</i> boxes and performs certain administrative functions on behalf of its international affiliates. The Group charges delivery fees for the fulfillment of these services.</p>		
<p>3. LBC Development Corporation (Licensor), the ultimate parent company, granted to the Group (Licensee) the full and exclusive right to use LBC Marks within the Philippines for a continuing royalty rate of 2.5% for 2016 and 2015 of Licensee's gross revenues.</p>		

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the Company and, in particular, of its minority shareholders and other stakeholders?

The Board, through the Audit Committee, shall review significant related party transactions (RPTs) and recommend approval or ratification. The Company will be transparent and consistent in reporting RPTs and a summary of such transactions shall be included in the Company's Annual Report. The Company shall promptly disclose to shareholders all material transactions with affiliates of the controlling shareholders, directors, or Management.

J. **RIGHTS OF STOCKHOLDERS**

(1) **Right to Participate Effectively and Vote in Annual / Special Stockholders' Meetings**

(a) **Quorum**

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-Laws.

Quorum Required	Unless otherwise provided by law, in all regular or special meetings of stockholders, a majority of the outstanding capital stock must be present or represented in order to constitute a quorum. If no quorum is constituted, the meeting shall be adjourned until the requisite amount of stock shall be present.
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(b) **System Used to Approve Corporate Acts**

Explain the system used to approve corporate acts.

System Used; Description	A majority of the number of directors as fixed in the Articles of Corporation shall constitute a quorum for the transaction of corporate business, and every decision of at least a majority of the directors present at a meeting at which there is a quorum.
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	shall be valid as a corporate act, except for the election of officers which shall require the vote of a majority of all the members of the Board.
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(c) **Stockholders' Rights**

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Stockholders' Rights under the Corporation Code	Stockholders' Rights Not in the Corporation Code
Right to vote on all matters that require their consent approval	N/A
Pre-emptive right to all stock issuances of the corporation (unless the same is denied in the articles of incorporation)	N/A
Right to inspect corporate books and records	N/A
Right to information	N/A
Right to dividends	N/A
Appraisal right	N/A

Dividends

There are no restrictions on the payment of dividends.

On 11 October 2016, the Board approved the declaration of cash dividends in the amount of Twenty-Two Centavos (Php0.22) per one (1) outstanding common share held by the stockholders out of the unrestricted and unappropriated retained earnings of the Corporation as of 30 September 2016.

Declaration Date	Record Date	Payment Date
11 October 2016	10 November 2016	29 November 2016

(d) **Stockholders' Participation**

- (i) State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors, or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders, as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
As stated in the Company's RMCG, the Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the Company. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the By-Laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholders favor.	Mailing of Notice, together with Company's Annual Report to stockholders. Submission of disclosures/reports to the PSE and SEC.

- (ii) State the Company policy of asking shareholders to actively participate in corporate decisions regarding:

- a. Amendments to the Company's constitution

- b. Authorization of additional shares
- c. Transfer of all or substantially all assets which, in effect, results in the sale of the Company

Any corporate decisions for approval by the stockholders are included in the Notice/Agenda for the Annual Stockholders' Meeting.

- (iii) Does the Company observe a minimum of twenty-one (21) business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?

No, notices, together with the Company's Annual Report are mailed to stockholders at least fifteen (15) trading days before the date of the Annual Stockholders' Meeting. However, the Company's disclosure on the actual date, time, and place of the Annual Stockholders' Meeting is submitted to the PSE and SEC more than 21 business days before the annual meeting.

- a. Date of Sending Out Notices: 4 July 2016
- b. Date of the Annual Stockholders' Meeting: 29 July 2016

- (iv) State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

N/A

- (v) Result of Annual Stockholders' Meeting's Resolutions

Resolution	Approving	Dissenting	Abstaining
Approval of the Minutes of the Annual Stockholders' Meeting held on 4 September 2015	Stockholders present at the meeting, owning and controlling 1,205,974,632 shares of stock or 84.58% of the total issue and outstanding common shares	<u>N/A</u>	<u>N/A</u>
Approval of the report of Management on the financial performance and results of operations of the Company for the year 2015 and for the first half of the year 2016	Stockholders present at the meeting, owning and controlling 1,205,974,632 shares of stock or 84.58% of the total issue and outstanding common shares	<u>N/A</u>	<u>N/A</u>
Approval of the Annual Report and Audited Financial Statements for the Fiscal Year Ended 31 December 2015	Stockholders present at the meeting, owning and controlling 1,205,974,632 shares of stock or 84.58% of the total issue and outstanding common shares	<u>N/A</u>	<u>N/A</u>
Ratification of All Acts of the Board of Directors and of Management since the Last Stockholders' Meeting held on 4 September 2015	Stockholders present at the meeting, owning and controlling 1,205,974,632 shares of stock or 84.58% of the total issue and outstanding common shares	<u>N/A</u>	<u>N/A</u>
Election of Directors: (1) Miguel Angel	Stockholders present at the meeting, owning and controlling	<u>N/A</u>	<u>N/A</u>

(2) <u>A. Camahort</u> <u>Rene E.</u> <u>Fuentes</u>	1,205,974,632 shares of stock or 84.58% of the total issue and outstanding common shares		
(3) <u>Enrique V.</u> <u>Rev, Jr.</u>			
(4) <u>Augusto G.</u> <u>Gan</u>			
(5) <u>Mark Werner J.</u> <u>Rosal</u>			
(6) <u>Solita V.</u> <u>Delantar (ID)</u>			
(7) <u>Luis N. Yu, Jr.</u> <u>(ID)</u>			
Reappointment of Sycip, Corres, Velayo & Co. as the Company's external auditors for Fiscal Year 2016.	Stockholders present at the meeting, owning and controlling 1,205,974,632 shares of stock or 84.58% of the total issue and outstanding common shares	N/A	N/A

- (vi) Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

The results of the Annual Stockholders' Meeting were disclosed on the following dates: 29 July 2016 (PSE disclosure) and 3 August 2016 (SEC disclosure).

- (e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

There were no modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year.

Modifications	Reason for Modification
N/A	N/A

- (f) Stockholders' Attendance

- (i) Details of Attendance in the Annual/Special Stockholders' Meeting/s Held

Type of Meeting	Names of Board Members / Officers Present	Date of Meeting	Voting Procedure (By Poll, Show of Hands, etc.)	% of Shareholders Attending in Person	% of Shareholders in Proxy	Total % of Shareholders' Attendance
<u>Annual</u>	<ul style="list-style-type: none"> • <u>Miguel Angel A. Camahort;</u> • <u>Enrique V. Rev, Jr.;</u> • <u>Rene E. Fuentes;</u> • <u>Mark Werner J. Rosal;</u> • <u>Solita V. Delantar;</u> • <u>Cristina S. Palma Gil-Fernandez;</u> 	<u>29 July 2016</u>	<u>By poll</u>	<u>84.58%</u>	<u>84.58%</u>	<u>84.58%</u>

	<ul style="list-style-type: none"> • <u>Mahleene G. Go;</u> • <u>Ma. Eloisa Imelda S. Singzon</u> 					
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- (ii) Does the Company appoint an independent party (inspectors) to count and/or validate the votes at the Annual/Special Stockholders' Meeting?

Yes, the Company appoints an independent party (independent tabulators) to count and/or validate the votes at the Annual/Special Stockholders' Meeting.

- (iii) Do the Company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the Company has more than one class of shares, describe the voting rights attached to each class of shares.

Yes, the Company's common shares carry one vote for one share.

(g) Proxy Voting Policies

State the policies followed by the Company regarding proxy voting in the Annual/Special Stockholders' Meeting.

	Company's Policies
Execution and acceptance of proxies	Should the stockholder be unable to attend the meeting in person, the stockholder may designate an authorized representative by submitting a proxy. A proxy executed by a corporation shall be in the form of a board resolution duly certified by the corporate secretary.
Notary	The Proxy need not be notarized.
Submission of Proxy	Proxies shall be submitted to and received at the principal office of the Company within the given deadline (as provided for in the Company's By-Laws), which is stated in the Notice, addressed to the attention of the Corporate Secretary.
Several Proxies	Where the Company receives more than one (1) proxy from the same stockholder and they are all undated, the postmark dates shall be considered.
Validity of Proxy	A Proxy shall be valid only for the meeting for which it is intended unless otherwise indicated, however, no proxy given shall have a validity of more than five (5) years.
Proxies Executed Abroad	Proxies executed abroad shall be duly authenticated by the Philippine Embassy of Consular Office.
Invalidated Proxy	A Proxy shall not be invalidated on the ground that the stockholder who executed the same has no signature card on file with the Corporate Secretary or transfer agent, unless it can be shown that he/she had refused to submit the signature card despite written demand to the effect duly received by the said stockholder at least ten (10) days before the Annual Stockholders' Meeting.
Validation of Proxy	In the validation of Proxies, the Company's Committee of Election Inspectors is designated by the Board of Directors which shall be empowered to pass on the validity of proxies. All issues relative to proxies including their

	validation shall be resolved prior to the canvassing of votes for purposes of determining a quorum.
Violation of Proxy	A dispute that may arise pertaining to the validation of proxy shall be resolved by the SEC upon formal complaint filed by the aggrieved party.

(h) **Sending of Notices**

Policies	Procedure
Notices of Annual/Special Stockholders' Meeting, together with the Company's Annual Report, shall be distributed to stockholders at least fifteen (15) trading days before the date of the Annual Stockholders' Meeting.	The Notices are mailed to stockholders and published once in two (2) newspapers of general circulation in the Philippines.

(i) **Definitive Information Statement and Management Report**

Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	<u>486</u>
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners	<u>4 July 2016</u>
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	<u>4 July 2016</u>
State whether CD format or hard copies were distributed	<u>Hard copies were distributed</u>
If yes, indicate whether requesting stockholders were provided hard copies	<u>N/A</u>

(j) **Does the Notice of Annual/Special Stockholders' Meeting include the following:**

Each resolution to be taken up deals with only one item	Yes
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election	Yes
The auditors to be appointed or re-appointed	Yes
An explanation of the dividend policy, if any dividend is to be declared	N/A
The amount payable for final dividends	N/A
Documents required for proxy vote	Yes

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

(2) **Treatment of Minority Stockholders**

(a) **State the Company's policies with respect to the treatment of minority stockholders.**

Policies	Implementation
The Company's Board of Directors shall ensure the equitable treatment of minority stockholders.	As stated in the Company's RMCG, the minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business.

	<p>purposes.</p> <p>The minority shareholders shall have access to any and all information relating to matters for which the management is accountable, and to those relating to matters for which the management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purposes."</p>
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- (b) Do minority stockholders have a right to nominate candidates for Board of Directors?

Yes, minority stockholders have a right to nominate candidates for Board of Directors.

K. INVESTOR RELATIONS PROGRAM

- (1) Discuss the Company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

As provided for in the Company's RMCG, the Board of Directors shall establish and maintain an investor relations program that will keep the stockholders informed of important developments in the Company. The CEO shall exercise oversight responsibility over this program.

- (2) Describe the Company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders, and the public in general. Disclose the contact details (e.g. telephone, fax, and e-mail) of the officer responsible for investor relations.

	Details
(1) Objectives	To keep stockholders informed of important developments in the Company; to build investors' confidence in the Company; and to develop and implement a communication program to effectively communicate the Company's long-term strategic vision.
(2) Principles	The investor relations program and its implementation is essential to attract and retain investors.
(3) Modes of Communication	Telephone, fax, or e-mail
(4) Investors Relations Officer	Enrique V. Rey, Jr.

- (3) What are the Company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers and sales of substantial portions of corporate assets?

The Company shall be guided by the provisions of the Corporation Code and other pertinent laws and regulations.

Name of the independent party the Board of Directors of the Company appointed to evaluate the fairness of the transaction price.

N/A

L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the Company.

Initiative	Beneficiary
To develop more real estate projects in order to offer housing units at affordable prices and at the same time provide more jobs/employment and business to suppliers and contractors.	Customers, workers, suppliers, and contractors

M. BOARD, DIRECTOR, COMMITTEE, AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the Board and its committees, individual director, and the CEO/President.

For the Company's compliance.

The Company has no formal process yet in assessing the annual performance of the Board and its committees, individual director, and the CEO/President.

The Audit Committee performs an annual self-assessment of performance as provided for in SEC Memorandum Circular No. 4 Series of 2012.

	Process	Criteria
Board of Directors		
Board Committees		
Individual Directors		
CEO/President		

N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management, and employees

Violations	Sanctions
To strictly observe and implement the provisions of the Company's RMCG, penalties shall be imposed, after notice and hearing, on the Company's directors, officers, staff, subsidiaries and affiliates, and their respective directors, officers, and staff in case of violation of any of the provision of the RMCG.	In case of first violation, the subject person shall be reprimanded.
	Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
	For third violation, the maximum penalty of removal from office shall be imposed. The commission of a third violation of the RMCG by any member of the Board of the Company or its subsidiaries and affiliates shall be a sufficient cause for removal from directorship.
	The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.