

MANAGEMENT REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

KEY PERFORMANCE INDICATORS

Financial Ratios

		For the three months ended 31 March 2016	For the three months ended 31 March 2015
Current ratio	Current Assets/Current Liabilities	1.27:1	1.15:1
Debt to equity ratio	Total Liabilities/Stockholders' Equity	2.04:1	2.81:1
Debt to total assets ratio	Total Liabilities/Total Assets	0.67:1	0.74 :1
Return on average assets	Net income attributable to Parent Company/ Average assets	3.64%	2.19%
Book value per share	Stockholders' Equity/ Total Number Shares	Php1.33	Php1.35
Earnings/(Loss) per share	Net Income/(Loss)/ Total Number Shares	Php0.15	Php0.08

RESULTS OF OPERATIONS**Period ended March 31, 2016 compared to the period ended March 31, 2015**

The analyses of consolidated Financial Result of Operation are focused mainly on the result of operation of the subsidiary, LBC Express, Inc.

Service Revenues

The Company's service revenues increased by 12.3% to P2,066 million for the period ended March 31, 2016 from P1,839 million for the period ended March 31, 2015, primarily due to an increase in revenues from the Logistics segment attributable to growth in both retail and corporate sales.

Logistics

Revenues from the Logistics segment grew by 18.8% to P1,750 million for the period ended March 31, 2016 from P1,473 million for the period ended March 31, 2015, primarily due to a growth in the volume and rate of air cargo services rendered. The growth in volume of services was mainly attributable to the horizontal growth of the Company, evidenced by the addition of 71 new branches in the Philippines and one new branch in the Middle East which started operations in between periods March 2015 to 2016. This growth also resulted in an increment in the Company's volumes from cargo forwarding services during the year.

Price increase is also implemented at an average 7% to 9% for Philippines, effective April 2015.

Cost of Services

Cost of services improved by 3.3% as to percentage to revenue to 66.3% for the period ended March 31, 2016 from 69.5% for the period ended March 31, 2015. Lower ratio for fixed operating costs (e.g. staff cost and utilities) is primarily the result of implemented higher price rates for retail cargo products effective April 2015 and improvement in cost of delivery.

Gross Profit

Gross profit increased by 24% to P697 million for the period ended March 31, 2016 from P560 million for the period ended March 31, 2015, primarily due to the increase in volume and rate of air and courier services and improvement in costs of delivery, salaries and benefits, and depreciation expenses.

Operating Expenses

Operating expenses increased by 20% to P407 million for the period ended March 31, 2016 from P335 million for the period ended March 31, 2015, primarily due to rental of cloud server from IBM and use of network infrastructure from PLDT, in which the Company started incurring expense in April and March 2015, respectively.

Salaries and benefits also increased by 12% as a result of higher headcount by 3% to 652 as of March 31, 2016 from 630 as of March 31, 2015, which is comprised of organic and inorganic employees. Higher cost is also driven by annual appraisal which is by 5% in average.

Higher spending in advertising and promotion by 29% is noted primarily due to the launch of brand ambassador in mid-2015 and higher commitment for other institutional programs.

General provisions for claims and losses which is based on 4% of Solutions (Company's business unit for regular corporate accounts) revenue added to the increase in operating expenses.

Expansion of Philippine branches and renewal of permits in which tax amount is based on previous year revenue resulted to higher taxes and licenses.

Other Income, Net

Other income, net which comprise of foreign exchange gain, finance cost, net and other miscellaneous expense increased significantly to P21 million for the period ended March 31, 2016 from P3 million for the period ended March 31, 2015 due to higher earnings from foreign exchange trading.

Income before Income Tax

Income before income tax increased by 38% to P311 million for the period ended March 31, 2016 from P228 million for the period ended March 31, 2015, primarily due to improvement in revenue and cost of services.

FINANCIAL CONDITION**As at March 31, 2016 compared to as at December 31, 2015*****Assets******Current Assets***

Cash and cash equivalents decreased by 27% to P714 million as March 31, 2016 from P979 million as of December 31, 2015.

Trade and other receivables decreased by 5% to P976 million as of March 31, 2016 from P1,025 million as of December 31, 2015, primarily due to off-peak season for corporate accounts.

Due from related parties increased by 10% to P1,942 million as of March 31, 2016 from P1,763 million as of December 31, 2015, primarily due to net advances to LBC Development amounting to P30.8 million and to Lovable Commerce, Inc. amounting to P19 million. In addition, outstanding billings to entities under common control related to normal operations (e.g. brokerage, shared service costs, delivery fees) increased by 19% as of quarter end.

ANNEX "C"

Prepayments and other current assets decreased by 31% to P304 million as of March 31, 2016 from P443 million as of December 31, 2015, primarily due to lifting of the restriction of cash as presented in the prior year financial statements amounting to P135 million.

Non-current Assets

Property and equipment, net, increased by 3% to P783 million as of March 31, 2016 from P763 million as of December 31, 2015, primarily due to business expansion which led to acquisitions for leasehold improvements which increased by 4% and construction in progress by 42% at book value.

Available for sale investment increased by 28% to P273 million as of March 31, 2016 from P212 million as of December 31, 2015 due to higher market price from P1.09/share to P1.40/share.

Deferred tax assets, net, increased by 5% to P236 million as of March 31, 2016 from P227 million as of December 31, 2015 as a result of higher non-deductible expenses from retirement benefit and allowance for doubtful accounts.

Security deposits increased by 2% to P214 million as of March 31, 2016 from P209 million as of December 31, 2015, primarily due to increase in branches during the quarter.

Liabilities

Current Liabilities

Accounts payable and accrued expenses decreased by 1% to P1,814 million as of March 31, 2016 from P1,830 million as of December 31, 2015, primarily due to lower outstanding payable for taxes (e.g. withholding taxes, final taxes, and VAT).

Income tax payable increased by 63% to P212 million as of March 31, 2016 from P131 million as of December 31, 2015 in line with the growth in operating income subject to income taxes.

Notes payable decreased by 38% to P647.6 million as of March 31, 2016 from P1,041.6 million as of December 31, 2015, primarily attributable to maturity and payment of notes payable to three major banks during the period.

Transmission liability decreased by 25% to P380 million as of March 31, 2016 from P508 million as of December 31, 2015, primarily due to higher volume and amount of money remittance transactions for the last day of the operations of the period.

Current portion of finance lease liabilities decreased by 51% to P21 million as of March 31, 2016 from P43 million as of December 31, 2015 due to amortization of existing leases.

Non-current Liabilities

Retirement benefit obligation increased by 4% to P667 million as of March 31, 2016 from P641 million as of December 31, 2015 due to retirement benefit expense for the period.

LIQUIDITY

Cash Flows

Period ended March 31, 2016 compared to the period ended March 31, 2015

Cash flow from operating activities

The Company's net cash from operating activities is primarily affected by income before income tax, depreciation and amortization, retirement benefit expense, interest expense and changes in working capital. The Company's net cash from operating activities were P241 million, and P224 million for the period ended March 31, 2016 and 2015, respectively. For the period ended March 31, 2016, cash

ANNEX "C"

flow from operating activities was generally derived from the normal operations which increased by 20% as compared to the amount generated for the period ended March 31, 2015.

Cash flows from investing activities

Cash used in investing activities for the period ended March 31, 2016 and 2015 were P80 million and P97 million, respectively. Additions to property and equipment, as part of the expansion, had the largest impact on cash flow from investing activities for the period ended March 31, 2016.

Cash flow from financing activities

Cash outflow from financing activities for the period ended March 31, 2016 and 2015 were P428 million and P76 million, respectively. Net payment of loans is higher in current period by P330 million.

STATUS AND PLAN OF OPERATIONS

The Company plans to conduct capital raising activities to fund and support future plans for expansion of operations of LBC Express, Inc., investment in other enterprises, research and development, and investment in technology, among others.

2015 vs. 2014

KEY PERFORMANCE INDICATORS

Financial Ratios

		2015	2014
Current ratio	Current Assets/Current Liabilities	1.18:1	1.12:1
Debt to equity ratio	Total Liabilities/Stockholders' Equity	2.66:1	2.68:1
Debt to total assets ratio	Total Liabilities/Total Assets	0.73:1	0.73:1
Return on average assets	Net income attributable to Parent Company/ Average assets	8.11%	3.74%
Book value per share	Stockholders' Equity/ Total Number Shares	Php1.14	Php32.42
Earnings/(Loss) per share	Net Income/(Loss)/ Total Number Shares	Php0.29	Php0.10

RESULTS OF OPERATIONS

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

Service Revenues

The Company's service revenues increased by 9% to Php7,686.5 million for the year ended December 31, 2015 from Php7,056.2 million for the year ended December 31, 2014, primarily due to an increase in revenues from the Logistics segment attributable to growth in both retail and corporate sales.

Logistics

Revenues from the Logistics segment grew by 11% to Php6,290.3 million for the year ended December 31, 2015 from Php5,641.9 million for the year ended December 31, 2014, primarily due to

ANNEX "C"

a growth in the volume of courier services rendered. The growth in volume of services was mainly attributable to the horizontal growth of the Company, evidenced by the addition of 94 new branches in the Philippines and one new branch in the Middle East. This growth also resulted in an incremental increase in the Company's volumes from cargo forwarding services during the year.

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

Cost of Services

Cost of services improved by 3% to Php5,119.5 million for the year ended December 31, 2015 from Php5,284.5 million for the year ended December 31, 2014, primarily due to one-off transactions incurred in prior year.

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

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

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

Gross Profit

Gross profit increased by 45% to Php2,566.9 million for the year ended December 31, 2015 from Php1,771.7 million for the year ended December 31, 2014, primarily due to the increase in volume and rate of air and courier services and improvement in costs of delivery, salaries and benefits and depreciation expenses.

Operating Expenses

Operating expenses increased by 22% to Php1,947.8 million for the year ended December 31, 2015 from Php1,602.6 million for the year ended December 31, 2014.

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

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

Claims and losses increased to Php80.6 million for the year ended December 31, 2015 from P23.7 million for the year ended December 2014 which is primarily attributable to returns and undelivered cargoes of corporate clients.

Other Income, Net

Other income, net which comprise of foreign exchange gain, gain on sale of disposal of assets and other miscellaneous expense increased by 78% to Php109.6 million for the year ended December 31, 2015 from Php61.6 million for the year ended December 31, 2014 primarily resulted from earnings generated from foreign exchange trading.

Finance Costs, Net

Finance costs, net increased by 38% to Php41.8 million for the year ended December 31, 2015 from Php30.4 million for the year ended December 31, 2014, which is traceable to interest on finance lease obligations entered during the year.

Income before Income Tax

Income before income tax increased by 243% to Php686.9 million for the year ended December 31, 2015 from Php200.4 million for the year ended December 31, 2014, primarily due to improvement in revenue and cost of services.

Income Tax Expense

Income tax expense increased by 375% to Php270.6 million for the year ended December 31, 2015 from Php56.9 million for the year ended December 31, 2014, in line with the growth in operating income subject to income taxes.

Net Income for the Year

As a result of the foregoing, the Company's profit for the year increased by 190% to Php416.3 million for the year ended December 31, 2015 from Php143.4 million for the year ended December 31, 2014.

FINANCIAL CONDITION

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

Assets

Current Assets

Cash and cash equivalents increased by 85% to Php979.1 million as December 31, 2015 from Php527.9 million as of December 31, 2014.

Trade and other receivables increased by 15% to Php1,025.1 million as of December 31, 2015 from Php893.9 million as of December 31, 2014, primarily due to growth of corporate accounts in the Logistics segment.

Due from related parties increased by 15% to Php1,763.0 million as of December 31, 2015 from Php1,533.6 million as of December 31, 2014, primarily due to monthly advance funding to LBC Development amounting to P35.0 million and additional advances to Lovable Commerce, Inc. amounting to P91.9 million. This is offset by the assumed liabilities of subsidiaries to LBCDC as discussed under "Due to Related Parties" below.

Prepayments and other current assets increased by 65% to Php443.3 million as of December 31, 2015 from Php269.4 million as of December 31, 2014, primarily due to the restricted cash of P135.3 million representing cash deposit in bank in the name of the Company which was funded by a specific

ANNEX "C"

customer in relation to the money remittance service in behalf of the said specific customer. The Company availed of a loan from a bank specifically to service the said customer and the cash deposit served as a guarantee to the bank. The cash balance is being diminished as the loan balance gets repaid by the Company.

Non-current Assets

Property and equipment, net increased by 20% to Php763.0 million as of December 31, 2015 from Php636.9 million as of December 31, 2014, primarily due to business expansion which led to net acquisitions of leasehold improvement and computer hardware resulting to an increase by 37% and 84% , respectively, based on net book value.

Intangibles, net increased by 8% to Php276.4 million as of December 31, 2015 from Php256.6 million as of December 31, 2014, primarily due to additional costs for SAP and Vistra amounting to P66.1 million.

Available for sale investment, decreased by 23% to P212.6 million as of December 31, 2015 from P277.0 million as of December 31, 2014 due to lower market price from P1.42/share to P1.09/share.

Deferred tax assets, net decreased by 12% to P225.6 million as of December 31, 2015 from P256.9 million as of December 31, 2014 as a result of higher non-deductible expenses from retirement benefit and allowance for doubtful accounts.

Security deposits, increased by 21% to Php209.9 million as of December 31, 2015 from Php172.8 million as of December 31, 2014, primarily due to increase in branches.

Other noncurrent assets, increased by 12% to Php61.8 million as of December 31, 2015 from P55.4 million as of December 31, 2014 which resulted from the net effect of increase in noncurrent portion of input tax on capital assets and decrease/amortization of noncurrent rent.

Liabilities

Current Liabilities

Accounts and other payables increased by 17% to Php1,830.2 million as of December 31, 2015 from Php1,564.5 million as of December 31, 2014, which is related to higher operating expenses. New contract entered with IBM for use of cloud server and additions to SAP implementation costs add to the outstanding balance. Further, provisions set up for claims and losses resulted to higher accrual.

Due to related parties decreased by 89% to Php20.0 million as of December 31, 2015 from Php183.2 million as of December 31, 2014, as a result of offsetting of assumed liability from subsidiaries amounting to P173.7 million against receivable from LBCDC.

Notes payable increased by 46% to Php1,040.6 as of December 31, 2015 from Php714.8 million as of December 31, 2014, primarily due to new loan availment from CTBC bank amounting to P150.0 million, Land Bank of the Philippines amounting to Php35.2 million and additional P232.5 million loan from BDO.

Transmission liability increased by 42% to Php508.1 million as of December 31, 2015 from Php359.0 million as of December 31, 2014, primarily due to higher volume and amount of money remittance transactions on the last day of the operations of the year.

Income tax payable increased to Php130.7 million as of December 31, 2015 from Php9.3 million as of December 31, 2014, in line with the growth in operating income subject to income taxes.

ANNEX "C"

Current portion of finance lease liabilities decreased by 27% to Php43.0 million as of December 31, 2015 from Php59.0 million as of December 31, 2014 due to amortization of existing leases.

Non-current Liabilities

Retirement benefit obligation increased by 18% to Php641.8 million as of December 31, 2015 from Php541.9 million as of December 31, 2014.

Finance lease liabilities (net of current portion) decreased by 40% to Php74.2 million as of December 31, 2015 from Php122.6 million as of December 31, 2014 due to amortization of existing leases.

LIQUIDITY

Cash Flows

Years ended December 31, 2015 and December 31, 2014

Cash flow from operating activities

The Company's net cash from operating activities is primarily affected by income before income tax, depreciation and amortization, interest expense, retirement benefit expense, interest expense and changes in working capital. The Company's net cash from operating activities were Php596.8 million, and Php83.9 million for the years ended December 31, 2015 and 2014, respectively.

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

Cash flows from investing activities

Cash flow used investing activities for the years ended December 31, 2015 and 2014 were Php1,722.2 million and Php427.7 million, respectively.

Payment of cash to effect reverse acquisition amounting to Php1,325.9 million had the largest impact on cash flow from investing activities for the year ended December 31, 2015. Additions to property and equipment, as part of the expansion, also affected the cash flow from investing activities significantly for the year ended December 31, 2015.

Cash flow from financing activities

Cash flow from financing activities for the years ended December 31, 2015 and 2014 were Php1,567.0 million and Php373.9 million, respectively.

For the year ended December 31, 2015, the inflow from financing activities is primarily from the issuance of stocks amounting to Php1,369.3 million, net of stock issuance cost.

MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**MARKET INFORMATION**

The Company's common shares are listed with the PSE. As of 31 May 2016, the total number of shares held by the public was 219,888,844 common shares or 15.42% of the total issued and outstanding capital stock of the Company.

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

Quarter	High (Php)	Low (Php)
2016		
1ST	27.55	15.00
2015		
4TH	17.98	11.58
3RD	19.00	10.84
2ND	12.50	10.00
1ST	15.00	8.09
2014		
4TH	15.90	7.76
3RD	10.00	6.00
2ND	11.00	5.30
1ST	13.98	8.88

The stock price of each common share of the Company as of the close of the latest practicable trading date, 31 May 2016, is Php12.10.

STOCKHOLDERS

As of the 31 May 2016, there were a total of 486 registered holders of common shares of the Company. The following are the top 20 registered holders of the common shares of the Company as of 31 May 2016:

	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	YU, LOWELL L.	Filipino	59,663,946	4.18%
4	MARTINEZ JR., MARIANO D.	Filipino	59,663,946	4.18%
5	PCD NOMINEE	Filipino	39,677,297	2.78%
6	PCD NOMINEE CORP. (NF)	Foreign	601,800	0.04%
7	TAN, JOSEPH T.	Filipino	75,000	Nil
8	SANTOS, FERDINAND S.	Filipino	10,000	Nil
9	KO MEI NGA	Filipino	10,000	Nil
10	TIA, TOMMY KIN HING	Chinese	10,000	Nil
11	LANTIN, ANDY	Filipino	5,000	Nil
12	CABUAL, ALFONSO B.	Filipino	3,000	Nil
13	LEONG, JENNIFER H.	Filipino	3,000	Nil
14	BATALLA, WILFREDO P.	Filipino	2,000	Nil
15	SIMBAJON, GLICERIA	Filipino	2,000	Nil
16	APAL, ROMMEL	Filipino	2,000	Nil
17	NOMBRE, RAMIL C.	Filipino	2,000	Nil
18	VILLANUEVA, ERWIN L.	Filipino	2,000	Nil

ANNEX "C"

19	GATMAITAN, RODOLFO C.	Filipino	2,000	Nil
20	VIRTUDES, MARITES M.	Filipino	2,000	Nil

DIVIDENDS

Dividend Policy

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

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

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

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

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

Dividend History

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

RECENT SALES OF UNREGISTERED SECURITIES

Please see discussion on Change in Control under Item 4 of the Definitive Information Statement.

CORPORATE GOVERNANCE

Please refer to the Annual Corporate Governance Report, attached as part of Annex "D" of the Definitive Information Statement.