COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number: AS93-005277

COMPANY NAME

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

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
N/A	8-856-8522	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
487	2nd Monday of June	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Enrique V. Rey, Jr.	evrey@lbcexpress.com	8-856-8510	N/A

CONTACT PERSON's ADDRESS

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

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

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

LBC Express Holdings, Inc.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of LBC Express Holdings, Inc. (formerly Federal Resources Investment Group) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Signature: ______________________

MIGUEL ANGEL A. CAMAHORT
Chief Executive Officer and President

Signature: ______________________

ENRIQUE V. REY, JR.
Chief Finance Officer

Signed this 16th day of May 2022.

BUREAU OF INTERNAL REVENUE
RECEIVED

MAY 16 2022

SUBSCRIBED AND SWORN to before me in City of Pasay on MAY 1 6 2022 affiants personally appeared before me and exhibited to me their Tax Identification Nos.

NAME	**TIN**
Miguel Angel A. Camahort	101-292-392
Enrique V. Rey, Jr.	172-264-046

Doc. No. 428 :
Page No. 87 :
Book No. V :
Series of 2022.

NOEL L. DUQUE
NOTARY PUBLIC
Until December 31, 2022 Comm. 21-01
10 E-COM Center MOA, Pasay City
IBP No. 195542/01-04-22/PPLM
PTR No. 7696510/01-03-22/PC
Roll No. 48387 MCLE VI-022292/4-14-22

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Building a better working world

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INDEPENDENT AUDITOR'S REPORT

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

MAY 16 2022

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of LBC Express Holdings, Inc. (the Parent Company), which comprise the parent company statements of financial position as at December 31, 2021 and 2020, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The supplementary information required under Revenue Regulation 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of LBC Express Holdings, Inc. in a separate schedule. Revenue Regulation 15-2010 requires the information to be presented in the notes to the parent company financial statements. Such information is not a required part of the basic financial statements. The information is also not required by the Revised Securities Regulation Code Rule No. 68. Our opinion is not affected by the presentation of the information in a separate schedule.

The engagement partner on the audit resulting in this independent auditor's report is Dolmar C. Montañez.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
Tax Identification No. 925-713-249
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 112004-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-119-2022, January 20, 2022, valid until January 19, 2025
PTR No. 8854339, January 3, 2022, Makati City

May 16, 2022

MAY 16 2022

LBC EXPRESS HOLDINGS, INC.
(Formerly Federal Resources Investment Group Inc.)
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31	
	2021	2020 (As restated - Note 12)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 17)	**₱131,252,897**	₱2,338,238,222
Receivables (Notes 5, 8, 14, 17 and 18)	**18,553,103**	245,218,388
Due from related parties (Notes 14, 17 and 18)	**366,303,574**	350,662,213
Investment at fair value through profit or loss (Notes 7, 17 and 18)	**1,071,885**	1,063,944
Prepayments and other current assets (Note 6, 10, 17 and 18)	**401,330,305**	20,372,399
Total Current Assets	**918,511,764**	2,955,555,166
Noncurrent Assets		
Investment in an associate (Note 8)	**227,916,452**	227,916,452
Investment in subsidiaries (Note 9)	**4,194,053,032**	2,194,053,032
Other noncurrent assets (Note 6, 10, 14, 17 and 18)	**531,229,352**	394,630,307
Total Noncurrent Assets	**4,953,198,836**	2,816,599,791
	₱5,871,710,600	₱5,772,154,957
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 11 and 17)	**₱11,185,487**	₱13,267,092
Dividend payable (Notes 14, and 17)	–	3,940,068
Income tax payable	**193,595**	6,626,098
Due to related parties (Notes 14, and 17)	**43,927**	41,407
Derivative liability (Notes 12, 17 and 18)	**2,558,118,548**	2,099,785,841
Bond payable (Notes 12, 17 and 18)	**1,702,087,740**	1,377,723,388
Total Current Liabilities	**4,271,629,297**	3,501,383,894
Noncurrent Liability		
Deferred tax liabilities (Note 16)	**14,976,832**	21,986,728
Total Liabilities	**4,286,606,129**	3,523,370,622
Equity		
Capital stock (Note 13)	**1,425,865,471**	1,425,865,471
Additional paid-in capital	**55,420,327**	55,420,327
Retained earnings	**103,818,673**	767,498,537
Total Equity	**1,585,104,471**	2,248,784,335
	₱5,871,710,600	₱5,772,154,957

MAY 16 2022

See accompanying Notes to Parent Company Financial Statements.

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

	Years Ended December 31	
	2021	2020
INCOME		
Dividends (Notes 9 and 14)	**₱25,500,000**	₱332,784,703
Service fees (Note 14)	**28,849,270**	30,478,307
Interest (Notes 4, 10 and 14)	**26,234,768**	35,627,449
	80,584,038	398,890,459
OPERATING EXPENSES (Note 15)	**40,502,683**	46,951,334
OTHER INCOME (EXPENSES)		
Loss on derivative (Note 12)	**(458,332,707)**	(51,104,280)
Foreign exchange loss - net	**(11,583,016)**	(1,590,226)
Interest expense (Note 12)	**(239,493,298)**	(203,654,593)
Others - net (Note 7)	**7,941**	834,234
	(709,401,080)	(255,514,865)
INCOME (LOSS) BEFORE INCOME TAX	**(669,319,725)**	96,424,260
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 16)	**(5,639,861)**	37,861,174
NET INCOME (LOSS)	**(663,679,864)**	58,563,086
OTHER COMPREHENSIVE INCOME	–	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱663,679,864)**	₱58,563,086

See accompanying Notes to Parent Company Financial Statements.

LBC EXPRESS HOLDINGS, INC.
(Formerly Federal Resources Investment Group Inc.)
PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Share Capital (Note 13)	**Share Premium**	**Retained Earnings** (Note 13)	**Total**
		For the year ended December 31, 2021		
Balances as at January 1, 2021	**₱1,425,865,471**	**₱55,420,327**	**₱767,498,537**	**₱2,248,784,335**
Comprehensive loss				
Net loss	**–**	**–**	**(663,679,864)**	**(663,679,864)**
Other comprehensive loss	**–**	**–**	**–**	**–**
Total comprehensive loss	**–**	**–**	**(663,679,864)**	**(663,679,864)**
Balances as at December 31, 2021	**₱1,425,865,471**	**₱55,420,327**	**₱103,818,673**	**₱1,585,104,471**

	Share Capital (Note 13)	Share Premium	Retained Earnings (Note 13)	Total
		For the year ended December 31, 2020		
Balances as at January 1, 2020	₱1,425,865,471	₱55,420,327	₱994,108,545	₱2,475,394,343
Comprehensive income				
Net loss	–	–	58,563,086	58,563,086
Other comprehensive income	–	–	–	–
Total comprehensive loss	–	–	58,563,086	58,563,086
Dividends declared (Note 13)	–	–	(285,173,094)	(285,173,094)
Balances as at December 31, 2020	₱1,425,865,471	₱55,420,327	₱767,498,537	₱2,248,784,335

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**(₱669,319,725)**	₱96,424,260
Adjustments for:		
Loss on derivative (Note 12)	**458,332,707**	51,104,280
Interest expense (Note 12)	**239,493,298**	203,654,593
Unrealized foreign exchange loss – net	**11,583,016**	1,590,226
Unrealized fair value gain on investment at fair value through profit or loss (Note 7)	**(7,941)**	(17,632)
Interest income (Notes 4, 10 and 14)	**(26,234,768)**	(35,627,449)
Dividend income (Notes 9 and 14)	**(25,500,000)**	(332,784,703)
Operating loss before changes in working capital	**(11,653,413)**	(15,656,425)
Changes in working capital:		
Decrease (increase) in:		
Receivables	**–**	(8,462,802)
Prepayments and other current assets	**(380,957,906)**	8,178,540
Other noncurrent assets	**(130,246,552)**	(50,000,000)
Increase (decrease) in accounts and other payables	**(2,081,604)**	1,916,645
Net cash used in operations	**(524,939,475)**	(64,024,042)
Interest received	**25,202,405**	35,328,161
Income tax paid	**(7,802,539)**	(8,715,310)
Net cash used in operating activities	**(507,539,609)**	(37,411,191)
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received (Notes 5, 8 and 9)	**252,165,285**	808,325,284
Decrease (increase) in due from related parties (Note 14)	**(14,608,998)**	99,248,097
Additional investment in a subsidiary (Note 9)	**(2,000,000,000)**	–
Net cash (used in) provided by investing activities	**(1,762,443,713)**	907,573,381
CASH FLOWS FROM FINANCING ACTIVITY		
Dividends paid (Note 13 and 19)	**(3,940,068)**	(296,008,276)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(2,273,923,390)**	574,153,914
EFFECT OF FOREIGN CURRENCY EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**66,938,065**	(74,544,823)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,338,238,222**	1,838,629,131
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱131,252,897**	₱2,338,238,222

See accompanying Notes to Parent Company Financial Statements.

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

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

The ultimate parent of the Parent Company is LBC Development Corporation (LBCDC). The Araneta Family is the ultimate beneficial owner of the Parent Company.

FED, before it was acquired by LBCH, undertook an Initial Public Offering and on December 21, 2001, FED's shares were listed on the Philippine Stock Exchange (PSE).

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

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

The Parent Company's registered office address is at LBC Hangar, General Aviation Centre, Domestic Airport Road, Pasay City, Metro Manila, Philippines.

The accompanying financial statements of the Parent Company has been approved and authorized for issue by the Parent Company's Board of Directors (BOD) on May 16, 2022.

2. Summary of Significant Accounting Policies

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

<u>Basis of Preparation</u>
The financial statements of the Parent Company have been prepared using the historical cost basis, except for investments at fair value through profit or loss (FVPL) and derivatives that have been measured at fair value. The Parent Company financial statements are presented in Philippine Peso (₱), which is also the Parent Company's functional currency. All amounts are rounded off to the nearest peso unit unless otherwise indicated. The Parent Company prepares financial statements which are available in its official place of business.

In 2021, the Parent Company changed its classification of its convertible instrument from noncurrent to current liability. Refer to Note 12 of the parent company financial statements for detailed discussion.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the parent company financial statements are consistent with those followed in the preparation of the Parent Company's annual financial statements for the year ended December 31, 2020, except for the adoption of new standards effective as of January 1, 2021. The Parent Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Except otherwise stated, the adoption of the new accounting standards, amendments and interpretations which apply for the first time in 2021, do not have an impact on the parent company financial statements.

- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*

  The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
  - There is no substantive change to other terms and conditions of the lease.

  A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

  The amendments are effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Parent Company shall also disclose information about:

- The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments are effective for annual reporting periods beginning on or after January 1, 2021.

<u>Future Changes in Accounting Policy</u>
The Parent Company will adopt the following standards and interpretations when these become effective. Except as otherwise stated, the Parent Company does not expect the adoption of these standards to have a significant impact on the financial statements. The Parent Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Parent Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to PFRSs* 2018-2020 Cycle

    - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

      The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

      The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

    - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*

      The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

      The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Parent Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

    - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

      The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

      An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

- Amendments to PAS 8, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

  The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current*
  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period

- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024. The Parent Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts.

  On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

Deferred effectivity

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

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

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The significant accounting policies that have been used in the preparation of the financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Current versus Noncurrent Classification
The Parent Company presents assets and liabilities in the parent company statement of financial position based on current or noncurrent classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

- Expected to be settled in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as noncurrent.

Deferred income tax asset is classified as noncurrent asset.

Cash and Cash Equivalents
Cash and cash equivalents are stated at face value. Cash pertains to cash in banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the dates of placement and that are subject to an insignificant risk of changes in value. Cash in banks and cash equivalents earn interest at prevailing bank deposit rates.

Fair Value Measurement
The Parent Company measures financial instruments at fair value at each reporting date.

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

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

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

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

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

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

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

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

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

<u>Financial Assets and Financial Liabilities</u>

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity of another entity.

Financial Assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Parent Company's business model for managing them. The Parent Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Parent Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases or sales) are recognized on the trade date, i.e., the date that the Parent Company commits to purchase or sell the asset.

The classification of financial instruments at initial recognition depends on the contractual terms and the business model for managing the instruments. Financial instruments are initially measured at fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

The Parent Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit and loss (FVPL)

Accordingly, the Parent Company classifies and measures its unquoted investments at FVPL.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

The subsequent measurement of financial assets depends on the classification as described below:

Business model assessment
The Parent Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Parent Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- the expected frequency, value and timing of sales are also important aspects of the Parent Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Parent Company's original expectations, the Parent Company does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Contractual cash flows assessment
For each financial asset, the Parent Company assesses the contractual terms to identify whether the instrument is consistent with the concept of SPPI.

Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Parent Company applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Financial assets at amortized cost (debt instrument)
This category is the most relevant to the Parent Company. The Parent Company measures its financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

This category generally applies to cash and cash equivalents, dividend receivables, loans receivable, restricted cash equivalents and due from related parties.

Financial assets at fair value through OCI (debt instruments)
The Parent Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and;
- Selling and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial measurement, such financial assets are subsequently measured at fair value with unrealized gains and losses recognized in OCI. Impairment losses on such financial assets are accounted for as an adjustment to the unrealized gains and losses in OCI, with a corresponding charge to profit or loss. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for debt instruments at amortized cost.

Where the Parent Company holds more than one investment in the same security, they are deemed to be disposed on a first-in first-out basis. On derecognition, unrealized gains or losses previously recognized in OCI are reclassified from OCI to profit or loss under operating income.

As at December 31, 2021 and 2020, the Parent Company has no debt instruments at FVOCI.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Parent Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

After initial measurement, such equity investments are subsequently measured at fair value with unrealized gains and losses recognized in OCI. Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Parent Company's benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such dividends are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.
As at December 31, 2021 and 2020, the Parent Company has no equity instruments through OCI.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the parent company statement of financial position at fair value with net changes in fair value recognized in profit or loss.

As at December 31, 2021 and 2020, the Parent Company measures its investment in unquoted unit investment trust fund at FVPL.

Impairment of Financial Assets
The Parent Company recognizes an allowance for expected credit losses (ECL) for all debt instruments not held through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Parent Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Parent Company determines whether to apply to general approach or the simplified approach when calculating the provision for ECL. Under the general approach, at each reporting date, the Parent Company recognizes a loss allowance based on either 12-month ECLs or Lifetime ECLs, depending on whether there has been a significant increase in credit risk on the financial instrument since initial recognition. Under the simplified approach, the changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL.

For due from related parties, loans receivable, restricted cash equivalents, and cash and cash equivalents, the Parent Company applies the general approach.

For financial assets for which the Parent Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

As of December 31, 2021 and 2020, the Parent Company has not determined any expected credit loss for its financial assets subject for impairment.

Write-offs
Financial assets are written off either partially or in their entirety only when the Parent Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment loss.

Financial Liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Parent Company's financial liabilities include accounts and other payables (excluding taxes payable), due to related parties, dividends payable, bond payable and derivative liability.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Parent Company that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied.

The Parent Company's derivative liability is classified under this category.

Embedded Derivatives
An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

The Parent Company assesses whether embedded derivatives are required to be separated from the host contracts when the Parent Company first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives are bifurcated from their host contracts, when the following conditions are met:

(a) the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets and liabilities at FVPL;
(b) when their economic risks and characteristics are not closely related to those of their respective host contracts; and
(c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in profit or loss. The embedded derivatives of the Parent Company pertain to the equity conversion and redemption options components of the issued convertible debt instrument.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the parent company statement of profit or loss.

This category generally applies to 'accounts and other payables' (except statutory liabilities), 'due to related parties', 'dividends payable', and 'bond payable' presented in the parent company statement of financial position.

Reclassification
If the business model under which the Parent Company holds the financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Parent Company's financial assets. Reclassification of financial assets designated at FVPL at initial recognition is not permitted.

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

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Prepayments and Other Current Assets
Prepayments and other current assets are recognized as assets to the extent it is probable that the benefit will flow to the Parent Company. These are derecognized when there is a legally enforceable right to apply the recognized amounts against the related tax liability within the period prescribed by the relevant tax laws.

Input tax represents the value-added tax (VAT) due or paid on purchases of goods and services subjected to VAT that the Parent Company can claim against any future liability to the Bureau of Internal Revenue (BIR) for output VAT on sale of goods and services subjected to VAT. The input tax can also be recovered as tax credit under certain circumstances against future income tax liability of the Parent Company upon approval of the BIR. Input tax is stated at its estimated net realizable values. This includes deferred input VAT on unpaid purchase of services which are incurred and billings which have been received as of reporting date, and input VAT arising from the purchase of capital goods exceeding ₱1.00 million deferred for the succeeding period. Noncurrent portion of input VAT is deferred and amortized over the useful life of the capital goods or sixty (60) months, whichever is lower.

Investment in an Associate
An associate is an entity in which the Parent Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

Investments in an associate are accounted for under the cost method less accumulated provision for impairment losses, if any.

The Parent Company recognizes income from the investment only to the extent that the Parent Company receives or has earned the right to receive distribution from the accumulated profits of the investee arising after the date of the acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

The Parent Company determines at each end of the reporting period whether there is any objective evidence that the investments in the investee companies are impaired. If this is the case, the Parent Company calculates the amount of impairment as being the difference between the recoverable amount of the investee company and the carrying cost and recognized the amount in profit or loss.

Investment in Subsidiaries
Investment in subsidiaries is accounted for using the cost method less any accumulated impairment in value. On acquisition date of the investment, the excess of the cost of investment over the investor’s share in the net fair value of the investee’s identifiable assets, liabilities and contingent liabilities is included in the carrying amount of the investment and not amortized.

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

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

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

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

Impairment of Nonfinancial Assets

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

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

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

Equity

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

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

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

Revenue Recognition
Revenue from contracts with customers
Revenue is recognized based on a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The requirements of revenue from contracts with customers do not have significant impact on the parent company financial statements since its revenue is primarily derived from dividend, interest income and services which are distinct performance obligations with specific transaction price. The existing accounting policies of these revenue streams are already in accordance with PFRS 15.

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

Service revenue
Service revenue is recognized when services are rendered.

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

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

Other income
Other income is recognized when earned.

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

Expenses are recognized in profit or loss:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or

- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Income Taxes

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

Current tax

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

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

Deferred tax

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

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

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

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

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

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

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

Foreign Currency-Denominated Transactions and Translations
Foreign currency transactions are recorded in Philippine Peso at prevailing exchange rates at the time of the transactions. Exchange gains or losses resulting from foreign currency transactions are credited or charged to current operations. Foreign currency-denominated monetary assets and liabilities of the Parent Company are translated to Philippine Peso using the Bloomberg Valuation closing rate at the reporting date. Foreign exchange differences arising from foreign currency translation are also credited or charged to parent company statement of comprehensive income.

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

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

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

3. **Significant Accounting Judgments and Estimates**

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

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

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

Estimating fair value of embedded derivatives
The fair value of embedded derivatives, related to the issuance of convertible instrument recorded in the parent company statements of financial position as derivative liability, is measured using binomial pyramid model. The inputs to this model are taken from a combination of observable markets and unobservable market data. Changes in inputs about these factors could affect the reported fair value of the embedded derivatives and impact profit or loss (see Note 12).

Further details on embedded derivatives are disclosed in Note 12.

Evaluation of nonfinancial assets for impairment
The Parent Company reviews its nonfinancial assets for impairment of value. This includes considering certain indications of impairment such as significant decline in the asset's market value of net realizable value, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends including the impact of COVID-19 pandemic.

Based on management's assessment, its nonfinancial assets (such as investment in an associate and investment in subsidiaries) are recoverable as of December 31, 2021 and 2020. Further details on the nonfinancial assets are disclosed in Notes 8 and 9.

4. Cash and Cash Equivalents

This account consists of:

	2021	2020
Cash in banks	**₱131,252,897**	₱448,058,041
Cash equivalents	**–**	1,890,180,181
	₱131,252,897	₱2,338,238,222

Cash and cash equivalents earn interest at the respective bank deposit rates. Cash equivalents include short-term placements made for varying periods of up to three months depending on the immediate cash requirements of the Parent Company and earn interest at the prevailing short-term placements rates.

Cash and cash equivalents earn interest at the prevailing bank deposit rates ranging from 0.10% to 0.60% in 2021 and 0.10% to 3.40% in 2020. Interest income earned from cash and cash equivalents amounted to ₱2.62 million and ₱15.46 million in 2021 and 2020, respectively.

5. Receivables

This account consists of:

	2021	2020
Dividend receivable (Note 14)	**₱–**	₱226,665,285
Other receivables	**18,553,103**	18,553,103
	₱18,553,103	₱245,218,388

Dividend receivable in 2020 pertains to unpaid cash dividends from LBC Express, Inc. (LBCE) and LBC Mabuhay (Malaysia) Sdn Bhd. which were collected in 2021.

Other receivables pertain to the receivable of the Parent Company from third parties.

The Parent Company's receivables are due and demandable. No impairment loss was recognized for the receivables in 2021 and 2020.

6. Prepayments and Other Current Assets

This account consists of:

	2021	2020
Loans receivable (Note 10 and 14)	**₱537,454,712**	₱400,394,626
Restricted cash equivalents	**382,590,404**	–
Input VAT	**10,189,715**	9,998,877
Prepaid expenses	**2,289,626**	4,579,251
Deferred input VAT	**35,200**	29,952
	932,559,657	415,002,706
Less noncurrent portion (Note 10 and 14)	**531,229,352**	394,630,307
	₱401,330,305	₱20,372,399

Loans receivable pertains to receivable of the Parent Company from Transtech Co., Ltd. and LBCE (see Notes 10 and 14).

Restricted cash equivalents represent time deposits of the Parent Company used as a guarantee to LBCE's loan (see Note 14). Interest income earned from restricted cash equivalents amounted to ₱1.28 million in 2021.

Input VAT arises from domestic purchases of goods and services and is offset against output tax. Management believes that the remaining balance is recoverable in future periods.

Prepaid expenses pertain to advance payment of service fee for cloud subscription services. The service fee is paid at the beginning of each quarter (see Note 14).

Other noncurrent assets pertain to the noncurrent portion of the Parent Company's loans receivable from Transtech Co., Ltd. (see Note 10) and LBCE (see Note 14).

7. Investment at Fair Value Through Profit or Loss (FVPL)

Investment at FVPL represent the Parent Company's investment in unit investment trust fund.

Movement of the investment at FVPL follows:

	2021	2020
Balance at beginning of period	**₱1,063,944**	₱1,046,312
Unrealized fair value gain during the year	**7,941**	17,632
	₱1,071,885	₱1,063,944

In 2021 and 2020, the Parent Company recognized unrealized fair value gains of ₱7,941 and ₱17,632, respectively, related to investment at FVPL. This is presented under "Others - net" of "Other income (expenses)" in the parent company statements of comprehensive income.

8. Investment in an Associate

On March 19, 2018, the Parent Company invested in 30% of Orient Freight International, Inc. (OFII), a company involved in freight forwarding, warehousing and customs brokerage businesses operating within the Philippines. In relation to the acquisition of shares, the Parent Company shall also exert commercially reasonable efforts to direct a certain amount of additional annual recurring logistics service business to OFII for a period of five years from closing date.

The Parent Company's interest in OFII is accounted for using cost method less any accumulated impairment in value.

The summarized statements of financial position of OFII follows:

	2021	2020
Current assets	**₱624,227,827**	₱595,803,889
Noncurrent assets	**153,437,020**	190,480,192
Current liabilities	**259,414,233**	284,954,232
Noncurrent liabilities	**58,746,905**	80,309,957
Equity	**459,503,709**	421,019,892

The summarized statements of comprehensive income of OFII follows:

	2021	2020
Revenue	**₱1,109,568,650**	₱550,593,274
Cost and expenses	**888,870,161**	539,620,853
Net income	**220,698,489**	10,972,421
Other comprehensive income	**(10,632,130)**	(799,012)
Total comprehensive income	**₱210,066,359**	₱10,173,409

On July 16, 2021 and June 6, 2020, the Parent Company recognized cash dividends from OFII amounting to ₱25.50 million and ₱21.00 million, respectively, for its 30% interest on OFII (see Note 14). No impairment loss was recognized for the investment in associate in 2021 and 2020.

9. Investment in Subsidiaries

The Parent Company's investments in subsidiaries accounted for under cost method accounting adjusted for impairment losses, if any, and the related percentage of ownership are shown below:

	Country of Incorporation	Principal activities	Ownership	**2021**	2020
LBC Express, Inc.	Philippines	Logistics and money remittance	100%	**₱3,384,670,966**	₱1,384,670,966
LBC Mundial Corporation	United States of America	Logistics and money remittance	100%	**361,897,536**	361,897,536
LBC Express Airfreight (S) PTE. Ltd.	Singapore	Logistics	100%	**129,013,585**	129,013,585
LBC Australia PTY Limited	Australia	Logistics	100%	**98,462,863**	98,462,863
LBC Mabuhay North America Corporation	United States of America	Logistics and money remittance	100%	**59,894,464**	59,894,464
QUADX Pte. Ltd.	Singapore	Digital logistics	86%	**36,340,659**	36,340,659
LBC Mabuhay Remittance Sdn Bhd	Brunei	Money remittance	50%	**30,166,598**	30,166,598
LBC Mabuhay (Malaysia) Sdn Bhd	Malaysia	Logistics	93%	**24,682,710**	24,682,710
LBC Mabuhay Hawaii Corporation	United States of America	Logistics and money remittance	100%	**17,521,686**	17,521,686
LBC Mabuhay (B) Sdn Bhd	Brunei	Logistics	50%	**12,220,413**	12,220,413
LBC Mabuhay Saipan Inc.	Saipan	Logistics and money remittance	100%	**10,782,538**	10,782,538
LBC Money Transfer PTY Limited	Australia	Money remittance	100%	**10,392,254**	10,392,254
Mermaid Co., Ltd	Japan	Logistics	100%	**10,206,600**	10,206,600
LBC Aircargo (S) Pte. Ltd	Taiwan	Logistics	100%	**7,800,160**	7,800,160
				₱4,194,053,032	₱2,194,053,032

The Parent Company, although it owns 50% of the voting share of LBC Mabuhay (B) Sdn Bhd and LBC Mabuhay Remittance Sdn Bhd, in substance controls said entities since: (a) the activities of the subsidiaries are being conducted on behalf of the Parent Company according to its specific business need so that the Parent Company obtains benefits from the subsidiaries' operations; and (b) the Parent Company has the decision-making powers to obtain the majority of the benefits of the activities of the subsidiaries.

No impairment loss for investment in subsidiaries was recognized in 2021 and 2020.

Additional investment

In November 2021, the Parent Company invested cash of ₱2.00 billion in LBCE to refinance some of its maturing obligations and fund its working capital requirements including payment of taxes, and related costs and expenses.

Dividend Declarations of Subsidiaries

On November 27, 2020, the BOD of LBCE approved the declaration of cash dividends amounting to ₱208.23 million (see Notes 13 and 14).

On October 2, 2020, October 26, 2020 and October 30, 2020, the BOD of LBC Australia PTY Limited, LBC Mabuhay Saipan Inc. and LBC Express Airfreight (S) PTE. LTD, respectively, declared dividends totaling ₱79.65 million.

On October 27, 2020 and November 15, 2020, the BOD of LBC Mabuhay Remittance Sdn Bhd and LBC Mabuhay (Malaysia) Sdn Bhd declared cash dividends totaling to ₱10.74 million and ₱20.18 million, respectively, pertaining to the Parent Company's interest.

10. Loans Receivables and Trademark Agreement with Transtech

On September 25, 2019, LBCH extended a 15-year 2.3% interest-bearing loan to Transtech Co. Ltd. (Transtech) amounting to $1.80 million. Transtech, an entity incorporated in Japan, is involved in freight forwarding, warehousing, and packing business. Its services include forwarding of Balikbayan boxes from Japan to the Philippines.

Transtech shall pay interests on a quarterly basis. The Loan Agreement also constitutes a pledge by Transtech on its trademark for the benefit of LBCH, to secure LBCH's claims to the repayment of the loaned amount in case of default as defined in the Loan Agreement.

Subsequently, on September 30, 2019, Transtech granted LBCH an exclusive license to use its registered trademark subject to restrictions for a period of 10 years with automatic renewal of 3 years unless otherwise discontinued in writing by either party. LBCH may, in its discretion, use the trademark in combination with any text, graphics, mark, or any other indication. As consideration for the exclusive use of license, LBCH shall pay royalty of $0.13 million annually.

In 2021 and 2020, LBCH incurred royalty fee amounting to ₱6.18 million and ₱6.21 million, respectively (see Note 15). The related payable was offset to LBCH's interest receivable and loan receivable from Transtech amounting to ₱1.82 million and ₱4.36 million, respectively in 2021 and ₱1.98 million and ₱4.56 million, respectively, in 2020. Effect of foreign currency exchange rate related to interest receivable and loan receivable offsetting amounted to nil and ₱0.32 million in 2021 and 2020, respectively.

Loans receivable as at December 31, 2021 and 2020 is as follows:

	2021	2020
Current portion*	**₱6,225,360**	₱5,764,320
Noncurrent portion**	**77,139,361**	75,606,982
	₱83,364,721	₱81,371,302

**Presented under 'prepayment and other current assets'*
***Presented under 'Other noncurrent assets'*

Interest income earned amounted to ₱1.82 million and ₱1.98 million in 2021 and 2020, respectively.

11. Accounts and Other Payables

This account consists of:

	2021	2020
Deferred output VAT	**₱8,208,046**	₱5,315,994
Accrued professional fees	**2,155,814**	2,363,752
Accounts payable	**315,387**	668,369
Withholding tax payable	**35,928**	4,489,789
Output VAT	–	173,884
Other payable	**470,312**	255,304
	₱11,185,487	₱13,267,092

Deferred output VAT arises from the uncollected receivables from VATable service fees.

Accrued professional fees relates to audit fees and directors' fees.

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

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

12. Convertible Instrument

This account consists of:

	2021	2020
Derivative liability		
Balances at beginning of year	**₱2,099,785,841**	₱2,048,681,561
Fair value loss on derivative	**458,332,707**	51,104,280
Balances at end of year	**₱2,558,118,548**	₱2,099,785,841
Bond payable		
Balances at beginning of year	**₱1,377,723,388**	₱1,247,021,058
Accretion of interest	**237,694,548**	201,855,843
Unrealized foreign exchange loss (gain)	**84,871,054**	(72,952,263)
Amortization of issuance cost	**1,798,750**	1,798,750
Balances at end of year	**₱1,702,087,740**	₱1,377,723,388

On June 20, 2017, the BOD of the Parent Company approved the issuance of convertible instrument. The proceeds of the issuance of convertible instrument will be used to fund the growth of the business of the Parent Company, including capital expenditures and working capital. Accordingly, on August 4, 2017, the Parent Company issued, in favor of CP Briks Pte. Ltd (CP Briks), 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 the Parent Company at the option of CP Briks initially at ₱13.00 per share conversion price, subject to adjustments and resetting of conversion price in accordance with the terms and conditions of the instrument as follows :

- effective on three years (3) from issuance date (the Reset Date) - if the 30-day Trading Day Weighted Average Price (TDWAP) of the Parent Company's common shares on the Principal Market prior to the Reset Date is not higher than the initial conversion price, the conversion price shall be adjusted on the Reset Date to the 30-day TDWAP prior to Reset Date;
- upon issuance of common shares for a consideration less than the conversion price in effect - the conversion price shall be reduced to the price of the new issuance;
- upon subdivision or combination (i.e., stock dividend, stock split, recapitalization or otherwise) - the conversion price in effect shall be proportionately reduced or increased; and
- other events or voluntary adjustment.

The convertible instrument (to the extent that the same has not been converted by CP Briks as the holder or by the Parent Company) is redeemable at the option of CP Briks, commencing on the 30th month from the issuance date at the redemption price equal to the principal amount of the bond plus an internal rate of 13% (decreasing to 12%, 11% and 10% on the 4th, 5th and 6th anniversary of the issuance date, respectively). The agreement also contains redemption in cash by the Parent Company at a price equal to the principal amount of the bond plus an internal rate of 13% (decreasing to 12%, 11% and 10% on the 4th, 5th and 6th anniversary of the issuance date, respectively) in case of a Change of Control as defined under the agreement.

The Parent Company also has full or partial right to convert the shares subject to various conditions including pre-approval of the PSE of the listing of the conversion shares and other conditions to include closing sale price and daily trading volume of common shares trading on the Principal Market and upon plan of offering, placement of shares or similar transaction with common share price at a certain minimum share price. On August 9, 2021, the Parent Company's stockholders approved the issuance of common shares for potential exercise of conversion rights. As at report date, there has been no conversion nor redemption of the convertible instrument.

The convertible instrument 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.

On October 3, 2017, the Parent Company entered into a pledge supplement with CP Briks whereby the Parent Company constituted in favor of CP Briks a pledge over all of the Parent Company's shares in LBCE consisting of 1,041,180,504 common shares, representing 100% of the total issued and outstanding capital stock of LBCE.

In the event of default, CP Briks may foreclose upon the pledge over LBCE shares as a result of which LBCE shares may be sold via auction to the highest bidder. The sale of LBCE shares in such public auction shall extinguish the outstanding obligation, whether or not the proceeds of the foreclosure sale are equal to the amount of the outstanding obligation. Under the terms of the pledge agreement, if LBCE shares are sold at a price higher than the amount of the outstanding obligation, any amount in excess of the outstanding obligation shall be paid to the Parent Company.

While CP Briks may participate in the auction of LBCE shares should there be a foreclosure, any such foreclosure of the pledge over LBCE shares and any resulting acquisition by CP Briks of equity interest in LBCE are always subject to the foreign ownership restrictions applicable to LBCE, which may not exceed 40% of the total issued and outstanding capital stock entitled to vote, and 40% of the total issued and outstanding capital stock whether or not entitled to vote, of LBCE.

Covenants
While the convertible instrument has not yet been redeemed or converted in full, the Parent Company shall ensure that neither it or its subsidiaries shall incur, create or permit to subsist or have outstanding indebtedness, as defined in the Omnibus Agreement, or enter into agreement or arrangement whereby it is entitled to incur, create or permit to subsist any indebtedness and that the Parent Company shall ensure, on a consolidated basis, that:

a. Total Debt to EBITDA for any Relevant Period (12 months ending on the Parent Company's financial year) shall not exceed 2.5:1.
b. The ratio of EBITDA to Finance Charges for any Relevant Period shall not be less than 5.0:1; and
c. The ratio of Total Debt on each relevant date to Shareholder's Equity for that Relevant Period shall be no more than 1:1.

The determination and calculation of the foregoing financial ratios are based on the agreement and interpretation of relevant parties subject to the terms of the convertible instrument. The Parent Company is in compliance with the above covenants as at December 31, 2021, the latest Relevant Period subsequent to the issuance of the convertible instrument. Relevant period means each period of twelve (12) months ending on the last day of the Parent Company's financial year.

In relation to the issuance of the convertible instrument and following the entry of CP Briks as a stakeholder in the Parent Company, the Parent Company entered into the following transactions:

a. On August 4, 2017, LBCE and LBCDC agreed for LBCE to discontinue royalty for the use of LBC Marks (see Note 18).
b. On various dates, the Parent Company entered into the following transactions for the acquisition of certain overseas entities:

   i. Effective January 1, 2019, the Parent Company was granted the regulatory approvals on the purchase of the following entities under LBC USA Corporation:

      - LBC Mundial Corporation (LBC Mundial) which operates as a cargo and remittance company 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 (LBC North America) 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.

   ii. Effective July 1, 2019, the Parent Company's purchase of LBC Mabuhay Hawaii Corporation, who operates as a cargo and remittance company in Hawaii, was completed upon the approval by the US regulatory bodies. The Parent Company purchased 1,536,408 shares or 100% of the total outstanding shares from LBC Holdings USA Corporation.

   iii. On March 7, 2018, the Parent Company acquired 100% ownership of LBC Mabuhay Saipan, Inc. (LBC Saipan) for a total purchase price of US$207,652 or ₱10.80 million.

   iv. On June 27, 2018, the BOD of the Parent Company approved the purchase of shares of some overseas entities. The acquisition is expected to benefit the Parent Company by contributing to its global revenue streams. On the same date, the SPAs were executed by the Parent Company and Jamal Limited, as follow:

      - LBC Aircargo (S) PTE. LTD. which operates as a cargo branch in Taiwan. The Parent Company purchased 94,901 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US$146,013;
      - LBC Money Transfer PTY Limited which operates as a remittance company in Australia. The Parent Company purchased 10 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US$194,535;
      - LBC Express Airfreight (S) PTE. LTD. which operates as a cargo company in Singapore. The Parent Company purchased 10,000 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US$2,415,035; and
      - LBC Australia PTY Limited which operates as a cargo company in Australia. The Parent Company purchased 223,500 shares or 100% of the total outstanding shares of the acquiree at a purchase price of US$1,843,149.

v. On August 15, 2018, the Parent Company approved the acquisition of 92.5% equity ownership of LBC Mabuhay (Malaysia) Sdn Bhd for a total purchase price of US$461,782 or ₱24.68 million.

vi. On October 15, 2018, the Parent Company acquired the following overseas entities:

- LBC Mabuhay Remittance Sdn. Bhd. which operates as a remittance company in Brunei. The Parent Company purchased one (1) share which represents 50% equity interest at the subscription price of US$557,804 per share.
- LBC Mabuhay (B) SDN BHD which operates as a cargo company in Brunei. The Parent Company acquired 50% of LBC Mabuhay (B) SDN BHD for a total purchase price of US$225,965.

vii. The documentation requirements for the acquisition of the remaining overseas entity are still in process.

Upon completion of the acquisitions discussed in (i) to (vi) above, the Parent Company will have acquired equity interests in twelve overseas entities which are affiliated to the Parent Company and LBCDC. In accordance with the directions from LBCDC, the Parent Company intends to complete the acquisition of the remaining overseas entity in 2021, after which the Parent Company expects (on the basis of LBCDC's manifestations) settlement by LBCDC of all of its obligations to the Parent Company, except for the assigned receivables from QUADX, Inc. which will be settled based on agreed terms. In 2021, LBCE and LBCDC entered into amended agreements to extend the payment of consideration for the sale of QUADX shares and the Assignment of Receivables to a date no later than two years from the amendment (see Note 18). As at report date, LBCDC has not settled its obligations to the Parent Company pending completion of acquisition of the remaining overseas entity.

If an event of default occurred and be continuing, CP Briks may require the Parent Company to redeem all or any portion of the convertible instrument, provided that CP Briks provides written notice to the Parent Company within the applicable period. Each portion of the convertible instrument subject to redemption shall be redeemed by the Parent Company at price equal to 100% of the conversion amount plus an internal rate of return (IRR) equal to 16% (inclusive of applicable tax, which shall be for the account of CP Briks).

Starting 2020, the Parent Company has no unconditional right to defer payment for more than twelve months after each reporting date. Accordingly, the convertible instrument was reclassified from noncurrent liability to current liability in the December 31, 2021 parent company financial statements and in the comparative period whereby derivative liability and bond payable amounting to ₱2,099.79 million and ₱1,377.72 million, respectively, as of December 31, 2020 have been reclassified from noncurrent liability to current liability. The reclassification has no impact also on any loan covenant and to the parent company statements of comprehensive income and cash flows for the year ended December 31, 2020.

13. Equity

Capital Stock
As at December 31, 2021 and 2020, the details of the Parent Company's common shares follow:

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

Retained Earnings
On October 19, 2020, the BOD of LBCH approved the declaration of cash dividends amounting to ₱285.17 million.

14. Related Party Transactions

In the normal course of business, the Parent Company transacts with related parties consisting of its ultimate parent company, its subsidiary and its stockholder and officer. Affiliates include those entities in which the owners of the Parent Company have ownership interests. These transactions include loans, cash advances, dividends and dues and subscription. Except as otherwise indicated, the outstanding accounts with related parties shall be settled in cash. The transactions are made at terms and prices agreed upon by the parties.

Details of related party transactions and balances as at and for the years ended December 31, 2021 and 2020 are as follows:

	2021			
	Amount/Volume	**Receivable (Payable)**	**Terms**	**Conditions**
Due from a related party				
Subsidiaries				
a.) Service fee	**₱28,849,270**	**₱45,136,196**	Non-interest bearing; due and demandable	Unsecured, no impairment
b.) Cash advances	–	**12,755,600**	Non-interest bearing; due and demandable	Unsecured, no impairment
c.) Disposal of subsidiary	–	**186,021,400**	Non-interest bearing; due and demandable	Unsecured, no impairment
e.) Loan receivable - current portion	**24,000,000**	**92,933,333**	Interest bearing; fixed quarterly payments	Unsecured, no impairment
Interest income	**20,505,691**	**1,032,363**	Due and demandable	Unsecured, no impairment
Officers/beneficial owners				
f.) Advances	–	**28,424,682**	Non-interest bearing; due and demandable	Unsecured, no impairment
		₱366,303,574		
Associate				
g.) Dividends earned and receivable	**₱25,500,000**	–	Non-interest bearing; due and demandable	Unsecured, no impairment
Other noncurrent assets				
e.) Loan receivable - noncurrent portion	**₱216,000,000**	**₱454,089,991**	Interest bearing; fixed quarterly payments	Unsecured, no impairment

(Forward)

	2021			
	Amount/Volume	**Receivable (Payable)**	**Terms**	**Conditions**
Investment in subsidiary				
i.) Investment	**₱2,000,000,000**	**₱–**	Non-interest bearing; due and demandable	Unsecured, no impairment
Due to related parties				
f.) Officer (Advances)	**₱–**	**(₱43,927)**	Non-interest bearing; due and demandable	Unsecured

	2020			
	Amount/Volume	Receivable (Payable)	Terms	Conditions
Due from a related party				
Subsidiaries				
a.) Service fee	₱30,478,307	₱18,892,853	Non-interest bearing; due and demandable	Unsecured, no impairment
b.) Cash advances	12,755,600	12,755,600	Non-interest bearing; due and demandable	Unsecured, no impairment
c.) Disposal of subsidiary	–	186,021,400	Non-interest bearing; due and demandable	Unsecured, no impairment
e.) Loan receivable- current portion	50,000,000	103,802,303	Interest bearing; fixed quarterly payments	Unsecured, no impairment
Interest income	18,188,533	765,375	Due and demandable	Unsecured, no impairment
Officers/beneficial owners				
f.) Advances	–	28,424,682	Non-interest bearing; due and demandable	Unsecured, no impairment
		₱350,662,213		
Dividends receivable				
Subsidiaries				
d.) Dividends earned and receivable	₱311,784,703	₱226,665,285	Non-interest bearing; due and demandable	Unsecured, no impairment
Associate				
g.) Dividends earned and receivable	21,000,000	–	Non-interest bearing; due and demandable	Unsecured, no impairment
		₱226,665,285		
Other noncurrent assets				
e.) Loan receivable- noncurrent portion	₱50,000,000	₱319,023,324	Interest bearing; fixed quarterly payments	Unsecured, no impairment
Due to related parties				
h.) Dividends declared	₱285,173,094	(₱3,940,068)		
Due to related parties				
f.) Officer (Advances)	₱–	(₱41,407)	Non-interest bearing; due and demandable	Unsecured

a.) On June 30, 2017, LBCH signed an agreement with SAP Philippines, Inc. to acquire cloud services named HANA Enterprise Cloud for Production with Subscription Software ("HEC Subscription") for 60 months commencing on August 1, 2017 and ending on July 31, 2022. In July 2021, the term was extended from August 1, 2021 to January 31, 2024. Subsequently, in a Memorandum of Agreement, LBCH gave LBCE the right to use the HEC Subscription and in turn shall pay LBCH a service fee equivalent to cost plus margin of five percent (5%). The service fee shall be paid at the beginning of each quarter. The mark-up will also be applied for any cost of consultancy services that will arise during the period of the subscription.

b.) The Parent Company makes advances to its subsidiaries to finance working capital requirements. These advances are non-interest bearing and payable on demand.

c.) On May 29, 2019, LBCH sold all its 1,860,214 common shares in QUADX, Inc. to LBCE for ₱186,021,400 or ₱100 per share payable no later than two years from the execution of deed of absolute sale of shares, subject to any extension as may be agreed in writing by the parties. In

2021, LBCH and LBCE entered into amended agreement to extend the payment of consideration for the sale of QUADX Inc. to a date no later than two years from the amendment.

d.) LBCH recognized dividend income from LBCE amounting to ₱208.23 million in 2020 and was collected in 2021.

On October 2, 2020, October 26, 2020 and October 30, 2020, the BOD of LBC Australia PTY Limited, LBC Mabuhay Saipan Inc. and LBC Express Airfreight (S) PTE. LTD, respectively, declared dividends totaling to ₱79.65 million.

On October 27, 2020 and November 15, 2020, the BOD of LBC Mabuhay Remittance Sdn Bhd and LBC Mabuhay (Malaysia) Sdn Bhd declared cash dividends totaling ₱10.74 million, ₱20.18 million, pertaining to the Parent Company's interest.

e.) On April 29, 2019, LBCH entered into a 10-year loan agreement with LBCE amounting to ₱183.38 million at 4% interest per annum. Additional loans were granted to LBCE in the following months dated June 3, 2019 and July 22, 2019 amounting to ₱91.69 million and ₱80.93 million, respectively, with quarterly principal payments and monthly interest payments at 4% per annum.

On April 1, 2020, additional 3-year loan was granted to LBCE amounting to ₱100.00 million, with quarterly principal payments and monthly interest payments at 4.50% per annum.

On June 14, 2021, additional 10-year loan was granted to LBCE amounting to ₱240.00 million, with quarterly principal payments and monthly interest payments at 4.25% per annum.

As of December 31, 2021 and 2020, total outstanding loans receivable amounted to ₱547.02 million and ₱422.82 million, respectively, and ₱454.09 million and ₱319.02 million of the respective balances is presented as noncurrent under "Other noncurrent assets". Interest income earned from loans receivable amounted to ₱20.51 million and ₱18.19 million in 2021 and 2020, respectively, ₱1.03 million and ₱0.77 million of which is still unpaid as at December 31, 2021 and 2020, respectively.

f.) The Parent Company regularly makes advances to its related parties as part of their cost reimbursements arrangement.

g.) On July 16, 2021 and June 6, 2020, LBCH recognized cash dividend from OFII amounting to ₱25.50 million and ₱21.00 million, respectively, for its 30% interest on OFII.

h.) On October 19, 2020, the BOD of LBCH approved the declaration of cash dividends amounting to ₱285.17 million, the unpaid portion as of December 31, 2020 amounting to ₱3.94 million was paid in 2021.

i.) On November 8, 2021, the BOD approved the additional investment by the Parent Company of ₱2.00 billion in LBCE. The proceeds of such investment shall be utilized by LBCE to refinance its maturing obligations and to fund its working capital requirements.

j.) On April 15, 2021, the BOD approved to guarantee one of LBCE's loan and allowed to hold out the Parent Company's time deposit amounting to ₱382.59 million. Such guarantee shall substitute the existing real estate mortgage on LBCE's real estate properties as security.

The Parent Company's key management personnel are employed by LBCE. As such, the compensation and other benefits of key management personnel are recorded in the books of LBCE.

Aside from required approval of related party transactions explicitly stated in the Corporation Code, the Parent Company has established its own related party transaction policy stating that any related party transaction involving amount or value greater than 10% of the Group's total assets are deemed 'Material Related Party Transactions'. Such transactions shall be reviewed by the Related Party Transaction Committee prior to its endorsement for the Board's Approval. Moreover, any related party transaction involving less than 10% of the Group's total assets will be submitted to the President and Chief Executive Officer for review.

15. Operating Expenses

This account consists of:

	2021	2020
Dues and subscriptions	**₱27,591,186**	₱29,075,671
Royalty fees (Note 10)	**6,180,165**	6,208,396
Professional fees	**4,481,922**	8,571,627
Outside services	**1,147,868**	1,105,194
Taxes and licenses	**108,111**	27,340
Others	**993,431**	1,963,106
	₱40,502,683	₱46,951,334

Others comprise mainly of bank and finance charges and other administrative expenses.

16. Income Taxes

Provision for (benefit from) income tax consists of:

	2021	2020
Current	**₱1,370,035**	₱15,589,471
Deferred	**(7,009,896)**	22,271,703
	(₱5,639,861)	₱37,861,174

The provision for current tax represents RCIT in 2021 and 2020.

Details of the Parent Company's deferred tax liabilities as of December 31 follow:

	2021	2020
Deferred tax liabilities arising from:		
Unrealized foreign exchange gains	**₱13,815,139**	₱20,053,072
Others	**1,161,693**	1,933,656
	₱14,976,832	₱21,986,728

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

	2021	2020
January 1	**(₱21,986,728)**	₱533,038
Charged to profit or loss	**7,009,896**	(22,271,703)
Applied MCIT against income tax due	**–**	(248,063)
	(₱14,976,832)	(₱21,986,728)

The reconciliation of the income tax expense at the statutory rate to actual income tax expense presented in the parent company statements of comprehensive income is as follows:

	2021	2020
Income tax at the statutory income tax rate	**(₱167,329,931)**	₱28,927,278
Tax effects of the items not subject to statutory rate:		
Nondeductible expenses	**170,342,358**	75,888,037
Nontaxable income	**(6,376,985)**	(68,776,120)
Change in income tax rate	**(1,299,122)**	–
Interest income subjected to final tax	**(976,181)**	(4,638,248)
Movement in unrecognized deferred tax assets	**–**	6,460,227
	(₱5,639,861)	₱37,861,174

Corporate Recovery and Tax Incentives for Enterprises Act
President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Group:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding Php5 million and with total assets not exceeding Php100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.
- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.
- Foreign-sourced dividends received by domestic corporations are exempt from income tax subject to the following conditions:

    - The funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation in the Philippines within the next taxable year from the time the foreign-sourced dividends were received;
    - Shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure project; and
    - The domestic corporation holds directly at least 20% of the outstanding shares of the foreign corporation and has held the shareholdings for a minimum of 2 years at the time of the dividend distribution.

As of December 31, 2020, the foreign-sourced dividends received by the Parent Company have been subjected to applicable regular corporate income tax.

Applying the provisions of the CREATE Act, the Parent Company was subjected to lower regular corporate income tax rate of 25% effective July 1, 2020.

This resulted in a lower provision for current income tax for the year ended December 31, 2020 and lower income tax payable as of December 31, 2020 by ₱1.30 million, and lower deferred tax liability as of December 31, 2020 and provision for deferred tax for the year then ended by ₱3.67 million. These reductions were recognized as income tax expense in 2021 parent company financial statements.

17. Financial Risk Management Objectives and Policies

The Parent Company has various financial assets such as cash and cash equivalents, receivables, loans receivable, restricted cash equivalents, prepayments and other current assets, due from related parties and investment at FVPL.

The Parent Company's financial liabilities comprise of accounts and other payables (excluding statutory liabilities), due to related parties, and dividends payable. The main purpose of these financial liabilities is to finance the Parent Company's operations.

The main risks arising from the Parent Company's financial instruments are price risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The BOD reviews and approves policies for managing each of these risks which are summarized as follows:

Price risk
The Parent Company is exposed to equity price risk in the fair value of the derivative liability due to the embedded equity conversion feature. Furthermore, at a given point in time in the future until maturity date, the derivative liability has a redemption option offering a minimum return in case the value of the conversion feature is low. In 2021, a 5% increase (5% decrease) in the close stock price of the Parent Company's shares affect the total comprehensive income by ₱143.07 million increase (₱125.12 million decrease). In 2020, the impact of the changes in share price in the valuation is minimal.

Interest rate risk and credit spread sensitivity analysis
Except for the credit spread used in the valuation of the convertible instrument, the Parent Company is not significantly exposed to interest rate risk as the Parent Company's interest rate on its cash and cash equivalents is fixed. The Parent Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

The value of the Parent Company's convertible instrument is driven primarily by two risk factors: underlying stock prices and interest rates. Interest rates are driven by using risk-free rate, which is a market observable input, and credit spread, which is not based on observable market data. The following table demonstrates the sensitivity to a reasonably possible change in credit spread, with all other variables held constant, on the fair value of the Parent Company's embedded conversion option of the convertible redeemable bond.

	Effect in fair value	
	2021	2020
Credit spread +1%	**₱36,737,754**	₱54,515,429
Credit spread -1%	**(35,973,849)**	(54,621,778)

Foreign currency risk
Foreign currency risk is the risk that the future cash flows of financial assets and financial liabilities will fluctuate because of changes in foreign exchange rates. The Parent Company's exposure to the risk of changes in foreign exchange rates relates to the loan receivable and bond payable denominated in US and Taiwanese Dollar.

Information of the Parent Company's foreign currency-denominated monetary asset and liability recorded under loan receivable and bond payable, respectively, in the statements of financial position and its Philippine Peso equivalents as at December 31, 2021 and 2020 follow:

	2021	
	Foreign currency	**Peso equivalent**
Asset:		
US Dollars	**1,624,237**	**₱82,469,024**
TWD	**5,000,000**	**9,150,000**
Liability:		
US Dollars	**(33,614,340)**	**(1,706,734,511)**

The translation exchange rate used was ₱50.77 to USD 1 and ₱1.83 to TWD 1 as at December 31, 2021.

	2020	
	Foreign currency	Peso equivalent
Asset:		
US Dollars	28,959,094	₱1,391,194,876
TWD	5,000,000	8,550,000
Liability:		
US Dollars	(28,815,241)	(1,384,284,178)

The translation exchange rate used was ₱48.04 to USD 1 and ₱1.71 to TWD 1 as at December 31, 2020.

The following table demonstrates the sensitivity to a reasonably possible change in foreign exchange rates, with all variables held constant, of the Parent Company's income before tax (due to changes in the fair value of monetary liability).

Reasonably possible change in foreign exchange rate for every two units of Philippine Peso	Increase (decrease) in income before tax **2021**	2020
₱2	**(₱53,980,206)**	₱10,287,706
(2)	**53,980,206**	(10,287,706)

There is no impact on the Parent Company's equity other than those already affecting profit or loss. The movement in sensitivity analysis is derived from current observations on fluctuations in US Dollar closing exchange rates.

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

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

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

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

As at December 31, 2021 and 2020, the loans and receivables of the Parent Company are neither past due nor impaired.

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

Cash in banks and short-term time deposits are deposited/placed in banks that are stable as they qualify either as universal or commercial banks. Universal and commercial banks represent the largest single group, resource-wide, of financial institutions in the country the Parent Company is operating. They offer the widest variety of banking services among financial institutions. These financial assets are classified as high grade due to the counterparties' low probability of insolvency.

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

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

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

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

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

	2021			
	High Grade	**Medium Grade**	**Low Grade**	**Total**
Cash in banks and cash equivalents	**₱131,252,897**	**₱–**	**₱–**	**₱131,252,897**
Receivables	**18,553,103**	**–**	**–**	**18,553,103**
Prepayments and other current assets	**6,225,360**	**–**	**–**	**6,225,360**
Loans receivable	**531,229,352**	**–**	**–**	**531,229,352**
Restricted cash equivalents	**382,590,404**	**–**	**–**	**382,590,404**
Due from related parties	**366,303,574**	**–**	**–**	**366,303,574**
Investment at FVPL	**1,071,885**	**–**	**–**	**1,071,885**
	₱1,437,226,575	**₱–**	**₱–**	**₱1,437,226,575**

	2020			
	High Grade	Medium Grade	Low Grade	Total
Cash in banks and cash equivalents	₱2,338,238,222	₱–	₱–	₱2,338,238,222
Receivables	245,218,388	–	–	245,218,388
Prepayments and other current assets	5,764,319	–	–	5,764,319
Loans receivable	394,630,307	–	–	394,630,307
Due from related parties	350,662,213	–	–	350,662,213
Investment at FVPL	1,063,944	–	–	1,063,944
	₱3,335,577,393	₱–	₱–	₱3,335,577,393

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

The Parent Company has a policy of regularly monitoring its cash position to ensure that maturing liabilities will be adequately met.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Management believes that cash generated from operations is sufficient to meet daily working capital requirements. The Parent Company also has sufficient cash and adequate amount of credit facilities from its ultimate parent company to meet any unexpected obligations.

The following table summarizes the maturity profile of the Parent Company's financial assets and financial liabilities as at December 31, 2021 and 2020 based on remaining contractual undiscounted collections and payments:

	2021		
	Due in less than one year	**Due in more than one year**	**Total**
Financial assets			
Cash in banks	**₱131,252,897**	**₱–**	**₱131,252,897**
Receivables	**18,553,103**	**–**	**18,553,103**
Loans receivable	**6,225,360**	**531,229,352**	**537,454,712**
Restricted cash equivalents	**382,590,404**	**–**	**382,590,404**
Due from related parties	**366,303,574**	**–**	**366,303,574**
Investment at FVPL	**1,071,885**	**–**	**1,071,885**
	₱905,997,223	**₱531,229,352**	**₱1,437,226,575**
Financial liabilities			
Accounts and other payables	**₱2,941,513**	**₱–**	**₱2,941,513**
Due to related parties	**43,927**	**–**	**43,927**
Derivative liability	**2,558,118,548**	**–**	**2,558,118,548**
Bond payable	**1,702,087,740**	**–**	**1,702,087,740**
	₱4,263,191,728	**₱–**	**₱4,263,191,728**

	2020, as restated		
	Due in less than one year	Due in more than one year	Total
Financial assets			
Cash and cash equivalents			
Cash in banks	₱448,058,041	₱–	₱448,058,041
Cash equivalents	1,890,180,181	–	1,890,180,181
Receivables	245,218,388	–	245,218,388
Loans receivable	5,764,319	394,630,307	400,394,626
Due from related parties	350,662,213	–	350,662,213
Investment at FVPL	1,063,944	–	1,063,944
	₱2,940,947,086	₱394,630,307	₱3,335,577,393
Financial liabilities			
Accounts and other payables	₱3,287,425	₱–	₱3,287,425
Dividend payable	3,940,068	–	3,940,068
Due to related parties	41,407	–	41,407
Derivative liability	2,099,785,841	–	2,099,785,841
Bond payable	1,377,723,388	–	1,377,723,388
	₱3,484,778,129	₱–	₱3,484,778,129

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

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

No changes were made in the Parent Company's objectives, policies or processes as at December 31, 2021 and 2020. The Parent Company is not subject to externally imposed capital requirements.

The capital that the Parent Company manages is equal to the total equity as shown in the parent company statements of financial position at December 31, 2021 and 2020 amounting to ₱1,585.10 million and ₱2,248.78 million, respectively.

18. **Fair Values and Offsetting Arrangements**

The methods and assumptions used by the Parent Company in estimating the fair value of the financial instruments are as follows:

The carrying amounts of cash and cash equivalents, receivables, loans receivable, restricted cash equivalents, due from/to related parties and accounts and other payables approximate their fair value. These financial instruments are relatively short-term in nature except for loans receivable.

The fair value of the unquoted unit investment trust fund is based on the published net asset value per unit as of reporting date and is under the Level 3 category.

The fair value of the long-term portion of loans receivable is based on the discounted value of future cash flow using applicable interest rates ranging from 0.97% to 4.90% in 2021 and 0.48% to 4.90% in 2020.

The estimated fair value of the derivative liability as at December 31, 2021 and 2020 are based on an indirect method of valuing multiple embedded derivatives. This valuation technique using binomial pyramid model uses stock prices and stock price volatility. This valuation method compares the fair value of the option-free instrument against the fair value of the hybrid convertible instrument. The difference of the fair values is assigned as the value of the embedded derivatives.

The significant unobservable input in the fair value is the stock price volatility of 24.82% and 24.65% in 2021 and 2020, respectively. In 2021, a 5% increase (5% decrease) in the stock volatility has an effect to the total comprehensive income by ₱40.52 million increase (₱45.29 million decrease). In 2020, the impact of the changes in stock volatility in the valuation is minimal.

The plain bond is determined by discounting the cash flows, which is simply the principal at maturity, using discount rate of 15.23% in 2021 and 14.27% in 2020. The discount rate is composed of the matched to maturity risk free rate and the option adjusted spread (OAS) of 12%.

Fair Value Hierarchy

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

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

The quantitative disclosures on fair value measurement hierarchy for assets and liabilities as at December 31 follow:

		2021			
		Fair value measurements using			
	Carrying values	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Unquoted unit investment trust fund	**₱1,071,885**	**₱1,071,885**	**₱–**	**₱–**	**₱1,071,885**
Assets for which fair value are disclosed					
Loans receivable - net of current portion	**531,229,353**	**504,760,692**	**–**	**–**	**504,760,692**
Liabilities measured at fair value					
Derivative liability	**2,558,118,548**	**2,558,118,548**	**–**	**–**	**2,558,118,548**
Liabilities for which fair value are disclosed					
Bond payable	**1,702,087,740**	**1,808,314,496**	**–**	**–**	**1,808,314,496**

	2020				
		Fair value measurements using			
	Carrying values	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Unquoted unit investment trust fund	₱1,063,944	₱1,063,944	₱–	₱–	₱1,063,944
Assets for which fair value are disclosed					
Loans receivable - net of current portion	394,630,307	378,833,349	–	–	378,833,349
Liabilities measured at fair value					
Derivative liability	2,099,785,841	2,099,785,841	–	–	2,099,785,841
Liabilities for which fair value are disclosed					
Bond payable	1,377,723,388	1,554,078,995	–	–	1,554,078,995

During the years ended December 31, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Offsetting of Financial Instruments

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

The table represents the recognized financial instruments that are offset as of December 31, 2021 and 2020, respectively, and shows in the 'Net' column is the net impact on the Parent Company's statements of financial position as a result of the offsetting rights.

	December 31, 2021			
Royalty offsetting	**Gross Amount**	**Offsetting**	**Forex**	**Net Amount**
Loan receivable	**₱82,746,587**	**(₱4,359,074)**	**₱4,977,208**	**₱83,364,721**
Interest receivable	**1,824,353**	**(1,824,353)**	**–**	**–**
Royalty payable	**(6,183,427)**	**6,183,427**	**–**	**–**
	₱78,387,513	**₱–**	**₱4,977,208**	**₱83,364,721**

	December 31, 2020			
Royalty offsetting	Gross Amount	Offsetting	Forex	Net Amount
Loan receivable	₱86,251,729	(₱4,555,267)	(₱324,960)	₱81,371,502
Interest receivable	1,978,089	(1,978,089)	–	–
Royalty payable	(6,208,396)	6,208,396	–	–
	₱82,021,422	(₱324,960)	(₱324,960)	₱81,371,502

In 2021 and 2020, the Parent Company's royalty payable has been offset against loan receivable and accrued interest receivable from Transtech.

19. **Note to Statements of Cash Flows**

In 2021, the Parent Company has the following non-cash transactions under:

Financing Activities
Details of the movement in cash flows from financing activities are as follows:

	December 31, 2020	Cash Flows	Interest	Dividends declared	Offsetting	Foreign exchange movement	Fair value changes	December 31, 2021
Convertible instrument (bond payable and derivative liability)	**₱3,477,509,229**	**₱–**	**₱239,493,298**	**₱–**	**₱–**	**₱84,871,054**	**₱458,332,707**	**₱4,260,206,288**
Due to related parties	**41,407**	**–**	**–**	**–**	**–**	**2,520**	**–**	**43,927**
Dividend payable	**3,940,068**	**(3,940,068)**	**–**	**–**	**–**	**–**	**–**	**–**
Total liabilities from financing activities	**₱3,481,490,704**	**(₱3,940,068)**	**₱239,493,298**	**₱–**	**₱–**	**₱84,873,574**	**₱458,332,707**	**₱4,260,250,215**

In 2020, the Parent Company has the following non-cash transactions under:

Financing Activities
Details of the movement in cash flows from financing activities are as follows:

	December 31, 2020	Cash Flows	Interest	Dividends declared	Offsetting	Foreign exchange movement	Fair value changes	December 31, 2020
Convertible instrument (bond payable and derivative liability)	₱3,295,702,619	₱–	₱203,654,593	₱–	₱–	(₱72,952,263)	₱51,104,280	₱3,477,509,229
Due to related parties	43,741	–	–	–	–	(2,334)	–	41,407
Dividends payable	14,775,250	(296,008,276)	–	285,173,094	–	–	–	3,940,068
Total liabilities from financing activities	₱3,310,521,610	(₱296,008,276)	₱203,654,593	₱285,173,094	₱–	(₱72,954,597)	₱51,104,280	₱3,481,490,704

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INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and Board of Directors
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Domestic Airport Road
Pasay City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the financial statements of LBC Express Holdings, Inc. (the Parent Company) as at and for the years ended December 31, 2021 and 2020 and have issued our report thereon dated May 16, 2022. Our audits were made for the purpose of forming an opinion on the basic parent company financial statements taken as a whole. The Supplementary Schedule of Retained Earnings Available for Dividend Declaration is the responsibility of the Parent Company's management. This schedule is presented for purposes of complying with Revised Securities Regulation Code Rule 68 and is not part of the basic parent company financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic parent company financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic parent company financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
Tax Identification No. 925-713-249
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 112004-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-119-2022, January 20, 2022, valid until January 19, 2025
PTR No. 8854339, January 3, 2022, Makati City

May 16, 2022

LBC EXPRESS HOLDINGS, INC.

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

For the Year Ended December 31, 2021

Unappropriated retained earnings, beginning		**₱767,498,537**
Adjustments:		
Fair value adjustment (M2M gains)	(454,198,052)	
Unrealized foreign exchange gain - net (after tax, except those attributable to cash and cash equivalents)	(89,890,093)	**(544,088,145)**
Unappropriated retained earnings, as adjusted to available for dividend distribution as at January 1, 2021		**223,410,392**
Net loss during the period closed to retained earnings	(663,679,864)	
Less: Non-actual / unrealized income net		
Equity in net income of associate/joint venture	–	
Unrealized foreign exchange gain - net (after tax, except those attributable to cash and cash equivalents)	–	
Unrealized actuarial gain	–	
Fair value adjustment (M2M gains)	–	
Fair value adjustment of investment property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP gain	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	–	
Subtotal	–	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS / GAAP – loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
Subtotal	–	
Net loss actually incurred during the period	(663,679,864)	**(663,679,864)**
Add (Less):		
Dividend declarations during the period	–	
Appropriations of retained earnings during the period	–	
Reversals of appropriations	–	
Effects of prior period adjustments	–	
Treasury shares	–	
Subtotal	–	–
Unappropriated retained earnings as at December 31, 2021		**(₱440,269,472)**
Unappropriated retained earnings available for dividend distribution as at December 31, 2021		**₱–**