

COVER SHEET

for
SEC FORM 17-A (ANNUAL REPORT)

SEC Registration Number

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COMPANY NAME

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

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

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

Form Type

1	7	-	A
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Department requiring the report

S	E	C
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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number

856-8510

Mobile Number

N/A

No. of Stockholders

487

Annual Meeting (Month / Day)

2nd 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, Jr.

Email Address

evrey@lbcexpress.com

Telephone Number/s

856-8510

Mobile Number

CONTACT PERSON'S ADDRESS

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

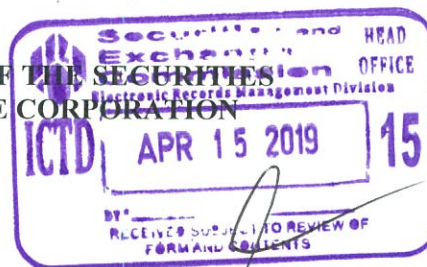
NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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



1. For the fiscal year ended: December 31, 2018
2. SEC Identification Number: ASO93-005277
3. BIR Tax ID No.: 002-648-099-000
4. Exact Name of issuer as specified in its charter: LBC EXPRESS HOLDINGS, INC. (formerly Federal Resources Investment Group Inc.)
5. Province, country or other jurisdiction of incorporation or organization: Philippines
6. Industry Classification Code: _____ (SEC Use Only)
7. Address of principal office and postal code: LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila 1300
8. Issuer's telephone number, including area code: (632) 856-8510
9. Former name, former address, former fiscal year (if changed since last report):
Federal Resources Investment Group Inc.
No. 35 San Antonio Street, San Francisco Del Monte, Quezon City
10. Securities registered pursuant to Section 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

As of December 31, 2018:

<u>Title of each class</u>	<u>Number of shares issued and outstanding</u>
Common Shares	1,425,865,471 ¹
Bond payable	1,108,417,074 ²
Derivative Liability	1,406,175,427 ²

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 Shares³

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

² Related to convertible instrument at an aggregate principal amount of \$50 million.

³ As of December 31, 2018, 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.

12. Check whether the issuer:

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

Yes (x) No ()

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

Yes (x) No ()

1. 13. Aggregate market value of voting stock held by non-affiliates is **₱3,466,664,631 as of April 12, 2019.**⁴

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) **2018 Consolidated Audited Financial Statements** (incorporated as reference for items 6, 7 and 12 of SEC Form 17-A)

⁴ Inclusive of common shares with pending listing applications.

Unless otherwise specified or the context otherwise requires, all references to the “Company” are to LBC Express Holdings, Inc. (**LBCH**), its subsidiary LBC Express, Inc. (**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.

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

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

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

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

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

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

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

Involvement in Bankruptcy or Receivership Proceedings

As of the end of December 2018, the Company was not involved in any bankruptcy, receivership or any similar proceedings.

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

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

On June 20, 2017, the BOD approved the issuance of convertible bond. Accordingly, on August 04, 2017, LBCEH issued, in favor of CP Briks Pte. Ltd, a seven-year secured convertible instrument in the aggregate principal amount of US\$50.0 million (₱2,518.25 million) convertible at any time into 192,307,692 common shares of LBCH at the option of CP Bricks Pte. Ltd at ₱13.00 per share conversion price, subject to adjustments in accordance with the terms and conditions of the instrument. The instrument is also redeemable, at the option of CP Bricks Pte. Ltd, beginning on the 30th month from issuance date at the redemption price equal to the principal amount plus internal rate of return ranging from 10% to 13%.

The convertible bond is a hybrid instrument containing host financial liability and derivative components for the equity conversion and redemption options. The equity conversion and redemption options were identified as embedded derivatives and were separated from the host contract.

As of December 31, 2018, the carrying value of bond payable amounted to ₱1,108.42 million and the fair value of the derivative liability amounted to ₱1,406.18 million. The fair value changes of the derivative liability recognized as “Gain (Loss) on derivative” amounted to ₱454.20 million in 2018 and (₱199.95) million in 2017. Interest expense arising from the accretion of interest on the bond payable amounted to ₱161.65 million in 2018 and ₱59.56 million in 2017.

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

- a) Within one month from August 4, 2017, the Company shall discontinue any royalty payments to LBCDC for all trademarks, brands and licenses. This was already terminated in September 2017;
- b) Within three months from closing date, LBCDC shall procure that LBCH enters into a binding sale and purchase agreement to acquire the equity interests of the 12 overseas entities. Also, within 12 months from closing date, LBCDC shall procure that LBCH closes the acquisition of the equity interest of the overseas entities;
- c) Within six months following the termination of royalty payments, the Company shall be permitted to make loans and advances to LBCDC and this shall not be considered a Reserved Matter. LBCDC already made an advances amounting to ₱100.00 million as of December 31, 2017.
- d) Within six months from closing date, LBCDC shall procure a debt for equity swap between LBC Express and QUADX INC., a local affiliate; and
- e) Within 3 months from closing of the acquisition of the equity interests of the overseas entity, LBCDC procure to settle all obligations to the Group.

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

On March 19, 2018, the BOD of LBCH approved to invest and acquire 30% equity interest in Orient Freight International, Inc. (OFII) through the following: (a) by purchasing 1,150,000 common shares held by Rayomar Management, Inc. in OFII; and (b) by subscribing to 3,285,714 common shares out of the unissued capital stock of OFII. This is to diversify the Company’s businesses and to realize returns on investments.

QUADX Inc.

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

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

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

Overseas Entities

All entities acquired from overseas, except QuadX Pte. Ltd, are entities under common control of LBCDC.

QuadX Pte. Ltd.

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

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

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

LBC Mabuhay Saipan, Inc.

On March 7, 2018, the Parent Company acquired 100% ownership of LBC Mabuhay Saipan, Inc. (LBC Saipan) for a total purchase price of USD 207,652 or ₱10.80 million. LBC Saipan operates as a cargo and remittance Company in Saipan.

LBC Express Airfreight (S) Pte. Ltd., LBC Aircargo (S) Pte. Ltd., LBC Money Transfer PTY Limited and LBC Australia PTY Limited

On June 27, 2018, the BOD of the Parent Company approved the purchase of shares of various overseas entities. On the same date, the following Share Purchase Agreements (SPAs) were executed by the Parent Company and Jamal Limited, a transitory seller, for a total purchase price of US \$4.60 million or ₱245.67 million under the SPAs. Jamal Limited, a third party, purchased these entities from Advance Global Systems Limited, an entity under common control, prior to sale to the Parent Company. Details follow:

Entity Name	Number of shares	Purchase price	Primary operation	Place of business
LBC Express Airfreight (S) Pte. Ltd. (LBC Singapore)	10,000	\$2,415,035	Cargo	Singapore
LBC Aircargo (S) Pte. Ltd. (LBC Taiwan)	94,901	146,013	Cargo	Taiwan
LBC Money Transfer PTY Limited (LBC Australia Money)	10	194,535	Remittance	Australia

LBC Australia PTY Limited (LBC Australia Cargo)	223,500	1,843,149	Cargo	Australia
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The transfer of the ownership of the shares and all rights, titles and interests thereto shall take place following the payment of the considerations defined. These entities operate as logistics and money remittance companies on the countries where they are domiciled.

LBC Mabuhay (Malaysia) SDN BHD

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

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

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

Entities under LBC Express Holdings USA Corporation

On March 7, 2018, the BOD of the Parent Company approved the purchase of shares of the entities under LBC Express Holdings USA Corporation. On the same date, the share purchase agreements (SPA) were executed by the Parent Company and LBC Express Holdings USA Corporation with a total share purchase price amounting to US \$8.34 million, subject to certain closing conditions.

Below is the list of entities that will be acquired by the Parent Company from LBC Express Holdings USA Corporation:

- LBC Mabuhay Hawaii Corporation which operates as a cargo and remittance Parent Company in Hawaii. The Parent Company purchased 1,536,408 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.
- LBC Mundial Corporation which operates as a cargo and remittance Group in California. The Parent Company purchased 4,192,546 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.
- LBC Mabuhay North America Corporation which operates as a cargo and remittance Parent Company in New Jersey. The Parent Company purchased 1,605,273 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.

The transfer of the ownership of the shares and all rights, titles and interests thereto shall take place following the payment of the consideration defined and shall be subject to the necessary approvals of the US regulatory bodies that oversee and/or regulate the Companies. On January 1, 2019, the Parent Company was granted the regulatory approvals on the purchase of the LBC Mundial Corporation and LBC Mabuhay North America Corporation. As of report date, the closing conditions are not yet met for LBC Mabuhay Hawaii Corporation.

Details of the fair value of the net identifiable assets and liabilities of these entities were incomplete as of audit report date since these entities are not reporting under PFRS.

The Parent Company accounted the aforementioned business combinations under the acquisition method. These acquisitions were expected to contribute to the global revenue stream of the Group.

LBC HISTORY

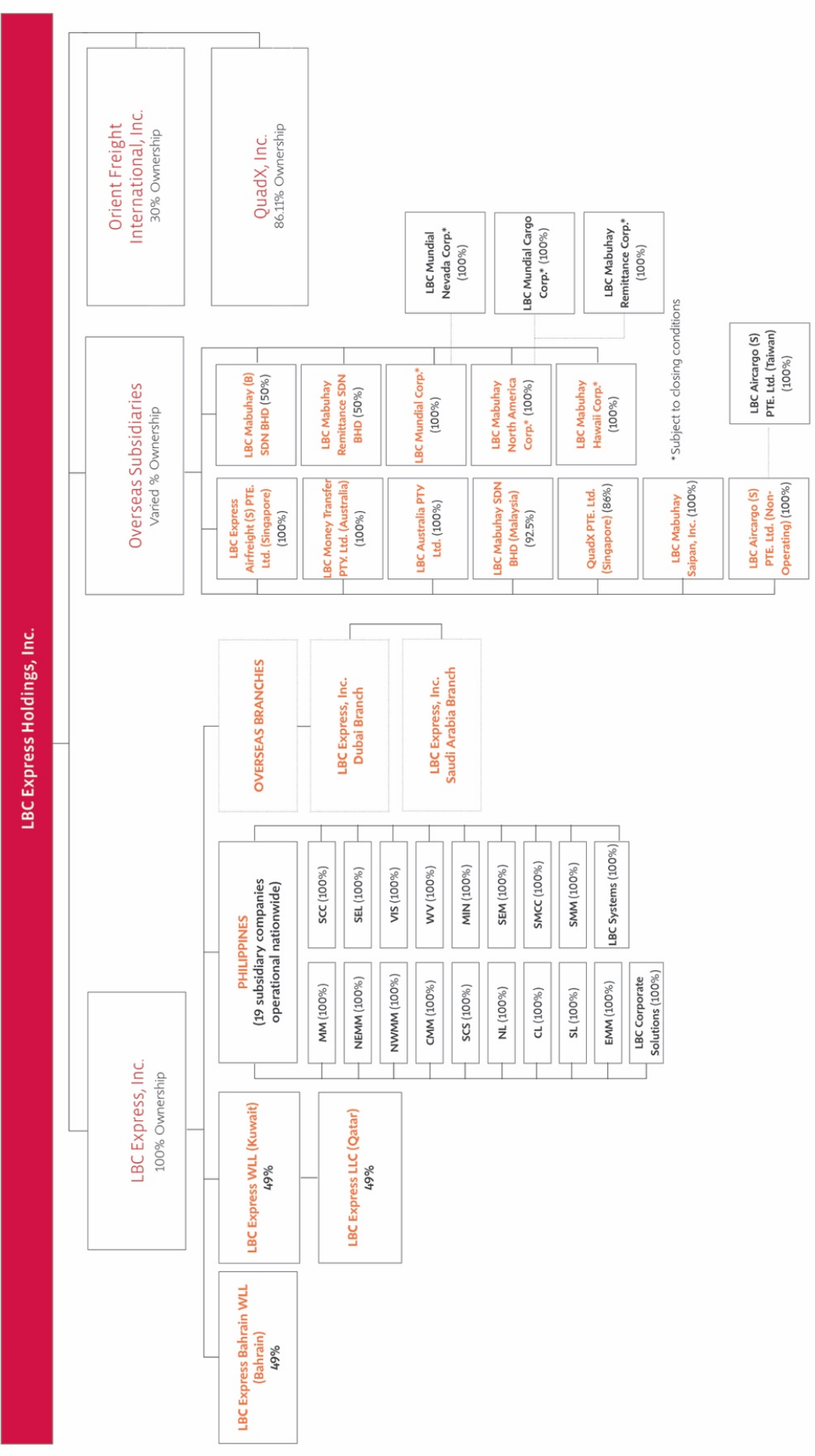
LBC Express was initially founded in 1950s as “Luzon Brokerage Corporation.” It subsequently changed its name to “LBC Air Cargo, Inc.” and operated as a brokerage and air cargo agent. A few

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 Filipino 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 December 31, 2018:



*As of end 2018

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

	Country of incorporation	Principal activities	Ownership Interest	
			2018	2017
LBC Express, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - MM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - CL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - NL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - VIS, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SCS, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express Corporate Solutions, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - CMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - EMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - MIN, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SEL, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - WVIS, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SEM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - SCC, Inc.	Philippines	Logistics and money remittance	100%	100%
South Mindanao Courier Co., Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - NEMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express - NWMM, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Systems, Inc.	Philippines	Logistics and money remittance	100%	100%
LBC Express Bahrain WLL	Bahrain	Logistics	49%	49%
LBC Express Shipping Company WLL	Kuwait	Logistics	49%	49%
LBC Express LLC ⁽¹⁾	Qatar	Logistics	49%	49%
LBC Mabuhay Saipan Inc.	Saipan	Logistics and money remittance	100%	-
LBC Aircargo (S) PTE. LTD	Singapore	Logistics	100%	-
LBC Express Airfreight (S) PTE. LTD.	Singapore	Logistics	100%	-
LBC Money Transfer PTY Limited	Australia	Money remittance	100%	-
LBC Australia PTY Limited	Australia	Logistics	100%	-
LBC Mabuhay (Malaysia) SDN BHD.	Malaysia	Logistics	93%	-
QUADX Inc.	Philippines	E-com web and logistics	86%	-
QuadX Pte. Ltd.	Singapore	Digital logistics	86%	-
LBC Mabuhay (B) Sdn Bhd	Brunei	Logistics	50%	-
LBC Mabuhay Remittance Sdn Bhd	Brunei	Money remittance	50%	-

Note:

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

BUSINESS

SERVICES

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

The Group's Logistics products cater to both retail and corporate/institutional 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 are comprised of remittance services (including branch retail services, prepaid remittance cards, and online and mobile remit), and bills payment collection and corporate remittance payout services. Money transfer services are also offered overseas/internationally through the Group's branches and partners, which comprises international inbound remittance services.

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

For the year ended December 31, 2018			
Segments	Logistics	Money transfer services	Total
Type of Customer			
Retail	₱7,186.36	₱859.57	₱8,045.93
Corporate	4,365.11	103.14	4,468.25
Total revenue from contracts with customers	₱11,551.47	₱962.71	₱12,514.18
Geographic Markets			
Domestic	₱9,498.76	₱799.49	₱10,298.25
Overseas	2,052.71	163.22	2,215.93
Total revenue from contracts with customers	₱11,551.47	₱962.71	₱12,514.18

For the year ended December 31, 2017			
Segments	Logistics	Money transfer services	Total
Type of Customer			
Retail	₱5,751.66	₱995.47	₱6,747.13
Corporate	3,229.51	43.48	3,272.99
Total revenue from contracts with customers	₱8,981.17	₱1,038.95	₱10,020.12
Geographic Markets			
Domestic	₱7,524.55	₱907.12	₱8,431.67
Overseas	1,456.62	131.83	1,588.45
Total revenue from contracts with customers	₱8,981.17	₱1,038.95	₱10,020.12

For the year ended December 31, 2016			
Segments	Logistics	Money transfer services	Total
Type of Customer			
Retail	₱4,964.00	₱1,122.59	₱6,086.59
Corporate	2,557.87	50.95	2,608.82
Total revenue from contracts with customers	₱7,521.87	₱1,173.54	₱8,695.41
Geographic Markets			
Domestic	₱6,249.92	₱1,058.45	₱7,308.37
Overseas	1,271.95	115.09	1,387.04
Total revenue from contracts with customers	₱7,521.87	₱1,173.54	₱8,695.41

As of December 31, 2018, the Logistics business of the Group accounts for approximately 92.3% of its total revenues while Money Transfer Services accounts for the remaining 7.7%.

Retail Logistics comprised 62%, 64% and 66%, respectively, of the Group's service revenue from Logistics for the years ended December 31, 2018, 2017 and 2016. The Group's primary retail logistics offerings are its "Express" products (comprised of courier and air cargo forwarding) and *balikbayan* boxes.

As of December 31, 2018, the LBC Express does not process outbound remittances from the Philippines. For the years ended December 31, 2018, 2017 and 2016, service fees from international inbound remittances were ₱163.22 million, ₱131.82 million and ₱115.09 million, accounting for 17%, 13% and 10%, respectively, of the Group's total service revenues from Money Transfer Services.

Logistics

The logistics business is the Group's primary source of revenue. The Group serves two primary customer segments within the logistics business: (a) retail customers; and (b) corporate/institutional 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.

As of December 31, 2018, the Group has offered Logistics services at 1,397 Company-owned branches in the Philippines and 71 Company- and affiliate-owned branches in 22 other countries and territories worldwide.

Retail Logistics

Retail Logistics comprised 62%, 64% and 66%, respectively, of the Group's service revenue from Logistics for the years ended December 31, 2018, 2017 and 2016. The Group's primary retail logistics offerings are its "Express" products (comprised of courier and air cargo forwarding) and *balikbayan* boxes.

Courier

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

Air Cargo

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

Balikbayan Boxes

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

as clothing, home goods and personal care items, to recipients in the Philippines. *Balikbayan* boxes come in a variety of dimensions and typically weigh between 30 to 80 kilograms.

Corporate Logistics

The Company provides services to a varied portfolio of corporate 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 45 days for international shipments. In recent years, the volume of sea freight forwarding services provided by the Company has increased due to the growth in its corporate client portfolio.

The Company also expanded SCS to include value-added services such as onsite operations, cold chain, warehousing, cross border, 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 its corporate logistics business and aims to continue expanding its corporate client portfolio and service offerings going forward.

Money Transfer Services

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

Domestic

Domestic money transfer services include (a) remittances and (b) bills payment collection and corporate remittance payout services. For the years ended December 31, 2018, 2017 and 2016, service fees from domestic Money Transfer Services were ₱799.5 million, ₱907.1 million, and ₱1,058.4 million, respectively, representing 83%, 87%, and 90%, 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; and (b) pre-paid remittance cards.

- *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.

LBC Express 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 LBC Express are for sums equivalent to approximately ₱13,000 or less.

Bills Payment Collection and Corporate Remittance Payouts

LBC Express 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 LBC Express 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. LBC Express processes bills payment collections through the same integrated point-of-sale (**POS**) system used by the LBC Express for acceptance of parcels, cargo and remittances.

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

International

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

To expand its international reach, 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 ATIN ITO VARIETY BAKERY & REMITTANCE LTD., Canada; PACIFIC ACE FOREX H.K. LIMITED, Hong Kong; WIC WORLDCOM FINANCE LTD., Israel; TRANSREMITTANCE CO. LTD., Japan; CIMB ISLAMIC BANK BERHAD, Malaysia; SMJ TERATAI SDN. BHD., Malaysia; TRANGLO, Malaysia; MONEY EXCHANGE S.A., Spain; AL ANSARI EXCHANGE L.L.C., UAE; AL GHURAIR EXCHANGE L.L.P., UAE; LIMICA CORPORATION, Guam; PLACID NK CORPORATION, D/B/A PLACID EXPRESS, USA; TEMPO FINANCIAL US CORPORATION, D/B/A I-TRANSFER, USA; and XOOM CORPORATION, USA, among others, as well as Philippine financial institutions with strong international presence such as ASIA UNITED BANK CORPORATION, CHINA BANKING CORPORATION, METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES, RIZAL COMMERCIAL BANKING CORPORATION, BANK OF THE PHILIPPINE ISLANDS, EIGHT UNDER PAR (PAWNSHOP OPERATOR), INC. DOING BUSINESS UNDER THE NAME AND STYLE OF PALAWAN PAWNSHOP, PETNET, INC., PINOY EXPRESS HATID PADALA SERVICES, INC., NEW YORK BAY PHILIPPINES, INC., I-REMIT INC., and BETUR INC. (DBA COINS.PH). 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.

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

As of the end of December 2018, the Company does not process outbound remittances from the Philippines. For the years ended December 31, 2018, 2017 and 2016, service fees from international inbound remittances were ₱163.2 million, ₱131.8 million and ₱115.09 million, accounting for 17%, 13% and 10%, respectively, of the Company's total service revenues from Money Transfer Services.

OPERATIONS

LBC'S courier and freight forwarding services utilize transport by air, sea and land and a network of strategically located warehouses, distribution centers and delivery hubs to provide end-to-end delivery services for its retail and corporate clients.

Logistics

Logistics entails the management of the flow of goods from a point of origin to a specified destination, including any ancillary services that may be required to facilitate the process, such as storage and packaging. The Group'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 Group's end-to-end domestic air freight forwarding services involve the following steps: (1) acceptance (by pick-up or drop-off at a branch) (2) ground transport to a regional 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 Group of the customer's parcels and cargo, either through its pick-up service or at one of the Group's 1,397 customer contact points in the Philippines where customers can drop off parcels and cargo. All parcels and cargo must be accompanied by a waybill from the customer providing the recipient's name, shipping address, description of contents, estimated value and other pertinent information. Upon receipt of the customer's parcel or cargo, the receiving agent affixes a barcode onto the package and scans the package, beginning the tracking process. The parcel or package is rescanned at every subsequent touch point throughout the transport process until its final destination.
- At the close of business each day (approximately 7:00 p.m.), all packages are delivered by the Group's vehicle fleet to a regional distribution center. The primary distribution center is the Central Exchange, located at the Group's corporate headquarters in the General Aviation Center of the old domestic airport in Manila, where all packages collected from, passing through or destined for Metro Manila are aggregated. Packages collected in other areas are aggregated at one of 16 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 213 regional hubs (secondary distribution centers) for more efficient distribution to smaller cities and municipalities.
- Packages are then loaded onto the Group's delivery vehicles, which either transport the items to a delivery hub for secondary sorting, or directly to the final destination if already within the zone of delivery.

International

The Group's international air freight forwarding and courier services involve a similar process as its domestic air freight forwarding and courier services, namely (1) acceptance (by pick-up or drop-off at an international LBC Express-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's overseas branch, affiliate or agent, as applicable, is responsible for all of the steps from acceptance of the parcel/cargo through loading of the parcel/cargo onto the Philippine-bound airline carrier.

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

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

Ground Delivery Fleet

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

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

As of December 31, 2018, the Company had a fleet of 3,202 vehicles (including 2,635 motorcycles and 567 vans). The Company's drivers and couriers are trained in vehicle operation safety, customer service, cash handling and other procedures. Vehicles are acquired on a lease-to-own basis pursuant to finance leases with a typical term of three to five years to ownership. The Company's vehicle fleet undergoes maintenance on a regularly scheduled basis, and vehicles are typically replaced every five to seven years. The Group began re-fleeting most of its delivery trucks, in 2014, and motorcycles, in the latter part of 2017. Comprehensive insurance is maintained for all of the vehicles.

Sea Cargo Forwarding

As of the end of December 2018, the Group's sea cargo forwarding services are available domestically in Manila, Cebu, Bacolod, Iloilo, Davao, Cagayan de Oro and General Santos, and internationally in 22 countries and territories outside the Philippines.

The Group does not own ships and contracts with third party shipping carriers for these services. Domestic sea transport is provided by Oceanic Container Lines, Inc., 2Go Freight, Lorenzo Shipping Lines, Gothong Southern and Asian Marine Transport Corporation, among others, while international sea transport is provided through Orient Freight International, an international freight forwarding agency in which LBCEH acquired a 30% stake in 2018. 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 denotes *balikbayan* boxes, which are primarily international inbound shipments and intra-Philippine shipments.

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

- Acceptance of *Balikbayan* Boxes is handled by the LBC Express (in the case of domestic shipments) or the LBC Express's overseas branch, overseas subsidiaries or affiliate (in the case of inbound international shipments). *Balikbayan* Boxes are typically picked up by delivery trucks, as they tend to be larger in terms of weight and volume.
- Upon acceptance, all cargo is input into the Company's VISTRA acceptance system by a delivery team, which produces a delivery dispatch report and cross checks each shipment for discrepancies when units are consigned to the international freight forwarder.
- *Balikbayan* Boxes are sorted and placed into containers at the local warehouse or distribution center of the Group's branch or affiliate/agent. Once a container is full, the Group can arrange for pick-up from the international freight forwarder or local shipping partner, as applicable. Because the throughput of goods shipped by the Group is substantial, containers are usually filled within one to two days.
- The Group's international freight forwarder (in the case of inbound international shipments) or the Group's local shipping partners (in the case of domestic shipments) will then collect the cargo from the warehouse or distribution center and load the items onto a ship.
- International inbound *Balikbayan* Boxes are in transit for three (3) to seven (7) days (for shipments within Asia) or 30 to 45 days (for shipments from Europe or North America) prior to arriving in Manila. All such *Balikbayan* Boxes are received by the international freight forwarder at the Port of Manila and consigned to the Group at the Vitas Harbor Center Warehouse. Intra-Philippine shipments, which generally take between two and five days to arrive at their destination, are received at regional warehouses and distribution centers. For international inbound shipments, the Group's customs brokers facilitate procedures necessary to be undertaken with the Philippine Bureau of Customs, while its international freight forwarder arranges for customs brokerage in the international jurisdictions.
- At 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 Group's overseas branches and affiliates and sorted for final delivery. *Balikbayan* Boxes are randomly scanned in the United States and in the Philippines via X-ray machines to prevent entry of illegal goods and money laundering.

Corporate

For corporate sea cargo shipments, LBC Express provides forwarding services for both FCL and LCL shipments. LBC Express'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 LBC Express's container freight stations or arrange for pick-up by LBC Express's delivery fleet.

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

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

Specialized Corporate Solutions

Under SCS, the Group provides transportation of mail, parcels and cargo via air, land and sea for its corporate clients, as well as value-added services such as onsite operations, 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 Group leverages the branch network and vehicle fleet used for its Logistics services as a platform for its remittance services. The extensive geographic reach of its branch network, its large fleet of delivery vehicles, the existing workforce of trained employees and the availability of cash funds at each of the Group branches from its logistics operations enable the Group to offer remittance services at very low additional operating cost. As the remittance business has grown into a significant portion of its business, the Group has increased the number of customer contact points for its remittance services by entering into fulfillment partnership agreements with agents and affiliates domestically and internationally.

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

Domestic Partners

To expand its domestic network for remittance services, LBC Express 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 LBC Express's remittance customers, and all of LBC Express branches in the Philippines in turn provide the same service for Palawan Pawnshop's customers. Both partners collect a reciprocal percentage of the service fee for performing services on behalf of the other.

The Group 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 2018, 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. In 2018, Petnet, Inc. (Western Union) became an international fulfillment partner, extending the group's reach and network to more customers worldwide.

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 ATIN ITO VARIETY BAKERY & REMITTANCE LTD., Canada; PACIFIC ACE FOREX H.K. LIMITED, Hong Kong; WIC WORLD COM FINANCE LTD., Israel; TRANSREMITTANCE CO. LTD., Japan; CIMB ISLAMIC BANK BERHAD, Malaysia; SMJ TERATAI SDN. BHD., Malaysia; TRANGLO, Malaysia; MONEY EXCHANGE S.A., Spain; AL ANSARI EXCHANGE L.L.C., UAE; AL GHURAIR EXCHANGE L.L.P., UAE; LIMICA CORPORATION, Guam; PLACID NK CORPORATION, D/B/A PLACID EXPRESS, USA; TEMPO FINANCIAL US CORPORATION, D/B/A I-TRANSFER, USA; and XOOM CORPORATION, USA, among others, as well as Philippine financial institutions with strong international presence such as ASIA UNITED BANK CORPORATION,

CHINA BANKING CORPORATION, METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES, RIZAL COMMERCIAL BANKING CORPORATION, BANK OF THE PHILIPPINE ISLANDS, EIGHT UNDER PAR (PAWNSHOP OPERATOR), INC. DOING BUSINESS UNDER THE NAME AND STYLE OF PALAWAN PAWNSHOP, PETNET, INC., PINOY EXPRESS HATID PADALA SERVICES, INC., NEW YORK BAY PHILIPPINES, INC., I-REMIT INC., and BETUR INC. (DBA COINS.PH).

Through the extended networks of its agents, the Company provides fulfillment services for inbound remittances originating from 20 other countries and territories, 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.

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 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

- o **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.

Cash on Delivery / Cash on Pick-Up

More and more Filipinos are doing their shopping online. 2018 was a banner year for the e-commerce industry with digital marketplaces registering record growth. The Philippines also ranked first in social media use and time spent online, which makes us an ideal market where e-commerce could thrive.

One of the many challenges faced by e-commerce merchants were payment options. As most of them were casual sellers and most of them unbanked, completing a transaction was a challenge. LBC came up with a solution for them with its Cash On Delivery and Cash On Pick-up service.

With this innovative new service, LBC enabled more merchants to get into the e-commerce arena. With COD/COP, merchants can have LBC deliver their goods, collect payment for them which in turn can either be remitted to their accounts or picked up from our branch.

This pioneering service has helped spur the growth of the e-commerce business and has contributed significantly to LBC's growth.

COP and COD utilizes two of LBC's core services: as a courier of parcels & boxes, and as a payment collection channel. As a trading place of the buyer and the seller, LBC's COP guarantees convenient and seamless transactions between seller and buyer. With this, buyer can now add LBC as a pick up point, instead of the traditional delivery scheme -like delivered at home, office, or meet ups. The online transactions are also guaranteed safe and reliable as sellers are assured that he or she will get paid, while the buyer will get the products in mint condition. LBC's wide network and serviceable areas also allows for buyers to shop from anywhere in the Philippines and reach more customers nationwide. LBC's rates has promises to be more competitive as it hopes to provide value for money for every buyer and seller. For LBC's COD, on the other hand, the buyer simply pays the item ordered online upon delivery. And LBC takes care of remitting the payment to the seller.

And the best thing about Retail COP and COD is that sellers only need to go to any LBC branch and transact to start availing of the services. There is also no need to create an account on big online shopping sites or maintain a minimum volume of transactions per month to start their online business.

MARKETING AND SALES

The Group believes that strategic marketing and targeted sales are crucial to maintaining its competitive advantage over competitors. The Group regularly advertises on television, radio and

billboards, as well as in print and on the Internet. The Group also brands its ground fleet with the “LBC” logo. In addition, it has dedicated teams to promote the value of its brand among general consumers as well as to manage long-term corporate client relationships. It also engages in several community outreach initiatives in line with its commitment to corporate social responsibility.

Brand Equity

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

The “LBC” brand was one of Reader’s Digest’s Trusted Brand Winners - Philippine Airfreight/Courier Service Category in 2012 and one of Socialbakers’ top Socially Devoted brands in 2012 and 2013. According to the LISBON Survey, a survey conducted by Market Research Solutions, Inc., an independent marketing and research firm, the Company was considered one of the Best-in-Class Companies in the Philippines for both the freight forwarding and remittance industries in 2012, the Company achieved 81% brand awareness/market reach for sea cargo, the highest in the segment, with the closest competitor achieving 47% recognition. Other prestigious awards bestowed upon the company include: Readers Digest Trusted Brand Platinum Award Airfreight and Courier Category 2017, Readers Digest Trusted Brand Gold Award Remittance Category 2017, The Filipino Times Preferred Freight Forwarding Company in the Middle East 2015-2016, The Filipino Times Preferred Remittance Service Provider in the Middle East 2015-2016, TFC Champion of the Filipino Consumer Award 2015, Silver Anvil Award for LBC “Moving Spaces” Public Relations Category 2015, Silver Anvil Award for LBC “#moveitformanny” Public Relations Tools Category 2015, Araw Values Bronze Award for #moveitformanny, branded communications category 2014.

LBC remains to be one of the Philippines’ most recognized brands. Now with 1,397 branches nationwide with presence in over 30 countries around the globe, coupled with an increased presence in traditional and digital media, the brand’s equity is the strongest it’s ever been.

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

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

Complementing its ongoing digital transformation, LBC Express launched a new brand campaign in September 2018. The new campaign shows how the brand has evolved to serve the growing needs of its different customers – both in the retail space and in the corporate landscape. It captures how the brand offers them customized solutions to service their ever-changing needs and grow with them as

they progress in life. This spirit of change and service is aptly captured in the campaign's manifesto, *"Let's move."*

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

Advertising

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

OMNICHANNEL

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

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

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

INFORMATION TECHNOLOGY

Operational

The Group is committed to continuing to invest in state-of-the-art IT systems to maintain its competitive edge and more effectively deliver quality service to its customers. The company embarks on a massive enterprise-wide digital transformation program with RAMCO Logistics and Interblocks systems. RAMCO Logistics covers the need of all the business operations from Transportation to warehousing to order management for Parcel/courier service providers, forwarders, 3PL who are seeking high Performance logistics software. RAMCO Logistics solution allows LBC to standardize its process for the logistic segment of the business into one technology and application platform thus eliminating redundancy in operations and achieving absolute data integrity and scope for planning and

optimization. RAMCO modules for Human Resources Systems were also implemented in second quarter of 2017.

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

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

The Group has also upgraded its current network infrastructure to allow for a more secure and reliable environment. It upgraded its connectivity bandwidth and implemented a Software Defined Wide Area Network (SD WAN) to provide added network security and reliability. This has enabled the Group to improve its network availability significantly.

Business Management

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

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

Online and Mobile Platform

To enhance the customer experience, the Group has developed a digital platform that enables online real-time transaction processing and customer service through its website (www.lbcexpress.com). Currently, the Group's website contains several interactive features for its customers, including package tracking, rate calculators and scheduling of pick-ups for parcels and cargo, as well as real-time customer service support through the "Live Talk" capability. The website is mobile responsive allowing the same functionality from any mobile device.

Digital Transformation

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

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

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

We are upgrading our Group’s core logistics applications to automate all manual processes. Operations will significantly change once fully implemented, and we all look forward to this coming to fruition by 2019. Our Group will also be introducing additional products and services to customers of all segments.

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

LBC’s Digital Transformation will accelerate our own business activities, processes and competencies that will, in turn, impact our stakeholders in strategic and meaningful ways. We will harness Digital Transformation to radically improve internal performance, partner relationships, and expand reach across different business segments.

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

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

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

STATUS OF ANY PUBLICLY-ANNOUNCED NEW PRODUCT OR SERVICE

Cash on Delivery / Cash on Pick-Up

More and more Filipinos are doing their shopping online. 2018 was a banner year for the e-commerce industry with digital marketplaces registering record growth. The Philippines also ranked first in social media use and time spent online, which makes us an ideal market where e-commerce could thrive.

One of the many challenges faced by e-commerce merchants were payment options. As most of them were casual sellers and most of them unbanked, completing a transaction was a challenge. LBC came up with a solution for them with its Cash On Delivery and Cash On Pick-up service.

With this innovative new service, LBC enabled more merchants to get into the e-commerce arena. With COD/COP, merchants can have LBC deliver their goods, collect payment for them which in turn can either be remitted to their accounts or picked up from our branch.

This pioneering service has helped spur the growth of the e-commerce business and has contributed significantly to LBC's growth.

COP and COD utilizes two of LBC's core services: as a courier of parcels & boxes, and as a payment collection channel. As a trading place of the buyer and the seller, LBC's COP guarantees convenient and seamless transactions between seller and buyer. With this, buyer can now add LBC as a pick up point, instead of the traditional delivery scheme -like delivered at home, office, or meet ups. The online transactions are also guaranteed safe and reliable as sellers are assured that he or she will get paid, while the buyer will get the products in mint condition. LBC's wide network and serviceable areas also allows for buyers to shop from anywhere in the Philippines and reach more customers nationwide. LBC's rates has promises to be more competitive as it hopes to provide value for money for every buyer and seller. For LBC's COD, on the other hand, the buyer simply pays the item ordered online upon delivery. And LBC takes care of remitting the payment to the seller.

And the best thing about Retail COP and COD is that sellers only need to go to any LBC branch and transact to start availing of the services. There is also no need to create an account on big online shopping sites or maintain a minimum volume of transactions per month to start their online business.

COMPETITION

Logistics

The Group believes that it is the leader in the Philippine retail logistics industry. In 2017, the Group was the leader in air freight forwarding in the Philippines, with 22% of domestic market share based on throughput by weight, according to the Civil Aeronautics Board. The Group believes that it has been the top importer of *balikbayan* boxes in terms of throughput for the past 20 years. Although the Group has a leading position and significant market share in the courier and air freight forwarding industry, the Group faces competition from AP Cargo Logistics Network Corporation, JRS Business Corporation, Airfreight 2100, Inc., Cargo Padala Express Forwarding Service Corporation, Libcap Super Express Corporation and 2Go Express, Inc. The Group's international competitors include DHL, FedEx and UPS. However, international freight forwarders have historically not been strong competitors of the Group in the Philippines due to certain restrictions on foreign ownership in the cargo industry in the Philippines, as well as the high barriers to entry created by the dispersed geography of the archipelagic nation.

In the corporate logistics industry, the large industry players in the Philippines are 2Go Freight and Fast Cargo, Inc. The main international competitors for the corporate sector are DHL, FedEx and UPS.

Although the Group's market share is still relatively small in the corporate logistics industry, its corporate logistics segment has maintained strong growth since the Group first formally introduced these services as a separate business line in 2010. The Company seeks to increase its market share by leveraging its existing brand and network from its retail services.

Money Transfer Services

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

QUALITY ASSURANCE AND INTERNAL CONTROLS

Quality Assurance

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

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

Discrepancy Reporting and Undeliverable Items

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

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

Cash Collection and Management

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

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

Business Continuity

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

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

- *Information Technology.* With respect to technology, the Group has back-up servers managed by its IT service provider with built-in redundancies for its various systems in which operational and customer data is stored. In the event of system downtimes, the Group has in place a back-up system whereby communication is maintained through mobile text messaging.
- *Transportation (Logistics).* Although the Group relies on airline and shipping carriers for its daily freight forwarding operations, it also has in place alternative procedures in the event that an airline or shipping carrier is unavailable. For example, when flights are grounded due to severe weather, the Group’s vehicle fleet is capable of making deliveries by ground. Although ground deliveries may take longer than air cargo shipments, this enables the Group to continue its service even when other modes of transportation may be unavailable. When its usual shipping carriers are unavailable, the Group also makes use of its vehicle fleet. The vehicles can make deliveries to any region accessible by land, or can make use of RORO (“roll-on-roll-off”) car ferries to reach locations that require sea transport.
- *Funding Insufficiencies (Remittances).* Although the Global Remittance Team monitors and makes daily estimates of the funding needs of each branch, on occasion, there may be insufficient funds at a given location to encash a remittance. In such a case, the Group has in place procedures for either nearby branches to deliver the necessary sums, or for authorized personnel to withdraw the cash from one of the Group’s local bank accounts.

SUPPLIERS

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

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

CUSTOMERS

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

TRANSACTIONS WITH RELATED PARTIES

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

INTELLECTUAL PROPERTY

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

Under the agreement, the Company also has the right to extend the use of the LBC marks to its subsidiaries (defined as companies in which the Company holds at least 67% of the voting rights) within the Philippines, as well as to its remittance and cargo/courier/freight forwarding fulfillment service partners and agents in the Philippines and abroad, subject to certain terms and conditions. In

practice, foreign agents of the Company are granted very limited use of the “LBC” brand and logos pursuant to the individual agency agreements entered into between them and the Company.

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

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

GOVERNMENT PERMITS AND LICENSES

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

EMPLOYEES

As of December 31, 2018, the Group had, on a consolidated basis, 7,652 full-time employees, compared to 6,921 full-time employees as of December 31, 2017. The Group continues to add to its workforce on a regular basis in line with the growth of its business.

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

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

The following table sets out the number of employees of the Group by job function as of December 31, 2018:

	Number of Employees
Management and Administrative Associates.....	189
Central Exchange and Regional Distribution Center Associates....	263
Branch Associates.....	3,602
Drivers and Couriers.....	1,887
Other	1,711
Total	7,652

Note:

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

As of the end of December 2018, four Company subsidiaries in the Philippines have entered into collective bargaining agreements with their respective employees, with approximately 828 employee memberships. Approximately 442 of these employees in the Philippines belong to one of the six labor

unions (for four subsidiaries) and the remaining approximately 111 employees belong to one of the other five labor unions. The Group believes that there is sufficient coverage by its other, non-unionized subsidiaries to provide back-up support in the event of a disruptive labor dispute at any given unionized subsidiary. In addition, because freight forwarding and messengerial services may be considered indispensable to national interest in the Philippines, the Secretary of the Department of Labor and Employment in the Philippines has the discretion to end strikes or certify the same to the National Labor Relations Commission for compulsory arbitration pursuant to Article 263(g) of the Philippine Labor Code, even in cases involving private providers of such services. Such cessation order or arbitration certification would have the effect of automatically enjoining an intended or impending strike or, if one has already taken place, of requiring all striking or locked out employees to immediately return to work and all employers to immediately resume operations. The Company has not experienced any disruptive labor disputes, strikes or threats of strikes for at least the past decade. Management believes that the Company's relationship with its employees in general is satisfactory.

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

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

RISKS

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

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

- The Group is subject to numerous U.S. and international laws and regulations intended to help detect and prevent money laundering, terrorist financing, fraud and other illicit activity. Failure by the Group, its agents and affiliates to comply with these laws and regulations and increased costs or loss of business associated with compliance with these laws and regulations could have a material adverse effect on the Group's business, financial condition and results of operations.
- The Group faces risks from trade restrictions.
- Any inability of the Group to secure renewals or new licenses for its money transfer operations may have a material adverse effect on its business, prospects, financial condition and results of operations.
- Risks associated with the Group's money transfer operations outside the Philippines could adversely affect the Group's business, financial condition and results of operations.

Item 2. PROPERTIES

REAL PROPERTY

As of the end of December 2018, the Group does not own any real property.

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

In addition, the Group leases the spaces for all of its 1,397 Company-owned branches in the Philippines, as well as its regional distribution centers, delivery hubs, container freight stations and warehouses. The average term of these leases is three to seven years, with renewal options under most of the lease agreements. Branch offices are refurbished approximately every five to seven years, and the Company considers strategic relocation of branch offices from time to time to meet changing market demands.

For its general and administrative activities, the Group leases 2,820 sq. m. of office space at the Two-E-com Centre in Pasay City, Manila, located near its registered office at the LBC Hangar.

For the years ended December 31, 2018, 2017 and 2016, the Company's total rental expenses were ₱1,002.87 million, ₱831.6million and ₱711.0 million, respectively.

EQUIPMENT

Other property and equipment owned by the Group in the Philippines primarily comprises its fleet of 3,202 vehicles (2,635 motorcycles and 567 vans, excluding those acquired through operating lease), servers, computers and peripheral equipment, software, vaults, handheld scanners, X-ray scanners and its bulk mail sorting machine.

Item 3. LEGAL PROCEEDINGS

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

Except as disclosed below, neither the Company nor any of its subsidiaries have been or are involved in, or the subject of, any governmental, legal or arbitration proceedings which, if determined adversely

to the Company or the relevant subsidiary's interests, would have a material effect on the business or financial position of the Company or any of its subsidiaries.

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

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

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

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

On November 2, 2015, the Bank, represented by the PDIC, filed a case against LBC Express, Inc. (LBCE) and LBC Development Corporation (LBCDC), together with other respondents, before the Makati City Regional Trial Court (RTC) for a total collection of ₱1.82 billion. The case is in relation to the March 17, 2014 demand letter representing collection of unpaid service fees due from June 2006 to August 2011 and service charges on remittance transactions from January 2010 to September 2011. In the Complaint, the PDIC justified the increase in the amount from the demand letter to the amount claimed in the case due to their discovery that the supposed payments of LBCE were allegedly unsupported by actual cash inflow to the Bank.

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

LBCE and LBCDC, the ultimate Parent Company, together with other defendants, filed motions to dismiss the Complaint on January 12, 2016 for the collection of the sum of ₱1.82 billion. On January 21, 2016, LBCE and LBCDC filed its Urgent Motion to Approve the Counterbond and Discharge the Writ of Attachment.

On February 17, 2016, the RTC issued the order to lift and set aside the writ of preliminary attachment. The order to lift and set aside the preliminary attachment directed the sheriff of the court to deliver to LBCE and LBCDC all properties previously garnished pursuant to the writ. The counterbond delivered by LBCE and LBCDC stands as security for all properties previously attached and to satisfy any final judgment in the case.

In a Joint Resolution dated June 28, 2016, the RTC denied the motions to dismiss filed by all the defendants, including LBCE and LBCDC. Motions for reconsideration filed by the defendants were subsequently denied by the RTC in the Resolution dated February 16, 2017.

After filing motions for extension of time, LBCE and LBCDC filed their Answer with Counterclaims on April 10, 2017. In the Resolution dated June 15, 2017, the RTC denied the third motion for extension, declared all of the defendants including LBCE in default and ordered PDIC to present evidence ex-parte. LBCE and LBCDC filed a Verified Omnibus Motion for reconsideration and to lift the order of default. The other defendants filed similar motions, including a motion for inhibition. On July 21, 2017, LBCE received the Joint Resolution dated July 20, 2017, granting the Verified Omnibus Motions and the Motion for Inhibition, thereby lifting the order of default and admitting the Answers filed by all defendants.

The PDIC filed a Motion for Reconsideration dated August 7, 2017, seeking to reconsider the Joint Resolution dated July 20, 2017. The defendants, including LBCE and LBCDC have filed their respective comments thereto and the motion is currently pending resolution.

From August 10, 2017 to January 19, 2018, LBCE, LBCDC, the other defendants and PDIC were referred to mediation and Judicial Dispute Resolution (JDR) but were unable to reach a compromise agreement. The RTC ordered the mediation and JDR terminated and the case raffled to a new judge who will preside over the trial. To date, the parties are still awaiting the case to be raffled to another branch of the Makati RTC.

On April 24, 2017, LBCE and LBCDC filed a Petition for Certiorari with the Court of Appeals, challenging the RTC's June 28, 2016 Joint Resolution. The PDIC, LBCE, and LBCDC have filed their respective Comment, Reply, and Memoranda. The Petition for Certiorari was deemed submitted for resolution as of October 26, 2017 and is still pending. The ultimate outcome of the case cannot presently be determined.

After filing motions for extension of time, LBCE and LBCDC filed their Answer with Counterclaims on April 10, 2017. In the Resolution dated June 15, 2017, the RTC denied the third motion for extension, declared all of the defendants including LBCE in default and ordered PDIC to present evidence ex-parte. LBCE and LBCDC filed a Verified Omnibus Motion for reconsideration and to lift the order of default. The other defendants filed similar motions, including a motion for inhibition. On July 21, 2017, LBCE received the Joint Resolution dated July 20, 2017, granting the Verified Omnibus Motions and the Motion for Inhibition, thereby lifting the order of default and admitting the Answers filed by all defendants.

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From August 10, 2017 to January 19, 2018, LBCE, LBCDC, the other defendants and PDIC were referred to mediation and Judicial Dispute Resolution (JDR) but were unable to reach a compromise agreement. The RTC ordered the mediation and JDR terminated and the case raffled to a new judge.

On or about September 3, 2018, PDIC motions to issue alias summons to five individual defendants, who were former officers and directors of LBC Bank. For reasons not explained by PDIC, it had failed to cause the service of summons upon five of the individual defendants and hence, the court had not acquired jurisdiction over them.

On October 26, 2018, the Motion to Defer Pre-Trial scheduled on November 15, 2018 was filed because the PDIC was still trying to serve summons on the five individual defendants and thus, for orderly proceedings, pre-trial should be deferred until the court acquires jurisdiction over them.

At the hearing held on November 9, 2018, which the PDIC did not attend, the judge directed PDIC's counsel to coordinate with the Sheriff and cause the service of summons promptly. The judge then

rescheduled the pre-trial to January 23, 2019. On November 21, 2018, comment from the PDIC was received, arguing that pre-trial can proceed, even without the presence of the five individuals because there are merely necessary parties to the case, and not indispensable parties.

As of early January 2019, the alias summons was served on only two of the individual defendants, in which they filed Motion to Dismiss on November 2018 and January 2019. The PDIC filed its comments thereto and both Motions to Dismiss were deemed submitted for resolution.

On January 18, 2019, PDIC filed a Pre-Trial Brief. LBCE and the other defendants, on January 21, 2019, filed a Motion, asking the RTC to direct the PDIC to explain in writing its compliance with the previous order to cause the service of summons on the remaining five individual defendants and to defer pre-trial until the court has acquired jurisdiction over them.

On January 23, 2019, the judge ordered the PDIC to file its comment to the Motion and rescheduled the pre-trial to February 21, 2019.

The PDIC filed a Comment with Motion to Declare Defendants in Default, arguing that the pre-trial should proceed and that the current defendants are just delaying the proceedings. The PDIC also explained its efforts to serve summons on the five individuals but admitted that it had only served summons of two of the individual defendants. The PDIC also stated that it is filing another motion for the issuance of another round of alias summons for the three remaining defendants.

On February 4, 2019, a Reply was filed arguing that: (a) the PDIC never explained the three-year delay in serving summons on the other defendants, (b) it is the PDIC's omission which have made the proceedings disorderly because not all of the defendants are at the pre-trial state, and (c) to avoid complications, the pre-trial should be deferred until the court has acquired jurisdiction over all defendants.

The court conducted a hearing on February 1, 2019 on the Motion to Declare Defendants in Default and granted time to submit comment thereto. A comment opposition was filed on February 11, 2019, arguing that there is no basis to consider the current defendants in default because they are appearing at every hearing and that there are pending motions citing just and valid reasons to defer pre-trial, considering that summons are still being served on some defendants. Emphasis was given in particular that once jurisdiction is acquired over individual defendants, they will file their own answers, raising their own defenses, which should be considered at pre-trial. Also, it is mandatory to refer them to mediation and JDR for possible amicable settlement of the entire case. Even if mediation and JDR fail, the current judge is required by procedural rules to raffle the case to another branch so that his judgment is not influenced by matters discussed during JDR.

On February 18, 2019, a Pre-Trial Brief was filed by LBCE and the other defendants, without prejudice to the defendants' pending motions to defer Pre-Trial.

At the hearing scheduled on February 21, 2019, the judge took note of all the pending motions and said that they are deemed submitted for resolution. In the meantime, the judge directed the parties to perform a pre-marking of all their documentary exhibits before the clerk of court. The judge then rescheduled Pre-Trial to March 28, 2019.

The PDIC has pre-marked its evidence during pre-marking conferences held on March 6 and 11, 2019. LBCE started pre-marking its evidence on March 22, 2019 and will continue on April 10, 11, and 24, 2019.

LBCE was informed by the court staff that due to the order of Executive Judge for court records inventory and disposal, the pre-trial scheduled for March 28, 2019 will be reset to May 2, 2019.

On March 6, 2019, LBCE and LBCDC received a copy of the Court of Appeals' Decision dated February 28, 2019, denying the Petition for Certiorari. The Court of Appeals ruled that the RTC correctly denied the motion to dismiss the civil case because the PDIC representative was sufficiently authorized to sign the verification and the PDIC does not need to secure prior approval of the liquidation court to file the case.

LBCE and LBCDC filed a motion for reconsideration last March 21, 2019, which is currently pending.

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

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

Except for matters taken up during the annual meeting of the stockholders of LBCEH held on August 29, 2018, 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

LBCH common shares are listed with the PSE. As of the end of December 2018, the total number of shares held by the public was 219,686,131 common shares or 15.41% of the total issued and outstanding capital stock of the LBCH.

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

Quarter	High (₱)	Low (₱)
2018		
4 th	15.00	13.52
3 rd	15.36	14.20
2 nd	15.78	14.08
1 st	19.90	14.00
2017		
4 TH	17.00	14.80
3 RD	16.18	15.00
2 ND	17.94	14.20
1 ST	15.88	14.00
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

The stock price of common share of LBCH as of the close of the latest practicable trading date, April 12, 2019, is Php 15.78.

STOCKHOLDERS

As of end of December 2018, LBCEH has 487 registered holders of common shares. The following are the top 20 registered holders of the common shares:

	Name of Stockholder	Nationality	Number Of Shares Held	Percentage
1	LBC Development Corporation	Filipino	1,205,974,632	84.58%
2	Lim, Vittorio Paulo P.	Filipino	59,663,948	4.18%
3	Martinez Jr., Mariano D.	Filipino	59,663,946	4.18%
4	Yu, Lowell L.	Filipino	59,663,946	4.18%
5	Pcd Nominee Corporation	Filipino	37,052,695	2.60%
6	Pcd Nominee Corporation	Non-Filipino	3,300,202	0.23%
7	Ko Mei Nga	Filipino	10,000	0.0007%
8	Tia, Tommy Kin Hing	Chinese	10,000	0.0007%
9	Santos, Ferdinand S.	Filipino	10,000	0.0007%
10	Lantin, Andy	Filipino	5,000	0.0004%
11	Leong, Jennifer H.	Filipino	3,000	0.0002%
12	Cabual, Alfonso B.	Filipino	3,000	0.0002%
13	Balo, Jimmy P.	Filipino	2,000	0.0001%
14	Cabale, Roy V.	Filipino	2,000	0.0001%
15	Batalla, Wilfredo P.	Filipino	2,000	0.0001%
16	Bordios, Norman S.	Filipino	2,000	0.0001%
17	Abapo, Wilfredo M.	Filipino	2,000	0.0001%
18	Amoncio, Juhjeh P.	Filipino	2,000	0.0001%
19	Apal, Rommel	Filipino	2,000	0.0001%
20	Aquino, Agapito U.	Filipino	2,000	0.0001%

DIVIDENDS

Dividend Policy

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

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

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

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

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

Dividend History

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

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

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

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

RECENT SALE OF SECURITIES

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

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

KEY PERFORMANCE INDICATORS

Financial Ratios:

		2018	2017	2016
Current ratio	Current Assets/Current Liabilities	1.71	2.51	1.67
Debt to equity ratio	Total Liabilities/Stockholders' Equity	2.47	2.98	1.74
Debt to total assets ratio	Total Liabilities/Total Assets	0.71	0.75	0.63
Return on average assets	Net income attributable to Parent Company/ Average assets	13.07%	8.71%	14.52%
Book value per share	Stockholders' Equity/ Total Number Shares	P2.30	P1.66	P1.73
		P0.95	P0.49	P0.65
Basic Earnings per share	Net Income/ Total Number Shares	P0.68	P0.49	P0.65
Diluted Earnings per share	Net Income/ Total Number Shares (with consideration of the dilutive effect of convertible instrument)			

RESULTS OF OPERATIONS

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

Service Revenues

The Group's service revenues increased by 25%, to ₱12,514.18 million for the year ended December 31, 2018, from ₱10,020.12 million, for the year ended December 31, 2017, primarily due to the increase in revenues from the Logistics segment, attributable to growth in both retail and corporate sales by 25% and 35%, respectively.

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

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

Cost of Services

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

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

Gross Profit

Gross profit increased by 16% to ₱3,950.60 million for the year ended December 31, 2018 from ₱3,414.08 million for the year ended December 31, 2017, primarily due to the increase in volume and revenue amounts for logistics services.

Operating Expenses

Operating expenses increased by 25% to ₱2,582.95 million for the year ended December 31, 2018 from ₱2,066.64 million for the year ended December 31, 2017, relative to the following: Salaries and wages expenses increased by 27% or ₱134.97 million, relative to an annual appraisal resulting from inflation, and the implementation of TRAIN Law which increased fringe benefit tax rate from 32% to 35%.

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

Provision for impairment losses increased by ₱69.06 million, mainly due to the adoption of the new standard, PFRS 9, which requires recording an allowance for impairment loss for all loans and other debt financial assets not held at fair value at profit and loss. This resulted to the additional provision from the change in forecast and model assumptions.

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

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

Other Income, Net

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

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

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

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

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

Net Income after tax

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

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

Year ended December 31, 2017 compared to the year ended December 31, 2016

Service Revenues

The Group's service revenues increased by 15% to ₱10,020.12 million for the year ended December 31, 2017 from ₱8,695.40 million for the year ended December 31, 2016, primarily due to increase in revenues from the Logistics segment attributable to growth in both retail and corporate sales.

Logistics

Revenues from the Logistics segment grew by 19% to ₱8,981.17 million for the year ended December 31, 2017 from ₱7,521.87 million for the year ended December 31, 2016, primarily due to growth in retail and corporate revenue by 16% and 26%, respectively. The growth in volume of retail services was mainly attributable to the horizontal growth of the Group, evidenced by the addition of average 57 new branches in the Philippines. Corporate accounts' growth was contributed by both large and small-medium enterprise clients. There is also an incremental increase in the Company's volumes from cargo forwarding services during the year.

Cost of Services

Cost of services increased by 18% to ₱6,606.03 million for the year ended December 31, 2017 from ₱5,590.51 million for the year ended December 31, 2016 relative to growth in volume in logistic services. Moreover, truck rental rates are higher primarily due to increase in fuel prices in 2017.

Gross Profit

Gross profit increased by 10% to ₱3,414.08 million for the year ended December 31, 2017 from ₱3,104.89 million for the year ended December 31, 2016, primarily due to the increase in volume for logistic services.

Operating Expenses

Operating expenses increased by 10% to ₱2,066.64 million for the year ended December 31, 2017 from ₱1,872.81 million for the year ended December 31, 2016.

Professional fee is higher by 35% mainly related to acquired services of consultants for process improvement.

Rent expense increased by 21% primarily resulting from renewal of head office lease contract effective October 2016 with escalation on monthly fee and two new administrative warehouses contract which started mid-2016.

Taxes and licenses increased by 18% primarily related to additional branches and increase in gross receipts which are the basis for business permits.

Dues and subscription is increased to ₱31.28 million for the year ended December 31, 2017 from ₱3.80 million for the year ended December 31, 2016, related to the new cloud services acquired and the cost of support for migration.

Other Income, Net

Foreign exchange gain, net is lower by 36% which resulted from the foreign exchange trading, revaluation of time deposit denominated in US dollars and convertible instrument.

Loss on derivative amounting to ₱199.95 million is recognized as a result of higher estimated fair market value of derivative liability as at December 31, 2017 as compared to the value on inception date. This is primarily due to higher LBC stock price as compared to the stock price on the convertible instrument transaction date which generally increase the value of the derivative.

Interest expense is higher by 115% or ₱73.32 million primarily due to bond payable accretion and current period interest from notes payable, finance lease and other liabilities.

Net Income after tax

The Group's profit for the year decreased by 23% to ₱707.92 million for the year ended December 31, 2017 from ₱913.94 million for the year ended December 31, 2016 as a result of the foregoing movements.

FINANCIAL CONDITION

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

Assets

Current Assets:

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

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

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

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

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

Non-current Assets

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

Intangibles, net is higher by 56% to ₱555.36 million as of December 31, 2018 from ₱356.85 million as of December 31, 2017, mostly from the software of the acquired entity engaged in online logistics with net book value amounting to ₱198.22 million as of December 31, 2018. In addition, the LBC Express acquired web filtering software amounting to ₱15.19 million, on an interest bearing payment arrangement over 18 months.

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

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

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

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

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

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

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

Liabilities

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

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

Due to related parties amounting to ₱93.99 million as of December 31, 2018 was largely comprised of accounts acquired during business combination. The Group regularly makes advances to and from related parties to finance working capital requirements.

Dividends payable amounting to ₱285.17 million represents the amount declared by LBCH's Board of Directors on December 20, 2018.

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

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

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

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

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

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

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

As at December 31, 2017, compared to as at December 31, 2016

Assets

Current Assets

Cash and cash equivalents increased by 185% to ₱3,778.41 million as at December 31, 2017 from ₱1,327.79 million as at December 31, 2016. Refer to analysis of cash flows in “Liquidity” section below.

Trade and other receivables increased by 10% to ₱1,675.80 million as at December 31, 2017 from ₱1,526.72 million as at December 31, 2016, primarily due to growth of receivables from customers amounting to ₱166.04 million in relation to increase in revenue from corporate accounts.

Due from related parties decreased by 40% to ₱667.72 million as of December 31, 2017 from ₱1,108.00 million as at December 31, 2016, largely traceable to offsetting of dividend payment to existing receivable of LBCDC amounting to ₱699.47 million.

Available-for-sale investments (current and noncurrent) is higher by 25% to ₱885.50 million as at December 31, 2017 from ₱709.33 million as at December 31, 2016 which resulted from net placement UITF account during the year. LBCH opened a dollar account and placed \$4.0 million in December 2017. This is offset by loss resulting from lower market value of quoted shares.

Prepayments and other current assets increased by 15% to ₱446.13 million as at December 31, 2017 from ₱388.09 million as at December 31, 2016 mainly because of higher advance rental by ₱21.84 million resulting from additional Philippines branches (2017: 1,321 vs 2016: 1,249). Input VAT also increased by ₱23.94 million. These increases are offset by decrease in marketable securities by ₱11.01 million. This is classified as “other current assets” since the maturity is more than three months.

Non-current Assets

Property and equipment, net increased by 16% to ₱976.05 million as of December 31, 2017 from ₱840.48 million as at December 31, 2016, primarily due to business expansion which led to net acquisitions of transportation equipment, leasehold improvements and construction in progress resulting to an increase by 23%, 19% and 91%, respectively, based on net book value.

Intangibles, net increased by 34% to ₱356.85 million as at December 31, 2017, from ₱266.05 million as at December 31, 2016, mainly related to acquisition of new payroll and logistics system (RAMCO) and IT security tool. This is offset by the increase in amortization charges for the year amounting to ₱65.00 million.

Deferred tax assets, net increased by 6% to ₱289.52 million as at December 31, 2017, from ₱274.38 million as at December 31, 2016, resulted from higher non-deductible expenses from retirement benefit which are charged to other comprehensive income.

Security deposits, increased by 13% to ₱255.43 million as at December 31, 2017, from ₱226.26 million as at December 31, 2016, primarily due to additional branches.

Other noncurrent assets, increased by 31% to ₱92.16 million as at December 31, 2017, from ₱70.15 million as of December 31, 2016, which resulted from the increase in noncurrent portion of input tax on capital assets amounting to ₱5.63 million, higher prepaid rental amounting to ₱7.38 million advance payment for the development of Interblocks software amounting to ₱9.00 million.

Liabilities

Accounts and other payables increased by 24% to ₱1,603.11 million as at December 31, 2017, from ₱1,295.16 million as at December 31, 2016. Trade payable from outside parties is higher by 34% mostly from increase in customer deposits and cash bonds. Accrued contracted jobs doubled as at year-end due to increase in headcount to cover the volume transacted during peak season. In addition, payable related to taxes is higher by 63% which comprise of VAT payable, expanded withholding taxes and withholding taxes on compensation.

Notes payable (current and noncurrent) decreased by 23% to ₱1,041.30 million as at December 31, 2017, from ₱1,359.22 million as at December 31, 2016, primarily due to settlements of short and long-term notes during the year.

Transmission liability increased by 26% to ₱588.20 million as at December 31, 2017, from ₱467.28 million as at December 31, 2016, relative to higher volume of unremitted collection on delivery (COD) transactions this year.

Income tax payable decreased by 51% to ₱125.02 million as at December 31, 2017, from ₱254.76 million as at December 31, 2016, resulting from payment of 2016 annual income tax.

Finance lease liabilities (current and noncurrent) decreased by 5% to ₱117.72 million as at December 31, 2017, from ₱124.07 million as of December 31, 2016, due to lease settlements in 2017 amounting to ₱45.90 million and offset by additional liability for service vehicles acquired through finance lease during the year amounting to ₱39.60 million.

Bond payable and derivative liability recognition amounting to ₱896.19 million and ₱1,860.37 million, respectively, as at December 31, 2017 is the result of issuance of a seven-year secured convertible instrument, in favor of CP Briks Pte. Ltd, in the aggregate principal amount of US\$50.00 million, convertible into 192,307,692 common shares of LBCH at the option of the holder at ₱13.00 per share conversion price (using the US\$1=₱50 exchange rate). The instrument is due in 2024 or the seventh anniversary from the issuance date. The proceeds from the issuance of the instrument shall be used to fund the growth of the business of the Group including capital expenditures and working capital. The convertible debt is a hybrid instrument containing host financial liability and derivative component for the conversion and redemption options.

Retirement benefit obligation decreased by 2% to ₱705.33 million as at December 31, 2017, from ₱721.03 million as at December 31, 2016 primarily due to contributions in the plan assets during the year and benefits paid directly by the Group.

Other liabilities account is higher by 243% or ₱83.85 million which comprise of IBM cloud subscription obligation, new payroll and logistics system of LBC Express and subscription of IT security software.

LIQUIDITY

Cash Flows

Years ended December 31, 2018 and December 31, 2017

Cash flow from operating activities

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

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

Cash flows used in investing activities

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

- Business combination in 2018, in which the net cash payment (net of cash acquired) amounted to ₱43.43 million for all acquired subsidiaries. Settlement related to investment in associate amounted to ₱218.27 million.
- Acquisitions of property and equipment and intangibles amounted to ₱540.14 million and ₱164.33 million, respectively, in 2018 while it amounted to ₱354.91 million and ₱38.45 million, respectively, in 2017.

Cash flow from financing activities

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

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

Years ended December 31, 2017 and December 31, 2016

Cash flow from operating activities

The Group's net cash from operating activities is primarily affected by income before income tax, depreciation and amortization, unrealized foreign exchange gain, retirement benefit expense, interest expense, loss on derivatives and changes in working capital. The Group's net cash from operating activities were ₱1,386.28 million, and ₱800.57 million for the year ended December 31, 2017 and 2016, respectively.

For the year ended December 31, 2017, 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, 2017 and 2016 were ₱834.55 million and ₱603.01 million, respectively.

Cash used for acquisition of property and equipment and intangible assets during the year amounted to ₱354.91 million and ₱38.45 million, respectively. The Group also acquired available-for-sale investments amounting to ₱1,394.02 million, gross of redemptions amounting to ₱1,206.36 million during the year.

Cash flow from financing activities

Cash flow from financing activities for the years ended December 31, 2017 and 2016 were ₱1,922.97 million and ₱154.92 million, respectively.

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

Item 7. FINANCIAL STATEMENTS

The 2018 consolidated financial statements of the Company are incorporated herein the accompanying index to exhibits.

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

The consolidated financial statements of the Company as at and for the year ended December 31, 2018 and 2017 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.

	2018	2017
In millions (P)		
Audit and Audit-Related Fees ⁽¹⁾	P5.68	P3.45
Total	P5.68	P3.45

(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

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

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 LBCH's board of directors:

Name	Nationality	Age	Position
Miguel Angel A. Camahort	Filipino	56	Chairman of the Board
Rene E. Fuentes	Filipino	45	Director
Enrique V. Rey, Jr.	Filipino	48	Director
Augusto G. Gan	Filipino	56	Director
Mark Werner J. Rosal	Filipino	44	Director
Jason Michael Rosenblatt	American	42	Director
Anthony A. Abad	Filipino	55	Independent Director
Solita V. Delantar	Filipino	75	Independent Director
Luis N. Yu, Jr.	Filipino	63	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 LBCEH. 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

Chief Finance Officer and Investor Relations Officer

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

Augusto G. Gan

Director

Mr. Augusto G. Gan was appointed Director of LBCEH 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.

Mark Werner J. Rosal

Director

Atty. Rosal became a director of LBCEH on April 28, 2015. Born in Cebu City, Atty. Rosal, prior to taking up law, has a Bachelor's Degree in Physical Therapy from Cebu Velez College and is a licensed Physical Therapist. Atty. Rosal graduated in the top 5% of his law school batch at the University of San Carlos, Cebu City, in 2002 and was admitted to the Philippine Bar in 2003. He spent his early years in

the practice of law at Balgos and Perez Law Offices and Angara Cruz Concepcion Regala and Abello (ACCRALAW). Currently, he is the Managing Partner of Rosal Diaz Bacalla and Fortuna Law Offices, a Cebu-based law firm. As part of his law practice as retained counsel of private corporations, he is a director (holding nominal shares) of Cebu Agarum Motors Inc., Wide Gain Property Holdings, Inc., and Sem-Ros Food Corp. (a non-operational corporation).

Jason Michael Rosenblatt

Director

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

Anthony A. Abad

Independent Director

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

Solita V. Delantar

Independent Director

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

Luis N. Yu, Jr.

Independent Director

Mr. Luis Yu, Jr. is the Founder and Chairman Emeritus of the 8990 Holdings, Inc. Mr. Yu is also the Chairman Emeritus of IHoldings, Inc. (2012 to present). He is also the Chairman of 8990 Cebu Housing Development Corporation, 8990 Visayas Housing Development Corporation, 8990 Davao Housing Development Corporation, 8990 Mindanao Housing Development Corporation, 8990 Iloilo Housing Development Corporation and 8990 Luzon Housing Development Corporation (2009 to present), 8990 Housing Development Corporation (2006 to present), Ceres Homes, Inc. (2002 to present), N&S Homes, Inc. (1998 to present), L&D Realty Holdings, Inc. (1998 to present), and Fog Horn (1994 to present). Mr. Yu is currently the President of DECA Housing Corporation (1995 to present). Mr. Yu holds a Master in

Business Management degree from the Asian Institute of Management. Mr. Yu has more than 30 years of experience managing and heading companies engaged in Mass Housing subdivision development.

MANAGEMENT AND OFFICERS

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

Name	Nationality	Age	Position
Miguel Angel A. Camahort	Filipino	56	Chief Executive Officer and President
Enrique V. Rey, Jr.	Filipino	48	Chief Finance Officer and Investor Relations Officer
Cristina S. Palma Gil-Fernandez	Filipino	50	Corporate Secretary
Rosalie H. Infantado	Filipino	43	Treasurer
Mahleene G. Go	Filipino	38	Assistant Corporate Secretary, Corporate Information Officer and Compliance Officer
Ernesto C. Naval III	Filipino	26	Alternate Corporate Information Officer

The business experience of each of the LBCEH'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, 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 LBCEH 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.

Rosalie H. Infantado

Treasurer

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

Mahleene G. Go

Assistant Corporate Secretary, Corporate Information Officer and Compliance Officer

Atty. Mahleene G. Go assumed the position of Assistant Corporate Secretary, Compliance Officer and Corporate Information Officer of LBCEH 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.

Ernesto C. Naval III

Alternate Corporate Information Officer

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

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

SIGNIFICANT EMPLOYEES

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

FAMILY RELATIONSHIPS

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

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

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

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

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

On December 8, 2011, the Philippine Deposit Insurance Company (PDIC), as the official receiver and liquidator of closed banks, demanded on behalf of the Bank that LBC Holdings USA Corporation (LBC US) pay for its alleged outstanding obligations to LBC Bank amounting to approximately ₱1.00 billion, a claim that LBC US has denied as being baseless and unfounded. No further demand on this matter has been made by the PDIC since then, although there are no assurances that the claim has been waived or abandoned in whole or in part, or that the PDIC will not institute relevant proceedings in court or serve another demand letter to LBC US. In relation to the Bank's closure and receivership, the receivables amounting to ₱295.00 million were written-off in 2011.

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

On November 2, 2015, the Bank, represented by the PDIC, filed a case against LBC Express, Inc. (LBCE) and LBC Development Corporation (LBCDC), together with other respondents, before the Makati City Regional Trial Court (RTC) for a total collection of ₱1.82 billion. The case is in relation to the March 17, 2014 demand letter representing collection of unpaid service fees due from June 2006 to August 2011 and service charges on remittance transactions from January 2010 to September 2011. In the Complaint, the PDIC justified the increase in the amount from the demand letter to the amount claimed in the case due to their discovery that the supposed payments of LBCE were allegedly unsupported by actual cash inflow to the Bank.

On December 28, 2015, the summons, together with a copy of the Complaint of LBC Development Bank, Inc., and the writ of preliminary attachment were served on the former Corporate Secretary of LBCE. The writ of preliminary attachment resulted to the (a) attachment of the 1,205,974,632 shares of LBC Express Holdings, Inc. owned by LBCDC and (b) attachment of various bank accounts of LBCE totaling ₱6.90 million. The attachment of the shares in the record of the stock transfer agent had the effect of preventing the registration or recording of any transfers of shares in the records, until the writ of attachment is discharged.

LBCE and LBCDC, the ultimate parent company, together with other defendants, filed motions to dismiss the Complaint on January 12, 2016. On January 21, 2016, LBCE and LBCDC filed its Urgent Motion to Approve the Counterbond and Discharge the Writ of Attachment.

On February 17, 2016, the RTC issued the order to lift and set aside the writ of preliminary attachment. The order to lift and set aside the preliminary attachment directed the sheriff of the court to deliver to LBCE and LBCDC all properties previously garnished pursuant to the writ. The counterbond delivered by LBCE and LBCDC stands as security for all properties previously attached and to satisfy any final judgment in the case.

In a Joint Resolution dated June 28, 2016, the RTC denied the motions to dismiss filed by all the defendants, including LBCE and LBCDC. Motions for reconsideration filed by the defendants were subsequently denied by the RTC in the Resolution dated February 16, 2017.

On April 24, 2017, LBCE and LBCDC filed a Petition for Certiorari with the Court of Appeals, challenging the RTC's June 28, 2016 Joint Resolution. The PDIC, LBCE, and LBCDC have filed their respective Comment, Reply, and Memoranda. The Petition for Certiorari was deemed submitted for resolution as of October 26, 2017.

After filing motions for extension of time, LBCE and LBCDC filed their Answer with Counterclaims on April 10, 2017. In the Resolution dated June 15, 2017, the RTC denied the third motion for extension, declared all of the defendants including LBCE in default and ordered PDIC to present evidence ex-parte. LBCE and LBCDC filed a Verified Omnibus Motion for reconsideration and to lift the order of default. The other defendants filed similar motions, including a motion for inhibition. On July 21, 2017, LBCE received the Joint Resolution dated July 20, 2017, granting the Verified Omnibus Motions and the Motion for Inhibition, thereby lifting the order of default and admitting the Answers filed by all defendants.

The PDIC filed a Motion for Reconsideration dated August 7, 2017, seeking to reconsider the Joint Resolution dated July 20, 2017. The defendants, including LBCE and LBCDC have filed their respective comments thereto and the motion is currently pending resolution.

From August 10, 2017 to January 19, 2018, LBCE, LBCDC, the other defendants and PDIC were referred to mediation and Judicial Dispute Resolution (JDR) but were unable to reach a compromise agreement. The RTC ordered the mediation and JDR terminated and the case raffled to a new judge.

On or about September 3, 2018, PDIC motions to issue alias summons to five individual defendants, who were former officers and directors of LBC Bank. For reasons not explained by PDIC, it had failed to cause the service of summons upon five of the individual defendants and hence, the court had not acquired jurisdiction over them.

On October 26, 2018, the Motion to Defer Pre-Trial scheduled on November 15, 2018 was filed because the PDIC was still trying to serve summons on the five individual defendants and thus, for orderly proceedings, pre-trial should be deferred until the court acquires jurisdiction over them.

At the hearing held on November 9, 2018, which the PDIC did not attend, the judge directed PDIC's counsel to coordinate with the Sheriff and cause the service of summons promptly. The judge then rescheduled the pre-trial to January 23, 2019. On November 21, 2018, comment from the PDIC was received, arguing that pre-trial can proceed, even without the presence of the five individuals because there are merely necessary parties to the case, and not indispensable parties.

As of early January 2019, the alias summons was served on only two of the individual defendants, in which they filed Motion to Dismiss on November 2018 and January 2019. The PDIC filed its comments thereto and both Motions to Dismiss were deemed submitted for resolution.

On January 18, 2019, PDIC filed a Pre-Trial Brief. LBCE and the other defendants, on January 21, 2019, filed a Motion, asking the RTC to direct the PDIC to explain in writing its compliance with the previous order to cause the service of summons on the remaining five individual defendants and to defer pre-trial until the court has acquired jurisdiction over them.

On January 23, 2019, the judge ordered the PDIC to file its comment to the Motion and rescheduled the pre-trial to February 21, 2019.

The PDIC filed a Comment with Motion to Declare Defendants in Default, arguing that the pre-trial should proceed and that the current defendants are just delaying the proceedings. The PDIC also explained its efforts to serve summons on the five individuals but admitted that it had only served summons of two of the individual defendants. The PDIC also stated that it is filing another motion for the issuance of another round of alias summons for the three remaining defendants.

On February 4, 2019, a Reply was filed arguing that: (a) the PDIC never explained the three-year delay in serving summons on the other defendants, (b) it is the PDIC's omission which have made the proceedings disorderly because not all of the defendants are at the pre-trial state, and (c) to avoid complications, the pre-trial should be deferred until the court has acquired jurisdiction over all defendants. The court conducted a hearing on February 1, 2019 on the Motion to Declare Defendants in Default and granted time to submit comment thereto. A comment opposition was filed on February 11, 2019, arguing that there is no basis to consider the current defendants in default because they are appearing at every hearing and that there are pending motions citing just and valid reasons to defer pre-trial, considering that summons are still being served on some defendants. Emphasis was given in particular that once jurisdiction is acquired over individual defendants, they will file their own answers, raising their own defenses, which should be considered at pre-trial. Also, it is mandatory to refer them to mediation and JDR for possible amicable settlement of the entire case. Even if mediation and JDR fail, the current judge is required by procedural rules to raffle the case to another branch so that his judgment is not influenced by matters discussed during JDR.

On February 18, 2019, a Pre-Trial Brief was filed by LBCE and the other defendants, without prejudice to the defendants' pending motions to defer Pre-Trial.

At the hearing scheduled on February 21, 2019, the judge took note of all the pending motions and said that they are deemed submitted for resolution. In the meantime, the judge directed the parties to perform a pre-marking of all their documentary exhibits before the clerk of court. The judge then rescheduled Pre-Trial to March 28, 2019.

The PDIC has pre-marked its evidence during pre-marking conferences held on March 6 and 11, 2019. LBCE started pre-marking its evidence on March 22, 2019 and will continue on April 10, 11, and 24, 2019.

LBCE was informed by the court staff that due to the order of Executive Judge for court records inventory and disposal, the pre-trial scheduled for March 28, 2019 will be reset to May 2, 2019.

On March 6, 2019, LBCE and LBCDC received a copy of the Court of Appeals' Decision dated February 28, 2019, denying the Petition for Certiorari. The Court of Appeals ruled that the RTC correctly denied the motion to dismiss the civil case because the PDIC representative was sufficiently authorized to sign the verification and the PDIC does not need to secure prior approval of the liquidation court to file the case.

LBCE and LBCDC filed a motion for reconsideration last March 21, 2019, which is currently pending.

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

Item 10. EXECUTIVE COMPENSATION

COMPENSATION

There are no employees under LBCH.

Standard Arrangements

Other than payment of reasonable per diem as may be determined by the board of directors for every meeting, there are no standard arrangements pursuant to which directors of LBCH are compensated, or

were compensated, directly or indirectly, for any services provided as a director and for their committee participation or special assignments for 2010 up to the present.

Other Arrangements

There are no other arrangements pursuant to which any director of LBCH was compensated, or to be compensated, directly or indirectly, during 2018 for any service provided as a director.

EMPLOYMENT CONTRACTS

LBCH has no special employment contracts with the named executive officers.

WARRANTS AND OPTIONS OUTSTANDING

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

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Record and Beneficial Owners of more than 5% of the LBCEH's voting securities as of December 31, 2018.

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

Security Ownership of Directors and Officers as of December 31, 2018

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	% of Total Outstanding Shares
Common	Rene E. Fuentes	1- direct	Filipino	0.0%
Common	Enrique V. Rey, Jr.	1- direct	Filipino	0.0%
Common	Augusto G. Gan	1- direct	Filipino	0.0%
Common	Miguel Angel A. Camahort	1- direct	Filipino	0.0%
Common	Mark Werner J. Rosal	1,000 - direct	Filipino	0.0%
Common	Solita V. Delantar	1- direct	Filipino	0.0%
Common	Luis N. Yu, Jr.	1- direct	Filipino	0.0%
Common	Antonio A. Abad	101-direct	Filipino	0.0%
Common	Jason Michael Rosenblatt	1-direct	Filipino	0.0%

Voting Trust Holders of five percent or More

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

CHANGE IN CONTROL

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

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

As of December 31, 2018, there are no arrangements which would delay, defer or prevent a change in control of the Company.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

RELATED PARTY TRANSACTIONS

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

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

Please refer to Note 15 (“Related Party Transactions”) to the notes to the 2018 consolidated financial statements of the Company which is incorporated herein in the accompanying index to exhibits.

The Company has the following major transactions with related parties:

Royalty Fee and Licensing Agreement with Parent Company

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

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

Cash Advances to and from Related Parties

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

Fulfillment Fee

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

Guarantee Fee

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

Dividends

On December 20, 2018, the Board of Directors of LBCEH approved the declaration of cash dividends amounting to P285.17 million or P0.20 for every issued and outstanding common share.

PARENT COMPANY/MAJOR HOLDERS

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

PART IV - CORPORATE GOVERNANCE

Item 13. CORPORATE GOVERNANCE

Please refer to the Integrated Annual Corporate Governance Report submitted on May 31, 2018.

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 2018:

	Disclosure	Date of Report
1	SEC 17-C (Material Information/Transaction) (Board approval on the incorporation of a Singaporean private limited company)	28 February 2018
2	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Incorporation of a Singaporean Company (“Diez Equiz Pte. Ltd.”))	28 February 2018
3	SEC 17-C (Change in Directors and/or Officers) (Resignation of Mr. Alexander Francis D. Deato as member of the Board of Directors and appointment of Mr. Jason Rosenblatt as new member of the Board of Directors)	2 March 2018
4	SEC 17-C (Material Information/Transaction) (Board approval of the purchase of shares in the following companies: LBC Mundial Corporation; LBC Mabuhay Hawaii Corporation; LBC Mabuhay North America Corporation; and LBC Mabuhay Saipan Inc.)	7 March 2018
5	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of shares in LBC Mabuhay Saipan Inc.)	7 March 2018
6	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of shares in LBC Mabuhay Hawaii Corporation)	7 March 2018
7	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of shares in LBC Mundial Corporation)	7 March 2018
8	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of shares in LBC Mabuhay North America Corporation)	7 March 2018
9	SEC 17-C (Substantial Acquisitions) (Acquisition of shares in LBC Mundial Corporation)	14 March 2018
10	SEC 17-C (Material Information/Transaction) (Board approval to invest and acquire 30% equity interest in Orient Freight International, Inc.)	19 March 2018
11	SEC 17-C (Substantial Acquisition) (Acquisition of shares in Orient Freight International, Inc.)	19 March 2018
12	SEC 17-C (Substantial Acquisitions) (Acquisition of shares QUADX Inc.)	19 March 2018
13	SEC 17-C (Material Information/Transaction) (Board approval of the acquisition of shares in QUADX Inc.)	19 March 2018
14	SEC 17-C (Material Information/Transaction) (Board approval to invest and acquire 86% equity interest in QuadX Pte. Ltd.)	4 April 2018
15	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of shares in a Singaporean Company (“QuadX Pte. Ltd.”))	4 April 2018
16	SEC 17-C (Material Information/Transaction) (Board approval to dispose 86% equity interest in Diez Equiz Pte Ltd.)	5 April 2018
17	SEC 17-C (Material Information/Transaction) (Re-filing of the 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”))	12 April 2018
18	SEC 17-C (Material Information/Transaction) (Board approval to infuse additional capital in QuadX Pte Ltd.)	23 April 2018
19	SEC 17-C (Amend-1) (Substantial Acquisitions) (Acquisition of shares in QUADX Inc.)	27 April 2018
20	SEC 17-C (Notice of Annual or Special Stockholder’s Meeting) (Rescheduling of the Annual Stockholders’ Meeting)	8 May 2018
21	SEC 17-C (Amend-1) (Notice of Annual or Special Stockholder’s Meeting) (Rescheduling of the Annual Stockholders’ Meeting)	23 May 2018
22	SEC 17-C (Clarification of News Reports) (Clarification on the news article entitled “Aranetas seek a deal with Dominguez” published in June 15, 2018 issue of The Philippine Star)	18 June 2018
23	SEC 17-C (Amend-5) (Legal Proceedings) (Further update on Civil Case No. 15-1258 against, among others, LBC Development Corporation and LBC Express, Inc.)	19 June 2018

24	SEC 17-C (Change in Directors and/or Officers) (Resignation of Ms. Maria Eloisa Imelda S. Singzon as Alternate Corporate Information Officer and appointment of Mr. Ernesto C. Naval III as the replacement Alternate Corporation Information Officer)	20 June 2018
25	SEC 17-C (Material Information/Transaction) (Board approval of the purchase of shares in the following companies: LBC Australia PTY Limited; LBC Money Transfer PTY Limited; LBC Express Airfreight (S) PTE LTD; and LBC Aircargo (S) PTE LTD.)	27 June 2018
26	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of shares in LBC Aircargo (S) PTE. LTD.)	27 June 2018
27	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of shares in LBC Money Transfer PYT Limited)	27 June 2018
28	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of shares in LBC Express Airfreight (S) PTE. LTD)	27 June 2018
29	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of shares in LBC Australia PTY Limited)	27 June 2018
30	SEC 17-C (Results of Annual or Special Stockholders' Meeting) (Results of the Annual Stockholder's Meeting of LBC Express Holdings, Inc.)	9 July 2018
31	SEC 17-C (Results of Organizational Meeting of Board of Directors) (Results of Organizational Meeting of Board of Directors)	9 July 2018
32	SEC 17-C (Clarification of News Reports) (Clarification on the news article entitled "LBC Express to take over foreign units" posted in manilastandard.net on July 9, 2018)	10 July 2018
33	SEC 17-C (Clarification of News Reports) (Clarification on the news article entitled "LBC Express expands network, going digital" posted in Manila Bulletin (Internet Edition) on July 10, 2018)	11 July 2018
34	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of shares in LBC Mabuhay (Malaysia) SDN BHD)	15 August 2018
35	SEC 17-C (Amend-1) (Amendments to By-Laws) (Amendment of the By-Laws of the LBC Express Holdings, Inc. (the "Company"))	29 August 2018
36	SEC 17-C (Amend-2) (Amendments to By-Laws) (Amendment of the By-Laws of the LBC Express Holdings, Inc. (the "Company"))	29 August 2018
37	SEC 17-C (Amend-3) (Amendments to By-Laws) (Amendment of the By-Laws of the LBC Express Holdings, Inc. (the "Company"))	12 September 2018
38	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of share in LBC Mabuhay Remittance SDN BHD)	15 October 2018
39	SEC 17-C (Acquisition/Disposition of Shares of Another Corporation) (Acquisition of shares in LBC Mabuhay (B) SDN BHD)	15 October 2018
40	SEC 17-C (Material Information/Transaction) (Inclusion in the Bangko Sentral ng Pilipinas (BSP) Watchlist File)	19 November 2018
41	SEC 17-C (Material Information/Transaction) (Inclusion in the Bangko Sentral ng Pilipinas (BSP) Watchlist File)	21 November 2018
42	SEC 17-C (Declaration of Cash Dividends) (Declaration of Cash Dividends)	20 December 2018
43	SEC 17-C (Amend-1) (Declaration of Cash Dividends) (Declaration of Cash Dividends)	20 December 2018

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 12 APR 2019 2019, affiant exhibiting to me his competent evidence of identity, as follow:

Name	Competent ID	Date of Expiration and Place of Issue
Miguel Angel A. Camahort	Philippine Passport No. P351081A	22 June 2022 DFA Manila

Doc. No. 269 ;
Book No. 59 ;
Page No. 11 ;
Series of 2019.


ATTY. MICHAEL JOBERT M. MARASIGAN
NOTARY PUBLIC FOR CITY OF MANILA
COMMISSION NO. 2018-039 UNTIL DECEMBER 2019
ROLL OF ATTORNEY NO. 58317
PTR NO. 8003001 / MANILA / 01-10-19
IBP NO. 061391 / MANILA / 01-08-19
MCLE NO. V-0018336 / 04-08-16
716 MAGALLANES ST., INTRAMUROS, MANILA

SIGNATURE

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:


Enrique V. Rey, Jr.
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this 12 APR 2019 day of _____ 2019, affiant exhibiting to me his competent evidence of identity, as follow:

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

Doc. No. 268 ;
Book No. 4 ;
Page No. 1 ;
Series of 2019.


ATTY. MICHAEL JOBERT M. MARASIGAN
NOTARY PUBLIC FOR CITY OF MANILA
COMMISSION NO. 2010-099 UNTIL DECEMBER 2019
ROLL OF ATTORNEY NO. 50317
PTR NO. 505000 / MANILA / 01-10-19
IEP NO. 061391 / MANILA / 01-08-19
MCLE NO. V-00163367 04-08-16
716 MAGALLANES ST., INTRAMUROS, MANILA

SIGNATURE

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:


Rosalie H. Infantado
Treasurer

SUBSCRIBED AND SWORN to before me this 12 APR 2019 day of _____, 2019, affiant exhibiting to me her competent evidence of identity, as follow:

Name	Competent ID	Date of Issuance and Place of Issue
Rosalie H. Infantado	Philippine Passport No. EC2893626	3 December 2014 DFA Manila

Doc. No. 267 ;
Book No. 59 ;
Page No. 11 ;
Series of 2019.


ATTY. MICHAEL ROBERT M. MARASIGAN
NOTARY PUBLIC FOR CITY OF MANILA
COMMISSION NO. 2018-099 UNTIL DECEMBER 2019
ROLL OF ATTORNEY NO. 58317
PTR NO. 8053431 / MANILA / 01-10-19
IBP NO. 061391 / MANILA / 01-08-19
MCLE NO. V-0018336 / 04-08-16
716 MAGALLANES ST., INTRAMUROS, MANILA

SIGNATURES

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

LBC EXPRESS HOLDINGS, INC.

By:




Mahleene G. Go

Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me this 12 APR 2019 day of _____ 2019, affiants exhibiting to me their respective competent evidence of identities, as follows:

Name	Competent ID	Date and Place of Issue
Mahleene G. Go	Philippine Passport No. P8881940A	24 September 2018 DFA NCR East

Doc. No. 266 ;
Book No. 59 ;
Page No. II ;
Series of 2019.



ATTY. MICHAEL ROBERT M. MARASIGAN
NOTARY PUBLIC FOR CITY OF MANILA
COMMISSION NO. 2018-099 UNTIL DECEMBER 2019
ROLL OF ATTORNEY NO. 88317
PTR NO. 8053331 / MANILA / 01-10-19
IBP NO. 061391 / MANILA / 01-08-19
MCLE NO. V-0016336 / 04-08-16
715 MAGALLANES ST., INTRAMUROS, MANILA